FINAL TRANSCRIPT

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PRESENTATION

Unidentified Company Representative

Good afternoon. And warm welcome everybody here in Bonn now following this on the web to our full-year 2009 results release conference.

I have here, as can see, with me, as promised, our CEO, Frank Appel, and our CFO, Larry Rosen. We're going to take you through a set of presentation I take you have in front of you.

Just a brief editorial remark before we start off. The full annual report will be available as per March 16. What you can find already today on the web is the full set of accounts and notes.

And without further ado, I would like to ask Frank to start off, please.

Frank Appel - *Deutsche Post AG - CEO*

Yes, good afternoon, ladies and gentlemen. It's a pleasure to give you an update where we are with regard to our financial numbers. But I also want to do some highlighting what is the progress on our strategic development. So that we save most time for your Q&A, let's start with the overview what has been achieved, giving you that perspective.

So, if you look into our guidance we have given in the last months in the year, on four items; we promised that in earlier 2009 that we will deliver at least an underlying EBIT of EUR1.2 billion, which we have raised in autumn or early winter -- or late autumn/early winter to EUR1.35 billion. And I'm very happy to tell you today that we have outperformed that and landed at an underlying EBIT of EUR1.47 billion. So that guidance, which we have increased, has even been outperformed.

The second item was our CapEx. We had, as you might remember, in 2008 a CapEx of round about EUR1.7 billion. We said here in the year that we want to reduce that due to two reasons; one, the difficult economic environment on one hand, but also more CapEx discipline, which we have introduced in the last 12 months or 24 months. We want to reduce that to EUR1.2 billion, which we confirmed later in the year, and I'm happy that we came in with EUR1.17 billion. So, below that guidance as well, and a significant reduction if you compare that to 2008.

The third is our overhead cost reduction program, which is called IndEx, for indirect expenses. We have originally promised, after we did already something in 2008, that we would reduce our indirect costs by EUR1 billion until end of 2010. We then increased that target in the year to deliver that by the middle of 2010, and then, finally, EUR1 billion by end of 2009.

I'm happy to say today that we outperformed that target even by EUR100 million. So, overall, we reduced our direct -- indirect operating expenses by EUR100 million more than originally planned a year earlier, so I think that is definitely a good achievement. And that has led to the improvement as well in the underlying EBIT.

And finally, we promised that this year we will make a net profit again, which we kept for a year. And we can show today EUR644 million profit. So, after year of massive losses due to many extraordinary items, we delivered a profit again.

Before Larry will go in more detail about the numbers later on, I would like to highlight again what we are doing at the moment about the strategy.

You might remember that I'm talking all the time not only about one bottom line, so that means the investment of choice, which we want to become. But equally important is that we focus on our customer promise that we become a provider of choice, as well as an employer of choice, because I'm deeply convinced, if we are only the provider of choice, you will grow your top line.

And you have to do that with high motivated people because they will guarantee that you have high-quality services on one hand and the lowest cost base on the other. So, therefore, we focus on all three dimensions, and I want to show you some progress.

So, on the customer satisfaction, we do through the year a lot of customer satisfaction surveys. Some of the detail you might have seen. But because we reviewed 2009 some of the information night not be brand new, but nevertheless it is important.

And on the Mail side, in Deutsche Post, we made in a school -- the German school system -- that means one is the best and five is the worst -- or six is worst, you see we have made some progress. And that is an independent institution who asked consumers in Germany about perceived services of many services, like gas stations, banks, postal services, telecommunication services, and so on and so forth.

And we improved that, and this was the best number ever in last 10 years. Despite the fact that you have read sometimes in last year that our service quality was not as good, the perception of thousands of customers said something differently. They said, no, their service was better than ever before, which is proof that our testing -- internal testing, is not only our internal testing, but it's also recognized by our customers.

On the customer side for DHL, this is the survey we did on our top 100 customers, with global customer solutions organization serving them. And you can see here that we made significant progress along the organization as such. But also, the four divisions who are serving that, Global Forwarding, Freight, Supply Chain, Express, they all made progress; some more than others. They all moved up quite a bit, and I think that shows we have provided better service than the year before.

So, that is important because this is -- gives me certainty that customers are increasingly happy with our service, and that should help to grow our top line.

We also invested regardless that we have reduced our CapEx quite a bit. We have-- and these are only just some small examples of a long list of activities we have invested in, in the last 12 months.

From Germany to many different places, we are very committed to go for, or gaining investment into our business model. But we are cautious if I don't -- if you don't see a clear business case, we don't do that. And that probably has led to the significant reduction in CapEx, without missing huge opportunities or small opportunities to go forward.

There is no big major acquisitions on that table because, as you know, we haven't done anything on that. And we don't see that in the future that we have to make any major acquisitions.

If we now talk about the employee satisfaction, this is just one example for Germany. We have many different -- or we have done that in 200 countries around the world, with 75% response rates from almost 350 people around the world gave us feedback along a clear questionnaire. And what happened is that we overall improved this is just for Germany, which is interesting because we had very [difficult] discussions.

And that was the feedback we got from our employees before we got a signature under the new contract. So in the middle of that discussion, public discussion to a certain extent, our employees said, yes, we are more satisfied with the work than we have been the year before, which, I think, is a good sign. And we have seen that around the world.

We now come to the high level numbers again, as a dimension of investment of choice. You see here that we have lost quite a bit of revenue, which is not a surprise overall because that was already through the year. So, we lost 15% of revenue.

The reported EBIT is quite up a bit because definitely we had no further goodwill impairment, and definitely also less restructuring than the year before due to the [fact], so that led to the positive reported EBIT.

We have as well improved -- not improved, but we have made a good move on the underlying EBIT. That includes, as quoted here as well, the Arcandor case, which is roughly EUR250 million impact from that, and other -- and Larry will come later to that, other impacts from loss-making contracts, which we accounted for roughly about EUR100 million.

If you include -- exclude just the Arcandor, we would only be down by less than 15%. So that means our top line has shrunk not more -- or not -- our bottom line has not shrunk more than our top line, which I think is a pretty good achievement.

And if you look into the detail, we lost EUR8 billion -- or more than EUR8 billion revenue. And we were able to reduce our whole cost base, including purchase services, by more even than that otherwise it had not been possible. So that led to profit again after we had a massive loss, so more than EUR2 billion turnaround, which I think is pretty good.

And the Supervisory Board and the Administrative Board decided yesterday to propose to the AGM a constant dividend of EUR0.60.

So this is the development over the quarters. We had a pretty rocky start into the year, as you remember. And then, we have improved already in Q2. We improved further in Q3. And also, if you exclude the Arcandor effect and the other onerous contracts we accounted for, we would be up as well in the fourth quarter, which shows that really our measures have really got traction. And this is a pretty healthy development, as we see that.

Finally, the volume development; these are examples for all three divisions. On Supply Chain, as you know, it is much more difficult to report volumes. We definitely had again another good quarter on new gains, as well as high rate of renewals.

But on the other three divisions, some examples, on the Mail; the Mail Communication is still down, so no change in trend. A little bit less, but that's marginal in comparison to the year. So that is a constant trend, as we already said.

In Express, we were flat year-over-year almost; much better than the quarters before.

And in Air Freight, we were even up quite a bit in the final quarter. And these are signs for -- that either the economy is getting really to a stable place, or even a slightly improvement. I would say we see definitely a slight improvement of the economy, as quoted in -- from other companies as well.

So, coming to a summary, as a major part of our strategy we are saying we are focusing on these three bottom lines. We made good progress of customer satisfaction. We have seen healthy trends as well in volumes in Q4.

On employees, we have improved the engagement of the employees. And we have implemented a new incentive scheme, which is very much linked to Company performance on EAC, as I told you already earlier last year.

And on investment of choice, I think we have made very good progress, particularly on cash flow-oriented items, as you see in a second, as well as on the bottom line. And Larry will communicate as well in a second our new corporate finance policy, which I think is also a good indication, so that you get a better picture where we want to go.

So, this is more or less where we are. So, in summary, I think we've weathered the storm pretty well. The road is clear now for further growth and simplification of our business. But before we come to that, again, Larry will give you more detail on the numbers. Thank you.

Larry Rosen - *Deutsche Post AG - CFO*

Well, good morning, everyone. I'm very pleased -- good afternoon to everybody. I'm very pleased to be here for the first time live with you. I was on the Q3 conference call, but this is the first time I'm participating in the year-end live conference. So, very pleased to be here.

Echoing what Frank has said, I think we really had a good performance in 2009. We especially saw that in the second half things really started to look good. There are some good signs of recovery, improved performance of the business, and that's encouraging for us as we now go into 2010.

So, in my presentation I'll review our quarterly and full-year performance for 2009. And then, I'll review the newly-established financial policy. And then, Frank will come back with the outlook after that.

So, some key components of road map to value. Our IndEx cost savings, Frank referred to that, EUR1.1 billion. So a year ahead of the original schedule, and we were able to save more than EUR100 million more than the target so we're very pleased with that. We feel like that was a key component to help us manage through the economic crisis, when we consider how deep volumes were affected. And so we're really pleased with that performance. We think it gives us the necessary capability and competitiveness for the future.

We also focused on cash management. We had a significant reduction in working capital. This was partly due to the economic downturn, but also due to very good management and good progress on our DSOs and DPOs.

We also reduced CapEx, so this contributed EUR500 million of free cash flow in the year-over-year comparison.

Well, you all know that 2009, as well as 2008, were years that were very much affected by one-time extraordinary effects. That was certainly true in Q4 as well. In fact, half of the restructuring costs that we had in 2009 fell in Q4. Now, that led to a loss on the reported EBIT line of EUR136 million.

Our underlying performance remained good and improving sequentially, where fourth quarter was our highest quarter of the year.

We also, both in the full-year results and in the fourth quarter results, had extraordinary effects that we included in underlying EBIT. The biggest one was Arcandor, the bankruptcy of one our biggest customers; for the full-year almost EUR250 million, and in Q4, what we expect to be the last quarter of special charges for Arcandor, EUR62 million.

In addition, we had EUR100 million of charges in Supply Chain related to so-called onerous contracts. So, contracts where we made continual losses, and there's really not a prospect because of the way the contracts are structured of turning them into profitable ventures, and, therefore, we could take provisions for those at the end of Q4.

So, when you include those charges, it was almost EUR1.6 billion for the full-year of special effects, non-recurring restructuring costs, and in Q4 alone, about EUR800 million.

Now, one of the success stories is the restructuring of US. Following the exit from the domestic Express business, we said that we wanted to reduce the run rate to below $400 million by the end of 2009. We have achieved that.

We also said back at the end of 2008 when we announced the decision that we would have total restructuring costs of around $3.9 billion. We're very much in line with that.

And we did far better than our forecast, our original forecast, for the full-year to be around $900 million; we ended up with $620 million for the full-year 2009.

So, the US is definitely headed in the right direction. It's an integral part of our international Express network. The business is doing quite well; has defended their international position. And we look for continued improvement going forward in the US.

So here's our full-year 2009 P&L. Revenues were impacted greatly by the economic downturn, the exit from the US Express business, and also lower pass-through of lower fuel surcharges.

Reported EBIT; EUR231 million, as we've already seen.

Underlying EBIT; EUR1.47 billion. If you just add back the Arcandor effect, we would have about a 15% decline from 2008. And if you would add back the onerous contracts from Supply Chain, the decline 2009 over 2008 would be only about 10%.

Financial result was plus EUR45 million. Here, we benefited significantly from both the deconsolidation of Postbank following the sale of the majority to Deutsche Bank, plus the mark-to-market valuation of various instruments derivatives that we have related to the forward sale of our remaining shares that Deutsche Bank contributed significantly to our financial result.

We also did a very thorough review of our tax provisions and could release some provisions in Q4. So we ended up for the full-year with quite a low tax rate and only EUR15 million of expense so that our consolidated net profit was EUR644 million for the full-year.

Q4; I think the title here is really important. We think that Q4 is going to be the last quarter of really high restructuring and other extraordinary charges.

I mentioned we had EUR662 million in Q4. We forecast for the full-year 2010 about EUR350 million. And most of that is related to the exit and sale of our domestic Express businesses in the UK and in France. So, just compared to Q4, we'll be down significantly, and it will be less than a quarter of those total charges that we had in 2009.

And after that, I think at least my goal, our goal, is to no longer differentiate between underlying EBIT and reported EBIT. We'll just have reported EBIT, I think, going from 2011 going forward. That's certainly our goal. And if nothing surprising and unexpected is happening, I think we'll meet that goal.

Again, Q4 EBIT -- underlying EBIT, EUR526 million was our highest quarter of the year. And without those EUR159 million of special charges, would have been actually up 7% over the 2008 level. Another quarter, second quarter in a row where we would have had a year-over-year increase if not for a couple of special effects.

Financial result; minus EUR255 million. Here, the equity consolidation of Postbank, our remaining about 40% share in Postbank, and their loss in Q4 led to a loss of about EUR52 million. I'll come to a little more detail on that in a minute.

In consolidated net profit; minus EUR280 million for the quarter.

Now, here is the impact from the sale of Postbank. Again, the equity consolidation; we had the minus EUR52 million in Q4 and just a slight positive for the full-year.

In our other finance costs, we had Postbank-related positive impact for the full-year of about EUR600 million, slightly negative in Q4, and then non-Postbank-related normal interest expense of about EUR600 million. So, the total finance costs were benefited primarily by Postbank with EUR651 million.

And, yes, we will be living for some time with these mark-to-market adjustments. And, in fact, they're going to get significantly bigger; the sensitivity and volatility will increase. And I'll talk about that a little bit later, because there's an accounting change starting in 2010 that will even increase this sensitivity. And it may be positive in some quarters, might be negative.

So, underlying EBIT development; again, here's the bridge on Q4 from 2008 to 2009 Q4. And you see that Mail had quite good quarter; was up EUR35 million despite about 5% reduced volumes. This was due to very good cost and efficiency measures.

Express benefited both from strict cost management and cost reduction, as well as reduced losses in the US.

In Global Forwarding and Freight, we had the continuing margin squeeze where volumes are increasing sequentially and we're not able to raise prices fast enough with our customers to offset the increased prices we have to pay for capacity for air freight and ocean freight.

Supply Chain; EUR143 million, but significantly impacted by, again, one-off effects. Without those effects, Supply Chain performance would have been about flat with the 2008 level.

Corporate Center, due to a gain in Q4 of 2008 that we recognized and a couple of small provisions that we needed to build in Q4 of '09, was down about EUR57 million. But, again, correcting for the one-time items, we would have been up about 7% compared to 2008 in Q4 2009.

Our free cash flow also developed well. We had almost EUR900 million, by far our highest quarter of free cash flow generation, in Q4 of '09. It was slightly down -- or somewhat down from the 2008 level as in 2008, as the economy really started to turn down in Q4, we really had a huge working capital reduction and saw cash inflow from working capital reduction. And that was the big effect in 2008.

That notwithstanding, for the full-year we had about a 5% increase. And we're overall quite pleased in this year that we are able to maintain our free cash flow generation.

Here's our balance sheet liquidity position. We had a net liquidity position of EUR1.7 billion; continued to build up from the second quarter where we paid our dividend. So it really is a very comfortable position; gives us the flexibility to really invest the way we need to. We don't have any urgent financing needs. We can decide when and if to access capital markets, so we're really quite a comfortable position on our balance sheet.

So let's take a look at each division performance. Mail, again, was up 7% over -- in underlying EBIT over last year. This was a really good performance, really due primarily to strict cost management.

So even though volumes continued to drift down, due both to the structural decline in Mail, the e-substitution as well as the economy -- Mail is also effected by the economy, so advertising-type Mail reduces when the economy turns down. So we're quite pleased with the performance in Mail.

Express also did well; EUR162 million of underlying EBIT generation, again, due to very good cost management and the significant reduction in losses in the US. Excellent cash flow generation. So, we're quite pleased. And Express was the division that contributed most -- or had the biggest increased compared to Q4 of last year.

Global Forwarding and Freight; EUR67 million of underlying EBIT. Even though volumes have strongly been increasing sequentially, they're still significantly below the overall for the year; the 2008 level.

And we continue to have the margin squeeze that I talked about, where we need to catch up on prices. It's typically something that we see in an economic recovery. It usually lasts about three to six months. And so we think we're going to come back to equilibrium some time now in the next few months.

Supply Chain; again, a story of non-recurring effects. If you add back the EUR145 million, we would have been just exactly on the 2008 level. So even though sales were down by 9%, good costs management also in Supply Chain would have kept earnings flat with 2008.

The good news is the Arcandor story is over in terms of one-time charges. Assuming that [parcdot] continues to operate as we think it will, and this one-time write-off for onerous contracts, we don't expect to be a repeating item going forward. So I think we'll see definite improved performance in the Supply Chain business, going forward.

Now, here's the accounting change I talked about. It's the new IAS standard 39.2g, and it requires us to mark-to-market the forward component of our mandatory exchangeable bond. This led to a January 1 one-time profit increase of EUR1.4 billion. So, in Q1, if the Postbank share price stays close to where it is now, we should have around the EUR1.4 billion profit in Q1 because of this accounting change.

So this is the first time valuation, the first time mark-to-market of this mandatory exchangeable bond. And in future quarters, we'll need to mark-to-market each and every quarter until the Postbank transaction is concluded and at the latest in early 2012.

What it means is that our sensitivity to changes in the Postbank share price increases from about EUR30 million per euro of Postbank share price to about EUR90 million. And it's inverse; if the Postbank share price goes up it's a EUR90 million loss for us, and if the Postbank share price is going down it's an additional EUR90 million gain.

So it introduces more volatility. It is only an accounting effect. And I hope that -- we certainly will regard it as that in the future. I hope that you will too. And it's an extraordinary completely non-operating effect, but it's one that will be with us until the Postbank transaction is finally closed.

Corporate finance strategy; alongside roadmap to value and the IndEx program, we think that this is a key to becoming and to being an investment of choice.

We think that predictability, reliability, attention to balance sheet structure are absolutely key to returning the most value and becoming the most attractive investment for you and for your clients. So, again, reliability, predictability, these are the goals; strategic flexibility, the ability to access capital markets when and if we need; having a low, if not the lowest, cost of capital; and employing very clear steering metrics in order to make sure that you're consistent with the policy and the goals that you've laid out.

We think that any policy should start with balance sheet structure, and the balance sheet structure then determines the credit rating. And so we have a target credit rating, and this gives an implied balance sheet structure. The dividend policy then flows from that. Then, we want to prioritize what we do with excess liquidity; when and if we have access to it. And then, finally, how we structure our financial debt portfolio.

So, in terms of the balance sheet structure, we think the right reading target for us, and, therefore, the right balance sheet structure, is the one that we have now; BBB plus. We think this is the rating that minimizes capital cost; gives us sufficient financial flexibility; gives us access -- full access to capital markets. We think it's the right one. Most of the companies in our industries are in that range, and we think it's right for us too.

Dividend policy; we want to pay out in the future 40% to 60% of net profit. We want also though to take into account, very importantly, our cash flow performance, and the relationship between the dividend and our cash flow generation, and also continuity.

And as you know, the dividend recommendation for this year of EUR0.60 is higher than the top of this range of 60%. But we felt that it was crucial because of wanting to have continuity, wanting to show our confidence about the future, and the underlying earnings power of the Company that we stick with the dividend of EUR0.60 for this year.

In terms of what we will do when and if we have access to excess liquidity, our first priority will be to look opportunistically for more investments in our existing business.

It doesn't mean that we're going run out and do the first acquisition that comes along. It doesn't mean we're going to do huge acquisitions. It doesn't mean we're going to diversify into different businesses. It means we'll invest more -- or look for opportunities to invest more both in CapEx and acquisitions for our existing business.

Then, we want step-by-step to further fund our pensions. We have a significant unfunded pension liability, especially in Germany. We want to fund that step-by-step.

Then, after that, if we still have excess liquidity, we would let the rating drift up to A minus, but not higher than that. We're totally happy with BBB plus, but if we had excess liquidity and we've invested all we want, and we've funded the pension, we've let the rating go to A minus, and only after that would we consider special dividends or share buybacks.

In terms of our financial debt portfolio, we want to go away from bilateral facilities with different maturities, different conditions, toward a much more structured syndicated facility as one of our primary funding sources, and then keep bonds for long-term financing.

With that, Frank will come back and talk about the outlook for the year.

Frank Appel - *Deutsche Post AG - CEO*

Yes, before I come to the outlook, maybe one important point you might have read earlier today. The Supervisory Board yesterday decided to extend the contract for two of the Board members for an additional five years; for Hermann Ude, Head of Global Forwarding, as well as Bruce Edwards heading Supply Chain.

The good news about that is the minimum of contract duration for any of the Board members is two years-plus. So, three members will be for renewal in 2012, so that is Ken, Larry, and myself. Then, we have our HR director, which is for then for 2013 and the other three gentlemen in 2015 and '16.

So, this is important because I think we have reshuffled the management board quite a bit in the last two years, and now we have again stability with clear focus on operational performance.

And if I talk about operational performance, what you see here is very much the same as we have outlined that in last year. We will remain focused in (inaudible) very much on our operational performance, and introducing small new programs and projects and products, as well as definitely we will try to keep our costs well under control.

On the other side, we have launched this year these online letter, where we see a clear answer to the deterioration of our core Mail volumes by transferring our business model into the [virtual world].

On the DHL side, we have pretty comprehensive programs in place. You have seen in the last year at the Capital Markets not -- there are some re-prioritization. But more or less, the programs are still the same with clear focus on two things; on growth and simplification of our internal processes and more [firmer] stabilization.

So, that will be the theme for this year anyway; growth potential to capture, and how can we reduce our complexity internally? But even more important, how can we simplify the services we provide for our customers?

If I then come to the financial guidance, the underlying EBIT, the guidance is EUR1.6 billion to EUR 1.9 billion for the Group, which is a fairly broad range for sure. But that comes from the point that there are still uncertainties with regard to the economic development, and the lower end definitely we'll focus more. There is no recovery of the economy, as well as that there will be an introduction of VAT in Mail.

If we talk about the upper end, I definitely see some support in our development from the economy on one hand, and less impact; because we at the moment assume that there will be a VAT coming this year, that we have less impact.

And you can argue now why is that so difficult to judge. Because at the end of it, the VAT has an impact on the competitive landscape and it depends on the behavior of customers, the competitors, and us how much we will be impacted. And, therefore, we say on Mail we give you a guidance of EUR1 billion to EUR1.2 billion, and on the DHL side we will give you a guidance of EUR1 billion to EUR1.1 billion.

For the corporate headquarters, we assume a target of roughly EUR400 million, which is a little bit more than 2009. That comes to, in particular, from some hedge accounting gains we had last year, which will not come again.

The underlying costs will go further down. And since we reduced in the last two years the Corporate Center costs quite a bit, there's the limitation to reduce it further, and, therefore, we expect a cost number around EUR400 million, including all these reconsolidation effects.

Beyond that, our guidance is that we will have a significantly lower restructuring impact that -- on the underlying at least to reported EBIT. It will be more on a basis of EUR350 million instead of EUR1.2 million.

As outlined earlier for 2009 by Larry, we want to increase CapEx again from EUR1.2 billion to EUR1.4 billion to get -- capture really the opportunities in the markets. We will remain very focused on that we see really business benefits, so we manage that very tight. That's more or less a plan. If we can't find enough healthy investments, we definitely will not spend the money. So to reassure you that this is more or less the capacity we have to do, but we only will do that if we really see business opportunities.

Then, you should not be surprised that there will be on our operational cash flow significant impact. We built provisions, but the good news is not all of the restructuring has been paid. So, from a cash flow perspective, we do our utmost to pay as late as possible, but nevertheless we assume that we still have some cash outflow of EUR1 billion in 2010.

And the net profit definitely will be above 2009 so that we have another positive development.

So that will be the guidance for this year based on the current stance where we are. And as I said, the lower end definitely assumes no tailwind and the upper one definitely will get some support from the market.

So, thank you for listening. And then, we are now happy to answer any questions you might have.

QUESTIONS AND ANSWERS

Unidentified Company Representative

Exactly. And for that, the usual procedure. We will take questions from the floor right away. But you can also submit them electronically, and as we have received already a few. Just to remind you, we have a pretty busy schedule so we have to end pretty much on time, at 3.30 at the latest, so if you could keep your questions as crisp as possible.

We start here on the floor. Mr. Funhoff, if you would like.

Axel Funhoff - *ING - Analyst*

Yes, hi. Good afternoon. Axel Funhoff from ING. Two questions, please. First of all, on Express, the EUR162 million underlying EBIT in the fourth quarter, that slightly disappointed some market participants. Can you just quickly speak about any pricing trends you see, particularly in Europe, also elsewhere, and whether you see any other trend changes, and whether there are any elements to make us a little bit more optimistic about 2010?

Frank Appel - *Deutsche Post AG - CEO*

Yes, let me comment on that. First of all, as you have seen, we have met our targets for the US. And if you talk about that, that some participants affected more, we definitely have taken a conservative view for reporting on the numbers first.

And second, after we had focused very much on yields the first nine months, we also have seen that there is some market pressure. With the better headroom we have now, through the better cost position we have, we are definitely more active in the market. And that definitely had impact as well in this quarter on the numbers, which give us some good prospect in 2010.

Axel Funhoff - *ING - Analyst*

So pricing power did not intensify, or anything like that? Do you see it maybe fading?

Frank Appel - *Deutsche Post AG - CEO*

No. We had already quite intense pricing discussions through the year, as I said. If you compare our numbers with our competitors, we had [hold] yield better up than the competition. And as I said, we are now a little bit more active in the market than we have been in the first nine months.

Axel Funhoff - *ING - Analyst*

And then the final question, on this VAT discussion; I think that in a focus interview you said that you would consider the current legal proposal to be unlawful. What is Deutsche Post's position with respect to potentially challenging this proposal, if it goes through?

Axel Funhoff - *ING - Analyst*

Yes, so we have not made our mind up yet because the legislation is not finished yet, and then we have to make up our mind. It's not that straightforward because it doesn't help that if there is a lawsuit it could last for years and we get a different ruling. So we have to assess what is the right approach for doing that.

We are actually -- are thinking that the current legislation is not following what the EU Court ruled, saying that universal services is split in two pieces; one VAT exempt, and the other one which is -- will have VAT in the future.

But as I said, as long as the legislation is not over, we can't do too much about that anyway because you can't go nowhere if a law is not in place. And it's pretty complex because you can't go against something without having a clear tax order somehow what you have to do. Therefore, we will consider that very carefully. But I can assure you that definitely we will look into the interests of our shareholders, regardless that we have a shareholder which has 30% of our shares.

Unidentified Company Representative

Okay, with that, we continue with Menno, and then Chris.

Menno Sanderse - *Morgan Stanley - Analyst*

Good afternoon. It's Menno Sanderse of Morgan Stanley. Larry, two for you, and one for Frank; just take them one by one.

Larry, you said something very interesting. You said if there's nothing surprising in Deutsche Post then I hope reported earnings will be equal to underlying earnings. Now, forgive me for being skeptical, after 10 years of looking at this Company, there's always something surprising because it's such a big beast. So, what gives you confidence that the real clear-up that you've made, and Frank has made, in the last two years has really taken care of all the big bleeders? And what gives you confidence that there won't be any new ones?

Larry Rosen - *Deutsche Post AG - CFO*

Well, I'm tempted to say this time will be different, but it's just that we don't see anything on the horizon. We feel like we've taken so many of the right steps in terms of getting the portfolio where we want it to be; in terms of reducing cost; increasing efficiency; increasing productivity. And so there's nothing out there we see on the horizon in terms especially of any significant changes in the portfolio that we need or want, or anything else that leads us to think that there could be a major risk and major one-time costs similar to what we've had the last couple of years.

Frank Appel - *Deutsche Post AG - CEO*

And may I add to that, although you didn't ask me, but what I think the difference is that we have a management team on the divisions who are much more focused on the detail level than we had it before. And that makes me confident that I know that what kind of problems they have, and that makes Larry and myself confident that we have tackled most things.

That doesn't -- we will always have sooner or later a country which will make losses. And if we can't fix it, we have to consider something about that but the scale of that is much smaller than the things we had. You can't avoid that if you have 200 countries times three divisions there will be a mistake once in a while from a manager. But the scale is significantly lower than what we had in the US, in the UK, or France.

And the managers are much more focused on -- my colleagues are much more focused on the detail than their predecessors probably have been, and that's the reason why I'm so happy that the Supervisory Board has extended quite a bit contracts of senior management team.

Menno Sanderse - *Morgan Stanley - Analyst*

And a second one; on Postbank, Larry, all these points that you made, they have no implication on the cash value of the transaction I presume that was announced last year, EUR4.2 billion, is that correct?

Larry Rosen - *Deutsche Post AG - CFO*

That's correct.

Menno Sanderse - *Morgan Stanley - Analyst*

Okay. And secondly -- sorry.

Larry Rosen - *Deutsche Post AG - CFO*

That won't change based on these accounting adjustments.

Menno Sanderse - *Morgan Stanley - Analyst*

Okay. And secondly, in your EUR1.7 billion net cash, in the bigger slide pack there is a EUR650 million liability for -- related to Postbank assets and liabilities. Is that a cash item eventually, or is it a non-cash item? So --

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Larry Rosen - *Deutsche Post AG - CFO*

It's actually correcting for something that's a non-cash item. It's something -- it's a mark-to-market accounting adjustment that actually will never be converted to cash --

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Menno Sanderse - *Morgan Stanley - Analyst*

Exactly.

Larry Rosen - *Deutsche Post AG - CFO*

And, therefore, we take it out of the equation in terms of determining what the real net liquidity position is.

Menno Sanderse - *Morgan Stanley - Analyst*

Okay. So the EUR1.7 billion is the real liquidity?

Larry Rosen - *Deutsche Post AG - CFO*

Is real liquidity.

Menno Sanderse - *Morgan Stanley - Analyst*

And then finally, Frank, Q4 was a bit weaker in terms of Mail in terms of volumes; is that a pure coincidence? Is it comps? Or is it the start of something really bad?

Frank Appel - *Deutsche Post AG - CEO*

I think it has not -- the quarter was not worse than the previous quarters. Definitely, what -- the Christmas -- the week after Christmas, although we had more working days had significantly less positive than the past because, obviously, much more people went on vacation than assumed.

That is also visible in the other divisions; that the time between Christmas and New Year was pretty low this year. And, therefore, if you count the working days you should expect a little bit more, but obviously that didn't come. So -- but there is no change. If you look into the day-to-day development, there is no change. Unfortunately, there is no recovery either so the trend we have seen through the last year is still the same.

Unidentified Company Representative

Okay, one more question from the floor, from Chris.

Chris Combe - *Exane BNP Paribas - Analyst*

I have a follow-up question to Axel's question on Express. Frank, can you please elaborate on what you mean when you stated that you were conservative in the reporting?

And also, for Larry, you mentioned on the US you'd expect continued improvement; if you could quantify that, or give us some idea of what to expect in the coming quarters. Thanks.

Frank Appel - *Deutsche Post AG - CEO*

Yes, so you definitely have constant risks with regard to the network expenses and what you expect. And you can say we don't do anything and we assume always the best, or we take a more -- this is one example where we take more a conservative and say, okay, we might have faced some costs which will come.

So, as I said, you can -- and Larry can talk about that more, it's more technical. But overall, we definitely have seen a reasonable quarter in the last three months, and we definitely have not shown aggressive numbers on the bottom line.

So it's -- I don't -- and the second is, as I said, there is -- we are more active in the market because we have [hold] yields more up than the month before. And we want to -- we don't want to lose market share, therefore, we are a little bit more active as well.

Larry Rosen - *Deutsche Post AG - CFO*

So, in terms of the US, I'll give you a couple of answers to the questions. One is that we expect further continuing improvement.

The other answer is that we're not going to quantify exactly what we expect from the US because I think it would give the wrong signal to think about the US, or any other individual country, when really it's a global network business. And so the only really relevant way to look at the business is on a global basis because no single country means very much without the context of the whole rest of the network.

So we needed, at the time that we announced the domestic Express restructuring, to give people a feeling for what the development could be, and how far we would make progress, and by what time. We think that that has now pretty much come to an end.

The US restructuring expenses at least have gone through the books. The US is in quite good shape. We've demonstrated that we could well defend and even improve our international business in the US and so we don't intend to give a specific guidance for US, or any other country for Express in the future.

Chris Combe - *Exane BNP Paribas - Analyst*

Is it safe to say then that that's an acceptable run-rate loss given the network contribution that comes from that trade line?

Larry Rosen - *Deutsche Post AG - CFO*

Let's say that the -- it's not a question of whether it's acceptable or unacceptable. I think the US is an integral part of the whole Express global network, and I think the results for that whole Express global network will be acceptable in the future.

Frank Appel - *Deutsche Post AG - CEO*

And we definitely will work further on that. We are still very much positive surprised about the loyalty of our customers with regard to the US business. And that comes mainly from the superb quality we provide, in and outbound US.

And we made some progress as well, gaining more small and mid-sized customers, which are definitely better to defend than large customers, where our competitors can easily hunt them. If you have a long list of customers which are small, it's also for our competitors difficult to get them back. It's more difficult to defend the large ones.

So I think, overall, volumes are still positive in and outbound US on one hand, and that is consistent with what we hear around the world. [Ken heard] this morning in the press conference that whenever he travels around he hears that the service quality in and out of the US is better than ever before. That is something which our customers are recognizing as well, and that's the reason why we are getting also some new business onboard from small and mid-sized customers.

So, I think this is definitely the case at the moment. And that's the reason why we will definitely not give up to improve the performance further. How close we can get to a black zero, I will not predict and promise anything. But we definitely will work harder to reduce the losses further.

As we already told you in autumn at the Q3 presentation, we will now stop communicating the losses for the US because our competition is still using these numbers to go to customers. They will [soon lodge a] retrench from the market. And that -- this is a discussion we don't want to have any longer, and we think it's right to measure us on the global development of the EBIT. But we have said that already in November that -- or whenever, October, that we communicated Q3, and we will implement that during the year.

Unidentified Company Representative

Okay, one further question from the floor, Mr. Machemehl.

Nils Machemehl - *BHF Bank - Analyst*

Nils Machemehl from BHF Bank, with two questions. The first question is on a Global Freight, Global Forwarding Freight. You mentioned that you expect a small recovery in volumes. In contrast, we can see currently at the market that airfreight volume and ocean freight volumes are rising considerably by double-digit rates. So is your outlook, or your assumption of small recovery, a very conservative announcement? Or do you see any signs for a slowdown in this recovery, or considerable slowdown in this recovery?

And the second question is a general one regarding your mid-term tax rate. If I remember correctly, it's been a current artificially low tax rate, the result of the foundation in '95 and the goodwill amortization for 15 years or so; please correct me if I am wrong. So, now we are 15 years later, does it mean that we will see a much higher tax rate from 2011 onwards?

Frank Appel - *Deutsche Post AG - CEO*

Yes, so maybe on the recovery, we definitely are not bullish at the moment about the recovery, but we see good development. And also, internally we say it's good if additional volume is coming. We were able to provide with good service through the increases now in volumes, because our tactics last year were not massive lay-offs around the world but cutting salary costs more, in particular in Asia, instead of laying off people. So, we were comfortable to manage that.

So what I would like to see from the divisions is that they cope with the increased volume, which we see at the moment, without adding cost; be prepared that volumes are dropping back to a lower level again, because there's definitely some filling of the pipeline at the moment which drives that. So it's not only really recovery of the economy, but also filling the empty supply chain, which happened last year in the opposite way, and, therefore, we are still conservative.

As long as we don't see really significant growth of the underlying economies, we should remain cautious. Nevertheless, we see some healthy development at the moment, and we are well prepared to capture that through the measures we have taken; instead of laying off people, keep them on board and pay them less salary last year. And on the other side, if it doesn't come we are not in deep trouble that we added cost again massively and can't cope with a lower growth rate.

So, this is more or less the tactical approach we take at the moment. In our numbers, we assume definitely not a big growth rate at the current stage.

Larry Rosen - *Deutsche Post AG - CFO*

So, in terms of the tax rate going forward, at least for the foreseeable future, we see coming back to a more normalized range of 20% to 25%.

2009 was an exception, with a very low effective tax rate. We did a quite thorough review of our provision positions and, in particular, in Q4 we were able to release a couple of provisions. We only had EUR15 million of tax expense in all of 2009. So, we'll come back to a more normalized 20% to 25% in the foreseeable future.

Nils Machemehl - *BHF Bank - Analyst*

And this means that this is a sustainable tax rate for the next year, so if you do not -- what we will not see any jump to 30% or so?

Larry Rosen - *Deutsche Post AG - CFO*

That's not in our forecast for the next couple of years.

Nils Machemehl - *BHF Bank - Analyst*

Okay. Thank you very much.

Unidentified Company Representative

Okay, before we continue with questions on the floor, let's maybe also turn to the questions we are getting in from the outside. And there's one particular area where we have a couple of questions; that's on the nature and assumptions and composition of our guidance. Maybe, Larry, you want to elaborate a bit on that.

Larry Rosen - *Deutsche Post AG - CFO*

Well, again, I think it's difficult to predict the level of economic activity in the economy, which is just beginning to recover really, and then to project what the effect is on global trade, which is the most important factor for DHL businesses. Nevertheless, underlying, our guidance is an assumption that world GDP will be in the range of around 3%, and that global trade levels will be bit higher than that, in the 4% to 5% range.

For Mail, we assume the continuing structural decline because of e-substitution. So, we're in the low single-digit range for a decline in Mail for 2010.

Unidentified Company Representative

Let's come to maybe one more set of questions that was handed in from -- by Roger Elliott from Citi. First, maybe for Larry, what definition of net profit is used for our pay out range policy?

Larry Rosen - *Deutsche Post AG - CFO*

So, I think the last thing we wanted to do was to introduce yet another adjusted figure [so] on our underlying profit, and so we didn't do that. Nevertheless, it's important in determining what the dividend should be that to take into account important non-recurring extraordinary items. And so items like the mark-to-market adjustments for Postbank or the huge US restructuring expenses that we've had are items which we would tend to exclude from the consideration of what the dividend ought to be.

So, we'll look at adjusting the net profit result to a more normalized result again in the future. Anyway, we don't expect to have very big non-recurring extraordinary items and so that should be less of a consideration going forward.

Unidentified Company Representative

Thanks for that. And over to finish up with the questions coming from Roger. In Global Forwarding, maybe, Frank, that's something for you, what gross profit per unit of airfreight do you see as the equilibrium level?

Frank Appel - *Deutsche Post AG - CEO*

Yes, I think definitely in 2009 we have seen pretty high gross profits in the first half and a significant deterioration due to the market dynamics in the second half. And so what we expect I think mid-term is that we go back to the levels we have seen before the crisis.

So I can't tell you exactly, but it's -- I will not give you a number because -- but the level we had in the early 2008/late in 2007 are probably more a reflection of a stable situation than the numbers we have seen either in the first half of 2009 or in the second half of 2009. And we will see that that will probably happen in the course of the next year.

Unidentified Company Representative

Okay, now we continue here on the floor. Mr. Rothenbacher?

Jochen Rothenbacher - *Equinet - Analyst*

Yes, Jochen Rothenbacher, Equinet. You booked a reversal of provisions last year in an amount of EUR562 million, which is related to the US Express restructuring; could you explain this a little bit? And should we expect such amounts of reversal of provisions for this year again?

Larry Rosen - *Deutsche Post AG - CFO*

I think it's maybe misleading just to look at reversal of provisions because we review the provision situation, of course, having to do with the US restructuring. We review it intensely because it's so important and so big. And in many cases, we're releasing a provision, and we're then simultaneously creating a new one that better reflects the risk or the thing that we're trying to cover with the provision, so you have to look at the net creation of provisions or the net movement of provisions.

Jochen Rothenbacher - *Equinet - Analyst*

Okay. Okay, this process has ended this last year so we should not expect significant moves this year?

Larry Rosen - *Deutsche Post AG - CFO*

Well, in terms of the net, in the US, the great bulk of the provisions have been taken either at the end of 2008 or in 2009, with Q4 having been the last really important quarter of US restructuring provisions. There might be a few very small items going forward, but the great bulk of provisions have been run through the P&L in 2008 and 2009 for US Express.

Unidentified Company Representative

Okay, we continue here on the floor.

Robert Joynson - *Macquarie Research - Analyst*

Hi. It's Robert Joynson from Macquarie. Just another quick question on the Mail guidance. You mentioned that you're assuming that volumes will continue to decline by low single-digits, but could you just provide us with some more color on the other assumptions which lie behind the Mail guidance? In particular, things like the development of competition, the financial impacts from the ending of the VAT exemption, and also the potential for further cost reductions as well.

Frank Appel - *Deutsche Post AG - CEO*

Yes, I think, if you go into the numbers we have roughly lost EUR250 million on our bottom line in 2009 in comparison to 2008. We definitely see a further deterioration, and that's the reason why we give the guidance EUR1 billion to EUR1.2 billion in 2010 now. That comes mainly from the further deterioration of volumes.

We definitely have some counterbalancing effect, but in this year we have increased salaries. As you might remember, we have the [two-zero round], but in December we had another increase in salaries, which definitely will impact 2010 numbers. It will not happen in 2011 again, because there will be no further increase in salaries from 2010 to 2011. But there will be a spillover from 2009, the salary increase we did in autumn, which is a significant part of this deterioration.

We definitely see some opportunities to improve the underlying performance as we did. But in addition, we have to invest something as well into the new online letter, which will not come for free. So, there are some investments.

There is also some investments linked to the value-added tax, and there will be definitely some impact from value-added tax. The difficulty with that is it's so hard to quantify that.

And we definitely have some scenarios, because it will be not a -- it depends on our pricing strategy. Because at the end of the day, there is a difference in the market then because financial institutions, as well as NGOs and state authorities, have to pay VAT [tax], and they can't deduct that afterwards. So, therefore, this will give you a response.

And that very much dependent on will TNT stay in our country here? Or will they -- the announcement I have seen are not clear on that, but that definitely has an impact on the competitive landscape. So is it -- will that change? Will they stay here? What will the publishers do? And that all has impact on the competitive landscape.

So, if we don't lose market share the impact will be pretty small. If we lose significant market share then we will have definitely more impact. And that's the reason why we gave a lower end, which is EUR1 billion, and so potential as well with EUR1.2 billion. But it's very difficult to predict that, and, therefore, we feel it's prudent to give you a relatively broad guidance on the Mail division and without knowing what really will happen in the market.

Unidentified Company Representative

Okay, good, and we continue.

Dominic Edridge - *UBS - Analyst*

Hi there. It's Dominic Edridge from UBS. A couple of questions; firstly, one on Mail. Dialogue Marketing, clearly, very weak in Q4; could you say, is that just to do with the development of the market, i.e., the cyclical downturn in advertising? Or are there any structural issues there, either in terms of losing market share or in terms of maybe customers looking to other channels?

What I'm thinking about particularly is if that is just a cyclical element we would expect that to come back at some point during the economic cycle.

And secondly, a question for Larry. In terms of the balance sheet's progression that you're looking at, clearly, at the moment you've got the problem of a big mismatch between having effectively an ungeared balance sheet where any cash balances are not getting you any interest, and a pension liability that's accruing at something like 6%. How do you deal with that mismatch?

And can you tell us maybe -- give us an idea of where you would hope to see the end game in terms of where the balance sheet might end up over the next few years? Thank you.

Frank Appel - *Deutsche Post AG - CEO*

Yes, so, definitely, we are pretty sure that we have lost market share in Marketing -- or advertising spend. We declined less than the overall spend on advertising, at least to the records we have looked at. So that means, yes, you are right; there should be some recovery if there is recovery in advertising spend. But so far, 2009, we haven't seen that and, therefore, we had still a decline but this is a reflection.

If you look into the newspapers, it's pretty thin. They are pretty thin at the moment. We see that as well in our Press Services because we charge by weight, and there was not a significant recovery. So at the moment, yes, we are impacted as much as the whole marketing arena is impacted, or advertising spend and promotion is impacted. So if there is a recovery we should benefit as well to a certain extent, but we haven't seen that yet in 2009.

Larry Rosen - *Deutsche Post AG - CFO*

The question on the balance sheet, indeed, from a narrow viewpoint, the balance sheet is ungeared. But if one considers then a broader viewpoint, with the addition of the unfunded pension liabilities, and also, as the rating agencies do, the addition of the calculated debt amount that represents the off balance sheet operating lease liabilities that we have, then we actually do have a fair amount of leverage.

And so I think over time, unless our portfolio is changing dramatically, which I don't see any time soon, I think the right rating level for us is around BBB plus, maybe in the mid-term drifting to A minus, but not higher than that. So, I don't see very big changes.

I think as we are more and more successful at improving performance, I think we'll get in the situations where we need to make decisions about what to do with liquidity that we're generating. And I gave the priority list for what we want to do with extra liquidity, when and if we have it available.

Unidentified Company Representative

Okay, we continue with Tobias, please.

Tobias Sittig - *MainFirst Bank - Analyst*

Tobias Sittig from MainFirst. Good afternoon. A couple of questions. Firstly, financial result, how do you see that developing going forward, stripping of the Postbank effect in 2010 and beyond?

Secondly, on the cost cutting program, is there any more to come from IndEx? And are there any spillover effects from the annualization of the savings that you've achieved so far?

Thirdly, on UK and France, could you give us a rough quantification of the losses that those operations generated in 2009, or whether you booked any particular charges for them already in Q4?

And lastly, can you confirm on the reversal of provisions that those did not contribute to the underlying EBIT in 2009 in a positive way? Thank you.

Larry Rosen - *Deutsche Post AG - CFO*

Could you just repeat the last question?

Tobias Sittig - *MainFirst Bank - Analyst*

The reversal of provision; that those EUR560 million did not contribute to underlying EBIT in 2009 because of the net effects that you were referring to.

Larry Rosen - *Deutsche Post AG - CFO*

Okay, let me start with the financial result. The financial result, other than the Postbank effects, is made up of some financial interest expense, and then interest expense on long-term provisions, like pension provisions, and I would expect it to stay reasonably in the range that it was in 2009.

In terms of cost cutting and the follow-up of IndEx, my answer is that there's a bit more. But we don't want to set any new target because really what's there is a continuation and a result of the original program insofar as there's initiatives that we've started in 2009, which haven't been fully realized. There are initiatives that we started during 2009, and they were in the run-rate end of 2009 but they weren't there for the full year.

And on the other hand, there's some of the items where we had cost savings in 2009 that aren't sustainable forever. And, in particular, these are indirect costs like advertising, marketing; costs that go up as the business activities is increasing, and we would expect some moderate increases there.

The net effect of all three of those items should be small additional savings in the EUR100 million to EUR200 million range for full-year 2010.

So, UK and France, I think your question was what was the run-rate of losses during 2009? I would say it's low triple-digit combined, so somewhat over EUR100 million. I don't want to give a very specific figure for that, but that's a general orientation.

And if I've understood your question correctly, the reversal of the provision of EUR562 million did not go into underlying EBIT; that's right.

Unidentified Company Representative

All right, the next question comes from Robert Czerwensky.

Robert Czerwensky - *DZ Bank - Analyst*

Yes, hello. Czerwensky, DZ Bank. Just one quick question. Can you please provide us an update about current trading, and your volume trend or your volume expectation for 2010? Thanks.

Frank Appel - *Deutsche Post AG - CEO*

Yes, we definitely have seen a continuing of good development in January. February numbers, I have not seen to be perfectly honest. I think there is a good recovery. We don't comment too much through the months about -- through the year on a monthly basis.

But definitely we have seen some recovery started in the New Year as well, so that's the reason why we are also positive for the remainder of the year, with all the safe view on that. It might happen that we see another dip sooner or later because the State deficits are huge and large, and we never know what the psychology of the markets will be, so we have taken a conservative view.

We think, in conjunction with that, our IndEx program, we don't think that we have to launch another one because we had a quite massive push as well from the head office to deliver that. And I think we have now much more focus on the divisions, and I don't see that this sentiment is changing. They will continue in looking into all the cost items; what is really needed to support the business.

And we are cautious at the moment not to be too bullish on the market side, but do our homework continuously. But the start was good in the New Year.

Robert Czerwensky - *DZ Bank - Analyst*

And just one follow-up request. If I just look at Kuehne & Nagel, they see that they will grow at the double rate of the general market in volume, so we should also expect this for you?

Frank Appel - *Deutsche Post AG - CEO*

I think if you see into the forwarding industry, and now more and more numbers are coming up, we are definitely on the better side of the -- or the much better side of what the industry has done.

Some competitors have done as good as we are, like Kuehne & Nagel, but others have done much worse. And, therefore, I think we are well positioned to capture -- and we are geared to that as well, to capture volume growth, which is coming, through our global operations. So, I see us definitely more in the same league as Kuehne & Nagel than in the league with others.

Robert Czerwensky - *DZ Bank - Analyst*

And then, one final question about your rating targets. So, you mentioned you like to go for A minus. So, if I remember correctly, and if I look into the past, then I heard that you just need a good rating because for the Postbank standing, so now you have no Postbank and nevertheless you go for a better rating.

Larry Rosen - *Deutsche Post AG - CFO*

Well, it's not a goal to increase the rating to A minus. We're perfectly happy to be a BBB plus. Again, we think this is a level that optimizes a couple of different variables. It gives us a low capital cost; it gives us very good access to markets if we need it; it gives us full flexibility to invest the way we want to.

Going to A minus is the third priority on the list of what we'll do with excess liquidity, when and if it becomes available. So I think it would be a misunderstanding to see it as a goal that we want to increase the rating to A minus. And, in fact, we're perfectly happy with BBB plus.

Robert Czerwensky - *DZ Bank - Analyst*

Okay. But then, finally, if I look at your priorities then I would assume that the payment of the special dividend should be at number three and not on the last point, number four.

Because what also my colleague mentioned is, if I look at your balance sheet, you have no leverage on the balance sheet. And so if I would be a private equity investor I would say you can have three times net debt leverage, and so, in general, you have to increase your debt and spend a higher dividend.

Larry Rosen - *Deutsche Post AG - CFO*

I think the improvement that we would need in our cash flow and balance sheet, in order to go from BBB plus to A minus, is actually only a relatively short way. And when and if we have the liquidity available, we'll get there pretty quickly.

And then, following after that, again, if there's no more good business investments, we've funded the pension the way we want to, we're at A minus at that point, we'd consider special dividends or share buybacks.

Unidentified Company Representative

All right, I think we have a follow-up from Menno.

Menno Sanderse - *Morgan Stanley - Analyst*

Yes, Menno Sanderse from Morgan Stanley. Two follow-ups. Frank, if you do EUR1 billion of EBIT in Mail, take off EUR300 million for the extra pension cash over and above the cost, you have about EUR700 million unleveraged pre-growth CapEx, pre-tax cash flow. That's not a lot compared to the capital employed in this business, if you would normalize it for the fact that some others have [been down] for a bit. So then, you're starting to get to levels where you think is this a business you want to be in; what's your view on that?

Frank Appel - *Deutsche Post AG - CEO*

So, we have frequently got the question what should we do with our portfolio? And I'm still on the same page as I was in the last year; that I think we have made enormous progress in operation performance. And instead of having a discussion about what the hell we should do with our portfolio, I think it's much better to remain focused on what we do at the moment, much better than we did in the past. And that is focusing on operation performance, gearing the Company for growth, [unswerving strategic] challenge.

If we now start a discussion about the portfolio, we would only deviate the management team on several levels from the focus they are just on, and that's the reason why I don't want to have that kind of discussion at the moment. And I don't have that discussion at the moment because I want to really see that we are really pushing hard to improve our performance further.

Menno Sanderse - *Morgan Stanley - Analyst*

No, I can see that. Besides selling things, because that's the easy solution, if you are at that point, you have to take either big headcount cuts, you have to increase the stamp price. You have to go to the government and say, we cannot do this any more; I don't want to delivery six times or five times a week, I don't want to maintain all these Post Offices.

How aggressively are you starting to explore these avenues, because you might have to if you do EUR1 billion of EBIT?

Frank Appel - *Deutsche Post AG - CEO*

Yes, so these are -- at the moment we have a clear decision from the Court about the minimum wage, where we say the impact will not be that large. We will get probably a law about VAT, which will have significant impact.

The other items, like the price of [dream], as well as the universal service obligations, are still things we have to discuss in the future. But to be perfectly honest, we can only do that if we have an agreement with the policymakers first.

If we go public with some request, it will be killed in the first moment, regardless what we demand, because there will be so much opposition immediately. And without thinking about that, I think the right tactic is that that has to be pre-discussed quite intensively before we go public with anything.

But definitely, we will not sit here and wait and just say, okay, fair enough, now the volumes start declining, profit is declining, we have to discuss as well about -- that's not only in our case, it's in many cases. You have seen that the discussion has already started in the US by going down to five days a week.

These kinds of -- type of discussions will come definitely in the upcoming years, and we definitely will have these kind of discussions as well, whatever the outcome might be. But I ask for the understanding that I think to start the discussion publicly, instead of talking with the policymakers first, I think it's better to start with the policymakers first instead of having public discussion about it. But definitely, these are things we have to consider going further on.

We had a heated discussion about what we do with our own things we control; that means labor costs. This story is not over; it's not settled for two years. It will restart again next year, and then the other aspects have to be considered as well.

Menno Sanderse - *Morgan Stanley - Analyst*

Okay. And finally, on the Supply Chain, it was a bit of a shocking two years in a way if you look at how much money in EBIT terms you lost; maybe not as much in cash. Has it disappointed you, this business? Because it was supposed to be quite stable, contract-based, all good, but it's been quite bad.

Frank Appel - *Deutsche Post AG - CEO*

I think what -- I feel even more encouraged, to be honest, because what we have done in the last three years is a lot of legacy we have got. Arcandor is definitely not something which came in recently.

If I see how healthy the business is in the US, in the UK, as well as in Asia, we definitely have to tackle some problems in Mainland Europe. We made good progress in Europe in also providing for some loss-making contracts, as well as we digested the Arcandor case. So, I'm pretty optimistic that we now turn the corner and see that not only in the underlying but also in the reported numbers going forward.

Because Bruce Edwards and his management team is -- a lot comes from the UK and the US, which are running as well now Mainland Europe, and they have demonstrated that you can. And in the UK we work with negative invested capital due to the good working capital position we have there. In the US, we have pretty healthy regional sales margins. So I think if we do the same in Europe, and they're on the right track, then the picture will change.

I think if you go for the underlying, the business has been more resilient than investors have expected. Because if you carve these major items out, we are more or less on the same level as before, because -- and that's the result of a good management, with open contracts, with temporary labor. So I think we will see in 2010 the benefits of the restructuring work Bruce Edwards and his team have done, and I'm pretty optimistic about it.

So, I'm not shocked. I'm more convinced that this is a healthy business, and you can not only have a healthy regional sales, but also you can earn your costs of capital.

Unidentified Company Representative

Right, I think we've got time for one very last question from the floor. Chris, again?

Chris Combe - *Exane BNP Paribas - Analyst*

It's Chris Combe, Exane BNP Paribas. Just a follow-up on Supply Chain. Could you give us some idea of the average remaining duration on onerous contracts? And is this a matter of renegotiating for better terms? Or walking away and culling legacy contracts that aren't performing?

Frank Appel - *Deutsche Post AG - CEO*

Yes, so the average length of the contracts is, depending on countries, between three and five years. And I can't tell you by heart what the average is. So we have a constant flow of renewals, definitely.

We have looked into many contracts, and we have settled some of them that we are not continue. This is also a prudent approach I think, that you get rid of some contracts which are not profitable going forward.

So, the length is three to five years on average.

Unidentified Company Representative

Okay, well, it looks like we're running out of questions related to Q4 or 2010, which is coming in handy because we're running out of time at the same point in time. Any closing statement you want to make? I think we've covered most of the ground.

Frank Appel - *Deutsche Post AG - CEO*

Yes. I think we definitely had a very challenging year for any company last year. I'm very happy with the progress we made. We did our homework, not only by tackling the bold issues, but also operationally. The gearing and the performance is much better; we have the right focus going forward.

I think we have cleared the road for future growth. And we will definitely focus now on growth, as well as further simplification or centralization of our processes, and that should lead to additional benefits going forward.

So, I'm pretty happy where we are, particularly because I have a very strong management team, which is focusing on the right items. I think, having Larry now on board, also a significant strengthening of our management team.

So, if the economy helps us, I'm pretty optimistic going forward. And after we had two challenging years, I think we are in much better shape than we were 12 months ago.

Unidentified Company Representative

Grand. Well, that concludes our session. Thanks, Frank. Thanks, Larry. Thanks to my IR team; great job. And looking forward to be in touch with you in the next weeks. Good bye.
