



Capital Markets Day

Bonn, 6 September 2004

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China Demographics and Macroeconomics

- **Concerns and Challenges for Express Industry**
- **DHL Sinotrans JV**
- **Our Partner – Sinotrans**
- **Our Services, Facilities and Network**
- **DHL Express' 5-Year Investment Program**
- **Competition**
- **Our Strategic Focus to Stay Ahead**

Market Highlights

- Significant GDP growth maintained in the last 4 years. Strong export and import growths continue in 1H 2004
- Despite some concerns of overheating, most economists expect China to sustain this pace of growth for the next 3 years
- 4th largest trading nation after US, Germany and Japan
- Attracted the highest FDI flows in the world – total US\$53 billion FDI in 2003. 2004 FDI could match 2003's
- Post-WTO China is experiencing rapid market liberalisation and modernization
- Expansion of transportation infrastructure
- As the “manufacturing centre of the world”, China is increasingly a strategic market for global businesses

Y-O-Y Growth	2001	2002	2003	1H 2004
GDP	7.3%	8.0%	9.1%	9.7%
Total Exports	6.8%	22.3%	34.6%	35.7%
Exports by Air*	9.6%	45.9%	64.4%	71.4%
Total Imports	8.2%	21.2%	39.9%	42.6%
Imports by Air*	23.4%	24.4%	54.5%	54.9%

* In value terms

Area	9.6m km²
Provinces & Municipal Cities	34
Provinces	23
Autonomous Regions	5
Municipal Cities	4
Special Administrative Regions	2
Population	1.3 billion
Rural	61%
Dialects	205

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Some Sectors Face Serious Concerns Due to Over Investments

■ Excessive Fixed Investments Growth

- Fixed assets investment in 2003 grew 30.0%
- Growth from January to July 2004 was 31.1% compared with same period last year
- Excessive lending by state-owned banks has created an over capacity situation

■ Potential Bubbles are beginning to form in some sectors- real estate, steel, cement and automobiles

- Increase in prices of raw materials as supply falls short of demand
- Fear of rise in operating costs

■ Serious Power Shortage

- Power supply seriously lags growing demand

■ Transportation Infrastructure

- Transportation infrastructure bottlenecks created due to shortage of capacity

■ Inflation on the Rise

- From 1.2 % in 2003, inflation risen sharply to 5 % in June, due mainly to higher food and energy prices.

China wants a more sustainable growth beneficial to economy in the long term.

- **Priority since 2003 has been to achieve a “soft landing” by managing GDP growth of 7-8 % in 2004 through a combination of economic measures,**
 - Sterilizing capital inflows
 - Halting speculation of RMB appreciation (to rein in inflation)
 - PBOC raised capital reserve ratio for banks from 7 % to 7.5 %.
 - Major state banks strengthening balance sheets to prepare for entry of foreign banks in 2006.
 - Limiting loans to heated industries (real estate, cement, aluminium, steel and automobiles)

- **On Critical Power Shortage**
 - China ordered shutdowns for 2-3 days a week for factories and entertainment establishments, and other measures to reduce energy consumption.

- **Price Controls instituted on Critical Raw Materials**
 - To ensure the rising inflation (now 5 %) is under control

- **Addressing Urban-Rural Gap**
 - Government will deepen economic development of the western, central and northeast regions to spread out investments and economic benefits and reduce overheated urban coastal areas

Expect high air express market growth of 30-35% to continue for the next 3-5 years, more than twice air cargo growth. Air express industry and government need to invest in building more efficient infrastructure and expand capacity.

- Government reforms in trade facilitation and customs clearance need to accelerate to cope with impacts of high express demands and increased sophistication. Industry to work with government.
- Industry requires an efficient world-class air and ground network infrastructure linking China's domestic network with the international network. Government's plans for new highway and airport infrastructure need to be accelerated to reduce bottlenecks.
- Air express and cargo capacity of both Chinese and foreign airlines need to be expanded to meet the growing demands of international and local companies for air express.
- New trade flows driven by new FDIs and migration of manufacturing companies to China create new demands for express and supply chain management. Business models will need to change considering express logistics in China is relatively traditional, with low outsourcing level (5-10% vs >20 % in developed markets).
- Expect changes in roles and responsibilities of central government regarding distribution and licensing regulations, as post-WTO commitments are implemented.
- "Guanxi" (Relationship) : Strategic partnerships and alliances in China remain important.

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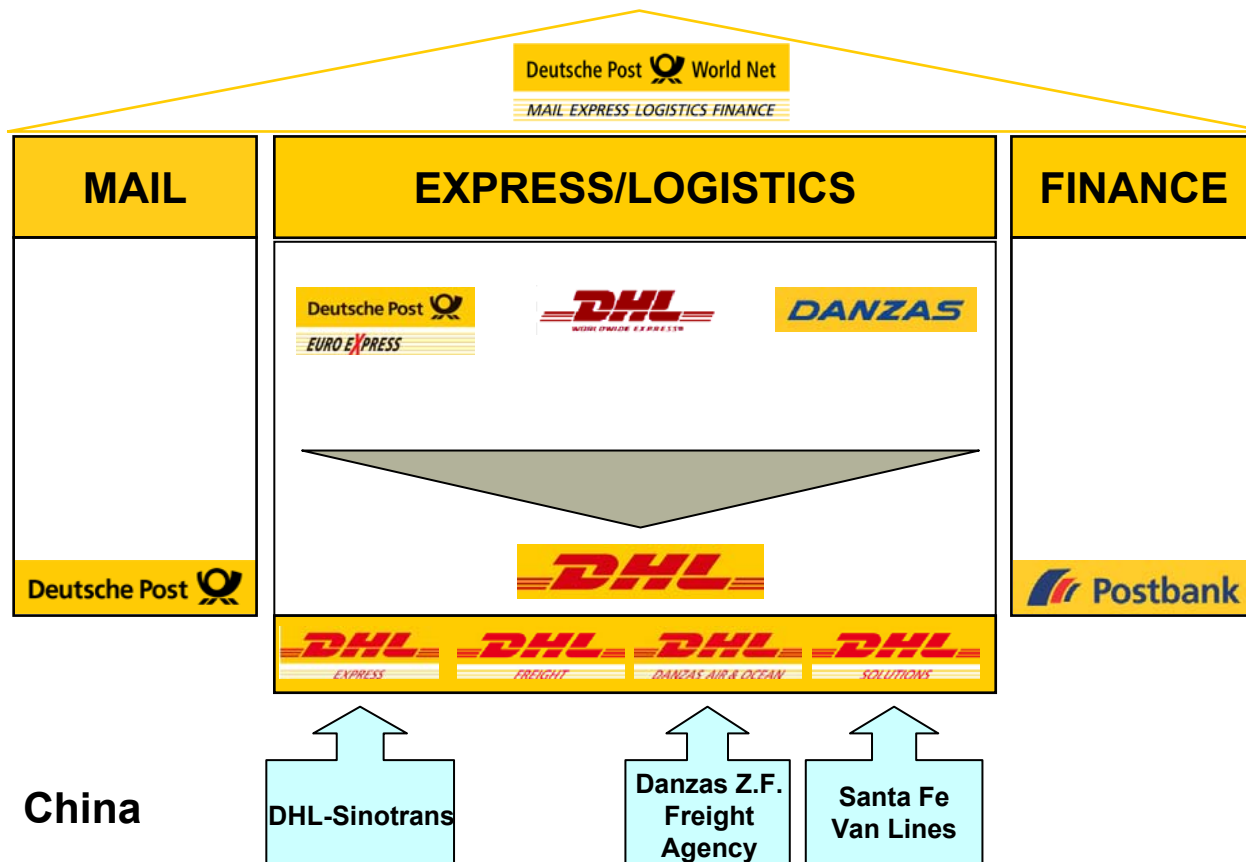
- **Competition**

- **Our Strategic Focus to Stay Ahead**

Leveraging the DPWN Group in China



The DPWN group has strong and established presence in China. DHL Sinotrans is able to leverage the combined strengths of the DPWN group to enhance its dominant position as No. 1 in express and logistics.



JV has played key role in the development of Air Express Industry in China

■ First Foreign Express Company

- In 1980, DHL signed agency agreement with Sinotrans and was the first foreign express company in China.

■ First International Express Joint Venture

- In December 1986, DHL and Sinotrans established a 50/50 joint venture. Since Feb 2003, DHL holds 5 % equity in listed Sinotrans Ltd, underscoring its strong partnership with Sinotrans.

■ Widest Range of Services

- The JV provides a widest range of international, domestic air express and logistics services to a large base of customers from all key industries

■ Largest Geographical network

- These services are supported by a large geographic network infrastructure covering 318 cities of which 56 are directly managed by the JV.

■ Clear market leader in China for express at 40 % market share

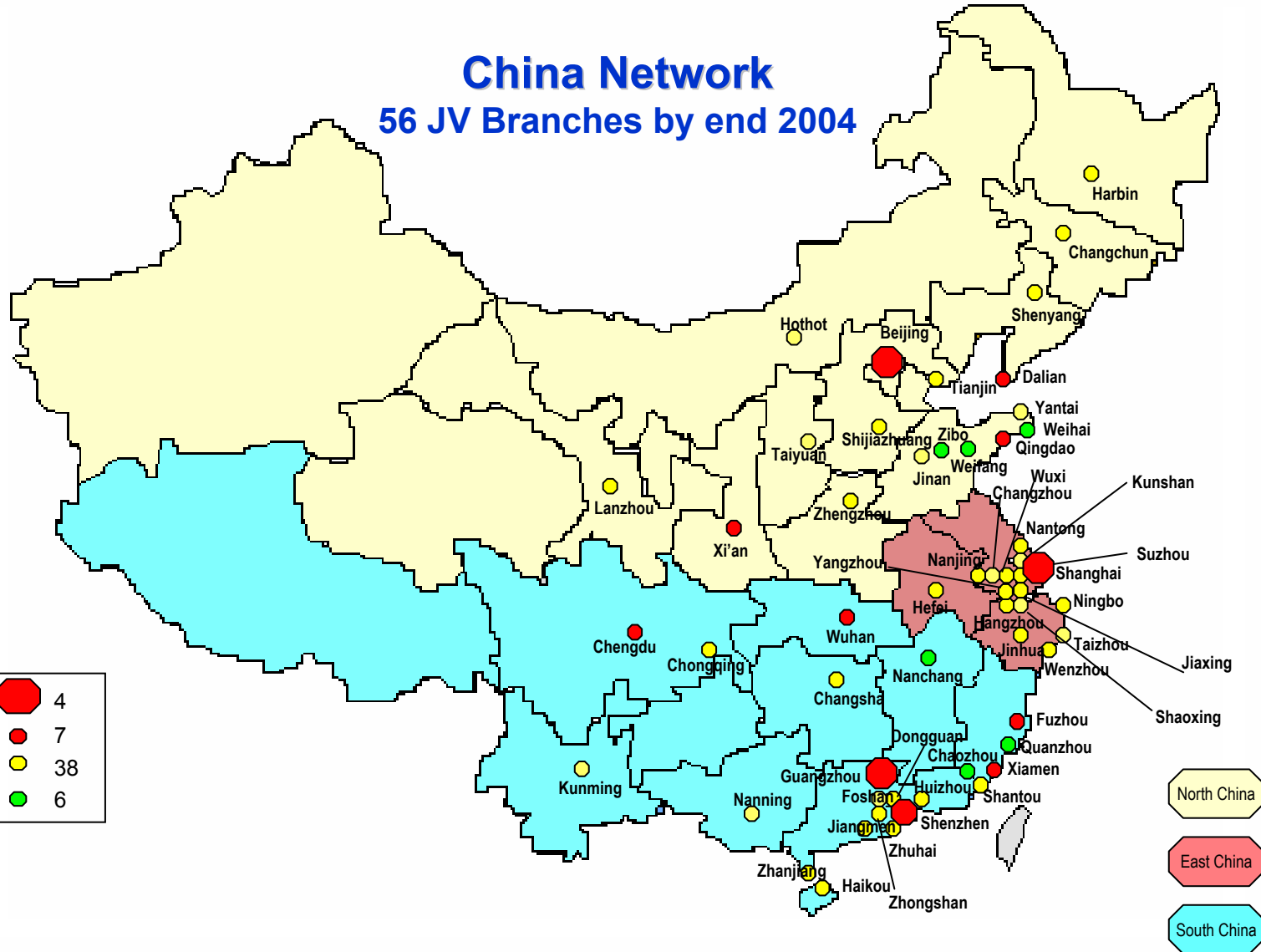
■ JV Delivers Robust Growth of 35-45% annually over the last 5 years.

- Growth in the first 6 months was even higher, at 50-60%

China Network 56 JV Branches by end 2004

DHL-Sinotrans JV

- 11 international gateways
- 50 branches
- 160 facilities
- 1,000 vehicles
- 4,500 staff
- Covers 318 cities

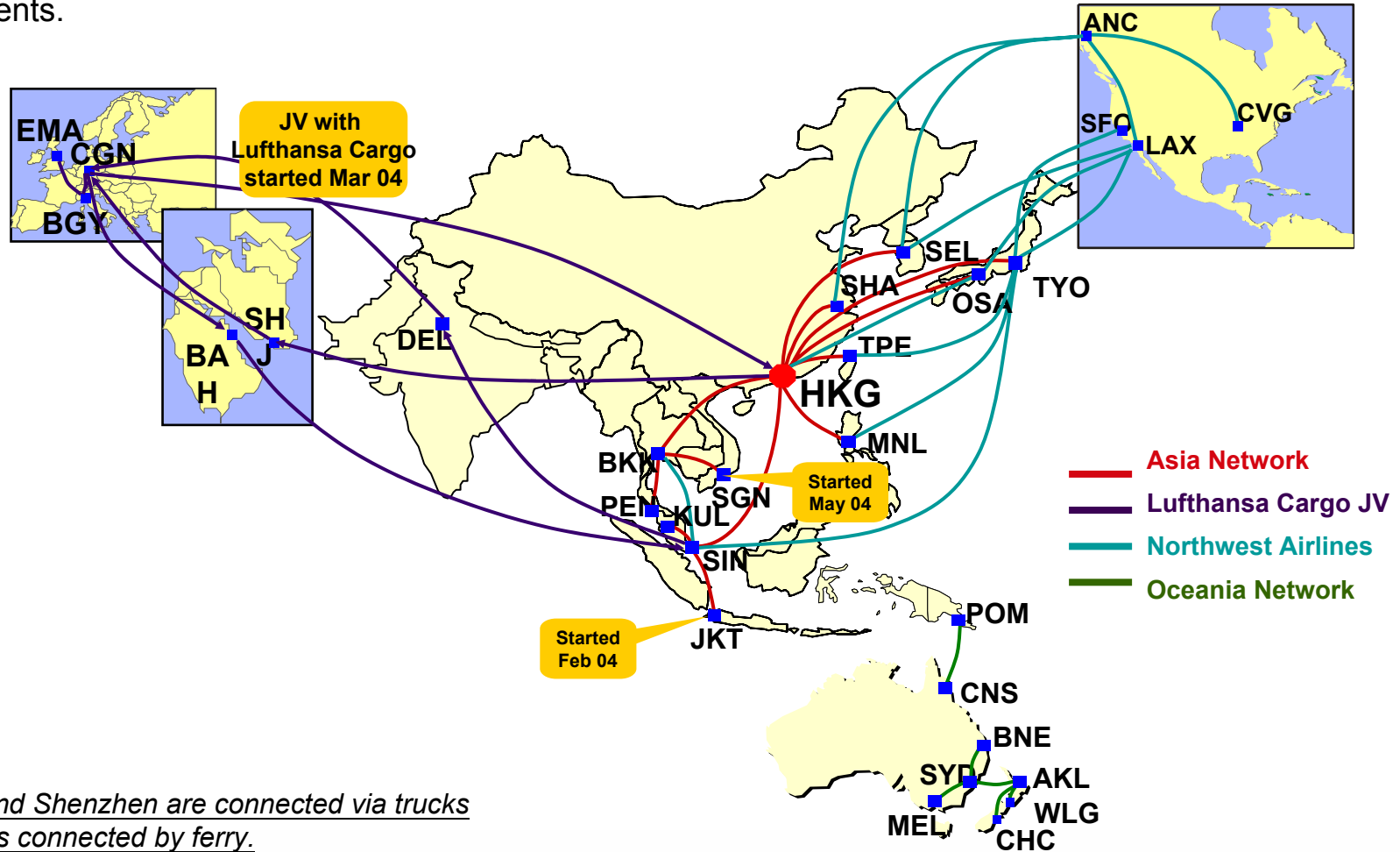


China is Well Served by DHL Global and Asia Air Networks



Central Asia Hub in HK connects the main gateways in China to Asian and global destinations

- Air Hong Kong is the central piece of the dedicated air operations in Asia Pacific, a joint venture between DHL and Cathy Pacific, and the network is also served by other business partnership with local airlines.
- Investments under way for further expansion of domestic and international connectivity to meet China's growing requirements.



Guangzhou and Shenzhen are connected via trucks while Macau is connected by ferry.

Our Investments in Facilities



Beijing (South)



Nanjing



Tianjin



Kangqiao



Management Team Building in Shanghai



Opening of Dongguan Service Centre



Year-end Business Review in Jiangmen



Customer Seminars



Customer Badminton Tournament

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Sinotrans Ltd (unit of Sinotrans Group) is one of the largest transportation and logistics companies in China.

- **Listed on the Hong Kong Stock Exchange in Feb 2003, raising over US\$400M. Share price (HKD2.45 on August 31) has risen 11.9% above IPO price.**
- **DHL (5 %) is the largest of 4 strategic investors holding 10% of Sinotrans' equity**
- **Backed by 50 years of solid experience, Sinotrans Ltd's core businesses are :**

Core Services			Supporting Services		
Freight Forwarding	Air Express	Shipping Agency	Storage and Terminal Services	Trucking	Marine Transportation

- **Sinotrans was awarded in 2001:**
 - “Best Logistics Warehousing Company” by China Shipping Gazette, and
 - “Top 10 Outstanding State-Supervised Enterprises in China” by Ministry of Finance
- **Revenue of Sinotrans in 2003 was over US\$2B, with annual growths of 16%, 27% and 22% in freight forwarding, express and shipping agency respectively**

- **Sinotrans is in a strong position to stay competitive and take advantage of the vast opportunities in transportation and logistics created by China's economic expansion, by leveraging their strengths in :**
 - Extensive geographical network throughout China with full service capabilities
 - Strong brand recognition driven by an experienced management team
 - Growing entrepreneurial corporate culture
 - Experience of strategic investors and partners

- **A state-owned enterprise (SOE) under Ministry of Commerce (MOFCOM) (formerly Ministry of Foreign Trade and Economic Cooperation, MOFTEC), Sinotrans Ltd has close and excellent relationships with central and local Government local authorities**
 - Enabling it to influence and shape policies for the industry.

- **DHL Express and Sinotrans as JV partners will exploit each other's strengths to :**
 - Strengthen DHL's express services and brand image in China
 - Upgrade DHL's geographical network and facilities to remain world-class
 - Strengthening connectivity of its domestic network with the international network
 - Remain market leader in providing express logistics services
 - Develop and leverage our combined pool of human talents

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DHL provides the most comprehensive range of express transportation services both internationally and domestically in China.

International Express

- Worldwide Document Express (DOX)
- Worldwide Parcel Express (WPX)
- Import Express (IMP)
- Time Definite Delivery (TDD)

Domestic New Entry

- Domestic Parcel Express Service (DOM)

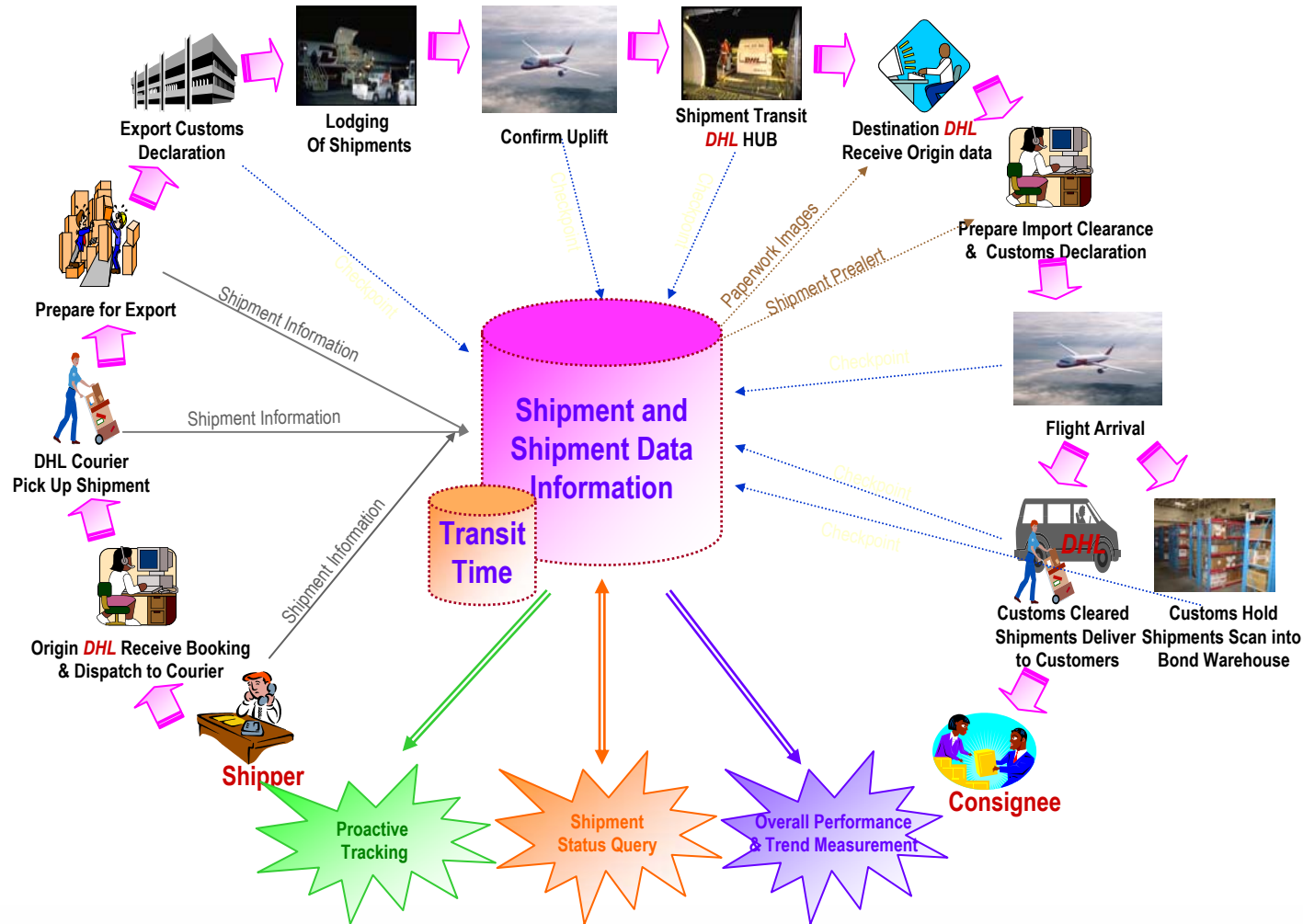
Express Logistics

- Express Logistics Centres (ELCs) and Strategic Parts Centres (SPCs)

Efficient, World-Class Shipment Flow Management



In China, DHL will continually invest in systems and process flows to stay world-class and deliver superior service to all our world-wide customers doing business with China.



DHL is first international express provider to offer a new standard for domestic express in China from September 2003

- **To complement our international express services and to meet demands from the market for an effective, fast and reliable domestic service, DHL introduced :**
 - Domestic Parcel Express (DPX): Next Day Service
 - Domestic Freight Express (DFX): 2-3 Days Service

- **The new services have been well received by the market and so far steady growth has been achieved.**

- **Growth has been driven by market leading features :**
 - Latest pickup and fastest delivery time
 - Wide direct geographical coverage of 50 x 50 cities
 - Managed and controlled by DHL's owned operations
 - Efficient track and trace system consistent with international standards

- **This launch enables DHL to package for our customers an integrated international and domestic solution to enhance their competitiveness in China.**

Our express customers in China are supported by our Global Customer Solutions team which provides integrated world-class services to DHL's 106 Global Top Customers with strategic operations in China.

■ **These 106 top global customers are in Leading Industries :**

- Life Sciences & Chemicals
- Audio Video Telecom
- Financial Services & Public Sector
- Automotive
- Engineering & Manufacturing
- Consumer Products & Services
- Electronic Component
- Electronic Equipment

■ **We leverage the DHL GCS team to meet our customers' demands through :**

- Global Reach
- Customer-Driven Approach
- Supply Chain Solutions
- Excellent Customer Management

To meet our express customers' growing requirements on express logistics, our express logistics capabilities now include 3 express logistics centers (ELCs) and 16 strategic parts centers (SPCs)

■ Main Value Propositions

- Importer of Record (IOR)/
Exporter of Record (EOR) licences
- Bonded and non-bonded facilities throughout China
- 4 hours sprinter service within Beijing and Shanghai
- 4-6 hours onboard courier service for major cities
- Repair vendors on site, testing and NFF (no fault found)

● 3 Express Logistics Centers

- Shanghai (Jul 2004)
- Beijing (Sep 2004)
- Guangzhou (Q1 2005)

● 16 Strategic Parts Centers



Air express growth in China will be further stimulated by the following trade initiatives:

■ Post-WTO Commitments

- Liberalisation in key sectors, eg retail, transportation, manufacturing, banking and insurance, will broaden and deepen the economy, creating new business opportunities for local and international companies.
- Generates more demand for air express and logistics services.

■ Cross Border Migration of Manufacturing Activities to China

- More evident post-WTO, companies from Taiwan, Korea, Hong Kong and Japan have actively relocated their manufacturing plants to China (see chart).
- Besides creating employment, transfer of technology and trade flows, these activities generate additional demand for express and logistics services.

■ CEPA (Closer Economic Partnership Arrangement)

- Free trade agreement and privileges extended to companies in Hong Kong provides new opportunities for infrastructure development, investments and trading within Pearl River Delta.
- This has stimulated growth in demand for express and logistics.

■ New USA-China Air Agreement

- Addition of 111 flights per week on each side, and ability of US airlines to operate hubs in China.
- Will increase linehaul capacity, improve express service connectivity, and increase trade and investments between China and USA.

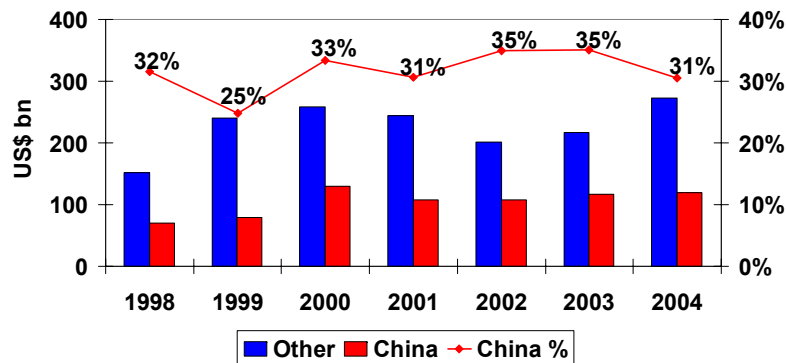
Migration of Companies from Taiwan, Korea, Hong Kong and Japan



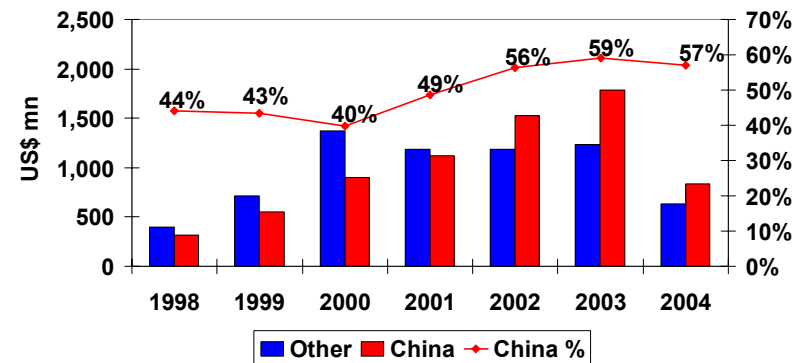
Cross border relocation of manufacturing companies to China is increasing rapidly, creating shifts in trade flows and new demands for air express

- 11,737 Korean firms now operating in China, mainly in North East and Yangtze River Basin.
- 62,351 Taiwanese firms now operating in China, mainly in South East and Yangtze River Basin.
- Around 13,500 Industrial Foreign Invested Enterprises in Pearl River Delta, with Decision Making Units in HK
- By the end of 2002, 2,609 Japanese firms were operating in China, mainly in Shanghai

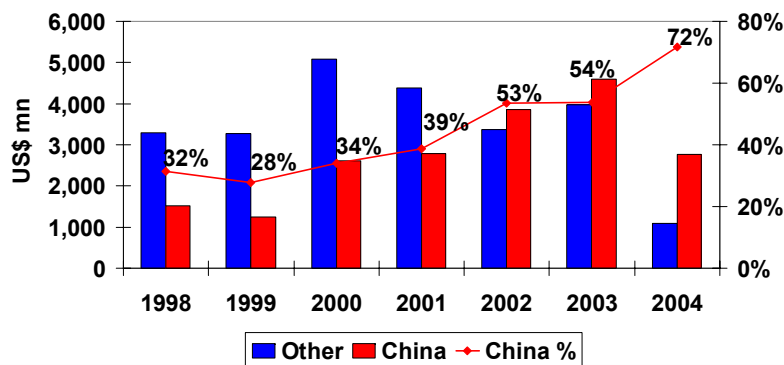
Hong Kong



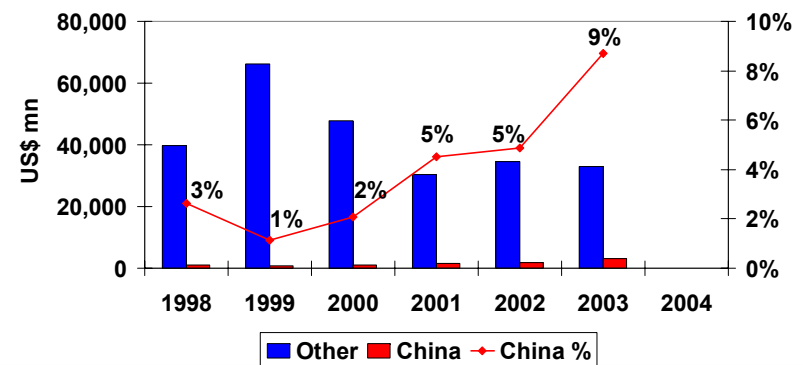
Korea



Taiwan



Japan



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A large portion of the DPWN Group's investment of US\$215 million for China for the next 5 years will focus on DHL Express. Our 5-year strategic investment program will cover:

■ **More Handling Capacity**

- Enhancement of the 4 existing gateways.
- The combined handling capacity of the 4 gateways will increase by 3.5 times (from 186 to 650 tonnes per day)

■ **More Access and Support**

- 6 more branches will be opened by end of 2004
- 73 projects (including addition, enhancement and relocation of facilities)

■ **More Delivery Capabilities**

- 1,200 delivery vehicles

■ **More Manpower**

- 2,100 additional new staff from 2004

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DHL Express with 18 years partnership with Sinotrans and 24 years presence in China is in a commanding market leadership position, but competition is intensifying as the industry undergoes liberalisation and market growth remains robust.

■ Fedex

- Continues expansion of geographic network with partner DaTian
- Looking at setting up regional hub in Guangzhou's new Baiyun Airport
- Applying to secure more flights to US under new US-China Air Services Agreement.

■ UPS

- Still operates on commercial agreement with Sinotrans and holds 3 % equity in Sinotrans Ltd
- Entered into a strategic alliance with local Yangtze River Express Airlines
- Studying Shanghai Pudong Airport as a potential future regional air hub; applying to secure more flights to US under new US-China Air Services Agreement

■ TNT

- Discontinued their JV from Sinotrans in May 2003, now agency agreement with Mach++; also has separate ANJI JV with Shanghai Auto Industrial Corporation for logistics services
- Focusing on expansion of network and developing capabilities
- Has a strategic alliance with China Post since 2002

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With clear leadership, DHL will focus on strengthening its market dominance.

- Post-WTO China's macroeconomic growth remains strong and favourable for air express growth.
- Provide new focus on cross border collaborative solutions between China and Japan, Korea, Taiwan and HK to meet customers' supply chain requirements as new FDIs and manufacturing companies relocate to China.
- Will leverage our strong business growth of 50-60 % in 1H, well ahead of market growth of 30-35%
- Exploit new growth opportunity from integrating our "first mover" domestic express with international express services.
- As strategic investor, DHL will capitalise on its long established relationship with Sinotrans to fortress the JV's leadership position against the competition.
- DHL will invest USD 215 million in next 5 years for network expansion, ground infrastructure, people development and improved processes to build capacity for business growth.
- We will anticipate and meet new demands from customers by introducing more innovative services, eg Time-Definite Deliveries (TDD), Fast Forward Program to cater to heavier packages, and new express logistics centres (ELCs).

