FINAL TRANSCRIPT

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PRESENTATION

Unidentified Speaker

And welcome, everybody, to the Q3 Conference Call of Deutsche Post DHL. We have today this time around both our CEO, Frank Appel and our new CFO, Lawrence Rosen with us to give you an overview over the Q3 results. I take it that you have the presentation that we sent out this morning in front of you. I know it's a busy day with a couple of peers reporting.

So without further ado, I'd like to pass over to Frank.

Frank Appel - *Deutsche Post DHL - CEO*

Yes, good afternoon, and thank you for joining us. Maybe the first statement I would like to make is that we have a lot of good news today, I think, to share. We had a very good third quarter. And Larry and I will lead you through that and highlight a little bit the highlights, as well as some challenges we definitely still have in the given economy.

So if I turn to page three, we have seen so far only small signs of improvement with regard to volumes. We are far away from seeing really a recovery of the economy, and I would call it recovery that we really have year-over-year growth. We have a weakening of a deterioration some how, and you will see that later on in the volume development. So, it's too early to declare a recovery, but there are some signs which are encouraging, as we think.

The second is we were very successful in the third quarter as a good development over the second quarter as well with our tough measures -- cost measures we have taken. We have improved efficiency quite a lot, and our operating cash flow is heading in the right direction as well.

The near term focus is definitely we remain very firm on cost management. We told that in our executives today and our team as well, that the name of the game is still cost management and to serve implementation of our strategy 2015, although I will not talk about that today, which is still an important subject for us and we are making good progress there.

So, that all leads to that we feel comfortable to upgrade our 2009 guidance. And the upgrade includes the full impact of Arcandor. So that is not excluded; it's included into the new numbers so that even if you could take the EUR180 million total impact so far into our numbers, we are convinced that we can reach at least EUR1.35 billion. So I think that's important. And I think that's good news that we lifted the guidance by more than 10%

On page four, you'll see our agreement with Verdi [somehow]. I would call it -- this is a good agreement. I think we were able to safeguard the interests of the employees, customers, and the shareholders because we avoided a major strike in the Christmas period. We have significant contributions for our employees so that we can stabilize the decline of our EBIT in the mail division.

The content of that is mainly that we have -- a significant part of that is that we have no set of rate increases in 2010 and 2011. In addition, we can extend our outsourcing for parcel and the transportation between the mail centers. And there are other measures which give us more flexibility and additional savings, with regard to our labor force.

So I think we -- this is a clear contribution. We can now focus on the long term sustainability for beyond 2011, as well as our substitution challenges with regard to the online letter -- where we are piloting at the moment, as well as the political challenges we still face. And we will work on those in due course, because they're now the next strategies in the mail after we've reached an agreement with the unions.

Page five shows you the effect of Arcandor, which is pretty massive. In June we had the insolvency; now we have the liquidation of Quelle. And we had already reflected a part of that the lost receivables of roughly EUR40 million in Q2 as you might remember. We have now EUR146 million impact in Q3, which is coming from the Quelle liquidation. The majority of that is non-cash. But there's also some cash relations with regard to severance packages for impacted employees.

So yes, that is a massive thing. And we still expect some further write-offs due to the Quelle insolvency in Q4, but they will lie more in the range of double digit millions and smaller than the number we have seen so far.

So the business in (inaudible) is not affected at the moment, and we are optimistic that they will go through a successful restructuring. But that is our best estimate at the moment; we will see in due course what will happen.

On page six, you'll see then the numbers -- the headline numbers for the quarter. Revenue was down, again, a result of the economy, reduction in fuel prices year-over-year, and as well definitely the impact from the closure of the US domestic business, which was still up and running in Q3 2008.

On the reported EBIT, you should not forget, in this case, that we had this major settlement in 2008 which materialized with EUR520 million I think in above the line and with additional EUR500 million in the finance results. If you take that out, even on the reported EBIT, the decline is much smaller than shown here.

The real positive development you can see in the underlying EBIT, which was much less down than in the first two quarters, and that is a result of our improvements we have done. And this number is reflecting the full impact of our convert in Q3. So if you take that out, and I will show you then in a second, the picture is even much better.

The consolidated net profit is negative. But as the -- that's a result of the accounting for the Postbank sale. Due to the fact that we haven't put call options, we have to value the put call option every quarter. And since the share price of Postbank went up until end of September -- now it's down again, but at the end of September it was up, we had a negative result -- a significant negative result from that in our books. And that leads to the loss.

And if you compare that to 2008, you should not forget that was more than 1 billion positive impact from the (inaudible). If you take that out in 2008, our numbers are even up. Although the net profit is negative this year as well, but it had been more negative last year. And there, you see the good development in our numbers in our underlying performance.

If we now go to page seven, that clearly demonstrates a nice development and the hard work we have done in the last months. So in the Q1 we were down the 42%, and second too by almost 40%. Now we are in -- including the full impact of Arcandor only down by 10%. If you exclude that, you see we were even up year-over-year by 25%.

I think we're having revenues down by 19% I think, but very good results to improve the underlying performance by 25%. And Arcandor -- even in a nice economy, these things could happen less frequently, but if you take that out, I think we have really made good progress. And this is -- as you will see later on, that is across the divisions and not just coming out on one division. And that convinces me that we are absolutely on the right track in improving our performance.

A little bit of a challenge, as I already said. There are challenges. (Inaudible) Arcandor is shown on page eight, nine, and ten, where you can really see the development of the volumes. There is no recovery on volumes trends yet. So in Mail, it's still going down 1.7% on Mail Communication, 4.4% on Dialogue Marketing show no recovery there.

On page nine, you'll see the same for Express, 8.8% down. It was a little bit less than we had seen in former months, and it's a little bit better than now, but it's still away from being a recovery. Domestic is almost flat. So, I think there is a trend in the right direction. We see some reduction in deterioration of year-over-year numbers, but as I already said, it's too early to declare victories or recoveries.

On page ten, you'll see as well the nice development quarter-by-quarter. So we had a stronger quarter in Air Freight this year in comparison to last year, where it was down, and that's the usual development. So, I think that's a good trend. Nevertheless the volumes are still down, and our impression is that we have developed in line with the markets on Ocean as well as Air. So good trend overall that volumes are going up quarter-by-quarter, but far away from being positive year-over-year.

Finally, on supply chain, we've got to see the market growth rates and our growth rates are not particularly telling too much because this is more a contract by contract base. The good news is we are proceeding in winning new business on a pretty good rate, as well as that we are renewing our business constantly about 90%, and you see some brands here which we've won in the third quarter.

So, I'm very happy. The same is actually true for Forwarding. We win still sizeable business as business we've never had before, without losing on margin -- only losing existing business. So in both divisions, we are on the right track with regard to future growth potential due to the new business we've won.

Coming to end of my part, what are the priorities going forward? The overarching theme is continuing with the performance management, which is quite successful, we think, or very successful. And we will remain focused on that, but we will not forget that we have to implement our strategy, that there is still a long term challenge for Mail, and we will remain focused on that with growth potential on one hand, and the regulation on the other.

And finally, talent management; the good news is now we have with Larry the Corporate Board complete. And I'm very happy with Larry. The first eight weeks was a very good experience for the whole Board that we have now a real trained CFO on board, which will help us to improve our performance without a doubt even further.

We are pretty much complete, as well on the next level. We have seen quite a lot of change in the last 12 months. So I'm pretty happy that the second level will allow more and more (inaudible) as well, which is also good news. And my priority together with my colleagues will now -- and to look also in the third level, is there any smart move across the divisions possible, or do we have to upgrade the challenge in some places? So that's more or less what the priorities going forward are. I think we are in very good shape on the bases we have achieved.

And now, Larry, you should dig into a little bit more of the details. Thank you for listening so far. So, Larry?

Lawrence Rosen - *Deutsche Post DHL - CFO*

Thank you, Frank. I'm very pleased and honored for the first time to represent the Company, and its many thousands of dedicated employees. I'm going to cover three subjects. First, just some detail on the Q3 and year-to-date financials. Then I'll talk about our status on Roadmap to Value, and finish up with an updated outlook for the full year.

Now turning over to page 14, we see our nine months P&L -- our year-to-date results, through September. Frank talked a lot about our top line trends. Clearly, we're at minus 16%. We're still being impacted by the economic downturn, by the exit from the US Domestic Express business as far as a comparison basis, and also from lower fuel costs, which we passed through to customers and also show out in a couple of our divisions in revenues.

Despite the significant cost reduction, reported EBIT did decline due to the lower revenues, also due to still significant costs of change, the Arcandor charge that Frank mentioned, and also for the comparison, we had the favorable EU settlement in 2008 and that affects the comparison, both for EBIT and for the bottom line as about half of the settlement showed up in EBIT, and the other half in interest.

I think the great news is how our earnings trend looks excluding the Arcandor charge. In that, underlying EBIT would have only declined by 17% through the whole nine months, and that was a significant improvement in Q3.

I think some of you might have a version where there's a typo at 21%; the correct number is minus 17%. And clearly, the valuation of Postbank options is still having a major effect on our financials, and will do so until we complete the Postbank transaction, perhaps as long as two years from now. So you'll see a quarterly development and impact from Postbank in each quarter, where we mark to market the underlying derivatives.

EBIT and net profit, as I said, included the EU settlement in 2008, and makes the comparison a bit more difficult. But going over to page 15 we see the Q3 standalone result. The top line is affected by much the same factors. And in fact, the EU settlement occurred in Q3 of last year, and so its full effect was in 2008, and affects the comparison with 2009.

And despite the significant cost reduction, reported EBIT declined due to lower revenues. The still significant costs of change -- so restructuring expenses, Arcandor charges, and also, again, the favorable EU settlement. I think some great news is that excluding Arcandor, as Frank mentioned, we had charges of EUR146 million in Q3, our underlying EBIT would have grown by 25%. So, clearly heading in the right direction.

In Q3, the valuation of those Postbank options burdened finance costs by EUR188 million. I'll talk some more about the details on that on the next page. But again, alone in Q3, EUR188 million. And the net profit comparison, again, is affected very much by the EU settlement, still a net loss for Q3, which we're not pleased with, and which we believe will improve in the next quarters.

Now let's go over to page 16, where we look at the role of the Postbank transaction in our finance costs. And you see on top, we've looked at each of the quarters this year and then year-to-date. In that, we still consolidate that equity, the earnings of Postbank. And through Q3, we had EUR71 million of equity participation in our earnings.

And -- but then we have the bigger impacts on finance costs. And we see here that we had total net other finance costs of EUR229 million, but that included a gain of Postbank of EUR646 million. And then on the next line, the EUR417 million you see the non-Postbank related very steady finance costs, interest costs, and interest on funded pensions that we have of about EUR140 million to EUR150 million per quarter -- a total of EUR417 million for the first three quarters.

So that total net finance costs of EUR300 million, again the EUR229 million plus the EUR71 million of equity consolidation gives you the EUR300 million. EUR717 positive from Postbank -- almost all that coming in Q1. And then EUR417 million of normal financing costs that are not Postbank related. So hopefully, that gives you some more feeling for the impact of Postbank and the transaction in our financial statements. And we hope that that's given a little bit more clarity to the numbers that you're seeing.

Now let's go over to the next page, on page 17, and look at our cash flow performance. We also think this is quite a good story. And you see here on the left side the performance by division, and this is after all restructuring expenses or costs of change. We also call it -- Mail had EUR381 million of operating cash flow in Q3. So, quite a good quarter for them; higher than the EBIT level. So, we're very pleased with that.

Express at minus EUR60 million was very much impacted by the heavy spending we're doing on restructuring. You see the footnote at the bottom, EUR280 million on restructuring, just in Q3. So, without that it would have been a positive EUR220 million. Global Forwarding and Freight and Supply Chain also very positive.

So that in total, we had EUR499 million of operating cash flow. And before restructuring items, we would have been at EUR807 million, and that would have been up 7% over the comparable figure Q3 of 2008. So, we're very pleased with cash flow performance; it's something that we've been focusing on intensively, especially working capital management, and we're pleased with the results that we're seeing.

Page 18 reinforces that point. And here you see what we're calling our underlying operating free cash flow. And it's the same figure as the page before, but now deducting capital expenditures and that gives us, then, this operating free cash flow.

And here, we're very pleased with the trend. And you see in each quarter during the year a significant increase over the prior year, and also increasing sequentially over the year. And that's because of our very good trend in working capital management, but also because we reduce capital expenditures during the year, and we'll talk more about that in a couple of minutes.

Now going over to page 19, here you see a bit about our balance sheet position and especially our leverage position. Here, by including the cash collateral that we hold until the Postbank transaction is finalized, we have EUR1.2 billion of net liquidity at the end of Q3.

So, we're very happy with that position. But, we still have significant spending to do on restructuring ahead, and we do need to consider some increases in investment as we've really cut back to the bare minimum this year. So, we might see a little bit higher CapEx as we go forward into future years.

Now let's turn back to performance by division, looking on page 20. Here you see the EBIT development. And again, just for Q3, the underlying in 2008 was EUR420 million. This year we reported EUR378 million, but again, that included this big charge for Arcandor. So we were down 10%, but would have been up 25% had we not had the insolvency of Arcandor and the liquidation of Quelle.

FX minus EUR25 million. Here we're especially affected by the weak British pound, where we have significant exposure. Mail, it was EUR21 million below the last year, without Arcandor it would have been EUR16 million. Express we had the most impressive progression year-over-year, plus EUR126 million. I think there it's very much due to the fantastic cost management and progress we've been able to make on our cost reduction programs in Express.

Global Forwarding and Freight, Frank talked a bit about this margin squeeze that we're seeing, just at the current time; we think it's temporary and I'll come back to it later, but minus EUR30 million year-over-year. Supply Chain was down EUR127 million, but would have been up EUR14 million over previous year, again without Arcandor.

And Corporate Center and Other also making its contribution, where we have also made good progress on cost cutting in the Corporate Center, so EUR35 million of positive comparison year-over-year.

Looking at page 21; the Mail division. Here we continued to have, on the top line, the continuing effects from both economic downturn and the more structural trend of e substitution. And underlying EBIT we were burdened by some increases in factor costs, in particular labor, and also the market decline.

Reported EBIT and operating cash flow in 2008, as we talked about, included the EUR572 million from the EU settlement. Cash flow, being about EUR60 million higher than the underlying and reported EBIT, then also reflects the very good working capital management in the Mail division.

Over to page 22, we see Express, where organic revenue decline outside the US was about 14%. This looks slightly better than some of our peers have reported, and so in that sense, we're pleased with the development. But what we're especially pleased about in Express division is our cost control measures. And here, you see the excellent progression in the US, where we've cut the loss from Q3 and last year from EUR220 million to below EUR100 million, and where we've almost stayed constant outside the US despite the economic crisis.

So this represents about a 9.5% EBIT margin in Q3, and we're very pleased with that performance. Outside of the US, we continue to have very strong focus on cost reduction.

Over to page 23, Global Forwarding and Freight -- Frank mentioned this margin squeeze where capacity has not been brought back online to respond to the increasing volume demands in both Air Freight and Ocean Freight. And that means that we have a kind of temporary period in which our prices to our customers haven't yet fully adjusted to the higher prices that we need to pay for space in Ocean Freight and Air Freight.

So, there's a bit of a margin squeeze; that's the reason -- or one of the reasons -- for the underlying EBIT decline to EUR76 million but, again, we think this is more of a temporary factor, and we'll see some better comparisons as we go forward. Finally, Supply Chain, we talked about the Arcandor impact having a significant effect on the trend here. I think what's encouraging is the cash flow management, EUR190 million of positive operating cash flow, only EUR41 million; less than half of last year's level on CapEx.

So our free cash flow -- or underlying free cash flow in Supply Chain was still quite good. And I think Arcandor is a kind of isolated event and we'll see a much better comparison in Supply Chain as we go forward. And I think as a last note, had we not had the Arcandor impact, both our underlying EBIT and reported EBIT would have been above the Q3 2008 level.

Okay, now going over to page 26 and just taking a look at our status on our Roadmap to Value goals, here we see a couple of the key indicators. On the top left -- reduced working capital. In the two years since we introduced Roadmap to Value, we've reduced working capital by over EUR1 billion. So, an excellent trend and we continue to make quarter to quarter progress.

We may see it flatten out a bit if we see the economy take off, and especially volumes and revenues picking back up. But we're very, very pleased with this trend and it's really helped our cash flow performance, as has the trend that you see on the right on CapEx.

On a year-to-date basis through September, we've reduced CapEx by EUR400 million, and plan to reduce CapEx by EUR500 million for the full year 2009. We're very much on track for that and that's where we think we'll come out. Nevertheless, again, that really is looking at CapEx and spending on a pretty minimum -- only what's absolutely necessary basis. So, we might see this trend up slightly in the coming time, but not too much.

On the cost saving front, this is really what's contributing to our better outlook and our better performance, and it's really the faster than expected achievement of our cost savings goals. Our latest guidance had been to achieve EUR1 billion of savings in indirect costs by Q2 of next year; we're now accelerating that to the end of this year. We were already at EUR859 million by the end of Q3. So again, we think we're well on track to achieve the EUR1 billion by the end of the year.

Now page 27, just reminding everybody what were the Roadmap to Value objectives. We've achieved most of them. And clearly the two year profit improvement is what we just talked about on the indirect cost savings, and we've achieved that well ahead of schedule.

The Group EBIT in 2008, we had said EUR4.2 billion. That was at a time when we were still -- when we still owned Postbank 100%, and where we were still in the US Domestic business, and before the very severe economic crisis that we've seen over the last quarter. So clearly, we did not reach that goal.

Net working capital reduction of EUR700 million, we have achieved that by far -- overachieved that by far. Sales of non-strategic assets, we've done well more than EUR1 billion with the Lone Star transaction and other non-essential real estate sales, primarily in 2008.

The dividend was another one that we didn't meet at the beginning of this year. We certainly needed to reassess the situation based on the economic environment that we were in and the performance of the Company. So, this is one that we didn't reach.

We believe that we've enhanced transparency and disclosure, at least that's what a number of investors, analysts, and other interested parties have told us. And we certainly have reduced M&A spend, in particular in 2009, where we've only spent a very small amount for acquisitions this year.

Now to finish up, looking at the guidance on page 29, just summarizing, we are upgrading our underlying EBIT guidance for the full year from EUR1.2 billion to at least EUR1.35 billion. Indexed cost savings, we already talked about; we're accelerating the goal for achieving EUR1 billion until the end of this year. And we're confirming that we believe net income will be positive and significantly positive this year.

And overall, I think we're really heading in the right direction, and we will be very pleased to answer your questions at this time.

Unidentified Speaker

Thank you, Larry. Thank you, Frank. And operator, we would now be entering the Q&A part, please.

QUESTIONS AND ANSWERS

Operator

Thank you.

(Operator Instructions)

We will take our first question from Mark McVicar from Nomura. Please go ahead.

Mark McVicar - *Nomura - Analyst*

Hi, a couple of questions to kick off with. First of all, in terms of the US losses, they're now running at around about -- just under -- and in the second quarter, just over EUR100 million. I think when you originally announced the restructuring, you said you would get to a run rate of negative EUR400 million a year. So you're still a bit above that. Is that EUR400 million loss or cost target in the States still valid?

Lawrence Rosen - *Deutsche Post DHL - CFO*

I'll just pick up that question. And the answer is yes, that is still our goal for losses in the US to go under EUR400 million.

Frank Appel - *Deutsche Post DHL - CEO*

Yes, and, Mark, you should not forget that the transfer from Wilmington to Cincinnati happened in this quarter. So we had parallel activities there, so we are confident that this goal is still the right plan, and it's achievable.

Mark McVicar - *Nomura - Analyst*

Okay, so we should expect to see that trend down as we get to the end of the year and into 2010 as planned. Fine. Thank you. The second question is, do you think that (inaudible) there's any chance of the Postbank transaction completing early? Or, do you think it will run right to the end of the original schedule? Because it must be certainly in your interests to probably increase --

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Frank Appel - *Deutsche Post DHL - CEO*

Mark, I'm keen to know the answer as well. We don't know. They don't tell me. Maybe we'll ask Andy if he's around if he has more insight in that. But to be honest, I don't know. That's a good question. If I put myself in the shoes of Deutsche Bank, the longer the wait, the more risky the asset becomes. Because it's more -- it will get more difficult to keep people on board or rehire if you -- if people exit.

So I think -- we have no possibility to influence that because we are just the seller and not the buyer. So, we have to wait and see I'm afraid.

Mark McVicar - *Nomura - Analyst*

Okay. Thank you. And the final question, I think, is one for Larry, as a sort of -- the new member of the management team. You obviously have EUR1.2 billion of net cash on the balance sheet, including obviously the Postbank receipts. But several billion of pension and leasing liability on the other side. And the market expectation for about a EUR700 million dividend payment on accounts in 2009 if you just take the aggregate forecast. How do you look at those things coming in from the outside? How do you look at those things together?

Lawrence Rosen - *Deutsche Post DHL - CFO*

Well, certainly I would consider the items that you listed. And in addition, the other idea that the CapEx is probably at a pretty low level right now; we need to think about allocating a little bit more cash in the direction of CapEx.

And the other one is that even though we have booked the bulk of the restructuring costs that we're going to be taking, we still have a lot more of cash outflow or cash spend for those restructuring programs. The cash lags behind the booking in the P&L. so you set up the reserve and then spend the cash later on. And we still have a lot more cash to spend for those restructuring programs, and we look at that as well.

Mark McVicar - *Nomura - Analyst*

Okay, that's great. Thank you very much.

Unidentified Speaker

Thanks, Mark. And the next question, please.

Operator, can we have the next question?

Operator

The next question is from Markus Hesse from Sal Oppenheim. Please go ahead.

Markus Hesse - *Sal Oppenheim - Analyst*

Yes, hi. I have three questions. The first one is you had very strong Mail volumes. Could you elaborate a little bit how much roughly has the positive volume affected the German elections on the volumes and mail communication and dialog marketing? That's the first one. And I will take the other two one by one.

Lawrence Rosen - *Deutsche Post DHL - CFO*

The answer is we don't know exactly. We think that it may have given us a little bit of uplift in September, but I can't quantify an exact figure.

Markus Hesse - *Sal Oppenheim - Analyst*

But is it fair to assume that the major part of that is rather having an impact on dialog marketing than on the mail communication volumes?

Lawrence Rosen - *Deutsche Post DHL - CFO*

That's correct.

Frank Appel - *Deutsche Post DHL - CEO*

And, Markus, you'll want to keep in mind that that is typically all reflected in dialog marketing, not normal mail communications.

Markus Hesse - *Sal Oppenheim - Analyst*

Okay. That was -- I will keep that other question. The other thing is -- the second question. Is the CLA agreed in full detail with the unions, or do you have still some minor open final discussions ahead of you? Or, are there any major additional discussions with the unions within the next couple of months ahead?

Because actually the unions might be a bit irritated when you talked about very gloomy times ahead and showing very strong Mail EBIT and volume performance only several days after you signed a deal with the unions.

Frank Appel - *Deutsche Post DHL - CEO*

No, the deal is closed for the next two years. And that gives us now stability on that front for the next two years, which I think is also an achievement in (inaudible) having no increases in salaries. We are still under pressure, and just to have now a good development in Q3 is not changing the underlying trend of substitutions. And we made that clear so it will not be a surprise, I think, to the unions, that the quarter was relatively good.

Because we had taken actions, as you know. The summer measures were taken. So we should be better in this quarter, but the underlying trend -- we are convinced that the agreement is sufficient to help us to keep the results on a more stable basis.

Markus Hesse - *Sal Oppenheim - Analyst*

And then the final question, are you pretty much at ease that you lost less in and outbound US Express volumes after the exit of US Domestic? Or, do you feel that UPS and Fed Ex, after these guys concentrate first in absorbing the US Domestic volumes from you, that they might now shift their retention to steal away more volumes from you -- away, in particular with the Chinese customers, on the trail to enter into the US?

Frank Appel - *Deutsche Post DHL - CEO*

We are still happy with the development of volumes, and we haven't seen that such activities as you just expressed. We are fine with our volume development. And so, we're significantly ahead of what we originally planned.

Markus Hesse - *Sal Oppenheim - Analyst*

Okay, thanks, and congratulations on the figures.

Frank Appel - *Deutsche Post DHL - CEO*

Thank you.

Unidentified Speaker

Markus. And the next caller, please, operator.

Operator

We will take our next question from Robin Byde from HSBC. Please go ahead.

Robin Byde - *HSBC - Analyst*

Good afternoon, everybody. Just two. Firstly on Mail and VAT, can you update us on the exemption issue? Do you expect exemption to be removed in 2010? And then I guess one for Larry on CapEx and CapEx versus depreciation. I think the ratio now is about seven times. Last year CapEx to depreciation was about one times. When you say there's going to be an increase to CapEx, do you expect to get back up to one times next year? Thanks.

Frank Appel - *Deutsche Post DHL - CEO*

So may I start with the VAT issue? What the contract of the coalition says is that the value added tax should be introduced according to the ruling of the EU court, and that EU court ruling is mentioned.

The EU court ruling says that the only universal service provider is exempted from VAT as long as there are no individual contracts signed. Being a market dominant player, we don't have more or less de facto no individual contracts due to the fact that we can't discriminate any of our customers, and this is checked by the regulator ex cost.

So therefore, we have de facto no individual contracts. If that's the case, we are providing universal service applications. That's our argument to the government, that the EU court said that should be exempted from VAT. If other competitors are providing universal services, then they would be exempted as well.

That will be now the discussion going forward. We think, having support from external lawyers who interpreted the law of the ruling exactly in our way, that we are in a good position. But I would be not too bullish at the moment because we have still to wait what the government will suggest.

But that's our reading of the EU court ruling. And if you look into all the states here, together with the union states, none of them have really actively responded to the ruling, because they all were surprised that the ruling was so much in favor to keep the union service obligation VAT exempted. And that was not expected, and that's the reason why we haven't seen in any member state significant progress.

So, we are working with that. If that will be convincing finally for the government, if they say they have a different reading, I don't know. I think we have external expertise, we have our own lawyers. I can read the law, you can read the law of the ruling. So, I think we are right. But as long as the law has not been ruled by the Parliament, I would be cautious.

Robin Byde - *HSBC - Analyst*

So just in terms of milestones, it sounds to me from what you're saying that it's unlikely that the VAT exemption is going to be removed any time soon -- or at least in 2010. It sounds like this is quite a lengthy process. Is that a correct reading?

Frank Appel - *Deutsche Post DHL - CEO*

The Parliament has to go through that. You're right, and that will take some time. And I think the government has definitely more burning issues than the VAT exemption of our (inaudible) and not thinking about tax changes. They have the (inaudible) case, which is obviously more important than the VAT exemption.

So I can't tell you -- every month which goes by is leading to another month where the VAT will not come. And we have told the government as well you can't introduce VAT just overnight. We have thousands products. We have to know which products are not VAT exempted. And still clearly then, we can start to program our IT system. We obviously -- we need from the ruling of the new law at least a year before you can implement that. And what I've heard so far this is understood by the government.

So -- but nevertheless, as I said, I'm cautious. I don't -- I won't send you in the wrong direction. This is law making, and that is under the authority of the Parliament, and not in our authority, I'm afraid.

Robin Byde - *HSBC - Analyst*

Okay. And then just on CapEx. Thanks.

Lawrence Rosen - *Deutsche Post DHL - CFO*

Yes, coming to your question on CapEx, 70% is right. I think that we will give more specific guidance about investment and spending when we announce full year results. And I think it would be safe to assume that we're not going to go all the way back to 100%. We'll go somewhere in between. I think that's as specific as I'd like to be at this point.

Robin Byde - *HSBC - Analyst*

Okay, thank you.

Unidentified Speaker

Thanks, Robin. And the next caller, please.

Operator

Thank you. We will take our next question from Menno Sanderse from Morgan Stanley. Please go ahead.

Menno Sanderse - *Morgan Stanley - Analyst*

Good afternoon. First question on Arcandor, and now that Quelle has liquidated or is in the process of, can you tell us how much revenue in EBIT you generated from the business in 2008 so that we can at least get a sense for how much of the one-off will bounce back next year? But how much can you take off of the rest of the business to account for the loss of Quelle?

Lawrence Rosen - *Deutsche Post DHL - CFO*

I think we would not like to be so specific about an individual customer and profitability associated with an individual customer. They are one of our biggest, or were one of our biggest customers. So, I think more than that we don't want to say.

Frank Appel - *Deutsche Post DHL - CEO*

And if you look into the Parcel, which is for Quelle a significant chunk, Quelle definitely lost volume already in the first nine months. And if you look at the Parcel volumes, we were able to mitigate that quite a lot. So -- and that usually comes -- the smaller a customer is, usually the higher the yield is. And that's not only true for us, but usually for any industry in any scale of customer.

So now the deterioration of volume is faster, but so far we have been quite successful to mitigate that and therefore, it's difficult to say. And as Larry rightly said, we don't disclose profitability for individual customers. And I think that -- I hope that you can understand that. Because next time you will ask one of our customer, and this is obviously confidential information of the customer.

Robin Byde - *HSBC - Analyst*

Yes, I understand, although this customer's obviously now no longer in existence. But maybe ask it differently. Did they actually make money? Did you make money off them this year? Just to understand it, I have to add back the full EUR186 million, or a lower amount for next year.

Lawrence Rosen - *Deutsche Post DHL - CFO*

EUR186 million is the restructuring charge. And --

Robin Byde - *HSBC - Analyst*

Exactly.

Lawrence Rosen - *Deutsche Post DHL - CFO*

Doesn't necessarily have anything to do with the amount of EBIT per year. The --

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Robin Byde - *HSBC - Analyst*

I appreciate that.

Lawrence Rosen - *Deutsche Post DHL - CFO*

Another thought in that direction is that people that order their pajamas from the catalog or from the online shop of Quelle in the past might still do so in future years. And there'll be other package traffic in Germany that we will get some share of, maybe a major share of. So it may be that we will still have some of the results, just not -- just with different customers.

Robin Byde - *HSBC - Analyst*

Okay. And on the mail volumes per working day, I saw the mail volumes were down about 5% in the third quarter, which is not a bad number. Frank, how much of that is structural and how much is that cyclical, do you think? So how much of that will come back next year?

Frank Appel - *Deutsche Post DHL - CEO*

That's a good question. We judged that somehow that two thirds to 75% is substitution, and one third of that is economy. So the majority of that is an ongoing trend of substitution. That's our best estimate. So if you take 5%, you would say 3.5% -- around 3.5% is probably structural, and the 1.5% is coming from the economy.

Robin Byde - *HSBC - Analyst*

And are you not concerned that this whole process will accelerate? That Deutsche Telecom will say next, look year we're going to go totally electronic, and if you want physical you'll have to pay for it?

Frank Appel - *Deutsche Post DHL - CEO*

Yes, as I said already, we have some customers which we lost now anyway, like Quelle, or Deutsche Telecom, who were pushing the authority for quite a while. If the revenue of those are gone, we can't lose it again. And the reduction is on some big players larger than on some small players. In some cases, we have even an increase in dialog marketing.

So I think even if telecom transfers everything to online, the volume decline, I think, will not be bigger on that transfer than this year. Because first of all, there's was already a part which will never transfer to online, and they are pushing -- they are doing advertising at the moment to transfer customers. So that means we definitely have a significant impact, but it can't come again next year, because if it's gone, it's gone.

Robin Byde - *HSBC - Analyst*

Okay. So basically, this confidence that you just talked about gives you -- gave you -- the confidence in the volumes gave you confidence to enter into a two year contract. Because it seems quite a long contract for a market where we don't know one quarter to the other what's going to happen with unit revenue or the volumes.

Frank Appel - *Deutsche Post DHL - CEO*

Yes. So we think, yes -- you obviously have to make a judgment between these two situations. On one hand, go for a strike and assess what can reach more and have on top of the Quelle liquidation another strike, which will hurt us as well somehow. And the extension, we don't know, but as you might have seen, if things are develop much worse than we assumed on the basis of this contract -- and we can't tell what the assumption was, obviously -- then we can restart the discussion with them as we said.

I'm not -- I don't see the need at the moment, because I think our internal projections are saying that this is enough from the employee side to achieve our goals and to stabilize the EBIT development. But if things go significantly worse, then we have to restart the discussions. But that's not what I would suggest at the moment, because I'm convinced that what we have agreed is sufficient to stabilize the situation for the next two years.

Robin Byde - *HSBC - Analyst*

Okay, and on the -- finally about the timing of the renegotiations, given that the contract run until next year, why haven't you given yourself more time? Also because it ran until next year, why was the Company worried about strikes over Christmas because the contract ran until the 30th of June of next year?

Frank Appel - *Deutsche Post DHL - CEO*

We had -- the union said that. We had a contract which expires on the 5th of November. And they said if we don't get to an agreement on that, they go on strike, although that was a very different subject, but that was the situation. And they know that we are much more -- we have much more difficulty and more volatile in the situation contract.

New contract is ending end of 2011. So they can't go on strike if we come there until that period and negotiate a new deal for the last year. They can't go on strike before because the contract lasts until end of 2011, and the contract they cancelled lasted only until the 5th of November.

Robin Byde - *HSBC - Analyst*

Okay, so they wanted to negotiate basically rather than the Company wanted to negotiate.

Frank Appel - *Deutsche Post DHL - CEO*

No, we had to negotiate because there's also an expiration end of December. But they cancel -- as a preempted step they cancelled one other contract which we had not cancelled, and that led to the situation that they were able to go on strike if they wanted.

Robin Byde - *HSBC - Analyst*

Understood, understood. And, Larry, finally on the CapEx point you made, now that you've gone through the assets and the asset life and the book values of them, by saying CapEx will remain below depreciation, are you saying you think the Company's over invested?

Lawrence Rosen - *Deutsche Post DHL - CFO*

No. I wouldn't necessarily say that. And I would say again we're going to give more specific information on that when we announce full year results. I just think, based on what I've seen so far, that relatively moderate or even minor increase from this year's level is probably what is most likely.

Robin Byde - *HSBC - Analyst*

Okay. And then you're specifically referring to '10 rather than medium term sustainable?

Lawrence Rosen - *Deutsche Post DHL - CFO*

Rather than every year -

Robin Byde - *HSBC - Analyst*

Yes, yes, yes.

Lawrence Rosen - *Deutsche Post DHL - CFO*

-- we're now just thinking about '10.

Robin Byde - *HSBC - Analyst*

Understood. Thank you.

Unidentified Speaker

Thanks, Menno. The next caller, please.

Operator

Our next question will come from Andy Chu from Deutsche Bank. Please go ahead.

Andy Chu - *Deutsche Bank - Analyst*

Thank you very much. Good afternoon. A couple of questions, please. Firstly on costs -- clearly the Company's done a very good job in terms of cost control. But one area that costs have been basically flat year-to-date and Q3 on Q3 is staff costs within Mail. Frank, clearly you've struck an agreement with the union. You've got a 3% wage inflation kicking in from December.

How should the market think about the shape of that labor cost going forward? Is it flat or is it slightly down? And if it's slightly down into 2010 and 2011, what are the levers that you can pull to to bring the -- the wage costs down, please?

Frank Appel - *Deutsche Post DHL - CEO*

I think the -- we had, as you know, we had a [4%] increase last year. And that means we kept more or less -- the staff costs nevertheless down. And I think that is something we should achieve as well going forward, maybe even a little bit more.

That depends very much on the volume development. And I gave you my guessing for the future. But nobody knows at the moment if that will materialize, but that's our best estimate. So we probably will be able to keep it flat in the future, or maybe a little bit better.

Andy Chu - *Deutsche Bank - Analyst*

Okay, that's helpful. And then just in terms of dividend, you quite rightly pointed out that dividend was cut at the beginning of the year. Given the economic environment we're in at the moment versus the beginning of the year, the cash position of the Company, notwithstanding the restructuring costs that still need to be paid out, should shareholders look for a minimum of last year's, or indeed we should look for an increasing dividend for financial year 2009, please?

Lawrence Rosen - *Deutsche Post DHL - CFO*

I think at this point we don't want to say anything about the direction of the dividend. I think we will be prepared to do that early in the year. And so, I think it just would be too early. Let's finish the year, and then we'll tell you more about what our dividend recommendation will be.

It's something that you know we have to -- we want to work and be completely aligned also with our Supervisory Board. And we're -- we still have those discussions in front of us.

Andy Chu - *Deutsche Bank - Analyst*

Okay, thank you very much.

Unidentified Speaker

Thanks, Andy. Nice attempt. And the next caller, please.

Operator

Okay, thank you. Our next question comes from Damian Brewer from JPMorgan. Please go ahead.

Damian Brewer - *JPMorgan - Analyst*

Yes, good afternoon. Thanks for taking the questions. Two areas of question. The first one in the Supply Chain business. It looks like if one strips out Arcandor and the cost of change elements, the actual underlying EBIT margin lifted nearly 30 basis points year-on-year.

Can you tell us a little bit what was behind that, what's happened in the mix, since the business a little bit smaller, but what you seem to have left is more profitable? Is that just Arcandor effects, or are there other effects, as Bruce said, was review of the more marginal businesses going on there?

And then sticking with that business, obviously the operating cash flow is astonishing, actually, given the operating profit line. Is that degree of conversion of operating profit into operating cash flow sustainable, or are there some one-off elements to do with working capital in there that we need to be aware of?

Frank Appel - *Deutsche Post DHL - CEO*

I may -- answer that more from a strategic point of view. What Bruce Edwards (inaudible) was in the Americas. And he has transferred now to the global operation. And he has an extremely tight and systematic management approach, which absolutely is needed for that kind of business.

So he has a management cycle where they go through a lot of IPOs and go for systematically for improvement measures, track them, look into the overall cost development and all this kind of stuff. So that's very much disciplined. And he brought into the (inaudible) of that division is the guy who followed him as the heads of America. So, they both have a long history.

And that is the impact we see at the moment, that the underlying business is getting more and more systematic approach that starts with shutting down smaller cases, where we don't earn money, improve the performance of contracts which are under the water line, be more strict on onboarding with new customers so that they have a much more systematic and radical approach now to really look into new customers instead of going for new business just to get more revenues. They are looking much more into the profitability.

And these are all the techniques he's now deploying around the world. So it's a mixture of all these activities, including networking capital and so on and so forth. So I think its -- these are the fruits you see now -- and he's on the job, one and a half years globally -- you see all the fruits which are coming from the very systematic approach in that unit. And I'm very pleased by that, because this was always what I felt has to happen that we have a very systematic management approach here.

Lawrence Rosen - *Deutsche Post DHL - CFO*

Let me take the second question on cash flow relationship to EBIT and the conversion rate. I think worth noting is that a lot of the Arcandor charges, which are in the underlying EBIT, and where we will spend some cash, the cash hasn't been spent yet, in fact, none of it has been spent.

We've taken the charge because we've had the liquidation, but the cash is still to be spent to the extent that it will be a cash expense and that's going to be in Q4 and beyond. So, I think that's one explanation for the big difference between EBIT and cash flow performance. I think the other is the extremely good working capital management. And then free cash flow, the significant reduction in capital expenditures.

Damian Brewer - *JPMorgan - Analyst*

Okay, thank you. And just on the Arcandor element there, could you tell us or give us some idea of what proportion of that charge could turn up in cash? And then the secondary question I've got is on the Express business. And in particular, could you give us some idea of what the network utilization is running at at the moment -- maybe not regionally, but just a broad picture?

And then also give us an idea of given the very significant cost savings that appeared to be made there, how much of those do you think are genuinely structural, and how much reflect just the lower variable level of activity that will come back as volumes come back?

Lawrence Rosen - *Deutsche Post DHL - CFO*

Well let me -- let me take the first question. How much of the Arcandor charges will be cash? Very roughly, it will be in the area of around 50%. That's what we expect at this point.

Frank Appel - *Deutsche Post DHL - CEO*

And on our Express, because we can't tell you exactly the price number because it's different country by country, but what we have achieved -- and that's the reason why the number is so good in Express is that we're capable to even achieve the pre-crisis productivity more or less around the world, including the [airlift].

In Europe, for instance, we took out point to point flights. Due to our very efficient hubs we have around the world we were able to funnel all the material through the hub. So more material through the hub without compromising on the quality -- the service quality.

So, I think we have that under control. If you might be suspicious that there are some provision releases in the underlying EBIT, I can tell you the underlying EBIT of Express was clean, and not increased by any means of provision somehow. If we had released provisions because we didn't use them, they were all taken into change -- cost of change and added with things we have done there, so that we really have a net -- a real picture on the underlying EBIT.

Damian Brewer - *JPMorgan - Analyst*

Okay, can I just follow up with one final one? Originally, I think Ken Allen had a target to take about EUR0.5 billion in costs out of the business. By the end of Q3, how far of that had you achieved in Express?

Lawrence Rosen - *Deutsche Post DHL - CFO*

It was around EUR460 million. So again, Ken is doing extremely well reaching his goals.

Damian Brewer - *JPMorgan - Analyst*

Okay. Thank you very much.

Unidentified Speaker

Okay, thanks, Damian. And in conscience of time, I'd like to ask for the next caller, please.

Operator

Okay, our next question comes from Robert Joynson from Macquarie. Please go ahead.

Robert Joynson - *Macquarie - Analyst*

Good afternoon, everybody. Just a first question on the cost saving in the Mail division. You achieved saving of EUR183 million during H1. And I was just wondering whether you could tell us what the additional saving was in Q3, and perhaps provide some color on the potential for further savings in Q4 and beyond.

Lawrence Rosen - *Deutsche Post DHL - CFO*

Let us find the answer to that question. And do you have a further question?

Robert Joynson - *Macquarie - Analyst*

Yes, the second question actually concerned the wage costs of your civil servants, which weren't included in the labor deal agreed last week. Is it possible to estimate how much their wages will increase by next year?

Frank Appel - *Deutsche Post DHL - CEO*

We don't know. That's not at all in our authority. But I think we made a good approach -- a good play for the government now, because we are a big employer. And I expect now that the government is taking a firm stance as well in some increases. But that is not in our control, but definitely my request would be that this is a pretty low number. If they will succeed in that, we will see in due course.

Robert Joynson - *Macquarie - Analyst*

Okay.

Lawrence Rosen - *Deutsche Post DHL - CFO*

Robert, we'll come back, still while we're on the call on your first question.

Robert Joynson - *Macquarie - Analyst*

Okay, thank you.

Unidentified Speaker

Okay, well then the next caller, please?

Operator

Okay, we will now take our next question from Axel Funhoff from ING Brussels. Please go ahead.

Axel Funhoff - *ING - Analyst*

Yes, hi. Good afternoon, gentlemen. I have two questions on Mail. First of all, in Mail, are you seeing nowadays a stronger competition, for example from TNT, given that TNT has actually closed several joint ventures and looks like shaping up its German mail business. And the second question is also on Mail. With respect to your strategy in the Dutch mail market, are you more likely to grow, or to shrink your business there?

Frank Appel - *Deutsche Post DHL - CEO*

The later one is we want to grow the business. And the former one, we have seen so far only marginal impact of this building of the alliance. And as I said earlier, we expect much more pressure from the substitution than from really the competition.

If I calculate what they are doing there, I think they are still losing money. And I constantly say I don't understand why TNT is still continuing their business here. And more (inaudible) are entering into that. So -- but that's their choice. And maybe that's a question more to them than to us. Their treasure has been limited so far.

Axel Funhoff - *ING - Analyst*

But is there a difference between TNT's business in Germany versus your business in Holland? You say you want to grow it?

Frank Appel - *Deutsche Post DHL - CEO*

Yes, I think the -- Holland, as you know, is much more -- it's like more the (inaudible) if you're talking to the population. And in the (inaudible), none of the competitors particular strong at the moment. They serve areas which are much less populated than the Netherlands. So I think the scale and the dynamics are pretty different. And therefore, you can't judge it overall. You have to look market by market.

Axel Funhoff - *ING - Analyst*

So is there a chance for you to get involved maybe into an active consolidator role in Holland?

Frank Appel - *Deutsche Post DHL - CEO*

If you asked if we want to buy the competitor, we don't comment on these M&A transactions. There would be definitely synergies between the two players who are not the incumbents. But as I said, we don't comment on any M&A transactions, neither saying no nor yes.

Axel Funhoff - *ING - Analyst*

Okay. Final question from me then in Express. Can you confirm and perhaps also somewhat quantify what you have seen in terms of volume growth in the first few weeks of the fourth quarter?

Frank Appel - *Deutsche Post DHL - CEO*

I have not seen the numbers. Larry, have you seen anything?

Lawrence Rosen - *Deutsche Post DHL - CFO*

Yes, but I think we would prefer not to talk about figures which we have not published. And I think we can just say that things are not developing in a surprising way compared to our expectations.

Axel Funhoff - *ING - Analyst*

Would you say then that the fourth quarter, as far as you can judge now, looks quite encouraging? Or, is that too much?

Lawrence Rosen - *Deutsche Post DHL - CFO*

I think it looks encouraging to the extent that we've upgraded our guidance in total and for the whole company. So beyond that, I think we don't want to make any specific comments for divisions or monthly developments. And our confidence is reflected in the guidance upgrade that we've done.

Frank Appel - *Deutsche Post DHL - CEO*

Excellent. Axel, I'm still keen as you are to understand that. We have not seen the October revenues numbers yet. And as long as we haven't seen them, we are not giving now some indications which might be interpreted one way or the other.

So -- but I understand the question. I'm keen as you are because as you might remember, I always said we are an early indicator, but only if we have seen it in real numbers. That's telling us how much we want to ship through the Christmas period.

Axel Funhoff - *ING - Analyst*

Okay, thank you very much.

Unidentified Speaker

Okay, thank you, Axel, and I think we've got time for one more question, or if it's a very short one, maybe even two. Operator?

Operator

Okay, we will take our next question from [William Sanderson] from Libra Equity. Please go ahead.

William Sanderson - *Libra Equity - Analyst*

Thank you. Hi. Just a quick question on the volume and pricing trends that you're seeing in Germany within your Express business.

Frank Appel - *Deutsche Post DHL - CEO*

I'm afraid we don't have that detail available that we really can focus on Express numbers. I think first of all, we never disclose countries, nor -- to be honest, I don't have that in my mind and even then, I would not share that, because we should not talk about individual markets for that.

Unidentified Speaker

William, in that respect, we could offer you the volume development of our German Parcel business, where in Q3 we have seen a basic flat year-over-year development, which is not bad, given that (inaudible) on that respect has been weak.

Frank Appel - *Deutsche Post DHL - CEO*

This is in the Mail division, not in the Express division, just not to be confused.

William Sanderson - *Libra Equity - Analyst*

Okay, understood. Perfect. Thank you.

Unidentified Speaker

Thank you. And time for just one more question, please.

Operator

Our last question comes from Andre Mulder from Kepler. Please go ahead.

Andre Mulder - *Kepler - Analyst*

Good afternoon. A few questions, then. On China, have you seen any effect there? We've seen Fed Ex complaining about China restricting (inaudible) business to China Post. Has there been any effect there?

Frank Appel - *Deutsche Post DHL - CEO*

There is a new postal law which is not -- there is a new law. We think the impact will be limited. We feel that we are well positioned with our joint venture partner (inaudible). And we would like to go forward and to extend our business even domestically. We have not heard anything, and we are not allowed to do that.

So I think the law says certain things, but we should look into the level of the [wage] and all this kind of stuff. So we think the impact is not as big as maybe some people might think. So, that's our assessment at the moment.

Andre Mulder - *Kepler - Analyst*

And a second question is on the Express EMEA. What's happened there in Q3? Has there been the effect of the economy on Eastern Europe, or has there been happening something else?

Frank Appel - *Deutsche Post DHL - CEO*

I don't have that. We'll have to check. And I think the numbers -- you mean Eastern Europe is -- we have a combination of Eastern and Middle Eastern in our numbers for volumes. And therefore, I think we have not seen a significant recovery in Eastern Europe yet, and they have been impacted quite a lot. The Middle East is doing fine, I think, and has done through the whole crisis better than many other regions.

Andre Mulder - *Kepler - Analyst*

I think the decline in Q3 seems to be quite big compared to what we've seen before.

Frank Appel - *Deutsche Post DHL - CEO*

In EMEA -- that might be because sooner or later this economy can't -- this economy is so small they can't detach themselves entirely from the world.

Andre Mulder - *Kepler - Analyst*

Okay, thanks.

Unidentified Speaker

Okay, well I think we have still one answer to deliver on Robert's earlier question.

Lawrence Rosen - *Deutsche Post DHL - CFO*

Yes. I think the question is, if I've understood it correctly, what kind of additional savings might we expect in the Mail division, given the performance that we've seen so far this year?

I think without wanting to be very specific, we can say that we do expect to continue to increase the savings. And we've given a goal for Mail which we've published of EUR180 million as part of the overall index target, and we're still confident of being able to reach that goal.

Unidentified Speaker

Okay, thanks, Larry. So that's the answer, I think it fits pretty well, to the question. And with that, I'd like to thank everyone out there for interest, as always. Our thanks goes to CEO, CFO. And we're looking forward to further conversations with you offline. And to all of you, have a good rest of the day. Thank you.

Frank Appel - *Deutsche Post DHL - CEO*

Thank you, and goodbye.

Lawrence Rosen - *Deutsche Post DHL - CFO*

Thank you.

Operator

Thank you. That will conclude today's conference call. Thank you for your participation. Ladies and gentlemen, you may now disconnect.