



Letter prices in Europe.

Up-to-date international letter price survey.



Dear readers,

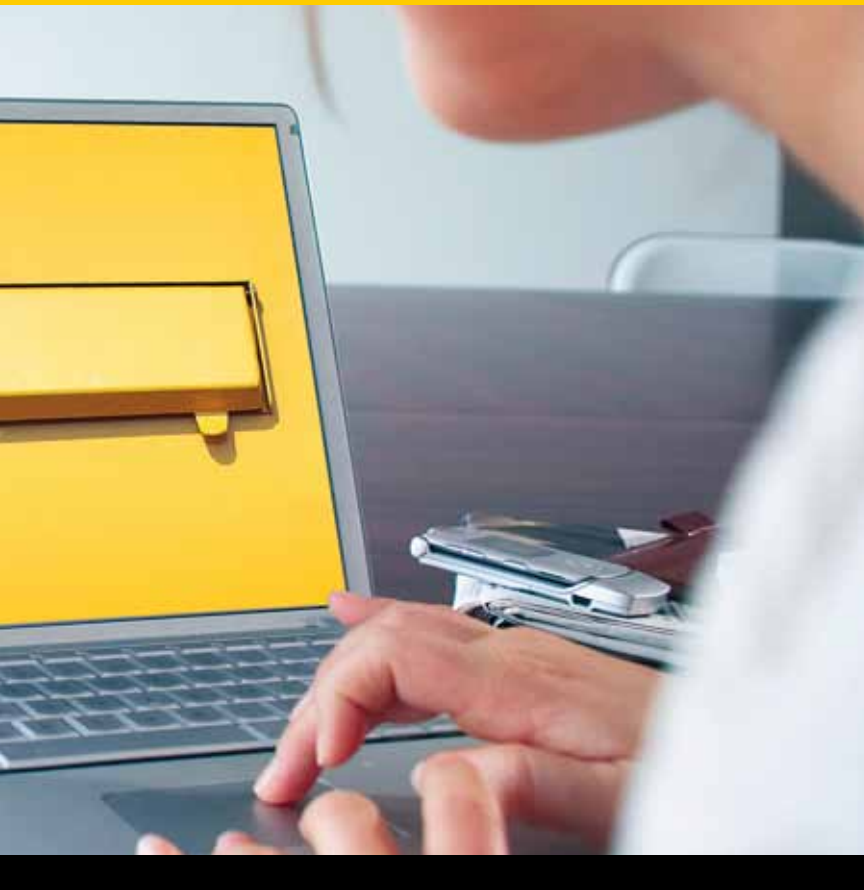
Europe is moving closer together these days. Back in December 2007 when the heads of state and government signed the Treaty of Lisbon, they were already convinced that only a modernised Europe with reformed European Union (EU) institutions would be able to manage the challenges of a globalised world, with keywords being climate change, new security threats and globalisation of business. There is even closer co-operation between the Euro area Member States which have recently approved a pact for stronger economic policy co-ordination. Under the heading of 'foster competitiveness', this pact requests the member states to take measures to increase productivity, e.g., further opening of sheltered sectors which the postal markets in some countries still are.

The creation of an internal market has been at the core of the European integration from the start. This includes, of course, the establishment of an internal market for postal services, since the postal services produce around 1% of the EU's gross domestic product, employ roughly five million people and thus represent a cornerstone of the internal market. Reason enough to ask the question

today, thirteen years after the first Postal Directive entered into force: what has Europe achieved with regard to the liberalisation of the postal markets?

As we all know, Germany fully opened its postal market as early as in 2008 to the competition and Sweden, Finland, the United Kingdom and the Netherlands have liberalised their markets early. On 1 January 2011, the postal monopolies in ten further EU member states were to be dropped, namely in Belgium, Bulgaria, Denmark, France, Ireland, Italy, Austria, Portugal, Slovenia and Spain. Over 90% of the postal markets in the EU would then be open to the competition. This is in theory only because not all countries were able to actually enforce the legal requirements for the opening of the market on time. In addition, potential competitors in some countries are complaining that market entry barriers are preventing them from snatching market share off the relevant 'state postal service'.

It is therefore no surprise that a study developed on behalf of the European Commission has found that only three countries have domestic competi-



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tion worth mentioning, namely Germany, the Netherlands and Sweden. Only in these countries is the market share of the competitors above 10%.

Many observers think that the intensity of competition in the European postal markets will not significantly improve after the latest step to open the market either. Forecasts assume that postal volumes will continue to fall. Electronic substitution and a change in the users' communication behaviour are key causes. Some postal service providers have started to change their strategies. Instead of expanding into international postal markets, the focus is now on hybrid and electronic forms of communications. At the forefront of this development is Deutsche Post which combines the advantages of the traditional letter and the internet to binding, confidential and reliable communication with its E-Postbrief product.

The European Commission is aware of the huge changes which the postal sector in Europe has to face. Michel Barnier, the European Commissioner for Internal Market and Services, therefore rightly refers to the necessity to complete the chosen path

(market opening and domestic market) as planned and the need for postal service providers to meet the challenges through new forms of communication. In the interest of the users, appropriate quality of and prices for the universal services are just as important as the benefits of a dynamic and open market.

Now, with regard to Germany, the Commission should be happy about the quality and prices: according to ‚Kundenmonitor‘ 2010, one of the largest independent consumer studies in Germany, consumers in Germany are very satisfied with the postal services provided by Deutsche Post and the service in the postal retail outlets. And letter prices have remained stable for the eighth consecutive time which means they have actually come down after an adjustment for inflation. The trend in Europe, on the other hand, is very different: letter prices mainly move in one direction only, i.e., upwards.

Walter Maschke, Executive Vice President
Corporate Regulation Management.



1 Summary

Letter prices in Germany continue to be among the more favourable in Europe, when measured against general economic conditions. This is the result of this year's comparison of letter prices in the 27 Member States of the European Union and in the European Free Trade Area (EFTA) countries Norway and Switzerland. As in previous studies, the nominal prices of the different countries were compared and contrasted for the reference year, 2010. Macro-economic factors such as labour costs and purchasing power, as well as the development of inflation rates were also taken into consideration in the study. This gives a real understanding of the actual affordability of letter prices in the countries surveyed. Other international studies such as the study "Main Developments in the Postal Sector (2008-2010)," which the European Commission recently contracted Copenhagen Economics to undertake, use a comparable method to calculate affordability.

The consolidated result shows even more clearly than the previous year that compared with other European countries, Deutsche Post's letter prices are clearly among the lowest; they are in the bottom third of the 29 countries surveyed. The postage price for domestic customers is only more affordable in seven Member States, while it is more expensive than in Germany in 21. The top ten most expensive countries in Europe are Eastern European countries and the two northern European countries Norway and Denmark, whereby the large jump Denmark made from 14th place to 8th place can be explained by the changes the country made in its pricing system. Bulgaria is once again the clear leader, while the most affordable domestic letter prices continue to be in Malta. The average letter price factored for macro-economic conditions is now €0.80 and therefore slightly higher than in 2010 (€0.77).



The development towards favourable letter prices in Germany is once again underscored by the ten-year overview (2000 to 2010) that is adjusted to reflect inflation rates. This overview clearly shows that when general price increases are taken into account, the price of a standard letter in Germany has fallen by almost 17 percent over the past ten years. This is the third-highest price decrease in any of the countries included in the study. Compared to Germany, prices have only decreased more sharply in Italy and Estonia. In Europe, however there is a clear trend towards increasing postage prices. Letter prices in Europe have on average increased by more than 51 percent. In this survey, Denmark also makes the largest upward jump due to the current price increase (from 13th to 8th place); Cyprus, on the other hand, makes the biggest downward jump (from 7th place to 20th place).

While postage for domestic letters was last increased in Germany in 1997, and has remained stable now for the eighth consecutive year since the price reduction in 2003, many of the surveyed countries increased their letter prices either last year or

at the beginning of 2011. For example, Belgium, Denmark, France, Greece, the UK, Luxembourg, the Netherlands, Norway, Austria, Slovenia, Spain and Hungary have increased the prices for both domestic and international letters. The Bulgarians only increased domestic letter prices, while Germany, Italy and the Czech Republic only increased the postage rate for letters to other European countries. Domestic postage has thus increased by an average of €0.04, and postage to other European countries by an average of €0.06.





2 Methodology

The survey begins by comparing and contrasting prices for standard domestic letters and letters within Europe in the 27 Member States of the European Union and in the EFTA countries of Norway and Switzerland. This survey considers the fastest letter mail product in all countries under review, which generally carries a next-day delivery target (D+1). The only letter products included were those with quality criteria enabling them to be compared to one another. This approach in combination with the inclusion of key macro-economic factors is designed to provide an objective and scientifically sound picture of European letter prices.

In countries where value-added tax (VAT) is levied on the letter services considered for this comparison – Finland, Norway, Sweden and Slovenia (only for letters within Europe) – the survey uses the gross price, i.e., the letter price including VAT. This is because the most relevant factor in such a comparison is the actual price that the consumer must pay for a letter in the various countries. This survey considers exclusively the standard letter.

This product represents the lion's share of all letters sent by private customers and therefore best reflects the actual usage behaviour in the letter market.

Following the illustration of the nominal letter prices in Europe, the development of letter prices for the years 2000 to 2010 is shown, adjusted for inflation. In addition, the study also calculates the average number of minutes worked by industrial employees in the individual countries to earn the price of a standard letter. Finally, the study compares the letter prices of each country surveyed, taking factors such as labour costs and purchasing power parity into account. For each country, the value of the factor they are adjusted for is shown relative to the corresponding value in Germany. The calculated ratios are multiplied by the nominal letter prices of the relevant countries which results in the adjusted letter prices.



The survey takes into account all postage rate changes that were known at the time of going to print (March 2011). The data on the individual countries surveyed were taken from official sources, such as Eurostat and Germany's Federal Statistical Office (Statistisches Bundesamt). To adjust the letter prices so that they reflect labour costs, statistical data was used that most closely corresponds to the sector under consideration here (postal, courier and express services). In order to calculate the 'work in minutes per letter,' the hourly wages of a worker in the manufacturing sector, as recorded by the Institut der Deutschen Wirtschaft (German business institute), were used (September 2010).

Exchange rates also had an impact on letter prices this year. The result was that letter prices in Switzerland and Sweden remained the same in the local currency, but the nominal price of a domestic letter increased by €0.08 to €0.07 and for letters within Europe the nominal price increased by €0.08 to €0.13.

For the first time, it was possible to include the letter prices of the past ten years for the countries Romania, Bulgaria, Latvia and Lithuania, which means that these countries now complete the overview on inflation-adjusted letter price development.





3 Nominal price comparison

3.1 Domestic letter mail

A comparison of nominal prices for a domestic standard letter places Germany along with Ireland in the mid-range of the countries surveyed. Compared with the previous year, Germany gains two places. The €0.55 postage rate for standard letters in Germany corresponds exactly to the European average, which through numerous price increases rose by €0.04 in the other countries. The price of domestic standard letters increased in the following countries: Belgium, Bulgaria, Denmark, France, Greece, the UK, Luxembourg, the Netherlands, Norway, Austria, Slovenia, Spain and Hungary. It is worth noting that Greece, the UK and Spain have increased their postage rates for the fifth consecutive time, and Belgium has increased its postage rates for the fourth consecutive time.

The highest letter prices in Europe can still be found in Norway, Denmark and Finland, whereby the last two countries mentioned switched places. The 'leader' to date has been Norway, which not only defended its position, but increased its postage price again, bringing it to €1.12. With a €0.33 price increase – following a general change in the

pricing system – Denmark records the largest jump in domestic price in Europe. Finland's slightly improved position is due to the decrease (regulatory reasons) in domestic postage rates from €0.80 to €0.75. It must, however, be noted that value-added tax is included in the cost of postage in Norway and Finland.

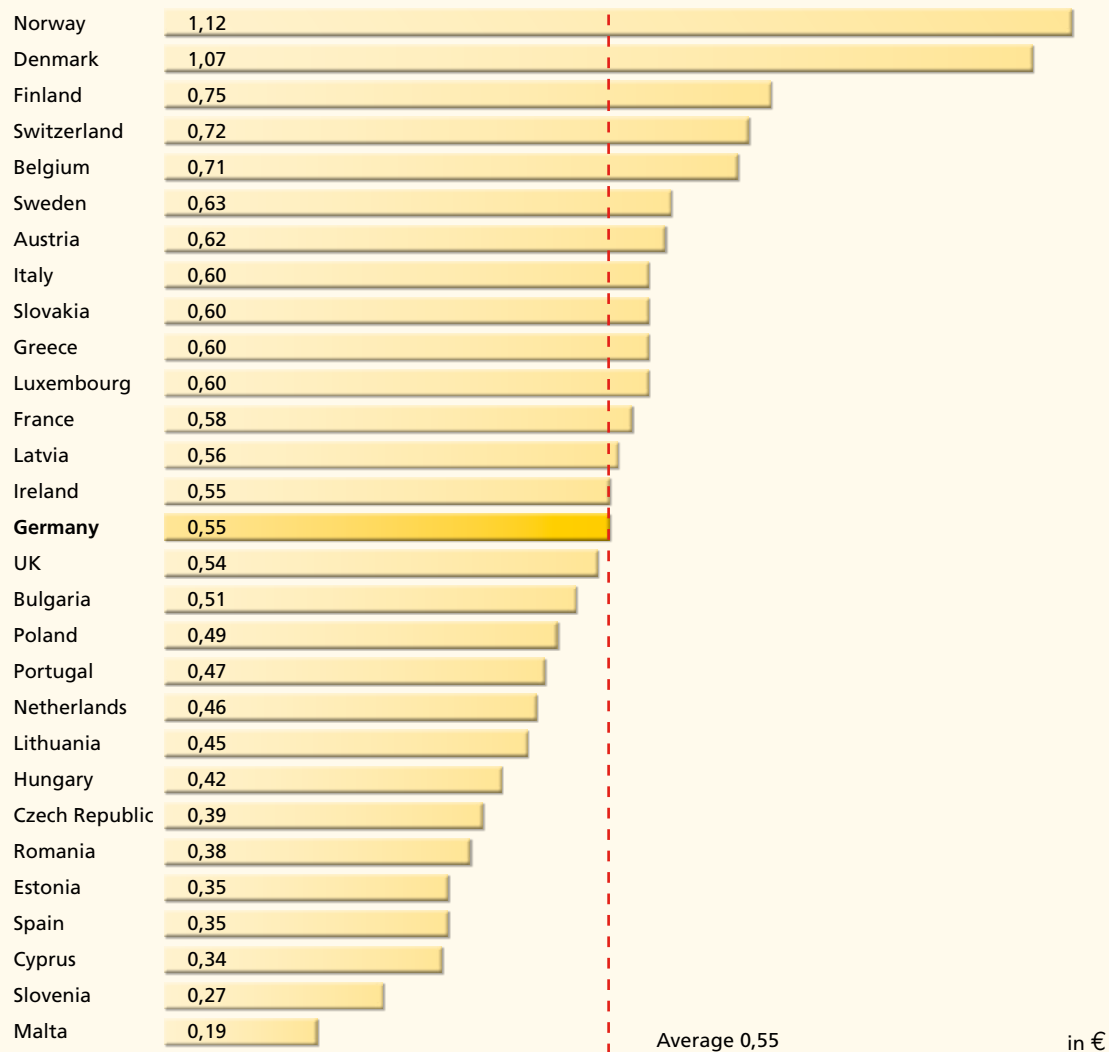
During this year, the largest upward jumps in the ranking are made by Sweden (from 8th to 6th place), Austria (from 9th to 7th place) and Luxembourg (from 10th to 8th place). On the other hand, despite a price increase, the UK's place in the ranking remains unchanged. Spain's post, in turn, increased its rate for domestic letters from €0.34 to €0.35 but remains among Europe's lowest-charging providers due to letter price rises in other countries. Malta remains unchanged at the bottom of the ranking at €0.19.

As regards Germany, letter prices have remained stable for the eighth consecutive year.





Nominal price for a domestic standard letter





3.2 Letter mail within Europe

This overview shows that there are significant price differences in the various European countries between the prices for domestic letters on the one hand, and for letters within Europe on the other. The discrepancy is particularly striking in Portugal: While domestic letters cost €0.47, postal customers must pay almost four times that amount for letters within Europe. Even in Malta, which offers the cheapest nominal letter prices, European letters are almost twice as expensive as domestic letters. Finland is the only European country that charges the same rate for both letter products.

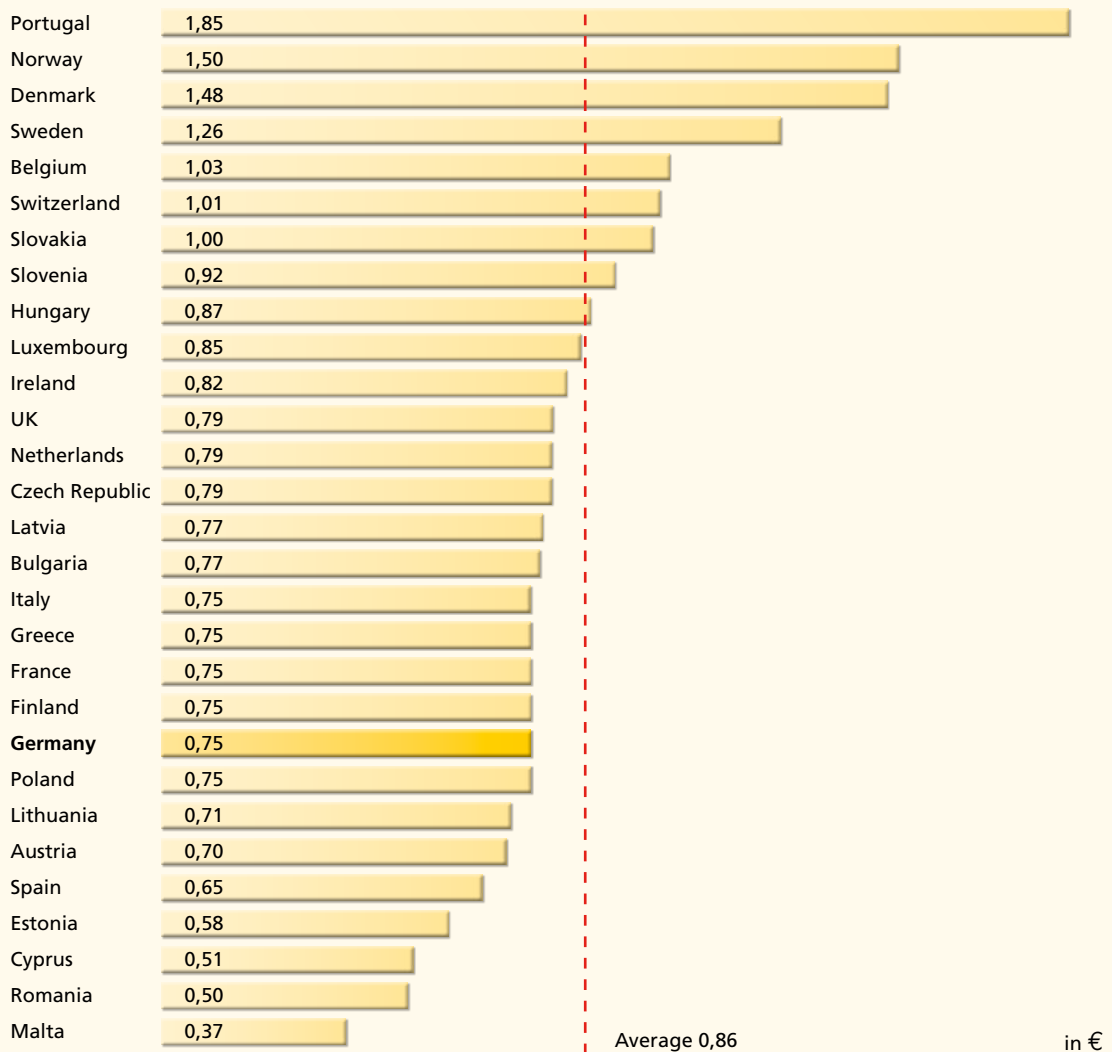
The highest charge for a European letter remains in Portugal, followed by Norway, Denmark, Sweden and Belgium. Therefore, the first five places remain unchanged. The bottom five rankings also remain unchanged: As in the previous year, Malta continues to have the cheapest postage for a European letter. It is followed by Romania, Cyprus, Estonia and Spain. Since sending letters within Europe again saw a price increase in many countries – i.e., in Belgium, Denmark, Germany, France, Greece, the UK, Italy, Luxembourg, the Netherlands, Norway, Austria, Slovenia, Spain, the Czech Republic and Hungary – the European average has risen. Letters within Europe now cost an average of €0.86 compared to €0.80 in the previous year.

In addition to the “Top 5” that were mentioned, Switzerland, Slovakia, Slovenia and Hungary are also above the average value, whereby Slovenia’s price includes 20 percent value-added tax. In this ranking, the largest upward jumps are made by the Czech Republic, which has worsened by four places from 16th to 12th place, and Luxembourg (from 12th to 10th) and the UK (from 14th to 12th). The clearest improvement is in Finland which, as the only country with a price decrease, improved its standing by six places and is now in the lower mid-range. That is also the case for Germany which in fact improved its standing by two places and whose European letter is €0.11 under the European average price.





Nominal price for letter mail within Europe



4 Price developments since 2000



What does the development of letter prices in the 29 European countries surveyed look like if this comparison takes the respective inflation rates of the past ten years into consideration? This chapter provides answers to this question. This approach is absolutely necessary in order to obtain a truly meaningful and objective comparison of letter prices, because a nominally unchanged letter price decreases in real terms every year due to inflation. Inflation rates vary considerably in Europe: While the average rate of price increase between 2000 and 2010 was, for example, only about 0.9 percent in Switzerland and 1.6 percent in Germany, this rate was above 15 percent in Romania.

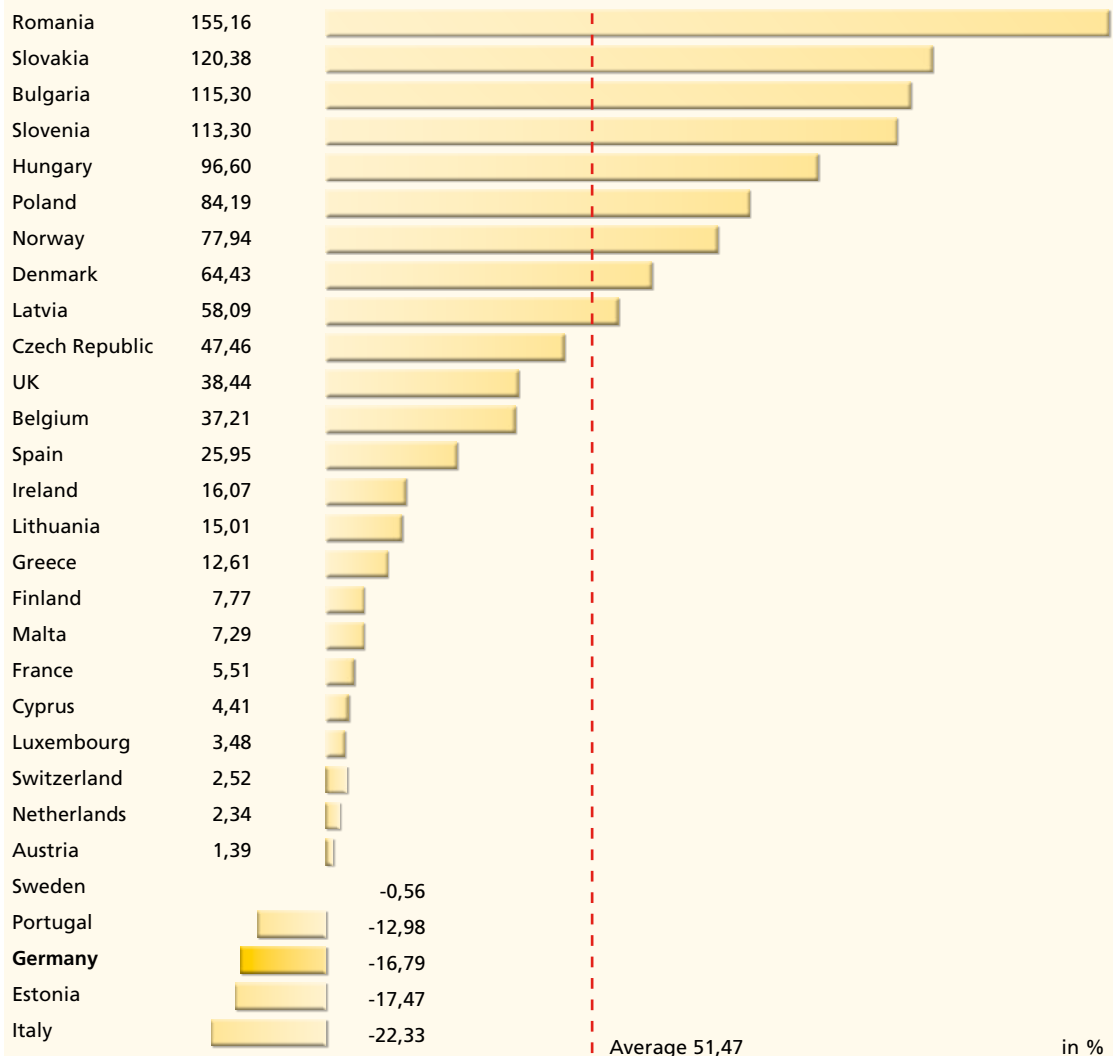
New in this overview are the countries Bulgaria, Latvia, Lithuania and Romania, since this is the first time the data required for a ten-year time period was available in these countries. By expanding the inflation-adjusted overview and due to generally increasing inflation rates, the real price for a standard domestic letter in the countries surveyed increased by an average of 51 percent, compared to 28 percent in the previous year. Compared to 2000, the letter price rose in 24 countries, and in only five countries has the standard letter become cheaper in real terms. The only countries that had inflation-adjusted price decreases were Italy (-22.33%), Estonia (-17.47%), Germany (-16.79%), Portugal (-12.98%) and Sweden (-0.56%). Romania is new at the top of this table, but Bulgaria and Latvia – both are presented in this overview for the first time – also end up in the ten countries with the highest inflation-adjusted letter-price increases.

Denmark makes the largest upward jump in this ranking, from 13th to 8th place. In contrast, Cyprus moved up a favourable 13 places compared to last year, from 7th to 20th place.





Inflation-adjusted change in letter prices 2000 – 2010





5 Work in minutes per letter price

By calculating the minutes worked per letter price, it is possible to illustrate how long a worker must work to earn the price payable for a standard letter. This approach is indispensable for assessing how affordable the postage rates actually are. The “affordability” criterion can be found in the European Union’s Postal Directive, which states that universal postal services must be “affordable”.

The calculation is based on the hourly wage of a worker in the industry. Again, the hourly rates established by the Institut der Deutschen Wirtschaft as per September 2010 for workers in the manufacturing sector have been used as standard and reliable data for the calculation of the work in minutes per letter price.

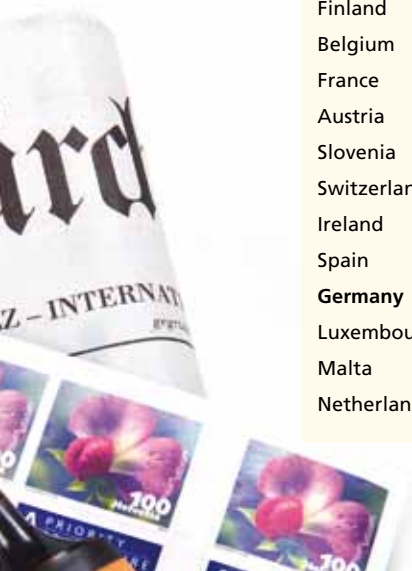
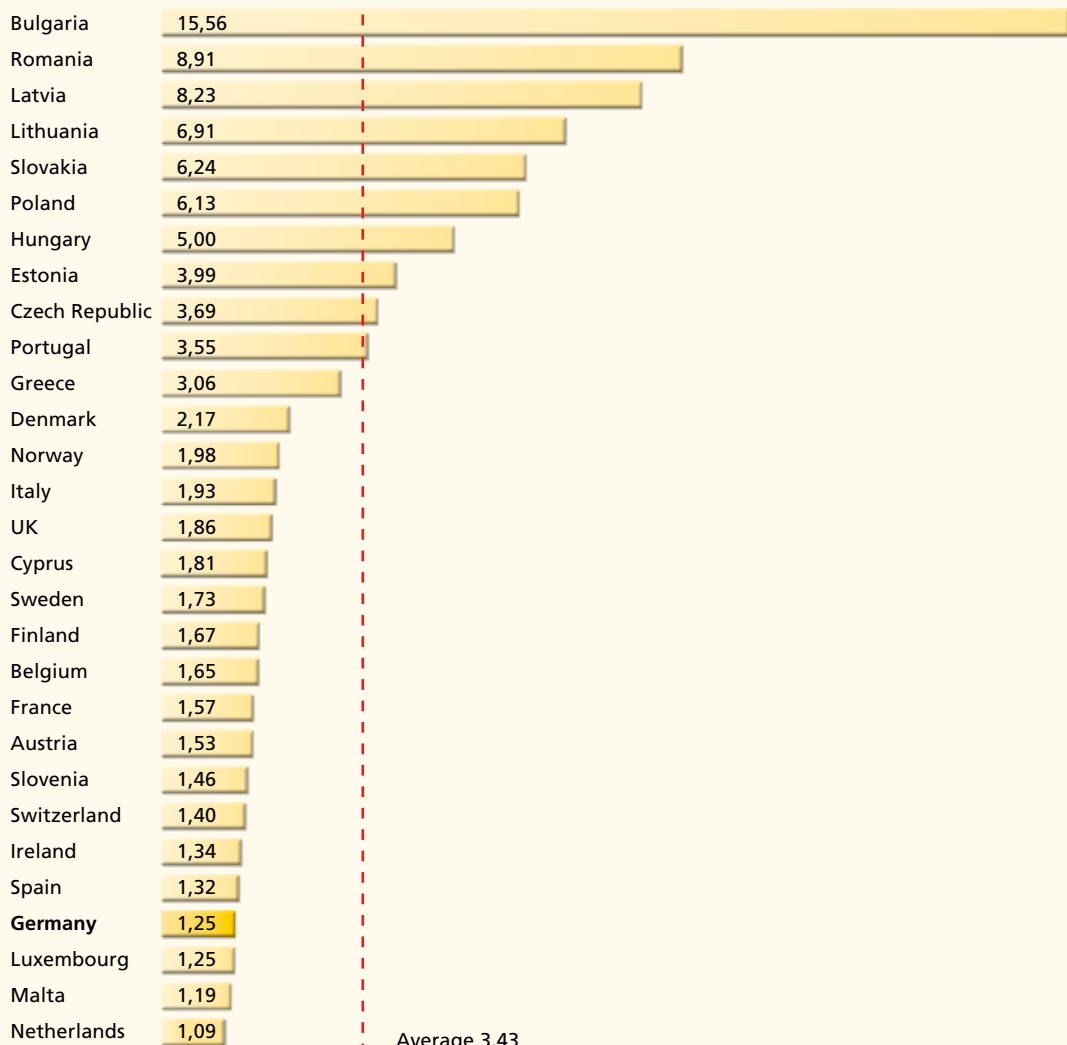
The result of this calculation still divides Europe into “west” and “east.” Of the ten countries where the most working time is required in order to earn the respective postage price, nine are in Eastern Europe. The first three places in this ranking have not changed and are still held

by Bulgaria, Romania and Latvia. Denmark’s position has worsened here by six places (from 18th to 12th), the UK’s by five places, while Sweden is also worse off compared to last year (from 20th to 17th place). While a worker in Europe must work an average of 3.43 minutes to earn the postage fee for a standard letter, Germany is well below the average with 1.25 minutes. Countries such as Spain, the UK, France and Italy, which most closely compare to Germany in terms of the country’s geographical area and the size of the postal market, all have poorer results. The country with the most affordable standard letter price for an employee is again the Netherlands.





Work in minutes per letter price



6 Adjustment for labour costs



Ratios are calculated for the adjustment using the labour costs for Germany and the respective countries and are then multiplied by the share of the letter price accounted for by staff costs. Thanks to improved statistics, the cost of labour in the postal, courier and express services sector in the countries surveyed could be accessed completely for the first time.

Due to the high cost of labour in Germany, adjusting the letter prices for cost of labour has the strongest effect on the position of its letter price in the European ranking. The adjusted European average price of €0.95 is much higher than the price in Germany, which once again is in the lower mid-range of the ranking.

Mail delivery operations are very labour-intensive compared to other sectors. This in turn is reflected in the large proportion of staff costs in overall costs. However, the cost of labour greatly varies from country to country, so providers have to shoulder differing cost burdens. Letter prices in high-wage economies such as Germany and low-wage economies like the Eastern European Member States can only be compared in a meaningful manner, in accordance with the objective of this comparison, if the labour costs are factored in. This is done in this chapter.

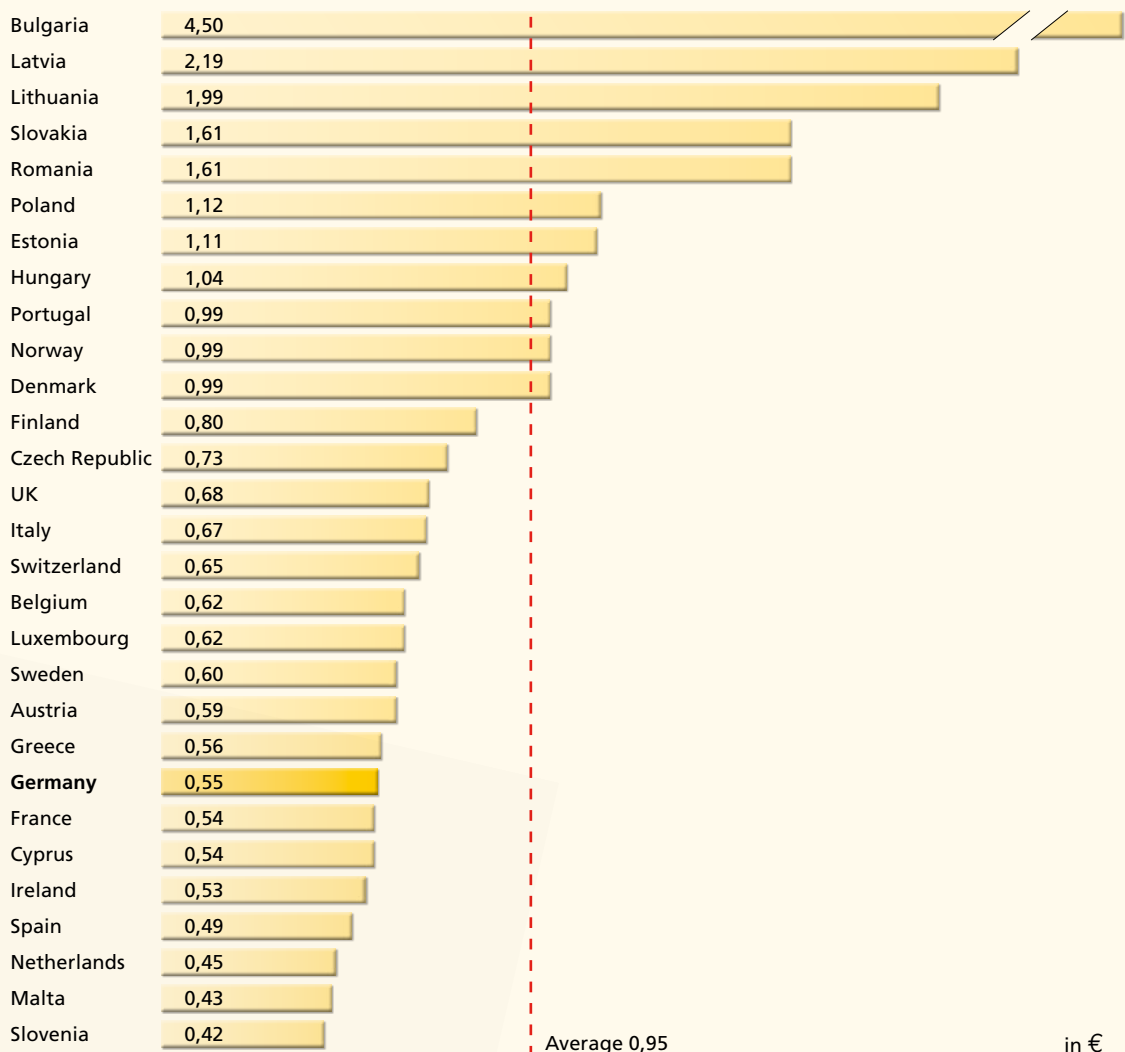
The adjustment first takes into account that staff costs only comprise a certain proportion of the overall costs of mail delivery operations. Only this part is factored into the calculation, while the rest of the price remains unaffected.

The most expensive provider is again the Bulgarian postal service. Compared to the previous year, things have worsened for Denmark, Finland, Luxembourg and Sweden and the UK. The Netherlands had to yield its top position as the most affordable country to Slovenia.





Letter prices adjusted for labour costs





7 Adjustment for purchasing power

Purchasing power in the individual countries varies considerably. This in turn also has an impact on the issue of how affordable letter prices are for postal customers.

The adjacent overview shows the letter prices in Europe, after taking into account the purchasing power of the individual countries. It thereby takes each country's specific economic situation into consideration. Purchasing power parity also compensates for the differences in price levels in each country, which emerge when currencies are converted.

Letter prices are divided by the countries' purchasing power relative to Germany in order to take purchasing power parity into account. This means that letter prices in countries with a relatively high purchasing power, compared to Germany, are cheaper and vice versa. The calculation is based on purchasing power parities published by the EU statistical office, Eurostat. The comparative price levels are applied to the calculation, and express the actual price of the same representative basket

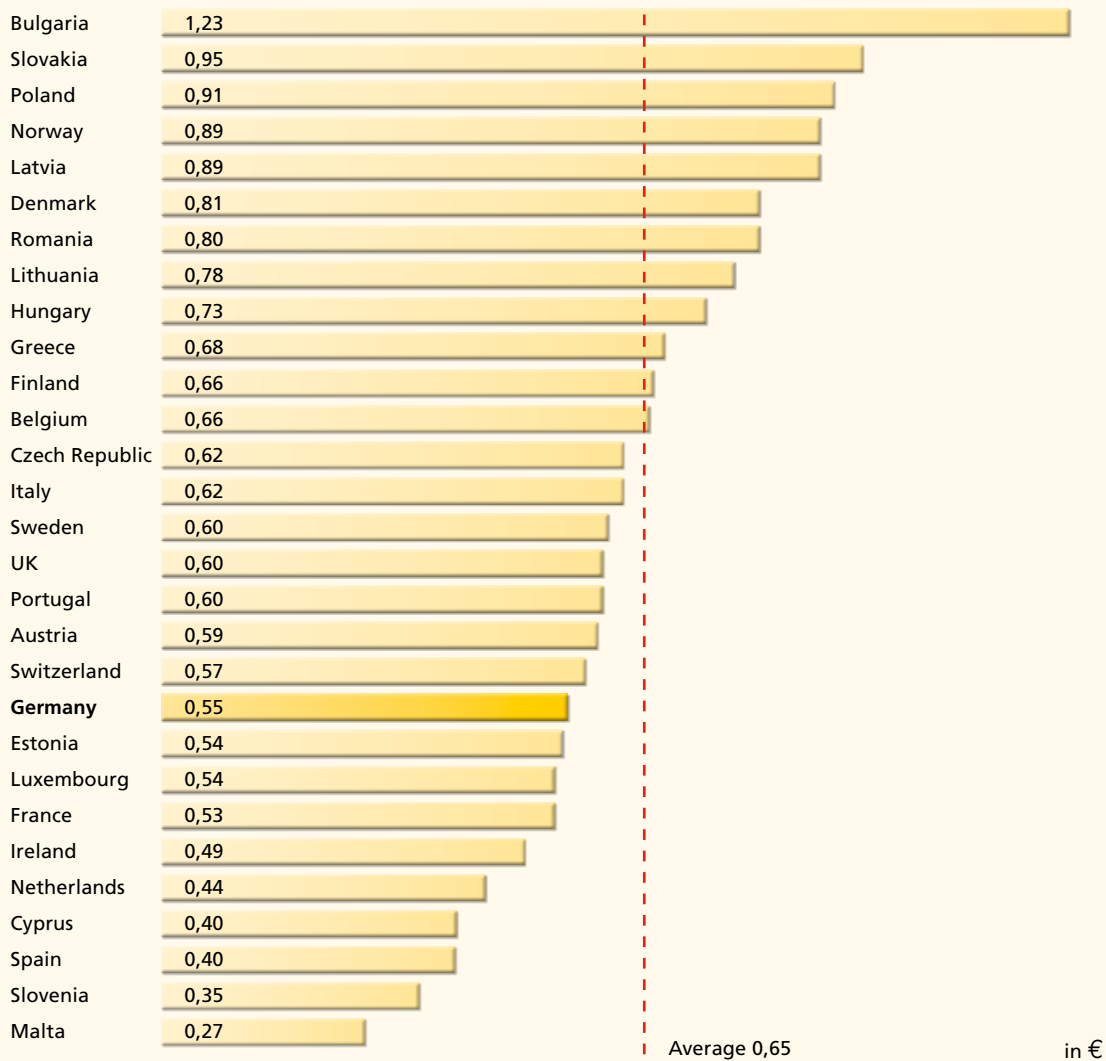
of consumer goods and services in each country in a comparable currency unit.

This overview also shows that the average value has significantly increased. The purchasing power for adjusted letter prices has increased by an average of €0.06 compared to the previous year's calculation. Germany's price of €0.55 is well below this average. Twelve countries, on the other hand – with Bulgaria again at the top of this ranking – are above the average. Compared to the previous year, postage is above all less affordable for postal customers in Denmark, Sweden, Poland, Hungary, the UK and Luxembourg. In Malta the letter price is the most affordable in Europe at €0.27.





Letter prices adjusted for purchasing power



8 Consolidated results



Finally, the letter prices are adjusted for the macro-economic factors of both labour costs and purchasing power and then consolidated into an overall result. As a result of this adjustment, Germany, which to date has already ranked in the low mid-range, enjoys Deutsche Post's stable postage rate for the eighth consecutive year and moves up five places in the affordability ranking. Only France, Ireland, Cyprus, the Netherlands, Spain, Slovenia and Malta have a more affordable consolidated letter price; 21 countries, on the other hand, have higher letter prices than Germany. Whereas last year only seven countries were above the European average, which this time has risen by €0.03 to its current average of €0.80, the letter price in ten countries is meanwhile more expensive than average. Norway, Denmark and

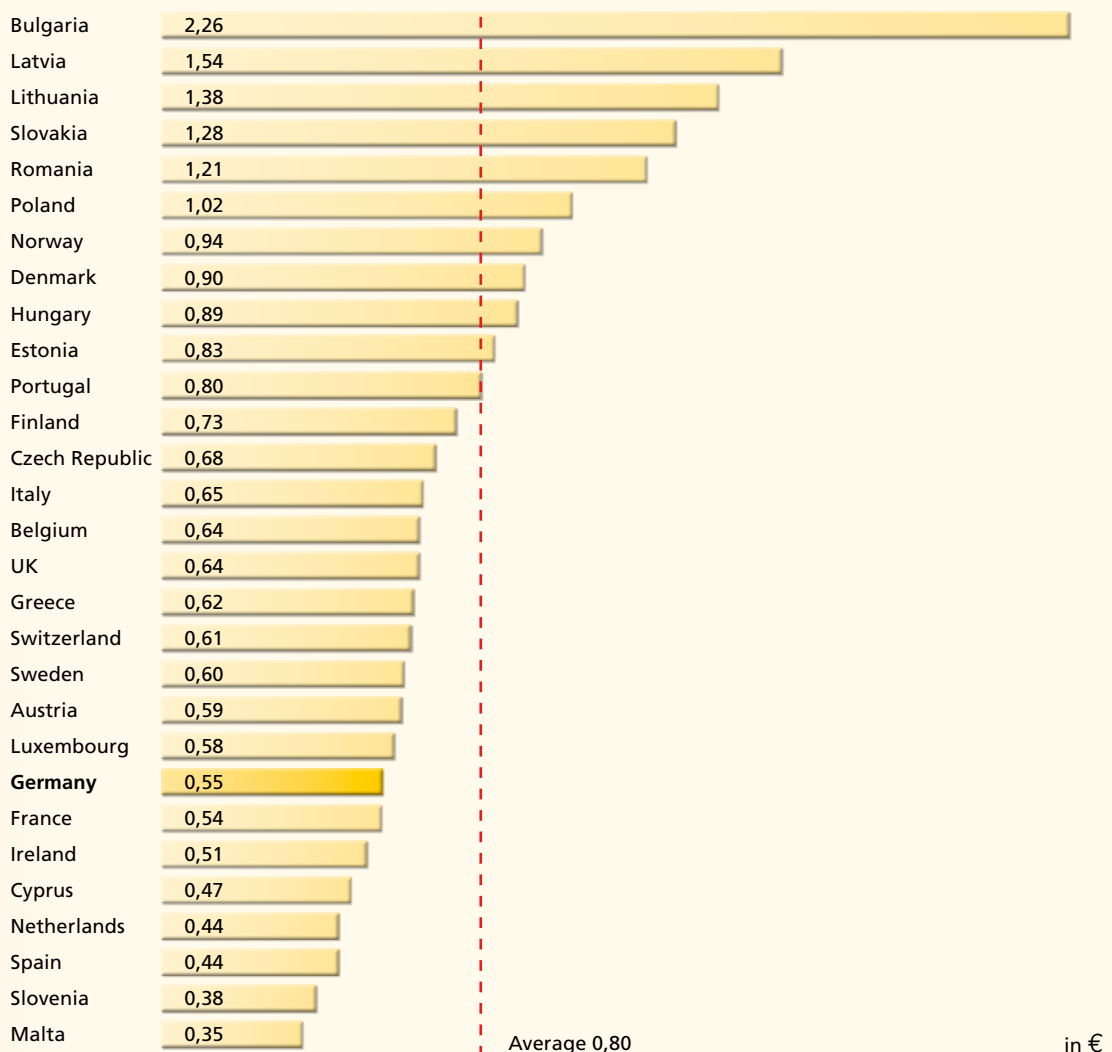
Estonia now also have postage prices that are well above the European average. According to this calculation, postal customers in Bulgaria continue to pay the most. The UK's position worsened by five places, whereby Greece made the largest downward jump: from 8th to 16th place. In addition to Greece and Germany, the following countries also improved their ranking by several places: the Czech Republic, France, Ireland, Cyprus and Spain.

Eastern Europe's results also stand out again this year: Among the 14 countries whose nominal standard letter prices are below the European average of €0.55, eight are located in Eastern Europe. If you look at the overview of letter prices that have been adjusted for macro-economic factors, you also immediately see that eight Eastern European countries are among the ten most expensive countries. Slovenia and the Czech Republic are the only exception here. The result indicates that if purchasing power and labour costs are taken into consideration, the Eastern European countries, in particular, have the most expensive letter prices.





Consolidated results





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