

# Business and Environment

## Business activities and organisation

### Our business

Deutsche Post World Net offers integrated services and tailored, customer-focused solutions for managing and transporting letters, goods, information and payments.

In the MAIL Division, we transport mail and parcels in Germany and serve as an expert provider in the direct marketing and newspaper and magazine distribution segments. We also offer mail and communications services through direct links to more than 140 countries across the globe, as well as end-to-end corporate communications solutions.

Our EXPRESS Division provides courier and express services to business and private customers. We can draw on the world's most extensive network, embracing 220 countries and territories. Our business is structured according to the regions in which we operate.

In the LOGISTICS Division, we carry goods by rail, road, air and sea. We rank amongst the world's leading providers of air and ocean freight, contract logistics and for overland freight transport in Europe.

The FINANCIAL SERVICES Division chiefly comprises the business activities of Deutsche Postbank, namely Retail Banking, Corporate Banking, Transaction Banking and Financial Markets.

We have centralised the internal services which support the entire Group, including Finance Operations, IT and Procurement. This consolidation enables us to increase the flexibility of our business, improve service quality and leverage economies of scale and cost benefits.

### Segments and business units

Deutsche Post World Net comprises four divisions. In 2007, the reporting segments were:

#### MAIL

- MAIL Germany
- MAIL International
- PARCEL Germany

#### EXPRESS

- Europe
- Americas
- Asia Pacific
- EEMEA

#### LOGISTICS

- Global Forwarding
- Supply Chain
- Freight

#### FINANCIAL SERVICES

- Deutsche Postbank AG
- Postbank branches
- Pension Service

#### SERVICES

- Global Business Services
- Corporate Centre
- Deutsche Post retail outlets

The Group management functions are performed by the Corporate Centre. The divisions operate under the control of their own divisional headquarters.

postbank.com

## Organisation and management structure

At the start of 2007, we transferred the German parcel business from the EXPRESS to the MAIL Division and assigned overall responsibility for this business accordingly.

In the MAIL Division, we transferred Global Mail (formerly MAIL International) and Corporate Information Solutions (formerly Value-added Services) to a new MAIL International unit in the second quarter and assigned responsibility for this unit to the board department then called Global Business Services. In addition, Corporate Regulation Management was transferred from the chairman's board department to the expanded former Global Business Services, MAIL International board department.

At the end of the third quarter, we reorganised the Board of Management's responsibilities for Finance, LOGISTICS and Global Business Services. John Allan, who formerly headed LOGISTICS, assumed responsibility for Finance effective 1 October 2007. He also took charge of Global Business Services. At the same time, Dr Frank Appel took control of the LOGISTICS Division, whilst retaining responsibility for MAIL International, Corporate Regulation Management and the First Choice corporate programme. Dr Frank Appel and John Mullen jointly head Global Customer Solutions.

## Disclosures required under Sections 289(4) and 315(4) of the *Handelsgesetzbuch* (HGB – German commercial code) and explanatory report

### Share capital, voting rights and transfer of shares

As at 31 December 2007, the company's share capital totalled €1,207,470,598 and is divided into the same number of no-par value registered shares. Each share carries the same statutory rights and obligations, and entitles the holder to one vote at the Annual General Meeting (AGM). No individual shareholder or group of shareholders is entitled to special rights, particularly rights granting control powers.

The exercise of voting rights and the transfer of shares is based on the general legal requirements and the company's Articles of Association, which do not restrict either of these activities. Article 19 sets out the requirements that must be met in order to attend the AGM as a shareholder and exercise a voting right. Only persons entered in the share register shall be considered shareholders in the eyes of the company. The Board of Management is not aware of any agreements between shareholders which would limit voting rights or the transfer of shares.

## Group structure from various perspectives

### Corporate governance structure

Structure in accordance with governance tasks and responsibilities (boards and committees)

- Corporate Centre
- Divisions
- Global Business Services

### Management responsibilities

Structure in accordance with decision-making responsibility and reporting lines

- Board departments
- Corporate departments/ business departments/regions/ service departments
- Departments

### Legal structure

Structure based on Deutsche Post World Net legal entities

- Deutsche Post AG
- Deutsche Postbank AG

### Brand names


Structure in accordance with brand names used in customer communication

- Deutsche Post
- DHL
- Postbank

### Shareholdings exceeding 10% of voting rights

KfW Bankengruppe is our largest shareholder, holding around 30.5% of the share capital. The Federal Republic of Germany holds an indirect stake in Deutsche Post AG via KfW. According to the notifications we have received pursuant to Sections 21 ff. of the *Wertpapierhandelsgesetz* (WpHG – German securities trading act), KfW and the German government are the only shareholders who own more than 10% of the share capital, either directly or indirectly.

### Appointment and replacement of members of the Board of Management

The members of the Board of Management are appointed and replaced in accordance with the relevant legal provisions (Sections 84, 85 of the *Aktiengesetz* (AktG – German stock corporation act), Section 31 of the *Mitbestimmungsgesetz* (MitbestG – German co-determination act)). The Articles of Association do not contain any special provisions in this respect. According to Section 84 of the AktG and Section 31 of the MitbestG, appointments by the Supervisory Board shall be for a maximum term of five years. Re-appointment or extension of the term of office, for a maximum of five years in each case, is admissible. Details of changes on the Board of Management during the year under review are reported in  Organisation and management structure.

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### Amendments to the Articles of Association

In accordance with Section 119(1), No. 5 and Section 179(1), sentence 1 of the AktG, amendments to the Articles of Association are adopted by resolution of the AGM. In accordance with Article 21(2) of the Articles of Association in conjunction with Sections 179(2) and 133 of the AktG such amendments generally require a simple majority of the votes cast and a simple majority of the share capital represented. In such instances where a greater majority is required by law for amendments to the Articles of Association, that majority is decisive.

AGM resolutions were passed on 5 June 2003 (Contingent Capital II), 18 May 2005 (2005 authorised capital) and 8 May 2007 (Contingent Capital III) authorising the Supervisory Board to amend the wording of the Articles of Association in accordance with the respective share issue or utilisation of authorised capital, and following expiry of the respective authorisation period.

### Authority of the Board of Management to issue and buy back shares

The Board of Management is authorised, subject to the approval of the Supervisory Board, to issue up to 174,796,228 new, no-par value registered shares by or before 17 May 2010 in exchange for non-cash contributions and thereby increase the company's share capital by up to €174,796,228 (2005 authorised capital, Article 5(2) of the Articles of Association). The shareholders' pre-emptive subscription rights have been disapplied. The use of authorised capital as acquisition currency is standard business practice in Germany. The 2005 authorised capital allows the company to acquire companies and shareholdings flexibly, without recourse to the capital market. The authorised capital is equivalent to less than 15% of the share capital.

New, no-par value registered shares may only be issued from Contingent Capital II (Article 5(3) of the Articles of Association) in order to service the subscription rights granted in accordance with the 2003 Stock Option Plan. To this end, the company's share capital has been contingently increased by up to €13,184,482. Within the context of the 2003 Stock Option Plan, up to 13,184,482 million shares in Deutsche Post AG are still available for subscription. Under this plan, the issue of new stock options is no longer possible.

An AGM resolution was passed on 8 May 2007, authorising the Board of Management, subject to the consent of the Supervisory Board, to issue bonds with warrants, convertible bonds and/or income bonds (hereinafter referred to collectively as "bonds with warrants and/or convertible bonds"), or a combination thereof, with a total nominal value of up to €1 billion, either once or several times, by or before 7 May 2012, thereby granting option and/or conversion rights on new shares with up to €56 million of the share capital. To this end, the share capital is contingently increased by up to €56 million (Contingent Capital III, Article 5(4) of the Articles of Association). When issuing bonds with warrants and/or convertible bonds, shareholder subscription rights may only be disappplied subject to the terms of the aforementioned resolution and pending the consent of the Supervisory Board. Further details may be found in the motion adopted by the AGM under [i](#) agenda item 7 of the AGM on 8 May 2007.

[i investors.dpwn.com](https://investors.dpwn.com)

The authorisation to issue bonds with warrants and/or convertible bonds is standard business practice amongst publicly listed companies in Germany. It allows the company to finance its activities flexibly and promptly, and gives it the financial leeway to take advantage of favourable market situations at short notice, for example, by offering company shares or bonds with warrants/convertible bonds as a consideration within the context of company mergers, and when acquiring companies or shareholdings in companies. To date, the Board of Management has not made use of this authorisation.

In addition, the AGM of 8 May 2007 authorised the company to buy back shares up to a level of 10% of the share capital existing as of that date, by or before 31 October 2008. The general proviso is that at no time should the shares acquired in this way, together with the shares already held by the company, account for more than 10% of the share capital. Shares may be purchased on the stock exchange, in the form of a public purchase offer addressed to all shareholders, or by some other means in accordance with the provisions of Section 53a of the AktG. The authorisation permits the Board of Management to exercise it for every purpose authorised by law, particularly to redeem its own shares without a further AGM resolution, subject to the consent of the Supervisory Board. Details may be found in the motion adopted by the AGM under [i](#) agenda item 6 of the AGM of 8 May 2007.

[i investors.dpwn.com](https://investors.dpwn.com)

It is standard business practice amongst publicly listed companies in Germany for the AGM to authorise the company to buy back shares on an annually recurring basis. On 6 May 2008, the Board of Management and the Supervisory Board will propose to the AGM that this authority be granted for a further year.

Any public offer to acquire shares in the company is governed solely by the law and the Articles of Association, including the provisions of the *Wertpapiererwerbs- und Übernahmegesetz* (WpÜG – German securities acquisition and takeover act). The AGM has not authorised the Board of Management to undertake actions within its sphere of competence to block possible takeover bids.

## Remuneration of the Board of Management and the Supervisory Board

The basic features of the remuneration system for the Board of Management and the Supervisory Board are described in the Corporate Governance Report under **i** Remuneration Report. The latter also forms part of the Notes.

**i** Page 114

## Economic parameters

### World economy loses momentum

In 2007, the global economy remained on course for strong growth. Although cyclical risks increased in the second half-year, the vigour of economic expansion was not appreciably diminished. At around 5%, growth in global economic output was only marginally lower than a year earlier. The international exchange of goods actually grew by more than 6%.

#### Growth indicators for 2007

%	GDP	Exports	Domestic demand
USA	2.2	7.9	1.6
Japan	2.1	8.7	1.0
China	11.4	27.2	n/a
Euro zone	2.7	6.3 <sup>1)</sup>	2.2 <sup>1)</sup>
Germany	2.5	8.3	1.1

1) Estimates, as at 14 February 2008.

Sources: Postbank Research, national statistics

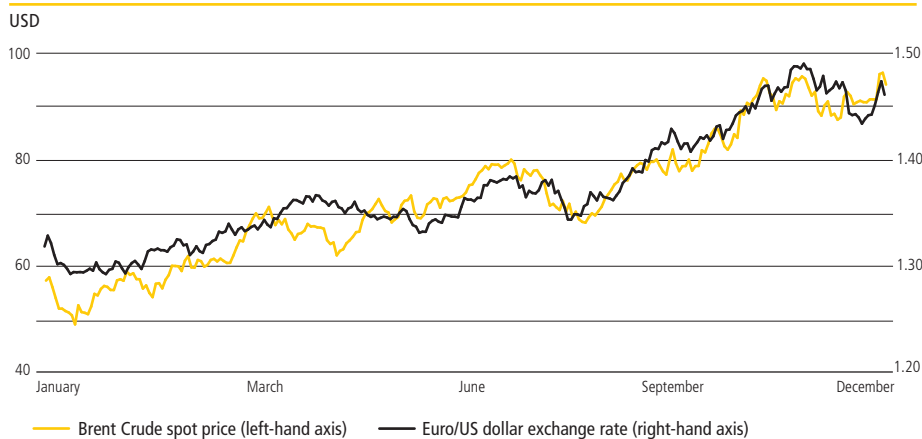
The US economy was hampered by the significant fragility of the residential property market. Private consumption grew well, on the other hand, as did companies' willingness to invest. Demand for commercial property was especially high. In addition, export activity was aided by both the healthy global economy and the weak US dollar. The 2.2% advance in gross domestic product (GDP) was substantially lower than the previous year's rise (2.9%).

The upsurge in Asia continued more or less undiminished. At more than 9%, the emerging markets in Asia recorded the highest growth. In China, GDP increased by 11.4% and exports by around 27%. The trade surplus climbed to more than US\$260 billion. The country is also retaining its appeal to foreign investors whose direct investments rose to around US\$75 billion. In Japan, on the other hand, the economy lost some of its vigour as GDP grew by only 2.1% (previous year: 2.4%). Whilst foreign trade continued to generate favourable impetus, partly thanks to the weak yen, the advance in domestic demand was more restrained.

Dynamism in the euro zone waned somewhat as the year progressed but, at 2.7%, GDP growth was almost as strong as in the previous year. The economy benefited from a further rise in net exports. On balance, however, the growth was driven by domestic demand. Gross fixed capital formation continued to develop very favourably but the advance in private consumption was less pronounced than in 2006.

The German economy slowed in the course of the year as well but, at 2.5%, growth still exceeded all expectations. More than half of the increase is attributable to foreign trade. Although the labour market was bolstered by the approximately 5% rise in gross fixed capital formation, private consumption faltered due to the significant increase in value-added tax from 16% to 19% at the start of the year, amongst other reasons.

**Brent Crude spot price and euro/US dollar exchange rate**



### **Sharp rise in oil price**

International oil prices soared during 2007. A barrel of Brent Crude, which was trading for less than US\$60 at the start of the year, peaked at almost US\$100 and closed 2007 only marginally lower. The annual average oil price was around 10% higher than in 2006.

### **Steep decline in US dollar**

Following a moderate rise in the first six months, the euro strengthened enormously to close the year at US\$1.46. Its value therefore appreciated by 10.6%. The gain was driven by the crisis on the sub-prime mortgage market, which imposed a substantial burden on the financial markets. The fear of a recession in the USA grew and prompted a cut in the Federal Reserve key interest rate to 4.25% from September. Since the European Central Bank (ECB) had raised its key interest rate by 0.5% to 4% in the first half of the year and proceeded to hold it steady, the dollar's interest rate advantage was seriously eroded as the year unfolded. Measured against pound sterling, the euro posted a 9.1% gain.

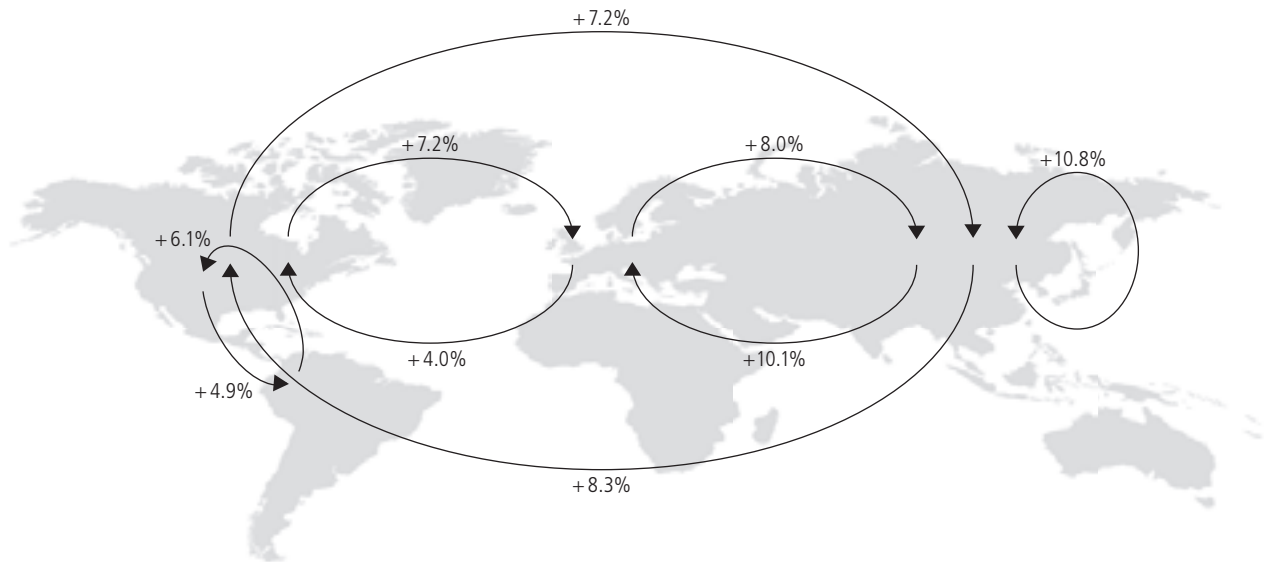
### **Apprehensive financial markets blight corporate bonds**

The economic upswing and base rate increases fuelled a strong rise in capital market returns in the first half of 2007. Thereafter, following the mortgage crisis, government bonds were once again seen as a safe haven. At the end of the year, ten-year US treasury bonds were yielding around 0.6 percentage points less than at the close of 2006. In contrast, the yield on German ten-year treasury bonds increased by a good 0.3 points to 4.3% in the same period. Although long-term interest rates remain low, the climate for corporate bonds has deteriorated appreciably. Apprehension in financial markets has made investors more risk averse and risk premiums have increased significantly as a consequence, even for high-quality corporate bonds.

### **International trade continues to grow strongly**

Underpinned by increased off-shoring of production and the global sourcing of goods and services, trade volumes are expanding more than twice as fast as industrial production. Here a shift in the pattern of growth is becoming visible: Import demand is moving away from high-income countries towards emerging markets. Import growth in these markets came to around 12.5%, compared to only 6.8% in the high-income countries. On the export side, growth in developing countries and emerging markets has been twice as fast as in high-income countries since 2000 (10.8% versus 5.1% a year on average). Intra-Asian trade flows have already become the largest trade lane in the global arena and continue to grow at an outstanding 10.8% (CAGR 2006–2009). In second place comes trade between Asia Pacific and Europe, which is growing by 10.1% per year. The following diagram shows the most important international trade flows (foreign trade volumes larger than €100 billion) and their growth rates.

### International trade flows 2006–2009<sup>1)</sup> (Compound annual growth rate – CAGR)



1) Foreign trade volumes > €100bn

Sources: Global Insight, The World Bank

## Our markets

We operate worldwide and are represented in over 220 countries and territories, including all major economic regions. The overview in the margin is of the overall market as well as of the courier, express and parcel (CEP) markets relevant to us. The parameters affecting us in the individual segments and the market shares we attained are detailed in the sections on the individual divisions.

## Drivers of our business success

Four trends are currently making a strong impact on our business:

- 1. Globalisation** The elimination of trade and customs barriers is enabling companies to develop new markets and move activities to locations that offer competitive advantages. This trend is fuelling the demand for transport and logistics. Trade is growing more quickly in the international than in the national arena despite high oil and energy prices. However, global and complex supply chains give rise to new risks which companies can counter only with the aid of capable logistics partners.
- 2. Liberalisation** The member states of the European Union are obliged to open up their mail markets fully to competition in 2011. For some countries, the deadline has been deferred for two years. In Germany, the market was completely liberalised as early as 1 January 2008.
- 3. Outsourcing** As production chains are being placed increasingly on an international footing and become more complex, demands on companies are getting tougher. In-house processes have to be fast and flexible, facilitate customised mass production and comply with ecological standards. Increasing complexity also pushes up costs. In the light of this, companies are outsourcing more of their activities and logistics service providers are benefiting from this trend.

## Markets and market volumes

### Global

- Cross-border mail market: €10.4bn
- Air freight market: €16.4bn
- Ocean freight market: 26.2m TEUs<sup>1)</sup>
- Contract logistics market: €192.7bn

### Europe

- German mail communication market: €6.8bn
- CEP market: €42.6bn, of which int. CEP market<sup>2)3)</sup>: €12.1bn

### USA

- US mail market: €53.6bn<sup>4)</sup>
- US CEP market: €50.5bn, of which int. US CEP market: €4.6bn

### Asia

- CEP market<sup>5)</sup>: €27.8bn, of which int. express markets: €5.6bn

1) Twenty-foot equivalent units.

2) New market definition: all items up to 1,000kg.

3) Country base: GB, NL, E, F, I, D, S, B, BG, PL.

4) Company estimates.

5) Country base: SGP, HK, CN, J, RC, T, RP, RI, IND, AUS, NZ, MAL, VN, ROK.

As at 2006

**4. Digitalisation** The internet is changing the way in which information is exchanged. Written communication is being replaced increasingly by electronic data transmission. Quantities and revenues are declining, especially in the traditional mail business. On the other hand, the internet brings dealers and customers closer together, fosters dialogue and gives customers virtual access to goods. These attributes stimulate business and, in turn, demand for transport and logistics services.

### Legal environment

In view of our leading market position, a large number of our services are subject to sector-specific regulation under the German postal act. Further information on this issue and legal risk is contained in the ⓘ Notes.

ⓘ Note 50

## Strategy and goals

### Strategic goals

The market for logistics services is becoming increasingly intricate as individual segments converge and competition increases. At the same time, the number of products and services is rising. Traditional forwarders are reducing shipping times and offering services that were once the preserve of express providers. From the customer's perspective, the task of finding the best logistics solution is becoming steadily more difficult. Logistics customers are therefore reducing the number of suppliers and selecting service providers who cover the entire supply chain. Deutsche Post World Net offers a comprehensive service – not only in each of its divisions but also by way of an integrated offering. We aim to be the market leader in every segment, to generate a high profit margin and to grow faster than the market. At the same time, we seek to create value by fostering even closer co-operation between the individual divisions, in particular between EXPRESS and LOGISTICS. The ⓘ divisions' individual strategic goals are derived from the overriding corporate strategy.

ⓘ Beginning on page 47

### Roadmap to Value

- 1. Profitability
- 2. Cash generation
- 3. Payout to shareholders
- 4. Transparency
- 5. Organic growth


### Roadmap to Value

On 8 November 2007, the Group initiated its Roadmap to Value, an extensive capital markets programme geared to achieving a sustained increase in enterprise value. The idea is to improve profitability, increase cash generation and give shareholders a larger stake in the Group's ensuing positive development, based on organic growth. Investors and analysts are to receive extensive information that will enable them to assess the Group's performance reliably.

### Improving profitability

The central focus of the programme is to increase profitability. We plan to increase the profit from operating activities (EBIT) by €1 billion by the end of 2009 – through actions taken in the operating business and through further cost savings.

### Increasing cash generation

In future, cash generation will be more central to our strategy than ever before. The Group plans to reduce its net working capital by €700 million by the end of 2009. In addition, we aim to free up at least €1 billion in cash through the disposal of real estate in the next 24 months. In January 2008, a new  performance metric, EBIT after asset charge, was introduced as an expression of this value-driven approach. As we move forward, management incentives will be tied to this metric.

 Internal Group management, page 34

### Value-added for investors

In a move to give our shareholders a larger stake in the value we create, we will be proposing that the dividend for 2007 be increased by 20% to €0.90 per share. We plan to increase the dividend again in the coming years – broadly in line with the anticipated growth in net profit excluding non-recurring effects.

### Transparent figures

The Group is committed to improving the transparency of its reporting. The unbundling of the SERVICES Division and the allocation of all Global Business Services costs to the operating units will illustrate more clearly the profitability of the individual segments.

### Organic growth

We intend to use the strong platform we have built in recent years as a springboard for organic growth. The strengths we have already established in high-growth regions – e.g. Asia Pacific and Eastern Europe – enable us to participate in their expansion. The construction of our new hub in Shanghai is to be seen as an expression of our confidence in Asia's sustainable growth potential. The rate of growth in the LOGISTICS Division, which has been significantly outperforming the market since 2005 despite the integration of Exel, further reflects our strong position in rapidly growing markets. Spending on company mergers and acquisitions has thus been capped and the criteria for such takeovers have been tightened. Acquisitive investments have already fallen substantially.

We laid a foundation stone for further, sustainable growth when the First Choice programme was launched back in 2006. Its aim is to improve our performance systematically at every point of contact with our customers – from sales through customer centres and the internet to the mail carriers. For us, the programme is a tool for fostering even greater loyalty amongst our customers. In the reporting period, almost 900 initiatives in 116 countries were rolled out and, in some cases, completed within the framework of the programme. In the mail business, for instance, 350 new service managers were employed and Postbank has equipped its branches with mobile counter units in order to reduce waiting times. First Choice remains a key component of our growth strategy. We now intend to focus on smaller countries whilst at the same time integrating employees more closely into the programme.

## Our corporate values

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- Deliver excellent quality
  - Make our customers successful
  - Foster openness
  - Act according to clear priorities
  - Act in an entrepreneurial way
  - Act with integrity, internally and externally
  - Accept social responsibilities
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📌 Sustainability, page 76

### Own sales team for key accounts

Since 2004, we have been serving our major customers through a dedicated account management organisation, Global Customer Solutions. Here, industry experts with product expertise act as empowered single points of contact along the entire supply chain of the individual key accounts. The team of experts also continuously develop our business in line with changing market or customer needs. Our success proves this formula right: For years, an increasing percentage of customers have been requesting services from not one but several of our divisions.

### Mission and conduct

The way in which we act, both as individuals and in the economic arena, is based on seven corporate values that reflect our mission as a company. They also provide guidance for our employees as they take day-to-day decisions. In order to establish terms of reference, we made the Code of Conduct a binding document in 2006. It is based on international guiding principles, such as the Universal Declaration of Human Rights, International Labour Organisation Conventions and the United Nations Global Compact.

### Strategic environmental commitment

The debate concerning climate change and measures to restrict harmful emissions has reached a new climax. As the world's largest logistics service provider, we give rise to significant greenhouse gas emissions. We have, however, long been aware of our environmental responsibility and act accordingly – as illustrated by numerous individual measures. In 2007, we focused on a range of climate-neutral products in our 📌 GOGREEN initiative. We were the world's first logistics company to adopt the goal of reducing the greenhouse gas emissions from road transport activities in Europe – as envisaged by the Kyoto Protocol – by 5% by 2012 compared with 1990.

## Internal Group management

### Economic profit as earnings performance indicator

As in previous years, we present economic profit as an additional earnings performance indicator alongside EBIT in our value-based Group management system. Economic profit measures the value we create for shareholders in operating activities, taking into account the cost of capital employed.

The starting point for calculating economic profit is net operating profit after taxes. This consists of EBIT, net income from associates, net income from measurement of the Deutsche Postbank Group at equity and the interest component of operating lease expenses. Taking net operating profit after taxes and deducting the total cost of capital (weighted average cost of capital times average net assets employed) gives economic profit.

#### Economic profit (Postbank at equity)

		2006 restated	2007	+/- %
Net operating profit after taxes	€m	3,029	2,538	-16.2
Average net assets employed	€m	27,291	26,601	-2.5
x Weighted average cost of capital	%	5.9	6.7	
- Total cost of capital	€m	-1,610	-1,782	10.7
<b>= Economic profit</b>	<b>€m</b>	<b>1,419</b>	<b>756</b>	<b>-46.7</b>

With economic profit at €756 million, the Group continued to create substantial value in 2007. Net operating profit after taxes was down on the previous year despite operational improvements. This was due to a €594 million non-cash write-down on EXPRESS Americas non-current assets. Average net assets employed decreased slightly, whilst the weighted average cost of capital sharply increased due to generally higher interest rates. As a result, economic profit dropped by 46.7% compared with the previous year. The weighted average cost of capital had already been set at 6.7% for the beginning of the year.

The weighted average cost of capital (WACC) represents the weighted average net cost of interest-bearing liabilities and equity, taking into account tax effects and sector-specific risk factors in a beta factor.

#### Equity cost of capital

Risk-free rate of return	4.0%
Market risk premium	5.0%
<b>x</b>	
Beta factor (specific risk premium for Deutsche Post World Net)	0.8
<b>=</b>	8.0%
Weighting at market rates	70%

#### Debt cost of capital

Risk-free rate of return	4.0%
<b>+</b> Average, long-term risk premium	0.5%
<b>=</b>	4.5%
<b>-</b> Tax effect (20%)	-0.9%
<b>=</b>	3.6%
Weighting at market rates	30%

**Group cost of capital 6.7%**

The average net assets employed figure used in economic profit calculations is determined as follows:

#### Average net assets employed (Postbank at equity)

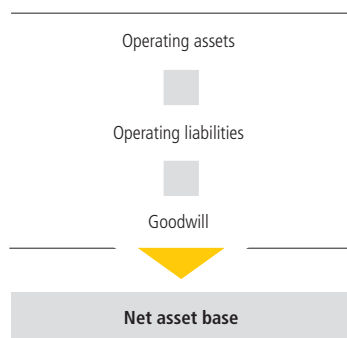
€m	2006 restated	2007
Segment assets	30,642	30,266
– Segment liabilities including non-interest-bearing provisions	–10,601	–10,883
= Segment net assets	20,041	19,383
+ Investments in associates and the Deutsche Postbank Group	1,674	1,865
+ Investment property	50	115
+ Net present value of operating lease obligations	4,863	5,211
= Net assets employed at end of year	26,628	26,574
Net assets employed at end of previous year	27,954	26,628
<b>Average net assets employed</b>	<b>27,291</b>	<b>26,601</b>

#### New performance metric: EBIT after asset charge

We introduced EBIT after asset charge as a new primary performance metric from 1 January 2008 as part of our **i** Roadmap to Value capital markets programme to focus all divisions on sustained value growth. Managers' incentives will also be tied to this indicator. Unlike EBIT, the performance indicator used so far, EBIT after asset charge takes into account the cost of tied-up capital. In other words, it reflects profit generated over and above the cost of capital.

**i** Strategy and goals, page 30

$$\text{EBIT} - \text{Cost of capital} \times \text{Net asset base} = \text{EBIT after asset charge}$$



The net asset base is defined as operating assets minus operating liabilities plus goodwill.

We anticipate that the new performance metric will enhance the focus on cash generation. This means we can make better use of our strengths and more easily identify scope for improvement to boost the value of the company and returns for shareholders.