Further Developments and Outlook

Report on post-balance sheet date events

Group intends to transfer global IT functions to HP

Deutsche Post World Net and Hewlett-Packard signed a letter of intent on 24 January 2008 to transfer responsibility for parts of our Group's global IT operations to HP Services. Under the terms of the agreement, we expect to save at least €1 billion over the next seven years by driving down overall IT costs and better leveraging IT resources needed to run the business and serve customers. The companies expect to reach a definitive agreement by mid 2008.

Dr Klaus Zumwinkel to resign

Dr Klaus Zumwinkel informed the Executive Committee of the Supervisory Board on 15 February 2008 of his decision to resign from his offices as chairman of the Board of Management of Deutsche Post AG and chairman of the Supervisory Board of Deutsche Postbank AG at the next meeting of the Supervisory Board.

Report on expected developments

Global economy slightly losing momentum

Economic uncertainty is unusually high. Turbulent financial markets, a weak US dollar and high oil prices have the potential to noticeably hamper global expansion. Leading economic institutions and organisations forecast for 2008 that global GDP will advance more slowly and global trade grow a little faster than in the previous year.

Growth forecasts

	2007	2008
Global trade volume[1]	6.3	6.9[2]
Real gross domestic product		
Global	4.9	4.1
Industrial nations	2.6	1.8
Emerging markets	7.8	6.9
Central and Eastern Europe	5.5	4.6
Former CIS states	8.2	7.0
Asia	9.6	8.6
Middle East	6.0	5.9
Latin America/Caribbean	5.4	4.3
Africa	6.0	7.0

1) Only goods (goods and services: 6.6% (2007), 6.7% (2008)).
2) IMF: 6.9%, OECD: 8.1%.

Source: International Monetary Fund, "World Economic Outlook", October 2007;
International Monetary Fund, "World Economic Outlook Update", January 2008

The US economy will continue to suffer from the decline in residential property investment. Although foreign trade is again expected to exert a positive influence, growth will probably be as moderate as it was in 2007, around 2.2%.

Buoyed by both external trade and domestic demand, the Japanese economy is likely to expand further. Growth of between 1.6% and 1.8% appears feasible. China also remains on course for additional growth. A GDP advance of around 10% is anticipated for 2008.

The euro zone will maintain its upswing but at a slower pace. Its economy will continue to be driven by domestic demand, however foreign trade will restrain growth in the euro zone slightly, especially because of the strong euro. At 2.0%, expansion in the euro zone will be slower than in 2007 overall (IMF: 1.6%, OECD: 1.9%, Postbank Research: 2.0%).

The German economy is likely to remain programmed for growth but lose some of its vigour. Thanks to a fall in unemployment, higher collective pay agreements and therefore elevated income, an appreciable invigoration of private consumption is anticipated. With GDP advancing by some 2%, the upswing in Germany is expected to be sustained (OECD: 1.8%, German Council of Economic Experts: 1.9%, Postbank Research: 2.1%).

It is anticipated that the situation in the oil market will ease slightly as 2008 unfolds.

In January 2008, the US Federal Reserve cut its key interest rate by an additional 1.25 percentage points to 3.0% because of the economic risks that exist in the USA but further decreases are to be expected only if the economy enters a recession.

Given the persistent uncertainty of the economic climate, the ECB is likely to hold its key interest rate for the time being.

Mail business in the year of market liberalisation

The demand for mail in Germany depends primarily on the economic climate and the extent to which electronic media such as fax, e-mail, text messaging and the internet take the place of the conventional letter. We expect the domestic market for mail communication to continue shrinking in the coming years. Full liberalisation of the market will also serve to reduce our share but we have prepared ourselves for the forthcoming changes.

Further moderate growth and a sustained trend towards targeted advertising are anticipated in the German advertising market. Although the market for paper-based advertising was opened up at the beginning of 2008, we intend to consolidate our position in this segment and to build on it in the advertising market as a whole. The press services market is likely to contract somewhat because of the increasing use of new media. We are seeking to maintain our revenue position here also by drawing on the growing significance of subscriptions.

In the cross-border mail business, substitution by electronic media is being mitigated by a rise in direct marketing. We therefore expect the market as a whole to remain stable. We intend to hone our leading international position as a provider of corporate information solutions – a market we expect to grow steadily because more and more major companies are outsourcing the activities which are not part of their core businesses. In the light of this, we will continue to develop customised solutions.

The parcel market is growing at the same rate as e-commerce and we are eager to benefit from this trend. We will also be leveraging synergies arising from integration of the parcel business in Germany by standardising IT platforms, optimising transport as well as combining further mail and parcel delivery districts outside cities. We are already delivering mail and parcels together in more than 30,000 districts. Despite growing competition, we intend to defend our share of the private customer market. Strong growth in demand is anticipated for the services we provide to business customers, principally as a result of the expanding e-commerce segment. We aim to profit from this development with a modified product portfolio.

Developing the international express business

The global express market remains on track for growth, with continuing increases in transported quantities and average weights. Double-digit growth rates are expected to persist in Asia and the emerging markets. The international CEP market in Europe is also likely to expand, at an average annual rate of 5% to 7%. In the United States, we expect ground-based shipments to increase at the expense of air-based shipments.

At Leipzig/Halle airport, the new European hub will become fully operational in 2008. This is also where we are establishing the new joint venture with Lufthansa Cargo, which is to assume control of the flight connections between Europe, the Middle East and Asia in spring 2009. By way of our partnership with Polar Air Cargo, we will be able to offer our customers additional flights on the trans-Pacific routes.

In Asia, plans for the new north Asia hub in Shanghai are entering the next phase. Completion is scheduled for 2010. Elsewhere, the construction project in Incheon, South Korea, will increase our capacities in the short term as well as further improve the region's links with the international trade lanes to Europe and the USA. In North America, we are planning to develop our air and ground-based shipments between the United States, Canada and Mexico and thus enhance the networking of our infrastructure in the NAFTA region.

We will complete the restructuring of our time-definite products in the regional markets and increase supply to meet demand. Offering day-definite shipments in the intercontinental arena also forms part of our plans, with a view to satisfying the growing demand for cost-effective products and services. As regards sales activities, we intend to focus our organisation and programmes more sharply on the global trade lanes.

Services and infrastructure in logistics business to be expanded

We intend to concentrate on the following three areas in the year ahead.

1. Focus on growth markets

The economies of the emerging countries, in particular Brazil, India, China and Eastern Europe, will expand further in 2008. We are engaged in establishing new logistics centres to serve our customers operating in these markets.

2. Enhanced service for high-revenue customers

We aim to continue raising the portion of revenues accounted for by our largest customers – although the enhanced service we are offering will not in any way diminish our commitment to the small and medium-sized enterprises, which constitute our most important customer groups for the global forwarding and freight business.

3. New products and services

In 2008, we will be extending our offering in the areas of international supply chains, e-fulfilment, service parts logistics and life science industry solutions, where we see real opportunities for growth. We will also be improving our standard services, including warehousing. For example, we are looking for further ways to create added value, such as by introducing campus solutions. These are sites whose resources, typically staff and means of transport, are shared by several distribution centres.

SERVICES to be unbundled

In our capital markets programme Roadmap to Value we committed ourselves to improving the transparency of our financial reporting for all capital markets audiences. We will therefore adjust our reporting structure and unbundle our SERVICES Division with effect from 1 January 2008. All costs of Global Business Services will be allocated to the operating divisions. The result will be a clean Corporate Centre/ Other segment, on which we will report starting in the first quarter of 2008.

Strategy and goals, page 30

Business development expectations for 2008 and 2009

The following expected results for the divisions are based on the reporting structure for financial year 2007. After unbundling the SERVICES segment we will adjust this outlook for the divisions where appropriate.

For 2008, the Board of Management expects a profit from operating activities (EBIT) of around €4.2 billion. We expect the MAIL Division to generate EBIT of around €1.9 billion. The EXPRESS Division will probably reach EBIT of around €0.65 billion, whilst EBIT at the LOGISTICS Division is likely to amount to around €1.05 billion. For the FINANCIAL SERVICES Division, the Board forecasts EBIT of at least €1.15 billion and for the SERVICES segment it expects a loss of no more than €0.6 billion.

Overall, the Group is aiming for EBIT of about €4.7 billion in 2009. For the mail business, there is a high degree of confidence that a maximum of between 10% and 20% of EBIT will be affected by the full opening of the German mail market, compared with the 2006 level. Thus the company expects the MAIL Division to reach EBIT of between €1.65 billion and €1.85 billion for 2009. For the EXPRESS Division, Deutsche Post forecasts EBIT of between €0.9 billion and €1.1 billion. For the LOGISTICS Division, EBIT of between €1.15 billion and €1.25 billion is forecast, whilst the FINANCIAL SERVICES Division expects EBIT of at least €1.2 billion.

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Please refer to Deutsche Postbank AG's annual report for details of Postbank's business development expectations.

Profit forecast[1], 2008 and 2009

€bn	2008	2009
MAIL	approx. 1.90	1.65 to 1.85
EXPRESS	approx. 0.65	0.90 to 1.10
LOGISTICS	approx. 1.05	1.15 to 1.25
FINANCIAL SERVICES	min. 1.15	min. 1.20
SERVICES	max. –0.6	–0.4 to –0.5
Group	**approx. 4.2**	**approx. 4.7**

1) EBIT guidance excluding non-recurring effects and before effects due to unbundling the SERVICES segment.

Future dividend

In the following years, the Group intends to increase dividends broadly in line with underlying earnings growth. In addition to that the Group will consider other methods of cash return, such as share buybacks once proceeds from asset disposals reach €1 billion.

Future financing
At the start of 2008, we launched a commercial paper programme with a maximum volume of €1 billion. This complements our portfolio of short-term financing tools and enables us to issue notes in various currencies at short notice with maturities of generally less than ninety days. The lasting fundamental need for financial resources will, however, continue to be met by long-term financing tools, as short-term note issues under the commercial paper programme only meet the financing requirements otherwise covered by short-term bank loans.

Capital expenditure plans
The 2008 budget earmarks expenditure in a slightly larger amount than in 2007. Property, plant and equipment will again attract the larger portion of spending, with more than three-quarters being allocated to the MAIL, EXPRESS and LOGISTICS divisions.

In the domestic mail and parcel business, we intend to improve production, amongst other things by testing machinery that sorts standard and compact letters. In Corporate Information Solutions we will focus on customer projects and the replacement of printers and enveloping machines. We also intend to improve the technical equipment of the international mail business. In the outlets, electronic POS hardware is to be renewed and the agency network expanded.

In the EXPRESS Division, we will complete the European hub in Leipzig/Halle, develop our infrastructure and renew the vehicle fleet in several countries. In the United States, IT applications are to be developed and operating facilities modernised. Infrastructure projects are also envisaged in other regions – hubs in particular in the Asia Pacific region and primarily vehicles in the EEMEA region.

In the LOGISTICS Division, we will continue to invest chiefly in customised transport services, appropriate warehousing solutions and the associated information systems. In view of the targeted business development, we expect capital expenditure to rise overall in the medium term.

Postbank will be primarily investing in the implementation of statutory requirements, including the flat-rate withholding tax on investment income, Basel II and the liquidity management project. The purpose of this project is to appropriately control liquidity risks in compliance with the practices of the Basel Committee on Banking Supervision. Further improvements to branches will also be made.

Company-wide capex will concentrate on vehicle procurement on a scale similar to the previous year.

Future procurement activities

In future, all standard contracts will contain a Code of Conduct for suppliers. We shall thus ensure that all companies working with us comply with our ethical and environmental principles.

Future research and development

As a pure service provider, Deutsche Post World Net does not perform any notable research and development activities. This section therefore does not contain any disclosures.

Opportunities

Opportunities resulting from developments in the economic environment

Globalisation and outsourcing remain key growth drivers for our company, which will benefit from these trends as a logistics provider with extensive reach and outstanding expertise in complex global supply chains. If the economic upswing continues, we will be able to stabilise and expand our business and increase revenue.

Although mail market liberalisation is progressing in the various European countries at different speeds, we have an opportunity to gradually expand our presence in selected markets across Europe. There are further opportunities for us in the North American and Asian mail markets.

Business strategy opportunities

On 8 November 2007, we presented our new Roadmap to Value capital markets programme, which we view as a further pillar of our future business success.

Our broad range and large geographical reach already make us the logistics provider of choice for discerning and in many cases globally operating customers. Our goal is to become the world's preferred logistics service provider. Through our First Choice programme, we aim to enhance customer loyalty and also attract new customers.

Performance and profitability opportunities

In the MAIL Division, we have significantly enhanced our competitive focus and brought our portfolio clearly into line with customer needs in recent years. We are thus well prepared for full liberalisation of the German mail market. We aim to hold our market position as far as possible. As a full-service provider in international mail logistics, we are simultaneously pursuing profitable expansion in open markets.

The EXPRESS Division relies on strong regional units linked by a global network. We are optimising this network on an ongoing basis to secure our competitive position and hence our future success. Current major projects include the relocation of our central European air hub from Brussels to Leipzig/Halle and the construction of a new air hub in Shanghai to serve the northern Asian region. Our presence in countries with high rates of growth presents a further opportunity for future success.

The LOGISTICS Division is excellently positioned now that the integration of Exel has been successfully completed. Through close co-operation between our business units, we offer customers a comprehensive portfolio in air, ocean and road transport as well as in contract logistics from a single source. We are further extending our international market position by expanding in rapidly growing logistics markets such as China, India, Mexico and Brazil.

Postbank, whose core business includes retail banking, anticipates rising demand for asset accumulation and protection, mortgage and consumer loan products. It plans to use this trend to further expand its business and increase earnings per customer on a long-term basis.

Other opportunities

In our Global Customer Solutions unit, we are intensifying co-operation within the Group for major customers in order to meet changing market conditions and customer needs. We see this as an opportunity to deploy our global expertise as a sustained competitive advantage and to translate it into commercial success.

Opportunities are also presented by the Global Business Services unit. We will increase efficiency through continuous improvement of organisational structures and processes in internal services such as procurement, property management and IT.