

Overview

Profit target achieved

The Group continued to grow in 2007. At €3.76 billion, profit from operating activities (EBIT) before non-recurring effects coincided with our forecast of about €3.7 billion. After adjustment for non-recurring effects, EBIT was €3.2 billion. Revenue rose 4.9% to €63.5 billion. The main drivers of this increase were the LOGISTICS Division, which took over the procurement logistics function for the UK National Health Service, and the FINANCIAL SERVICES Division, which raised its revenue on the back of dynamic development in Postbank's new customer business.

In the MAIL Division, we recorded EBIT of €2,003 million, comfortably reaching our target figure of around €2 billion. Falling revenue in the domestic mail business was offset by the other business units.

Earnings in the EXPRESS Division were negatively affected by impairment losses of €594 million recorded on non-current assets in the Americas region and came to €-174 million. Adjusted for this effect, the division would have returned EBIT of €420 million, slightly in excess of the minimum €400 million forecast. This figure already includes the construction expenditure for the new European hub in Leipzig.

The LOGISTICS Division exceeded expectations, generating EBIT of €957 million. Adjusted for the non-recurring income of €59 million from the disposal of Vfw AG, this was an improvement of 19.6%. DHL Exel Supply Chain played a decisive role in this development.

For the FINANCIAL SERVICES Division, we had forecast a 5% increase in EBIT. Thanks to the outstanding performance of Postbank, EBIT in fact rose by 7.2% to €1,076 million.

The SERVICES Division generated EBIT of €-660 million (previous year: €-229 million). This decrease is due to one-time factors recognised in the previous year, including the redemption of the exchangeable bond on Postbank shares (€276 million), the sale of McPaper AG (€10 million) and the positive outcome of arbitration proceedings against Deutsche Telekom (€89 million, net).

Selected key indicators for results of operations

		2006	2007	+/- %
Revenue	€m	60,545	63,512	4.9
Profit from operating activities (EBIT)	€m	3,872	3,202	-17.3
Return on sales ¹⁾	%	6.4	5.0	
Consolidated net profit excluding minorities	€m	1,916	1,389	-27.5
Earnings per share	€	1.60	1.15	-28.1
Dividend per share	€	0.75	0.90	20.0

1) EBIT/revenue.

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.

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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.

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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 ¹⁾	2.2 ¹⁾
Germany	2.5	8.3	1.1

1) Estimates, as at 14 February 2008.

Sources: Postbank Research, national statistics

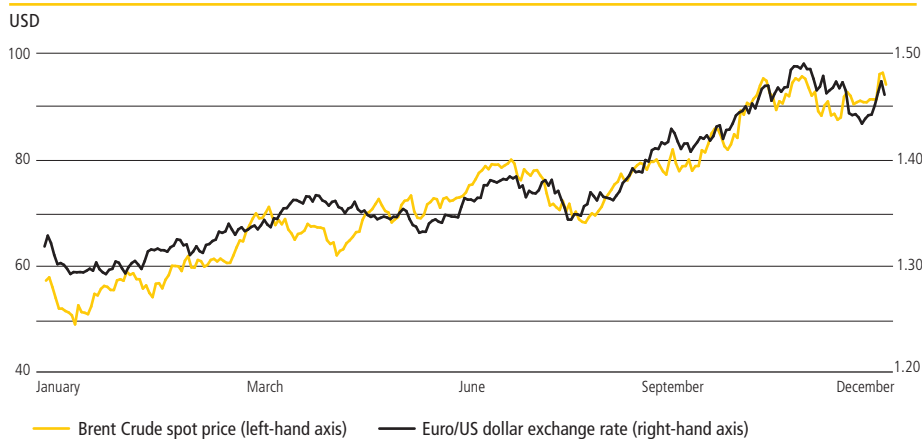
The US economy was hampered by the significant fragility of the residential property market. Private consumption grew well, on the other hand, as did companies' willingness to invest. Demand for commercial property was especially high. In addition, export activity was aided by both the healthy global 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.

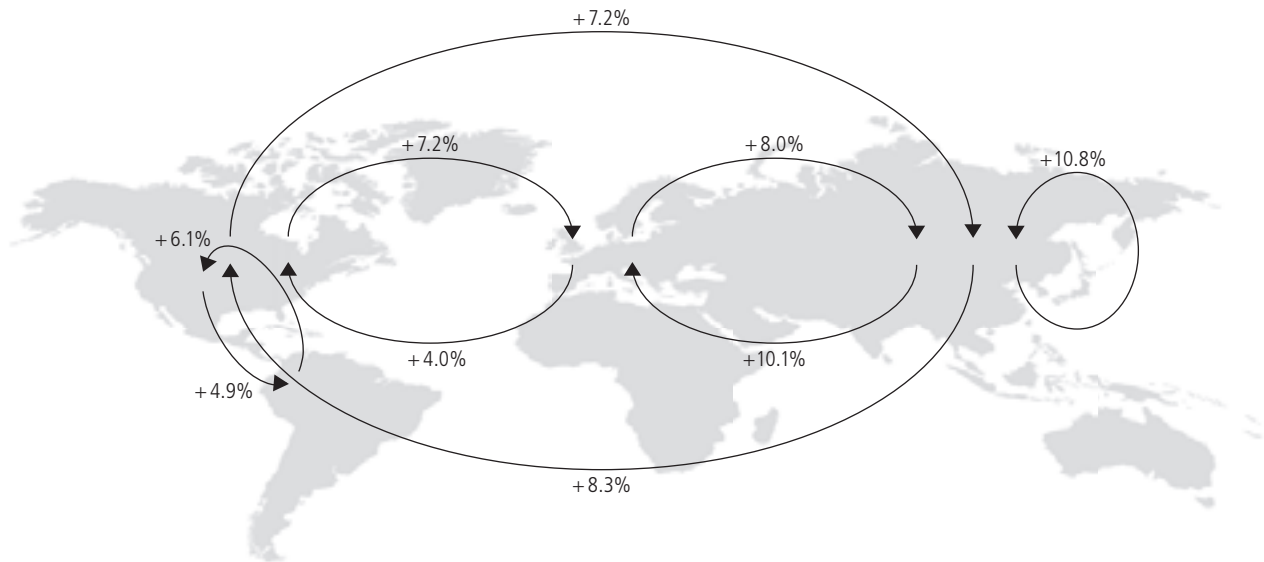
Apprehensive financial markets blight corporate bonds

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 2006–2009¹⁾ (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 TEUs¹⁾
- Contract logistics market: €192.7bn

Europe

- German mail communication market: €6.8bn
- CEP market: €42.6bn, of which int. CEP market²⁾³⁾: €12.1bn

USA

- US mail market: €53.6bn⁴⁾
- US CEP market: €50.5bn, of which int. US CEP market: €4.6bn

Asia

- CEP market⁵⁾: €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

- 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
-

📌 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
= Economic profit	€m	1,419	756	-46.7

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%
x	
Beta factor (specific risk premium for Deutsche Post World Net)	0.8
=	8.0%
Weighting at market rates	70%

Debt cost of capital

Risk-free rate of return	4.0%
+ Average, long-term risk premium	0.5%
=	4.5%
- Tax effect (20%)	-0.9%
=	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)

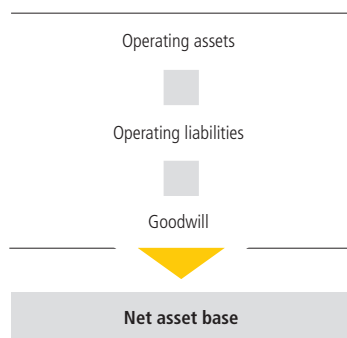
€m	2006 restated	2007
Segment assets	30,642	30,266
– Segment liabilities including non-interest-bearing provisions	–10,601	–10,883
= Segment net assets	20,041	19,383
+ Investments in associates and the Deutsche Postbank Group	1,674	1,865
+ Investment property	50	115
+ Net present value of operating lease 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
Average net assets employed	27,291	26,601

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.

Earnings, Financial Position and Assets and Liabilities

REVENUE AND EARNINGS PERFORMANCE

The Group

Changes in portfolio and reporting

In financial year 2007, our portfolio changed as follows:

- On 10 January 2007, our Group subsidiary Williams Lea acquired 100% of the shares of the UK company The Stationery Office Holdings Ltd.
- On 8 June 2007, we acquired a 49% shareholding in the US-American air freight company ASTAR Air Cargo Holdings LLC; this has been included in full in the consolidated financial statements.
- On 25 June 2007, we acquired 49% of the share capital of the US-American company Polar Air Cargo Worldwide, Inc.; the company has been included as an associate in the consolidated financial statements.
- On 31 December 2007, we purchased all shares in the Israeli company FC (Flying Cargo) International Transportation Ltd., Tel Aviv.
- The waste management company Vfw AG was sold effective 2 March 2007.
- The Deutsche Postbank Group dissolved and deconsolidated the special funds of BHW Bausparkasse AG as at 31 August 2007.
- BHW Lebensversicherung AG, including its special funds, and the 50% holding in PB Versicherung AG and PB Lebensversicherung AG were sold as at 30 September 2007.
- On 1 October 2007, the Dutch Dedicated Distribution Service B.V. and the Belgian Van Osselaer-Pieters Colli Service B.V.B.A. were sold to Österreichische Post AG.

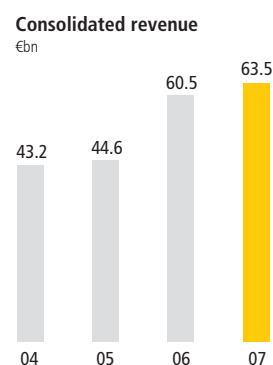
The prior-year figures have been adjusted to reflect the following changes in segmentation: At the beginning of 2007, we removed the parcel business in Germany from the EXPRESS Division and transferred it to the MAIL Division. The year before we had already transferred the European overland transport business from the EXPRESS Division to the LOGISTICS Division. Details of these changes can be found in

i Segment reporting disclosures.

i Note 8

Consolidated revenue up again

Consolidated revenue and income from banking transactions rose by 4.9% to €63,512 million (previous year: €60,545 million). The increase was mainly driven by the contract with the National Health Service (NHS) in the LOGISTICS Division, which took effect on 1 October 2006, and the good performance of Postbank. The share of revenue generated outside Germany continued to grow and now accounts for 60.6% of total revenue (previous year: 59.0%). Negative currency effects reduced consolidated revenue by €1,197 million.



Income and expense

Other operating income declined by €235 million to €2,586 million, due mainly to the one-time factors contained in the prior-year figure: €276 million from exercising the exchangeable bond on Deutsche Postbank shares, net income of €89 million from the positive outcome of the arbitration proceedings against Deutsche Telekom and €10 million from the disposal of McPaper AG. A further €64 million from the sale of shares in the Czech building society Modra Pyramida were compensated for by various smaller non-recurring effects at Postbank. In the year under review, we recorded income of €59 million from the sale of Vfw AG and net non-recurring effects of €–25 million at Postbank. These mainly comprise the gain on the disposal of Postbank's insurance equity investments of €391 million, provisioning in the investment portfolio in the amount of €183 million and impairment losses of €112 million in connection with the sub-prime crisis, as well as extraordinary effects in administrative expenses and non-recurring effects in net interest income.

Materials expense and expenses from banking transactions rose in line with the increase in revenue from €34,349 million to €36,875 million in total. Materials expense rose to €30,488 million (previous year: €28,641 million), expenses from banking transactions rose to €6,387 million (previous year: €5,708 million). Materials expense also includes higher expenses for the NHS contract.

Staff costs dropped slightly by 0.8% to €18,471 million, due in part to a reduction in pension expenses.

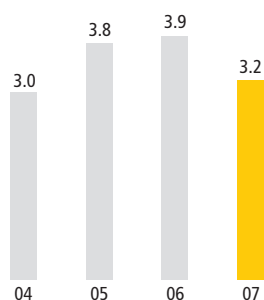
Depreciation, amortisation and impairment losses increased by €586 million to €2,357 million (previous year: €1,771 million), primarily due to impairment losses recorded on non-current assets in the Americas EXPRESS business as a result of impairment testing.

📌 Note 14

At €5,193 million, 📌 other operating expenses were up €435 million on the previous year. The increase stems from a series of smaller factors.

Consolidated EBIT

€bn



EBIT before non-recurring effects improved

The developments presented above generated profit from operating activities (EBIT) of €3,202 million. This figure contains non-recurring income of €59 million and net non-recurring effects of €–25 million at Postbank as well as a €594 million impairment loss on the assets of the EXPRESS business in the Americas region. The prior-year earnings figure contained non-recurring income of €375 million. Adjusted for these factors, profit improved by 7.6%.

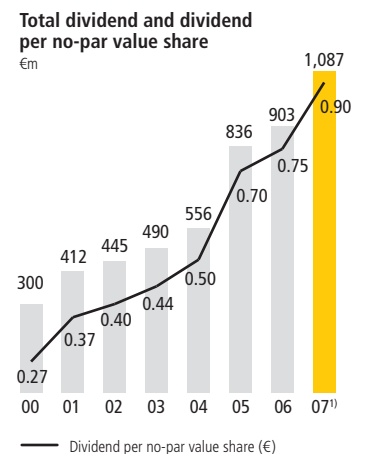
Net finance costs closed at €1,010 million, a slight improvement on the previous year (€1,030 million). In 2006, interest and measurement effects from the exchangeable bond on Postbank shares was responsible for the higher figure, whilst in the period under review it was higher interest rates that drove up finance costs.

Profit before income taxes fell by €650 million to €2,192 million. Income taxes dropped to €307 million (previous year: €560 million). This reflects the lowering of the tax rate in the wake of the corporate tax reform in Germany. As a result, the Group tax rate dropped from 19.7% to 14.0%.

Consolidated net profit for the period decreased by €397 million to €1,885 million (previous year: €2,282 million). An amount of €1,389 million is attributable to shareholders of Deutsche Post AG and €496 million to minority shareholders. Both the basic and diluted earnings per share fell from €1.60 to €1.15.

Dividend increases by 20%

The Board of Management will propose the payment of a dividend per share of €0.90 at the Annual General Meeting on 6 May 2008. This represents an increase of 20% compared with the previous year. The total dividend will therefore amount to €1,087 million. The payout ratio in relation to Deutsche Post AG's net profit for the year will thus increase from 71.5% to 81.2%. In relation to the consolidated net profit attributable to Deutsche Post AG shareholders, it amounts to 78.2% (previous year: 47.1%). Based on the share price as at 31 December 2007, the net dividend yield is therefore 3.8%. The dividend will be disbursed on 7 May 2008 and, as in previous years, is tax-free for shareholders resident in Germany.



1) Proposal.

FINANCIAL POSITION AND ASSETS AND LIABILITIES

Principles and aims of financial management

Principles

Besides cash and liquidity management, the Group's financial management activities include: managing interest rate, currency and commodity price risks; overseeing the Group's financing; issuing guarantees and letters of support; and liaising with the rating agencies. Since the requirements and processes of Deutsche Postbank Group differ fundamentally from those of the remainder of the Group, the remarks below refer exclusively to the analysis with Postbank presented on an equity-accounted basis; in other words, cash flows are shown without the Deutsche Postbank Group.

First and foremost, we seek to control risk and to manage processes centrally. Responsibility rests with Corporate Finance, which is supported by three Regional Treasury Centres in Bonn (Germany), Fort Lauderdale (USA) and Singapore. These centres act as interfaces between headquarters and the operating companies, advise the companies on all financial management issues, and ensure compliance with the Group-wide guidelines. These guidelines and processes comply with the *Gesetz zur Kontrolle und Transparenz im Unternehmensbereich* (KonTraG – German law on control and transparency in business) of 27 April 1998.

Aims


Our principal goal is to minimise the cost of capital and financial risks, whilst safeguarding the Group's lasting financial stability and flexibility. In order to maintain its unrestricted access to the capital markets, the Group continues to seek a credit rating that is higher than the average for the transport and logistics industry. In view of this aim, we monitor the development of our operating cash flow against adjusted debt particularly closely. Adjusted debt is the Group's net debt, allowing for pension obligations that are not directly capital-backed and liabilities under operating leases.

Cash and liquidity management

Cash and liquidity management is a central activity overseen by the Corporate Treasury on behalf of the subsidiaries, whose operations span the globe. More than 80% of the Group's external revenue is consolidated in cash pools and used to balance internal liquidity needs. In countries where this practice is ruled out for legal reasons, internal and external borrowing and investment are arranged centrally by the Corporate Treasury. In this context, we observe a balanced banking policy in order to avoid depending excessively on individual banks. Our subsidiaries' internal revenue is also pooled and managed by the in-house bank with a view to escaping external bank charges and margins (inter-company clearing). Payment transactions take place according to uniform guidelines as well as by way of standardised processes and IT systems.

The Group's unsecured firm credit lines total around €4.2 billion, of which some €398 million had been used as at 31 December. Our banking policy seeks to spread the volume of transactions widely and to foster long-term business relationships with financial institutions. Alongside the customary equal treatment clauses and termination rights, the relevant loan agreements do not contain any further undertakings concerning the Group's financial indicators. Bridge-over financing for acquisitions temporarily gave rise to relatively substantial drawdowns on credit facilities in recent years. Average drawings on credit lines came to only around 4.4% in 2007 (previous year: 9.7%).

Managing market risk

The Group manages financial  market risks by making use of both primary and derivative financial instruments. Interest rate risks are managed by way of interest rate swaps. Forward transactions, cross-currency swaps and options are used to hedge currency risks. Commodity price risks are largely passed on to customers via surcharges. The parameters, responsibilities and controls governing the use of derivatives are established in internal guidelines.

 Note 48.2

Group financing

We apply the principle of covering the Group's financial requirements with a balanced ratio of equity to liabilities. The Group needs funds to repay outstanding debt, for capital expenditure and to finance its business activities. Our most important source of funds is the net cash from operating and investing activities. We cover our borrowing requirements with a flexible approach, using firm bilateral credit lines, capital market offerings, structured financing transactions and, as an off-balance sheet funding vehicle, operating leases. Our aim is to appeal to a broad circle of investors and to raise funds close to the time when the requirement arises. Borrowing largely takes place centrally and in euros, and the funds are distributed internally. Operating leases are used mainly to finance real estate and aircraft but also IT equipment as well as fleet and warehouse vehicles.

The most important currency in which Group debt is denominated is the euro. By way of derivative financial instruments, however, a portion of the euro debt is translated into foreign currencies in order to cover our operating companies' liquidity requirements. Paying due regard to such transactions shows that the portion of the Group's net debt denominated in euros was 60% (previous year: 40%); the US dollar share was 28% (previous year: 27%). The euro share mainly increased as a result of streamlining the foreign-currency debt portfolio.

Guarantees and letters of support

Deutsche Post AG provides collateral as necessary by issuing letters of support or guarantees for the loan agreements, leases and supplier contracts concluded by Group companies. This practice allows better conditions to be negotiated locally. Such collateral is provided and monitored centrally.

Creditworthiness of the Group

Credit ratings represent an independent and current assessment of a company's credit standing. The ratings are based on a quantitative analysis of the subjects' balance sheets, income statements and cash flow statements. Qualitative factors, such as industry particularities and corporate strategy, are also taken into account. Our creditworthiness is regularly reviewed by the international rating agencies Standard & Poor's, Moody's Investors Service (Moody's) and Fitch Ratings. With our current category A rating, awarded to companies whose ability to meet their financial obligations is considered good, we rank above the average for the transport and logistics industry.

Ratings

	Moody's Investors Service	Standard & Poor's	Fitch Ratings
Long-term	A2	A-	A
Outlook	Negative	Negative	Stable
Short-term	P-1	A-2	F1

Standard & Poor's has issued a long-term credit rating of A- together with a negative outlook. This places us at the lower end of category A, which is the ranking for companies whose capacity to meet their financial commitments is considered good. The outlook is an assessment of the direction the rating is likely to take in the medium term. Our short-term credit rating according to Standard & Poor's is A-2, which, like the long-term rating, is a good mark.

Moody's ranks our long-term creditworthiness A2, which is in the mid-range of category A. The current outlook is negative. The agency gives us the highest possible short-term credit rating, namely P-1.

Fitch has given us a long-term rating of A with a stable outlook, which places our long-term creditworthiness in the "good" category. According to this agency as well, our short-term credit rating is the highest possible.

Detailed analyses by the rating agencies and full information on the rating categories are contained on our [i](#) website.

Liquidity and sources of funds

As of the balance sheet date, the Group (excluding Postbank) had cash and cash equivalents in the amount of €1,339 million (previous year: €1,761 million) at its disposal. A large portion of this is accounted for by subsidiaries in countries where foreign exchange transactions are unrestricted. The financial liabilities disclosed in our balance sheet break down as follows:

Financial liabilities, 2007 (Postbank at equity)

€m	
Bonds	1,952
Due to banks	978
Finance lease liabilities	625
Liabilities to Group companies	467
Other financial liabilities	956
	4,978

Further information on the disclosed financial liabilities is contained in the **i** Notes.

i Note 42

We use off-balance sheet **i** funding vehicles – particularly operating leases – primarily to finance real estate, as illustrated by the following table.

i Group financing, page 39

Operating lease obligations by asset class, 2007 (Postbank at equity)

€m	
Land and buildings	6,153
Technical equipment and machinery	164
Other equipment, office and operating equipment	402
Aircraft	165
	6,884

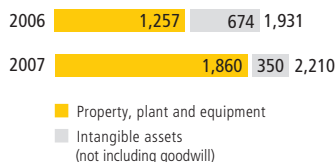
As regards financing business, two transactions stood out in 2007:

- In April, we issued a municipal bond in the amount of US\$270 million via the Dayton-Montgomery County Port Authority at a reduced rate of interest to finance the Wilmington Airpark LLC hub in Ohio, USA. The bond is tax-exempt and has a maturity of thirty years.
- On 4 October, the five-year fixed-interest bond issued in 2002 by Deutsche Post Finance B.V., with a nominal volume of €636 million, was repaid from the operating cash flow.

Capital expenditure

Capital expenditure

€m



At a total of €2,210 million as at December 2007, capital expenditure (capex) was higher than in the previous year, as illustrated by the adjacent diagram. €1,860 million of this figure related to investments in property, plant and equipment, and €350 million to investments in intangible assets (not including goodwill). The expenditure in property, plant and equipment was mainly allocated to advanced payments and tangible assets under development (€349 million), to machinery and equipment (€346 million), transport equipment (€277 million), land and buildings (€263 million) and to IT equipment (€243 million).

Capex and depreciation

€m

	Group		MAIL		EXPRESS		LOGISTICS		FINANCIAL SERVICES		Other/SERVICES	
	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007
Capex	1,931	2,210	253	309	572	721	565	538	159	142	381	496
Depreciation on assets	1,771	2,357 ¹⁾	433	432	394	1,034 ¹⁾	402	423	172	163	370	305
Capex vs. depreciation ratio	1.09	0.94	0.58	0.72	1.45	0.70	1.41	1.27	0.92	0.87	1.03	1.63

1) Including the impairment loss on the non-current assets of the EXPRESS business in the Americas region of €594 million.

To allow for a like-for-like comparison with the 2006 Group's depreciation of assets, the impairment loss in the EXPRESS business in the Americas region of €594 million is to be considered as a one-time effect lowering the total depreciation of assets figure of €2,357 million to €1,763 million. Thus the respective capex versus depreciation ratio for the EXPRESS Division would improve to 1.64 and for the Group to 1.25, figures clearly indicating a significant amount of investments being allocated to the expansion of the Group's business.

Compared with the previous year, capital expenditure increased in the MAIL Division from €253 million to €309 million. Out of the total amount, investments were predominantly made in assets related to IT equipment (€87 million), internally generated intangible assets (€82 million), other operating and office equipment (€55 million) and to machinery and equipment (€39 million).

In order to reinforce our leading position on the domestic mail market, the key action taken in the MAIL Division consisted in modernising the network as well as optimising the production and distribution of letters and parcels. Besides investing in additional mail-specific software, we purchased materials handling assets, hand-held scanners and innovative machinery that will enable us to process flat mail (large letters) more cost-effectively.

We improved the quality of service in the parcel business. About 900 Packstations enable customers to send and collect parcels around the clock, seven days a week. We also installed Paketboxes that allow customers to drop off franked parcels and small packets. Sorting, franking and wrapping machines were purchased for production purposes in the international mail business, and its information technology was expanded.

In the Global Mail network, we are currently developing a software platform with a view to gradually superseding, extending and harmonising the heterogeneous system architecture.

In the EXPRESS Division capex increased year-on-year from €572 million to €721 million. The 2007 capex was mainly allocated to advanced payments and property, plant and equipment under development (€162 million), investments in machinery and equipment (€161 million), aircraft (€117 million), IT equipment (€72 million) and leasehold improvements (€63 million). Focusing on a single investment shows that substantial resources were spent on building the new European hub at Leipzig/Halle airport. Also in Europe, we renewed our vehicle fleet in several countries and improved the technical assets of the national express centres, primarily in the Netherlands and Ireland.

Investments in the Asia Pacific region centred on Hong Kong, China, Korea, Japan and India. Whilst we extended our hub at the international airport in Hong Kong, we are establishing operating facilities as well as modernising and relocating branches and representative offices in China and Korea. In Japan, we are constructing hubs at the international airports in Osaka and Nagoya, and we have renewed our national air fleet in India. In the EEMEA region, we focused on Russia, which is a growth market. We enlarged the vehicle fleet there as well. Our international aircraft fleet also accounted for significant investment.

The amount of capital expenditure fell year-on-year from €565 million to €538 million in the LOGISTICS Division. Out of the total amount, €456 million were related to the DHL Exel Supply Chain business, €50 million were spent by DHL Global Forwarding and €19 million by the DHL Freight business. €13 million were invested in central measures in this division. Within DHL Exel Supply Chain our main investments were particularly allocated to customised transport services, warehousing solutions and the associated information systems. Spending focused on the United Kingdom, Germany, the USA, Canada and South Africa. In the DHL Global Forwarding business, we invested in the facilities of buildings and IT infrastructure and, in the DHL Freight business, spending concentrated on our vehicle fleet.

Postbank integrated the previous year's acquisitions in its operating business. In order to reinforce its sales organisation and leverage synergies, investments were made in the IT systems that facilitate customer advice and selling activities, and in the modern multi-channel architecture. Other spending took place in connection with the supervisory regulations governing risk capital requirements (Basel II) and the establishment of a loan factory at BHW Bausparkasse. In line with our aim to develop and establish Postbank as the premier bank for small and medium-sized businesses, we extended the corporate banking strategy in the credit business. We also refined the branch concept and tested it in eight locations. The goal is to make the branches more appealing. In this way, we aim to retain and acquire customers, and improve the cross-selling ratio with existing clients. In transaction banking, we have established a payment transaction platform with multi-client capability and are developing a solution for archiving our own and third-party data.

Company-wide capex also stepped up, from €381 million to €496 million, and focused on vehicles, retail outlets and information technology. €189 million were invested in Deutsche Post Fleet GmbH: Vehicles which had either reached the end of their optimal economic life were replaced and additional vehicles were procured. For Deutsche Post Retail Outlets capex of €40 million was made to establish new partner outlet formats and introduce new outlet software. In other respects, capital expenditure was increased by the mutual reversal, for legal reasons, of a purchase agreement we concluded with Viterro Logistik Immobilien GmbH & Co. KG in December 2000. The relevant properties were brought into Deutsche Post Immobilienentwicklung Grundstücksgesellschaft mbH & Co. Logistikzentren KG at the end of December 2007.

Cash flow disclosures (Postbank at equity)

Selected cash flow indicators (Postbank at equity)

€m	2006	2007
Cash and cash equivalents as at 31 December	1,761	1,339
Change in cash and cash equivalents	377	-422
Net cash from operating activities	2,178	2,808
Net cash used in investing activities	-871	-908
Net cash used in financing activities	-876	-2,303

Net cash from operating activities increased by €630 million to €2,808 million. Net cash from operating activities before changes in working capital matched the previous year's level, with a rise in cash outflows for other assets and liabilities being offset by a drop in non-cash income from the reversal of provisions. EBIT was also reduced, amongst other things, by the non-cash write-down on EXPRESS Americas non-current assets, which was added back in under depreciation/amortisation of non-current assets. Net cash from operating activities improved mostly because the net outflow of working capital was €597 million down on the previous year.

Net cash used in investing activities came to €908 million, on a par with the previous year (€871 million). Purchases of non-current assets amounted to €2,009 million. We also acquired interests in The Stationery Office, ASTAR Air Cargo and Polar Air Cargo. Cash inflows of €818 million were primarily accounted for by disposals of other non-current assets and Vfw AG.

Taking net cash from operating activities and deducting net cash used in investing activities gives a positive free cash flow of €1,900 million, an increase of €593 million on the previous year (€1,307 million).

Net cash used in financing activities rose by €1,427 million to €2,303 million. The main factors in this larger cash outflow were higher dividend payments of €903 million and the scaling back of financial liabilities (accounting for an outflow of €757 million). The increase in interest paid is mainly due to the modified, gross disclosure of financial derivatives from the beginning of 2007. There was a parallel increase in interest received as part of net cash from investing activities.

Free cash flow


€m


2006	1,307
2007	1,900

As a result of the net cash flows for operating, investing and financing activities as set out above, cash and cash equivalents decreased by €422 million compared with 1 January 2007, to €1,339 million.

Assets and liabilities

Consolidated balance sheet

Total assets increased compared with the previous year-end by €17,768 million to €235,466 million. The main factors in the increase were the expansion of Postbank's operating business – as reflected in receivables and other securities from financial services and in liabilities from financial services – along with a larger cash reserve at Postbank. As Postbank plans to sell BHW Bank AG's credit card and sales financing business, the assets and liabilities concerned have been reclassified to non-current assets held for sale and liabilities associated with non-current assets held for sale. Further information on this point is provided in the  Notes.

 Note 34

Non-current assets totalled €25,744 million as at the balance sheet date, a slight drop (1.3% or €330 million) on the previous year's figure (€26,074 million). The reduction in intangible assets (by €426 million) is mostly accounted for by amortisation. Property, plant and equipment decreased by €634 million. This was mainly due to the write-down of assets in the EXPRESS Americas business, which was partly offset by expansion of our operating business including the Leipzig hub. Non-current financial assets grew by €66 million, largely as a result of the Polar Air Cargo acquisition. Other non-current assets increased from €376 million to €497 million as at the balance sheet date, in part due to growth in pension assets. Deferred tax assets amounted to €1,020 million (previous year: €542 million).

Current assets increased by 9.4% to €209,722 million, chiefly due to receivables and other securities from financial services (up €14,706 million), reflecting the strong operating business at Postbank. The non-current assets held for sale item has grown by €559 million to €615 million. As mentioned previously, Postbank intends to sell BHW Bank AG's credit card and sales financing business. Cash and cash equivalents rose from €2,391 million compared with 31 December 2006, to €4,683 million, primarily because of Postbank's larger cash reserve.

Equity attributable to Deutsche Post AG shareholders decreased from €11,220 million to €11,058 million. The equity base was strengthened by €1,389 million from consolidated net profit for the period. This was countered by payment of the increased dividend for the 2006 financial year (€903 million) and by currency translation differences recognised directly in equity.

Current and non-current liabilities increased from €189,513 million to €208,997 million, primarily due to a €19,124 million rise in liabilities from financial services. The Group's financial liabilities were reduced from €10,488 million to €10,181 million. This was partly accounted for by repayment of a €636 million fixed-interest bond in October. In the opposite direction, subordinated debt at Postbank increased financial liabilities by €555 million. Other financial liabilities were €226 million down. In contrast, trade payables rose by €315 million to €5,384 million. At €5,462 million, other current and non-current liabilities were also up on the previous year (€5,175 million).

A major portion of the 11.4% drop in current and non-current provisions to €12,610 million is accounted for by Postbank's sale of its insurance companies.

Selected indicators for the "Postbank at equity" scenario

In the analysis with Postbank accounted for at equity, Postbank is treated as an investment accounted for using the equity method.

Net debt comprises financial liabilities less cash and cash equivalents, current financial instruments, long-term deposits and financial liabilities to minority shareholders of Williams Lea. The figure decreased with the scaling back of financial liabilities, whilst the reduction in cash and cash equivalents had the effect of increasing net debt. Overall, net debt was reduced by €225 million compared with 31 December 2006, to €2,858 million.

Net gearing – the ratio of net debt to the sum of equity and net debt combined – decreased from 21.4% to 20.3%.

Selected indicators for net assets (Postbank at equity)

		2006	2007
Equity ratio	%	31.6	31.4
Ratio of equity to non-current assets	%	46.3	47.0
Net debt	€m	3,083	2,858
Net gearing	%	21.4	20.3
Net interest cover		8.3	14.6
Dynamic gearing ratio	years	1.4	1.0

Net interest cover is the ratio of EBIT to the balance of interest paid and interest received. The figure has increased from 8.3 to 14.6. This indicates that EBIT exceeds net interest obligations by a factor of 14.6.

The dynamic gearing ratio is an indicator of internal financing capacity and expresses the average number of years required to pay outstanding debt using the whole of the cash flow generated in the year under review. As net debt has dropped and operating cash flow has increased, the dynamic gearing ratio has further improved from an average of 1.4 to 1.0 years.

Divisions

Overview

EBIT and revenue by segment¹⁾

€m	2006 restated	2007	+/- %	Q4 2006	Q4 2007	+/- %
MAIL						
Profit from operating activities (EBIT)	2,094	2,003	-4.3	685	739	7.9
Revenue	15,290	15,484	1.3	4,229	4,309	1.9
of which Mail Communication	6,342	6,070	-4.3	1,676	1,619	-3.4
Dialogue Marketing (formerly Direct Marketing)	2,875	2,914	1.4	803	824	2.6
Press Services (formerly Press Distribution)	820	822	0.2	213	216	1.4
Parcel Germany	2,587	2,558	-1.1	749	748	-0.1
Global Mail/Corporate Information Solutions	2,917	3,338	14.4	866	965	11.4
Consolidation/Other	-251	-218	13.1	-78	-63	19.2
EXPRESS						
Profit or loss from operating activities (EBIT)	288	-174	-160.4	134	-420	-413.4
Revenue	13,463	13,874	3.1	3,538	3,757	6.2
of which Europe	6,381	6,624	3.8	1,715	1,891	10.3
Americas	4,379	4,165	-4.9	1,100	1,036	-5.8
Asia Pacific	2,443	2,576	5.4	647	681	5.3
EEMEA (Eastern Europe, Middle East, Africa)	819	1,064	29.9	225	287	27.6
Consolidation	-559	-555	0.7	-149	-138	7.4
LOGISTICS						
Profit from operating activities (EBIT)	751	957	27.4	255	339	32.9
Revenue	24,405	25,739	5.5	6,693	6,733	0.6
of which DHL Global Forwarding	9,271	9,410	1.5	2,396	2,522	5.3
DHL Exel Supply Chain	11,998	13,099	9.2	3,420	3,382	-1.1
DHL Freight	3,712	3,646	-1.8	979	947	-3.3
Consolidation/Other	-576	-416	27.8	-102	-118	-15.7
FINANCIAL SERVICES						
Profit from operating activities (EBIT)	1,004	1,076	7.2	306	212	-30.7
Revenue	9,593	10,426	8.7	2,482	2,692	8.5
SERVICES						
Loss from operating activities (EBIT)	-229	-660	-188.2	-98	-210	-114.3
Revenue	2,201	2,357	7.1	599	632	5.5
Group						
Profit from operating activities (EBIT)	3,872	3,202	-17.3	1,282	660	-48.5
Revenue	60,545	63,512	4.9	16,334	16,965	3.9

1) Excluding Consolidation.

MAIL

Domestic business units and products

Mail Communication

- Mail products
- Special services
- Franking
- Philately

Dialogue Marketing

- Advertising mail
- Tailored end-to-end solutions
- Special services

Press Services

- Distribution of newspapers and magazines
- Special services

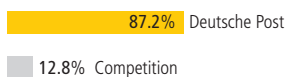
Parcel Germany

- Parcel products
- Special services
- Packstation

i Risks, page 86

Market share (volume) in mail communication in Germany, 2007

Market volume: 9.3 billion items



Source: company estimates

Market share (revenue) in dialogue marketing, 2007

Market volume: €20.9 billion



Source: company estimates

Business units and market positions

Europe's largest postal company

We deliver Germany's mail. The around seventy million items we carry on average every working day make us Europe's largest postal company. Our range of mail products for private and business customers extends from standard letters to merchandise. We also offer services such as cash-on-delivery and registered mail. Three options are available for franking mail items: the conventional postage stamp; online; and, for mass mailings, fully computer-based solutions. More than a million collectors (philatelists) have our new stamp issues delivered postage-paid every month. We also sell and market collectors' coins under a contract with the German government. Alongside our standard products, we develop tailor-made mail solutions for our business customers and for business process outsourcing. We digitalise incoming mail, for example, and deliver it to the internal recipients electronically.

Historically, our mail business has focused on Germany. The domestic market volume of mail communication in 2007 was approximately €6.6 billion, around 3% less than in 2006 (€6.8 billion). The market is shrinking as conventional mail is steadily being ousted by electronic communications media, such as fax, e-mail, text messaging and the internet. This trend is most apparent in the telecoms industry, which is now issuing a significantly greater number of electronic invoices. At the same time, competition is becoming tougher on the German mail market, which remains **i** regulated. These two factors have resulted in a slight decline in our market share but it still remains at 87.2%.

Solutions for direct customer dialogue

By way of conventional dialogue marketing instruments, we support our business partners' targeted communications with their clients, providing sophisticated IT solutions that enable companies not only to handle mail-shots easily but also to optimise their postage costs. At the same time, we develop solutions for cross-media customer dialogue and advertising campaigns. We offer a full range of services, from consulting and concept development all the way to media planning and buying as well as the production and dispatch of advertising materials. We thus combine dialogue marketing with conventional advertising. We also conduct market research to measure the impact of such advertising.

The market sector relevant to us, namely dialogue marketing in the narrower sense – advertising mailings, telephone and e-mail marketing – grew by 1.6% year-on-year to reach a volume of €20.9 billion. We maintained our share (13.4%) of this highly fragmented market.

Newspapers for Germany

We deliver newspapers and magazines nationwide and on the day specified by the customer. Our Press Services Business Unit offers two product groups. The preferred periodical is the product traditionally used by publishers to mail subscribed publications, whilst the standard periodical is our distribution product primarily for companies which publish customer magazines to advertise their products and services. Our special services include electronic address updating as well as complaint and quality management.

According to market studies, the press services market amounted to 17.9 billion items in 2007, or 1.5% fewer than in the previous year. Growth in the business of television programme guides and magazines enabled us to offset decreases, particularly in the daily newspaper segment, so that we maintained our market share (11.4%). The trend towards heavier items, and therefore higher average prices, is being sustained.

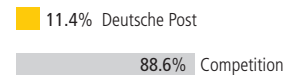
Highly contested parcel business

We deliver around 2.5 million parcels a day in Germany and seek to make access to our services as simple as possible for customers. We have developed special solutions tailored to the segments in which our business customers operate. We support mail order companies, for example, in transporting their merchandise to consumers and carrying their returns. By way of more than 13,500 retail outlets and some 900 Packstations, we enable our private customers to send and collect parcels and small packets around the clock practically everywhere. In addition, we have successfully tested the Paketbox – a letterbox for franked parcels. We make systematic use of the high-speed medium that is the internet: Private customers can purchase cardboard boxes, frank parcels, place parcel collection orders and track items online. Business customers can register easily, and send and track parcels immediately.

In 2007, the market volume of the parcel business totalled €6.3 billion, which represents a year-on-year rise of 6.3%. Several very capable providers compete for shares in this highly contested sector. We stabilised our share at around 38%.

Market share (volume) in press services, 2007

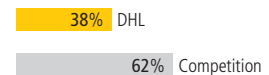
Market volume: 17.9 billion items



Source: company estimates

Market share (revenue) in parcels, 2007

Market volume: €6.3 billion



Source: company estimates

International business units and products

Global Mail

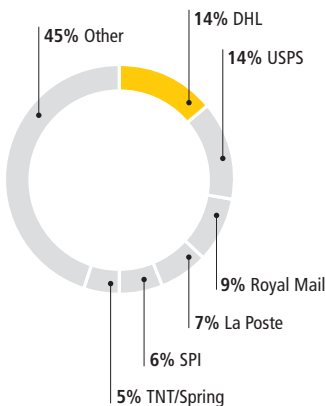
- Import and export of mail
- Cross-border mail
- Domestic mail services in other countries
- Special services

Corporate Information Solutions

- Office Document Solutions
 - Mailroom management
 - Digital archiving
 - Scanning, printing and photocopying
 - Desktop publishing
- Customer Correspondence Management
 - Document management
 - Regular communications
 - Digital mailrooms
 - Fulfilment and logistics
- Marketing Solutions
 - Print management
 - Website development
 - Content management
 - Creative services and design
 - Fulfilment and distribution

Market share (revenue) in global cross-border mail market, 2006

Market volume: €10.4 billion



Sources: company estimates, UPU statistics 2006, annual reports for USPS, Royal Mail, La Poste, SPI and TNT, additional calculations and estimates

Well positioned abroad

We transport mail across borders, serve the domestic markets of other countries and, apart from carrying mail, also provide special services. We serve business customers in key national mail markets, including the USA, the Netherlands, the UK, Spain and France. In the Netherlands, we realigned our product portfolio in the reporting period in response to the fierce price competition in the direct marketing segment. In Japan, we stepped up our co-operation with Yamato Holding in the direct marketing and unaddressed delivery sectors.

The global market volume for cross-border mail was approximately €10 billion – more or less the same as in the previous year. Although competition has become even tougher, we sustained a market share of 14%. We thus defended our position on a par with the United States Postal Service – amongst other things, by increasing the volume of mail from Germany, Austria, Switzerland and the USA.


Expertise in information exchange


Every day, companies need to process large quantities of information as well as transfer documents and data. Managing business processes is becoming steadily more complex – especially in the international business arena. Our subsidiary Williams Lea specialises in the management of digital and printed information. Its principal activities are photocopying, printing, mailroom management and office services; other services include the outsourcing of transaction printing, document management and the end-to-end processing of customer correspondence. We develop individual solutions that enable our customers to attend more closely to their clients and operate more profitably. Such solutions can embrace the outsourcing of services or realignment of business processes. Moreover, effective document management reduces the risk of records getting lost.

Strategy and goals

Our goal is to continue operating highly profitably. In the domestic mail business, our exclusive licence for letters weighing less than 50g lapsed on 31 December 2007. With a view to making good the anticipated loss of market share, we are pursuing three aims: extending our range of services, reinforcing our position abroad and making our transport and delivery network costs more flexible.

Clear parameters for 2008

Ahead of the complete liberalisation of the German mail market, key parameters that will shape our business in the future were defined. Mail prices will continue to be  regulated by the *Bundesnetzagentur* (German federal network agency). The new regulations allow us to keep postage costs for private customers stable whilst establishing more flexible pricing for business customers. There are currently no plans to impose value-added tax on mail carried under the postal universal services obligation.

 Risks, page 86

Extending range of services


Deutsche Post has long since emerged as more than a company that simply carries and delivers mail and parcels. We now offer services at every link in the mail value chain. In the dialogue marketing segment, we are seeking to establish a position as a provider of cross-media services. Williams Lea is pursuing a strategy of performing additional services for existing partners and harnessing these credentials to acquire new customers.

“In Germany, we are the market and quality leader for mail and parcel services. We now face the challenge posed by the market’s complete liberalisation, for which the parameters have become clear. We are very well prepared for the change.”

Jürgen Gerdes, MAIL and PARCEL Germany

Our goal in the parcel business is to be readily accessible anywhere, any time. For this reason, we are expanding the existing network of some 900 Packstations to a total of 2,400 machines by 2010. In the initial phase, we are also installing 1,000 Paketboxes across Germany.

Boosting customer satisfaction

Recent studies have confirmed the success of our strategy: Customers in all segments – private customers, small and large businesses as well as key accounts – have indicated their significantly greater satisfaction year-on-year with the scope and  quality of our services.

 Page 79

Reinforcing position abroad

An opportunity exists for us in the further opening of mail markets abroad as we either enter them for the first time or continue to develop our local business in line with the extent of liberalisation. The timetable agreed in Europe envisages opening up the markets in two steps, in 2011 and 2013. This serves to set the future parameters for our business also in this area.

Making costs more flexible

In recent years, we have made our network costs more flexible, allowing us to adjust them rapidly in response to volume changes. To this end, we have come up with a detailed range of measures. Amongst the requirements are a decrease in the number of mail cargo flights at night and a reduction in outsourced operations, such as transport by lorry. State-of-the-art IT systems enable us to more accurately predict the order intake and optimise capacity utilisation according to traffic volumes. We have also further increased the flexibility of our staff costs in the past two years.

“We are capable of exploiting our opportunities in the international mail business and are favourably positioned in mail markets abroad. The greatest challenge currently lies in the inconsistent timetable for liberalisation within the European Union.”

Dr Frank Appel, MAIL International

Revenue and earnings performance

Since the start of the 2007 financial year, we have been reporting on the Parcel Germany unit in the MAIL Division; the prior-year figures were restated accordingly.

The division once again increased its revenues in 2007, pushing them up by 1.3% from €15,290 million to €15,484 million. The fourth quarter, which is traditionally strong, contributed much to this development. We counterbalanced the anticipated decline in domestic mail by growing our business abroad, largely thanks to the first-time inclusion of Williams Lea with effect from 1 April 2006. As in the past, currency effects were marginal in the reporting period. They pushed down revenue by €79 million.

Declining volumes in domestic mail business

Revenue in the Mail Communication Business Unit declined from €6,342 million to €6,070 million. The decrease was less pronounced in the fourth quarter than in the first three, even though parameters remained unchanged. The increasing use of electronic means of communication is resulting in ongoing shrinkage of the market, whilst at the same time competition is becoming more intense. Volumes fell in both the business and the private customer segments because, amongst other things, the period was 1.8 working days shorter than in 2006.

Mail Communication (Deutsche Post AG share)

mail items (millions)	2006	2007	+/- %
Business customer letters	7,011	6,764	-3.5
Private customer letters	1,369	1,348	-1.5
Total	8,380	8,112	-3.2

In the regulated mail sector, we kept our prices stable although the inflation rate underlying the price-cap procedure increased. Furthermore, we lowered our rates for formal delivery orders, secured market shares with competitive products and services, and won back lost customers. We substantially reduced expenses thanks to systematic cost reductions.

According to a comparative study we conducted, our postage rates rank amongst the lowest in Europe. The survey took account of both the nominal price for sending a standard letter (20g) by the fastest method and key macroeconomic factors, such as purchasing power and labour costs.

Dialogue Marketing increases revenue

In the Dialogue Marketing (formerly Direct Marketing) Business Unit, the trend towards higher-quality, on-target services is continuing. As in the second and third quarters, the volume of advertising supplements rose favourably in the period from October to December 2007. At €2,914 million, the unit's revenue even exceeded the high figure posted in 2006 (€2,875 million).

Dialogue Marketing (Deutsche Post AG share)

mail items (millions)	2006	2007	+/- %
Addressed advertising mail	6,721	6,782	0.9
Unaddressed advertising mail	4,373	4,650	6.3
Total	11,094	11,432	3.0

Stable revenue at Press Services

In the Press Services (formerly Press Distribution) Business Unit, revenue stabilised at the prior-year level, climbing marginally from €820 million to €822 million. Although quantities edged down, both item weights and average prices increased.

Higher volume in German parcel business

Competitive pressure remains tough on the domestic parcel market. We therefore reduced prices in the private customer segment in summer 2006, which slowed down the rate of volume decline from the fourth quarter of 2006. In the reporting period, we achieved a turnaround by enabling volume and revenue to climb again. Despite the price reduction, revenue reached €2,558 million, which was more or less on a par with the previous year's high figure of €2,587 million.

Parcel Germany

items (millions)	2006	2007	+/- %
Business customer parcels	644	646	0.3
Private customer parcels	105	107	1.9
Total	749	753	0.5

Revenue growth in international mail business

Once again, the strongest growth was posted in our international business. Revenue in the Global Mail and Corporate Information Solutions units rose by 14.4%, from €2,917 million to €3,338 million. A key factor was the inclusion of Williams Lea with effect from 1 April 2006, which yielded inorganic effects totalling €338 million. We also recorded organic growth, thanks in part to major customer contracts, including the one concluded by the Williams Lea Group with Reader's Digest. These two business units now account for around one fifth of the division's revenue.

Mail International

mail items (millions)	2006	2007	+/- %
DHL Global Mail	7,124	7,457	4.7

Profit target reached

With a profit from operating activities (EBIT) of €2,003 million, we achieved our announced target of around €2 billion. Alongside higher revenues from the international mail business, improved productivity and lower costs also played a role. Compared with the previous year (€2,094 million), our performance deteriorated by 4.3%, amongst other things because the period was 1.8 working days shorter and due to our price reduction in the Parcel Germany business in 2006. In addition, we reduced the price of orders for the formal delivery of documents in January 2007. The figure for the third quarter of 2006 also contained €66 million attributable primarily to the settlement with the *Bundesanstalt für Post und Telekommunikation* (German federal posts and telecommunications agency), which gave rise to reimbursement of the payments already made for financial years 1997 to 2003. The figure for the fourth quarter of 2007 contained €58 million, chiefly from the adjustment of pension provisions in view of the changed retirement age. Measured against 2006, non-recurring effects thus had only a marginal impact. The return on sales was 12.9%.


EXPRESS

Business units and market positions

Globalisation acts as a mainspring of network expansion

The global express market is growing at an annual average rate of 6% to 8%, as globalisation fuels the expansion of worldwide trade, and more and more shipments need to be handled swiftly and reliably. The demand for time-critical express services is rising as a consequence. With 124,000 employees and a network spanning more than 220 countries and territories, we are exceptionally well positioned to participate in the future growth of this attractive segment.

Having transferred the German parcel business to the MAIL Division with effect from 1 January 2007, we are focusing more acutely on international business. There is a particularly strong rise in demand in this market. According to a recent study by Airbus, the volume of intercontinental air traffic is expected to increase by 6% a year until 2025 and we intend to play a part in this expansion. The groundwork has already been laid. In conjunction with our partner companies, we hold the necessary flying rights as well as takeoff and landing slots and can draw on a fleet of more than 350 aircraft.

In June 2007, we acquired an interest in Polar Air Cargo, a US airline. This gives us cargo capacities on the trans-Pacific routes, where the volume of express business is forecast to increase by some 10% in the coming years. In September, we founded the air freight company AeroLogic together with Lufthansa Cargo. From spring 2009, it will enable us to extend our capacity and to shorten transit times on trade routes between Europe and Asia, improving capacity utilisation and reducing costs through the sharing of aircraft. Air transport on the north Atlantic route is serviced by our own fleet, which we can deploy flexibly. To this end, we ordered six Boeing 767 cargo planes in the reporting period. Here, weight is anticipated to grow by between 4% and 5% in the next few years. Extension of the air freight network is being supported by  capital expenditure on modern ground infrastructure.

Standardised, readily accessible offering

DHL Express specialises in carrying goods reliably from door to door, which is facilitated by fixed routes and standardised procedures. Our three product lines – Same Day, Time Definite and Day Definite – satisfy different customer requirements for speed of delivery. In the year under review, we revised and simplified our product range. The gradual roll-out of the new portfolio started on 1 October; it offers customers clearly structured services for international time-definite shipments, which constitute our core business: DHL EXPRESS 9:00, DHL EXPRESS 12:00, and DHL EXPRESS WORLDWIDE.

Regions and products

-  Europe
-  Americas
-  Asia Pacific
-  EEMEA (Eastern Europe, Middle East and Africa)

- Same Day
- Time Definite
- Day Definite

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Key accounts with global business interests are to be managed by a new sales unit. Thanks to our enhanced service, we are increasingly establishing ourselves as a partner of enterprises that engage in certain branches of commerce and industry. The principal users of our reliable, time-critical services are the automotive, consumer goods, electronics and life science sectors, in which delivery times are a key driver of success. Our PharmaPlus product, which has been launched in France, is an industry-specific solution for shipping temperature-sensitive goods to numerous countries across the globe.

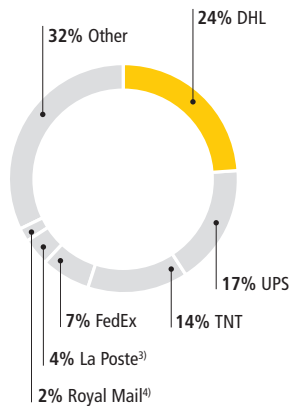
Through a network of more than 50,000 service points at which items can be dropped off and collected, we are facilitating customers' access to our services. DHL Express is also expanding its range of electronic services. Business customers in Asia, for example, have been able to place shipment collection orders electronically since autumn 2007.

At a time when the environmental impact of products and services is a live issue, we are thus far the only express service provider to offer – in our **GOGREEN** range – climate-neutral shipping products.

i Sustainability, page 76

European international CEP market, 2006¹⁾

Market volume: €12.1 billion²⁾



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

2) These figures are based on the new definition of all shipments <1,000kg.

3) Including DPD and Geopost.

4) Including GLS.

Sources: Market Research Service Centre, Market Intelligence, 2007

Vigorous growth in Europe

For several years, the European market for courier, express and parcel (CEP) services has been expanding at a rate of around 5% to 6%. We have maintained our leading position in the market, as a stable economic climate has invigorated international business, especially as regards shipments to Eastern Europe and Asia. On many trade lanes, we have grown more strongly than the market.

As the number of reliable day-definite shipments in Europe continues to rise – our sales activities now embrace 29 countries – customer demands are also becoming more rigorous in the time-definite segment. We have expanded this service and can now deliver before midday to 80% (previous year: 74%) of all business addresses in Europe.

We have introduced next-day deliveries for shipments between Europe and the United States. Our customers in major European cities are benefiting from the dense delivery network in the United States, which ensures next-day delivery to 96% of the market. We expect this service enhancement to generate further growth on the trans-Atlantic trade lane.

Confirmed as the third major player in the US market

In the Americas, the USA occupies a special position as the largest express market. It is connected to the world's principal trade lanes. Some 47% of all domestic and international DHL shipments are billed in the United States, where half of our 200 largest customers are based. In our global business, offering a high-performance range of products and services here also guarantees business success in other regions.

We operate an air and ground-based transport network, through which we move all domestic and international shipments. The strongest growth was posted by ground-based shipments, where we increased our share of the market. On one of the world's largest trade lanes – between the USA and Canada – we have extended our flight connections. With a share of 13% we have strengthened our position as the third major player in the international CEP market in the United States, despite the difficult economic climate.

We are the market leader in Latin and Central America, where we have extended our offering of time-definite shipments. We now offer guaranteed pre-10:30 delivery, for example, between Mexico and the USA. The growth has been reinforced by capital expenditure on the regional network. In addition, a common accounting and billing platform for almost all the countries has been set up in two locations and has improved internal workflows whilst reducing costs.

Undisputed market leader in Asia

After years of strong growth, several factors slowed the further expansion of the Asian express market. First, the US economy started to cool down, which significantly hampered exports from Asia. Second, the supply chains that feed internal trade within Asia have changed; and third, more and more goods are being carried by ship. Nonetheless, the region is still regarded as a driver of growth.

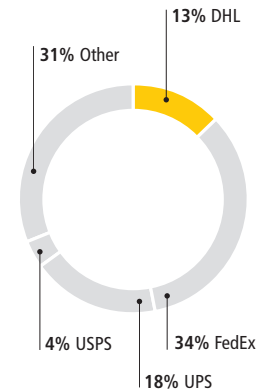
DHL Express posted strong operative growth to defend its leading position. In Asia's international express markets – including the region's fourteen largest economies – we hold by far the largest market share (34%). We have made it even easier for customers to access our services by increasing the number of service points and extending the internet-based offering.

In fourteen of the region's countries, we are offering a new service that allows express import shipments to be billed in compliance with the international terms of trade. Our Airport to Door product not only allows business customers to have their shipments delivered with the customary speed and reliability; we also take care of all the customs arrangements on their behalf. It is a service that enables us to address new customer groups and harness fresh growth potential.

Emerging markets shaped by strong growth

In the countries of the EEMEA region (Eastern Europe, Middle East and Africa), we recorded strong double-digit growth. We generate around 90% of our trade with business customers operating chiefly in the oil and gas, high-tech, life science and textile industries. In order to sustain growth, we are continuously improving our transit times – in the year under review, we reduced them by one day on more than 200 inter-city routes. We have also enlarged our offering, amongst other things by introducing a new range of hazardous goods transport services.

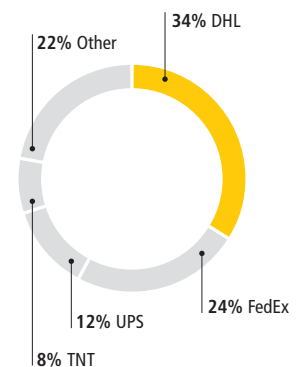
US international CEP market, 2006
Market volume: €4.6 billion¹⁾



1) These figures are estimates for outbound international shipments < 70kg.

Source: Market Research Service Centre in co-operation with Colography Group, 2007

Asian international express markets, 2006¹⁾
Market volume: €5.6 billion²⁾



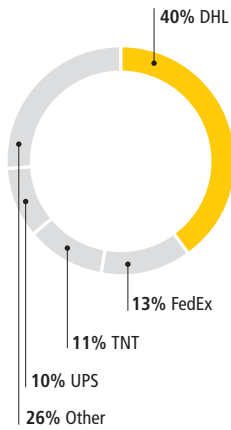
1) Country base: AU, CN, HK, ID, IN, JP, KR, NZ, MY, PH, SG, TH, TW, VN.

2) These figures are based on the new definition of all shipments < 1,000kg.

Sources: AT Kearney, TMS 2007

International express markets EEMEA, 2006¹⁾

Market volume:²⁾ €0.8 billion



1) Country base: RU, ZA, SA, BH, IL, UAE, IR, JO, OM, QA, KW, NG, LB.

2) These figures are based on the new definition of all shipments < 1,000kg.

Source: Market Research Service Centre in co-operation with Crescendo Partners, 2007

The Russian express market is exceptionally dynamic. In recent years, growth rates there have reached up to 40%. With a share of 41% of the international and 25% of the domestic market, we are the clear leader in Russia. We intend to continue profiting from this vigorous growth in the future.

Strategy and goals

By establishing a global organisation under uniform management, DHL Express has realigned its strategy. The main purpose is to improve profitability and generate further organic growth. Our goal is to be the preferred provider in the international express business across all products and regions, and we are defining our range of products and services as well as our infrastructure with this aim in mind.

Creating a competitive international network

The core element of our strategy is the international air traffic network. Competitive pricing and a first-rate service on all the major international trade routes is the target. We employ specialist teams to ensure delivery of the best possible performance, profitability and growth on 74 important global trade lanes we have defined.

“DHL Express ranks amongst the leading operators in its segment. Our strengths lie in a network that spans the globe, motivated employees and satisfied customers. The US business remains the greatest challenge. Although we have established ourselves as the number-three player there, we are currently being hampered by the inhospitable economic climate.”

John P. Mullen, EXPRESS

Exploiting strong position in domestic markets

We intend to systematically reinforce our leading position in numerous domestic markets. More than 80% of all shipments remain in the country of the sender. We intend to step up the consolidation of domestic and foreign shipments and thus leverage further cost advantages. By way of domestic business, we are also winning international orders from our customers.

Strengthening regional infrastructure

In order to participate in the growth of the express markets, we are creating the necessary ground infrastructure in the different regions. The new European hub at Leipzig/Halle airport represents a major step in this direction. It was integrated into our network in the autumn and will become fully operational in spring 2008. We are also expanding our central Asian hub in Hong Kong and planning a new one in Shanghai.

Making services readily accessible

At the same time, we are developing systems and products for our customers that make it even easier for them to use DHL for their shipping needs – for example, by building electronic interfaces to our customers and integrating these in our workflows, as well as using new technologies to facilitate customers' access to our services.

Revenue and earnings performance

The EXPRESS Division's revenue increased by 3.1% to €13,874 million (restated prior-year figure: €13,463 million) even though business was impacted by negative currency effects (€507 million). Measured in local currencies, we attained organic revenue growth of 6.4%.

Revenue and volumes rise in Europe

In Europe, we achieved gains in both revenue and shipment volumes. Revenue increased by 3.8% to €6,624 million (previous year: €6,381 million); the underlying organic growth for the region reached 4.6%. The domestic business in Central Europe – including the Czech Republic, Hungary, Poland, Slovakia, Slovenia, Romania and Bulgaria – generated the largest advances. We satisfactorily improved our international business in the Benelux countries. The other countries gave rise to moderate revenue growth of 3% to 7%. Exceptions were France and the UK, where revenues remained more or less unchanged year-on-year.

Economic climate hampers US business

Negative currency effects in the amount of €339 million were the main driver of the downturn in revenue in the Americas, which fell by 4.9% year-on-year, from €4,379 million to €4,165 million. In local currency, the organic growth rate was 2.9%. The most notable advance was achieved once again in our Latin American domestic business, especially in Mexico, where the rate reached 20%. Organic growth in the USA was positive at 0.6%. The enhanced performance of our Ground and International products was unable to make good the sharp decline in the Domestic Air business – a pattern which became apparent in the second half-year in particular as economic activity waned.

Double-digit revenue growth in Asia

Revenue in the Asia Pacific region climbed by 5.4% to €2,576 million (previous year: €2,443 million). As in America, changes in the euro exchange rate gave rise to negative currency effects, in this case in the amount of €102 million. Although the rate of growth in the region slowed, we posted organic revenue growth of 9.6%. The principal contributors were China and India.

Growth driven by emerging markets

In the EEMEA region, revenue increased by 29.9%, from €819 million in 2006 to €1,064 million. As in the prior year, the largest gains were recorded in this region, primarily in the Middle East and Russia.

Profit before extraordinary impairment loss on non-current assets in the Americas region increases by 46%

The impairment review conducted at the end of the year led to a €594 million write-down of the EXPRESS non-current assets in the Americas regions. This write-down has no cash impact. It cannot currently be excluded that further write-downs regarding additions to non-current assets might occur. Profit from operating activities (EBIT) before extraordinary impairment loss increased by 46%, from €288 million to €420 million, even after deducting expenses of €76 million for the construction of the new European hub in Leipzig. With one exception, all the regions improved their profitability. In the Americas region, operating business deteriorated as revenue stagnated and the demand shifted in favour of lower-margin products. The return on sales for the EXPRESS business climbed from 2.1% to 3% when measured before the extraordinary impairment loss on non-current assets in the Americas region.

LOGISTICS

Business units and market positions

Number one in air and ocean freight

DHL Global Forwarding is the international market leader in air and ocean freight. As forwarders, we move goods and merchandise on behalf of our customers to an agreed destination within fixed parameters such as transport mode, time and price. We draw upon our geographic coverage and multi-modal capabilities and have specific skills in numerous sectors, including aviation, automotive, chemicals, consumer goods, life sciences, technology and the processing industry to meet the needs of our customers.

Our business is built on sound customer relationships. Working with customers over many years enables us to identify and supply the transport solutions best suited to their needs. We reduce the complexity of our customers' value chains by supplying the information required to determine the appropriate transport route, which also mitigates the risk associated with working in developing markets.

In the air freight business, we are the global market leader, offering direct shipments and air consolidations, including time-defined services that operate on an airport-to-airport or door-to-door basis. In the year under review, the air freight market grew by around 4% (previous year: 5%) according to IATA. Our SeAir product gives customers the best of both worlds: combining the speed of air transport with the lower cost of ocean freight.

In ocean freight, we provide full-container-load and less-than-container-load services as well as non-containerised transport between the world's principal markets. The ocean freight market growth in 2007 was around 10%, fuelled primarily by exports from Asia.

Our forwarding activities are complemented by transport-related, value-added services, such as customs brokerage, cross-docking, pick-up and delivery and cargo insurance to ensure the seamless transfer of cargo across borders. We also advise customers on security issues. Our sophisticated IT systems allow us to track goods in transit at all times, providing customers with maximum visibility and control. On request, we also develop customised programmes such as integrated order management.

Business units and products

DHL Global Forwarding

- Air freight
- Ocean freight
- Industrial projects

DHL Exel Supply Chain

- Contract logistics
- Ground-based transport
- Value-added services

DHL Freight

- Full truckload
- Less than truckload
- Customs brokerage
- Intermodal

Market shares in air freight, 2006

Market volume: €16.4 billion¹⁾



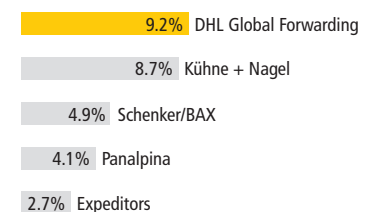
1) Market volume and market share data are based on IATA statistics, which do not correspond to companies' published revenues and cannot be compared with the prior-year figure.

2) Pro forma, BAX Global revenue missing in IATA data for some countries.

Sources: IATA/CASS, company estimates and own sources, 2006

Market shares in ocean freight, 2006

Market volume for forwarding: 26.2 million TEUs¹⁾

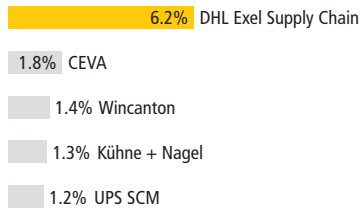


1) Estimated share of overall market controlled by forwarders.

Sources: Global Insight, annual reports, press releases, company estimates, 2006

Market shares in contract logistics, 2006

Market volume: €192.7 billion¹⁾

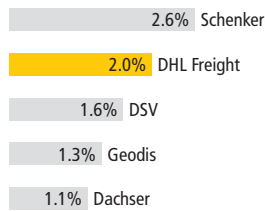


1) Company estimates.

Sources: annual reports, press releases, company websites, Transport Intelligence, analysts' reports

Market shares in European road transport, 2006

Market volume: €157.2 billion¹⁾



1) Total for fourteen European countries, excluding bulk and specialties transport.

Sources: MRSC freight reports 2006 and 2007, Eurostat 2006, annual reports, press releases, company websites, estimates

Global market leader in contract logistics

Our DHL Exel Supply Chain Business Unit remains the world leader in contract logistics. Within this area of our business we provide warehousing and ground-based transport services plus specialist sector-based value-added solutions along the entire supply chain. In the year under review, we renewed the majority of existing agreements and gained new ones with existing and new customers in all regions and sectors.


Our teams not only have expert knowledge of logistics but also have specialist knowledge and many years' experience in our key sectors including automotive, life sciences, technology, fast-moving consumer goods as well as retail and fashion. Within the business we are now developing and strengthening specific sector-based solutions to meet the needs of our customers precisely. These have included strengthening our offering in packaging and contract manufacturing and offering a consultative design element as well as implementing and operating supply chains for our customers.

Number two in European freight business


DHL Freight operated as an independent business unit in the LOGISTICS Division for the first full year in 2007. We run a comprehensive less-than-truckload network covering Europe, Russia and traffic into the Middle East with 160 terminals. Our strong full-truckload business is complemented by a fast growing intermodal service. Additionally we offer a comprehensive range of customs services. In the year 2007 the European road transport market grew at around 3.5% with the international market growing faster (4.5%) than the domestic market (3.2%).

The business model of DHL Freight is asset-light. Trucking and a high percentage of cartage and handling is outsourced. We work closely together with Parcel Germany, EXPRESS and the other logistics business units by sharing IT systems, teaming up for joint product offerings and delivering reliable transport solutions to all of these units – thus leveraging the purchasing power and competence of DHL Freight for the whole Group.

Strategy and goals

In 2007, customers have benefited from our integrated approach to the supply chain. Uniquely, we can now offer a logistics and express service with the greatest global reach. We are establishing improvement targets for each business unit and function, working in parallel with the recently launched  capital markets programme.

Our customers regularly highlight the need for proactivity and innovation and we have addressed this need in several ways. We have, for example, added to our capabilities within the life science arena; similarly, retail customers have benefited from the introduction of offerings such as demand planning and a strengthening of our co-pack manufacturing services to consumer customers. We have also developed

 Strategy and goals, page 30

global products which span several of our business units such as service parts logistics and e-fulfilment with the expectation that these will continue to develop in the years to come.

We are focusing on organic growth through three distinct programmes: We are reinforcing our presence in regions whose economies are expanding rapidly, such as Central and Eastern Europe and areas of South America and Asia; we are focusing on key customer accounts where we are looking to increase our share of outsourcing; and finally, we are focusing capital expenditure on innovative products and process harmonisation.

“Our logistics business is well positioned in key global markets to deliver organic growth. We have developed our business to seize the opportunities brought about by growing consumer demands, complex modern supply chains and the ongoing trend of outsourcing. We are also focusing on people development to add value through proactive delivery of solutions and collaboration with other members of the DHL family.”

Dr Frank Appel, LOGISTICS

Roadmap for the future

In our drive to continue creating added value for customers and shareholders, we have adopted a Roadmap for Logistics setting out our vision – which is to lead the industry into a new era by 2010: We intend to set the pace in innovation, quality and productivity whilst at the same time offering our employees fresh opportunities. We will also be seeking to encourage the industry to behave even more responsibly towards society and the environment. In pursuing these goals, we will make the most of our collective passion, experience and scale. We aim to build the best logistics company in the world and to be the first choice for customers and employees alike. There continues to be increased collaboration across all DHL business units, with our customers benefiting from our ability to bundle together products and services from one provider to create seamless support for their critical business needs.

Revenue and earnings performance

In the LOGISTICS Division, the prior-year figures were restated because we transferred our European overland transport business from the EXPRESS Division to the LOGISTICS Division under the name DHL Freight on 1 July 2006.

The growth, performance and integration of our logistics business developed favourably in 2007. Revenue increased by 5.5% to €25,739 million (previous year: €24,405 million). The total was impaired by negative currency effects of €605 million. Inorganic influences, including the disposal of Vfw AG, reduced revenue by a further €270 million. Organic revenue growth came to 9.1% as a result, amongst others, of the ten-year deal with the NHS in the UK.

Volume growth in air and ocean freight

DHL Global Forwarding generated revenue of €9,410 million (previous year: €9,271 million). This figure was affected adversely by currency effects totalling €283 million; after adjusting for these effects, revenue grew by 4.6% year-on-year. This development only partly reflects the higher growth in volumes because our air freight activities also recorded lower freight rates.

Air freight volumes rose by 7.3% in 2007 above market growth of only around 4%. Revenue decreased slightly due to negative impacts from currency effects and lower freight rates on key trade lanes. Our business performed well, above all in Europe, the Middle East and Africa.

DHL Global Forwarding: revenue by segment

€m	2006	2007	+/- %
Air freight	4,956	4,809	-3.0
Ocean freight	2,657	3,014	13.4
Other	1,658	1,587	-4.3
Total	9,271	9,410	1.5

DHL Global Forwarding: volumes

thousands		2006	2007	+/- %
Air freight	Tonnage	4,110	4,409	7.3
Ocean freight	TEUs ¹⁾	2,400	2,764	15.2

1) Twenty-foot equivalent units.

Ocean freight volumes grew by 15.2% in 2007. Here also, we greatly outperformed the market, which grew only by around 10%. Our revenue growth came to 13.4%. Latin America registered substantial volume and revenue increases and our business in the Middle East, in Africa and in Europe also performed well. Moreover, growth in industrial projects was particularly strong.

DHL Exel Supply Chain generates new business

Revenue generated by DHL Exel Supply Chain rose by 9.2% to €13,099 million year-on-year, driven by the ten-year deal with the NHS in the UK as well as higher operational revenue in all regions. In the year under review, we generated new business of around €1 billion in annualised revenue.

DHL Freight grows well above market

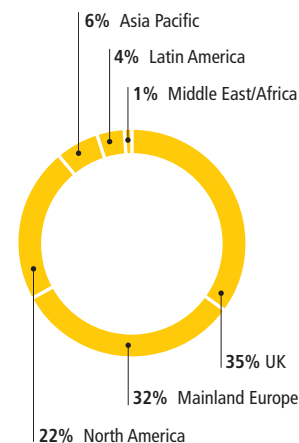
In 2007, DHL Freight reported revenue of €3,646 million (previous year: €3,712 million). The business shows growth well above market with a particularly strong performance in Central Eastern Europe, Benelux and Germany. Adjusted for inorganic effects, we grew by 6.2% as inter-company relations were not reported in 2006.

Good performance improves earnings

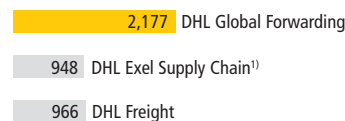
Profit from operating activities (EBIT) was €957 million in the reporting period (previous year: €751 million). The 27.4% increase was influenced by the sale of Vfw AG in the first quarter as well as real estate disposals in the last quarter. Allowing for these effects and negative currency effects, our performance here was very positive. Return on sales rose from 3.1% to 3.7%.

The integration of Exel and DHL was successfully completed by the end of the year 2007, delivering synergies in line with expectations.

DHL Exel Supply Chain: revenue by regional split, 2007

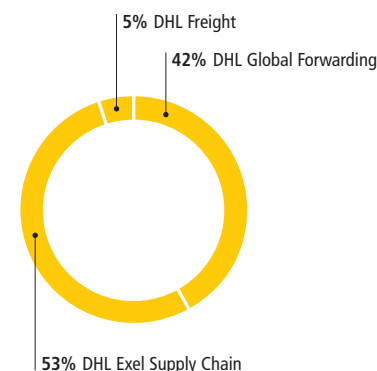


Gross profit by business unit, 2007
€m



1) A different definition of gross profit applies to DHL Exel Supply Chain.

EBIT by business unit, 2007



FINANCIAL SERVICES

Postbank business units and products

■ Retail Banking

- Current account services
- Savings and mutual funds
- Consumer loans
- Mortgages
- Insurance products

■ Corporate Banking

- Payment transaction solutions
- Commercial real estate finance
- Corporate loans
- Leasing and factoring

■ Transaction Banking

- Payment transaction processing

■ Financial Markets

- Liquidity management
- Risk management
- Asset/liability management
- Asset management

Business units and market positions

Germany's largest single retail bank

Postbank's highly diverse sales channels make it easily accessible to customers at all times – at its branches, through its mobile sales force, online or by telephone. It has the most extensive branch network of any bank in Germany, with its own 855 branches offering Postbank products along with expert advice on financial services. These branches are complemented by several thousand Deutsche Post outlets where selected Postbank services are available. Over 4,200 independent agents within Postbank Finanzberatung AG make up the Postbank mobile sales force and specialise in private mortgage lending, asset accumulation and retirement pension products.

Postbank's wide range of standardised banking products is designed to meet the typical needs of private and business customers. Along with traditional savings and current account offerings, these primarily include private mortgage lending and home savings products but personal loans, securities and pension and insurance products are also gaining in importance. At the same time, Postbank is Germany's largest issuer of credit and debit cards. It holds a leading position in German online and telephone banking. Postbank online customers now have 2.8 million current accounts and 590,000 brokerage accounts. Some 3.7 million customers use telephone banking.

Postbank plans in future to restrict its activities as a "banking service producer" to areas where it can achieve economies of scale and has restructured its insurance business accordingly. The insurance subsidiaries have been sold to the Talanx Group, with which Postbank has entered into a long-term marketing alliance in life and accident insurance. The company has also further boosted its sales capabilities, for example by co-operating with Tchibo and HUK-COBURG. Both companies offer their customers basic Postbank products such as current and savings accounts.

The German retail banking market remains fiercely competitive. Postbank has successfully held its own here as Germany's largest single retail bank. In terms of customer numbers, its market share increased to a pleasing 9.5% (previous year: 8.8%). In the savings segment, where the total volume of deposits came to €43.9 billion, Bundesbank statistics show an increase in Postbank's market share from 7.4% to 8.1% at the end of 2007. The market share of the €16.6 billion in home saving deposits remained stable at 13.6%. Postbank comfortably achieved its target of attracting a million new customers; its market share in business with new customers came to 12% (previous year: 13%). In new current account business, Postbank had a record year despite fierce competition, with 587,000 consumer accounts opened between January and December (previous year: 469,000).

Postbank further improved its volumes in the private mortgage business from €62.3 billion to €68.0 billion. Due primarily to the VAT increase and the abolition of the home owner's allowance, the operating environment for the private mortgage lending business was marked by a strong decline in demand. Despite low demand and strong competition, Postbank, at 8.6%, almost reached its goal of a more than 10% increase in the volume of self-brokered private mortgage loans.

Products for corporate customers

The Corporate Banking business primarily involves products related to payment transactions and commercial real estate finance. Alongside an investment credit product which it had already successfully launched, Postbank now also arranges development loans from major public-sector development agencies. It has extensive expertise in commercial real estate finance, which it also employs in foreign markets. Thanks to a highly selective lending policy, Postbank has a favourable risk profile.

Expert in transaction banking

In addition to handling its own transactions, Postbank provides payment transaction services for other banks including Deutsche Bank, Dresdner Bank and, starting in 2007, HypoVereinsbank. Postbank is leveraging its traditional strength in transaction banking to join forces with BHW in building an efficient platform for processing building loans.

Financial asset management

Postbank invests its liquid funds in financial markets. Its Financial Markets unit is acknowledged as an efficient service provider in managing interest rate, currency and share price risk.

Strategy and goals

Expanding business with existing customers

Postbank plans to provide its approximately 14.5 million customers with even better service and innovative products while further improving processes and achieving cost leadership. In sales, it will focus more intensively on its 4.6 million-strong base of private customers who do most of their banking through Postbank. It aims to increase this customer base to 5.2 million by 2010. At the same time, Postbank aims to maximise potential in its existing customer base by cross-selling and, ultimately, to gain market share in all important product areas through above-average growth with both new and existing customers. All sales channels will be expanded, with the priority on the two most important: mobile sales as well as sales through branches and retail outlets. Progress on this front will be communicated on a regular basis.

Specialising in finance management

Postbank currently serves some 30,000 corporate customers, primarily with a wide range of payment transaction services. In addition, it has its sights on up to 3,000 customers for whom it aims to become one of their five preferred banks. Postbank also plans to raise its profile as a specialist for finance management, expanding its loan portfolio with small to medium-sized businesses from €2.8 billion in 2006 to €5 billion in future. It will simultaneously embark on targeted, risk-controlled expansion in the profitable commercial real estate finance segment, with the main focus on Europe. Income from corporate banking is targeted to rise from €382 million today to €500 million in 2010.

“Postbank aims to continue expanding in all its business units, based on its unique platform in the market. In particular, we intend to maximise the great potential in our customer base with innovative products and a clear sales strategy. The greatest challenge continues to be competition for private customers.”

Dr Wolfgang Klein, FINANCIAL SERVICES

Expansion in transaction banking

Postbank aims to expand the European activities of its Transaction Banking Business Unit. This requires capital spending that will be shared with strategic partners. Postbank will also extend its capabilities in loan processing by employing, amongst other resources, a multi-client platform for handling building loans.

Developing investment products

The Financial Markets Business Unit – Postbank’s innovation driver – will focus in future on developing products for private and corporate customers.

Revenue and earnings performance

Postbank reports further improved profit

During the year under review, the division generated revenue of €10,426 million, which exceeded the previous year's figure of €9,593 million by 8.7%. In the banking business, income from interest, fees and commissions and net trading income are equivalent to an industrial company's revenue.

The division also increased its profit from operating activities (EBIT) again. At €1,076 million, it surpassed the previous year's total of €1,004 million by 7.2%. This contained the net effect from the disposal of Postbank's insurance companies, after allowing for transaction costs, for provisioning in the investment portfolio, impairment losses in connection with the sub-prime crisis, extraordinary effects in administrative expenses as well as non-recurring effects in net interest income, which, on balance, reduced EBIT by €25 million.


Postbank raised its balance sheet-related revenues and net fee and commission income by 3.3% year-on-year, from €4,117 million to €4,253 million. The balance sheet-related revenues – net interest income, net trading income and net income from investment securities – increased by 4.2%, from €2,710 million to €2,824 million. Despite an inhospitable interest rate climate, net interest income rose by 4.0% year-on-year to €2,240 million. At €294 million, net income from investment securities was 0.7% up on the previous year. Net trading income climbed by 9.8% to €290 million.

Net fee and commission income also increased, rising by 1.6% to €1,429 million. The portion of total income attributable to net fee and commission income fell slightly, from 34.2% to 33.6%.

At 0.3%, the allowance for losses on loans and advances rose less sharply than the volume of customer loans. Administrative expenses edged up by 1.6% to €2,856 million.

Net other operating income and expenses amounted to €–55 million (previous year: €–27 million). Postbank's return on equity (ROE) before taxes improved from 18.9% to 19.3%. The cost/income ratio also developed favourably, falling from 66.7% to 64.8% in the traditional banking business. Including transaction banking, which is dominated by industrial processing, it came to 67.2% (previous year: 68.3%). As at 31 December 2007 the tier 1 ratio, calculated in accordance with the *Solvabilitätsverordnung* (German solvency regulation) but excluding the initial restrictions pursuant to Section 339 of the solvency regulation, came to 6.9% at 31 December 2007 compared with the previous year (6.6% according to own calculations).

Deutsche Postbank AG provides details of its business development in 2007 in its own  annual report, published on 5 March 2008.

 ir.postbank.com

SERVICES

Our SERVICES Division bundles Group-wide internal services, with the aim of enhancing service quality and cutting costs. It includes Global Business Services, the retail outlets of Deutsche Post AG and the Corporate Centre containing the Group's central functions. It also includes the non-operating income and expenses of Deutsche Post AG. We report the services performed by internal service providers as internal revenue.

Global Business Services – established internal service providers

Global Business Services provide services for all divisions, with some 13,000 employees supporting the Group in the areas of Legal Services, Insurance, Procurement, Finance Operations, Information Technology, Real Estate, Fleet Management, In-house Consulting, Human Resources Operations and Innovation Management.

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We successfully generated value in 2007. Our Procurement unit attained a top score in an external comparative study, and another comparative study testified to the high level of effectiveness and exemplary cost structure in Legal Services. Human Resources Operations is set to provide payroll accounting for employees in the various regions along with centralised human resources management and made a start in 2007 with Germany, Asia and the United States.

Higher quality at lower costs

We significantly cut costs and enhanced quality in many areas, with both kinds of improvement benefiting the entire Group. Procurement achieved major savings for the third year running, whilst a decrease of more than €50 million in insurance costs was secured by taking policies that were previously held externally and combining them in-house. Substantial real estate costs savings were made by reducing vacancy rates. All service units are highly cost-aware in their work and take care when purchasing services on a large scale to ensure that costs rise in less than direct proportion to procurement volume. A customer-supplier relationship has become established between Global Business Services and its internal business partners. Service quality, scope and price are set a year at a time in service level agreements. This assures planning confidence and transparency for both sides.

Revenue and earnings performance

In the 2007 financial year, revenue increased by 7.1% to €2,357 million (previous year: €2,201 million). The loss from operating activities (EBIT) totalled €660 million (previous year: €229 million). The change is chiefly attributable to the income of €276 million generated by calling the exchangeable bond on Postbank shares in the third quarter of 2006. It further stems from net non-recurring income of €99 million in the first quarter of 2006 arising from the favourable outcome of arbitration proceedings involving Deutsche Telekom (€89 million) and the disposal of McPaper AG, Berlin (€10 million).

Non-financial Performance Indicators

Employees

Workforce strengthened by takeovers and growth

As of 31 December 2007, the Group employed 475,100 people (full-time equivalents). Although the total number of employees rose year-on-year, the number of civil servants dropped further to 61,172. The  staff costs fell slightly by 0.8% year-on-year, from €18,616 million to €18,471 million.

 Note 12

In the MAIL Division, the number of employees fell by 0.9% to 146,208 but this masked conflicting trends. In the international mail business, the acquisition of The Stationery Office brought some 500 employees into the Group. At the same time, more than 1,000 new jobs were created. In contrast, the number of full-time equivalent employees in Germany contracted by almost 2,800, principally because we further improved workflows, extended the weekly working hours of the mail carriers – by common consent – and outsourced parcel delivery districts.

Measured against the previous year, the number of people employed in the EXPRESS Division rose by 5.7% to 112,727. The increase is attributable to the acquisition of ASTAR Air Cargo, expansion of Leipzig/Halle airport into a European hub, workforce adjustments as well as companies being fully consolidated for the first time. In LOGISTICS, notably operational growth pushed up the number of full-time equivalent employees by 4.5% to 170,130. In addition, over 4,000 employees in Europe were statistically recorded for the first time.

Number of employees

	2006	2007	+/-%
At year-end			
Headcount ¹⁾	520,112	536,350	3.1
Full-time equivalents ²⁾	463,350	475,100	2.5
By division			
MAIL	147,486 ⁴⁾	146,208	-0.9
EXPRESS	106,635 ⁴⁾	112,727	5.7
LOGISTICS	162,787 ⁴⁾	170,130	4.5
FINANCIAL SERVICES ³⁾	22,769 ⁴⁾	22,346	-1.9
SERVICES	23,673 ⁴⁾	23,689	0.1
By region			
Germany	195,577	191,732	-2.0
Europe (excluding Germany)	130,522	133,137	2.0
North, Central and South America	81,175	87,185	7.4
Asia Pacific	46,948	51,852	10.4
Other	9,128	11,194	22.6
Average for the year			
Headcount	507,641	524,803	3.4
Hourly workers and salaried employees	440,203	459,162	4.3
Civil servants	62,560	61,172	-2.2
Trainees	4,878	4,469	-8.4
Full-time equivalents	461,222	470,123	1.9

1) Including trainees.

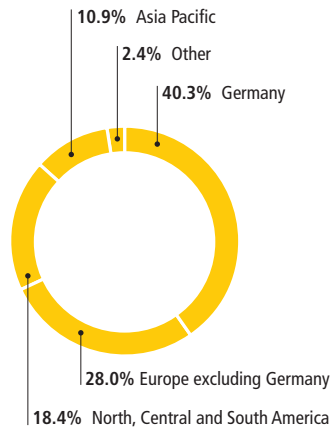
2) Excluding trainees.

3) Of which Postbank 21,895 (2006), 21,474 (2007).

4) Restated.

Employees by region

as at 31 December 2007¹⁾



1) Full-time equivalents.

The FINANCIAL SERVICES Division employed 22,346 people, or 1.9% fewer than in 2006. Staff numbers dropped primarily in the BHW Group and in Postbank branches. In the SERVICES Division, employees were assigned to the service segments at international level. This effect was offset by staff reductions triggered by the further reorganisation of the retail outlet network, which meant that the division's number of employees remained at the prior-year level.

We employ people in 220 countries and territories across the globe. Their regional distribution is illustrated by the adjacent diagram. Germany remains the country with the largest number of employees; however, the workforce there is diminishing. On the other hand, numbers are rising in Europe, America, Asia and the other regions.

Collectively agreed pay rises

The second stage of the collective pay agreement of 13 May 2006 was implemented at Deutsche Post AG with effect from 1 November 2007. The linear wage increase of 2.5% for hourly workers and salaried employees corresponds to a pay rise of 2% compared with the previous year. New collective pay agreements with a term of eighteen months were concluded for some 5,000 people employed by subsidiaries. The companies concerned are DHL Vertriebs GmbH & Co. OHG, DHL Verwaltungs GmbH, DHL Express Germany GmbH, DP IT Services GmbH and the DP property companies. Employees' pay scales were raised by 3.3% with effect from 1 October 2007 or 1 January 2008. Depending on the applicable legacy arrangements, employees received one-off payments of between €400 and €650 for the period between the agreements' conclusion and their taking effect.

Parcel business in Germany reorganised

At the start of 2007, we transferred the German parcel business from the EXPRESS to the MAIL Division. Around 20,000 employees were transferred to the MAIL branches. The transfer took place against the background of a reconciliation of interests and a social plan agreed with the General Works Council.

Excellent health management

At 6.3%, the illness rate at the Deutsche Post Group in Germany remains at a low level. This performance indicator is computed using a new method whereby part-time staff are converted to full-time employees and weekends, public holidays and holiday leave are deducted. For the third year in succession, we received recognition for our health management activities. In a study published by the business daily *Handelsblatt* we occupied first place amongst service enterprises. The certification of our occupational health and safety organisation's quality management system was renewed.

Road safety campaign

In 2007, our occupational safety team launched a road safety campaign throughout the Group. The response was very impressive. Some 76,000 employees of Deutsche Post AG alone attended courses on safe and considerate driving practices in 2007. In the same period, the number of work-related road accidents involving personal injury fell by over 1,300, a decrease of more than 17%. In view of our desire to instil in the workforce a thorough awareness of safety issues, the successful Global Road Safety Initiative is to continue for at least two more years.

Training pact targets exceeded



In 2005 Deutsche Post AG agreed in a training pact with the service sector trade union, ver.di, to offer 2,300 traineeships in Germany every year until 2007. We continued to meet our obligations under this agreement in the year under review. Furthermore, the provision requiring us as a general rule to offer employment to 30% of trainees and students in *Berufsakademie* (German universities of co-operative education) programmes in the period from 2007 to 2009 applied for the first time. We actually offered posts to most of the suitable candidates upon completion of their training programmes and therefore far exceeded the quota agreed in the training pact.


Cultivating talent, caring for the disadvantaged

We have developed a separate programme specifically to recruit, foster and retain particularly capable trainees and *Berufsakademie* students. We undertake to offer permanent employment to the best trainees and students in each year's group who successfully complete the training programme, a clear incentive for improving performance and raising commitment. For several years, we have been running the Youth Job Market Entrance Qualification programme. This long-term internship serves as a foundation for formal vocational training and thus improves the prospects of young people with restricted access to the employment market. In 2007, we offered traineeships for skilled positions in courier, express and mail services to just under 90% of the 280 young people who embarked on the programme in 2006.

Treating each other with respect

We not only respect but encourage diversity in our workforce. Everyone is assessed exclusively according to their skills, performance and conduct. We are developing special programmes to ensure equal opportunities for all. The mentoring programme, for example, which develops the skills of those aspiring to management positions, was extended in 2007 to embrace the entire Group. In December, we signed the charter of diversity, once again underscoring the fact that we foster a climate of acceptance and trust.

We continued to translate our seven  corporate values into action in 2007. In numerous workshops, our employees developed measures relating to everyday work experiences. Alongside the binding terms of reference introduced by the  Code of Conduct in summer 2006, we launched an internet-based information tool in spring 2007.

 Strategy and goals, page 32

E-learning

At the start of 2008, we launched an internal training platform on the internet at www.mylearningworld.net. It currently offers around 200 courses and seminars on a variety of subjects. The curriculum reflects the skills promoted by our human resources development system and thus facilitates focused personal development.

Initiative prize for House of Finance training programme

Our House of Finance programme is targeted at all employees in finance wishing to expand their knowledge in this area. The Group was awarded the *Initiativpreis Aus- und Weiterbildung*, a training and continuing professional development prize, for this programme in 2007.


Everyone counts

An employee survey was conducted in most divisions again in 2007. Responding to questions concerning customer orientation, commitment and active leadership, the workforce pointed to existing strengths and potential for improvements. The results are to form part of our continuous improvement process. The next Group-wide employee survey is scheduled to take place in 2008.

Employees improve workflows

In the reporting period, Deutsche Post employees submitted 202,000 suggestions for making workflows more efficient, reducing repair and energy costs, and improving environmental protection. The benefit to the company totalled €257 million. According to a study of idea management produced by the magazine *Wirtschaftswoche*, we remain the leading non-manufacturing company in this area.

Careers online

In recent years, career portals on the internet have become one of the foremost recruiting instruments. Our  website is well structured, clearly laid out and varied. In the Top Employer Web Benchmark 2007 ranking published by Potentialpark Communication, the Swedish market research institute, it once again reached the number one spot in both Germany and Europe. Each year, we advertise more than 19,000 jobs online and our database already encompasses over half a million candidates.

 dpwn.com/career

Forward-looking personnel planning

In the interests of sustainable human resources planning, we monitor demographic developments. It was in this context that we devised a simulation model in cooperation with the *Forschungsinstitut zur Zukunft der Arbeit* (Institute for the Study of Labour) which is currently being tested in a number of different countries. Using the so-called demographic risk monitor, potential risks can be identified at an early stage and pointers to possible courses of action gained. Following analysis of the test results, this control instrument will be made available to the divisions to help them in their planning.

Talent-seeking

Following the introduction four years ago of our uniform Group-wide performance management system, motiv8, we have now created the post of internal talent broker, whose job is to use the results of the annual evaluation process to fill even more management vacancies from within our own ranks.

Developing leadership skills


Four events took place under the auspices of the International Business Leadership Programme in 2007. Some 100 managers from twenty countries took the opportunity to meet and talk to the Group's Board members and executives, as well as representatives of other companies. The participants honed their leadership skills through active learning orientated towards the requirements of the everyday working environment. The outcomes of case studies have helped to shape corporate strategy, amongst other things through ideas on improving co-operation between divisions.


360-degree feedback

In 2007, we introduced a procedure throughout the Group for generating personal performance feedback not only from supervisors but also anonymously from peers and subordinates. Entitled "360-degree feedback" and intended to promote both personal development and self-reflection, this option is available to all managers. In the same context, we also offer team development courses and individual coaching sessions.


Sustainability

Guiding principles and mission

We continue to conduct ourselves responsibly towards the environment, other people and society, guided by seven  corporate values that reflect our company's mission.

 Strategy and goals, page 32

In order to establish binding terms of reference, we introduced a Code of Conduct in 2006. It is based on international guiding principles including the Universal Declaration of Human Rights, International Labour Organisation Conventions and the United Nations Global Compact.


Our strategy and key initiatives are published on the  internet and in our sustainability report, the next issue of which will be published in mid-2008.

 dpwn.com/sustainability

Improved performance

The effectiveness of our action on sustainability is also monitored by external rating agencies. According to Sustainable Asset Management (SAM), our rating improved from 67 in 2006 to 74/100 points in 2007. We were omitted from the latest European Dow Jones sustainability index, the DJSI STOXX, but the FTSE4Good Index confirmed our company's membership. We also remain in the Advanced Sustainability Performance Index Eurozone maintained by the French rating agency Vigeo and in the KLD Global Climate 100 Index.

Challenge of climate protection

Protecting the climate in compliance with the  Kyoto Protocol and improving carbon dioxide (CO₂) efficiency were our principal environmental goals in the year under review. We calculate our greenhouse gas emissions with a continuously refined CO₂ monitoring system based on an international standard (the Greenhouse Gas Protocol published by the World Resources Institute and the World Business Council for Sustainable Development). In 2006, we were able for the first time to record all CO₂ emissions directly caused by us. These totalled around 6.1 million tonnes.

 dpwn.com/sustainability

Until there are economical large-scale alternatives to fossil fuels, we must seek to organise all logistics processes so efficiently that the rising demand for goods transport is not accompanied by an equivalent increase in emissions. As the examples below indicate, we are embracing this challenge.

By way of our GOGREEN options, we are currently the only logistics service provider to offer climate-neutral products, which offset the emissions associated with their shipping through climate protection projects. In Germany, the product range encompasses the *Pluspäckchen* (small packet plus postage) for retail customers, online franking and parcels for mail order customers. In January 2007, we also began offering climate-neutral express delivery services to business customers in Europe.

We are investing in modern, fuel-efficient cargo aircraft, such as the Boeing 767-300 ER. Our road fleet also uses alternative powertrains, including hybrids, and burns renewable fuels, such as vegetable oil. We also consolidate shipments and optimise route planning.

The infrastructure of our new central air freight hub for Europe, in Leipzig, will emit about 3,000 fewer tonnes of CO₂ each year than conventional systems, thanks to photovoltaic technology and cogeneration.

More than 35% of our employees now work with environmental management systems audited in compliance with ISO 14001. We developed the underlying concept ourselves in a six-stage plan.

Accepting social responsibility

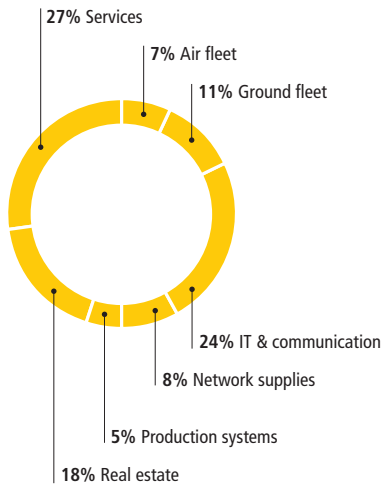
Our partnership with the United Nations Development Programme (UNDP) and the United Nations Office for the Co-ordination of Humanitarian Affairs (OCHA) forms a cornerstone of our socio-political commitment. We have enlarged our disaster relief organisation, which now comprises three well-qualified teams in Singapore, Miami and Dubai. These disaster response teams cover the Asia Pacific region, America, the Middle East and Africa – more than 80% of the world's territory most frequently visited by catastrophe – co-ordinating logistics for incoming aid at local airports in order to help avoid supply bottlenecks. In conjunction with the UNDP, we also improved our disaster mitigation provisions in 2007. Airport managers and employees are learning about pre-disaster planning through the GARD (Get Airports Ready for Disasters) programme.

We are supporting the United Nations Children's Fund (UNICEF) in the global struggle against infant mortality by providing logistics services and financial aid, and through our employees' personal engagement. As reported in 2006, we helped UNICEF to distribute about 3.5 million mosquito nets in Kenya as part of Africa's largest vaccination campaign. We thus contributed to reducing the number of children under the age of five dying from malaria from 34,000 in 2005, according to the World Health Organisation, to 16,000 in 2006. Twelve volunteers from Deutsche Post World Net spent two weeks working for UNICEF in Kenya and taking part in local preventive healthcare programmes. In 2008, we are extending the international reach of our co-operation with UNICEF to include Asia and South America.

In the year under review, our social responsibility found further expression in more than 250 regional and local initiatives. We transported and distributed aid, for example, following the extremely cold spell in Peru, and supported orphans in Angola. We also used Fair Trade products as giveaways, and sponsored school and cultural projects in Bonn, the home of our corporate headquarters.

Procurement expenses, 2007

Volume: €10.3 billion



Procurement

Purchasing of goods and services

Corporate Procurement purchased goods and services with a total value of about €10.3 billion in the year under review. Spending was higher than in 2006 (€9.5 billion) because of the integration of Williams Lea and other factors. Transport services are generally procured by the individual units, with Procurement providing advice on a project basis.

Procurement organisation streamlined

Procurement is a centralised function. The Group employs sixteen product group managers worldwide who work closely together with regional procurement managers. We have optimised Procurement's regional structure with effect from 1 December 2007; and the regions now comprise: Germany/Austria/Switzerland, UK/Ireland, Europe/Middle East/Africa, North America, South America and Asia Pacific. Product group managers and regional procurement managers report to the head of Corporate Procurement. This line reporting structure enables us to pool our needs worldwide while satisfying the service and quality requirements of internal customers.

We seek continuously to improve our performance. Our success in 2007 was corroborated by a study produced by the European Business School, which compared the purchasing departments of 35 other companies with our own. In direct comparison, Deutsche Post Procurement ranked amongst the leaders as regards both procurement cost and economies achieved in relation to procurement volume.

As ever, our success depends on the skills and quality of our employees. For this reason, we extended our Fit4 Procurement programme in the year under review to embrace all the regions; we also conducted numerous subject-specific training courses.

Compliance with environmental guidelines

The principal procurement initiatives during the year attached a high priority to environmental aspects of our business. In Germany, for example, electricity supply agreements were concluded primarily with producers using renewable energy resources. From 2008 onwards, more than 60% of the electricity consumed by our headquarters and branches will come from eco-friendly sources. This will enable us to reduce CO₂ emissions by more than 200,000 tonnes a year. Furthermore, purchasing in tranches enables us to pare administrative costs and secure price advantages for the next one to two years. This procedure allows us to take market pricing trends into account since purchasing is done in tranches throughout the year rather than all at once.

In the United Kingdom, the supply of electricity and gas was put out to tender. In the light of this, our Group subsidiary DHL converted its 104 main facilities to renewable energies. The target is to reduce annual CO₂ emissions by 98,000 tonnes. In Asia and Europe, we have reduced the size of the air waybill, thus eliminating 200 tonnes of paper and the associated costs every year.

We also apply environmental criteria to the purchase of vehicles. Our focus here is on fuel consumption and emission class in accordance with the EU classification.

Working together with customers and suppliers

We have stepped up our co-operation with our internal business partners. The First Choice programme was rolled out throughout Procurement. This Group-wide programme, which aims to enhance our customer relationships, has already given rise to several initiatives. It is driving our endeavour to understand and satisfy our partners' requirements more effectively.

Procurement regularly reviews key suppliers' service quality with its business partners in order to identify potential weaknesses at an early stage and arrange suitable improvement measures with the suppliers. This has enabled us to substantially raise both the quality of services and our internal customers' satisfaction.

Quality

Technological leadership in mail

We reach our customers in Germany via a nationwide transport and delivery network. At the heart of this network are 82 mail centres processing an average of around seventy million items per working day and 33 parcel centres with a handling volume of around 2.5 million units per working day. The extent of automation in our mail business continues to rise; we pushed up the rate from 89% of items in 2006 to more than 90% in the year under review.

We use all available technical and operational options to ensure high-quality and efficient mail processing. In 2007, we tested new machines in our mail centres. These are now capable of sorting flat mail (large letters), achieve almost three times the throughput of current machines and offer enhanced functionality.

Regular market research and the focused processing of complaints tell us that our customers expect us to achieve the highest possible quality standards. The criterion they apply to evaluate the quality of our services is whether mailed items reach their destinations quickly, reliably and undamaged. To satisfy these requirements, we manage quality according to a system audited by the *Technischer Überwachungsverein* (TÜV – German technical inspection association) and certified for compliance with ISO every year. We also have our performance evaluated by Quotas, a quality research institute.

In the year under review, we once again achieved the excellent mail transit times posted in 2006. In Germany, over 95% of the letters posted during our daily opening hours or before the final collection are delivered to their recipients the next day.

MAIL in figures

- Private customers: 39 million
- Business customers: 3 million
- Letters in Germany: 70 million per working day
- Parcels in Germany: 2.5 million per working day
- International items transported: 7,457 million
- Production facilities: 162

We also improved our already outstanding parcel transit times: Delivery, or attempted delivery, of 95.5% of all parcels processed at outbound parcel centres to their recipients took place within the stipulated transit time – by either the next working day or the day after, depending on the distance.

Our transit times for international letters – as determined in a study by the Universal Postal Union – are significantly better than the standard set by the European Union (EU). As in previous years, our quota for three-day delivery of cross-border items mailed within the EU was 96% against the EU requirement of 85%.

We regard working practices that protect the environment as a further yardstick of quality. In Germany, we employ environmental management systems in both our mail and parcel businesses. Within the framework of our **GOGREEN** initiative, we offer private and business customers climate-neutral shipping options.

Express services driven by customer satisfaction

The overriding goal of our quality endeavours in the field of express delivery is to satisfy our customers. Our **First Choice** initiative ensures that we meet the customers' high demand for speed and reliability. We are focusing above all on operating performance and customer contact.

The capacity to deliver on time is an important quality indicator. Our central quality measuring programmes allow us to determine the punctuality of deliveries, to analyse delays in individual process stages and to seek ways of accelerating delivery to customers. For this purpose, we have set up global, regional and national teams that work closely together.

The Quality Control Centres are at the heart of our global network. Using state-of-the-art equipment, their employees effectively monitor the performance of our inter-continental flight network and all other transport processes on a daily basis. They track the course of shipments from collection to delivery in real time and provide customers with advance information. We will introduce further quality control centres in all regions. We are already operating such centres to good effect in 26 locations in the Asia Pacific region.

Consistently high quality of service is crucial for a global network operator. We therefore regularly monitor the compliance of our workflows, for instance, to establish whether the required data are delivered in full and on time.

We constantly strive to improve our services in order to more closely satisfy customers' wishes. By regularly conducting customer surveys, we determine whether we are succeeding in this respect. Amongst the key criteria are the availability of our customer service organisation and the speed with which customers' inquiries are processed.

Sustainability, page 76

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EXPRESS in figures

- Countries and territories: 220
- Hubs: 36
- Service points: 50,000
- Customers: 8.3 million
- Vehicles: 72,000
- Aircraft in service for DHL: 350

In 2007, as in the preceding years, we once again received several awards from international media and our customers, including:

- “Best International Express Operator 2007” from the magazine Air Cargo Weekly.
- “International Express Operator of the Year” in the UK for the third year in succession.
- The “Mobile 2007” award in the Polish transport business.
- “Best Company for Express Air Freight” from the Portuguese trade journal, Transportes & Negócios.
- In India, we were recognised by the readers of Avaya Global Connect and The Economic Times for our “Customer Responsiveness in the Logistics Industry”.
- The Centre for Customer Satisfaction and Loyalty in Indonesia also expressed its approval by presenting us with the “Best Call Centre Award for Service Excellence”; we also received similar awards in Australia and China.
- “Best Customer Support of the Year” award from the Japan Institute of Information Technology.
- The American Business Award for our human resources work.

Focus on logistics customer satisfaction pays dividends

In the logistics business, we seek to dovetail our services with customers’ needs. Since our business is built on long-term customer relationships, the extent to which existing agreements are renewed is a key indicator of quality. In 2007, the contract renewal rate was 84% (previous year: 77%).

In 2006, we began regularly and systematically polling our customers on their wishes and satisfaction with our services. Surveys were again conducted in the reporting period, covering customers in all business units and regions. The results are used to form part of our continuous improvement process.

In the year under review, we once again received several awards for the quality of our services. The principal ones were:

- “Best European 3PL Awards” from the website eyefortransport.
- The “Asia Pacific 3PL Award” at the SCM Logistics Excellence Awards.
- The “European Retail Solutions Award” for project implementation of the year.
- DHL Exel Supply Chain was named provider of the year by Volvo in Brazil.
- We received the “Provider of the Year” award at the Middle East Supply Chain and Transport Awards.
- The “EPA SmartWay Environmental Excellence Award” for DHL Exel Supply Chain in the USA.
- In Mexico, we won the accolade of “most responsible company” and the Volkswagen Group’s award for outstanding supplier performance.
- DHL Exel Supply Chain occupied second place in the list of leading 3PL companies published by Inbound Logistics magazine and the Transport Topics newspaper named us the best logistics company.

LOGISTICS in figures

■ DHL Global Forwarding

- Countries and territories: 150
- Locations: 810
- Air freight volume: 4.4 million t
- Ocean freight volume: 2.8 million TEUs

■ DHL Exel Supply Chain

- Countries and territories: 60
- Distribution centres: 2,500
- Warehouse space: 23 million m²

■ DHL Freight

- Terminals: 160
- Transport volume: 40 million t
- Full truckloads: 2 million

Postbank in figures

- Customers: 14.5 million
 - Private customer current accounts: 4.9 million
 - Savings volume: €60.5 billion
 - Volume of brokerage accounts: €11.5 billion
 - Private loans: €2.9 billion
 - Corporate customer loans: €17.6 billion
 - Private mortgage lending: €68.0 billion
-

📌 Strategy and goals, page 31

Retail outlets in figures

- Deutsche Post employees: 6,939
 - Total outlets: 13,526
 - Own outlets: 5,440
 - Partner outlets: 8,086
 - Average weekly opening hours: 42
-

High accessibility critical for Postbank

As the leading financial services provider for private customers in Germany, Postbank measures the quality of its services, amongst other things, by the ease of access for its 14.5 million customers.

Postbank has also developed key indicators that are subject to regular internal measurement and evaluation procedures. These include the average duration of customer transactions, the skills of employees who have direct contact with customers and waiting times in the Postbank branches.

Customer loyalty is another quality benchmark. It is measured by the number of regular customers and the average number of products purchased by each one.

Enhanced customer focus in internal services

At Global Business Services, the priority in the year under review was on further enhancing customer focus in internal services. This is closely linked with the 📌 First Choice initiative. We surveyed customers and business partners within the Group to find out how satisfied they are with our services, and their responses have led to numerous improvements. Marked gains have already been achieved on a number of quality indicators such as response times and IT system availability. We will be repeating the customer satisfaction survey yearly from now on.

Local retail outlets as nationwide sales platform

Our “non-mobile” sales network of more than 13,500 retail outlets is one of the most extensive in Germany. Every day, these outlets welcome two to three million customers who come there to use postal services and, in many cases, to take care of their banking needs. We are also currently testing around 900 new Postpoint format outlets, which are located, as are our partner outlets, in different kinds of shops, to ensure proximity to customers and high accessibility.

We have been co-operating successfully with the retail trade for fifteen years. Currently, more than 8,000 outlets are operated by partners offering postal services and in most cases banking services in addition to their own main product range. As this sales model benefits everyone concerned we plan to expand it: Customers profit from short distances; partners benefit from growth in customer numbers and income; and Deutsche Post demonstrates its proximity to the customer whilst improving efficiency. The postal services provided under the Deutsche Post and DHL brands are also available in the 855 finance centres of Postbank.

Brands

One Group, three brands

Deutsche Post World Net is active in the market with three brands: Deutsche Post, DHL and Postbank. Each stands for high-quality products and services, and market research studies have confirmed that each is well established amongst its individual target groups. The awareness of Deutsche Post in Germany amongst both private and business customers has been measured at a consistently high 95% or so for many years.

Awareness of the Postbank brand is similarly high. With a score of around 95%, it ranks amongst Germany's most well-known financial institutions.

In addition, the brand awareness of DHL is steadily increasing amongst its target audiences in the international mail, express and logistics segments. It currently stands at some 93%. In addition, we have further successful segment brands, regionally and at the business unit level, including Exel, Williams Lea, The Stationery Office and BHW.

Clearly orientated brands

Our brands face tough competition from both domestic and international providers. To facilitate our customers' purchasing and investment decisions, we have adopted a clear orientation for each of our brands, in order to communicate clearly what they essentially stand for and the customer benefits they embody.

The Deutsche Post brand stands for personal proximity, reliable quality and ground-breaking services. Its success is built on industry leadership, a unique infrastructure in Germany and consistently high quality in the mail business.

DHL is a brand acknowledged for personal commitment, proactive solutions and local strengths in the global arena. Its commitment stems from the personal dedication of around 285,000 employees and their customer orientation. We employ our extensive services in a forward-looking manner in order to offer every customer a suitable solution. Our branches in 220 countries and territories make us a genuine global player.

The performance pledge of the Postbank brand is: simple, better and more flexible. Above all, our success is founded on readily understood products, easy access to our services and competent financial advice covering the entire product portfolio on attractive terms.

Brands and business units

■ Deutsche Post

- MAIL Germany

■ DHL

- EXPRESS
- LOGISTICS
- MAIL International
- PARCEL Germany

■ Postbank

- FINANCIAL SERVICES
-

Substantial value

Brands are a vital factor in value creation, as illustrated by the efforts of numerous market research institutes to determine the special value brands have for the companies they represent. Semion Brand Broker, for example, has analysed Deutsche Post according to the following criteria for its “famous German brands” ranking: financial value, brand protection and image, and brand strength, which is expressed in terms of market share, marketing activities, distribution rate, awareness and coherence of the branding. For 2007, Semion calculated a brand value of €15,711 million for Deutsche Post. It thus ranks in fifth position amongst the leading German brands. The value of the DHL and Postbank brands has not as yet been assessed.


Investing in establishing and developing our brands

In the year under review, we invested some €120 million in directly establishing and developing our brands. Activities include advertising and sponsorship measures, as well as direct marketing campaigns, trade fair presentations, market research, internal communications, press relations and sales support.

In keeping with its global presence, the DHL brand attracted around half of the development budget. A quarter was earmarked for each of the German domestic brands, Deutsche Post and Postbank.

Research and development

As a service provider, Deutsche Post World Net does not engage in research and development activities in the strict sense, and therefore has no significant expenses to report in this connection.

Nonetheless, we are always seeking to harness technical innovation for our services. In Troisdorf near Bonn, for example, we opened the  DHL Innovation Center in March 2007. Here, the Group is bringing together the various entities that have been responsible for managing technical innovation thus far. The goal and task is to place our practical knowledge at the disposal of our partners in such a way that emerging trends in logistics are translated into innovative, marketable products. Our technical partners in business include IBM, Intel and SAP. The Innovation Center comprises a vibrant exhibition area alongside a conference suite.

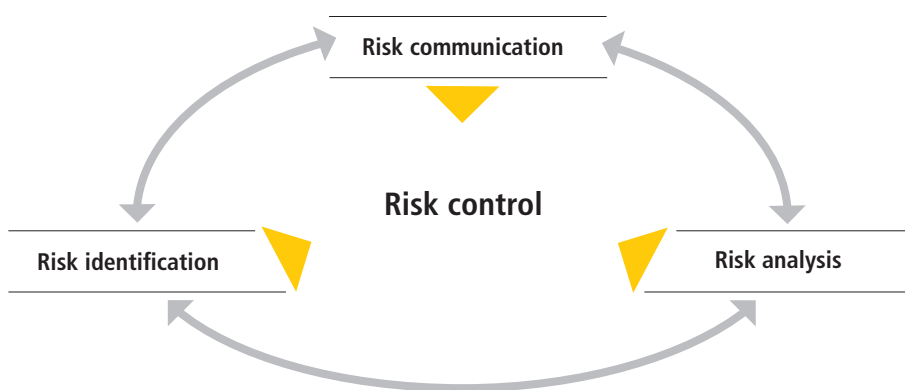
 dpwn.com/future

Risks

Opportunity and risk management

Organisation of opportunity and risk management

All business fundamentally involves opportunities and risks. Active control of these opportunities and risks is supported within Deutsche Post World Net by a Group-wide opportunity and risk management process. The objective is to strengthen the Group's firmly established culture of tackling risks and opportunities proactively in order to secure our business success for the long term. The process developed to this end is based on uniform methods and standards for identifying, analysing and communicating the issues concerned.



Tightly integrated into the existing controlling processes are quarterly opportunity and risk identification and reappraisal. This analysis covers events and developments both within and outside the Group that might lead to deviations from the planned course of commercial success. In the event of significant changes, ad-hoc announcements may be issued at any time.

Opportunity and risk analysis also involves the investigation of major influencing factors, the compiling of action plans and determining indicators for the early detection of critical situations. The analysis is performed on a results-orientated basis using scenarios. Opportunities and risks are assigned to managers responsible for taking action as appropriate to exploit the opportunity or control the risk. This helps clarify who is responsible, particularly with cross-cutting issues.

We deploy identical software for recording, reporting and documenting risk throughout the Group. This replicates the multi-level risk reporting structure and ensures that the managers responsible are involved at various strata of the hierarchy. The process is closely integrated with management and control tools, safeguarding regular communication between the controlling function and management. The Board of Management is kept informed by central risk control, which is organisationally part of Corporate Controlling.

i Note 48.1

Postbank's **i** risk control system complies with the bank-specific requirements of the Basel Committee on Banking Supervision (Basel II in line with EU directives) and the Minimum Requirements for Risk Management (MaRisk, laid down by BaFin, Germany's federal financial supervisory authority). Postbank is also integrated into the Group's opportunity and risk control process.

We consider the risks set out in the following to be the significant negative factors currently affecting our net assets, financial position and results of operations. However, these are not necessarily the only risks to which the Group is exposed. Risks of which we are currently unaware or which we do not yet consider to be material could also have an adverse effect on our business activities.

Risk categories and individual risks

General business environment and industry-specific risks

Our business success substantially depends on the financial health of our customers. Despite turbulence in the financial markets, the world's countries are expected on average to sustain their GDP growth, with particularly strong growth rates in emerging and developing economies. A sustained upturn is also accelerating the process of globalisation, leading to growth in demand for storage and transport. This can boost demand for the services of high-performance logistics providers but may also stoke regional and global competition with established and new market players. A cyclical slowdown could reduce customer demand to such an extent as to pose risks for our business activities. However, we do not currently perceive any far-reaching general economic risks facing the Group.

Risks associated with the general business environment primarily arise from the fact that both the Group and its subsidiaries provide some of their services in a regulated market. Our statutory exclusive licence was abolished in Germany on 1 January 2008. However, the *Postgesetz* (German postal act) has allowed exceptions enabling competitors to operate within the weight and price ceilings laid down in our exclusive licence from January 1998 onwards. As a result, around 55% of the revenue generated by competitors in 2007 was within the weight ceilings stipulated by the exclusive licence. By the end of the year, the regulatory authority (*Bundesnetzagentur* – Federal Network Agency) had issued licences to around 2,370 competitors.

On 7 November 2007, the regulatory authority announced its benchmark decision specifying the conditions which will apply from 2008 until the end of 2011 to regula-

tions under the price cap procedure for mail prices requiring approval. This stipulates the general rate of inflation and the expected productivity growth rate for Deutsche Post AG as the key factors applicable to mail prices. Prices have to be lowered if the inflation rate in the reference period is less than the productivity growth rate specified by the regulatory authority. No price cuts are required in 2008, allowing the mail prices requiring approval to remain unchanged. The regulatory authority accepted an application from Deutsche Post AG to this effect on 20 November 2007.

On 18 October 2006, the European Commission presented its proposal for a third Postal Directive and recommended opening the EU postal markets fully to competition starting in January 2009. The European Parliament and Council have begun consultations on the proposal under the EU co-decision procedure. In a first hearing on 11 July 2007, the European Parliament came out in favour of fully opening the EU markets by 1 January 2011 – later than in the Commission proposal – and of granting certain member states a transitional period until 1 January 2013. The Council adopted its common position on 8 November, in which it endorsed the European Parliament's proposed date for market opening. The European legislative procedure continues.

Whilst liberalisation of postal markets entails risks for Deutsche Post AG due to increased competition in Germany, it also opens up new opportunities in other European mail markets.

In 2007, cross-border mail in Europe between Deutsche Post AG and fifteen other western European postal operators was governed by the REIMS II agreement and with another nine eastern European postal companies by the REIMS EAST agreement. The postal operators are currently negotiating a new agreement called REIMS III, which is to come into force with retroactive effect from 1 January 2008 and replace the REIMS II and REIMS EAST agreements.

Discussions continue regarding the extent to which postal services should be exempt from value-added tax (VAT). In correspondence dated 10 April 2006, the European Commission initiated infringement proceedings against the Federal Republic of Germany with regard to the VAT exemption of postal universal services provided by Deutsche Post AG. Germany considers the current VAT exemption to be in compliance with applicable law and responded to the European Commission accordingly. On 24 July 2007, the Commission announced in its decision on the proceedings that the VAT exemption for postal universal services provided by Deutsche Post AG was too far-reaching and called on the German government to amend the applicable law. Independently of these infringement proceedings, the German government

announced that it would review the VAT exemption of Deutsche Post AG against the backdrop of the expiration of the exclusive licence on 31 December 2007. In a first statement on the infringement proceedings, a spokesman for Germany's finance ministry stated that the German government considers the current VAT exemption in Germany to be tenable throughout Europe. The German cabinet has resolved to retain the VAT exemption for nationwide universal services in the postal sector.

Concurring with Deutsche Post AG, the regulatory authority is of the opinion that the prices it approved are net prices not including VAT. VAT could therefore be added to the approved prices. However, it cannot be ruled out that the application of VAT would lead to a decrease in revenue and earnings.

Business strategy risks

Deutsche Post World Net continues to focus on meeting the needs of its customers at all times. To do this, we aim to make optimum use of our global platform. In regional expansion of the services network, priority is given to organic growth over business acquisitions.

Starting 1 January 2008, our MAIL Division with its diverse range of mail and parcel services will face heightened competition in the liberalised German mail market. This may result in loss of market share, most of all in the business customer segment. The spread of digital technology also continues, with conventional mail increasingly being replaced by electronic communication methods. We aim to absorb impending losses of market share in the German mail market as far as possible through consistent customer focus, new products and further internationalisation of our mail business. The parcels business in Germany is unaffected by mail market liberalisation, since it has been exposed to competition for many years.

The EXPRESS Division has unified its worldwide management structure. The aim here is maximum possible efficiency in marshalling resources and capital expenditure and to strengthen our position in the regions we serve. As reflected in the successful launch of our First Choice programme, customer satisfaction is amongst our central strategic goals. In a fiercely competitive environment, our focus on customer satisfaction and cost efficiency forms the basis for numerous projects, including the cost-efficient expansion of our infrastructure. Despite intensive planning, temporary quality lapses may arise in the course of complex infrastructure projects, in rare instances with an adverse effect on revenue and earnings.

The LOGISTICS Division has integrated logistics provider Exel sooner than planned. The division grew to take in the European overland transport business in 2006 and now offers a full logistics service portfolio. We plan to extend our market lead, to enhance customer focus and to continue our predominantly organic growth. Our growth targets are dependent on growth in the global economy. If there were to be a cyclical slowdown, worldwide or in specific regions, our commercial success could suffer as a result.

Earnings in the FINANCIAL SERVICES Division are almost exclusively accounted for by Postbank, which plans to strengthen its position in the German banking market, particularly in the fiercely contested private customer segment. To counter the heightened competition as well as meet customer and capital market needs, Postbank will continue to improve sales and internal processes.

Performance and profitability risks

The global expansion of our Group has placed increasing demands on our mission-critical infrastructure. This applies to posting and collection, sorting, transport, delivery and information technology. We aim to avoid business interruptions at key locations by continually monitoring critical infrastructure such as sorting and conveyor systems, air hubs and data centres. The precautions we take and our emergency and contingency plans are effective tools in preventing business interruptions or minimising their effects.

Following the complete opening up of the German mail market, our MAIL Division now faces growing competition. We are well prepared for the changed situation. With modern sorting facilities and efficient processes, we set high quality standards. We are also optimising and rendering more flexible the costs of our transport and delivery network. Consistent customer focus in conjunction with sales and marketing activities additionally reduce the risk of loss of market share.

The EXPRESS Division is exposed to fierce competition both nationally and internationally. To hold our own in this business, we are optimising our global transport network, amongst other things by building or enlarging air hubs. All processes are subject to regular analysis with the aim of effective use of deployed resources. We continuously match up the product portfolio to customer needs. With our First Choice programme, we ensure workforce awareness of the need to view customer satisfaction as a key competitive criterion.

This applies equally in the LOGISTICS Division. Loss of customers, particularly major customers, could put the attainment of our earnings and revenue targets at risk. Far-sighted management can limit this risk but not eliminate it altogether. With custom-tailored logistics solutions especially, our commercial success is closely bound to that of our customers. We therefore aim to support our customers with our experience, the quality of our work and a broad service portfolio.

Postbank accepts normal banking risks whilst strictly observing its risk-bearing capacity. The relevant risks are continuously measured and monitored, and regularly reported to the management. The Basel II capital adequacy requirements in force since 1 January 2007 and the Minimum Requirements for Risk Management (MaRisk) were integrated into Postbank's risk management system at an early stage. Germany's federal financial supervisory authority (BaFin) has permitted Postbank to use its own rating and scoring models to assess risk and ensure capital adequacy for the majority of its transactions. In the course of credit substitute transactions, Postbank has also invested in structured credit products. It has closely monitored the disruption of the capital markets arising from the developments on the US real estate market with regard to potential defaults in its structured credit portfolio. Postbank has systematically analysed its holdings on an ongoing basis and tested them for impairment. Based on a conservative assessment of the portfolio, an impairment loss in the amount of €112 million was recognised in 2007. In the event of an appreciable increase in the turbulence arising from the US real estate market and the crisis spreading to the real economy, further financial impacts cannot be ruled out.

Environmental risks

Monitoring environmental regulations is an integral part of the Group-wide risk management process. We do not currently know of any significant environmental risks with a substantial potential financial impact on the Group. However, we are closely following political discussions within the EU that deal with the introduction of an emissions trading system, especially for the air transport sector. As it is impossible to foresee the outcome of the political discussions, we cannot assess the financial impact, were such a system to be introduced.

Personnel risks

The hard work, expertise and commitment of the workforce are essential to our commercial success. We therefore place high priority on initial and further training, and use motivation-enhancing, performance-based pay structures, with performance assessment that is standardised Group-wide. These are linked to human resources development activities specially tailored for each employee target group. The increasing internationalisation of our business and the growing demands on management

increase the need for highly qualified young talent. We identify and promote outstanding managerial talent on an ongoing basis, amongst other things in connection with *Berufsakademien* (German universities of co-operative education) and the Group's own university. International education opportunities and challenging career openings make the Group highly attractive, enabling us to hold our own in the competition for highly qualified specialists and managers as well as to actively counter the risks associated with workforce fluctuation, **i** demographic developments and loss of expertise.

i Employees, page 75

Liberalisation of the German mail market may pose further personnel risks. If despite all efforts Deutsche Post AG suffers substantial losses in market share, jobs may come under threat within the Group.

Information technology risks

Information technology is an integral part of our Group's production and service processes. Our business performance therefore depends heavily on the functioning and availability of our applications and infrastructure. Our three globally operating data centres constitute a key success factor. We prevent faults and any downtime by active risk management, and have set up redundant systems and developed detailed emergency plans.

In everyday use, the effectiveness of IT security relies largely on the workforce's implementation of our security guidelines. We have therefore taken steps to enhance workforce risk-awareness. Amongst other things, we have set up the Information Security Knowledge Centre, an interactive platform providing key information on IT security.

We block unauthorised data access and data manipulation with various measures involving the workforce, organisational structure, applications, systems and networks. We continuously improve security mechanisms and plans. The appointment of a global committee on IT security underscores the priority given to IT security within the Group.

Management of financial risks

Information on financial risk management is provided in the **i** Notes.

i Note 48.2

Risks from pending legal proceedings

Information on legal risks is provided in the **i** Notes.

i Note 50

Other risks

The US Department of Transportation (DOT) has not yet completed a US citizenship test for ABX Air Inc. ABX Air Inc. is an independent company that provides transport services for DHL. There is no deadline for the routine citizenship test by the DOT. ABX advises that it expects a positive outcome of this test that will confirm that it is a US airline pursuant to US laws and DOT regulations. A similar review of ASTAR Air Cargo Inc. was decided positively by the DOT in 2003/2004.

External audits are currently underway at DHL Express (USA) and Airborne Inc. in line with the US unclaimed property laws. These laws state that abandoned assets must either be returned to their rightful owner or transferred to the last known owner's home state or, if this is not known, to the state in which the company is domiciled.


In the course of its expansion, the Group has recognised significant goodwill. According to IAS 36, this goodwill must be subjected to an impairment test at least once a year. If the value of the goodwill is determined to be impaired, an impairment loss must be recognised.


Our insurance strategy separates insurable risks into two groups. The first group comprises risks with a high probability of occurrence and low individual cost. These risks are insured via a captive, an insurance company owned by the Group. The in-house company is able to insure such risks at a lower cost than commercial insurers. The second group comprises risks that have a low probability of occurrence but could entail high losses, such as air transport risks. These risks are transferred to commercial insurers. This global financing and insurance strategy produced cost savings approaching €100 million during the year.

The threat of terrorist attacks could also have negative effects on our business and particularly on our air-based express operations. Higher insurance premiums cannot be ruled out in such an eventuality.

As a service provider, we do not conduct research and development in the narrower sense. There are therefore no material risks to report in this area.

Overall assessment of the Group's risk position

Significant risks capable of threatening the attainment of our budgeted earnings figures are largely associated with the liberalisation of the German mail market. Our risk situation is also affected by fierce competition in our other markets and businesses. The volume of the markets we serve primarily depends on the development of the world economy and cyclical trends in individual countries. In the past financial year, there were no identifiable risks for the Group which, individually or collectively, cast significant doubt upon the company's ability to continue as a going concern. Nor are any such risks apparent in the foreseeable future. For a description of the risk position of Deutsche Postbank AG, please refer also to the Postbank Group's  risk report.

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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 forecast¹⁾, 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.

This Annual Report contains forward-looking statements that relate to the business, financial performance and results of operations of Deutsche Post AG. Forward-looking statements are not historical facts, and may be identified by words such as "believes", "expects", "predicts", "intends", "projects", "plans", "estimates", "aims", "foresees", "anticipates", "targets", and similar expressions. As these statements are based on current plans, estimates and projections, they are subject to risks and uncertainties that could cause actual results to be materially different from the future development, performance or results expressly or implicitly assumed in the forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which apply only as of the date of this presentation. Deutsche Post AG does not intend or assume any obligation to update these forward-looking statements to reflect events or circumstances after the date of this Annual Report.