

Overview

Carving out a clear path in a difficult environment

The year 2008 was an extraordinary year for our Group. It began with a transition in management and successful wage agreements. As the year progressed, we agreed to sell shares of Postbank to Deutsche Bank and we began to reorganise our US express business. All of this took place in the shadow of a weak financial market that evolved into a global economic crisis during the course of the year.

Thanks above all to the fact that we consistently implement the initiatives set forth in our Roadmap to Value capital markets programme and run a tight cost management system, we have met our adjusted target for the period: Earnings from operating activities before non-recurring items (excluding Postbank) were just above our target of €2.4 billion.

In the year under review, non-recurring items impacted our earnings. The repayment from the German government awarded as a result of the state aid proceedings boosted earnings, whilst the restructuring costs for the US express business and an impairment loss on the goodwill of SUPPLY CHAIN/CIS undermined our bottom line.

Including non-recurring items, we are reporting a loss: EBIT (excluding Postbank) declined by €2.7 billion to €-567 million; the Group generated a consolidated net loss for the period of €1.98 billion.

Consolidated revenue (excluding Postbank) grew by 0.8% to €54.5 billion. Trading volumes continued to drop in most of our business units in a year-on-year comparison, especially in the fourth quarter. All of our divisions performed below the expectations, which we had laid out at the beginning of the reporting year in a different economic environment.

Our financial position appears to be stable. Net cash from operating activities (Postbank at equity) significantly increased, whilst working capital fell. Moreover, because investments were below the prior-year level, free cash flow grew significantly by €950 million to €2,448 million.

By agreeing to sell Postbank and initiating restructuring activities, we are carving out a strategic path on which we can take our continuing operations and face the challenges of the current economic crisis head on. We are confident that we will come out of the crisis a stronger market leader.

Selected key indicators for results of operations¹⁾

		2007	2008
Revenue	€m	54,043	54,474
Profit/loss from operating activities (EBIT)	€m	2,133	-567
Return on sales ²⁾	%	3.9	-
Consolidated net profit/loss ³⁾	€m	1,383	-1,688
Earnings per share ⁴⁾	€	1.15	-1.40
Dividend per share	€	0.90	0.60 ⁵⁾

1) Excluding Postbank. 2) EBIT/revenue. 3) Excluding minorities, including Postbank. 4) Including Postbank. 5) Proposal.

Business and Environment

Business activities and organisation

Our business is global transport

Deutsche Post World Net offers integrated services and customised solutions for the processing and transport of goods and information in a global market.

In the MAIL Division, we transport mail and parcels in Germany, and we are specialists in dialogue marketing and press distribution services. We also offer mail and communications services through direct links to more than 140 countries across the globe. Our portfolio additionally includes a wide range of electronic services.

Our EXPRESS Division provides courier and express services to business and private customers. We can draw on an extensive network that covers 220 countries and territories.

In the GLOBAL FORWARDING/FREIGHT Division, we carry goods by rail, road, air and sea. We are the world's largest air and ocean freight operator and one of the leading overland freight carriers in Europe.

Our SUPPLY CHAIN/CORPORATE INFORMATION SOLUTIONS Division (hereinafter SUPPLY CHAIN/CIS) is the world leader in contract logistics, providing warehousing and ground-based transport services plus specialist sector-based value-added solutions along the entire supply chain. We also offer end-to-end solutions for corporate information and communications management.

We have centralised the Group's internal services, such as IT and Procurement, into the Global Business Services (GBS) Board Department, which allows us to respond more flexibly to the requirements of our business and leverage economies of scale and cost benefits.

Our four operating divisions

The Group is organised into four operating divisions, each of which operates under the control of its own divisional headquarters. The Group management functions are performed by the Corporate Center.

Divisions

MAIL	EXPRESS	GLOBAL FORWARDING/FREIGHT	SUPPLY CHAIN/CIS
<ul style="list-style-type: none"> • Mail Communication • Dialogue Marketing • Press Services • Parcel Germany • Retail Outlets • Global Mail • Pension Service 	<ul style="list-style-type: none"> • Europe • Americas • Asia Pacific • EEMEA 	<ul style="list-style-type: none"> • Global Forwarding • Freight 	<ul style="list-style-type: none"> • Supply Chain • Corporate Information Solutions

Organisation aligned with strategic orientation

As announced in the prior year and with effect from 1 January 2008, we unbundled the SERVICES Division, allocated the costs of Global Business Services to the operating units and assigned the retail outlets to the MAIL Division. We now report a more narrowly defined unit, Corporate Center/Other.

On 18 February 2008, the Supervisory Board of Deutsche Post AG appointed Dr Frank Appel as the new chairman of the Board of Management after Dr Klaus Zumwinkel resigned from the Board of Management. Dr Appel had been the Board member in charge of the LOGISTICS Division. His appointment prompted us to reallocate responsibility for the logistics business in the middle of the first quarter and divide it between two Board of Management members. Since that time, Hermann Ude has headed the Global Forwarding and Freight business units, and Bruce Edwards has headed the Supply Chain and Corporate Information Solutions business units.

This new structure reflects the increasing business volume and the different business models: Global Forwarding and Freight engage chiefly in transport services, whilst Supply Chain and Corporate Information Solutions offer customised logistics and communications solutions. We have reported this structure under segment reporting since the second quarter of 2008. We successively reorganised the global and regional organisational structure of the two new Board departments.

In the third quarter, the Pension Service was reallocated from the FINANCIAL SERVICES Division to the mail business. Having agreed to the sale of our subsidiary, Deutsche Postbank, we have reported its activities under “discontinued operations” since the third quarter of 2008. Dr Wolfgang Klein resigned from Deutsche Post’s Board of Management effective 10 November 2008.

Disclosures required by takeover law

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

Composition of issued capital, voting rights and transfer of shares

As at 31 December 2008, the company’s share capital totalled €1,209,015,874 and was composed of 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 powers of control.

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

Group structure from different perspectives

Corporate government structure

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

- Corporate Center
- Divisions
- Global Business Services

Management responsibilities

Structure in accordance with decision-making responsibility and reporting lines

- Board departments
- Corporate departments
- Business departments
- Service departments
- Regions
- Departments

Legal structure

Structure based on the Group’s legal entities

- Deutsche Post AG
- Deutsche Postbank AG

Brand names

Structure in accordance with brand names used in customer communication

- Deutsche Post
- DHL

Shareholdings exceeding 10% of voting rights

KfW Bankengruppe (KfW), Frankfurt am Main, 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 and 85 of the *Aktiengesetz* (AktG – German stock corporation act) and Section 31 of the *Mitbestimmungsgesetz* (MitbestG – German co-determination act)). In accordance with Section 84 of the AktG and Section 31 of the MitbestG, members of the Board of Management are appointed by the Supervisory Board for a maximum of five years. They may be re-appointed or have their term of office extended, in each case for a maximum of five years. Article 6 of the Articles of Association stipulates that the Board of Management must have at least two members. Beyond that, the number of Board members is determined by the Supervisory Board, which may also appoint a chairman and deputy chairman of the Board of Management. Details of changes on the Board of Management during the year under review are reported in [Business activities and organisation](#).

 Page 24

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 cases where the law requires a larger majority for amendments to the Articles of Association, that majority is decisive.

Under Article 14 (7) of the Articles of Association, the Supervisory Board has the authority to resolve amendments to the Articles of Association in cases where the amendments affect only the wording. In addition, AGM resolutions passed on 5 June 2003 (Contingent Capital II), 18 May 2005 (2005 authorised capital) and 8 May 2007 (Contingent Capital III) authorised the Supervisory Board to amend the wording of the Articles of Association to reflect the respective share issue or the use of authorised capital and following the expiry of the respective authorisation period.

Board of Management authorisation, particularly regarding issue and buy-back of shares

Subject to the consent of the Supervisory Board, the Board of Management is authorised to issue up to 174,796,228 new no-par value registered shares in exchange for non-cash contributions in the period to 17 May 2010 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).

Shareholders' pre-emptive subscription rights are disapplied. It is standard business practice in Germany to use authorised capital as acquisition currency. The 2005 authorised capital allows the company to acquire companies and shareholdings flexibly and without recourse to the capital market. The authorised capital is equivalent to less than 15% of the share capital. At the AGM on 21 April 2009, the Board of Management and the Supervisory Board will propose the replacement of the 2005 authorised capital with the 2009 authorised capital in the amount of €240 million.

New no-par value 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 under the 2003 Stock Option Plan. To this end, the company's share capital has been contingently increased by up to €2,726,658. Up to 2,726,658 Deutsche Post AG shares are still available for subscription under the 2003 Stock Option Plan. It is no longer possible to issue new stock options under the plan.

On the basis of an AGM resolution passed on 8 May 2007, the Board of Management is authorised, subject to the consent of the Supervisory Board, to issue bonds with warrants, convertible bonds and/or income bonds or a combination thereof (hereinafter referred to collectively as "bonds with warrants and/or convertible bonds") on one or more occasions in the period to 7 May 2012 up to a total nominal value of €1 billion and in doing so grant option and/or conversion rights on new shares with a total notional value of up to €56 million. To this end, the share capital has been 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, shareholders' pre-emptive subscription rights may only be disapplied subject to the terms of the aforementioned authorising resolution and with the consent of the Supervisory Board. The details are contained in the motion under agenda item 7 adopted at the AGM on 8 May 2007.

It is standard business practice amongst publicly listed companies in Germany to authorise the issue of bonds with warrants and/or convertible bonds. This allows the company to be flexible and prompt in financing its activities and gives it the scope it requires to take advantage of favourable market situations quickly and at short notice, for example, by enabling it to offer the company's shares or bonds with warrants/convertible bonds as consideration in a business combination or when acquiring companies or interests in companies. To date, the Board of Management has not made use of this authorisation.

Finally, at the AGM on 6 May 2008, the company was authorised to buy back shares representing up to 10% of the share capital at that date during the period to 31 October 2009. At no time may these shares together with the shares already repurchased and still held by the company represent more than 10% of the share capital. The shares may be purchased through the stock market, a public offer, a public call for offers of sale from the company's shareholders or by some other means in accordance with Section 53a of the AktG. The Board of Management may use the authorisation for any purpose permitted by law, in particular to retire the repurchased shares without a further AGM resolution and with the consent of the Supervisory Board. The details are contained in the motion under agenda item 6 adopted at the AGM on 6 May 2008.

It is standard business practice amongst publicly listed companies in Germany for the AGM to each year authorise the company to buy back shares. At the AGM on 21 April 2009, the Board of Management and the Supervisory Board will propose that this authority be granted for a further year.

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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 any action within the former's authority to block possible takeover bids.

Significant agreements that are conditional upon a change of control following a takeover bid and agreements with members of the Board of Management or employees providing for compensation in the event of a change of control

If a takeover occurs, Board of Management members Hermann Ude and Bruce Edwards are each entitled to resign their office as a member of the Board of Management for good cause within a period of six months following the change in control after giving three months' notice as of the end of the month and to terminate their Board of Management contracts (right to early termination). In the event of the right to early termination being exercised or a Board of Management contract being terminated by mutual consent under the same conditions, the Board of Management member is entitled to payment to compensate the remaining term of his Board of Management contract. Such payment is limited to the cap pursuant to the recommendation of No. 4.2.3 of the German Corporate Governance Code as amended on 6 June 2008. The agreements are outlined in the [Remuneration Report](#).

→ Page 122

Remuneration of the Board of Management and the Supervisory Board

→ Remuneration Report, page 116 ff.

The [basic features of the remuneration system](#) for the Board of Management and the Supervisory Board are described in the Corporate Governance Report under Remuneration Report. The latter also forms part of the Group Management Report.

Economic parameters

Downturn in world economy

Growth in the global economy slowed appreciably in 2008. To start with, the world markets appeared robust but, as the year went on, the fragility emanating from the United States spread to an increasing number of countries and regions. The situation was made much worse by the extremely high oil price and very weak US dollar. When the financial market crisis escalated in September, the downward trend accelerated. Global economic output rose by only 3.4% (previous year: 5.2%), the international exchange of goods by 4.8% (Global Trade Navigator) – the lowest growth since 2002.

Growth indicators for 2008

%	Gross domestic product	Exports	Domestic demand
USA	1.3	6.5	-0.1
Japan ¹⁾	-0.4	2.5	-0.7
China	9.0	17.2	n/a
Euro zone ¹⁾	0.9	1.5	0.8
Germany	1.3	3.9	1.6

1) Estimates as at 2 February 2009; source: Postbank Research, national statistics.

In the United States, the housing market crisis, the weakness of the financial markets and the at times very high oil prices have led to flagging domestic trade. Private consumption stagnated overall, even shrinking in the second half of the year. The economy was propped up by foreign trade, although this also began to suffer as a result of the global recession in the further course of the year. Gross domestic product (GDP) grew by as little as 1.3% (previous year: 2.0%), the smallest increase since the recession of 2001.

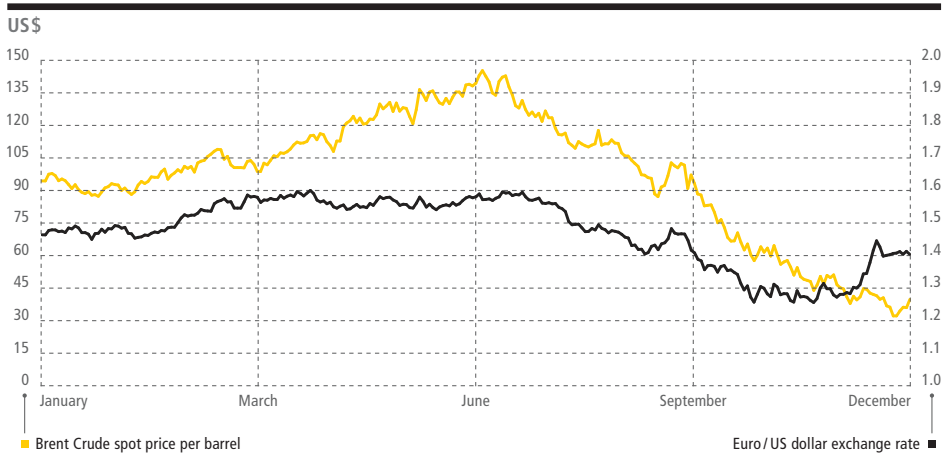
Even Asia was unable to buck the global trend. Although the continent's emerging markets recorded the highest growth at nearly 8%, this still fell well short of the prior-year figure (+10.6%). In China, GDP increased by 9.0% and exports improved by 17.2%. The trade surplus climbed to some US\$295 billion. The country is also retaining its appeal to foreign investors, whose direct investments actually rose to around US\$92 billion.

Since the Japanese economy depends heavily on exports, it has been particularly hard hit by the global slowdown. GDP fell by 0.4%, which means Japan was already clearly in recession in 2008.

After a good start to the year, the euro zone economy has been slowing since the spring. Private consumption and investments have fallen, whilst unemployment increased. Moreover, the strong euro proved to be a drag on exports. The crisis on the financial markets hugely intensified the recessive trends in the autumn; GDP only grew by another 0.9% (previous year: 2.6%).

Germany also suffered a downturn following the dynamic start to the year. Foreign trade put a damper on growth and private consumption stagnated. Despite a noticeable drop in unemployment and increased incomes, German citizens nevertheless maintained consumption at a constant level. At +1.3%, GDP growth was higher than in the euro zone as a whole but still well below the prior-year level (+2.5%).

Brent Crude spot price and euro/US dollar exchange rate in 2008



Oil price rollercoaster ride

The average annual oil price was around 34% higher than in 2007 but prices were wildly erratic. In the first half of the year, international oil prices soared. A barrel (159 litres) of Brent Crude climbed from just under US\$100 at the start of the year to

a peak of US\$145. In the second half of 2008, the recessive trends caused energy demand to fall sharply. In December, the oil price dropped to around US\$40 per barrel, its lowest level since 2004.

Euro hits historic high

In the first six months of 2008, the US dollar was under immense downward pressure. The weak US economy and the crisis on the financial markets prompted the Federal Reserve to reduce its key interest rate seven times in 2008 from 4.25% to a range of between 0% and 0.25%. Since the European Central Bank (ECB) initially held its rate steady at 4%, even raising it to 4.25% in July, the euro's interest rate advantage over the US dollar increased, bringing it to an all-time high of US\$1.60. This trend shifted in the second half of the year. Economic weaknesses and falling price pressure provoked the ECB to lower its key interest rate as far as 2.5%. This meant the euro once again depreciated in value against the dollar, closing the year at US\$1.40. Measured against the pound sterling, the euro posted a 30.1% gain.

Corporate bonds suffer under financial market crisis

In the euro zone, capital market returns rose in the first half of the year but fell sharply thereafter. At the end of the year, ten-year German treasury bonds were yielding just under 3%, some 1.4 percentage points less than at the end of 2007. In the same period, the return on ten-year US treasury bonds fell by 1.8 percentage points to only 2.2%. Although the interest rates have fallen steeply, the climate for corporate bonds has deteriorated. The financial market crisis has unsettled investors to such an extent that risk premiums have leapt right up, even for high-quality corporate bonds.

Slowdown in international trade growth

International trade depends to a large extent on how dynamic global economic development is. Hence, although it did grow again in 2008, this growth was clearly below the prior-year levels on almost all major trade lanes. North American imports even declined.

Furthermore, the growth structure shifted. A look at the trade flows between Asia Pacific and the United States or Europe shows that imports on these lanes are growing faster than exports. At the same time, trade flows within Asia – the second largest domestic market after Europe – are growing much faster than trade flows within Europe.

Compound annual growth rate 2007–2008

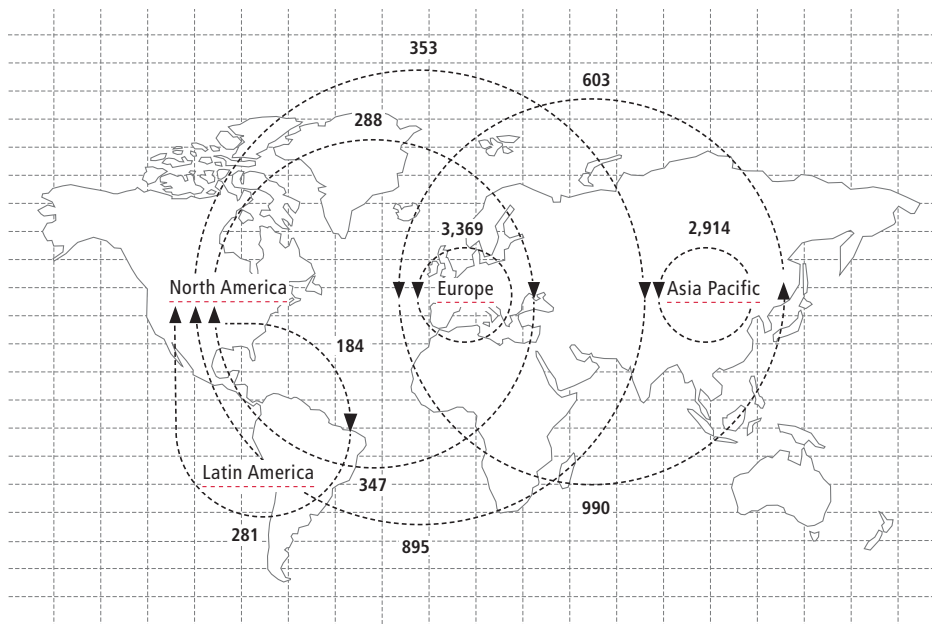
		Import			
Export		Asia Pacific	Europe	Latin America	North America
		Asia Pacific	9	7	9
Europe		12	2	7	-3
Latin America		7	4	4	-3
North America		5	5	6	-2

Source: Global Trade Navigator, as at December 2008.

The following diagram shows the volumes of the most important international trade flows.

International trade flows: volumes 2008

US\$ billion



Source: Global Trade Navigator.

What impacts our business?

We operate worldwide and are represented in over 220 countries and territories, including all major economic regions. The following overview shows the overall market as well as the courier, express and parcel (CEP) markets relevant to us; the regions reflect our business structure. The relevant parameters and our market shares are detailed in the Divisions chapter.

→ Page 52 ff.

Market volumes

Global	Europe	USA	Asia
<ul style="list-style-type: none"> • Cross-border mail market (2008): €10.4bn¹⁾ • Air freight (2007): 20.9m tonnes³⁾ • Ocean freight (2007): 29.6m TEU⁶⁾ • Contract logistics (2007): €206bn⁸⁾ 	<ul style="list-style-type: none"> • German mail communication market (2008): €6.5bn¹⁾ • CEP international (2007): €15.3bn⁴⁾ • Road transport (2007): €163.7bn⁷⁾ 	<ul style="list-style-type: none"> • Global mail (2008): €50bn¹⁾ • CEP international (2007): €7.5bn⁵⁾ 	<ul style="list-style-type: none"> • CEP international (2007): €5.9bn²⁾

1) Company estimates. 2) Country base: AU, CN, HK, ID, IN, JP, KR, NZ, MY, PH, SG, TH, TW, VN; international shipments < 1,000kg. Source: AT Kearny, TMS 2008. 3) Data are based solely on export freight tonnes; source: Global Insight, Global Trade Navigator. 4) Country base: A, B, BG, CH, CZ, D, DK, E, FIN, GB, GR, H, I, IRL, L, N, NL, PL, RO, S, SK, SLO; international shipments < 1,000kg. 5) New market portrayal: these figures are estimates for outbound international shipments < 1,000kg. Source: MRSC in co-operation with Colography Group 2008. 6) Twenty-foot equivalent unit. 7) Total for 14 European countries, excluding bulk and specialities transport. Source: MRSC, freight reports 2007 and 2008, Eurostat 2007. 8) Company estimates based on Datamonitor input.

Economic developments and the shift in customers' behaviour have prompted us to re-examine the most important factors determining our business. Four trends that have proven to be stable and irreversible in a range of scenarios are 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. As a result, trade is growing more quickly in the international than the national arena, fuelling demand for transport and logistics. It is, however, to be expected that low-value, labour-intensive products will increasingly be produced in countries that are geographically close and have a low wage level. Also, for less time-critical shipments, demand is expected to rise for more fuel-efficient transport. Since we are well positioned in the typical low-wage countries of Eastern Europe and Latin America and our range of services covers all means of transport, we will also benefit from this trend.
- ② **Outsourcing** In times of economic stagnation, pressure on companies to reduce costs and streamline business processes increases. For this reason, there is a growing trend towards outsourcing. Also, supply chains are becoming more complex and are being placed increasingly on an international footing. Accordingly, an increasing number of customers are demanding integrated solutions that provide them with a broad range of services worldwide. As a global, integrated logistics service provider, we benefit from this trend.
- ③ **Digitalisation** The internet has changed 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 and creates new demand for transport of goods, advertising materials and contract documentation.
- ④ **Climate change** There is a growing awareness for the environment and climate. Although it is not yet possible to completely assess what the effects of the move towards a more eco-friendly industry will be, we see great opportunities for ourselves. Demand is now emerging for climate-neutral products, which we have already begun to develop. Furthermore, legislation is being passed that forces companies to reduce their CO₂ emissions. We help companies to comply with requirements by providing energy-efficient transport.

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 to the consolidated financial statements.

 Note 54

Strategy and goals

Prepared for difficult times

The economic decline has affected the entire logistics sector, including many of our customers. We are nonetheless convinced that our strong brands and global reach will serve us well in the difficult times ahead. The Group spent 2008 solving key strategic issues and thus laying the foundation for future growth in our core competencies.

Sale of Postbank agreed

For our subsidiary, Deutsche Postbank AG, we have found a reliable partner for the future in Deutsche Bank. We also succeeded in establishing attractive conditions for the transaction despite the difficult market climate. In so doing, the Group has set a new course for the future. We will be shifting focus to our core competencies – mail, express and logistics – and gradually exiting the financial sector. Deutsche Post and Postbank will nonetheless continue to share retail outlets even beyond 2012.

US express business to be restructured

Another decision of far-reaching consequence involved our express business in the United States, where we have initiated restructuring activities in order to reduce the losses there and alleviate risk for our Group. We will also be concentrating on our core competencies in this market: shipments to and from the US. We are confident that this is the best way for us to serve customers in the US, which continues to be an important market. This decision will also give our company room to move forward and attain profitable performance on a reliable basis. The restructuring will not affect the other DHL business units in the United States. We will continue to invest in these businesses in the future.

Initiatives launched to boost growth and profit

We take our responsibility to our customers' needs, our employees, our investors and society very seriously. A vital part of this responsibility is ensuring that our operations management is geared towards profitable, sustained growth. To reach this goal, we have launched several Group-wide initiatives:

① **First choice for customers** The better we know our customers' needs, the better we are able to respond to them. For this reason, many of our business units have surveyed customers to find out how satisfied they are with our services. As part of our First Choice programme, we systematically evaluate the survey findings, which we use to improve specific aspects of our service quality. Every hour, we have more than one million interactions with customers – opportunity enough to give them a good impression of our services.

The success of this programme proves us right: All organisational units that have implemented these initiatives have demonstrably higher levels of customer satisfaction. In 2008, this resulted in additional Group revenues. Moreover, those business units operating under the DHL brand and Global Business Services succeeded in reducing their costs.

→ Employees, page 76

→ Capital Market, page 39

→ Sustainability, page 77

- ② **Every ONE counts** This was the motto of our second Group-wide employee survey, which aims to measure and support employee commitment. It also shows management how familiar employees are with key strategic issues and how strongly they identify with them. This helps us increase transparency – a central focus of our corporate and leadership culture.
- ③ **Creating added value for investors** Our Roadmap to Value capital markets programme is aimed at making us not only the first choice for customers and employees but also for investors wishing to engage in the logistics industry. The programme made notable progress in the year under review, which we report in the Capital Market section. However, since the economic climate continued to deteriorate over the course of the year, we expanded the Roadmap to Value to include a far-reaching cost reduction programme. Between 2009 and 2010 the Group plans to lower its indirect costs by €1 billion.
- ④ **Sustainable action** The logistics industry is one of the key beneficiaries of the strong growth in global trade experienced in recent years. However, increased goods transport leads to higher CO₂ emissions, which according to climate researchers are a prime cause of global warming. As the largest company in our industry, we take our environmental responsibility seriously. We have developed GoGreen as a Group-wide programme aimed at systematically reaching the Group's climate protection target.

Future core competencies of our business

We deliver the mail in Germany and are the global market leader in logistics. In the future, we intend to build on these two pillars of our business. We want to maintain our position as *Die Post für Deutschland* (the postal service for Germany) whilst making optimum use of the global strength of our logistics business.

The Deutsche Post brand stands for a company that sets global standards in quality, technology and efficiency and has already proven itself able to very successfully meet the challenges inherent in this mature market. The mail business therefore represents the foundation upon which our international expansion rests. Our goal is to continue operating highly profitably in the MAIL Division and to enhance our range of services by adding communications products.

The DHL brand stands for a comprehensive product portfolio and worldwide logistics presence. Our EXPRESS, GLOBAL FORWARDING/FREIGHT and SUPPLY CHAIN/CIS divisions operate in attractive market segments, and we see no need for significant portfolio adjustments. Our goal is to continue taking advantage of excellent growth opportunities in the logistics industry. There is undoubtedly room for improving our capacity in this sector. For this reason, we plan to more closely integrate our joint capabilities to allow us to offer our customers services and solutions that are customised to fit their needs precisely.

Group management

EBIT after asset charge introduced as new performance metric


As part of our Roadmap to Value capital markets programme, we have introduced EBIT after asset charge (EAC) as our new performance metric from 1 January 2008. This metric is an additional guideline for managers at all levels and in all areas of activity, helping them to make decisions that focus their operating businesses on sustained value growth.

Unlike EBIT, the performance indicator so far, EAC takes into account the cost of tied-up capital. In other words, it reflects profit generated over and above the cost of capital. Managers' incentives have also been tied to the new indicator, which complements the previous EBIT-based bonus scheme.

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

 Capital Market, page 39

Weighted average cost of capital (WACC)

Equity cost of capital		Debt cost of capital	
Risk-free rate of return	4.2%	Risk-free rate of return	4.2%
⊕ Risk premium on equity	3.9%	⊕ Average risk premium on debt	1.2%
= Market risk premium	5.0%		
× Beta factor	0.78		
	(specific risk premium for the Group)		
⊖	8.1%	⊖	5.4%
⊕ Tax effect	1.8%		
⊖	9.9%		
Weighting at market rates	70%	Weighting at market rates	30%
		Group cost of capital 8.5%	

In addition to the cost of capital, the net asset base makes up the second component of the calculation. This is identified by including assets required for business operations and subtracting liabilities that do not incur a cost of capital. Goodwill is included in the net asset base, as value is created only if the required cost of capital is earned on the entire initial investment, which also includes goodwill.

The EAC is calculated in the “Postbank at equity” scenario, in which Postbank is treated as an investment accounted for using the equity method. In 2008, EAC stood at €-2,115 million, primarily because EBIT was depressed by non-recurring items of €-2,977 million.

EBIT after asset charge (EAC – Postbank at equity)

€m	2007 restated	2008	+/-%
EBIT	2,133	-567	-126.6
● Asset charge	1,735	1,548	-10.8
● EBIT after asset charge (EAC)	398	-2,115	-

Compared with the previous year, the asset charge fell by €187 million because we were able to significantly improve the net asset base. This was mainly due to two factors: real estate disposals and a sharp reduction in working capital, both of which are elements of our Roadmap to Value programme. The weighted average cost of capital was set at 8.5% at the beginning of 2008 and has remained unchanged since then.

Capital Market

Deutsche Post shares

Stock markets suffer heavy losses

2008 was a hard year for the international stock markets. The US subprime crisis, a faltering US economy and rising oil prices sent prices into steep decline right from the first half of the year. The stock markets were dominated by fears that the economic slowdown in the United States would spread to Asia and most of all to Europe. The DAX shed a fifth of its value in the first half-year alone. The situation worsened dramatically with the insolvency of the US investment bank Lehman Brothers in September. More major banks began to struggle from then on. Governments around the world found themselves forced to put together rescue packages, especially as the crisis began to affect other parts of the economy. The stock exchanges suffered heavily: Over the course of the year, the DAX lost 40.4% of its value, the Dow Jones 33.8% and the EURO STOXX 50 44.4%.

Key share data

		2004	2005	2006	2007	2008	+/-%
Year-end closing price	€	16.90	20.48	22.84	23.51	11.91	-49.3
High	€	19.80	21.23	23.75	25.65	24.18	-5.7
Low	€	14.92	16.48	18.55	19.95	7.18	-64.0
Number of shares	millions	1,112.8	1,193.9	1,204.0 ¹⁾	1,208.2 ¹⁾	1,209.0 ¹⁾	0.1
Market capitalisation as at 31 December	€m	18,840	24,425	27,461	28,388	14,399	-49.3
Average trading volume per day	shares	2,412,703	3,757,876	5,287,529	6,907,270	7,738,509	12.0
Annual performance with dividend	%	6.4	24.1	14.9	6.9	-45.5	-
Annual performance excluding dividend	%	3.4	21.2	11.5	2.9	-49.3	-
Beta factor ²⁾		0.84	0.75	0.80	0.68	0.81	-
Earnings per share ³⁾	€	1.44	1.99	1.60	1.15	-1.40	-
Cash flow per share ⁴⁾	€	2.10	3.23	3.28	4.27	1.60	-62.5
Price/earnings ratio ⁵⁾		11.7	10.3	14.3	20.4	-8.5	-
Price/cash flow ratio ^{4), 6)}		8.1	6.4	7.0	5.5	7.4	-
Dividend	€m	556	836	903	1,087	725 ⁷⁾	-33.3
Payout ratio	%	34.8	37.4	47.1	78.6	-	-
Dividend per share	€	0.50	0.70	0.75	0.90	0.60 ⁷⁾	-33.3
Dividend yield	%	3.0	3.4	3.3	3.8	5.0	-

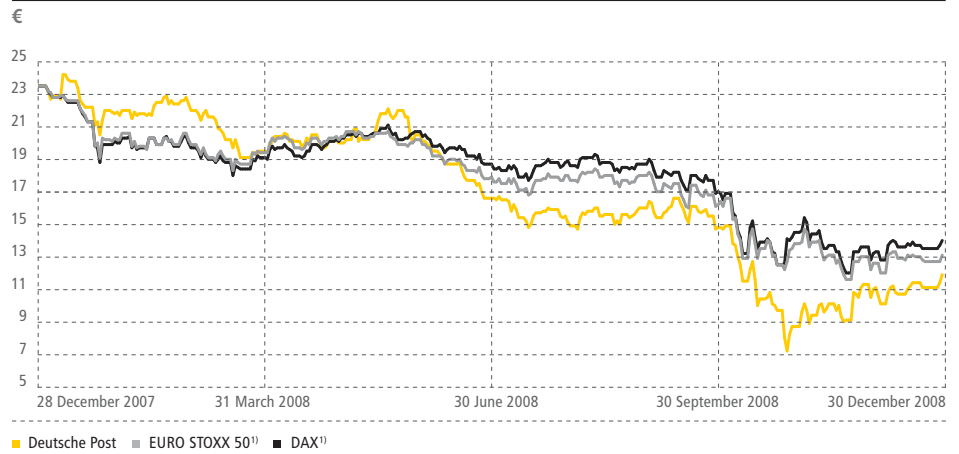
1) Increase due to exercise of stock options, Note 39. 2) From 2006: Beta 3 years. Source: Bloomberg. 3) Based on consolidated net profit excluding minorities, Note 22.
4) Cash flow from operating activities. 5) Year-end closing price/earnings per share. 6) Year-end closing price/cash flow per share. 7) Proposal.

Peer group comparison¹⁾

		2007	2008	+/-%
Deutsche Post	€	23.51	11.91	-49.3
TNT	€	28.25	13.76	-51.3
FedEx	US\$	89.17	64.15	-28.1
UPS	US\$	70.72	55.16	-22.0
Kuehne + Nagel	CHF	104.61	67.55	-35.4

1) Closing prices on last trading day.

Share price performance



1) Rebased on the closing price of Deutsche Post shares on 28 December 2007.

Deutsche Post share price falls further than market

Our share price twice escaped the downtrend in the first half of the year: after publication of the preliminary results for 2007 on 23 January and after publication of the results for the first quarter of 2008 on 13 May. Following the announcement of the programme to realign our US express activities on 28 May, however, the share price fell continuously, as the candlestick graph shows. Indeed, our shares performed markedly worse over the rest of the year than the applicable indices and the share prices of our competitors. Deutsche Post shares closed the year at €11.91, a 49.3% drop in value. The average number of shares traded on Xetra was 7.7 million, representing a 12% increase on the previous year.

Candlestick graph/30-day moving average



Majority of analysts recommend buying

More than half of analysts – 63%, compared with 75% the year before – still advised investors to buy Deutsche Post shares, 23% to hold and 14% to sell. Their average price target was down from €26 to €14 per share.

Most institutional investors in the United States

Our ownership structure has scarcely changed from a year ago: KfW continues to hold 30.5%, leaving a 69.5% free float, the largest share of which (35%) is held in the USA. In response to this trend, our Investor Relations department has had an office in New York from the beginning of 2009.

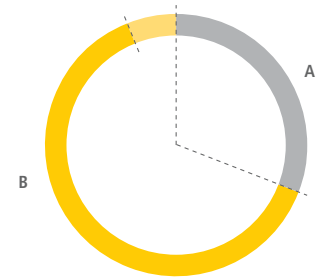
Recognition for investor relations work

Investors showed particular interest during the year under review in the situation in the US express business, the future of Postbank, the issue of minimum wages in the German postal sector and progress on the Roadmap to Value. Our investor relations team and management communicated intensively and successfully with investors and analysts at international conferences and in numerous one-on-one meetings. We took first place in the transport sector in the highly regarded Pan-European Survey published by Thomson Reuters Surveys. The jury voted both Frank Appel best CEO and John Allan best CFO in the sector.

Shareholder structure

As at 31 December 2008

A 30.5%	KfW Bankengruppe of which 4.6% KfW Uridashi bond ¹⁾
B 69.5%	Free float
	63.0% Institutional investors
	6.5% Private investors



1) In 2005 KfW issued a convertible bond in Japan for private investors (volume: 55.6 million shares). Investors can convert this bond until January 2010.

Roadmap to Value

Capital markets programme taking effect

In November 2007, we initiated an extensive capital markets programme geared towards achieving a sustained increase in enterprise value. On the basis of organic growth, the Group aims to improve profitability, increase cash generation and give shareholders a larger stake in the resulting benefits. Investors and analysts are provided with extensive information so that they can reliably assess the Group's performance.

Progress on the Roadmap to Value

Goal	Outcome
1 Profitability	<ul style="list-style-type: none"> Operational improvement initiatives achieve €0.5 billion. Additional €1 billion cost reduction programme launched for 2009 and 2010. Restructuring of US express activities decided and started.
2 Cash generation	<ul style="list-style-type: none"> Real estate disposals amount to €1.35 billion versus €1 billion target. Working capital increased. New performance metric adopted: EBIT after asset charge. Capital expenditure fell considerably below the prior-year level.
3 Payout to shareholders	<ul style="list-style-type: none"> €0.90 per share dividend for 2007 proposed, approved and distributed.
4 Transparency	<ul style="list-style-type: none"> SERVICES segment unbundled. Cash flow and capital expenditure disclosed by division. Volumes disclosed for express activities. Postbank reported under "discontinued operations".
5 Organic growth	<ul style="list-style-type: none"> DHL attaining strong growth in developing regions. Healthy growth rates on business with customers served by Global Customer Solutions.

Earnings, Financial Position and Assets and Liabilities

Significant events

Group sells real estate portfolio to investor

On 1 April 2008, the Group sold a portfolio of around 1,300 properties located mainly in Germany to us investor Lone Star for €1 billion in cash. The contract took economic effect on 1 July 2008. The majority of the properties will be leased back.

European court awards Deutsche Post a repayment of €1 billion

On 1 July 2008 the European Court of First Instance annulled a 2002 decision by the European Commission that had ordered Deutsche Post to repay €907 million in purported state aid and interest. Therefore, on 1 August 2008 the German government repaid the sum of €1,067 million to Deutsche Post AG.

Deutsche Post agrees to sell shares in Postbank to Deutsche Bank


On 12 September 2008, Deutsche Post agreed to sell a minority shareholding in Postbank to Deutsche Bank for a total value of €4.8 billion. The transaction of the first tranche will be finalised in the first quarter of 2009. Deutsche Bank and Deutsche Post adjusted the structure of the sales agreement after the reporting date.

Deutsche Post participates in Postbank capital increase

Deutsche Post, as the majority shareholder of Deutsche Postbank AG, has participated in full in Postbank's capital increase. On 27 October 2008, Deutsche Post stated its commitment to subscribe for the rights issue of 54.8 million shares at the subscription price in line with its stake in Postbank of 50% plus one share. Deutsche Post has also agreed to subscribe for all shares that are not taken up by the market at the subscription price. As a result of this measure, Deutsche Post's stake in Postbank increased to 62.35% for the time being.

Exit from US domestic express market

On 10 November 2008, the Group announced that it would withdraw from the domestic express business in the USA at the start of 2009. The international express offering in the US will be maintained at the current level. Total costs for restructuring the US express business now amount to around €3 billion, of which the majority were recorded in 2008.

 Report on post-balance sheet date events, page 93

Earnings

Changes in reporting

The current reporting format is the one that will apply to the Group in the future following the agreed sale of Postbank. The Pension Service has been reallocated from the FINANCIAL SERVICES Division to the MAIL Division, as they share a regulatory environment that is almost the same. The remaining segment consists only of Postbank and is thus reported under “discontinued operations”. We report our other activities as “continuing operations”.

With effect from 1 January 2008, we unbundled the SERVICES Division, allocated the costs of Global Business Services to the operating units and gave the MAIL Division responsibility for the retail outlets. We now report a more narrowly defined unit, Corporate Center/Other. In addition, we split up the LOGISTICS Division into the new GLOBAL FORWARDING/FREIGHT Division and the new SUPPLY CHAIN/CIS Division. The prior-year amounts have been restated accordingly. Details can be found in the [Segment reporting disclosures](#).

→ Note 10

Portfolio expanded

In the reporting year, the main changes to our [portfolio](#) were as follows:

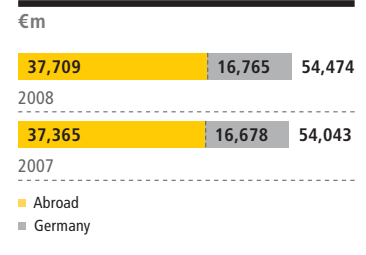
- FC (Flying Cargo) International Transportation Ltd., an Israeli company domiciled in Tel Aviv, was included for the first time in profit and loss. We purchased all shares in the company on 31 December 2007.
- In April 2008, we increased our 66% stake in Williams Lea to 96%. The Group had made an unconditional cash offer to acquire the outstanding shares held by Williams Lea’s minority shareholders.
- In April 2008, we acquired the remaining 50% of the shares in the Exel-Sinotrans Freight Forwarding Co., Ltd. joint venture. The company was renamed DHL Logistics (China) Co., Ltd. and has been fully consolidated.
- Express Couriers Australia Pty Ltd., a joint venture with New Zealand Post that was established at the beginning of the year, commenced operations in the third quarter, primarily by acquiring business units from New Zealand Post. The company has been proportionately consolidated.
- At the end of October, we entered into a charter agreement for block space with Polar Air Cargo Worldwide, Inc., a US company. The agreement guarantees us access to six cargo aircraft. Due to this contractual regulation, Polar Air Cargo has been fully consolidated.

→ Note 3

Consolidated revenue from continuing operations increased

Consolidated revenue from continuing operations increased by 0.8% to €54,474 million in financial year 2008 (previous year: €54,043 million). However, this figure was reduced by negative currency effects of €2,168 million. As a globally operating logistics group, we generated, with 69.2%, the majority of our revenue outside of Germany, an increase of 0.1% over the previous year.

Consolidated revenue from continuing operations



Increased income and expenses

Non-recurring items impacted profit or loss from continuing operations in both the reporting year and the prior year. In the year under review, the repayment awarded in the state aid proceedings in the amount of €572 million had a positive impact on earnings. However, the announced withdrawal from the domestic US express business has already reduced earnings by €2,117 million. An impairment test led to a loss totaling €610 million on the goodwill of SUPPLY CHAIN/CIS. In addition, we discontinued use of the Exel brand, which was written off in full in the amount of €382 million. Non-recurring expenses of €440 million were also incurred for restructuring activities in other divisions. In 2007, the sale of Vfw AG generated non-recurring income of €59 million. Earnings for 2007 were reduced by €594 million due to the impairment loss on the assets of the express business in the Americas region.

→ Note 12

Other operating income increased from €2,343 million to €2,736 million, primarily due to the repayment received in the state aid proceedings.

→ Note 13

The drastic rise in oil prices in the first half of the year made transport and aircraft fuel more expensive. This was a significant factor in the increase in our materials expense from €30,703 to €31,979.

→ Note 14

Staff costs increased by 4.8% to €17,990 million, due largely to restructuring activities.

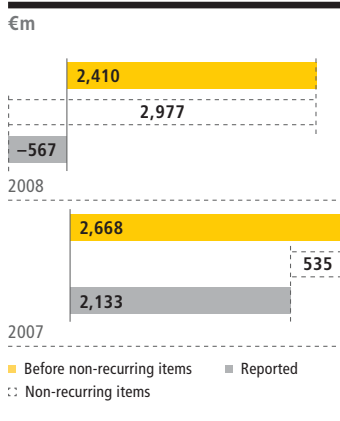
→ Note 15

Depreciation, amortisation and impairment losses increased by €466 million to €2,662 million, up from €2,196 million in the prior year. The year under review was impacted above all by the write-down on goodwill and the Exel brand. In 2007, negative effects were mainly due to the impairment losses on non-current assets of the express business in the Americas region.

→ Note 16

The increase in other operating expenses of €961 million to €5,146 million was primarily the result of the aforementioned restructuring activities.

Consolidated EBIT for continuing operations



→ Note 19

Non-recurring charges reduce EBIT from continuing operations

Profit or loss from operating activities (EBIT) from continuing operations fell by €2,700 million from the previous year's figure of €2,133 million to €-567 million. In the reporting period, EBIT from continuing operations contained income of €572 million from the state aid proceedings, restructuring costs of €2,557 million and impairment losses of €992 million. The prior-year figure included non-recurring income of €59 million from the sale of Vfw AG and an impairment loss of €594 million on the express business in the Americas region. Adjusted for these items, EBIT fell by 9.7% to €2,410 million.

Net finance costs improved by €446 million to €499 million (previous year: €945 million). This was due in particular to the interest component of the repayment we received from the state aid proceedings.

Profit or loss before income taxes from continuing operations declined by 189.7% to €-1,066 million. However, income tax increased from €173 million to €200 million. Profit or loss from continuing operations thus amounted to €-1,266 million, a decline of 224.7% on the previous year.

Profit or loss from discontinued operations drops due to financial market crisis

Discontinued operations generated a net loss of €713 million, down 183.1% on the prior-year figure of a net profit of €858 million. Adjusted for tax income of €150 million, net finance costs of €73 million and income from the reversal of negative goodwill arising from the increase in our share in Postbank in the amount of €81 million, EBIT from discontinued operations came to €-871 million. The decline is largely the result of one-time factors arising from the intensifying international financial market crisis, as described in the [Notes](#).

 Note 21

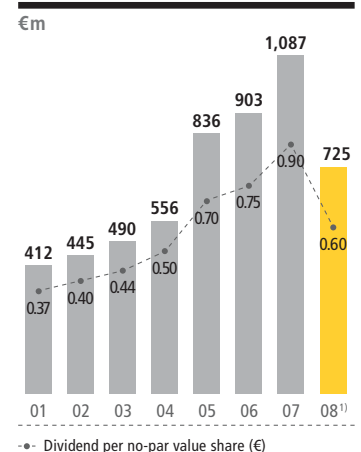
Consolidated net profit declines significantly

Combining profit or loss from continuing and discontinued operations results in a consolidated net loss of €1,979 million, or €3,852 million less than in 2007. Of this figure, €-1,688 million is attributable to Deutsche Post shareholders – a decrease of €3,071 million – whilst minority interests fell from €490 million to €-291 million. This significant decline was primarily the result of Deutsche Post's share in Postbank losses. Basic and diluted earnings per share fell from €1.15 to €-1.40. Earnings per share from continuing operations fell from €0.79 in the prior year to €-1.10, and earnings per share from discontinued operations dropped from €0.36 to €-0.30.

Dividend of €0.60 per share proposed

A proposal will be made for the payment of a dividend per share of €0.60 (previous year: €0.90) at the Annual General Meeting on 21 April 2009. The total dividend will amount to €725 million. Based on the year-end closing price of Deutsche Post shares, the net dividend yield is 5.0%. The dividend will be distributed on 22 April 2009 and is tax-free for shareholders resident in Germany.

Total dividend and dividend per no-par value share



1) Proposal.

Financial position

Principles and aims of financial management

The Group's financial management activities include cash and liquidity management; interest rate, currency and commodity price risk management; overseeing the Group's financing; issuing guarantees and letters of support and liaising with the rating agencies. Since the requirements and processes of the Deutsche Postbank Group differ fundamentally from those of the remainder of the Group, the remarks below refer exclusively to an analysis in which Postbank is 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.

Our principal goal is to minimise financial risks and the cost of capital, 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 appropriate to the sector. We therefore monitor the development of our operating cash flows against adjusted debt particularly closely. Adjusted debt refers to the Group's net debt, allowing for pension obligations that are not directly capital-backed and liabilities under operating leases.

Central cash and liquidity management

Cash and liquidity management is a central activity overseen by the Corporate Treasury on behalf of our 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 Corporate Treasury. In this context, we observe a balanced banking policy in order to avoid depending excessively on individual banks. Our subsidiaries' intragroup revenue is also pooled and managed by the in-house bank with a view to avoiding external bank charges and margins (inter-company clearing). Payment transactions are made in accordance with uniform guidelines as well as by way of standardised processes and IT systems.

The Group's unsecured committed credit lines total around €3.1 billion, of which €449 million had been used as at 31 December 2008. 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. Average drawings on credit lines came to only around 17% in 2008 (previous year: 4.4%).

Managing market price risks

The Group manages financial market risk by making use of both primary and derivative financial instruments. Interest rate risks are managed exclusively via interest rate swaps. Currency risks are hedged using forward transactions, cross-currency swaps and options. However, we pass on most of the risk arising from commodity fluctuations to our customers through operating measures. The parameters, responsibilities and controls governing the use of derivatives are established in internal guidelines.

Flexible and stable Group financing

The Group covers its financing requirements by maintaining a balanced ratio of equity to liabilities. This ensures our financial stability whilst providing adequate flexibility. Our most important source of funds is net cash from operating activities. We cover our borrowing requirements via a number of independent financing sources, including confirmed bilateral credit lines, bonds and structured financing transactions, and operating leases. Most of the borrowings are taken out centrally in order to leverage economies of scale and specialisation benefits and to minimise the cost of capital.

The Group's primary currency in which debt is denominated is the euro. A portion of the euro debt, however, is translated into foreign currencies by way of derivative financial instruments in order to cover our operating companies' liquidity requirements. When such transactions are taken into account, the portion of the Group's net debt denominated in euros was 55% (previous year: 51%), and the US dollar share was 40% (previous year: 18%). The larger share in US dollars is a result of the increased financial requirements of our American subsidiaries.

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 entered into 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 and measurement of financial reports and the underlying planning data. Qualitative factors, such as industry-specific features and the company's market position and range of products and services, are also taken into account. The creditworthiness of our Group is reviewed on an ongoing basis by international rating agencies Standard & Poor's and Moody's Investors Service. We believe that it is sufficient to receive ratings from two independent ratings agencies. We thus decided, for reasons of economy, to terminate the agreement with the third agency (Fitch Ratings) as at 31 December 2008.

Ratings

	Moody's Investors Service	Standard & Poor's
Long-term	A3	BBB+
Outlook	Negative	Negative
Short-term	P-2	A-2
Date of most recent review	25 November 2008	11 November 2008

Standard & Poor's has issued a long-term credit rating of BBB+ together with a negative outlook. This places us at the upper end of category BBB, which is the ranking for companies whose capacity to meet their financial commitments is considered adequate. 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 solid A-2.

Moody's ranks our long-term creditworthiness as A3, which is in the lower range of category A. The current outlook is negative. The agency gives us the second highest possible short-term credit rating, namely P-2.

Detailed analyses by the rating agencies and full information on the rating categories are contained on our 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 €1,350 million (previous year: €1,339 million) at its disposal. A large portion of this is accounted for by subsidiaries in countries where foreign exchange transactions are unrestricted. In 2008, the main sources of non-recurring cash inflows related to the sale of real estate to US investor Lone Star (€942 million) and the repayment received in the state aid proceedings (€1,067 million). These cash inflows were offset by non-recurring cash outflows of €1 billion for our participation in the capital increase at Deutsche Postbank AG.

The financial liabilities reported in our balance sheet break down as follows:

Financial liabilities (Postbank at equity)

€m	
	2008
Bonds	2,019
Due to banks	1,080
Finance lease liabilities	531
Liabilities to Group companies	184
Other financial liabilities	283
	4,097

The largest single items under financial liabilities are the two listed bonds of Deutsche Post Finance B.V. Also of significance are the two municipal bonds taken out to fund investments at the airports in Wilmington, Delaware, and Cincinnati, Ohio, in the US, project financing received from the European Investment Bank for mail sorting centres in Germany and an IT centre in the Czech Republic. Further information on the reported financial liabilities is contained in the Notes.


In addition to borrowings, operating leases are an important source of funding for the Group. We use operating leases to finance real estate as well as aircraft, vehicle fleets and IT equipment, as shown in the following table:

Operating lease obligations by asset class (Postbank at equity)

€m	
	2008
Land and buildings	6,313
Technical equipment and machinery	68
Other equipment, office and operating equipment	560
Aircraft	194
	7,135

The main driver for the increase in operating lease obligations in 2008 was the sale and leaseback agreements entered into for portions of the real estate portfolio sold to Lone Star. The sale was part of our Roadmap to Value capital markets programme aimed at cash generation, amongst other things.

One major funding initiative in 2008 was the commercial paper programme we launched in January, which provided us with short-term financing and supplemented our bilateral credit lines. The average drawdown on the facility was around €160 million in the year under review.

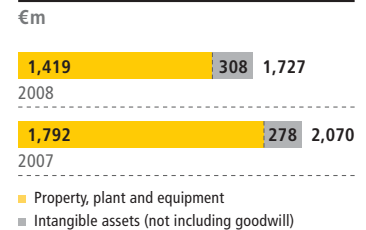
 Note 46

Capital expenditure fell considerably below the prior-year level

The Group's capital expenditure (capex) amounted to €1,727 million at the end of December 2008 (previous year: €2,070 million). Of this figure, €1,419 million was attributable to investments in property, plant and equipment and €308 million to intangible assets excluding goodwill. We fell significantly below the prior-year level with a decline of 16.6%. The decrease was most evident in the fourth quarter (-39.8%). Investments in property, plant and equipment related mainly to advanced payments and assets under development (€445 million), transport equipment (€255 million), technical equipment and machinery (€231 million), IT equipment (€148 million) and other operating and office equipment (€107 million).

Our regional investments focused mainly on Europe, the Americas and Asia. In Europe, our investment activities were centred in Germany, the UK and Belgium. In Asia, the focus was on India, Singapore and South Korea.

Capital expenditure of continuing operations



Capex and depreciation, full year

€m	MAIL		EXPRESS		FORWARDING/ FREIGHT		SUPPLY CHAIN/ CIS		Corporate Center/ Other		Continuing operations		Discontinued operations	
	2007	2008	2007	2008	2007	2008	2007	2008 ¹⁾	2007	2008	2007	2008	2007	2008
Capex	325	282	721	727	69	94	496	390	459	234	2,070	1,727	140	71
Depreciation on assets	447	346	1,034	542	98	105	363	1,345	254	324	2,196	2,662	161	179
Capex vs. depreciation ratio	0.73	0.82	0.70	1.34	0.70	0.90	1.37	0.29	1.81	0.72	0.94	0.65	0.87	0.40

1) Depreciation including write-down on goodwill and the Exel brand.

Capex and depreciation, Q4

€m	MAIL		EXPRESS		FORWARDING/ FREIGHT		SUPPLY CHAIN/ CIS		Corporate Center/ Other		Continuing operations		Discontinued operations	
	2007	2008	2007	2008	2007	2008	2007	2008 ¹⁾	2007	2008	2007	2008	2007	2008
Capex	129	113	236	195	22	29	168	104	301	74	856	515	76	11
Depreciation on assets	124	93	705	208	25	30	88	1,101	67	130	1,009	1,562	46	80
Capex vs. depreciation ratio	1.04	1.22	0.33	0.94	0.88	0.97	1.91	0.09	4.49	0.57	0.85	0.33	1.65	0.14

1) Depreciation including write-down on goodwill and the Exel brand.

MAIL invests in quality

Capital expenditure in the MAIL Division decreased from €325 million to €282 million. These investments related in particular to internally generated intangible assets (€106 million), other operating and office equipment (€61 million), IT equipment (€40 million) and technical equipment and machinery (€39 million).

In the domestic mail business, most of our purchases were of machinery and equipment for processing standard and compact letters and flat mail more efficiently. We also replaced internally generated software and licences as well as transport equipment.

In the domestic parcel business, technical equipment and IT were upgraded and the number of Packstations was increased by 500 to around 1,400 Packstations. This allows customers to post and collect parcels around the clock. We have also established a new type of automatic station, Post24/7, at 55 locations in Berlin and Bonn. Post24/7 stations offer a wide range of features such as Packstations, Paketboxes, mailboxes, stamp vending machines and, in some cases, cash dispensers and bank account statement printers.

The retail outlet network of Deutsche Post has been reorganised. In the retail outlets themselves, the IT systems have been upgraded and expanded.

In the international mail business we are continuing to work on a uniform software platform.

EXPRESS expands global network

In the EXPRESS Division, capital expenditure increased slightly from €721 million to €727 million and was mainly allocated to advanced payments and property, plant and equipment under development (€268 million), technical equipment and machinery (€103 million), aircraft (€94 million), transport equipment (€55 million), leasehold improvements (€48 million), IT equipment (€45 million) and other operating and office equipment (€21 million). Investments in intangible assets related mainly to advanced payments and intangible assets under development (€31 million) as well as purchased software (€30 million). The expenditures again focused on our worldwide network of aircraft, and on establishing and expanding hubs in Europe and Asia.

In Europe, the new hub was completed at Leipzig/Halle Airport and the vehicle fleet was modernised, especially in the Benelux countries.

In the Asia Pacific region, we expanded our hubs in China, South Korea and Singapore.

In the EEMEA region, investments centred on the growth markets of Russia and the Middle East, whilst in the International Americas region the focus was on Canada and Mexico.

Modern infrastructure for the forwarding and freight business

In the GLOBAL FORWARDING/FREIGHT Division, capital expenditure totalled €94 million (previous year: €69 million), of which €54 million related to the Global Forwarding Business Unit. A total of €12 million of this figure was allocated to IT equipment, €8 million to leasehold improvements, €7 million to advanced payments and property, plant and equipment under development, and €7 million to other operating and office equipment. The investments focused on building facilities and the IT infrastructure.

Funds of €40 million were invested in the Freight Business Unit, particularly for the replacement of vehicles in the UK, Benelux, Italy and Germany and the expansion of terminals.

Increased capacity for contract logistics

In the SUPPLY CHAIN/CIS Division, capital expenditure decreased by 21.4% to €390 million, of which €340 million was attributable to the Supply Chain Business Unit. We used the available funds to invest in new and more efficient technologies and to expand warehousing facilities.

In the United Kingdom, for instance, substantial funds were invested in transport equipment, warehouses and the associated technology, as well as in providing solutions for new and existing customers.

In continental Europe, we primarily expanded warehousing capacity to support new business.

In the Americas region, funds were allocated mainly to new business and building maintenance.

The Corporate Information Solutions Business Unit purchased modern printing technology for €37 million.

Sharp decline in cross-divisional investments

Cross-divisional investments fell from €459 million to €234 million and concentrated mainly on vehicle purchases and IT. The prior-year figure includes the reversal of a purchase agreement concluded with Viterra Logistik Immobilien GmbH & Co. KG. The relevant properties were brought into Deutsche Post Immobilienentwicklung Grundstücksgesellschaft mbH & Co. Logistikzentren KG in December 2007. Deutsche Post Fleet GmbH invested €160 million in new and replacement vehicles. A total of €41 million was allocated to IT, particularly for improving the IT infrastructure, security systems and software licences.

Significant improvement in free cash flow

Net cash from operating activities (Postbank at equity) increased significantly by €554 million year-on-year to €3,362 million. Net cash before changes in working capital was slightly below the prior-year level at €120 million. The decrease in EBIT was negatively affected in particular by increased non-cash additions to provisions. EBIT was also reduced, amongst other things, by non-cash write-downs on goodwill and intangible assets, which were added back in the depreciation/amortisation of non-current assets item. EBIT was strengthened amongst other things by the €572 million repayment from the state aid proceedings which impacted cash flow. The reduction in working capital was a key factor in the increase in net cash from operating activities. In particular, the reduction in receivables and other assets contributed to the improvement.

Selected cash flow indicators (Postbank at equity)

€m	2007	2008
Cash and cash equivalents as at 31 December	1,339	1,350
Change in cash and cash equivalents	-422	11
Net cash from operating activities	2,808	3,362
Net cash used in investing activities	1,310	914
Net cash used in financing activities	1,901	2,386

At €914 million, net cash used in investing activities was €396 million less than in the previous year. Cash was used above all for the capital increase at Postbank, to acquire Flying Cargo Ltd. and for the joint venture with New Zealand Post. We also increased our interests in Exel-Sinotrans Freight Forwarding and Williams Lea. Proceeds from the disposal of non-current assets stemmed primarily from real estate disposals. In addition, interest on the repayment awarded in the state aid proceedings led to a cash inflow of €495 million.

Free cash flow

€m

2,448

2008

1,498

2007

The increase in net cash from operating activities and the decrease in net cash used in investing activities resulted in a significant improvement in free cash flow, which increased by €950 million to €2,448 million (previous year: €1,498 million).

Net cash used in financing activities amounted to €2,386 million (previous year: €1,901 million). At €1,087 million, the higher dividend paid to our shareholders for financial year 2007 accounted for the largest share. In addition, the repayment of financial liabilities led to a cash outflow of €658 million.

Due to the changes described in the cash flows from the individual activities, cash and cash equivalents increased slightly compared with the previous year, from €1,339 million to €1,350 million.

Assets and liabilities

Consolidated balance sheet changed fundamentally

The structure of the consolidated balance sheet changed fundamentally as at 31 December 2008 due to the announced sale of Postbank. All assets and liabilities associated with this segment have been reclassified as assets held for sale and liabilities associated with assets held for sale. In contrast, this did not affect the balance sheet as at 31 December 2007.

Total assets increased by €27,544 million to €262,964 million, particularly as a result of Postbank's successful sales activities, which are reflected in the aforementioned items.

Non-current assets declined from €25,764 million to €20,517 million, primarily because Postbank's non-current assets were reclassified and intangible assets were reduced by impairment losses in the SUPPLY CHAIN/CIS Division. Furthermore, the sale of real estate to Lone Star, which was completed as at 1 July 2008, reduced property, plant and equipment by €842 million. This is also the main reason for the decrease in investment property from €187 million to €32 million. At €1,033 million, deferred tax assets were at the prior-year level (€1,040 million).

The 15.6% rise in current assets to €242,447 million is likewise due primarily to the reclassification of Postbank's assets. Receivables and other assets decreased by €1,091 million to €8,715 million, mainly because we improved receivables management. Cash and cash equivalents declined by €3,333 million, principally due to a fall in Postbank's cash reserve.

Equity attributable to Deutsche Post AG shareholders decreased from €11,035 million to €7,826 million. The capital base declined due to the dividend payment for financial year 2007 (€1,087 million), the adjusted revaluation reserve (€41 million), currency translation losses (€500 million) and the consolidated net loss (€1,688 million).

The €32,945 million rise in current and non-current liabilities to €242,276 million is primarily attributable to Postbank, which further expanded its operations. This served to increase liabilities associated with assets held for sale. Moreover, this item contains the reclassified provisions from discontinued operations. Current and non-current provisions declined accordingly, whereas in particular the restructuring measures led to an increase. All in all, this item decreased from €12,276 million to €10,836 million. Financial liabilities were reduced considerably by €6,084 million to €4,097 million. €5,474 million of this reduction relates to Postbank's reclassified subordinated debt. In addition, loan obligations were repaid and the financial liabilities to Williams Lea minority shareholders were reduced. Other current and non-current liabilities declined from €5,462 million to €5,112 million.

Indicators for the "Postbank at equity" scenario

When calculating the "Postbank at equity" balance sheet indicators, 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. Since financial liabilities decreased whilst cash and cash equivalents were nearly unchanged, net debt declined from €2,858 million as at 31 December 2007 to €2,412 million.

Net gearing – the ratio of net debt to the sum of equity and net debt combined – increased from 20.4% to 23.3%.

Selected indicators for net assets (Postbank at equity)

		2007	2008
Equity ratio	%	31.4	23.8
Ratio of equity to non-current assets	%	46.9	36.6
Net debt	€m	2,858	2,412
Net gearing	%	20.4	23.3
Net interest cover		7.1	4.2
Dynamic gearing ratio	years	1.0	0.7

Net interest cover is calculated by dividing EBIT by net interest paid/received and shows the ratio of EBIT to net interest obligations. It declined from 7.1 to 4.2.

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 1.0 to 0.7 years.

Net debt calculation (Postbank at equity)

Non-current financial liabilities	
+ Current financial liabilities	
= Financial liabilities	
- Cash and cash equivalents	
- Financial instruments	
- Long-term deposits (listed on the balance sheet under assets available for sale)	
- Financial liabilities to Williams Lea minority shareholders	
= Net debt (Postbank at equity)	

Divisions

Overview

EBIT and revenue by operating division

€m	2007 restated	2008	+/-%	Q4 2007	Q4 2008	+/-%
MAIL						
Profit from operating activities (EBIT)	1,976	2,253	14.0	706	491	-30.5
Revenue	14,569	14,393	-1.2	4,075	3,895	-4.4
of which Mail Communication	6,096	6,031	-1.1	1,620	1,600	-1.2
Dialogue Marketing	2,914	2,856	-2.0	824	781	-5.2
Press Services	822	826	0.5	216	214	-0.9
Parcel Germany	2,558	2,583	1.0	748	763	2.0
Global Mail	2,102	1,997	-5.0	653	510	-21.9
Retail Outlets	836	815	-2.5	213	229	7.5
Pension Service	85	89	4.7	19	21	10.5
Consolidation/Other	-844	-804	4.7	-218	-223	-2.3
Return on sales ¹⁾	13.6	15.7	-	17.3	12.6	-
EXPRESS						
Loss from operating activities (EBIT)	-272	-2,144	-	-437	-2,194	-
Revenue	13,874	13,637	-1.7	3,757	3,282	-12.6
of which Europe	6,667	6,631	-0.5	1,902	1,633	-14.1
Americas	4,165	3,559	-14.5	1,036	712	-31.3
Asia Pacific	2,576	2,746	6.6	681	723	6.2
EEMEA (Eastern Europe, Middle East, Africa)	1,021	1,176	15.2	276	310	12.3
Consolidation/Other	-555	-475	14.4	-138	-96	30.4
Return on sales ¹⁾	-	-	-	-	-	-
GLOBAL FORWARDING/FREIGHT²⁾						
Profit from operating activities (EBIT)	409	389	-4.9	156	79	-49.4
Revenue	12,959	14,179	9.4	3,440	3,611	5.0
of which Global Forwarding	9,410	10,585	12.5	2,522	2,744	8.8
Freight	3,646	3,710	1.8	947	899	-5.1
Consolidation/Other	-97	-116	-19.6	-29	-32	-10.3
Return on sales ¹⁾	3.2	2.7	-	4.5	2.2	-
SUPPLY CHAIN/CIS²⁾						
Profit/loss from operating activities (EBIT)	577	-675	-	190	-1,012	-
Revenue	14,317	13,718	-4.2	3,703	3,535	-4.5
of which Supply Chain	13,099	12,469	-4.8	3,382	3,209	-5.1
Corporate Information Solutions	1,214	1,243	2.4	312	332	6.4
Consolidation/Other	4	6	50.0	4	-2	-
Return on sales ¹⁾	4.0	-	-	5.1	-	-

1) EBIT/revenue.

2) The LOGISTICS Division was split into the new GLOBAL FORWARDING/FREIGHT and SUPPLY CHAIN/CORPORATE INFORMATION SOLUTIONS divisions. The prior-year figures were restated accordingly.

MAIL

Business units and market positions

We deliver Germany's mail

Every single working day, we deliver around 70 million letters. This makes us Europe's largest postal enterprise. We offer all types of products and services to both private and business customers, ranging from standard letters to merchandise and including special services such as cash on delivery (COD) and registered mail. Letters can be franked using traditional stamps, by purchasing postage online and now even via text message. Stamps remain popular collectors' items and more than one million stamp collectors have our new stamp designs delivered to them postage-paid every month. We also sell German collectors' coins under a contract with the German government. Alongside our standard products, we develop tailor-made mail solutions for our business customers. We digitalise their incoming mail, for example, and deliver it to the internal recipients electronically.

Traditionally, our mail business has focused on Germany. Since being fully liberalised at the start of 2008, however, the German letter mail market has faced heightened competition. Moreover, the domestic market for mail communication is shrinking as conventional mail is being replaced increasingly by electronic communication media. In the reporting year, the market decreased by 2% to around €6.5 billion (previous year: €6.6 billion). We succeeded in increasing our market share to 87.7% (previous year: 87.2%) thanks to our high quality and flexible prices.

Advertising with Deutsche Post avoids wastage

Companies wishing to target specific customers make use of traditional dialogue marketing tools. We provide technical solutions that not only allow customers to plan and create advertising mail easily but also to calculate and optimise postage. One key factor in the success of direct advertising is the availability of address lists that have been checked, purged and updated. We offer online tools and services that can be used to ensure the quality of addresses. In addition, we develop solutions for multi-channel customer dialogue. Our services range from consulting and concept development all the way to media planning and purchasing as well as the production and dispatch of advertising material. We thus combine dialogue marketing with conventional advertising. We also conduct market research to measure the impact of such advertising.

Dialogue marketing is the part of the advertising market that is relevant to us. The market for advertising mailings and telephone and e-mail marketing is currently being shaped by the trend amongst companies in Germany to limit advertising expenditures. In 2008, this market had a volume of €20.4 billion, a decrease of 2.1% year on year. The tense economic situation has put pressure on traditional mail-order companies, causing them to lower their advertising budgets. We have maintained our share of 13.4% in this highly fragmented market.

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
- Packstations

Global Mail

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

Retail Outlets

- Deutsche Post retail outlets
- Partner outlets
- Postservice outlets

Pension Service

- Data administration
- Payments

Market share in mail communications in Germany, 2008

Market volume: 9.3 billion items



Source: company estimates.

Market share in dialogue marketing, 2008

Market volume: €20.4 billion



Source: company estimates.

Market share in press service, 2008

Market volume: 17.8 billion items



Source: company estimates.

Market volume in parcels, 2008

Market volume: approx. €6.5 billion

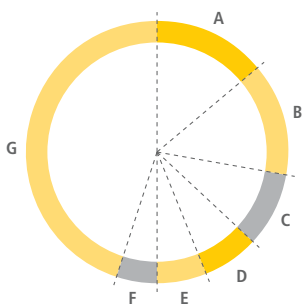


Source: company estimates.

Cross-border mail market, 2007

Market volume: €10.4 billion¹⁾

A	14%	DHL
B	14%	USPS
C	9%	Royal Mail
D	7%	La Poste
E	6%	SPI
F	5%	TNT/Spring
G	45%	Other



Source: company estimates, UPU statistics 2008, annual reports from USPS, Royal Mail, La Poste, SPI and TNT, other calculations and estimates.

Daily newspaper subscriptions

We deliver newspapers and magazines nationwide on the day specified by the customer. Our Press Services Business Unit offers two products. Publishers traditionally mail their subscribed publications as “preferred periodicals”, whereas companies that distribute customer or employee magazines via Deutsche Post usually send these items as “standard periodicals”. As an additional service, we offer electronic address updating as well as complaint and quality management.

According to studies, the market for press services had a total volume of 17.8 billion items in 2008 or 0.6% fewer items than in the previous year. Our competitors in this market are the companies that deliver regional daily newspapers. Although both the number of pages and the weight of newspapers and magazines have decreased because of diminishing advertising content, we nonetheless succeeded in achieving higher average prices for these items on the market. We maintained our market share of 11.4%.

E-commerce responsible for growing parcel market

We deliver around 2.5 million parcels within Germany every day. An important part of this process is making customer access to our services as simple as possible. Our private customers are able to send and collect parcels and small packets around the clock from practically everywhere thanks to our around 14,000 retail outlets, 1,400 Packstations and 1,000 Paketboxes. They can even take care of the related steps online, such as purchasing packaging materials, buying postage and printing labels for parcels, placing parcel collection orders and tracking items. For business customers, we develop customised solutions for their particular sector. We support mail-order companies, for instance, by transporting their merchandise to consumers and provide solutions for facilitating returns. Business customers can register online and start sending and tracking parcels immediately.

In 2008, the market volume of the parcel business totalled around €6.5 billion, which represents a year-on-year rise of 3%. Several very capable providers compete for shares in this highly contested sector, including DPD, Hermes, UPS and GLS. Business is benefiting from the rising popularity of e-commerce, whilst sales in the traditional mail-order segment are declining. In the year under review, we stabilised our share at around 38%.

Active in foreign markets

We deliver mail across borders, serve the domestic markets of countries outside of Germany and also provide special services beyond mail transport. We serve business customers in key domestic mail markets, including the USA, the Netherlands, the UK, Spain and France.

In 2008, the global market for cross-border mail had a volume of around €10 billion – nearly the same as in the previous year. Business in 2008 was shaped by the economic crisis in the United States and a tough competitive environment. We lost market share due to our decision to focus strictly on earnings and therefore to cut ties with unprofitable customers. We expect a total market share of a good 13% for 2008.

Strategy and goals

Our goal is to continue operating highly profitably in order to compensate for the threat of a diminishing market share. To accomplish this, we plan to systematically expand our range of services, secure quality leadership, reinforce our position abroad and, where possible, make our transport and delivery network prices and costs more flexible.

Extending our range of services

Deutsche Post has immensely expanded its services in recent years. We now provide our customers with services at every link in the mail value chain and offer solutions for electronic communication. We have pulled ahead of the competition by speeding up the development of innovative products. One of the key areas we are focusing on is making our services more user-friendly and easily accessible. Private customers can now design their own envelopes and stamps online and pay for the postage by text message.

We operate the largest network of fixed-location retail outlets in Germany, consisting of some 14,000 outlets. This is around one-sixth more locations than required by legislators. We are also expanding our successful co-operation with retailers. This allows us to offer our customers more convenient access to our services along with longer opening hours. In addition, by 2010 we will have expanded our network of around 1,400 Packstations to a total of 2,400 machines.

Assuring high quality

We survey our customers regularly to determine their level of satisfaction with the scope and quality of our services. Current studies conducted by MRSC and *Deutsches Institut für Servicequalität* (the German institute for service quality) confirm that for the second year in succession customers in all segments – private customers, small and large businesses as well as key accounts – are even more satisfied than the year before.

→ Page 81

Engaging in foreign markets

In most EU countries, mail monopolies will end in 2011, with some not ending until 2013. The policy agreed on by the European Council is intended to prevent member states from using universal service obligations to create market entry barriers for competitors. We will be following the developments in mail markets abroad very closely and reviewing any market entry opportunities.

Making prices and costs more flexible

The *Bundesnetzagentur* (German federal network agency) continues to regulate our mail prices. Although we will keep postage prices stable within Germany, we will be simplifying price structures for mail to other countries. Modelled on our domestic portfolio, in the future we plan to offer an international flat-mail product of up to 500g.

→ Risks, page 87

In recent years we have made our transport network costs more flexible in order to respond rapidly to volume changes. For example, we can decrease the number of night-time mail cargo flights and reduce outsourced operations such as transport by lorry at any time. State-of-the-art IT systems enable us to more accurately predict new orders and to optimise capacity utilisation to reflect traffic volumes. We have also further increased the flexibility of our staff costs over the past two years.

Revenue and earnings performance

Revenue slightly under prior-year level

Since the start of the financial year 2008, we have been reporting on the Deutsche Post retail outlets as part of the MAIL Division. The prior-year figures have been restated in view of structural changes in the way costs are allocated in connection with the unbundling of the SERVICES Division. The Corporate Information Solutions Business Unit is now reported on as part of the SUPPLY CHAIN/CIS Division. The Pension Service has been transferred from the FINANCIAL SERVICES Division to the mail business as they share a regulatory environment that is almost the same.

In the year under review, revenue amounted to €14,393 million – only slightly under the previous year's high figure of €14,569 million. In a German mail market that is now fully liberalised, we have regained shares from competitors and in the international mail business we have taken a consistent profit-based approach to our business that has included cutting ties with unprofitable customers. As in the past, currency effects were minimal in the reporting period, only pushing revenue down by €66 million.

Deutsche Post prevails in liberalised German mail market

The German letter mail market has been fully liberalised since the start of 2008. In the Mail Communication Business Unit, revenue declined year-on-year from €6,096 million to €6,031 million. The market is shrinking steadily as a result of increasing use of electronic means of communication. Although competition is becoming more intense, we have secured market shares with competitive products and services and regained lost customers. In a year-on-year comparison, sales volumes increased slightly due to the fact that the second half had 1.7 additional working days.

In the regulated mail sector, we kept prices stable although the inflation rate underlying the price cap procedure increased. 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.

Mail Communication: sales

mail items (millions)	2007	2008	+/-%	Q4 2007	Q4 2008	+/-%
Business customer letters	6,764	6,856	1.4	1,729	1,767	2.2
Private customer letters	1,348	1,328	-1.5	402	400	-0.5
Total	8,112	8,184	0.9	2,131	2,167	1.7

Limited advertising expenditure

Performance in the Dialogue Marketing Business Unit was shaped in 2008 by the trend amongst companies in Germany to restrict advertising expenditures. Traditional mail-order companies came under especially intense pressure as a consequence of the economic situation. This evidenced itself in declining volumes for addressed and unaddressed advertising mail in the fourth quarter. For this reason, revenue for full-year 2008 (€2,856 million) did not quite reach the high level of the previous year (€2,914 million).

Dialogue Marketing: volumes

mail items (millions)	2007	2008	+/-%	Q4 2007	Q4 2008	+/-%
Addressed advertising mail	6,782	6,912	1.9	1,948	1,947	-0.1
Unaddressed advertising mail	4,650	4,940	6.2	1,363	1,343	-1.5
Total	11,432	11,852	3.7	3,311	3,290	-0.6

Stable revenue for Press Services

Revenue in the Press Services Business Unit increased slightly over the prior-year period, from €822 million to €826 million. Although quantities edged down, both item weights and average prices increased.

E-commerce drives increase in parcels

The Parcel Germany Business Unit pushed up revenue by 1.0% year-on-year, from €2,558 million to €2,583 million. The fourth quarter was particularly strong. The growing significance of e-commerce is reflected in increased sales volumes on the part of our business and private customers. However, our customers with traditional mail-order businesses are suffering from the economic trend in Germany – their sales volumes are dropping.

Parcel Germany: sales

items (millions)	2007	2008	+/-%	Q4 2007	Q4 2008	+/-%
Business customer parcels	646	661	2.3	179	189	5.6
Private customer parcels	107	112	4.7	35	37	5.7
Total	753	773	2.7	214	226	5.6

Largest network of fixed-location retail outlets in Germany

With around 14,000 outlets, we have the largest network of fixed-location retail outlets in Germany, where our customers are able to meet their postal and often banking needs. We are continually expanding our network to make access to our services as simple as possible for customers. Revenue generated by the outlets fell from €836 million to €815 million, mainly due to lower internal revenues.

Global Mail suffers from currency effects

Our international mail business registered a revenue decline of 5.0%, from €2,102 million in 2007 to €1,997 million in 2008. The decrease was particularly noticeable in the fourth quarter. In addition to negative currency effects of €66 million, revenues suffered especially from the discontinuation of DHL@home – a product for mail-order companies in the US. We no longer offer this product after reducing our Express transport network.

Mail International: volumes

mail items (millions)						
	2007	2008	+/-%	Q4 2007	Q4 2008	+/-%
Global Mail	7,457	7,364	-1.2	2,121	1,936	-8.7

Non-recurring items increase profit

With €2,253 million in financial year 2008, EBIT surpasses our earnings figure for the previous year (€1,976 million), primarily thanks to the boost of €572 million from the repayment awarded in the EU state aid proceedings. Without the repayment, EBIT would have fallen by 14.9% year-on-year due to the negative impact of increased costs and the aforementioned market environment. Operating cash flow amounted to €2,235 million (previous year: €1,946 million); the return on sales was 15.7%.

EXPRESS

Business units and market positions

Network for time-critical shipments spans the globe

The EXPRESS Division transports time-sensitive documents and goods reliably from door to door via fixed routes and using standardised workflows. Our network spans more than 220 countries and territories in which more than 100,000 employees serve over eight million customers.

In 2008 we expanded our reach for time-critical shipments. We now offer delivery before either 10.30am or 12.00pm in all major countries in the Americas region. In Europe and Asia, we increased capacities for delivering prior to 12.00pm in numerous countries, thus fortifying our already strong market position. In Eastern Europe, the Middle East and Africa, we have the most extensive coverage for premium deliveries, which reach their destination countries by the quickest possible route. We guarantee faster transit times than our competitors on the world's central trade lanes, especially to and from Asia.

As a global network operator, we are well aware that the quality of our services is crucial in determining business success. Therefore, continuous improvement of our service levels is a must for us.

Standardised products and services meet all customer needs

Our three product lines – DHL Same Day, DHL Time Definite and DHL Day Definite – offer customers courier and express services in each of the three standard time segments.

Normally, our customers make use of our customer service numbers or the internet when ordering transport services. In Germany, we leverage the Deutsche Post retail outlets. We also maintain more than 30,000 Servicepoints outside of Germany, where ad hoc customers can drop off and pick up shipments and have them packed at no extra charge. The prices are standardised by weight class.

At a time when the environmental impact of business is a live issue, particularly with respect to the logistics sector, we are thus far the only express service provider to offer climate-neutral shipping products – our GoGreen programme.

Globalisation still driving growth

Historically, the global express market has grown at an average of 6% to 8% each year. Although growth has now slowed notably in line with the general economic downturn – decreasing from 3.7% in 2007 to 2.8% in 2008 – our business is still driven by globalisation. We maintain a strong position in all parts of the world and are the market leader in international express shipments in all regions outside of the United States.

2008 proved to be highly unusual, with the economic downturn accelerating during the course of the year, our gradual exit from the domestic US express business and strongly fluctuating fuel prices.

Regions and products

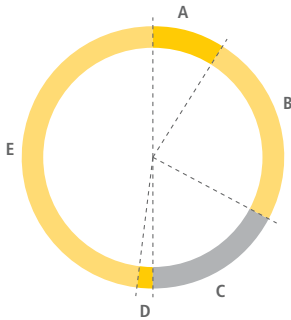
- Europe
- Americas
- Asia Pacific
- EEMEA (Eastern Europe, Middle East and Africa)
- DHL Same Day
- DHL Time Definite
- DHL Day Definite

 Page 82

US international CEP market, 2007

Market volume: €7.5 billion¹⁾

A	9%	DHL
B	24%	FedEx
C	17%	UPS
D	2%	USPS
E	48%	Other



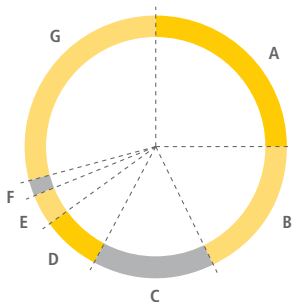
1) New market portrayal: These figures are estimates for outbound international shipments < 1,000 kg.

Source: MRSC in co-operation with Colography Group 2008.

European international CEP market, 2007¹⁾

Market volume: €15.3 billion²⁾

A	25%	DHL
B	18%	UPS
C	15%	TNT
D	7%	FedEx
E	4%	La Poste (incl. DPD, Geopost)
F	2%	Royal Mail (incl. GLS)
G	29%	Other



1) Country base: A, B, BG, CH, CZ, D, DK, E, FIN, GB, GR, H, I, IRL, L, NL, P, PL, RO, S, SK, SLO.

2) These figures are based on all shipments < 1,000 kg.

Exit from US domestic express market

As the largest express market in the Americas, the United States holds a unique position. It is connected to the world's principal trade lanes and some 49% of all DHL shipments are billed there, where nearly half of our 200 largest customers are based.

After the takeover of Airborne in 2003, we worked to make our domestic business in the United States a success and to establish DHL as the third major player in this duopoly market. However, today we must concede that our positive operational achievements did not translate into financial success. Ultimately, the weak US economy, exacerbated by expectations of a global recession, increased pressure to such an extent that we were forced to find a viable solution in the interests of our shareholders, employees and customers.

In November 2008, we decided to exit the US domestic express business by the beginning of 2009. We are re-focusing fully on our core competency – the international express business. In the future, the United States will remain an integral part of our global network, the scope and capacity of which guarantee us a leading position in the express market. In the year under review, our share of 9% (2007) in the US international express market allowed us to again remain competitive and to solidify our market position.

In the international express business in Latin and Central America, DHL is the market leader with a share of 36% (2007) and is growing robustly. Although international volume growth has slowed as a result of the poor US economy, the domestic express markets experienced dynamic growth, particularly in Mexico and Venezuela.

Slowdown in Europe intensified

In 2007, the European market for courier, express and parcel (CEP) services increased to €15.3 billion, up from €12.1 billion a year earlier. E-commerce was responsible for most of this growth, whilst the addition of Eastern European countries to the region during the reporting period also played a role.

In 2008, the economy negatively impacted volume growth. Moreover, air express shipments continued to decrease in favour of more economical ground transport.

We maintained our leading position in Europe's international CEP market, even broadening our position in Eastern Europe. In terms of growth, we outperformed the market on many trade lanes, especially to and from Asia and Eastern Europe.

We expanded our services in time-definite deliveries, which we now offer in 55 countries. In Europe, we are presently able to deliver to more than 94% (previous year: 80%) of all business addresses by 12.00pm.

This success is in large part thanks to our new intercontinental hub at Leipzig/Halle Airport, which we put into operation as scheduled in May 2008, following just three years of planning and construction. The Group invested around €300 million in the facility, where each working day some 60 aircraft take off and land and around 1,500 tonnes of freight are handled. This has enabled us to increase the number of direct flights within Europe and beyond. We maintain connections to 46 countries on three continents.

Undisputed market leader in Asia

Asia continues to be a key driving force for growth in the world. The consumer goods and high-tech sectors are particularly significant in this region, accounting for more than two-thirds of the international express business. After years of strong growth, three factors are currently slowing the further expansion of the Asian express market. Asian exports are suffering from the economic slowdown in the United States. The supply chains that feed internal trade within Asia are changing. And an increasing number of goods are being carried by ship so that our shipment volume fell as a result in the year under review.

DHL nonetheless posted strong growth again and maintained its leading position in 2008 in Asia's international express markets – including the region's 14 largest economies – where we hold by far the largest market share (34%).

In 2008 we greatly expanded the reach of our time-definite network: In 13 Asian countries we deliver by 12.00pm, thereby dominating the most significant intra-Asian trade lanes. In addition, since last autumn we have offered day-definite delivery within Asia.

Our international position – which has been strengthened by our trans-Pacific partnership with Polar Air – is complemented by our presence in key Asian domestic markets. The ground-based transport services offered by Blue Dart in India saw encouraging growth, as did domestic business in China and Australia.

In recent years we have invested more than US\$2.2 billion in the region. We established dedicated infrastructure, upgraded existing hubs and gateways and expanded our dedicated air traffic network.

Emerging markets shaped by strong growth

In the year under review we had another year of double-digit volume growth in the 88 countries making up the EEMEA region (Eastern Europe, the Middle East and Africa). Russia and the United Arab Emirates developed into growth markets along with other emerging markets in this region, particularly Saudi Arabia, Turkey, Ukraine and Kazakhstan. As the market leader, our network puts us in an excellent position to benefit from further growth of these import markets.

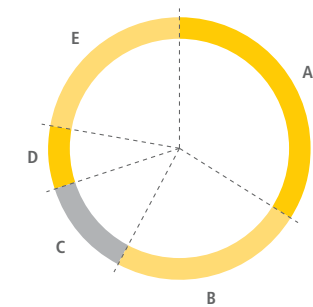
We continued to expand our service in 2008, particularly in Russia. We now offer overnight delivery to Moscow and St. Petersburg from all of Europe's major cities and economic centres.

Day-definite road transport in the Middle East, North Africa and Turkey was likewise expanded, enabling us to acquire new contracts in the automotive sector and the consumer goods industry.

Asian international express markets, 2007¹⁾

Market volume: €5.9 billion²⁾

A	34%	DHL
B	24%	FedEx
C	12%	UPS
D	8%	TNT
E	22%	Other



1) Country base: AU, CN, HK, ID, IN, JP, KR, NZ, MY, PH, SG, TH, TW, VN.
2) These figures are based on shipments <1,000kg.
Source: AT Kearney, TMS 2008.

Strategy and goals

Our main objective is to increase profitability and generate further organic growth despite the economic downturn. Our strategy for achieving this goal is to remain the preferred provider in the international express business – across all products and regions. In the United States, we are reorganising our international business. We are also investing in growth markets whilst at the same time taking actions to counter-balance the foreseeable economic decline. We continued to expand the global organisation under uniform management last year, putting us in an excellent position to tackle these goals.

Maintaining leading position in the international express market

Our strategy revolves around the international air traffic network. Competitive pricing and first-rate service on all the major trade lanes is our objective. This is why one of our plans is to launch intercontinental day-definite delivery. We are continuously upgrading our service standards to facilitate customer access to our services. For instance, we are developing electronic solutions to enable customers to determine the location of their shipments at any time using their computers or mobile phones. One such solution is ProView, which is already used by more than 50,000 customers in some 40 countries.

Concentrating on the international express business in the USA

We will continue to offer competitive international express services in the USA in the future. Employees based in and outside of the country will structure the reorganisation such as to reinforce our position as international shipping experts and ensure that customers receive high service quality. We will thus continue to pose an attractive alternative to our two main competitors in the US express market.

Increasing presence in growth markets

We are further augmenting our presence in growth markets. To do so, we are making infrastructure investments such as the construction and expansion of air hubs, particularly in the Asia Pacific region. In 2008, we enlarged the central Asian hub at the airport in Hong Kong, which represented a major milestone. In addition, we are continuing to take advantage of our strong potential in many domestic markets outside of the USA. We see growth opportunities in the domestic express markets in Latin and South America as well as in China and India.

Managing global network costs

As the operator of a network spanning the entire globe, we are always looking for ways to make this network more efficient. We use modern aircraft such as the Boeing 777 to optimise fuel consumption and reduce our per-unit costs, and we are continuing to improve capacity utilisation. Moreover, we constantly review all areas to determine how productivity can be raised.

Revenue and earnings performance

Revenue in the EXPRESS Division declined by 1.7% in 2008 to €13,637 million (previous year: €13,874 million). Business was impacted by negative currency effects amounting to €620 million. Measured in local currencies, we attained organic revenue growth of 2.4%. Revenue outside the US grew by 3.9%, resulting in large part from surcharges we collected for higher fuel costs.

In a deteriorating economic environment, daily shipment volumes in the Time Definite International product line decreased by 2.4% compared with the previous year. The daily volumes in the Time Definite Domestic product line performed well in our regions outside the US and achieved a year-on-year increase of 7.0%. However, this could not fully compensate for the continuing volume decline in the United States.

EXPRESS: revenue by product

EXPRESS: revenue by product						
€m per day						
	2007	2008	+/-%	Q4 2007	Q4 2008	+/-%
Time Definite International	27.3	28.6	4.8	29.0	28.0	-3.4
Time Definite National	10.4	9.8	-5.8	10.8	8.3	-23.1
Day Definite National	10.3	10.1	-1.9	11.2	9.4	-16.1

EXPRESS: volumes by product

EXPRESS: volumes by product						
thousands of items per day						
	2007	2008	+/-%	Q4 2007	Q4 2008	+/-%
Time Definite International	528.6	515.8	-2.4	546.1	501.8	-8.1
Time Definite National	1,355.2	1,193.9	-11.9	1,373.3	944.7	-31.2
Day Definite National	1,327.2	1,250.8	-5.8	1,440.3	1,068.1	-25.8

Revenue in Europe at prior-year level

In Europe, revenue stabilised at €6,631 million, close to the previous year's figure of €6,667 million. The total figure contains negative currency effects in the amount of €159 million, attributable primarily to our UK and Nordic countries business. The underlying organic growth for the region was 2.1%. The new EU members as well as France and the Scandinavian countries achieved good organic growth in 2008.

Americas impacted by economy and exit from domestic US market

In the year under review, the overall trend in the Americas region was shaped by the poor economic conditions and our gradual exit from the domestic express business in the US. Revenue slipped by 14.5% to €3,559 million (previous year: €4,165 million), including negative currency effects in the amount of €281 million. Measured in local currency, revenue decreased by 7.8%, largely resulting from the ongoing restructuring activities in our US business. Business in Latin America was once again encouraging with organic growth in the double digits. In the United States, however, revenue declined in organic terms year-on-year by 13.4%. Shipment volumes in our domestic product lines were particularly hard hit by the weak US economy and our decision to cease domestic activities.

Growth continues in the Asia Pacific region

Revenue in the Asia Pacific region increased by 6.6% to €2,746 million (previous year: €2,576 million). Changes in the euro exchange rate gave rise to negative currency effects in the amount of €111 million. Although the rate of growth in the region slowed mainly in the second half of 2008, we posted organic revenue growth of 9.1%. Domestic shipment volumes continued to rise in this region.

Double-digit revenue growth in the emerging markets

In the EEMEA region (Eastern Europe, the Middle East and Africa), revenue increased by 15.2% to €1,176 million (previous year: €1,021 million). This translates into organic growth of 22.3% after factoring in the negative currency effects of €73 million. Once again, we achieved the highest growth rates in all of our product lines in the Middle East and Russia.

Realignment of US business impacts earnings

EBIT declined by €1,872 million in 2008, from €-272 million in the previous year to €-2,144 million. The drop in EBIT was mainly due to restructuring activities, which led to non-recurring expenses of €2,358 million. Most of these expenses were related to the realignment of our US business, which accounted for €2,096 million of non-recurring expenses. Losses in the US continued to rise in 2008. Outside the US, our earnings from operating activities and after adjustment for restructuring costs were satisfactory. The effect of a declining economy was mainly felt in the last quarter of 2008. The unfavourable economic trend led to lower volumes, which we were able to offset by implementing several cost reduction initiatives. Operating cash flow, which includes the cash outflow for restructuring activities and the losses from the US business, fell from €1,001 million to €263 million.

GLOBAL FORWARDING/FREIGHT

Business units and market positions

In March 2008, the LOGISTICS Division was dissolved and replaced by the new GLOBAL FORWARDING/FREIGHT Division and the new SUPPLY CHAIN/CIS Division. The business units of the division are still called Global Forwarding and Freight.

We create global transport solutions

DHL, with its Global Forwarding and Freight business units, is the world's largest provider of air and ocean freight services and one of the leading overland freight forwarders in Europe and the Middle East. Our job as a freight forwarder is to plan and implement global transport solutions for our customers, to supply the necessary capacity and to co-ordinate the flow of goods in more than 150 countries. To do so, we rely on the competence of our around 41,000 qualified employees along with our many reliable partners.

Our business model involves us acting as a broker between the customer and the carriers. We combine demand from different customers in order to reach a volume that allows us to buy cargo space and charter capacity from airlines, shipping companies and freight carriers at competitive prices. We also make use of the air freight capacity of the EXPRESS Division. Since we purchase transport services rather than providing them ourselves, we are able to operate our business with a very low level of fixed assets.

World market leader in air and ocean freight

DHL is the world market leader in the air and ocean freight sector. Around 30,000 employees in 150 countries work to ensure that shipments of all kinds are transported to their destination by air or by sea. We also support our customers by providing special transport-related services: We store customers' goods, collect them, deliver them, handle customs formalities and insure the load. In this way, we guarantee the safety of the goods even beyond national borders.

Our customer base consists of large-scale enterprises along with small and medium-sized businesses operating primarily in the technology, pharmaceutical, automotive, mechanical engineering and commerce sectors. We also plan and implement major logistics projects, in particular for the petroleum and energy industry and the aviation and aerospace sector.

Presence expanded in growing air freight markets

The fastest way to transport goods is by air. In the year under review, the air freight market decreased by 4% in contrast to 4% growth in the previous year. However, we continued to expand our presence in growth markets such as Asia, Africa and the Middle East, where we are the clear market leader with a share of 11.9% (2007). This figure cannot be compared with the prior year, since market volume is now reported in tonnes transported rather than in revenues as it was previously the case.

Business units and products

Global Forwarding

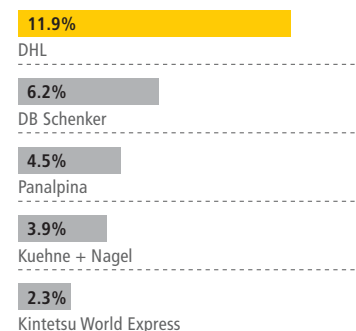
- Air freight
- Ocean freight
- Industrial projects

Freight

- Full and part truckload
- Less than truckload
- Intermodal

Market shares, top five: air freight 2007

Market volume: 20.9 million tonnes¹⁾

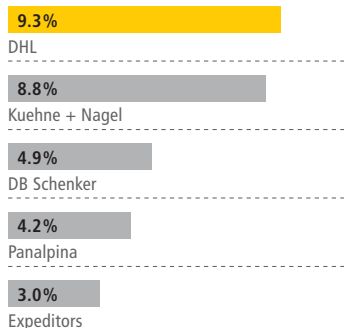


¹⁾ Data are based solely on tonnes of export freight.

Source: Global Insight, Global Trade Navigator, annual reports, press releases and company estimates.

Market shares, top five: ocean freight 2007

Market volume for forwarding:
29.6 million TEU¹⁾

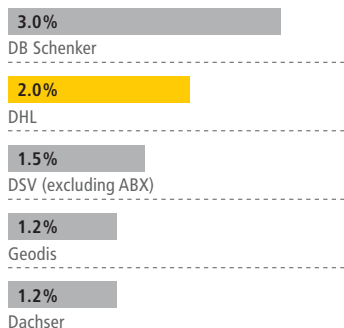


1) Estimated share of overall market controlled by forwarders.

Source: Global Insight, Global Trade Navigator, annual reports, press releases and company estimates.

Market shares, top five: European road transport 2007

Market volume: €163.7 billion¹⁾



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

Source: MRSC freight reports 2007 and 2008, Eurostat 2007, annual reports, press releases, company websites, estimates, analyst reports.

Ocean freight market growing steadily

When transporting goods by sea, transit times are longer than for air transport but the costs are lower. We are the global leader in both less-than-container-load (LCL) and full-container-load (FCL) shipments. According to our estimates, this market grew by 3% to 4% in 2008. We slightly expanded our share of the market.

New products combine modes of transport

In times of economic uncertainty, customers become more cost-conscious. At the same time, they want integrated, safe and fast transport solutions. One such solution is our SeAir product, which combines these two modes of transport. This service is considerably faster than ocean shipping but at significantly lower prices than air freight. The product has been well received by the market and in the year under review, we increased volume by 27%.

Our business activities in the major economic regions were highly successful. In Europe, for example, our Airfreight Plus product combines the speed of express shipping with the customised service of a freight forwarder and guarantees day-definite, door-to-door delivery of heavy goods in 32 European countries. Customers benefit from late collection times and next-day delivery. In addition, specially trained personnel ensure that temperature-sensitive shipments are processed quickly with minimum holding times.

Number two in European overland transport

Freight is the second-largest overland freight forwarder in Europe with around 11,000 employees in 53 countries. Our business model is similar to that of Global Forwarding: We see ourselves as a broker of freight capacity. In the overland transport business we provide full-truckload, part-truckload and less-than-truckload services. We also offer combined services with other carriers, especially rail transport companies. Moreover, our range of services includes the handling of customs formalities and the provision of insurance.

DHL is one of the leading providers of trade fair, exhibition and event logistics. Along with trade fair transport, our range of services includes customised full-service solutions for exhibitors, international trade fair organisers, event management and staging companies as well as event agencies.

In 2007, the European market for road transport grew by 4.2% (previous year: around 3.5%). We maintained our share of 2.0%.

Strategy and goals

We are well positioned in our markets due to our air freight, ocean freight and road transport services. Our goal is to continue to grow steadily and organically at a rate above the industry average. To this end, we pursue three approaches:

- ❶ **Presence in growth markets.** We are increasing our presence in Asia, on the rapidly growing Indian subcontinent, in the Middle East and in Africa. We plan to make targeted investments in customer relationships in order to expand, for example, our overland transport business within the Middle East and in Asia.
- ❷ **Industry-specific solutions.** We develop industry-specific solutions. For the pharmaceuticals industry, for instance, we developed DHL ColdChain, a temperature-controlled pallet network for transporting sensitive products within Europe safely and efficiently.
- ❸ **Modern infrastructure.** We are harmonising our IT and making substantial investments in a networked infrastructure. In November 2008, we opened the largest transshipment centre of its kind in the Middle East on 80,000m² in Jebel Ali in the free-trade zone of Dubai. Our customers use the centre as an intermediate storage point when transporting goods between Europe, Africa and Asia.

Revenue and earnings performance

Satisfactory organic growth for freight forwarding business

All in all, our freight forwarding business saw encouraging growth in 2008. Revenue grew by 9.4% to €14,179 million (previous year: €12,959 million). This figure includes negative currency effects of more than €400 million as well as minor acquisitions in the Global Forwarding Business Unit. Organically, our revenue grew by 11.2%.

Air and ocean freight volumes down due to weak market in fourth quarter

The Global Forwarding Business Unit generated revenue of €10,585 million (previous year: €9,410 million). Thus, revenues grew by 12.5% year-on-year despite negative currency effects. Organic revenue growth was 14.6%. Gross profit in the business unit totalled €2,222 million. Our earnings from operating activities (EBIT) increased slightly despite the decline in gross margins and difficult economic conditions. We succeeded in optimising both operating expenses and overhead costs on an ongoing basis. If the restructuring provisions recognised in the reporting year are discounted, earnings increased year-on-year.

Air freight volumes saw a slight decrease of 2.7% in financial year 2008 compared with the previous year; this was followed by a stronger decrease, however, in the fourth quarter (16.3%). The decrease reflected the overall market, which declined by 4% in the reporting period. In November and December alone, air freight market volumes dropped year-on-year by 13.5% and 22.9% respectively, due to the sharp deceleration of growth in global trade. As a consequence, freight rates on many trade lanes experienced sharp declines and capacities were reduced. However, since fuel surcharges, amongst others, were significantly higher than in 2007, we nonetheless posted a revenue increase of 12%. Our business remained robust in the Middle East, Africa and South-East Asia in particular.

Global Forwarding: revenue by segment

€m						
	2007	2008	+/-%	Q4 2007	Q4 2008	+/-%
Air freight	4,809	5,388	12.0	1,268	1,341	5.8
Ocean freight	3,014	3,418	13.4	810	924	14.1
Other	1,587	1,779	12.1	444	479	7.9
Total	9,410	10,585	12.5	2,522	2,744	8.8

Global Forwarding: volumes

thousands							
	2007	2008	+/-%	Q4 2007	Q4 2008	+/-%	
Air freight	Tonnage	4,409	4,291	-2.7	1,203	1,007	-16.3
Ocean freight	TEU ¹⁾	2,764	2,882	4.3	873	754	-13.6

1) Twenty-foot equivalent units.

Market growth in the ocean freight business also suffered from a very weak fourth quarter. We estimate the market to have grown by only 3% to 4% in the year under review. However, we outperformed the market on the whole with growth of 4.3% despite a fourth-quarter volume decline of 13.6%. Thanks to a favourable trend in freight rates, revenue rose by 13.4% in 2008. We increased revenues in Latin America, North Asia and Europe in particular.

Our industrial projects business, which we have been focussing on for two years, made another above-average contribution to growth, especially in Asia, North America, the Middle East and Africa.

European overland transport business performs stably

The Freight Business Unit reported revenue of €3,710 million for the year as a whole (previous year: €3,646 million) and organic growth of 2.6% compared with the previous year. The business performed well in the Benelux countries, in Eastern Europe and in Germany. Gross profit amounted to €955 million, around the same as in the prior year.

EBIT before non-recurring items rises 6%

Division EBIT declined to €389 million from €409 million in the previous year. The figure for 2008 includes restructuring provisions amounting to more than €40 million. Additionally, adjusted for negative currency effects of nearly €20 million as well as acquisitions, the business performed well with earnings growth of 6%. Thanks to our effective cost management, we held our ground well in a difficult and volatile market environment. Return on sales (excluding restructuring provisions) remained stable compared with the previous year at 3%.

Operating cash flow amounted to €630 million (previous year: €217 million). The figure greatly increased because we are consistently implementing our Roadmap to Value initiatives. Working capital and the cash conversion rate both improved. The cash conversion rate measures the proportion of operating earnings that are converted to cash flow.

Calculation of cash conversion rate

Operating cash flow

⊖ EBIT

⊖ Cash conversion rate

SUPPLY CHAIN/CORPORATE INFORMATION SOLUTIONS

Business units and market positions

In March 2008, the LOGISTICS Division was dissolved and replaced by the new GLOBAL FORWARDING/FREIGHT Division and the new SUPPLY CHAIN/CORPORATE INFORMATION SOLUTIONS Division (hereinafter SUPPLY CHAIN/CIS). The Corporate Information Solutions Business Unit was previously reported under the MAIL Division. The prior-year figures were restated.

Customised logistics solutions with sector focus

In 65 countries all over the world the division focuses on customer-orientated solutions along the entire supply chain. We provide warehousing, distribution, transport and value-added services along with corporate information solutions. We have long-standing business relationships with our customers in most mature markets, often going back for more than 20 years. Our success rests on understanding the individual needs of our customers and offering them solutions that add value to their business.

In the retail, fashion and consumer goods industries, customers need highly flexible supply chains that allow them to react quickly to market trends. We operate warehouses, provide packaging services and manage transportation networks all the way from the source of supply to retail shelves.

In the healthcare industry, it is necessary to keep a constant eye on inventories and provide high levels of product visibility along each step of the supply chain – not least to meet the numerous regulatory requirements. We therefore provide a strictly controlled environment consisting of purpose-built, highly-secure facilities strategically located throughout the world.

The logistical challenge of the technology sector lies in ever shorter product life cycles, which necessitate quick changes in production and distribution locations. Our offering comprises inbound to manufacturing logistics, distribution and warehousing, assembly and returns logistics. We also generate economies of scale for our customers with the help of shared-user warehouses and hubs.

The automotive industry demands efficient and co-ordinated supply chains in order to ensure timely delivery of components across the globe. We provide this service for many prominent automotive suppliers in all major markets where we operate. Considering the fact that this industry is currently suffering, we are working even harder with most of our key customer to further optimise supply chains and thereby reduce costs.

In the Corporate Information Solutions Business Unit, we provide customised solutions for both digital and print information, ranging from drafting and printing communications materials to outsourcing business processes. This helps our customers to improve internal processes, focus communication and reduce costs – in short, to be more profitable. We are specialised in industries such as insurance, retail, automotive, consumer goods, pharmaceutical, financial services, legal, consulting, publishing and the public sector. In business process outsourcing (BPO), we are the market leader.

Business units and products

Supply Chain

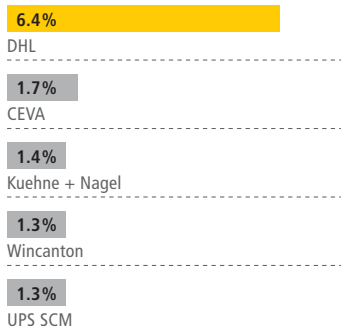
- Warehousing
- Distribution
- Managed transport services
- Value-added services (e.g. packaging, technical services, procurement)

Corporate Information Solutions

- Office document solutions
- Customer correspondence management
- Marketing solutions

Market shares, top five: contract logistics 2007

Market volume: €206 billion¹⁾



1) Company estimates based on Datamonitor input.

Global market leader in supply chain solutions

DHL is the world leader in outsourced contract logistics with a market share of 6.4% (2007). We are one of only a few globally operating companies in this fragmented market. The size of the outsourced contract logistics market is estimated to be €206 billion. Our leading position allows us to leverage global competences to better serve our customers in the local markets where we operate.

The market for document management and BPO is likewise highly fragmented, being shaped by just a few specialists offering either a very limited set of services or occupying exclusive niches. Thanks to our broad range of international services and excellent customer base, we lead this market under our Williams Lea brand.

Strategy and goals

Targeted and profitable growth

In the year under review, we witnessed a difficult economic climate affecting our customers, especially in the financial and automotive sectors. We also see the current economic climate, however, as an opportunity because an increasing number of companies look to outsource their logistics requirements and information processes during challenging economic times.

Our goal is to achieve good financial results whilst supplying high-quality services. We intend to continue improving innovation, quality and productivity, whilst providing career development opportunities for our employees, and to be a socially responsible organisation.

We anticipate profitable growth in the middle single digits over the long term in our two largest markets, Europe and North America. In the developing markets of Asia, Latin America and Eastern Europe, we have active sales and marketing organisations aimed at continuing to selectively expand our presence. In 2008, we succeeded in increasing revenue by nearly 20% in these key emerging economies.

We will continue to standardise our business models and deliver services to our customers more efficiently.

Revenue and earnings performance

Rise in adjusted revenue

Revenue in the SUPPLY CHAIN/CIS Division declined by 4.2% to €13,718 million (previous year: €14,317 million). However, adjusted for negative currency effects of €1,061 million and other inorganic items, the division achieved organic growth of 2.8%.

The Supply Chain Business Unit generated revenue of €12,469 million (previous year: €13,099 million) with revenue growth of 1.9% after excluding negative currency and other inorganic effects. The organic growth in our regions is tempered by customer losses and soft volumes resulting from the global economic environment. The Corporate Information Solutions Business Unit reported revenue of €1,243 million (previous year: €1,214 million). When excluding negative currency effects we maintained double-digit organic revenue growth, principally due to new business acquired in the previous year. This was partially offset by reduced volume levels in document management and in marketing solutions business as a result of the economic downturn.

More than 90% contract renewal rate

In the Supply Chain Business Unit we signed new contracts worth €1.1 billion (annual revenues) with existing and new customers. The renewal rate for contracts remained constant at more than 90%.

Earnings impacted by non-recurring items

In financial year 2008, the division registered a loss of €675 million before interest and taxes (previous year: profit of €577 million). This figure includes restructuring expenses of €124 million and write-downs on the value of the Exel brand amounting to €382 million, which is a result of the Group's new branding strategy to use the DHL brand. Moreover, an impairment test as prescribed by IAS 36 resulted in an impairment loss of €610 million.

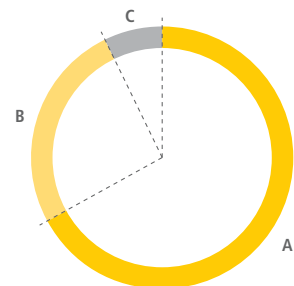
These non-recurring items, along with the sale of Vfw AG in 2007 and negative currency effects, led to a decrease in the division's organic EBIT of 5.5%, particularly as a consequence of the negative impact on the Corporate Information Solution's business in the financial sector. By contrast, the Supply Chain Business Unit saw organic growth of 5.7%, well ahead of organic revenue growth.

Operating cash flow amounted to €481 million (previous year: €319 million). Efficient working capital management and, in particular, a stronger focus on customer payment terms contributed to a significant improvement in cash flow.

Supply Chain 2008: revenue by region

Total revenue: €12,469 million

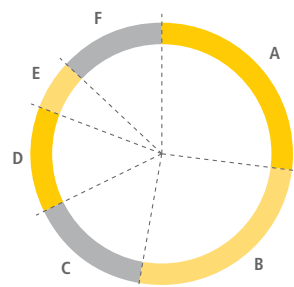
A	67%	Europe/Middle East/Africa
B	26%	Americas
C	7%	Asia Pacific



Supply Chain 2008: revenue by sector

Total revenue: €12,469 million

A	27%	Retail & fashion
B	26%	Consumer goods
C	15%	Technology
D	13%	Healthcare
E	6%	Automotive
F	13%	Chemicals/industry/other



Discontinued operations

Revenue and earnings performance

Changed reporting structure

On 12 September 2008, Deutsche Post agreed to sell a minority shareholding in Deutsche Postbank AG to Deutsche Bank AG in the first quarter of 2009. We have adapted our reporting structure accordingly. The Pension Service was transferred from the FINANCIAL SERVICES Division to the mail business. The remaining segment consists only of Postbank and has therefore been reported under “discontinued operations” since the third quarter of 2008.

Financial crisis hampers Postbank earnings

The Deutsche Postbank Group was impacted by one-time charges as a result of the global financial market crisis, especially in the second half of 2008. In addition to other factors, Postbank’s earnings situation was noticeably impacted by the write-downs on Postbank’s exposure to investment bank Lehman Brothers and Icelandic banks as well as the decrease in equity holdings to be recognised in profit or loss – announced as an effort to reduce capital market-related risks and portfolios.

With respect to net interest income and net fee and commission income – Postbank’s customer business-related core income figures – the bank either reached or exceeded the previous year’s figure. By contrast, net trading income and net income from investment securities declined significantly as a consequence of the financial crisis.

In spite of a clear rise in the rate of inflation and several special factors, administrative expenses were only slightly higher than the prior year level. The allowance for losses on loans and advances rose, however, due to the effects of the financial market crisis.

Thus, profit or loss from operating activities (EBIT) from discontinued operations fell by €1,931 million from €1,060 million in 2007 to €–871 million in the year under review.

In line with this, the profit or loss after tax from discontinued operations in 2008 was €–713 million, well below the prior-year figure of €858 million.

Postbank’s operating business performed well in all major product segments despite a continued difficult climate in the German retail banking business.

Deutsche Postbank AG provides details of its business performance in 2008 in its own annual report, to be published on 9 March 2009.



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Non-financial Performance Indicators

Employees

Workforce remains strong

People are the driving force behind logistics. Our company has qualified and dedicated employees around the world working towards its success. As at 31 December 2008, the Group employed 451,515 people (full-time equivalents). Although the total number of employees remained nearly the same as the previous year, the number of civil servants dropped further to 51,304. Staff costs increased by 4.8% year-on-year, from €17,169 million to €17,990 million.

In the MAIL Division, the number of employees fell by 1.9% to 142,674. The number of full-time equivalents declined primarily in Germany after we increased productivity there. Staff reductions also resulted from the further reorganisation of the retail outlet network.

Measured against the previous year, the number of people employed in the EXPRESS Division fell by 3.9% to 108,275. This can be primarily attributed to restructuring our US business. By contrast, the number of full-time equivalents in the GLOBAL FORWARDING/FREIGHT segment rose by 5.9% to 41,499, precipitated by acquisitions and organic growth. The increase in the SUPPLY CHAIN/CIS Division of 2.2% to 143,786 is also a result of organic growth.

The number of employees in the Corporate Center/Other unit fell by 1.7% as a result of streamlining efforts in the service departments such as IT, Accounting and Real Estate. The staff level there was 15,281 at the end of the year under review.

→ Note 14

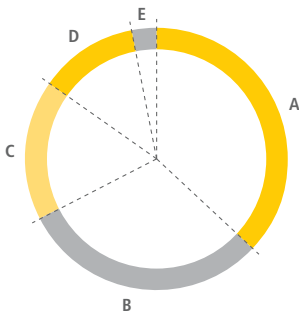
Number of employees

	2007	2008	+/-%
Continuing operations			
At year-end			
Headcount ¹⁾	512,147	512,536	0.1
Full-time equivalents ²⁾	453,626	451,515	-0.5
By segment			
MAIL	145,458 ³⁾	142,674	-1.9
EXPRESS	112,727	108,275	-3.9
GLOBAL FORWARDING/FREIGHT	39,200 ³⁾	41,499	5.9
SUPPLY CHAIN/CIS	140,694 ³⁾	143,786	2.2
Corporate Center/Other	15,547 ³⁾	15,281	-1.7
By region			
Germany	170,258	167,816	-1.4
Europe (excluding Germany)	133,137	136,649	2.6
North, Central and South America	87,185	78,212	-10.3
Asia Pacific	51,852	55,182	6.4
Other	11,194	13,656	22.0
Average for the year			
Headcount	500,252	511,292	2.2
Hourly workers and salaried employees	443,584	456,149	2.8
Civil servants	52,809	51,304	-2.9
Trainees	3,859	3,839	-0.5
Full-time equivalents	447,626	456,716	2.0
Discontinued operations	21,474 ³⁾	21,127	-1.6

1) Including trainees. 2) Excluding trainees. 3) Restated.

Employees by regional split^{1), 2)}

A	37.2%	Germany
B	30.3%	Europe (excluding Germany)
C	17.3%	North, Central and South America
D	12.2%	Asia Pacific
E	3.0%	Other



1) Full-time equivalents as at 31 December 2008.
2) Continuing operations.

We employ people in more than 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, although the workforce there is diminishing. In the rest of Europe, in Asia and the other regions, the number of employees has risen dramatically in some cases; in America, however, the number has fallen due to restructuring of the express business.

New collective pay agreements settled

On 30 April 2008, Deutsche Post AG and the trade union Verdi reached an agreement in their collective-bargaining negotiations for the around 130,000 Deutsche Post AG employees. The employment pact for employees covered by the collective-bargaining agreement, which rules out layoffs, was extended to 30 June 2011. In addition, these employees received a one-time payment of €200 for the months of May to October 2008 and a 4% wage increase effective 1 November 2008. Beginning in December 2009, wages will rise another 3.0%. Employees subject to collective-bargaining agreements will continue to work a 38.5 hour work week. In return, paid breaks have been reduced by 48 minutes per week. The collective agreement will end on 30 June 2010. New collective agreements were also concluded for the around 5,500 staff members in subsidiaries.

Exemplary health management

We look after the health and well-being of our workforce – if nothing else to help maintain their performance on the job. To do this, we developed a Group-wide programme based on the Corporate Health Policy we adopted in the previous year. The programme comprises, for example, the Health Promotion Award, with which we recognise exemplary health initiatives each year. At 6.6%, the illness rate at Deutsche Post AG in Germany remains once again at a low level (previous year: 6.3%). In December 2008 we were awarded the German Corporate Health Award for our corporate health management. The award was granted by the EU Commission and the *BKK Bundesverband* (German federal association of company health insurance funds) as part of the Move Europe campaign. The certification of our occupational health and safety organisation's quality management system was renewed.

Safety at the wheel – traffic safety campaign sees worldwide success

We successfully continued the road safety campaign we started last year. The Global Road Safety Initiative showcased information on safe and considerate driving practices and helped keep the annual accident rate at a consistently low level. The initiative also supported our climate protection programme. The initiative received special recognition in the form of the 2008 DuPont Safety Awards, which it won for the category “most innovative approach”. We will continue the campaign until at least the end of 2009.

Job offers for all eligible trainees

We view the training of young people as an investment in the future and an important contribution to our socio-political commitment. In 2008, we hired around 1,600 trainees in Germany. The spectrum of 17 traineeships ranges from courier, express and mail services to studies at *Berufsakademien* (German universities of co-operative education). We were able to offer employment to all eligible trainees in the 2008 class, clearly surpassing the 30% target for trainees in classes 2007 to 2009 set forth in the training pact made with Verdi.

Customised training programme

We foster our particularly capable trainees in our top trainee programme, which is intended for the top 5% of our around 3,800 trainees and *Berufsakademie* students in Germany. We guarantee permanent employment to participants who successfully complete the training programme, creating an additional incentive for performance and commitment.

Perspektive Gelb is our programme to help youths who are finding it difficult to obtain apprenticeships to broaden their horizons with a traineeship at Deutsche Post. As in previous years, the programme provided 300 trainee positions. In the year under review, we hired just under 90% of the 263 participants in the 2007 class.

Innovative human resources marketing

The new initiative Discover Logistics aims to present logistics as an exciting industry of the future and showcase DHL as an attractive employer. In the year under review, 8,500 users from 122 countries signed up for dhl-discoverlogistics.com, an online platform.

Our online [career portal](http://dpwn.com/career) has once again proven to be a fitting recruiting tool in the age of the internet. Each year, we advertise more than 16,000 jobs online and our database already includes over half a million candidates. As in 2007, the Swedish market research institute Potentialpark Communication ranked our career portal as number one in Germany and Europe in their Top Employer Web Benchmark 2008 ranking.

Online training offers expanded

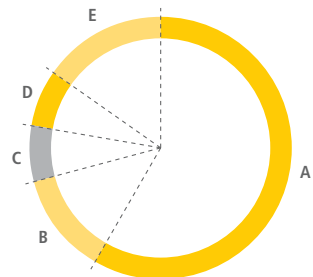
We continued to expand the courses offered on the internet and intranet in the area of continued professional development. Currently, around 50,000 employees are taking advantage of the over 1,000 courses which range from general management skills to specific Group initiatives and our Code of Conduct. The online training platform mylearningworld.net is an important component of our education concept. That is why we will expand the courses offered and we anticipate a considerable rise in demand. Our executive development website is geared towards top managers and executives.

Finding and fostering talent

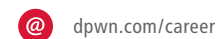
Finding and fostering qualified and dedicated future leaders within our own ranks is absolutely vital to our company. This is why we developed Group-wide talent programmes to systematically cultivate our top potentials. One of the programmes, for example, gives select candidates the opportunity to complete an executive MBA degree at an external business school. Our international mentoring programme helps junior staff members, in particular our female employees, with professional development.

Traineeships^{1), 2)}

A	58.4%	Courier, express and postal services specialists
C	12.6%	Forwarding and logistics services specialists
D	6.8%	<i>Berufsakademie</i> students
E	7.1%	Warehouse logistics specialists
F	15.1%	Other traineeships



1) Number of trainees, annual average: 3,839.
2) Continuing operations.

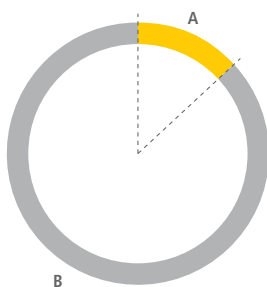


The International Business Leadership Programme is specially designed for managers. In 2008, 135 top staff members met to establish networks, learn about business strategies and further develop their leadership skills.

Our internal talent broker – a position we created last year – assisted in over 150 upper management placement processes, raising the internal placement rate to 86.9% from 83.9% in the previous year. Our goal of filling 90% of all positions in upper management from our own ranks was thereby nearly achieved.

Proportion of women in management^{1), 2)}

A 13.5% Women
B 86.5% Men



1) Total of 1,042 first and second-level managers as at 31 December 2008.

2) Continuing operations.

A culture of diversity and equal opportunity

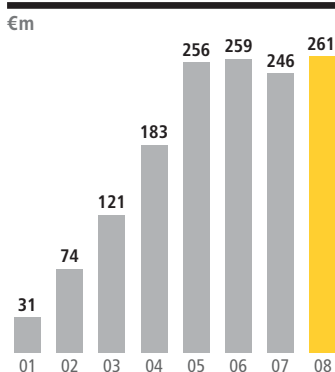
The purpose of Diversity Management is to encourage diversity in our workforce, a principle rooted in our seven Corporate Values and the Code of Conduct. We are developing special programmes and other initiatives to ensure equal opportunities for all employees. In this spirit we held, for example, a contest in 2008 on making workplaces accessible for people with a disability, which resulted in a host of examples of successful integration of our disabled co-workers. Furthermore, we have expanded our training programme in order to continue to anchor the idea of diversity in our Group's day-to-day activities.

Seeking out and utilising dialogue

We cultivate an open dialogue. It is critical to our success on the road to becoming our customers', employees' and shareholders' first choice. In September 2008, we conducted the second Group-wide employee opinion survey. The response rate was 76% – an 11% increase over 2006. Participants responded to questions concerning customer orientation, employee dedication and active leadership, pointing to existing strengths and potential for improvements. The results will be evaluated at the team level, where they will be discussed and followed up on.

Our “360-degree feedback” also relies on open dialogue. This anonymous process allows managers to learn how supervisors, colleagues and employees assess their leadership skills. In 2008, around 1,300 managers took advantage of this tool for self-reflection and personal development. The target groups will be expanded in 2009.

Savings due to employee ideas¹⁾



1) Continuing operations.

Employee ideas with value creation potential

In the reporting period, employees of Deutsche Post AG submitted 214,442 suggestions for making workflows more efficient, reducing repair and energy costs, and improving environmental protection. The benefit to the company totalled €261 million (previous year: €246 million). The focus was on environmental protection. Staff members in the MAIL Division alone developed more than 11,200 ideas on how fuel, electricity, water and gas can be saved. The Group benefited by over €0.6 million from these environmental ideas. In 2009, our goal is to entrench Idea Management even more firmly into the Group around the world.

Sustainability

The largest logistics company with quantifiable climate protection target


The Group's GoGreen programme was developed to establish a systematic approach to achieving our climate protection target. We aim to reduce our carbon footprint for every letter posted, every container shipped and every square metre of warehouse space used by 30% below 2007 levels by the year 2020. As the largest global logistics company, this target makes us the first major company in our industry to set a quantifiable target that includes emissions from outsourced transport services. As an interim target, we are striving to improve our carbon efficiency by 10% by the year 2012.

We determine and calculate our greenhouse gas emissions using a carbon dioxide (CO₂) monitoring process based on the internationally recognised standard Greenhouse Gas (GhG) Protocol. For 2007, CO₂ emissions resulting directly from our own sources and indirectly from purchased energy amounted to some eight million tonnes (previous year: 7.4 million tonnes). CO₂ emissions from outsourced transport services were calculated for the first time and were estimated to be around 23 million tonnes.

GoGreen programme's four measures

How are we to achieve the climate protection target?

- **By using energy-efficient processes and technologies.** Our fleet is regularly renewed and replaced by modern, fuel-efficient vehicles and aircraft. Where possible, transport and loads are bundled, routes planned and networks optimised. We are increasingly using power from renewable sources.
- **With employees who are environmentally conscious.** Employees receive more information and are better trained to lead environmentally friendly lives both at work and at home.
- **With climate-neutral products.** GoGreen items are climate-neutral because the emissions caused by their transport are offset by climate protection measures, such as solar or hydroelectric plants. Indeed these products have found success in the marketplace; in July 2008, Allianz Deutschland AG switched more than 140 million letters a year to GoGreen.
- **By using standardised systems.** We will set up a carbon accounting system as a fundamental basis for measuring the progress of our sustainability strategy. This system will consolidate CO₂-relevant information, such as energy and fuel consumption, and the related performance data of the business units, such as shipment volumes and transport services, and present them in a Carbon Efficiency Index. Furthermore, around 40% (previous year: 35%) of our employees now work with environmental management systems audited in accordance with ISO 14001. We developed the underlying concept ourselves in a six-stage plan.

 Procurement, page 80

Our company's performance as reflected by external assessments

Our performance in terms of sustainability was once again monitored by rating agencies in 2008. Sustainable Asset Management gave us a rating of 65/100 (previous year: 74/100). This drop is primarily due to a change in the rating method. The average score for transport and logistics companies was 50 points. 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. The Carbon Disclosure Project gave us – the only logistics company included in its Leadership Index of the foremost 67 companies – a rating of 66/100 (previous year: 60/100).

Sustainability Report meets international guidelines

Supplementary sustainability information on initiatives and key performance indicators, which are not part of the Group Management Report, are described in our second Sustainability Report, which was published in June 2008. It was prepared for the first time on the basis of the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines, with the additional GRI Sector Supplement for the Logistics and Transport Sector. Based on our own assessment, it achieved the GRI level B+. The next report to be published in the second quarter of 2009 will include key performance indicators for 2008.



dpwn.com/sustainability

Humanitarian aid in the event of crises and as a preventative measure

Our partnership with the United Nations Development Programme (UNDP) and the United Nations Office for the Co-ordination of Humanitarian Affairs (OCHA) still forms one of the cornerstones of our socio-political commitment. We have extended this partnership until 31 December 2010. Our disaster relief organisation comprises three well-trained teams in Singapore, Panama and Dubai, covering the Asia Pacific region, the Americas, the Middle East and Africa, and thus the areas of the world most frequently visited by catastrophe. These disaster response teams co-ordinate logistics for incoming aid at local airports in order to help avoid supply bottlenecks. In 2008, we once again demonstrated our logistical capabilities in a crisis during a three-week operation in Myanmar. Together with the UNDP, we launched the GARD (Get Airports Ready for Disasters) programme in Indonesia in 2008. This training programme prepares airport managers and employees for emergencies.

Since 2006, we have been supporting the United Nations Children's Fund (UNICEF) in the global struggle against infant mortality by providing financial aid and logistical support as well as through our employees' personal commitment. In three focal countries – India, Peru and Kenya – we are helping UNICEF to improve healthcare for children and mothers living in rural areas. In India, we sponsor a programme to combat malnutrition and infant mortality. In Peru, we are helping to set up primary healthcare for pregnant women and children in the indigenous population. In Kenya, we are involved in educating the population about health risks and prevention. A volunteer programme is also run in Kenya. For the third year in a row, we invited 13 company employees to volunteer to spend two weeks there, gathering information and providing assistance. They also support our partnership as UNICEF ambassadors on their return home.

Our social responsibility finds expression in several hundred regional and local initiatives. Following natural disasters in Asia and South America, we transported and distributed aid supplies. Our employees help to educate schoolchildren or join in beach clean-up efforts. We also use Fair Trade products as giveaways and we sponsor school and cultural projects in Bonn, the home of our corporate headquarters.

Education for Germany

We are planning to expand our involvement in education policy. As a founding partner of Teach First Deutschland, an initiative originating from the USA and the UK, we aim to help children and young people to realise their academic potential and strengthen their feeling of self-worth. As a basis for our future partnership, we made an agreement in November 2008. We see this as a contribution towards improving equality of opportunity and quality in the German education system and as a means of securing the next generation of professionals.

Procurement

Lower procurement volume

In 2008, the Group centrally purchased goods and services with a total value of €9.0 billion (previous year: €10.3 billion). Currency effects – largely in relation to the US dollar and pound sterling – reduced the purchasing volume as expressed in euros. We also pooled volumes and as a result achieved better terms. The individual units generally continue to procure their own transport services, although Procurement has a greater involvement than previously.

The following examples show how we selectively pooled expenses and thereby achieved better terms and conditions. The acquisition of personal computers was put out to tender globally. As a result, prices fell substantially and, at the same time, performance improved. We entered into a €350 million European co-operation agreement with Telefónica for telecommunications services outside Germany. Thanks to optimised telecommunications, we anticipate savings of more than €150 million over the next five years.

We fitted some 100 warehouses in North America with more efficient lighting. This reduced electricity costs by more than US\$6 million and improved the lighting and hence the working conditions.

Procurement capabilities expanded

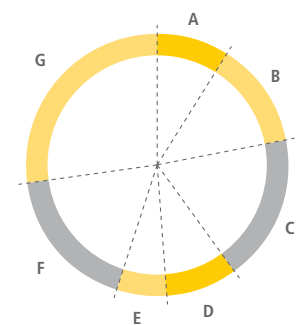
Procurement is a centralised function in the Group. The heads of Global Sourcing and their sixteen product group managers work closely with regional procurement managers and report to the head of Corporate Procurement. This allows us to pool our needs worldwide whilst satisfying the service and quality requirements of internal customers.

In 2007, we began to reorganise Procurement’s regional structure. Strategic procurement and operational order processing are increasingly carried out by regional competence centres.

Procurement expenses, 2008

Volume: €9.0 billion

A	9%	Air fleet
B	14%	Ground fleet
C	18%	IT and communication
D	9%	Network supplies
E	6%	Production systems
F	17%	Real estate
G	27%	Services



Our success depends on the skills and calibre of our employees. For this reason, we extended our Fit4 Procurement programme in the year under review and conducted subject-specific training courses focusing primarily on how to manage virtual global teams.

Procurement with greater focus on the environment

The principal procurement initiatives during the year attached a high priority to environmental aspects of our business. For instance, we purchased computers that are certified as environmentally friendly and energy-efficient. In Germany, we switched most of our electricity supply to renewable energies; 100% of the electricity consumed by our corporate headquarters and more than 60% of the electricity consumed by our branches now comes from eco-friendly sources. In addition to the percentages of renewable energy that make up the power supply in Germany, this is realised indirectly by purchasing certificates from the Renewable Energy Certificate System (RECS).

Since 2008, our Green Team – made up of procurement managers from various regions and product groups – takes care of the environmental aspects of procurement. They have drawn up a Green Procurement Policy that requires all our major suppliers to provide information about any activities that impact the environment and to specify their carbon footprint. Furthermore, the team works together with suppliers to develop energy-saving solutions.

Work more closely with customers and suppliers

We have stepped up our co-operation with our internal business partners and increased the First Choice activities. For example, we improved both our internal workflows and the interfaces with internal partners and suppliers. An example is the assignment of temporary staff at the DHL facility in Brussels where we are now able to locate the right specialist more quickly when needed, resulting in lower recruitment costs.

Together with its business partners, Procurement regularly reviews the service quality of our key suppliers in order to identify and eliminate potential weaknesses at an early stage. We rely primarily on strategic partnerships to optimise costs and ensure high quality and flexibility in the supply chain. In the reporting year, nine suppliers were the best at meeting these requirements. We recognised them at our first Global Supplier Day for exceptional, substantially improved and innovative services.

Since 2008, all standard contracts have included our Code of Conduct for suppliers. In this way, we ensure that all the major companies we work with meet our ethical and environmental standards.

Research and development

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



Strategy and goals, page 33

Quality

Mail business remains the technology leader

We use all available technical and operational tools to ensure high-quality and efficient mail processing. In Germany, we maintain a nationwide transport and delivery network consisting of 82 mail centres that process an average of some 70 million items per working day and 33 parcel centres with a handling volume of more than 2.5 million parcels per working day. We have kept the high level of automation in our mail business at over 90%.

Market research and processed complaints tell us that our customers expect us to achieve the highest possible quality standards. Customers evaluate the quality of our services based on whether posted items reach their destinations quickly, reliably and undamaged. To satisfy these requirements, we manage quality on the basis of a system audited by the Technischer Überwachungsverein Nord (TÜV Nord – technical inspection association for northern Germany) and certified for compliance with ISO every year. We also undergo voluntary performance evaluations from Quotas, a quality research institute.

As in the previous year, in 2008 we again attained excellent results in letter transit times within Germany. More than 95% of the letters posted during our daily opening hours or before final post box collection reached their recipients the very next day.

In addition, as Germany's first parcel service provider, we sought review and certification of our internal delivery measurement system for parcel delivery from TÜV Rheinland. The review determined that nearly 90% of the deliveries we pick up from business customers reach their destination on the next day.

For international letters, transit times are specified by the Universal Postal Union. According to European Union (EU) specifications, 85% of all cross-border items posted within the EU must be delivered within three days of posting. Once again, we significantly exceeded this figure, reaching a level of 96% as in previous years.

Our service network is the largest in Germany. The heart of this network is made up of our around 14,000 retail outlets. We also offer our customers some 2,200 points of sale for letter and parcel postage and around 6,200 machines such as Packstations, Paketboxes and stamp dispensers. Thanks to our co-operation with retailers, we have extended our average weekly opening times by one hour to 43 hours compared with the previous year. This figure was only 18 hours per week before we began working with partner outlets. For years, retail outlet customers have been giving us consistently high marks via *Kundenmonitor Deutschland* (customer monitor for Germany), the largest study of retail customer satisfaction in Germany. Our partner-operated locations in particular have received ratings approaching the high ratings of the retail sector. Ninety percent of all customers are served within three minutes, as confirmed by test customers from TNS Infratest, which we hire to conduct anonymous tests of the retail outlets around 30,000 times per year.

We regard working practices that protect the environment as a key yardstick of quality. In Germany, we employ TÜV Nord-certified environmental management systems in both our mail and parcel businesses. As part of our GoGreen initiative, we offer private and business customers climate-neutral shipping options.

MAIL in figures

- Households: 39 million
- Business customers: 3 million
- Retail outlet customers: 2 to 3 million per working day
- Domestic letters: 70 million per working day
- Domestic parcels: 2.5 million per working day
- International items: 7,457 million
- Production facilities: 162
- Retail outlets: 13,650
- Sales points: 2,200
- Packstations: 1,400
- Paketboxes: 1,000
- Postage stamp vending machines: 3,700
- Weekly opening times: 43 hours on average

 Sustainability, page 77

EXPRESS in figures

- Countries and territories: 220
- Main hubs: 6
- Servicepoints: 30,000
- Customers: 8.2 million
- Vehicles: 72,000

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 Group-wide First Choice initiative ensures that we meet customers' high demands for speed and reliability. We are focusing above all on operating performance and customer contact.

The ability to deliver on time is an important quality indicator in the express business. 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.

For a global network operator, it is equally crucial to maintain a consistently high quality of service. We therefore regularly monitor compliance with our workflows in the quality control centres that we have established worldwide, and we have developed a quality shipment monitoring system that we use to measure and improve our service quality.

In 2008, we made the following quality advances:

- We increased transport capacity on trans-Pacific routes thanks to our stake in Polar Air Cargo, a US airline. This raised our on-time arrival performance to more than 96% for shipments within this network.
- Since our new European hub commenced operations, transit times have been reduced for more than 27,000 city pairs between Europe and EEMEA – for 1,300 routes by a full working day.
- The Global Trade Lane Programme was continued, further optimising performance in key trade lanes. For example, transit time – a key quality indicator – was reduced by one or more days along more than 180,000 origin to destination lanes. Especially from Western Europe to Asia we have seen document transit performance improvements by more than three percentage points.
- Further improvements were made in transit time: An average of 98.8% (previous year: 98.0%) of all shipments were delivered by the appointed time.
- In terms of customer service, DHL Express significantly improved performance indicators for orders, complaints and enquiries made by telephone by 5% over the previous year and compared with competitors.
- Standardised systems and workflows enabled our sales force to increase productivity by more than 30%. Customers were called and visited in person more frequently.

In terms of safety, we have long been at the fore in Europe, and now we are also leading in the implementation of safety-relevant processes and installations. The Transported Asset Protection Association (TAPA) has certified 42 of our locations, more than any other of our European competitors. Globally, over 170 of our locations have already been certified.

Our freight forwarding business focuses on the customer

As freight forwarders, we measure the quality of our services above all in terms of how satisfied our customers are. In 2008, we surveyed more than 15,000 customers in more than 50 countries, both online and by telephone, as part of our First Choice initiative. The results of the survey were incorporated into some 400 specific improvement projects. On the whole, our customers have observed significant improvements in those areas in which they interface with us.

An average increase of 8% was measured in customer loyalty compared with the previous year.

Frequently, we work out specific improvements together with our customers. For instance, we succeeded in reducing processing times for certain brokered activities from eleven to two days for one customer, which led to substantial cost savings on both sides.

Once again, we received a number of awards in 2008. For example, we were named Freight Forwarder of the Year by Australian magazine Lloyd's List DCN for having improved our services through strict quality management and implementation of our First Choice methodology.

In addition, the logistics magazine Supply Chain Asia named us Airfreight Forwarder of the Year 2008.

Focus on customer satisfaction reaps rewards in contract logistics business

Our top goal in terms of quality is to have satisfied customers with which we maintain long-term, close business relationships.

The key to good performance is having dedicated and motivated employees. We intend to achieve this goal with a host of initiatives included in our First Choice programme. To this end, we emphasise active occupational safety programmes at our facilities, use a variety of measures to increase productivity levels, train our employees in process improvement and manage projects professionally.

As a result of these and other programmes, we have reduced the number of work-related accidents compared with the previous year. We held more than 600 process improvement workshops in the year under review in which employees and in some cases customers analysed and improved daily workflows. The overall employee satisfaction level as measured by our employee opinion survey achieved a higher score than in the previous year.

In the year under review, the Supply Chain Business Unit was able to renew over 90% of existing customer contracts.

We approach our customers regularly and systematically in order to ascertain their needs and their level of satisfaction. Our survey results show that in 2008, more than 70% of our customers named DHL as their first-choice provider.

GLOBAL FORWARDING/FREIGHT in figures

Global Forwarding

- Countries and territories: >150
- Locations: >810
- Air freight volumes: 4.3 million tonnes
- Ocean freight volumes: 2.9 million TEU

Freight

- Terminals: >160
- Transport volume: >40 million tonnes
- Full truckloads: 2 million

Brands

Brands and business units

Deutsche Post

- Mail Communication
- Dialogue Marketing
- Press Services
- Retail Outlets
- Pension Service

DHL

- EXPRESS
- GLOBAL FORWARDING/FREIGHT
- SUPPLY CHAIN/CIS
- Global Mail
- Parcel Germany

What our brands do

Well-established and well-managed brands are amongst the most valuable assets of any company, domestic or international, especially in the service sector. They also give us a competitive edge in the labour market. That is why the Group continues to invest in building and expanding its brands. Following the agreed sale of Postbank, we are conducting our core businesses under the Deutsche Post and DHL identities. In 2008, we focused on increasing our customers' awareness of these brands and their respective performance pledges. We also decided to stop using the Exel brand.

Brand profiles more sharply defined

In recent years, we have enhanced our brands' visual appeal, reworked and realigned the corporate design and provided service employees with identifying corporate clothing. Creating independent images has been a priority.

Brand manuals describe how Deutsche Post and DHL are positioned and define the tone required for effective branding. We have developed in-house measures designed to help all employees become active ambassadors for their brand, employing a variety of internal media to raise their awareness and motivation. Furthermore, a multilingual internet platform was created for DHL employees, which uses a modern, interactive approach to encourage enthusiasm for the brand. Any time our customers come into contact with us and our services, they should experience a consistent and positive brand image.

Well-established and valuable

Our businesses face tough competition both domestically and internationally. Clear positioning facilitates purchasing and investment decisions for potential and existing customers.

Guided by market research, we invested some €80 million in the year under review (previous year: €120 million) in further building our brands. In line with its global presence, around half of that was spent on the DHL brand, for which we launched an international campaign with television commercials and advertisements in business-related media. Additional communication channels included sponsoring, direct marketing, trade fair presentations, press relations and sales support.

Customer retention, customer loyalty and brand recognition are amongst the benchmarks for our success. Market studies confirm that Deutsche Post has for years enjoyed awareness of around 95% amongst private and business target groups in Germany. Awareness of DHL continues to rise and currently stands at about 93% amongst international express delivery and logistics target groups.

Brands are a vital factor in creating value. In 2008, the market research institute Semion Brand-Broker valued the Deutsche Post brand at €14,517 million, reconfirming our outstanding position amongst the top five best-known German companies. Factors analysed included financial value, brand protection, brand image and brand strength.

Risks

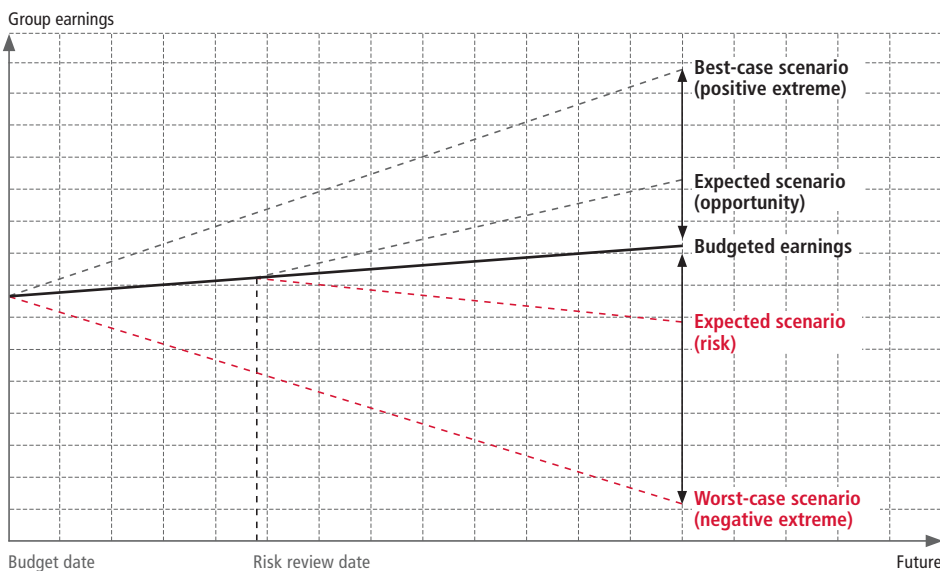
Opportunity and risk management

Group-wide opportunity and risk management

All business involves opportunities and risks. Our Group-wide opportunity and risk management system gives us a head start in dealing with potential changes and events. The process developed to serve this system is built around uniform methods to identify and analyse key trends and to communicate them to management. Clear presentation of opportunities, risks and possible countermeasures helps sustain the company's ongoing success.

Scenario analysis

Goal: Early detection of deviations from target



Opportunities and risks are identified and reviewed across the Group every quarter as part of controlling processes. Internal or external factors can cause positive or negative deviations from target. Major impacts of unforeseen events may trigger an ad hoc announcement.

Opportunity and risk analysis involves investigating major influencing factors as well as compiling action plans to avoid risks and make use of opportunities. Early warning indicators are determined to ensure timely detection of critical situations. The potential impact of a range of factors on Group earnings is evaluated using scenarios and each potential risk is assigned to one or more managers who take appropriate action as necessary.



Note 51.1

The Group uses a software application to collate and communicate individual risks. This multi-level reporting system ensures that managers are involved across various layers of the hierarchy, and the process is closely dovetailed with controlling to ensure regular exchange between controlling and management. Central risk control is organisationally part of Corporate Controlling and keeps the Board of Management abreast of key opportunities and risks in each division.

Postbank's risk control system complies with the bank-specific regulatory requirements in accordance with the *Kreditwesengesetz* (German banking act), the *Solvabilitätsverordnung* (German solvency regulation), the *Liquiditätsverordnung* (German liquidity regulation) and the Minimum Requirements for Risk Management (MaRisk, laid down by *Bundesanstalt für Finanzdienstleistungsaufsicht* or BaFin, Germany's federal financial supervisory authority). Until the agreed sale of Postbank to Deutsche Bank, Postbank remains integrated into the Group's opportunity and risk control process.

The risks set out in the following are those which we presently consider to have a significant potential negative impact on our net assets, financial position and results of operations. They are not necessarily the only risks to which the Group is exposed. Our business activities could also be adversely affected by risks of which we are currently unaware or which we do not yet consider to be material.

Risk categories and specific risks

Industry-specific risks shaped by general environment

Our business success depends critically on the financial health of our customers. The uncertain economic outlook in the wake of the financial crisis poses considerable potential risks for us and for the entire logistics sector. Many factors are at play here, including whether individual countries put together economic stimulus packages and what effect these produce. It is therefore hard to say anything about the duration and scope of the crisis.

The financial impact of any drop in revenue is minimised by our extensive cost-cutting programme. Starting in 2009, the Group aims to lower indirect costs substantially – by €1 billion by 2010. We also plan to increase our share of important domestic and international express and logistics markets. The restructuring of our US express business considerably reduces our cyclical risk in this hard-hit market.

Risks associated with the general business environment primarily arise from the fact that 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, the last year of the exclusive licence, was within the weight ceilings stipulated in the exclusive licence. By the end of the year, the regulatory authority (*Bundesnetzagentur* – Federal Network Agency) had issued licences to around 2,500 competitors.

On 7 November 2007, the regulatory authority announced a benchmark decision specifying the conditions that apply from 2008 until the end of 2011 to regulation under the price cap procedure for mail prices requiring approval. This stipulates the key factors applicable to mail prices as being the general rate of inflation and the expected productivity growth rate for Deutsche Post AG. 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. Mail prices requiring approval remain largely unchanged in 2009. The regulatory authority accepted an application from Deutsche Post AG to this effect on 13 October 2008.

The third EU Postal Directive came into force on 27 February 2008. The Directive requires most EU member states to open up their markets by 2011, although the nine most recent members plus Greece and Luxembourg have an option to delay opening their markets until 2013. Until then, the previous limits continue to apply across the EU, with reservable services restricted to a maximum of 50 grams or two-and-a-half times the standard letter price. It is now possible to plan with certainty for the future regarding the date by which all national monopolies in Europe must fall.

Whilst liberalisation of postal markets poses risks for Deutsche Post AG due to increased competition in Germany, it also opens up new opportunities in other European postal markets. In 2008, cross-border mail in Europe between Deutsche Post AG and 14 other Western European postal operators was governed by the REIMS III agreement and with another eight Eastern European postal companies by the REIMS EAST agreement. REIMS III is the successor to REIMS II and came into force retroactively from 1 January 2008.

Discussions continue regarding the extent to which postal services should be exempt from value-added tax (VAT). An amendment to the *Umsatzsteuergesetz* (German value-added tax act) currently in preparation will reduce the VAT exemption for Deutsche Post AG. A bill to this effect was adopted by the German cabinet on 24 September 2008 and is set to become law on 1 January 2010. Under the new rules, a VAT exemption will only apply to specific universal services pursuant to the EU Postal Directive that are not subject to individual agreement or provided on special terms, for example, at discount rates. The VAT exemption is to apply to any enterprise providing all of these services nationwide in Germany. The German legislative process may be affected by a European Court of Justice (ECJ) decision expected for the second quarter of 2009. On 15 January 2009, the ECJ Advocate General delivered her opinion in the case concerned, which relates to the VAT exemption for postal services in the United Kingdom. The German bill has yet to be passed by the Bundestag and Bundesrat.

Concurring with Deutsche Post AG, the regulatory authority considers 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.

At the European level, the scope of the VAT exemption for postal services is also the subject of infringement proceedings initiated against the Federal Republic of Germany by the European Commission on 10 April 2006. The Commission announced in its decision at the proceedings on 24 July 2007 that the VAT exemption for postal universal services provided by Deutsche Post AG was too broad and called on the German government to amend the applicable law. Germany responded to the European Commission at the proceedings that it considers the current VAT exemption to be in compliance with applicable law.

The Federal Republic of Germany is planning a major revision of its *Bundesdatenschutzgesetz* (BDSG – Federal data protection act). Parliamentary hearings have now begun following a cabinet resolution in December 2008. Under the current Act, postal addresses contained in data relating to groups of persons and “compiled in lists or otherwise combined” may be used for advertising purposes except where consumers explicitly withhold consent. If the revision leads to significant restrictions, it will directly affect our marketing business in Germany and may cause substantial loss of revenue and earnings.

Limiting business strategy risk

By agreeing to sell a stake in Postbank and withdrawing from the US domestic express market, we are strategically repositioning ourselves to concentrate in the future on our core competencies of mail, express and logistics.

The goal of the MAIL Division in the liberalised German mail market is to minimise losses in revenue and earnings. Competitors primarily aim to entice business customers away from Deutsche Post. The division plans to secure its revenue through rigorous customer focus. We continue to improve on our already very high service quality. In 2008, in the course of deregulation, we gained greater flexibility in pricing mail comprising more than 50 items, allowing us to retain or win back key accounts. Apart from competition, revenue losses also loom as a result of ongoing digitisation. Conventional mail is increasingly giving way to electronic forms of communication, and we are responding by incorporating electronic communication into our own range of products and services.

The commercial situation of the EXPRESS Division varies from region to region. The division has expanded its international activities outside North America. In the US domestic market, however, fierce competitive pressure posed too great a risk for the Group. The infrastructure there was costing over US\$5 billion a year, whilst express shipment volumes were falling. Combined with the global economic downturn, the situation was no longer tenable. We therefore announced our withdrawal from the domestic express business in the USA on 10 November 2008. This will cut annual costs to below US\$1 billion and significantly reduce the risks for our express activities in the long term. We will refocus our US operations fully on the international express business. Restructuring will cost some €3 billion spread over two years. The majority of this amount has already been recorded in 2008.

The LOGISTICS Division was restructured in March 2008, creating two new divisions: GLOBAL FORWARDING/FREIGHT focuses on activities with low capital commitment. The division brokers and optimises transport capacity. SUPPLY CHAIN/CIS offers customised logistical and industry solutions at every link in the supply chain, plus outsourcing solutions for purposes such as address and document management. Both divisions aim for organic and profitable growth. This depends on the financial health of our customers and trading partners, who have recently suffered from the economic slowdown, and some of whom could even be threatened with insolvency. We endeavour to contain the effects of this development by improving processes and cutting costs. We are also expanding our service portfolio for new sectors. The crisis also harbours the opportunity, however, that customers may be more ready to outsource their requirements. Rapidly growing cost pressure on our customers could boost this tendency.

Our answer to risk: quality

Our global operations require a highly advanced operating infrastructure. Posting and collection, sorting, transport, warehousing, delivery and information technology must all meet high standards. Speed and reliability are key success factors in meeting our excellent standards of quality.

In the MAIL Division, for example, extensive automation ensures proficient and consistent service. Since downtime can severely disrupt the transport of mail items and merchandise, key infrastructure – sorting and conveyor systems, air hubs and data centres – is continuously monitored. Detailed process, emergency and contingency plans minimise the probability of business interruptions and of major financial consequences.

The EXPRESS Division is the market leader in the international express business in all markets outside the US. Whilst we have pulled out of the US domestic market, US international business remains a vital part of our global express network. At the same time, we are substantially reducing our infrastructure costs there. We illustrate the financial impact of these changes in the paragraphs on business strategy risks. Progress on the restructuring is monitored on an ongoing basis; it is expected to be finished by mid-2009. Transitioning our international customers to a standardised IT platform is going to be a key challenge during the first two quarters of 2009. We also aim to reduce costs and raise productivity outside the United States in order to offset the financial impact of the recession and the fierce competition. Moreover, we plan to make greater use of cross-divisional synergies and to improve our range of products and services.

Satisfied customers are a core goal for all divisions. Loss of customers could jeopardise the attainment of our revenue and earnings targets. In the logistics business, the risk of losing major accounts is particularly significant. Under our First Choice programme, we are rigorously aligning processes to customer needs. At the same time, we are also aiming to improve cost efficiency, which in some instances requires capital expenditure. Investment decisions in excess of €10 million are made by the Corporate Investment Committee. A lower threshold of €5 million applies to capital expenditures in Global Business Services. Approved projects are closely monitored, allowing material risks to be detected early at the Board level and appropriate action to be taken.



Sustainable practices counter environmental risks

Monitoring developments in environmental policy is an integral part of the Group-wide risk management process. We do not currently know of any environmental risks with significant potential financial implications for the Group over the period to 2011. During 2008, however, the debate advanced within the EU on the adoption of an emissions trading system for air transport and we expect that air transport will be included in emissions trading by 2012. The financial impact will depend heavily on how the emissions trading system is set up. It also remains to be seen what volume of emission allowances will be needed and at what price they will trade. It is therefore not yet possible to estimate reliably the specific financial consequences of emissions trading for air transport in Europe. In our opinion, however, the Group is generally well placed to minimise the financial risks by virtue of its GoGreen programme.

Strong position in the competition for talent

Like any other company, we have to compete for highly qualified specialists and managers. Workforce fluctuation can lead to losses of expertise and customer relationships. Action is taken on various fronts to counter this risk.

We promote initial and further training for our workforce and identify outstanding managerial talent. Upcoming talent is nurtured in various ways, including through international educational opportunities, the Group's own university and challenging responsibilities. We offer performance-based pay packages with performance assessment which is standardised Group-wide, linked to human resources development activities tailored for each employee target group. This enhances the Group's attractiveness overall along with our prospects in the competition for highly qualified specialists and managers. We aim at all times to be the first choice for customers and our workforce. Our success in this regard is repeatedly borne out by Group-wide employee surveys. An element of financial risk remains despite these measures, although we do not estimate this risk to be great.

On 30 January 2009, we discontinued our domestic express business in the USA and are now concentrating on international business in that market. We began the restructuring process in November 2008, which will further reduce the number of employees there by 9,500. As reported in connection with business strategy risks, the overall cost of the restructuring, including severance payments, will run to some €3 billion and the majority of this cost has already been recorded in 2008.

IT security is indispensable

Information technology is a key success factor for our logistics and service processes. Systems must be accessible and available at all times; unauthorised access to data and data manipulation must be prevented, and it is important to ensure that software is not delivered with defects or too late.

Various precautions are taken to minimise the probability of occurrence for IT risks. We will have two main data centres in future – in Malaysia and the Czech Republic. Important applications and data are replicated between our data centres in real time. We have detailed emergency plans and disaster recovery centres in place. Due to the use of redundant systems, the risk of major business interruptions is considered to be low despite the closure of our data centre in the USA.

We continuously improve our security mechanisms to fend off unauthorised data access and data manipulation. Our IT is organised with data security as a prime objective. Plans and strategies to this end take into consideration the workforce, networks and applications. The success of IT security depends critically on employees observing security guidelines and we have therefore acted to raise risk awareness. Amongst other things, we have set up an Information Security Knowledge Centre – an interactive platform with key information on IT security. Thanks to the action taken, we do not expect any significant financial consequences from this risk.

Our services require the use of frequently updated and in some cases newly developed software. Delays and functional deficiencies can never be entirely avoided, however, when developing complex new software and putting it into operation. This risk is reduced by an efficient project management system spanning the entire process from software design to introduction. We expect only minor financial impacts in individual business units.

Management of financial risks

Information on financial risk management is provided in the Notes.

 Note 51.2

Risks from pending legal proceedings

Information on legal risks is provided in the Notes.

 Note 54

Other risks faced by the Group

Our insurance strategy separates insurable risks into two categories. The first category comprises risks with a high probability of occurrence and low individual cost. These risks are insured via what is known as a captive – an insurance company owned by the Group, which is able to cover such risks at a lower cost than external insurers. This category accounts for the majority of insurance expenses. Besides achieving major savings, this also makes for cost stability as the Group is unaffected by changes in the availability and price of outside insurance. The second category consists of risks that have a low probability of occurrence but could entail high losses, such as air transport risks. These risks are transferred to external insurers.

Natural disasters or accidents involving aircraft could have a negative impact particularly on our air-based express operations and the cost of external insurance. As most of our insurance expenditure is incurred in relation to events that have a high degree of predictability – that is, a high probability of occurrence but low individual cost – the effects of such disasters on the size of insurance premiums or on the availability of insurance to cover them are limited.

Audits are currently under way at DHL Express (USA) and Airborne Inc. in line with the unclaimed property laws in the United States. Under these laws, unclaimed property must either be returned to its rightful owner or the home country of the most recent owner or, if this is not known, the country in which the company is domiciled.

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

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.



Note 26

Overall assessment of the Group's risk position

The Group faces significant risks relating to general operating conditions and liberalisation of the German mail market. The global financial crisis and fierce competition are also capable of significantly affecting Group earnings. The majority of the cost of restructuring the us business has already been recorded in 2008.

In the past financial year, there were no identifiable risks for the Group which, individually or collectively, cast 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 Postbank please also refer to the Postbank Group's risk report.



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Further Developments and Outlook

Report on post-balance sheet date events

John Allan to leave the company

Chief Financial Officer John Allan (60) has decided to leave the company of his own volition. Following the extension of his contract in early 2008, Mr Allan will make use of a contractual option enabling him to end his current term of office on 30 June 2009.

Agreement on pan-European telecommunications services signed with Telefónica

On 7 January 2009, Deutsche Post World Net entered into a services agreement worth nearly €350 million with Spanish telecommunications provider Telefónica. The telecommunications company will provide mobile, fixed voice and data services to 125,000 company employees at 2,400 sites in 28 European countries outside Germany, starting in spring 2009. We expect to save over €150 million over the five-year term of the agreement.

Structure of Postbank contract adjusted

On 14 January 2009, Deutsche Post AG and Deutsche Bank AG agreed on an improved transaction structure for Deutsche Bank's acquisition of Deutsche Postbank AG shares based on the previous purchase price. The transaction was closed on 25 February 2009. The contract now comprises three tranches. Deutsche Post received the proceeds of the whole transaction on the day of the closing and thus three years earlier than expected. The cash value of the transaction is now €4.9 billion.

As a first step, Deutsche Bank acquires 50 million Postbank shares – corresponding to a stake of 22.9% – in a non-cash capital increase. Upon entry of the capital increase in the commercial register, Deutsche Post acquires a shareholding of around 8% in Deutsche Bank. Deutsche Post can dispose of over half of this holding from the end of April 2009; the other half may be disposed of from mid-June. It has been agreed that mechanisms designed to avoid market disturbances will be applied to any such sales. A certain amount of hedging has been carried out for the interim.

At the same time, Deutsche Bank fully underwrote, in a second tranche, mandatory exchangeable bonds issued by Deutsche Post. After three years, these bonds – including interest payments accrued – will be exchanged for 60 million Postbank shares, or a 27.4% stake. The bonds are zero-coupon bonds with a 4% accrued interest per year. The cash value of the bonds at the time of the closing is €2.6 billion.

Put and call options remain in place for the remaining 26.4 million shares (or 12.1%). Deutsche Bank pays a cash collateral for the options amounting to the cash value of €1.1 billion at the time of the closing. The exercise periods are now set between the 36th and 48th month after closing. Through the collateralisation of the put option and the subscription to the mandatory exchangeable bonds, Deutsche Post receives €4.2 billion in direct liquid funds, of which €3.1 billion were received by Deutsche Post on 2 January 2009 and a further €1.1 billion on 25 February 2009.

Report on expected developments

Global economy in recession

At the start of 2009, the global economy finds itself in a major recession. Governments and central banks on both sides of the Atlantic have taken extensive action to counteract the negative impact of the financial market crisis on the economy but uncertainty remains unusually high. The International Monetary Fund (IMF) expects global economic output to grow by only 0.5% in 2009 – recession level for the global economy. In this climate, global trade is likely to shrink or grow only slightly (IMF: –2.8%, OECD: 1.8%).

Growth forecasts

	2008	2009
Global trade volume	4.1	–2.8
Real gross domestic product		
Global	3.4	0.5
Industrial nations	1.0	–2.0
Emerging markets	6.3	3.3
Central and Eastern Europe	3.2	–0.4
Former CIS states	6.0	–0.4
Emerging markets in Asia	7.8	5.5
Middle East	6.1	3.9
Latin America and the Caribbean	4.6	1.1
Africa	5.2	3.4

Source: IMF, World Economic Outlook, October 2008; update, January 2009.

In the United States, even the economic measures planned by the government hardly seem sufficient to prevent a decline in GDP (IMF: –1.6%, OECD: –0.9%, Postbank Research: –1.1%).

Due to its high dependency on exports, the Japanese economy is likely to be badly hit by the global downturn. It faces a slump of between –0.1% (OECD) and –3.1% (Postbank Research). In China, GDP is expected to continue its advance but, at 6.7% (IMF), at a clearly slower rate than in previous years.

The downswing in the euro zone looks set to continue. Over the course of the year, the ECB's substantial interest rate reductions, the lower oil price, the weaker euro and the economic measures planned by the countries should gradually start to take effect. Nevertheless, GDP is expected to fall for the first time in the history of the monetary union (European Commission: –1.9%, Postbank Research: –1.6%).

In all likelihood, the German economy will also contract substantially. This will notably affect exports and corporate investments and, as a consequence, jobs and private consumption. Opinions about whether and how far GDP could fall vary widely (German government: –2.25%, Kiel Institute for the World Economy: –2.7%, Postbank Research: –1.9%).

The situation on the oil market will be determined by the extent of the global recession. The average oil price is expected to fall drastically in 2009 compared with the previous year.

The us Federal Reserve is likely to leave its key interest rate at its extremely low level this year.

The combination of a weak economy and falling inflation has given the ECB scope to reduce its key interest rate further to 2% at the beginning of the year. The ECB will probably lower its interest rates still further. By contrast, market interest rates are likely to increase moderately.

The mail business in a liberalised market

Demand for mail in Germany depends on the economic climate and the extent to which electronic media continue to take the place of the conventional letter. We expect the domestic market for mail communication to continue shrinking. We have also prepared ourselves to lose market shares to competitors.

The German advertising market likewise takes its cue from the economy, meaning that stagnation can be expected in 2009. Although the trend towards targeted advertising is likely to continue, companies will increasingly resort to the more economical forms of advertising that we offer. We intend to consolidate our position in the liberalised market for paper-based advertising and to expand our share in the advertising market as a whole.

The market for press services is likely to contract somewhat because of the increasing use of new media. We are seeking to maintain our revenue position here too by drawing on rising subscription figures and higher average prices.

The expected economic downturn will also impact the international mail market. We plan to counteract this trend by tapping into new areas of business related to our core competency – mail delivery.

In the parcel market, two current trends will continue. For business customers, pressure on traditional mail-order companies will persist with shipment volumes expected to drop. The private customer segment will benefit from e-commerce, an area in which we intend to protect our position.

Developing the international express business

The sustained contraction of the global economy can be expected to have a substantial impact on the international express market in 2009. The downward trend is likely to be felt the most in terms of international shipping volumes and in Europe. In Asia and the emerging markets, the market is also not likely to grow as robustly as in recent years.

In the United States, we will continue to implement the agreed restructuring measures and will maintain a network of some 100 stations for our international services even after our exit from the domestic express business. Service will actually improve for more than 70% of international shipments to and from the major urban centres, where we shall offer the latest collection and earliest delivery times of any of our competitors. Moreover, we will continue to develop our international range of services.

Preparations for the launch of cargo carrier AeroLogic in the summer of 2009 are making good progress. AeroLogic is a joint venture between DHL Express and Lufthansa Cargo whose offices will be located at Leipzig/Halle Airport. Flight operations will commence in the summer of 2009 with new Boeing 777 aircraft, all fully capable of fulfilling the company's performance and environmental standards. During the week, the cargo carriers will fly to Asia and at the weekends they will supplement the Lufthansa Cargo fleet. This arrangement benefits both partners by increasing capacity and flexibility. Customers benefit from shorter transit times and lower per-unit costs.

We have ordered six Boeing 767 cargo planes, particularly for our connections between the USA and Europe and the emerging markets. Three of the planes will be delivered in 2009 and commence operations under DHL Air UK.

In Asia, the new northern Asia hub in Pudong will add to capacity in Hong Kong starting in 2010 and will cover additional geographical regions, such as the extensive area encompassing the Yangtze River delta.

For customers with less time-critical shipping requirements who nonetheless wish to take advantage of our reliable service, we have developed a new product called Economy Select. In 2009, we will offer this product on major trade lanes, particularly those to and from Europe.

Expanding freight forwarding business services for SME

In the coming year we plan to implement suitable solutions that will limit the impact of the anticipated economic downturn and gain additional market share. As part of this process, we will focus in particular on the important customer group of small and medium-sized enterprises (SME). We are aware that in times of economic difficulty, it is especially these customers who need a competent logistics service provider to help reduce haulage distances and transport costs. We will also expand our competence in certain industries. In 2009, we will focus on the transport of perishable goods such as flowers and food, the pharmaceuticals industry and the technology sector.

Our First Choice initiative has shown us the progress that can be achieved with the help of dedicated employees and methodical processes. Following the GLOBAL FORWARDING/FREIGHT Board, all managers in our worldwide organisation will have successfully completed the appropriate qualification programmes by June 2009. Henceforth, a certificate of completion will be a prerequisite for our employees to be promoted.

We will also be supporting our employees in gaining specialist qualifications even more energetically than in the past. In 2009, we will establish a Forwarding Academy for this purpose, which will link employees all over the world via online training programmes and forums suited to their level of competence.

Increase in contract logistics performance

In order to maintain our success in the current economic climate, we are working even more closely with our customers, reviewing options for additional cost reductions and searching for new ways to improve our customers' businesses in the various industries and regions where we operate.

We have launched a number of key initiatives that will help improve our financial performance in the coming years. For instance, we will optimise operational workflows, make supporting functions more efficient, optimise operating assets and continue to efficiently manage the portfolio. We intend to use these measures to further improve our earnings, working capital and cash flow as part of our Roadmap to Value.

Business development expectations

Since the fourth quarter of 2008 global economic conditions have deteriorated in an unprecedented way across all industries and regions. We are preparing our businesses to cope with this downturn, the length of which is difficult to determine.

To mitigate adverse effects from materially lower business volumes our initiatives aim at reducing operating costs and also all indirect and overhead costs. We will also continue to rigorously manage the business to maintain a solid cash position by applying a tight policy on capex and M&A as well as further improving our working capital position.

The restructuring of our US express business is being executed according to plan. At this point in time, we have no reason to deviate from our target of reducing the loss of that business on an annualised basis to no more than US\$400 million by the final quarter of the year 2009.

At the time of preparing the Group Management Report, economic visibility is currently limited, which makes it difficult to provide reliable guidance for the Group and its divisions. We will issue fresh guidance when economic prospects become clearer.

Exit from domestic US express business and restructuring

As announced we withdrew from the domestic US express business at the start of 2009 and will restructure our organisation accordingly. We will also streamline our management structure for sales and production in our MAIL Division with a view to improving our process management, optimising our costs and harmonising our approach to the customer.

Lower capital expenditure planned

We plan to make fewer investments in 2009. Property, plant and equipment will again attract the larger portion of spending, and more than three quarters will be allocated to the MAIL, EXPRESS and SUPPLY CHAIN/CIS divisions.

Funds allocated to the MAIL Division will be slightly higher than in the previous year and are planned predominantly for the domestic mail and parcel business. We plan to purchase machinery for processing standard and compact letters and flat mail more efficiently. In addition, we intend to install additional Packstations and continue modernising our retail outlets.

In the EXPRESS Division, we will significantly scale back capital expenditure – in view of the foreseeable economic slowdown, amongst other things – and concentrate on the Europe and Asia Pacific regions. We will continue to expand and upgrade our hubs and service centres in Europe and Asia to improve our infrastructure. We will also focus on our aircraft fleet, as before.

In the GLOBAL FORWARDING/FREIGHT Division, capital expenditure in 2009 will be below the prior-year level. In the Global Forwarding Business Unit, a major project is planned that will involve replacing an IT application. We also want to improve building facilities and IT infrastructure, especially in Asia and North America. In the Freight Business Unit, we plan to expand our branch network, improve IT equipment and purchase additional security systems. These measures will focus primarily on Germany, Benelux and Scandinavia.

Capital expenditure will also decline in the SUPPLY CHAIN/CIS Division, with the majority of funds being allocated to the Supply Chain Business Unit. We will develop customised solutions for expanding our business with existing and new customers with a focus on the United Kingdom, continental Europe and the USA. In the Corporate Information Solutions Business Unit, we will develop customised solutions for the printing business and buy new printing machines, particularly in Germany.

Cross-divisional capital expenditure is expected to continue declining in 2009. As in the previous year, such investments are mainly planned for new vehicles and IT systems.

Electronic procurement for all of Europe

Over the coming year, we aim to increase our use of IT applications that can make the procurement of goods and services more efficient. Our Global eProcurement Tool GeT, which so far has been used primarily in Germany and the United States, is also to be made available to users all across Europe in the future. In addition, we intend to continue pooling our operational procurement activities.

Opportunities

Opportunity management integrated into control processes

Opportunity management is integrated into the Group-wide opportunity and risk control process. The organisation of this process is described in the [risk report](#).

Seizing business and environmental opportunities

It is currently hard to say how the general economic situation will develop and what financial impact it will have on our Group. We are safeguarding against negative impacts by improving workflows and cutting costs. Beginning in 2009, we aim to lower indirect costs by €1 billion by 2010 in a Group-wide cost-cutting drive. We are also adding to our portfolio of services for new sectors to reduce sectoral dependence.

The current difficult economic situation also harbours opportunities in that it may make customers more willing to outsource. We expect that we will benefit in a weak economy from our leading market position and the trust vested in our customer relationships. As trust is important in a crisis, we expect that customers will prefer to stay with the provider they know.

Awareness of climate change and environmental responsibility is increasing. Customers are interested in environment friendly products and even in setting up entire supply chains that are ecologically sensitive. We are conscious of our responsibilities as the largest company in our industry, and as such we have developed climate-neutral products under our Group-wide GoGreen programme.

→ Sustainability, page 77

Strategic realignment

We have begun to reduce the size of our shareholding in Postbank and have set a new course for our express activities in the United States. We will focus in the future on our core businesses of mail, express and logistics.

Our activities are geared to organic growth, capitalising on the global platform and the presence we have built up in growth regions in recent years. The roadmap for the future is thus clearly defined. All necessary steps are in place to position the Group for future growth. Our Roadmap to Value capital markets programme is gaining traction and will boost the efficiency of our processes and our earning power. This will help us to safely weather the international economic crisis.

→ Capital Market, page 39

We accept our social responsibilities through, amongst other things, disaster aid, our partnership with UNICEF and the GoGreen programme. These programmes are not designed to reap short-term gains, but to enhance awareness of and trust in the Deutsche Post and DHL brands. The sustainability of our products and services will assume long-lasting importance as a marketing factor both for our customers and their own.

Divisions rich in opportunity

The MAIL Division can build on excellent standards of quality to hold its own against competitors and regain lost customers. A broad range of multi-channel communication solutions holds added scope for further growth. These include consulting services in dialogue marketing, value-added services based on mail, and transport and international delivery. By continuously improving the cost of our transport and delivery network and making the cost structure more flexible, we are able to respond faster to changes in mail volumes. Providing automated points of sale gives customers easier access to our services whilst reducing our costs. We can also use the internet to make our products and services even more attractive.

→ Page 81

Whilst the EXPRESS Division restructures its US activities, we continue to extend our market lead in the international express business. We are developing a uniform range of international time-definite and domestic day-definite express services in Europe for 2009. Our expansion in Eastern Europe is going well. The Asia Pacific region remains a growth engine, albeit with declining growth rates. We run domestic express businesses profitably in various parts of the world. We also safeguard our processes with global network standards and exercise rigorous cost control.

The GLOBAL FORWARDING/FREIGHT Division boasts a broad service portfolio and worldwide multimodal transport services. Individual sectors may provide additional potential for growth. We expect to reap savings by concentrating on strongly frequented routes and making selective use of carriers. Precise targets are set for productivity and workflow improvements to force down direct operating costs. Growth prospects in the logistics business are buoyed by capacity expansion, our range of industry solutions and improved processes.

The SUPPLY CHAIN/CIS Division views the currently adverse economic climate as an opportunity to make use of companies' greater readiness to outsource. We help companies streamline their logistics processes and cut costs. As leading providers in contract logistics, we have the experience and strong competitive edge needed to further expand our business. The corporate information solutions segment also presents growth opportunities in the form of rising demand for global and integrated solutions. We are making ourselves less reliant on the banking, financial services and legal sectors and are developing services for other industries.

Leveraging synergies to boost profitability

Combining cross-divisional services across the Group worldwide means in-house service units can work closely together with business units and tap into available synergies. Major savings can be gained by aggregating procurement volumes. We are consolidating our IT infrastructure, closing the data centre in Scottsdale, Arizona, and transferring its operating functions to the Prague and Cyberjaya data centres. We are also creating global IT functions focusing on customer relationships and project implementation. The potential annual savings in IT run into the triple-digit millions.

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 at 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.

Ⓜ Any internet sites referred to in the Group Management Report do not form part of the report.