

## 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
<b>Real gross domestic product</b>		
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.

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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.