Deutsche Post DHL Group

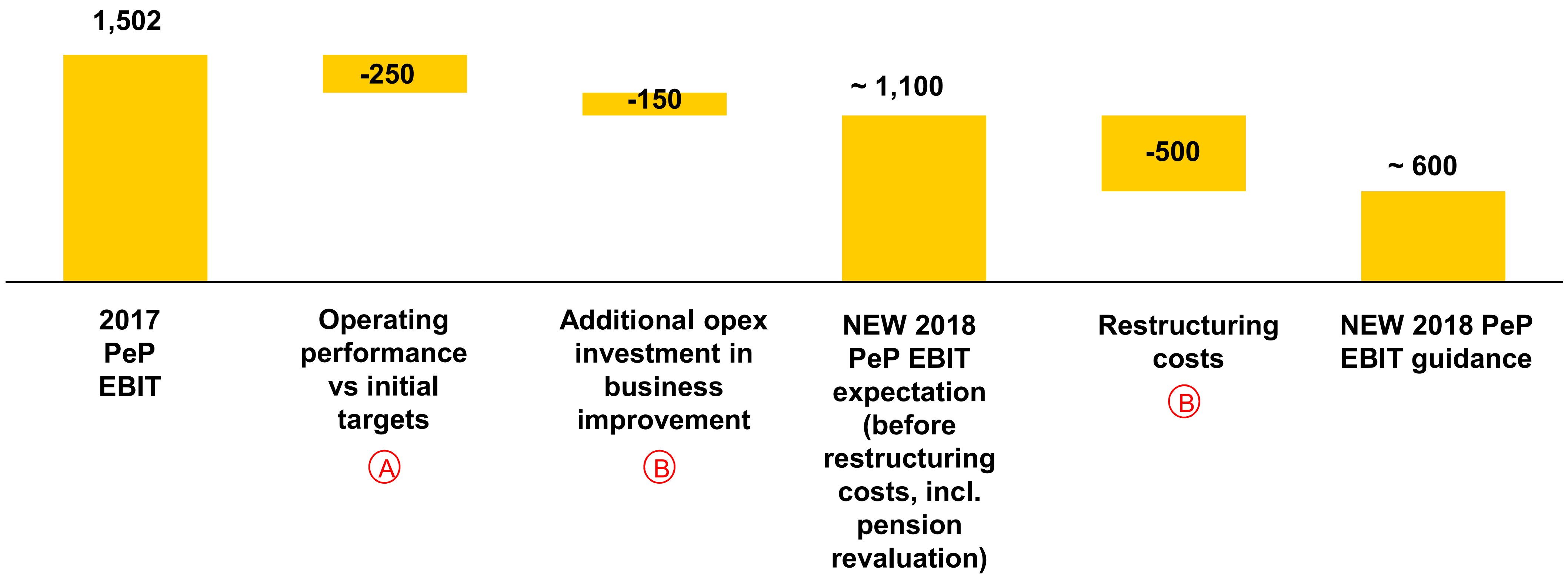
PeP measures to secure 2020 targets

June 8, 2018

NEW PEP 2018 EBIT BRIDGE

Deutsche Post DHL Group

EBIT contribution, in EUR m
2018 vs 2017



Deutsche Post DHL Group

Ⓐ 2018: CURRENT STATE ASSESSMENT

PeP P&L	Parcel Germany	Post
Revenue	• **Volume**: unchanged structural **growth** • **Price**: **increases** largely offset by customer mix effects	• **Volume**: unchanged structural **decline** • Price: stamp prices **stable** since Jan 1, 2016
Direct costs	• **Factor cost increases** not recovered due to **insufficient productivity gains** (Parcel Germany and Post) • More FTEs and transport capacities needed, in **tight labor and transport** markets • Stretched organization & partly unbalanced regional capacity utilization	• Slow but steady mail decline needs constant downsizing of fixed costs vs **rising inflation** • Mix shift from **rising e-commerce volumes**
Indirect costs	• **Invested ahead of need** to support strong growth momentum	• **Scope for reduction** mirroring Post decline not fully realized

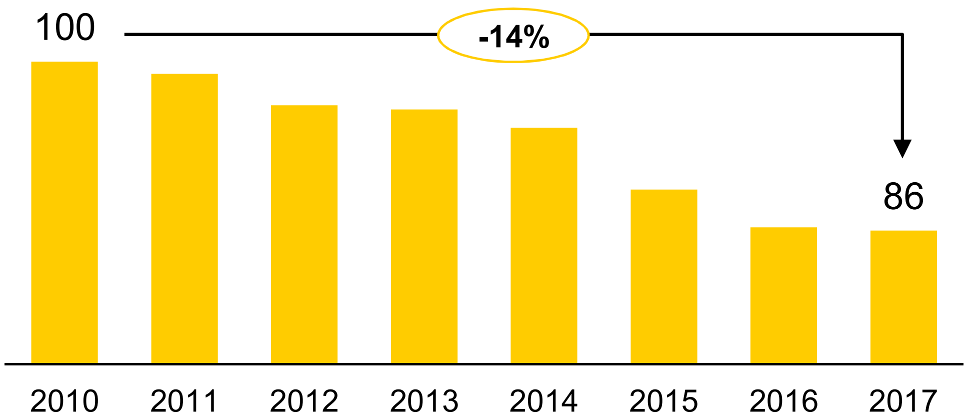
! More challenging mix of cost inflation without price offset in 2018 than initially expected

ONGOING EVOLUTION OF BUSINESS PROFILES REQUIRES ADJUSTMENTS TO OUR APPROACH

Deutsche Post DHL Group

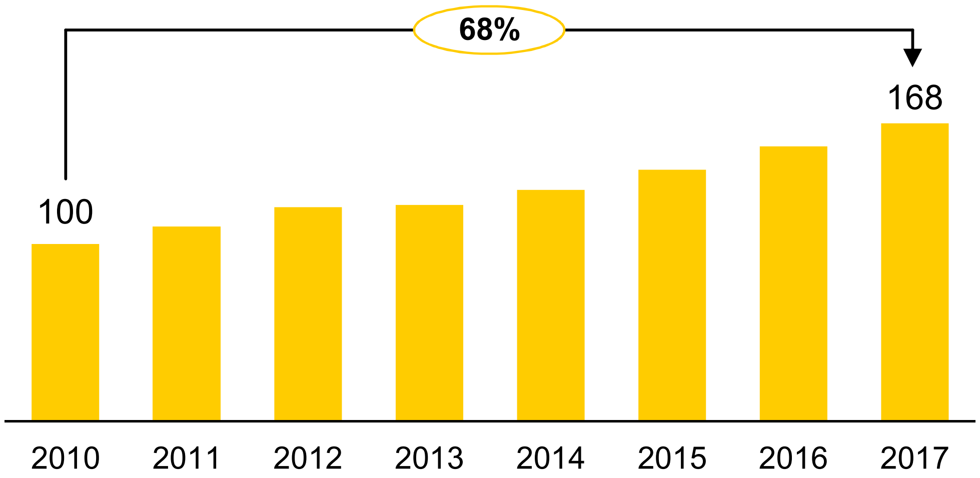
Letter volumes are 14% lower vs 2010…

Letter and Parcel volume, indexed:



How to adjust Mail network cost to the gradual step down in Mail volumes?

…while Parcel volumes are 68% higher



How to calibrate Parcel network expansion to cater for sustainable e-commerce driven growth?

Key question to solve: how to manage costs in light of these diverging trends?

Ⓑ

FURTHER SPENDING REQUIRED TO ACHIEVE SUSTAINABLE IMPROVEMENTS; INCLUDED IN NEW 2018 EBIT GUIDANCE

Deutsche Post DHL Group

EUR 100-150m / year recurring opex re-investments into the business

- Focus has been more on facilitating strong parcel growth and short-term profitability than regular productivity investments
- Continued investment in IT & operations will drive better customer service AND higher efficiencies
- Detailed measures under development, to be mainly spend along four major areas

  (*see p. 8)*

EUR 500m one-off restructuring costs to be fully taken into 2018 EBIT

- Mainly financing early retirement program for civil servants - up to EUR 400m, with no detrimental cash flow impact

  (*see p. 9-10)*

OVERVIEW OF OUR PLANNED PEP MEASURES

Deutsche Post DHL Group

PeP P&L	Parcel Germany	Post
Revenue	1 **BALANCE GROWTH & YIELD**	1 **REGULATORY PRICE REVIEW**
Direct costs	2 **PRODUCTIVITY MEASURES – supported by further automation / digitalization**	
Indirect costs	3 **OVERHEAD RESTRUCTURING PROGRAM**	
Reporting alignment	Shift of selected growth initiatives from PeP to Corporate Incubations	

Taking significant measures in 2018 to establish sustainable cost structure for ongoing structural shift in PeP portfolio

① PRICING MEASURES

Deutsche Post DHL Group

Parcel Germany

Balance Growth & Yield

- Even in competitive market, cost inflation requires price adjustments, to be implemented on rolling basis upon contract renewal / signing
- Accompanied by focus on "Ship-to-Profile" discipline
- Expect continued volume growth, closer to expected 5-7% market development

Post

Upcoming review for new regulation as of Jan, 1 2019

- First draft from Bundesnetzagentur for regulated products expected to be published in autumn
- Increases as of July 1st for niche market of unregulated larger-sized shipments already announced

Post and Parcel pricing will be one important contribution to EBIT growth towards 2020 target

② PRODUCTIVITY MEASURES, DIRECT COSTS

Deutsche Post DHL Group

Regular re-investment with EUR 100-150m opex / year allows to drive sustainable improvement along 4 main areas

Automation and digitalization

Data Analytics tools: e.g. enhanced volume forecasting, quality monitoring & address qualification

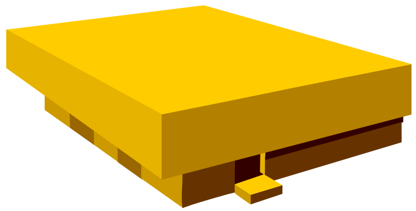
Continuous improvement

Strict enforcement of “standard operating procedures” and “Best-in-class”/ “First Choice”-approach

Last Mile productivity

- Parcel: dynamic routing
- Post: daily district definition
- Joint delivery

Dynamic network utilization



Optimized production flows: use most productive sorting capacity

③ RESTRUCTURING MEASURES, INDIRECT COSTS (1/2)

Main element: early retirement program

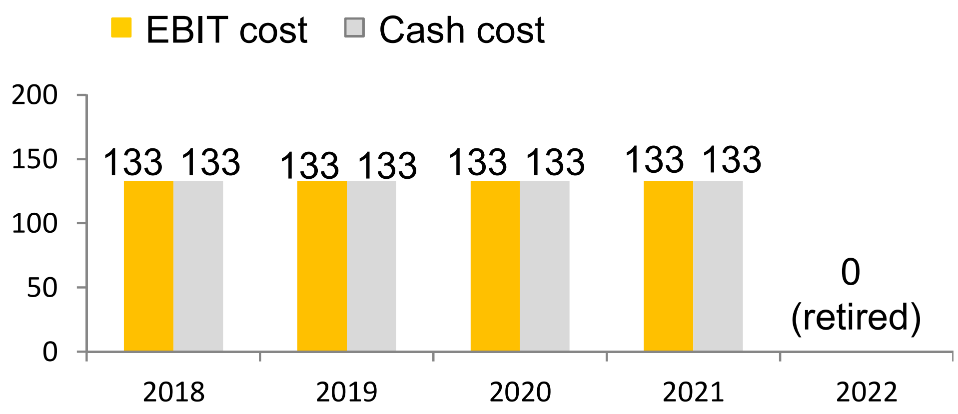
- **Scope:** civil servants in positions, where no re-hiring will be required
- **EBIT effect:**
  - 2018: one-time impact of up to EUR -400m
  - 2020: sustainable positive effect in indirect cost of ~ EUR 160m/year
- **Cash flow effect:**
  - Spread over length of individual early retirement period
  - Given lower remuneration during early retirement phase, cash-out is lower than today

Further smaller restructuring measures within EUR 500m budget under consideration to bring full benefits to EUR >200m annual cost reduction in 2020

One-time costs allow sustainable reduction of fixed cost base, with even positive cash effect

③ RESTRUCTURING MEASURES, INDIRECT COSTS (2/2)

Illustrative case: Civil Servant, salary = 100



<u>Today: Full salary</u>

- P&L Cost = 100 salary + 33 pension contribution
- P&L cost = 133
- Cash cost = P&L cost = 133

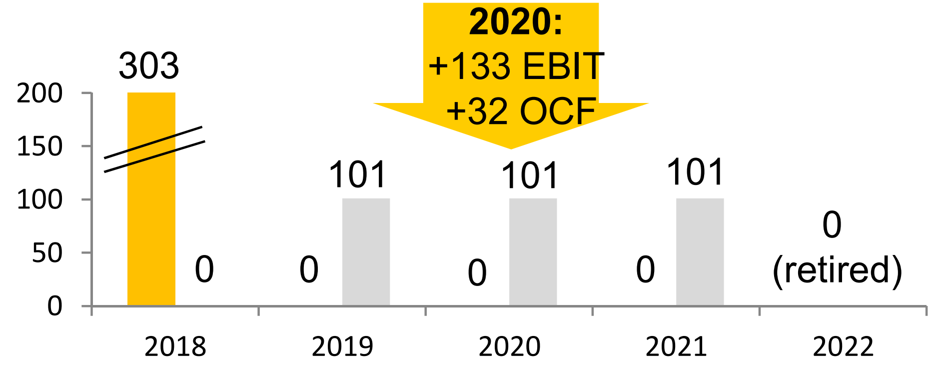
<u>Early retirement :</u>

- P&L Cost = 0 as of 2019 , as full P&L costs covered by restructuring provision in 2018

-> no EBIT cost as of 2019 vs 133 today

- **Cash cost =** 68 early retirement + 33 pension contribution

-> Cash cost = 101 = 25% lower than on full salary



Early retirement program reduces fixed cost base on sustainable basis, with positive cash effect – provided open place is not refilled!

SHIFT TO CORPORATE INCUBATIONS

Deutsche Post DHL Group

New Corporate Functions line

- Includes unchanged Corporate Center / Other (GBS, CSI) costs
- Plus (new) Corporate Incubations segment (incl. a.o. Streetscooter, SmarTrucking India)

Adapted 2018 Guidance:

Corporate Functions: EUR -420m

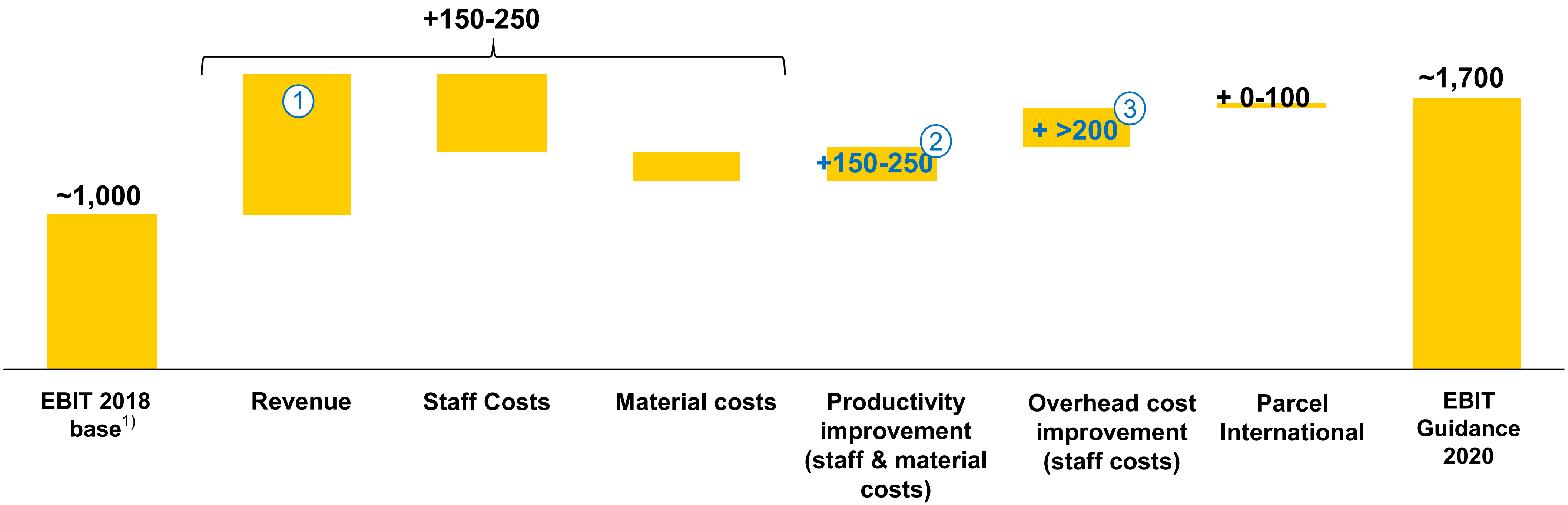
- t/o CC/O: EUR -350m (confirmed)
- t/o Corporate Incubations (shifted from PeP)
  - 2018: ~EUR -70m, start-up costs reflecting rapid Streetscooter ramp-up
  - 2020: expected to be self-funding (EBIT EUR ~0m)

Reporting structure to be adapted with Q2 release on Aug 7, 2018

PEP EBIT BRIDGE TOWARDS CONFIRMED 2020 GUIDANCE

Deutsche Post DHL Group

EBIT contribution, in EUR m
2020 vs 2018



1) excl. ~ EUR -500m restructuring costs and EUR +108m pension revaluation

WRAP UP: 2018 & 2020 GUIDANCE

Deutsche Post DHL Group

EBIT, EUR bn	2018	2018 excl. restructuring costs	2020
PeP	~0.6	~ 1.1	~1.7
DHL	~3.0	~3.0	~3.7
Corporate Functions	~ -0.42	~ -0.42	~ -0.35
Group	**~3.2**	**~3.7**	**>5.0**

Incl. IFSR 16

FY 2018:

Free Cash Flow: > EUR 1.0bn (excl. debt-financed Express intercontinental fleet renewal)

Tax rate: ~18%

Gross Capex (excl. leases): ~ EUR 2.5bn plus ~ EUR 0.2bn for debt-financed Express intercontinental fleet renewal

Deutsche Post DHL Group

SUMMARY

2018 challenges show need for more fundamental re-adjustments…

- PeP program includes productivity, overhead and pricing measures
- Focus is not on short term patches: 2018 operating expectation lowered
- New PeP 2018 EBIT guidance of EUR 0.6 bn also covers EUR 500m restructuring costs and re-instatement of ongoing productivity investments

…in order to establish sustainable cost base for structural PeP shift

New measures to secure long-term sustainable PeP set-up and cement path towards confirmed 2020 PeP guidance of EUR 1.7bn