Deutsche Post World Net
MAIL EXPRESS LOGISTICS FINANCE

# Restructuring of DHL US Express

Frank Appel, CEO – John Mullen, CEO DHL Express – John Allan, CFO
Bonn, May 28, 2008


ROADMAP TO VALUE

# Agenda

- **Executive summary (Frank Appel)**
- Plan in detail (John Mullen)
- Guidance (John Allan)

# Radical and decisive actions

- Reducing losses in our DHL US Express operations very significantly
- Maintaining a strong presence in the USA
- Continuing to deliver a competitive choice and value to US and global customers

# Key elements of the restructuring plan

- We work with UPS to conclude a contract with them to provide air uplift for DHL which will materially reduce our aviation costs
- Infrastructure restructuring to remove excess capacity and to better match capacity with customer requirements
- Significant cost reduction in SG&A*

**Significant underlying EBIT improvement**

* Selling, General & Administrative Expenses

# Very significant financial improvement planned



- Execution of this major change program amid difficult economic conditions will increase underlying losses to $ 1.3bn for Express US in 2008 ($ 1bn in 2007)
- Underlying EBIT improvement of $ 1bn p.a. by 2011
- Planned losses for Express US will be reduced to
  - $ 0.9bn in 2009
  - $ 0.5bn in 2010
  - $ 0.3bn in 2011
- Implementation costs of up to $ 2.0bn

# Restructuring program will significantly enhance the financial performance



**By 2010**

- Loss of US business smaller than network value it creates
- DHL Express globally will meet its cost of capital

# Through total management commitment on execution we will ...



- Ensure that DHL continues to offer competitive services in the US as part of its global network for our customers
- Execute a comprehensive plan for our shareholders to aggressively reduce losses
- Demonstrate commitment for our employees to remain a major employer in the US market

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- Executive summary (Frank Appel)
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# Key elements of the plan

- **DHL has completed a comprehensive network plan to reduce capacity and operating losses in its US Express operations, while maintaining a strong presence in the USA and continuing to deliver a competitive choice and value to US and global customers**
- **The restructuring will involve the following key elements:**
  - Targeted improved EBIT performance $ 1bn per annum in total
  - Two parallel components: Aviation Outsourcing and Infrastructure re-organization
  - Key changes completed by end 2009 with full plan implementation in 2010
  - One off costs of up to $ 2bn
- **DHL and UPS have agreed to develop a contract to provide North American Air lift for the carriage of DHL Express Domestic and International shipments within the USA**

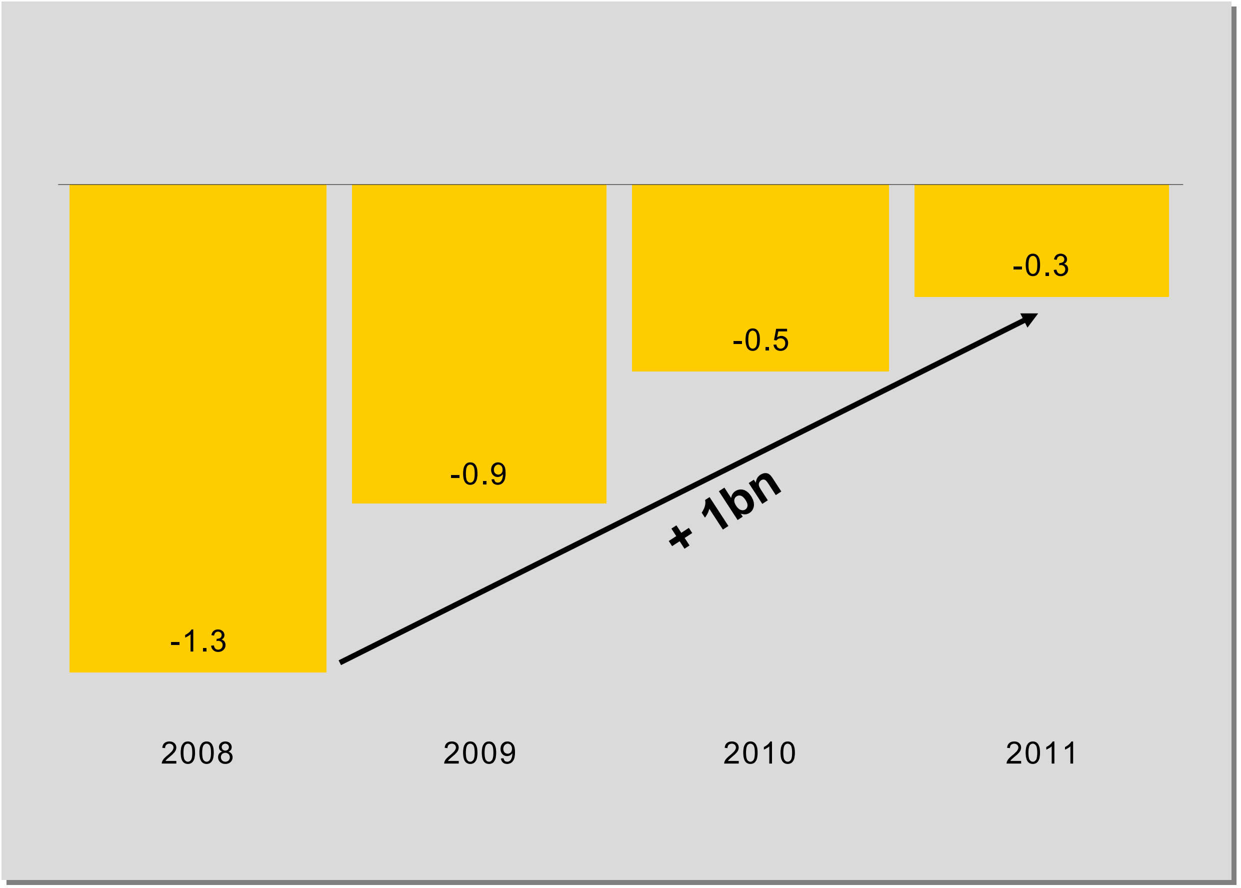
# Key elements of the plan (cont.)

- **The Restructuring Plan will:**
  - Materially reduce aviation costs through outsourcing to UPS
  - Rationalize Infrastructure by 34% through the closure and consolidation of stations
  - Reduce Pick Up and Delivery routes by 17%
  - Reduce Ground Linehaul sectors by 18%
- **DHL will continue to deliver to scarcely-populated areas of the country via expansion of DHL's USPS partnership**
- **Limited impact on service delivery capabilities. Less than 4% of pick up and deliveries volumes affected despite significant cost reduction**
- **Less complex network delivering more reliability**
- **SG&A* reduction by $ 130m**
- **Protection of International Network franchise and global coverage**

* Selling, General & Administrative Expenses

# Profit improvement of $ 1bn by 2011

**EBIT DHL Express US - before implementation costs**
$ bn




- Revenue Management Effect
  - Net revenue loss
  - Cost avoidance on volume lost
- SG&A* Reductions
  - FTE reduction
  - Organizational restructure
- Improved PUD** Operating Efficiencies
  - Air/Ground delivery phasing
  - Run re-routing
- Ground Network Restructure
  - Station closure/consolidation
  - Ground Line-Haul reductions
- Restructure Air Network
  - Outsource aviation to UPS

* Selling, General & Administrative Expenses, ** Pick-Up and Delivery

# How is this being achieved?

## Infrastructure

- **Station network rationalized by 34% through service center consolidation and closures**
  - Close stations in a small number of low density areas
  - Close low density stations in multiple station locations
  - Consolidate nearby stations in multiple station locations
- **Pick Up and Delivery routes rationalized by 17%**
  - Take advantage of more flexible work rules in Teamster agreement to improve productivity
  - Re-engineer basic route structure with more advanced modeling tools
  - Change route structure to improve service for premium international and express products
- **Ground linehaul network rationalized by 18%**
  - Eliminating runs to remote locations
  - Re-fleeting with more efficient equipment to improve route density

## Air Network

- **DHL Air Network in the USA clearly uncompetitive and high cost vs competition**
  - Foreign ownership restrictions
  - Duplicated vendors and overhead
  - Ageing aircraft fleet
  - Multiplicity of aircraft types
  - Low fuel efficiency
  - Mixed C/A Container configuration
- **Excess capacity due to above issues and need to maintain full US coverage including less-dense areas**

***Outsourcing of Aviation to UPS addresses these issues and reduces cost***

# Air network outsourcing – significant reduction in aviation costs through UPS outsourcing

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**DHL**

**Network Capacity**: 105t/day

**No Aircraft**: 106

- **DHL and UPS operate largely parallel networks**
- **Outsourcing to UPS to utilize capacity in UPS network**
- **10 Year Contract**
- **Projected cost of $1b per annum**
- **Airport-to-Airport uplift only**
- **DHL retains all infrastructure, Ground Network, PUD* and Customs Clearance**
- **More modern and fuel efficient fleet than current vendors**
- **Replacing sub-scale, partially automated hub and spoke network with fully-developed multi-hub network supported by more advanced automation**
- **Both companies to continue to compete vigorously in the marketplace**

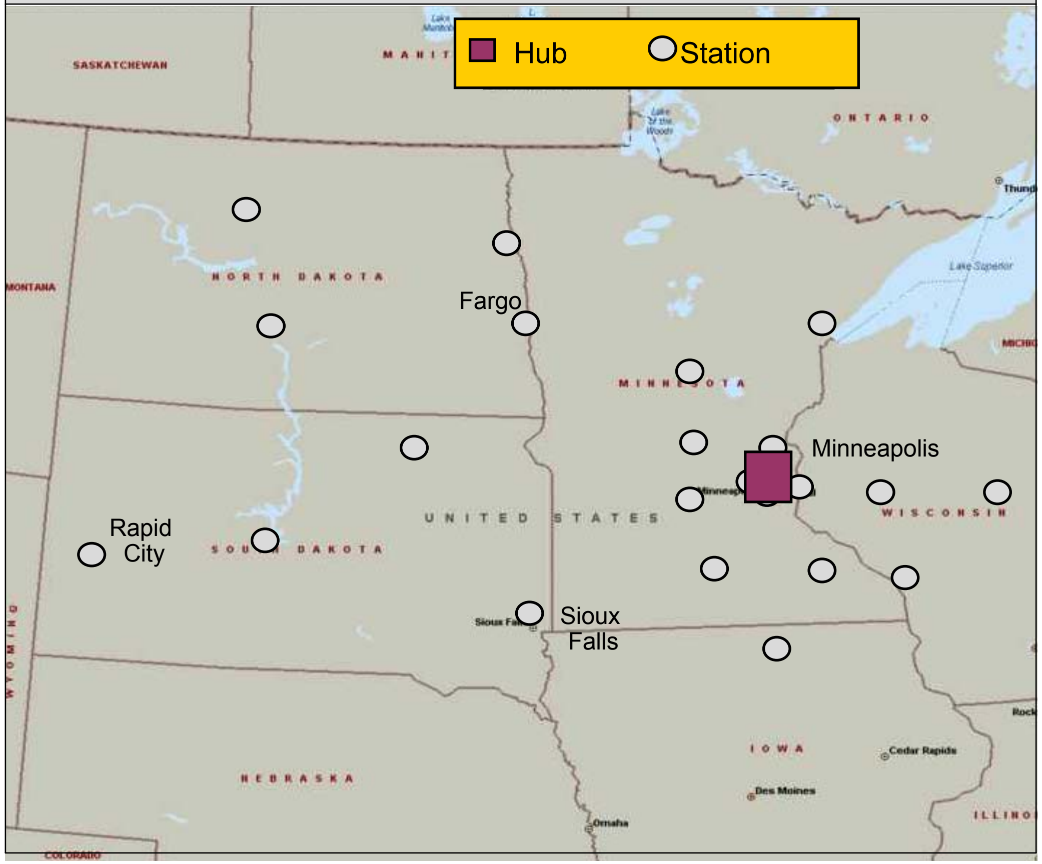
- * PUD = Pick Up and Delivery

# Infrastructure network changes

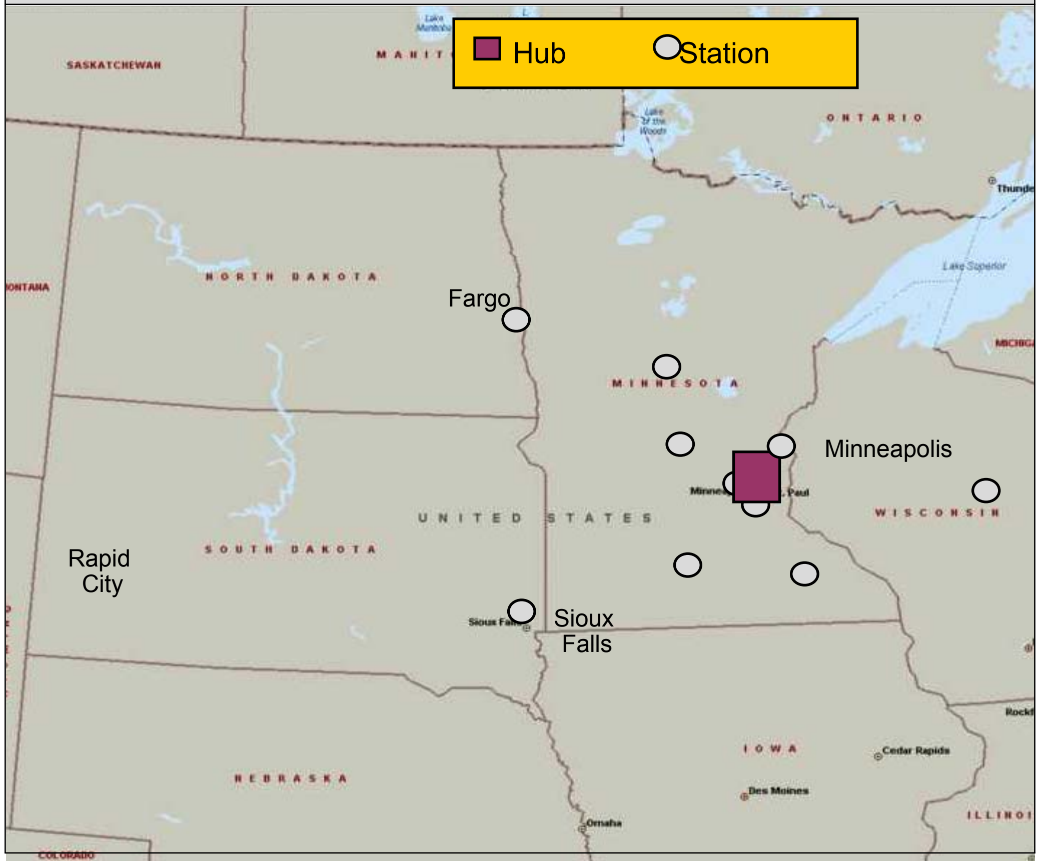
**With fewer stations to serve after consolidation, linehaul utilization is improved and complexity reduced**

**Minneapolis Hub Example**

## CURRENT NETWORK



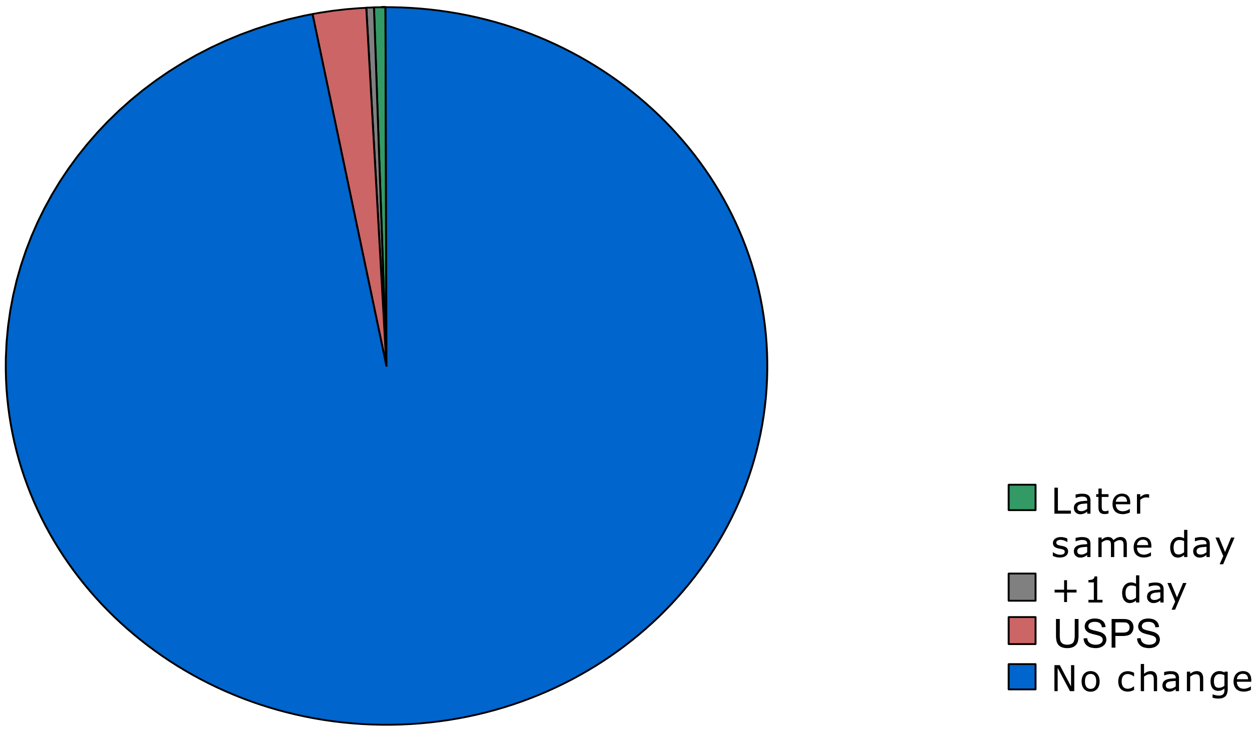

## FUTURE NETWORK



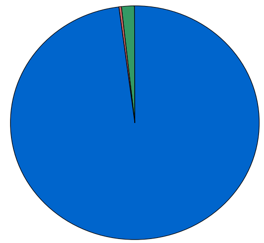
# Customer impact

**While consolidating stations and partnering leads to significant cost savings, customer impact is minimal – 3.3% of deliveries and 0.06% of pick-ups**

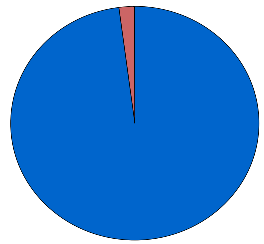
**OVERALL DELIVERY IMPACT**



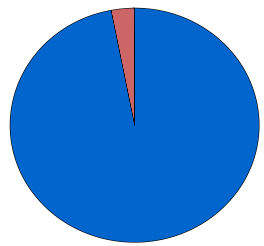

Impact on 10:30



Impact on 12PM



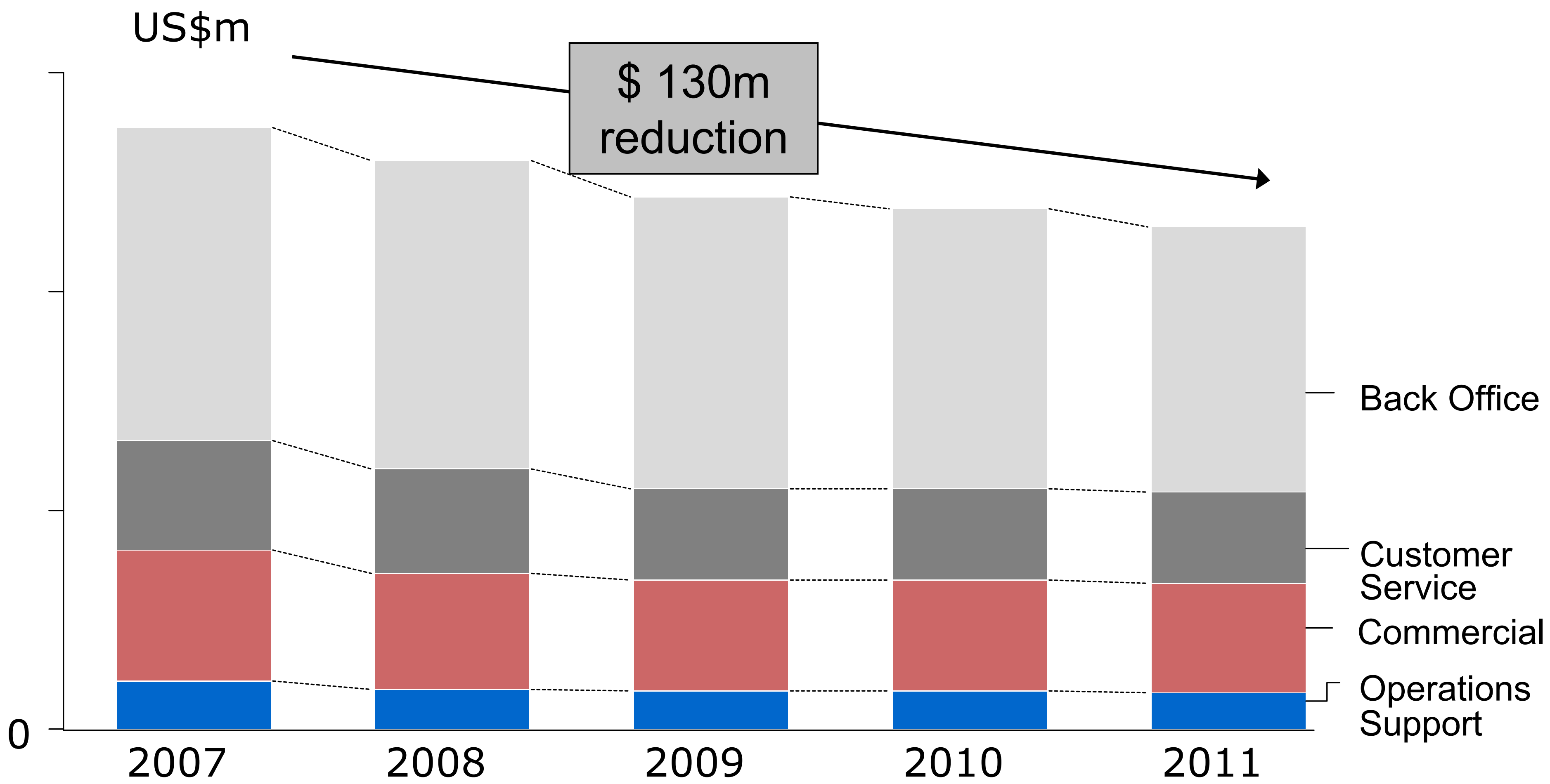
Impact on Ground



# SG&A* reduction – to continue to reduce over next three years .....



## SG&A* Expense




- * SG&A = Selling, General & Administrative Expense

# Implementation costs of up to $ 2.0bn of which approx. 90% are cash costs

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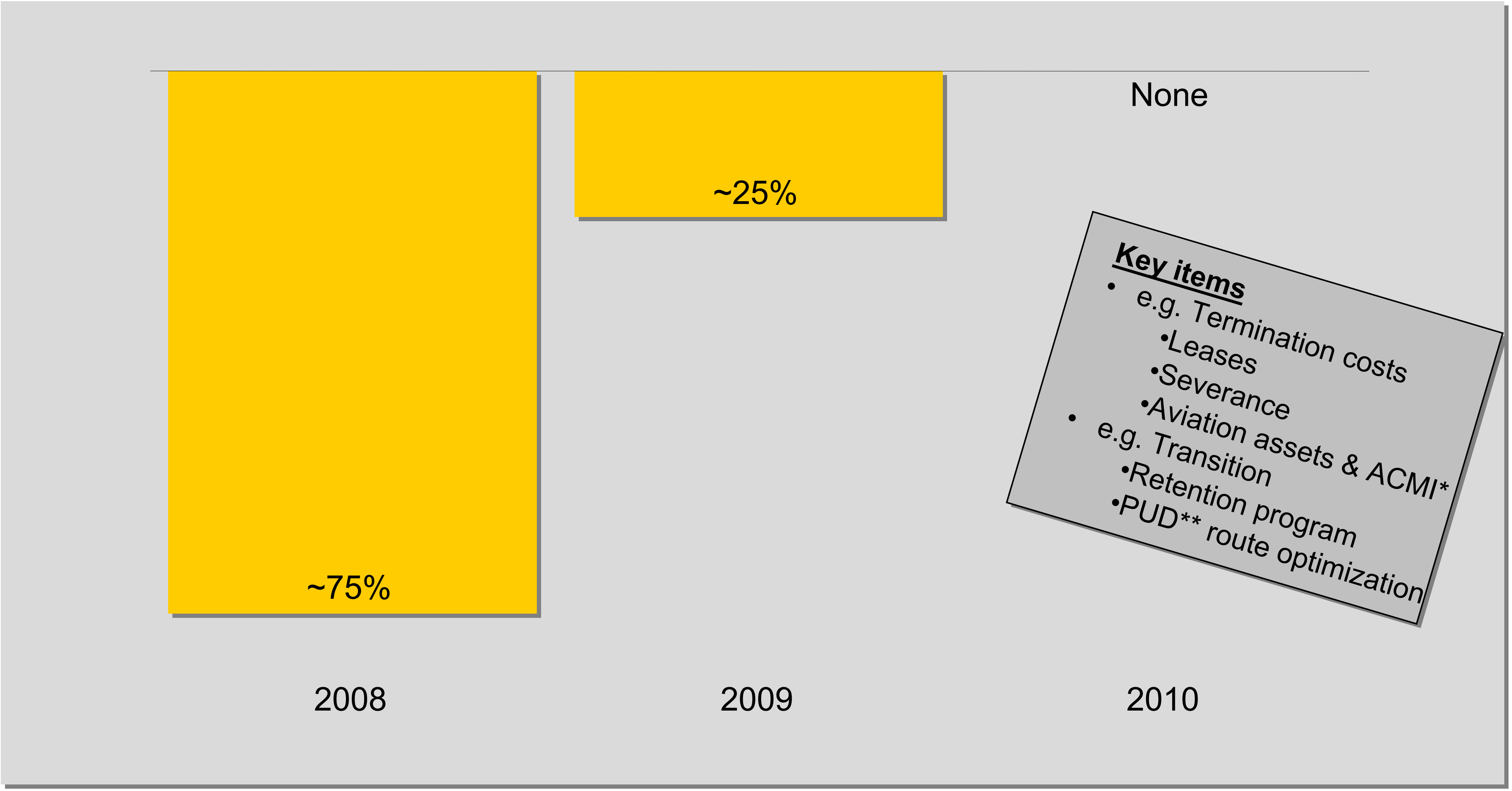
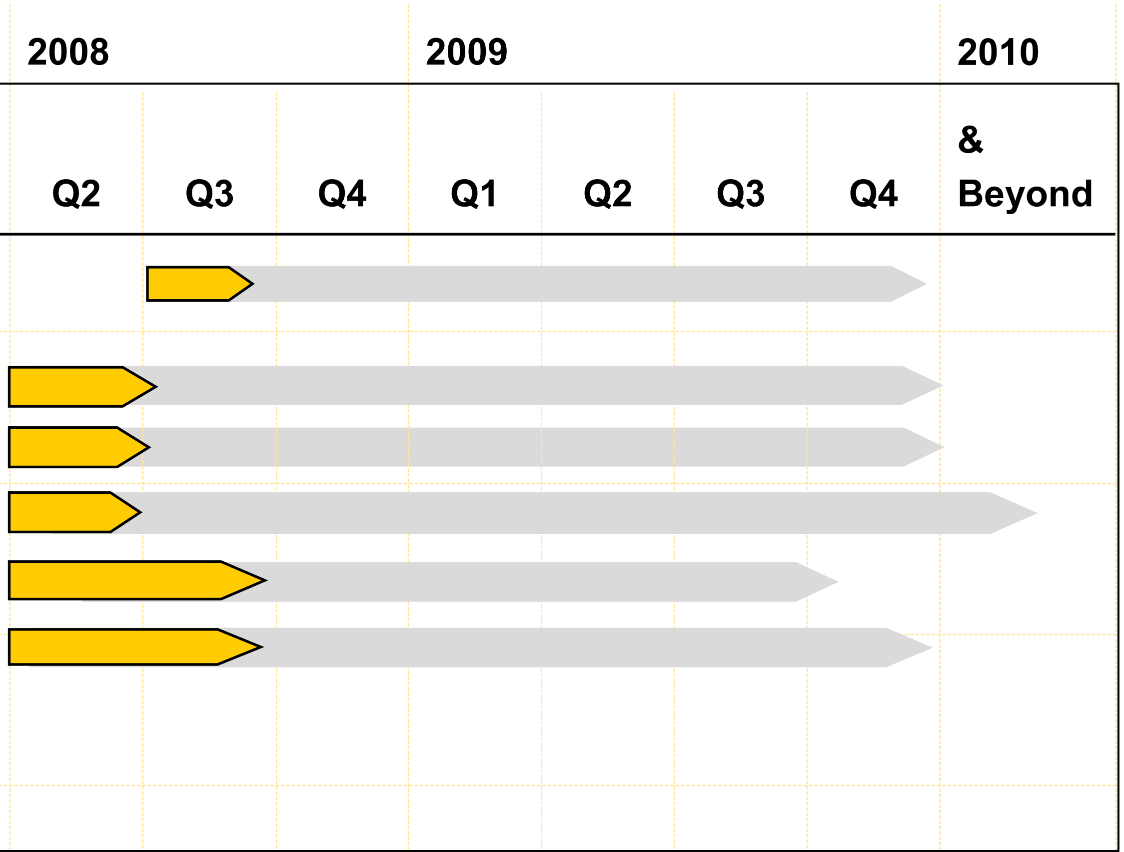



* ACMI=Aircraft, Crew, Maintenance, Insurance, ** PUD=Pick Up and Delivery

# Restructuring timetable

## Full implementation by 2010

| Work-streams | Key Tasks |
|---|---|
| Air Network | • Outsourcing to UPS |
| Ground Network | • Station Consolidation<br>• Network Rationalization |
| PUD* | • De-Peaking<br>• Re-Routing |
| SG&A** | • Restructure & Align to New Positioning |




Detailed Planning   Execution

• * PUD = Pick Up and Delivery, ** SG&A = Selling, General & Administrative Expenses

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# Adjustments to 2008 guidance

- We have reflected the risk of further erosion in US Express performance due to this major change program in the forecast of $ -1.3bn EBIT for 2008
- Overall Express guidance for 2008 is, therefore, reduced to c. € 0.4bn EBIT (vs 2007 € 0.3bn)
- We have adjusted group guidance slightly to c. € 4.1bn EBIT
- All other guidance for 2008 and 2009 remains unchanged

# Summary

- Comprehensive restructuring plan
  fully in line with Roadmap to Value
- Radical and decisive actions
- Very significant planned performance improvement
- Total management commitment to execute
- Continued strong performance in Express RoW
  (2008 forecast EBIT above € 1.2bn,
  EBIT margin well above 10%)

Thank you for your attention.