

Restructuring of DHL US Express

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



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

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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Key elements of the plan

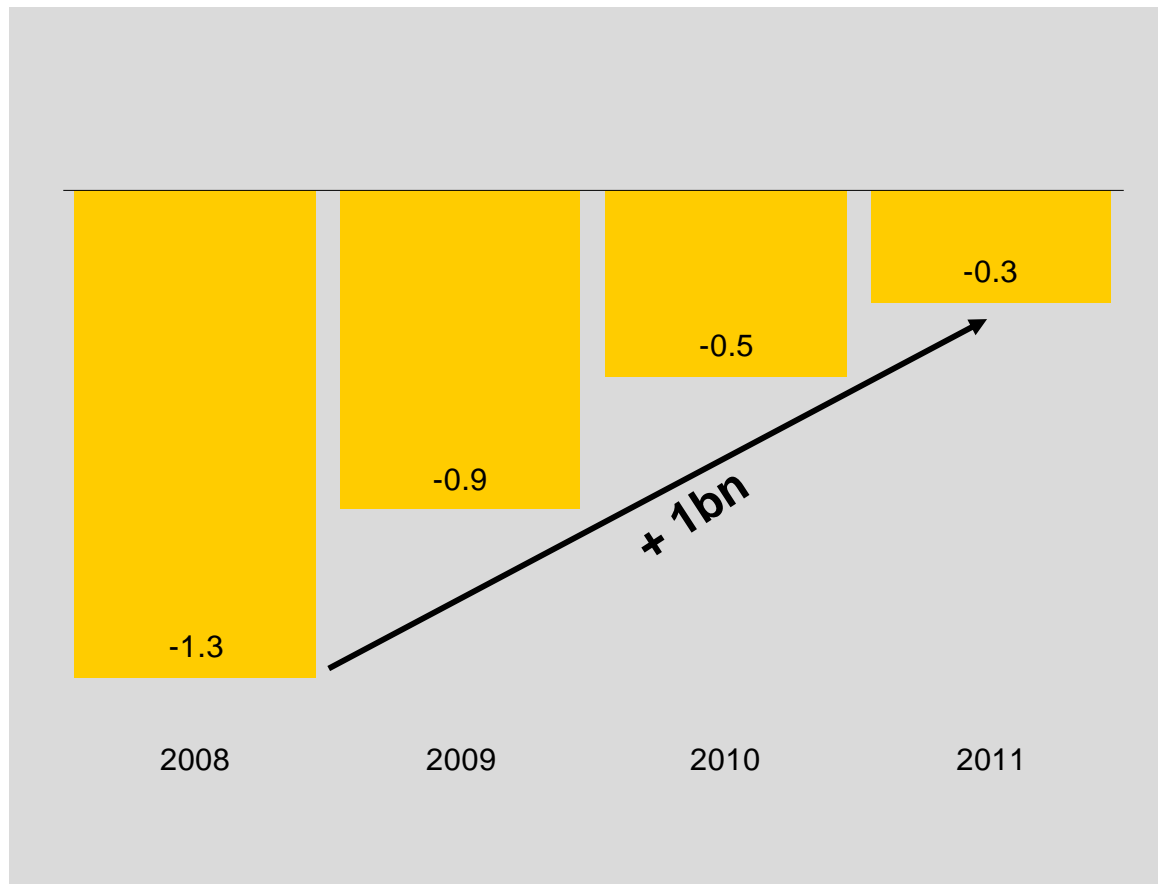
- **DHL has completed a comprehensive network plan to reduce capacity and operating losses in its US Express operations, while maintaining a strong presence in the USA and continuing to deliver a competitive choice and value to US and global customers**
- **The restructuring will involve the following 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**

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

How is this being achieved?

Infrastructure

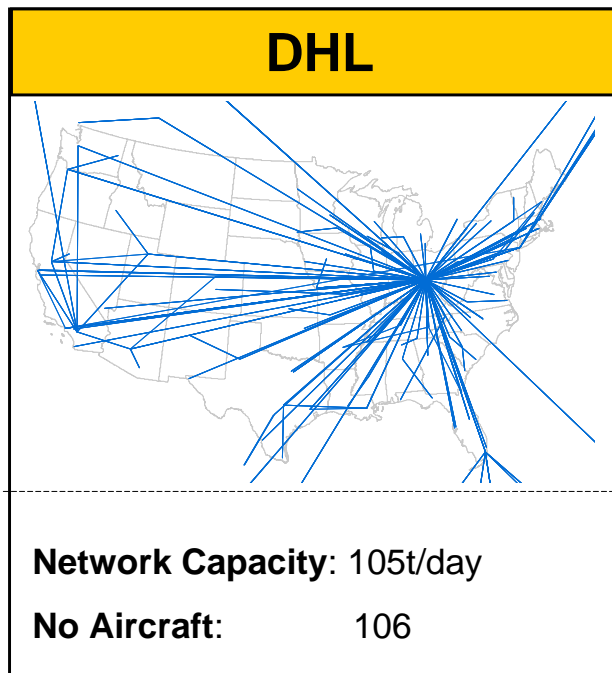
- **Station network rationalized by 34% through service center consolidation and closures**
 - Close stations in a small number of low density areas
 - Close low density stations in multiple station locations
 - Consolidate nearby stations in multiple station locations
- **Pick Up and Delivery routes 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

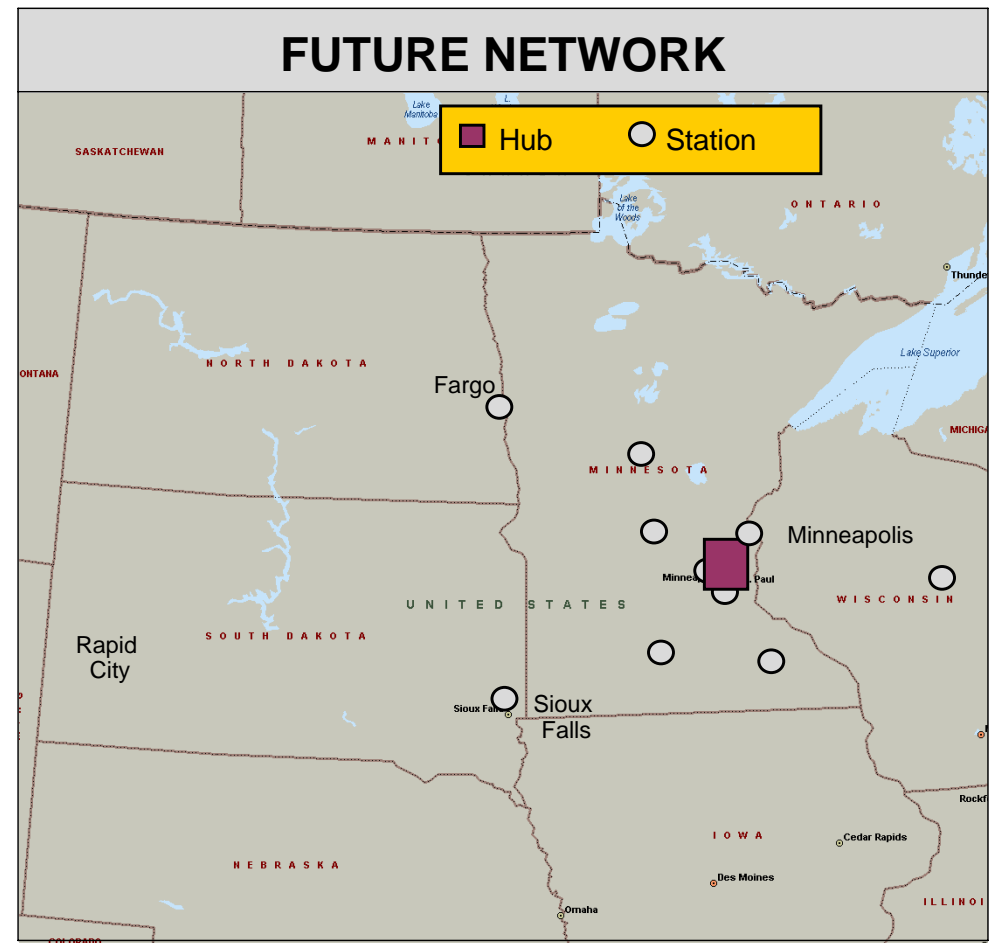
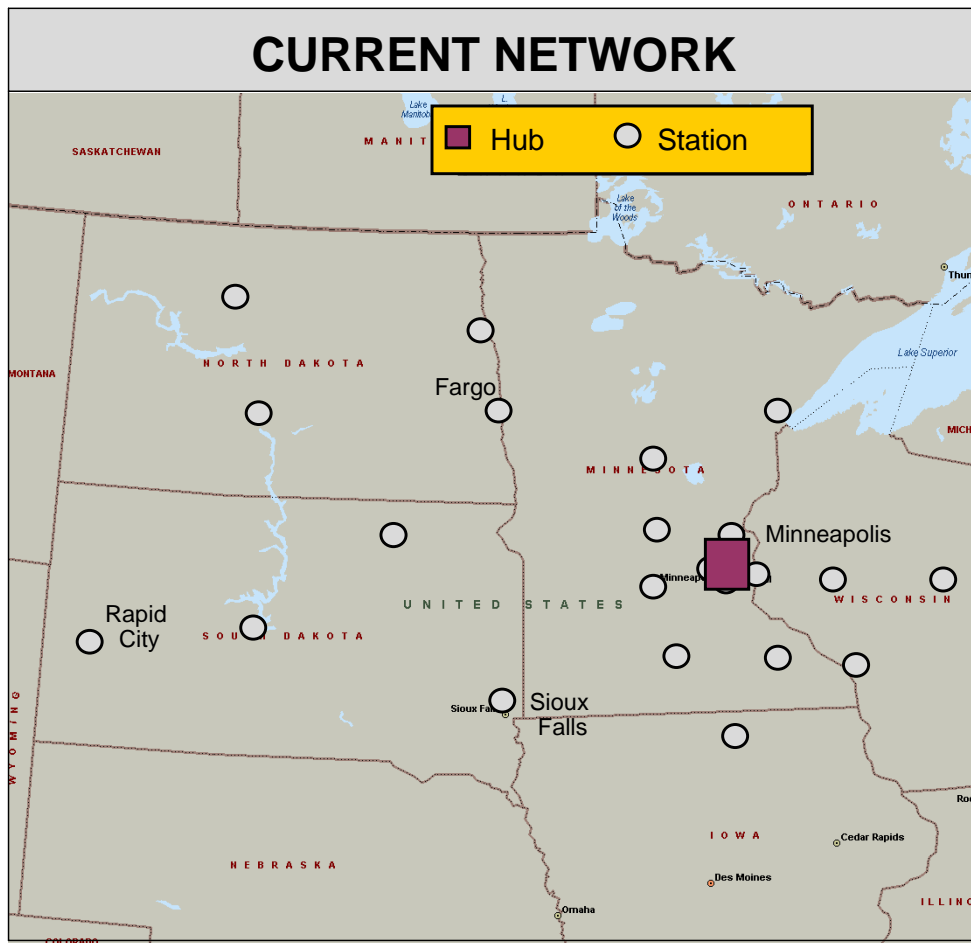


- DHL and UPS operate largely parallel networks
- Outsourcing to UPS to utilize capacity in UPS network
- 10 Year Contract
- Projected cost of \$1b per annum
- Airport-to-Airport uplift only
- DHL retains all infrastructure, Ground Network, PUD and Customs Clearance
- More modern and fuel efficient fleet 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

Infrastructure network changes

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

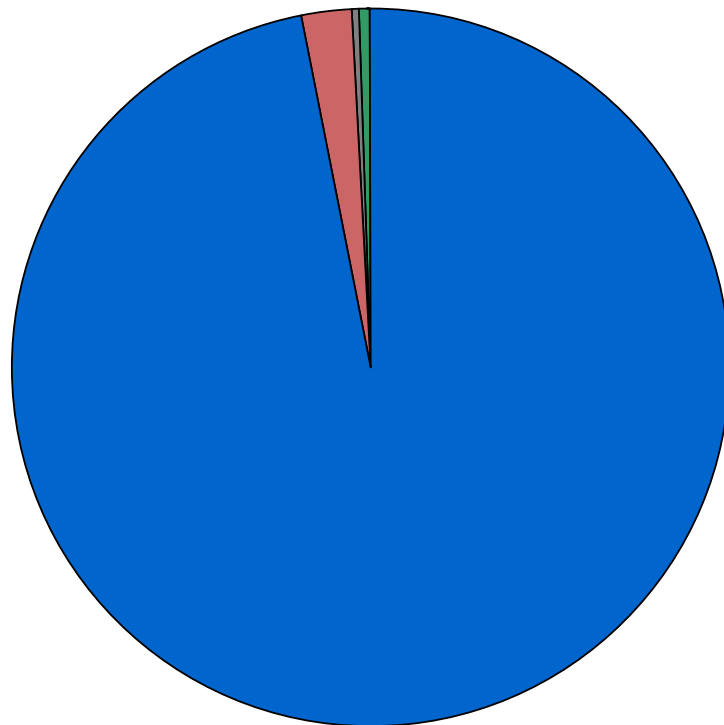
Minneapolis Hub Example



Customer impact

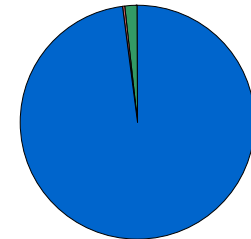
While consolidating stations and partnering leads to significant cost savings, customer impact is minimal – 3.3% of deliveries and 0.06% of pick-ups

OVERALL DELIVERY IMPACT

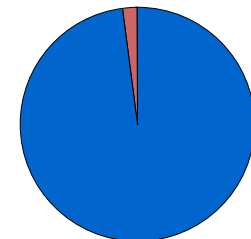


- Later same day
- +1 day
- USPS
- No change

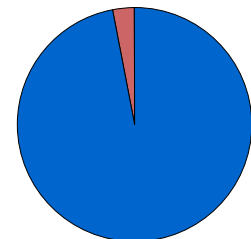
Impact on 10:30



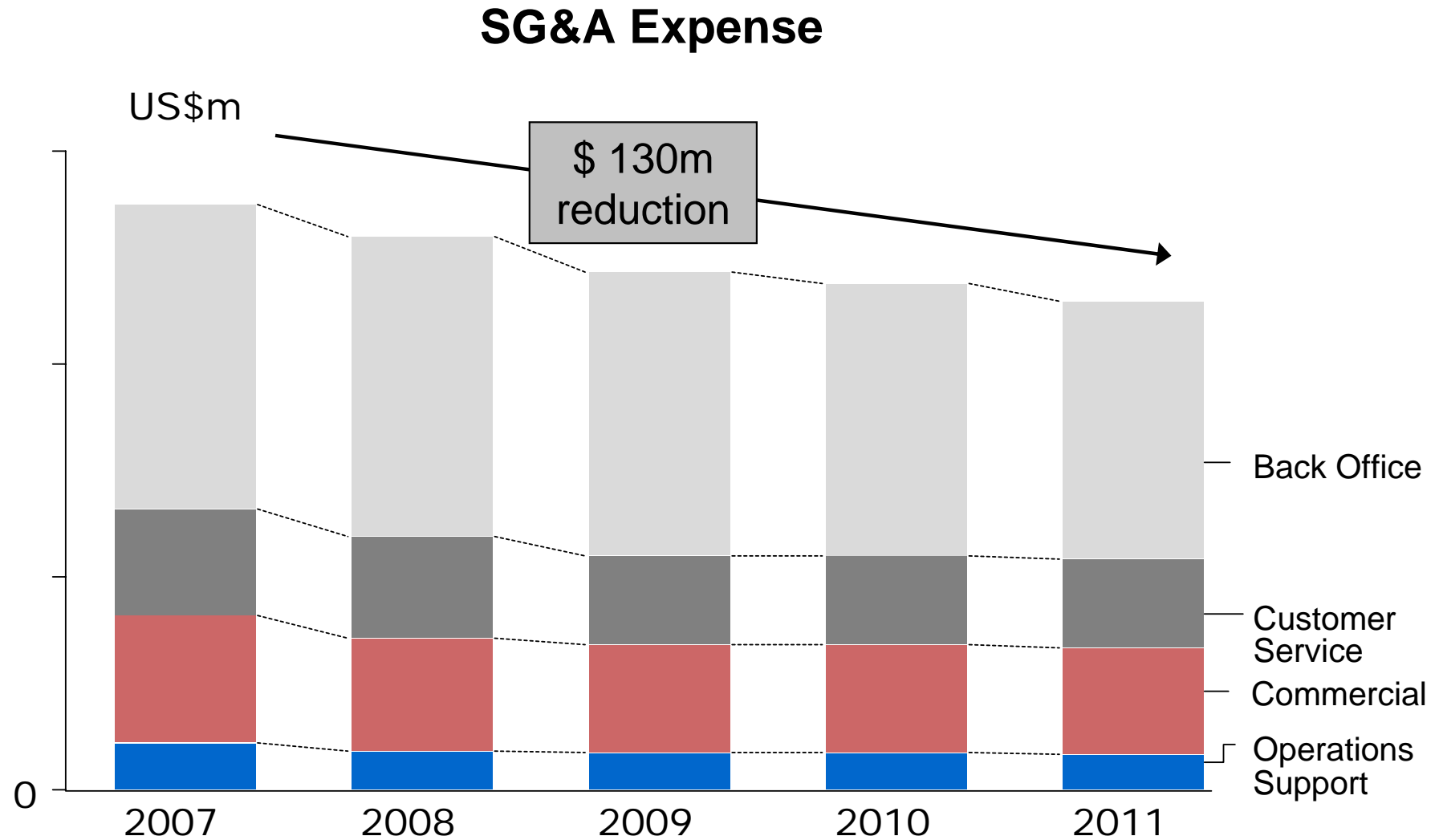
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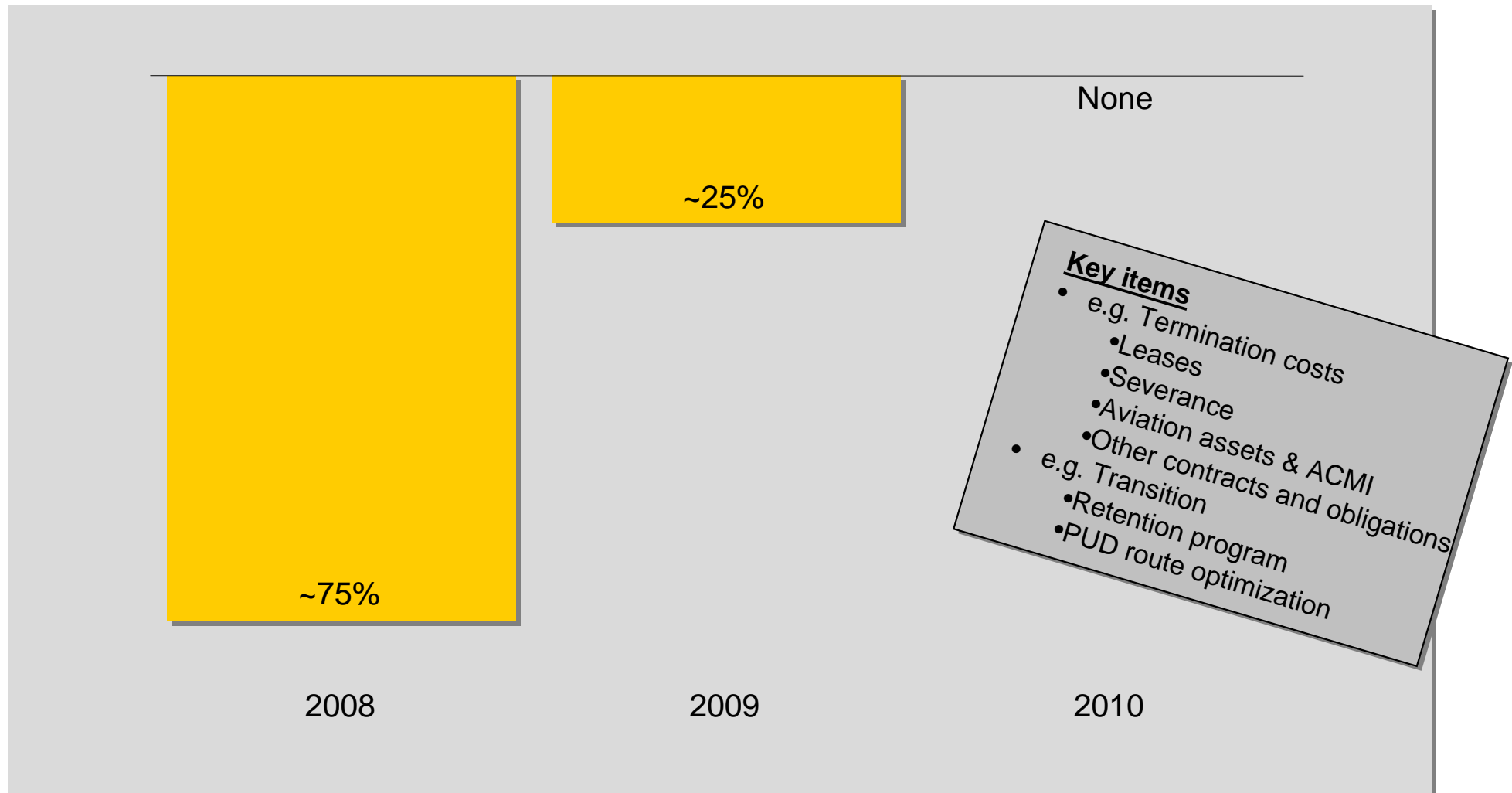
Impact on Ground



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

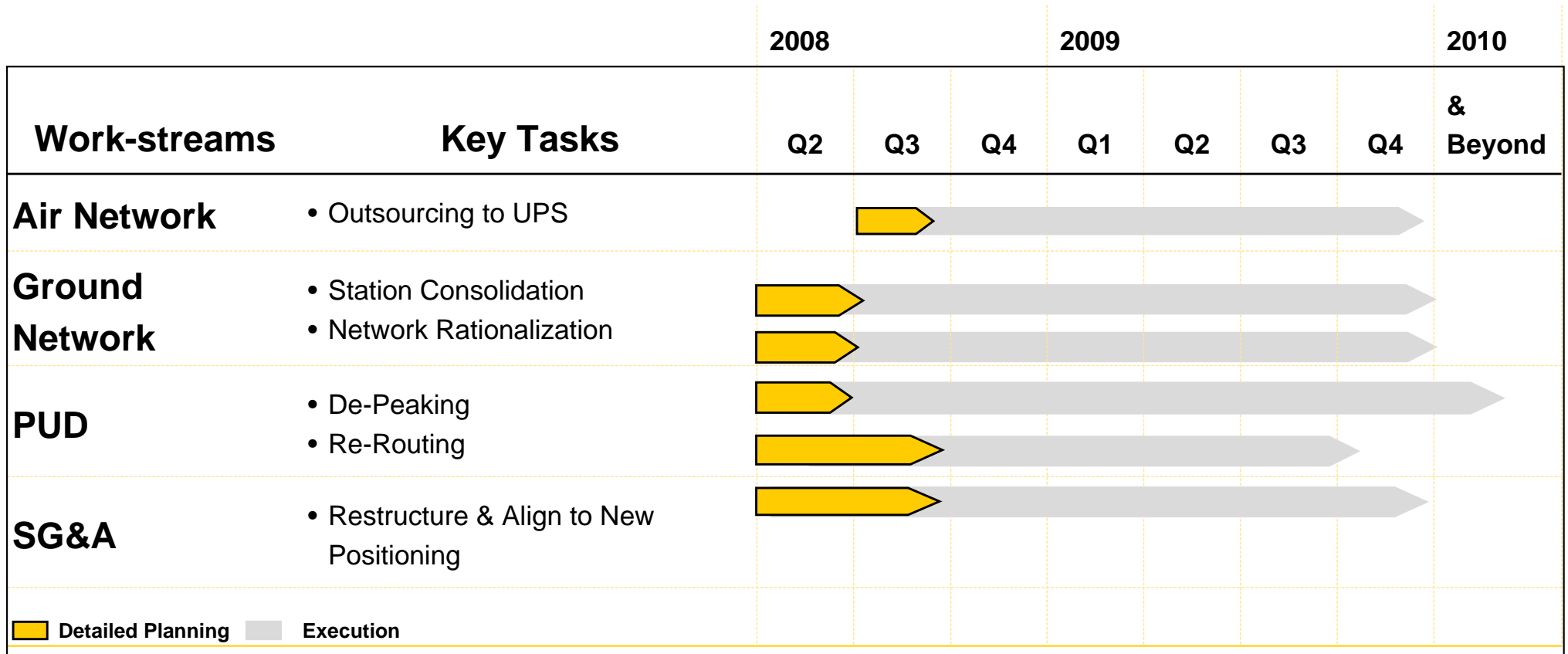


Implementation costs of up to \$ 2.0bn of which approx. 90% are cash costs



Restructuring timetable

Full implementation by 2010



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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%)

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