

“Our targets are challenging but realistic”

Deutsche Post DHL Group, the world’s largest mail and logistics company, posted overall good figures to start off the 2018 financial year. Organic revenue growth continues and operating profit improved slightly against the prior-year quarter. In an interview with DPDHL Group News, CFO Melanie Kreis looks at the current business performance and explains the Group's outlook for the remainder of 2018 and the coming years.

DPDHL Group News: Ms. Kreis, how would you assess the performance of Deutsche Post DHL Group in the first quarter of this year?

Melanie Kreis: The results for the first quarter show a mixed picture. Overall we rate our start to 2018 as good, although we still have a lot of work ahead of us over the rest of the year. Reported revenue did decrease slightly. However, that was solely due to negative currency effects and the sale of Williams Lea Tag last year. After adjusting for those effects, Deutsche Post DHL Group continued to see strong growth in the first quarter. Our positive momentum from the previous year carried over seamlessly, with organic revenue growth of 6.4 percent. Operating profit increased slightly due to a positive EBIT effect from the transition to the new IFRS 16 financial reporting standard. After adjusting for this effect, Group EBIT declined by 2.7 percent on the prior-year figure as we registered one-time charges in the Supply Chain division and higher expenses at Post - eCommerce - Parcel. The positive news is that the medium- to long-term growth drivers for our businesses remain intact. Looking at our ambitious targets for 2018, however, it is clear that we still have a lot of work to do. At this higher level it will become increasingly challenging to post strong growth rates. We will therefore focus our efforts to further improve our performance and profitability in all four divisions over the remainder of the year and maintain strong cost discipline.

DPDHL Group News: Let’s take a closer look at the divisions: How did Post - eCommerce - Parcel, or PeP, perform in the first quarter of 2018?

Melanie Kreis: At PeP a trend is continuing that we have seen for a number of quarters already: driven by booming e-commerce, the parcel business is growing so rapidly that it is more than offsetting the structural declines in the letter mail business. Revenues climbed by 6.3 percent in the first quarter at Parcel Germany and by an even more substantial 9.9 percent at Parcel Europe. We have successfully positioned ourselves as a market and innovation leader in the fast-growing e-commerce segment, and these efforts

are paying off. Good progress is, for example, being made with the international expansion of our parcel network. We now operate in 26 European countries, with others to follow by the end of the year, making our coverage of the continent almost seamless at that time. In the long term, we believe the “United Parcel Nations of Europe” have tremendous potential to scale our very successful parcel business in Germany up to European level. As announced before, however, significant earnings contributions are not expected before 2020.

DPDHL Group News: You mentioned the division’s earnings. Can you explain the EBIT performance at PeP in more detail?

Melanie Kreis: On the one hand, the earnings increase at PeP is in the short term being impeded by the division’s expansion activities, for example by innovative projects like the StreetScooter, which involve investments. Our first-quarter figures were held back by the ramp-up of production in this case. An even more important factor were significant cost increases in Germany – which are partly due to higher labor costs as a result of the collectively agreed wage increase and to higher transport and temporary staff costs. These factors caused PeP’s first-quarter operating profit to decline year on year. This year’s result includes 108 million Euro from pension revaluations. Our focus is now to significantly improve the division’s cost situation in the coming months.

DPDHL Group News: How would you rate the performance at DHL Express?

Melanie Kreis: Express is setting one record after another. In the first quarter of 2018, the division once again posted significant growth in all regions in its core business: time-definite international shipments, or TDI. Growth of the TDI business was especially strong in the Americas and the Middle East/Africa region. Daily volumes increased by about 10 percent worldwide. Combined with strict yield and cost management this led to an increase in operating profit by 16.4 percent. At the same time, we are strengthening the foundation for further profitable growth again this year by investing in our global network. A few weeks ago we brought on stream our new Express hub in Brussels, which has quadrupled the site’s sorting capacity. Next on the agenda is the expansion of our Central Asia Hub in Hong Kong. All of this shows that the success story of Express continues.

DPDHL Group News: How was the start of the year for Global Forwarding, Freight?

Melanie Kreis: Overall positive. The division continues its recovery. As in the second half of last year, we are increasingly succeeding in passing on higher market freight rates to

our customers. Indeed, revenue rose by 7.2 percent in the first quarter on a currency-adjusted basis, while operating profit improved from EUR 40 to EUR 70 million, an increase of 75 percent. This shows that we are on the right track with the measures we have introduced to make Global Forwarding, Freight more competitive. New digital offerings such as the online quotation tool for air and ocean freight are providing additional momentum. We still have a long way to go until this division has regained its former strength. But we are moving in the right direction, and we are progressing step by step. In addition, Freight – in other words our overland transport business – continues to develop positively.

DPDHL Group News: That leaves DHL Supply Chain. How do you sum up the performance of this division?

Melanie Kreis: Better than you might think when you first look at the figures. Revenue and operating profit were down year on year, but the numbers are hardly comparable. With regards to revenue, we intentionally divested non-core activities last year with the sale of Williams Lea Tag. Adjusted for currency and portfolio effects, Supply Chain posted growth in the first quarter of 2018. Organic revenue growth was 3.8 percent. In addition, the division continued to successfully generate additional new business. Here we continue to pursue our selective approach of concentrating on highly profitable contracts. Due to one-time factors, however, this isn't reflected in earnings. In addition to negative currency effects, we registered charges in the first quarter that stemmed from customer contracts. If these effects are disregarded, it becomes clear that the Supply Chain business is fundamentally intact. And we are convinced it will continue to develop positively in the coming years.

DPDHL Group News: In addition to PeP and the three DHL divisions, there will be another unit in the future: Corporate Incubations. What's the idea behind this endeavor?

Melanie Kreis: This new Board department, which will be headed up by my colleague Jürgen Gerdes, is intended to develop tomorrow's business ideas within Deutsche Post DHL Group. Specifically, our aim is to create new mobility solutions and to work on digital platforms and automation. Existing new business models and technological innovations in the Group will also be transferred to the new Board department. At the same time, Corporate Incubations will serve as a driver of innovative startup projects developed in-house or together with external partners. Our flagship project and by far the most

important activity in this field is the StreetScooter, which we will assign to this new department. We want to rapidly advance the technological development and global marketing of the StreetScooter family.

DPDHL Group News: The creation of the new Board department underscores the Group's long-term planning horizon. What does the future look like for Deutsche Post DHL Group as a whole, beyond Strategy 2020?

Melanie Kreis: First of all, today we are confirming the targets of our Strategy 2020 and our forecast for 2018. We are working hard to increase our EBIT to EUR 4.15 billion this year. The target for 2020 is more than EUR 5 billion – an ambitious but realistic goal. Of course, we are already giving thought to the period after 2020. The work for our Strategy 2025 has begun, and we will probably be able to present results next year.