Annual Report 2003

Crossing Boundaries

Deutsche Post World Net

MAIL EXPRESS LOGISTICS FINANCE

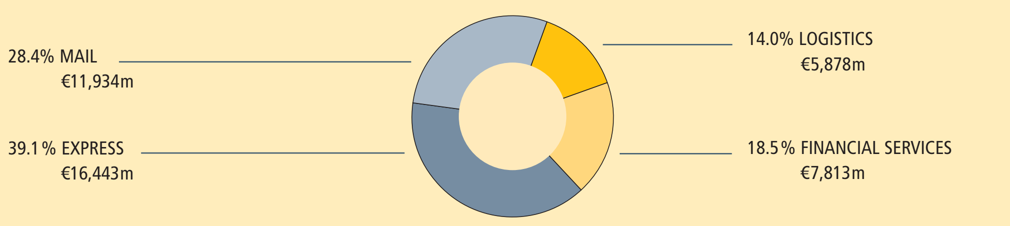
Financial highlights

		2002	2003	Change in %
Revenue	in €m	39,255	40,017	1.9
thereof international revenue	in €m	16,187	17,288	6.8
Profit from operating activities (EBITA)	in €m	2,969	2,975	0.2
Return on sales[1]	in %	7.6	7.4	
Consolidated net profit	in €m	659	1,309	98.6
Operating cash flow (Postbank at equity)	in €m	3,220	2,491	–22.6
Net debt (Postbank at equity)	in €m	1,494	2,044	36.8
Return on equity before taxes	in %	35.5	34.2	
Earnings per share	in €	0.59	1.18	100.0
Dividend per share	in €	0.40	0.44[2]	10.0
Number of employees at Dec. 31	headcount	371,912	383,173	3.0

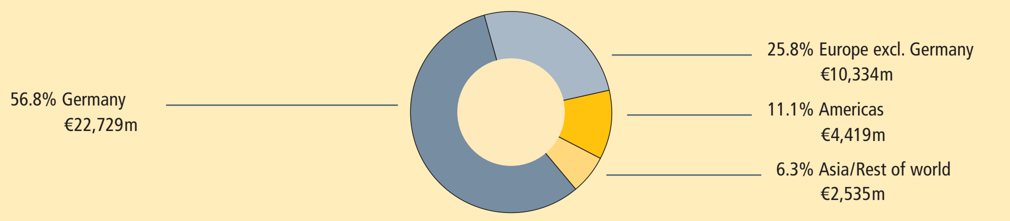
[1] EBITA/revenue

[2] The Board of Management intends to propose this at the Annual General Meeting

Revenue by Corporate Division



Revenue by region



Crossing boundaries. Deutsche Post World Net is one of the leading global logistics providers – and one of the most powerful by international standards. Under the Deutsche Post and DHL brands, we offer our customers mail, express, and logistics services using our global transport networks. Our portfolio is supplemented by the comprehensive financial services we offer under the Postbank brand.

We combine a global presence with far-reaching knowledge of local markets. The optimal cooperation between our Corporate Divisions allows us to meet all of our customers' logistics requirements flexibly and from a single source. In this way, we are able to leverage

More than just events – Milestones in 2003

January
At the turn of the year, the prices of our key mail products in Germany are reduced as Deutsche Post implements the price reductions ordered by the Regulierungsbehörde für Telekommunikation und Post (Regulatory Authority for Telecommunications and Posts).

Deutsche Post World Net acquires Italian parcel company Casa di Spedizioni Ascoli S.p.A. and integrates it within its European parcel network under the DHL umbrella brand.

February
The Canadian antitrust authorities approve DHL's acquisition of Loomis. This strengthens DHL's position on the Canadian market for ground-based express delivery.

Deutsche Post World Net strengthens its position on the key Chinese growth market by purchasing a 5% interest in the leading Chinese transport and logistics company Sinotrans Ltd. at the time of its IPO.

March
Deutsche Post introduces new price structures in Germany for all domestic and international parcel and express shipments.

Our overnight airmail network is further optimized as part of the STAR value creation program, reducing the number of flights that transport letters within Germany from 32 to 23 per night, with no delay or loss in quality for its customers.

April
DHL becomes the new brand for Deutsche Post World Net's global express and logistics business. The optical rebranding of all vehicles, packaging materials and buildings begins, and an international advertising campaign is launched in May to highlight the benefits of the new DHL. Deutsche Post World Net now offers its customers the complete range of express and logistics services from a single source.

May
A key step in the STAR value creation program is implemented as Deutsche Post World Net commissions its intranet-based procurement portal. This central platform allows procurement employees to access the information relevant to them and use the related applications from any location worldwide, and at any time.

DHL starts the construction of an express freight terminal at Hong Kong International Airport. This new hub will soon serve the entire Asian region.

June
The Annual General Meeting of Deutsche Post AG resolves the distribution of an increased dividend and again authorizes the Company to acquire own shares.

The European Commission approves Deutsche Post World Net's acquisition of a 100% interest in Securicor Omega Holdings Ltd., a joint venture that was established in the UK in 1999. The company can now be fully integrated into DHL's European network.

the considerable opportunities offered by globalization and the continuing trend towards outsourcing logistics services. As part of our Group-wide integration and value creation program, we are integrating our networks, harmonizing products, managing sales structures centrally, and improving all of our processes. This allows us to safeguard the quality of our products and services; it is a prerequisite for our employees' motivation and performance; and at the same time we can increase enterprise value for our shareholders. We support our customers' business with combined goods, information and financial flows. In other words, we offer more than just the transfer of goods – we cross boundaries.

July
Deutsche Post AG and the German trade union, ver.di, agree on a pioneering employment pact guaranteeing employees job security until 2008. In return, the Company expands its joint delivery system. In addition, 2 days which were previously holidays are abolished, and weekly working hours in deliveries can be increased to 48 hours on a voluntary basis.

August
DHL's acquisition of the American express service provider Airborne, Inc. is complete: the US antitrust authority and the shareholders of Airborne, Inc. both approve the acquisition, which sees Deutsche Post World Net becoming the third-largest express service provider in the USA and closing the final gap in its US network.

September
As part of its annual review, the Regulatory Authority approves the postal rates applicable from January 1, 2004. Accordingly, Deutsche Post will keep its key prices for letters and postcards at the same level in the coming year.

October
Postbank intends to handle payment transactions for Deutsche Bank and Dresdner Bank in future. The banks sign appropriate letters of intent for a partnership.

Deutsche Post issues a second euro bond with a volume of €1 billion; it meets with a very positive response on the global financial markets.

November
The STAR value creation program is developing exceedingly well. With the publication of Deutsche Post World Net's figures for the first nine months, the Board of Management increases the forecast for STAR's target earnings contribution by the end of 2003 from €350 million to at least €400 million.

December
KfW Bankengruppe (formerly: Kreditanstalt für Wiederaufbau) sells part of its interest in Deutsche Post and at the same time issues an exchangeable bond on Deutsche Post stock. The free float increases by 5.7% to 37.4%.

Contents

Dear shareholders,
friends of Deutsche Post World Net,

Does your global logistics service provider promise you “more”? More reliable and flexible, faster and stronger, with greater reach and passion for the services it offers?

Deutsche Post World Net promised all of the above in the past year – and kept its word. We will stick to this path, keeping our promises to our customers, shareholders and employees.

You may be wondering why I am so sure of this. There are three reasons.

First: in 2003, we again achieved the targets we set ourselves.

Deutsche Post World Net’s revenue and earnings not only met, but surpassed the expectations of the capital markets.

Our share price outperformed both the DAX and our competitors.

And we achieved this despite the weakness and uncertainty of the global economy, which is unfortunately still giving us little cause for optimism about the future. But there are also signs of recovery. The trend on the stock markets is brighter, and the US and Japanese economies are picking up again. Europe and Germany must now follow their lead. This includes having the courage to implement the reforms necessary to increase our international competitiveness again.

As a company, we have made our contribution towards this goal by concluding an agreement with our social partner ver.di: the first of its kind in Germany. This allowed me to promise the employees of Deutsche Post AG that compulsory redundancies will be ruled out until March 2008. By then, we will have kept this promise for 18 years. In return, employees have made concessions of their own, voluntarily agreeing to extend their weekly working hours to 48 in deliveries, and to work two holidays. At a time when working hours are the subject of acrimonious debate in Germany, ours is an example of two parties – a company and the unions – coming to an agreement quickly and with a clear focus. We are proud of this achievement.

Our STAR program is progressing exceedingly well. Our aim was to generate an earnings contribution from STAR of €350 million by the end of 2003, and we have far exceeded that figure.

Individual measures are already well established: we have introduced uniform procurement and IT management across the Group as a whole, optimized our mail network in Germany, combined all of our express and logistics activities under the DHL umbrella brand, and rebranded our global presence – to name just a few examples.

We are making excellent progress in integrating DHL, as I was able to see for myself. In discussions with our employees in Europe, Asia, and the USA, I never cease to be impressed by the commitment these teams are showing in taking on board and tackling the challenges they – and we – face.

Second: we have laid the foundations for further growth.

With the acquisition of Airborne, Inc., we became the third-largest express and logistics provider in the USA. This makes us the leading player across the three markets of Europe, Asia, and North America.

Despite the stubborn efforts of our major competitors in the USA, who have employed all the means at their disposal to stop us from entering the market, I can promise you this: we will make the most of our opportunities on the US market. After all, that is exactly what those same competitors are doing in Europe – unimpeded.

In China, we are further expanding our express network with DHL to reinforce our position as the leading provider on the Chinese market.

We have decided to examine the possibility of disposing of a minority interest in Postbank in 2004 and, if all the signs are positive, to do this when the time is right.

Thirdly: we are systematically working towards our goals for the future.

Deutsche Post World Net aims to become the leading global logistics provider by 2005. That is both my personal objective and our overriding common goal.

We will only have reached this goal when we are the number one, not only in terms of revenue but also in terms of service quality and customer satisfaction.

I am firmly convinced that we have the potential to achieve this.

The fact that I am able to report to you on a successful year for Deutsche Post World Net is testament to those who have shouldered the weight, but also driven our success. I would like to thank all of our employees sincerely for their efforts.

I am pleased to be able to present our shareholders with a proposal for a dividend of €490 million and a corresponding dividend per share of €0.44 for the past fiscal year.

This is also “more” than in previous years.

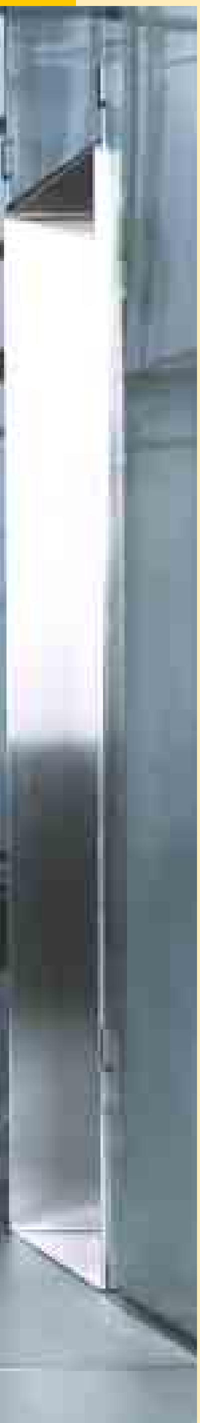
We will do everything in our power to ensure that you can continue to accompany us in shaping the future of global logistics – and the future of Deutsche Post World Net.

Sincerely,

Dr. Klaus Zumwinkel
Chairman of the Board of Management

Members of the Board of Management

Left to right: Walter Scheurle, Prof. Wulf von Schimmelmann, Dr. Edgar Ernst, Dr. Hans-Dieter Petram, Dr. Klaus Zumwinkel, Dr. Peter E. Kruse, Dr. Frank Appel, Uwe R. Dörken



Dr. Klaus Zumwinkel

Chair

After graduating from business school and earning a doctorate in business administration, Dr. Klaus Zumwinkel (born 1943) began his career as a management consultant at McKinsey in 1974. He remained with the company for ten years, during which time he became a senior partner and was appointed to the global management team. In 1985, he became Chairman of the Management Board of the Quelle group. Dr. Zumwinkel was appointed Chairman of the Board of Management of Deutsche Bundespost POSTDIENST in 1990 and of Deutsche Post AG in 1995.

Dr. Frank Appel

LOGISTICS, Corporate Services

Dr. Frank Appel (born 1961) is a chemist who earned his doctorate in neurobiology before beginning his career at the management consulting firm McKinsey in 1993, where he was elected a partner and a member of the German management team in 1999. In 2000, he joined Deutsche Post AG as Head of Corporate Development. Dr. Appel has been a member of Deutsche Post AG's Board of Management since 2002.

Uwe R. Dörken

EXPRESS Americas, Asia, EMA

A trained bank officer and business school graduate, Uwe R. Dörken (born 1959) left the management consulting firm McKinsey in 1991 to join the Group and was appointed a member of Deutsche Post AG's Board of Management in 1999.

Dr. Edgar Ernst

Finance

A mathematics graduate with a doctorate in business administration, Dr. Edgar Ernst (born 1952) worked as a management consultant at McKinsey and as Director of Corporate Development at Gustav Schickedanz KG, before joining Deutsche Bundespost POSTDIENST in 1990, where he was appointed to the Board of Management in 1992. He has been a member of Deutsche Post AG's Board of Management since 1995.

Dr. Peter E. Kruse

EXPRESS Europe

Dr. Peter E. Kruse (born 1950) is a logistics expert who earned his doctorate in engineering before becoming managing director of Bertelsmann Distribution and a member of Kühne & Nagel International AG's Management Board. He became a member of Deutsche Post AG's Board of Management in 2001.

Dr. Hans-Dieter Petram

MAIL

Dr. Hans-Dieter Petram (born 1943) earned a doctorate in business administration before embarking on his professional career at Deutsche Anlagen Leasing. He later moved to Deutsche Immobilien Leasing and then joined Gustav Schickedanz KG as head of the real estate division in 1986. Dr. Petram has been a member of the Board of Management of Deutsche Bundespost POSTDIENST since 1990 and of Deutsche Post AG since 1995.

Walter Scheurle

Personnel

A longstanding member of the Central Executive Committee of Deutsche Postgewerkschaft (German Postal Workers' Union), Walter Scheurle (born 1952) began his career in 1967 with a traineeship at Deutsche Bundespost. Starting in 1979, he worked full-time for Deutsche Postgewerkschaft. He has been a member of Deutsche Post AG's Board of Management since 2000.

Prof. Wulf von Schimmelmann

FINANCIAL SERVICES

With a doctorate in economics, Prof. Wulf von Schimmelmann (born 1947) worked at the management consulting firm McKinsey before joining Landesgirokasse Stuttgart's Board of Management in 1978. He then served as a member of the Board of Management of DG Bank, as an associate at BHF-Bank and as managing partner of investment company Regius. In 1999, he became Chairman of the Management Board of Deutsche Postbank AG and a member of the Board of Management of Deutsche Post AG.

Mandates Held by Members of the Board of Management
in supervisory boards and other supervisory bodies

Dr. Klaus Zumwinkel (Chair)

Membership of supervisory boards required by law

Deutsche Postbank AG[1] (Chair)

Allianz Versicherungs-AG (until Dec. 31, 2003)

Deutsche Lufthansa AG

Deutsche Telekom AG (from March 7, 2003, Chair from March 14, 2003)

KarstadtQuelle AG (from May 28, 2003)

Tchibo Holding AG (until Aug. 18, 2003)

Membership of comparable bodies*

Danzas Holding AG[1], Switzerland (Board of Directors/Chair until Dec. 16, 2003)

Deutsche Post Ventures GmbH[1] (Investment Committee until May 20, 2003)

DHL Worldwide Express B.V.[1], Netherlands (Board of Directors until Nov. 28, 2003)

C.V. International Post Corp. U.A., Netherlands (Board of IPC/Deputy Chair)

Dr. Frank Appel

Membership of comparable bodies*

Danzas Holding AG[1], Switzerland (Board of Directors from Dec. 16, 2003)

Deutsche Post Immobilienservice GmbH[1] (Supervisory Board from Jan. 1, 2003)

Deutsche Post Ventures GmbH[1] (Investment Committee)

DHL Worldwide Express B.V.[1], Netherlands (Board of Directors until Nov. 28, 2003)

Airborne Inc. (Board of Directors from Aug. 15 to Dec. 1, 2003)

Atlantis Licensing Corporation (Board of Directors from June 22 to Aug. 18, 2003)

Uwe R. Dörken

Membership of comparable bodies*

DHL Worldwide Express B.V.[1], Netherlands (Board of Directors/Chair until Nov. 28, 2003)

Aerologic GmbH (Supervisory Board)

Dr. Edgar Ernst

Membership of supervisory boards required by law

Deutsche Postbank AG[1]

Membership of comparable bodies*

Deutsche Post Ventures GmbH[1] (Investment Committee)

Dr. Peter E. Kruse

Membership of comparable bodies*

Danzas Holding AG[1], Switzerland (Board of Directors)

Deutsche Post Euro Express GmbH[1] (Advisory Board)

Deutsche Post Global Mail GmbH[1] (Advisory Board until Jan. 1, 2003)

DHL Worldwide Express B.V.[1], Netherlands (Board of Directors until Nov. 28, 2003)

Guipuzcoana (Narrondo Desarrollo S.L.)[1], Spain (Board of Directors)

Securicor Omega Holdings Ltd.[1], United Kingdom (Board of Directors)

Bremer Lagerhaus Gesellschaft Logistics Group (Advisory Board from Feb. 1, 2003)

Fraport AG (Advisory Board from Nov. 6, 2003)

Messe München (Advisory Board from Jan. 1, 2003)

Dr. Hans-Dieter Petram

Membership of supervisory boards required by law

Deutsche Postbank AG[1]

HDI Industrie Versicherung AG (from July 16, 2003)

HDI Privat Versicherung AG (from July 16, 2003)

HDI Service AG (from July 16, 2003)

TALANX AG (until June 27, 2003)

Membership of comparable bodies*

Deutsche Post Bauen GmbH[1] (Advisory Board/Chair)

Deutsche Post Global Mail GmbH[1] (Advisory Board/Chair from Jan. 1, 2003)

Deutsche Post Immobilien-entwicklung GmbH[1] (Advisory Board/Chair)

Gästehaus Petersburg GmbH (Supervisory Board/Chair)

Walter Scheurle

Membership of comparable bodies*

Bundesanstalt für Post und Telekommunikation (Administrative Board from Jan. 1, 2003)

Prof. Wulf von Schimmelmann

Membership of supervisory boards required by law

DSL Holding AG i.A.[1] (until Aug. 28, 2003)

PB Firmenkunden AG[1] (Chair from Oct. 1, 2003)

PB Lebensversicherung AG[1] (Chair)

PB Versicherung AG[1] (Chair)

Tchibo Holding AG (from Aug. 18, 2003)

Membership of comparable bodies*

Deutsche Postbank Financial Services GmbH[1] (Supervisory Board/Deputy Chair)

PB (USA) Capital Corp.[1] (Board of Directors/Chair)

PB (USA) Holdings Inc.[1] (Board of Directors/Chair)

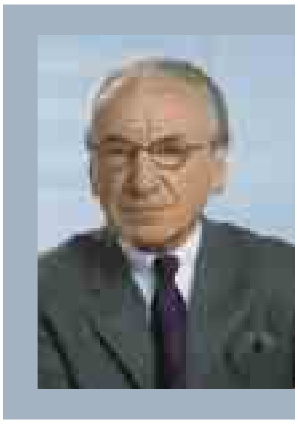
accenture Corp., Irving, Texas, USA (Board of Directors)

Bundesverband öffentlicher Banken Deutschlands, VÖB, e. V. (Board of Management)

* Membership of comparable supervisory bodies of German and foreign companies

1) Group mandate

Report by the Supervisory Board



Josef Hattig

Chairman of the Supervisory Board

Josef Hattig trained as a commercial clerk before studying law and political science. Following positions as Gerichtsassessor (junior court officer) and a management assistant, he joined Dortmund brewery Thier & Co., where he held a management position from 1965 to 1972. From 1972 to 1997, he was the Managing Director of Bremen-based brewery Beck & Co. From the fall of 1997 to July 2003, he was Senator for Economic Affairs and Ports. Josef Hattig was also President of the German Brewers Association and Chairman of the Bremen Chamber of Commerce.

In the year under review, the Supervisory Board performed the duties assigned to it by law and the Articles of Association. In addition to regularly advising and monitoring the Board of Management, the Supervisory Board was involved in important Company decisions. In fiscal year 2003, the Board of Management regularly informed the Supervisory Board in a timely and comprehensive manner of all issues concerning the Company's planning, business development, risks, risk management, strategic measures, as well as important business transactions and projects. In particular, all measures requiring the approval of the Supervisory Board were discussed at length, as was the Company's strategic focus. The Chairman of the Supervisory Board was continuously informed about important business transactions and forthcoming decisions, including between Supervisory Board meetings, and kept in constant contact with the Chairman of the Board of Management.

The Supervisory Board met twice each in the first and second halves of the year. All Supervisory Board members participated in the resolutions passed at these meetings.

The Supervisory Board and the Board of Management held detailed discussions prior to their decision to acquire Airborne, Inc. and the outstanding interest in Securicor Omega Holdings Ltd. In addition, the Supervisory Board was informed about the progress of the Group-wide STAR value creation program at every meeting. A further key area of discussion was the progress of the integration projects in the EXPRESS Corporate Division. In the second half of the year, the decision was taken to examine the possibility of securing a listing for Deutsche Postbank AG on the Frankfurt Stock Exchange.

The Executive Committee of the Supervisory Board met four times. The main topics of discussion at these meetings were issues concerning the Board of Management, preparations for the Supervisory Board meetings, and further developments to corporate governance.

In one of its meetings the Personnel Committee focused in particular on the development of the Group's human resources structures and on new tools for human resources and executive development.

The Finance and Audit Committee held four meetings and focused in particular on questions of accounting and risk management, auditor independence, issuing the audit engagement, specifying the focuses of the audit, and agreeing on the fees. The annual financial statements and consolidated financial statements for fiscal year 2003, the respective management reports, and the business plan for 2004 were discussed in detail. In addition, the Supervisory Board's resolutions on the acquisition and sale of equity investments and real estate transactions were discussed.

The Mediation Committee set up in accordance with section 27 (3) of the Mitbestimmungsgesetz (MitbestG – German Co-Determination Act) did not meet in the fiscal year under review.

The chairs of the respective committees reported regularly on their committees' work to the Supervisory Board.

The auditors issued an unqualified opinion on the annual financial statements and the consolidated financial statements, including the respective management reports, for fiscal year 2003. They also audited the Board of Management's report on affiliated companies (dependent company report), produced in accordance with section 312 of the Aktiengesetz (AktG – German Stock Corporation Act). The auditors, PwC Deutsche Revision AG, Düsseldorf, reported on the results of their audit and issued the following audit opinion:

"On completion of our audit in accordance with professional standards, we confirm that

1. the factual statements made in the report are correct,
2. the Company's compensation with respect to the transactions listed in the report was not inappropriately high."

The annual financial statements and consolidated financial statements, the respective management reports, the proposal for the appropriation of the unappropriated surplus, the Board of Management's report on affiliated companies, and the auditors' report were made available to and examined by all members of the Supervisory Board. The Supervisory Board discussed these documents in the presence of the auditors, who reported on the key results of their audit and answered questions on it. The Supervisory Board took note of and concurred with the results of the audit of the annual financial statements and the dependent company report. Based on the final results of its own examination, the Supervisory Board did not raise any objections to the annual and consolidated financial statements or the final declaration by the Board of Management in the dependent company report and thus approved the annual and consolidated financial statements. The Supervisory Board endorses the Board of Management's proposal for the appropriation of the unappropriated surplus.

The Supervisory Board unanimously agreed that in future it will implement all the recommendations of the German Corporate Governance Code in the version dated May 21, 2003.

The composition of the Supervisory Board changed as follows in fiscal year 2003:

Helmut Jurke was appointed to the Supervisory Board as an employee representative as of March 13, 2003. The employee representatives were elected or re-elected by the delegates' assembly on April 24, 2003. Their term of office commenced as of the end of the Annual General Meeting on June 5, 2003. Annette Harms and Silke Oualla-Weiß were elected for the first time. Ms. Pfisterer and Mr. Hillmann retired from the Supervisory Board as of June 5, 2003. Alfred N. Schindler, a shareholder representative, resigned from the Supervisory Board as of June 30, 2003. Dr. Jürgen Weber was appointed to the Supervisory Board by the court as of July 15, 2003.

The Supervisory Board would like to thank its former members, the Board of Management and all Group employees for their commitment and successful efforts and their first-rate work in fiscal year 2003.

Bonn, March 4, 2004

Josef Hattig
Chairman

The Supervisory Board

Members of the Supervisory Board

Shareholders’ representatives

Josef Hattig
(Chair)

Willem G. van Agtmael
Managing Partner,
E. Breuninger GmbH & Co.

Hero Brahms
Member of the Board of Management,
Linde AG

Dr. Jürgen Großmann
Managing Partner,
Georgsmarienhütte Holding GmbH

Prof. Ralf Krüger
Management consultant,
professor at the University of
Applied Sciences, Wiesbaden

Dr. Manfred Lennings
Management consultant

Dr. Manfred Overhaus
State Secretary,
Federal Ministry of Finance

Alfred N. Schindler (until June 30, 2003)
Chairman of the
Board of Directors and CEO,
Schindler Holding AG

Jürgen Sengera

Ulrike Staake
Managing Director,
Deutsche Bank AG in Hamburg

Dr. Jürgen Weber (from July 15, 2003)
Chairman of the Supervisory Board,
Deutsche Lufthansa AG

Employee representatives

Rolf Büttner
(Deputy Chair)
Member of the Federal Executive Board
of ver.di

Frank von Alten-Bockum
Managing Director, Deutsche Post AG

Marion Deutsch
Deputy Chair of Works Council,
Deutsche Post AG, Mail Branch,
Saarbrücken

Annette Harms (from June 5, 2003)
Deputy Chair of Works Council,
Deutsche Postbank AG, Hamburg

Henry Hillmann (until June 5, 2003)
Member of Deutsche Post AG’s
General Works Council

Helmut Jurke (from March 13, 2003)
ver.di Federal Executive Secretary
for Postal Services

Dirk Marx
Deputy Chair of Deutsche Post AG’s
General Works Council

Silke Oualla-Weiß (from June 5, 2003)
Chair of Works Council,
DHL Worldwide Express GmbH, Dortmund

Petra Pfisterer (until June 5, 2003)
Deputy Chair of Works Council,
Deutsche Post AG, Mail Branch, Halle

Franz Schierer
Deputy ver.di Federal State District Head,
Federal State District of Baden-Württemberg

Stefanie Weckesser
Chair of Works Council, Deutsche Post AG,
Express Branch, Augsburg

Margrit Wendt
Chair of Deutsche Post AG’s
General Works Council

Mandates Held by Members of the Supervisory Board
in other supervisory boards and supervisory bodies

Shareholders' representatives

Josef Hattig (Chair)

Membership of supervisory boards required by law*

BauKing AG, Hanover (Deputy Chair)

Bremen Marketing GmbH [2] (Chair)

Bremer Design [2] (Chair)

Bremer Gesellschaft für Investitionsförderung und Stadtentwicklung mbH [2]

Bremer Investitionsgesellschaft [2] (Chair)

Bremer Lagerhaus Gesellschaft Logistics Group (Chair)

Bremer Landesbank (until July 4, 2003)

Flughafen Bremen [2] (Chair)

Hanseatische Veranstaltungsgesellschaft [2] (Chair)

Membership of comparable bodies**

Hapag-Lloyd AG (Advisory Board)

Willem G. van Agtmael

Membership of comparable bodies*

Energie Baden-Württemberg AG (Advisory Board)

Landesbank Baden-Württemberg (Advisory Board)

Hero Brahms

Membership of supervisory boards required by law*

Georgsmarienhütte Holding GmbH

KarstadtQuelle AG (from May 28, 2003)

Membership of comparable bodies**

M. M. Warburg & Co. KGaA (Shareholders' Committee)

Dr. Jürgen Großmann

Membership of supervisory boards required by law*

a.i.s AG (until Feb. 12, 2003)

ASL Aircraft Services Lemwerder GmbH (until June 30, 2003)

Klöckner & Co. AG (until March 6, 2003)

SURTECO AG

Wilhelm Karmann GmbH

Membership of comparable bodies**

Ardex GmbH (Advisory Board)

BATIG Gesellschaft für Beteiligungen mbH (Supervisory Board from April 28, 2003)

British American Tobacco (Germany) Beteiligungen GmbH (Supervisory Board from April 28, 2003)

British American Tobacco (Industrie) GmbH (Supervisory Board from April 28, 2003)

Dresdner Bank AG (Advisory Board)

Gesellschaft für Stromwirtschaft mbH (Advisory Board)

Hanover Acceptances Limited, London (Board from Dec. 2, 2003)

RAG Trading International (Advisory Board)

RWE Wirtschaftsbeirat (Advisory Board)

Prof. Ralf Krüger

Membership of supervisory boards required by law*

Deutsche Postbank AG

Dr. Manfred Lennings

Membership of supervisory boards required by law*

Bauunternehmung E. Heitkamp GmbH (from Nov. 6, 2003)

Deilmann-Haniel GmbH (from Nov. 6, 2003)

ENRO AG (from Feb. 27, 2003)

Gildemeister AG (Chair)

Heitkamp-Deilmann-Haniel GmbH (Chair)

IVG Immobilien AG (renamed, formerly IVG Holding AG)

Dr. Manfred Overhaus

Membership of supervisory boards required by law*

Deutsche Bahn AG (until Jan. 11, 2003)

Deutsche Telekom AG

Membership of comparable bodies**

GEBB mbH (Supervisory Board)

Alfred N. Schindler (until June 30, 2003)

Membership of comparable bodies**

ADIN AG, Hergiswil (Board of Directors/Chair)

Schindler Aufzüge AG, Ebikon [1] (Board of Directors)

Schindler Elevator Corporation, North America [1] (Board of Directors)

Jürgen Sengera

Membership of supervisory boards required by law*

AXA Konzern AG

Ford Deutschland Holding GmbH

Ford-Werke AG

HSH Nordbank AG (from June 2 to Aug. 6, 2003

TUI AG (from June 18 to Aug. 21, 2003)

WestLB Systems GmbH [1] (Chair until Feb. 5, 2003)

Membership of comparable bodies**

DekaBank Deutsche Girozentrale (Administrative Board/1st Deputy Chair until July 2, 2003)

Deutsche Anlagen-Leasing GmbH (Supervisory Board/Chair until Sep. 30, 2003)

Landesbank Rheinland-Pfalz Girozentrale (Administrative Board/Deputy Chair until July 31, 2003)

Landesbank Schleswig-Holstein Girozentrale (Administrative Board/2nd Deputy Chair until June 2, 2003)

Liquiditäts- und Konsortialbank GmbH (Administrative Board/Deputy Member until Oct. 12, 2003)

Rockwool Beteiligungs GmbH (Supervisory Board)

Rockwool International A/S (Board of Directors)

Westdeutsche ImmobilienBank (Administrative Board/Chair until July 31, 2003)

Dr. Jürgen Weber (from July 15, 2003)

Membership of supervisory boards required by law*

Allianz Lebensversicherungs-AG

Bayer AG (from April 25, 2003)

Deutsche Bank AG (from June 10, 2003)

Deutsche Lufthansa AG (Chair from June 18, 2003)

Thomas Cook AG (Chair)

Voith AG (from June 2, 2003)

Membership of comparable bodies**

Loyalty Partner GmbH (Supervisory Board/Chair)

Tetra Lavel Group, Switzerland (Board from July 1, 2003)

* Membership of other supervisory boards required by law

** Membership of comparable supervisory bodies of German and foreign companies

1) Group mandate

2) Mandate held on behalf of the Free Hanseatic City of Bremen (until July 4, 2003)

Mandates Held by Members of the Supervisory Board
in other supervisory boards and supervisory bodies

Employee representatives

Rolf Büttner (Deputy Chair)

Membership of supervisory boards required by law*

ADLER Versicherungs-AG (from March 27, 2003)

Polizeiversicherungs-AG (until June 24, 2003)

Vereinigte Postversicherung VVaG

Annette Harms (from June 5, 2003)

Membership of supervisory boards required by law*

Deutsche Postbank AG [1)]

Henry Hillmann (until June 5, 2003)

Membership of comparable bodies**

Iduna/Nova (Policyholders' Advisory Board)

Dirk Marx

Membership of comparable bodies**

Postbank Pensionsfond AG [1)] (Advisory Board)

Franz Schierer

Membership of supervisory boards required by law*

PSD-Bank RheinNeckarSaar eG

Margrit Wendt

Membership of comparable bodies**

Bundesanstalt für Post und Telekommunikation (Administrative Board)

* Membership of other supervisory boards required by law

** Membership of comparable supervisory bodies of German and foreign companies

1) Group mandate

Committees

The Supervisory Board established four committees from among its members:

Executive Committee

Shareholders' representatives

Josef Hattig (Chair)
Hero Brahms
Dr. Manfred Overhaus

Employee representatives

Rolf Büttner (Deputy Chair)
Helmut Jurke
Margrit Wendt

Personnel Committee

Shareholders' representatives

Josef Hattig (Deputy Chair)
Hero Brahms

Employee representatives

Rolf Büttner (Chair)
Margrit Wendt

Finance and Audit Committee

Shareholders' representatives

Dr. Manfred Lennings (Chair)
Prof. Ralf Krüger
Dr. Manfred Overhaus

Employee representatives

Helmut Jurke (Deputy Chair)
Dirk Marx
Margrit Wendt

Mediation Committee

in accordance with section 27 (3) MitbestG

Shareholders' representatives

Josef Hattig (Chair)
Hero Brahms

Employee representatives

Rolf Büttner (Deputy Chair)
Margrit Wendt

Corporate Governance

Report by the Board of Management and the Supervisory Board

Deutsche Post AG's goal for corporate governance is to generate a sustained increase in the Company's value while promoting the trust of investors, customers, employees, and the public in its management and supervision. We understand the need to optimally balance the division of tasks and responsibilities between the Supervisory Board and the Board of Management as a material element of responsible corporate management.

German Corporate Governance Code sets the framework

The statutory framework for corporate governance is primarily set by the German law on stock corporations, which has been supplemented since February 2002 by the German Corporate Governance Code. The government commission set up for this purpose formulated uniform guidelines for German companies, which make the existing rules of good corporate governance transparent for foreign investors as well. The German Corporate Governance Code is revised at regular intervals by the government commission and is also adjusted to meet international developments.
It was most recently amended in May 2003. The annual Declaration of Conformity issued by Deutsche Post AG as required under section 161 of the Aktiengesetz (AktG – German Stock Corporation Act) is always based on the most recent version as amended.

Dual management and supervisory structure

In accordance with German stock corporation law, Deutsche Post AG has a dual management and supervisory structure embodied in the Board of Management and Supervisory Board as executive bodies. The Board of Management consists of eight members, who jointly manage the Company. Their names, curricula vitae, areas of responsibility and mandates in supervisory bodies of other companies are presented in this Annual Report on Page 5 and 6.

The Supervisory Board oversees the management activities of the Board of Management. The Supervisory Board consists of 20 members, who, pursuant to the Mitbestimmungsgesetz (MitbestG – German Co-Determination Act), are divided equally between shareholders' representatives and employee representatives. The shareholders' representatives are elected by the Annual General Meeting or, alternatively, appointed until the next election; the employee representatives are appointed in accordance with the Mitbestimmungsgesetz. Seven employee representatives are employees of the Group, another three are union representatives. The names, professions and mandates in supervisory bodies of other companies are also presented in this Annual Report.

The Board of Management and the Supervisory Board cooperate closely for the benefit of the Company. The cooperation between these two executive bodies is defined in particular by the Company's Articles of Association as resolved by the Annual General Meeting, the by-laws of the Supervisory Board and the Board of Management, as well as by the resolutions of the executive bodies within the framework of the relevant statutory provisions. These measures determine the areas and in what scope the Board of Management reports to the Supervisory Board and which transactions of the Board of Management require the approval of the Supervisory Board so that it can exercise its supervisory function. The Report by the Supervisory Board presents details of its work in fiscal year 2003. Conflicts of interest of members of the Board of Management and the Supervisory Board, which must be disclosed to the Supervisory Board without delay, did not arise during the period under review.

Four committees ensure an efficient Supervisory Board

In order to organize its work efficiently the Supervisory Board formed committees with sufficient expertise, whose composition is presented on page 12.

The Executive Committee deals with Board of Management matters, such as the appointment of board members, the conditions of board member contracts, and the approval of the members' outside activities, for example, fulfilling duties as members of a supervisory board.

The Personnel Committee handles human resources principles and structures, human resources development, and personnel planning.

The Finance and Audit Committee concerns itself, for one, with the capital expenditure and financing measures to be approved by the Supervisory Board. On the other hand, it supports the Supervisory Board in the areas of accounting and auditing.

The activities of the Mediation Committee are regulated by section 27 (3) of the Mitbestimmungsgesetz. The chairs of the respective committees report regularly on their committees' work to the Supervisory Board.

Individualized reporting of compensation for the Board of Management and the Supervisory Board

We follow the recommendations of the German Corporate Governance Code and explain the compensation system of the Board of Management in the Notes (item 49 in the Notes). We also report the individual amount of compensation of the members of the Supervisory Board and the Board of Management, divided into its components. Furthermore, the arrangement of the stock option plan, in which the members of the Board of Management participate, is also explained.

Transparent information for our shareholders

http://investorrelations.dpwn.com

Deutsche Post AG publishes a financial calendar on its website, in which all of the scheduled dates of recurring publications are listed, including the submission of the Annual Report and interim reports. The following additional information is also available on the Internet: all ad-hoc reports by the Company, all reports and documents required by law for the Annual General Meeting including the Annual Report, the essentials of the compensation system for the Board of Management, as well as the arrangement of the stock option plans with disclosure of the value of the stock options.

Deutsche Post AG publishes all reports required under the Wertpapierhandelsgesetz (German Securities Trading Act) regarding the acquisition and disposal of shares in the Company by members of the Board of Management and the Supervisory Board on its website immediately after they are received. As of December 31, 2003, there were no securities holdings that must be reported in accordance with section 6.6 of the German Corporate Governance Code.

http://investorrelations.dpwn.com

Risk management, accounting, auditing

Deutsche Post AG has institutionalized an opportunities and risk management system enabling it to recognize significant opportunities and risks early on. It is continuously refined and adjusted to meet changed framework conditions. A detailed presentation may be found in the Group Management Report on page 82.

Accounting for the Group takes place in accordance with the IFRS (International Financial Reporting Standards) under the responsibility of the Board of Management. The Supervisory Board commissioned PwC Deutsche Revision to audit the annual financial statements for fiscal year 2003, after it had assured itself that the existing relationships between the auditor and Deutsche Post and its executive bodies give no cause to call the auditor's independence into question. It was agreed with the auditor that any grounds for disqualification or lack of impartiality that arise during the audit will be removed and/or reported without delay.

Declaration of Conformity under section 161 of the Aktiengesetz (German Stock Corporation Act)

On December 19, 2003, Deutsche Post AG issued its second Declaration of Conformity based on the German Corporate Governance Code. It states:

"After the resolution by the Annual General Meeting on June 5, 2003 on the modification of the compensation of the Supervisory Board established the necessary preconditions, the Board of Management and the Supervisory Board of Deutsche Post AG complied in full in fiscal year 2003 with the recommendations of the German Corporate Governance Code in the versions dated February 26, 2002/November 7, 2002, respectively, and will continue to do so up to the end of the fiscal year.

Starting on January 1, 2004, the Board of Management and the Supervisory Board of Deutsche Post AG will comply with all recommendations of the German Corporate Governance Code in the version dated May 21, 2003."

All public information about Deutsche Post is also published on its website. The Declaration of Conformity under section 161 of the Aktiengesetz is continually available on the website, as is a reference to the wording of the German Corporate Governance Code.

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Deutsche Post Stock and Bonds

Our shares – an investment with a future.

In the light of positive news about the Company, our stock outperformed the German stock index (DAX) in 2003. We intend to let our shareholders share in our operational strengths – not just today, but in the long term. For this reason, we will continue our prudent, conservative financial strategy in future so that we can maintain Deutsche Post World Net's above-average credit rating.

Our stock data

		2002	2003	Change in %
Year-end closing price	in €	10.00	16.35	63.5
High	in €	17.48	17.64	0.9
Low	in €	7.62	8.57	12.5
Price/earnings		17.0	13.9	
Price/cash flow [1]		3.8	6.1	
Number of shares	shares	1,112,800,000	1,112,800,000	
Market capitalization	in €m	11,128	18,194	63.5
Average trading volume [2]	shares	1,431,046	1,901,051	33.0
Beta factor [5]		0.52	0.53	1.9
Earnings per share	in €	0.59	1.18	100.0
Earnings per share (adjusted)	in €	1.41 [3]	1.18	–16.3
Cash flow per share [1]	in €	2.67	2.70	1.1
Equity	in €m	5,095	6,106	19.8
Return on equity before taxes	in %	35.5	34.2	
Dividend	in €m	445	490 [4]	10.1
Dividend per share	in €	0.40	0.44 [4]	10.0
Dividend yield [6]	in %	4.0	2.7	

1) Cash flow from operating activities
2) Per day
3) Adjusted for repayment of €907 million state aid
4) The Board of Management intends to propose this dividend to the Annual General Meeting
5) Source: Thomson Financials
6) Based on year-end closing price

Strong performance of our shares

After two difficult years, the capital markets recovered very gradually in 2003. The global economic situation continued to be mixed. The economic operating environment relevant to us is explained on page 54 of the Group Management Report.

In view of this scenario, we consider the development of Deutsche Post stock to be highly encouraging. Our share price rose by 63.5% to €16.35 between the last day of trading in 2002 and the last trading day of the year under review. Our shares thus clearly outperformed the DAX, which nevertheless rose by 37.1% in the same period. Our shares recorded the fifth-best performance of all DAX shares. As shown below, we were also able to grow in comparison with our key competitors, TPG, UPS and FedEx.

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Three factors had a positive effect on our share price from the spring:

1. the increase in the Company's earnings power through the success of our STAR value creation program, which we reported on regularly over the year

2. the successful acquisition of Airborne, Inc. in August

3. the announcement at the end of September of the planned disposal of a minority interest in Postbank.

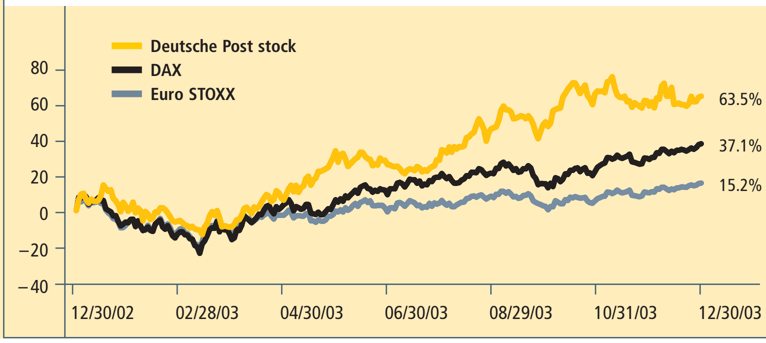
Earnings-oriented dividend distribution retained

The Board of Management intends to propose the payment of a dividend per share of €0.44 and a dividend of €490 million at the Annual General Meeting on May 6, 2004. This corresponds to an increase of 10.0% compared with the prior-year period. We are therefore sticking to a strategy of earnings-oriented dividends, as the dividend trend since the IPO shows (see also the diagrams on page 18 below).

Admission to the Prime Standard

Since March 2001, our shares have been listed on the DAX, the blue chip index representing Germany's 30 largest companies. Based on the two most important criteria for admission, our shares were ranked 16th for market capitalization and 24th for exchange volume as of December 31, 2003.

Comparative performance (indexed) [1]



		2002	2003	Change in %
Deutsche Post	in €	10.00	16.35	63.5
TPG	in €	15.31	18.57	21.3
FedEx	in US$	54.17	67.50	24.6
UPS	in US$	63.38	74.55	17.6

[1] Closing prices on the last trading day of the respective index

Deutsche Börse restructured its indices in the year under review. In the course of this restructuring, we decided to list in the new Prime Standard, with effect from early 2003. We had already satisfied in full the necessary requirements for additional transparency. The table below presents key data regarding our listing.

In addition, various domestic and foreign banks regularly issue derivative financial instruments such as warrants, equity discount certificates and equity-linked bonds on our shares.

Our stock – key data

ISIN [1] (International Securities Identification Number)	DE 000 555 2004
German securities code number (WKN)	555 200
Exchange symbol	DPW
Reuters ticker symbol	DPWGn
Bloomberg ticker symbol	DPW
Stock exchanges	Frankfurt, Stuttgart, Munich, Hanover, Düsseldorf, Berlin/Bremen, Hamburg and Xetra
Prime sector	Transportation & Logistics
Industry group	Logistics
Membership of Deutsche Börse's indices	PRIME ALL, CDAX, HDAX, DAX

[1] As of April 22, 2003 ISIN replaces WKN

Changes in shareholder structure

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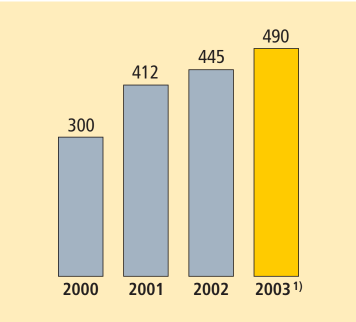
Deutsche Post AG's share capital remains at €1,112,800,000, composed of 1,112,800,000 no-par value registered shares. In November 2003, the Federal Republic of Germany sold around 30% of Deutsche Post's share capital to the KfW Bankengruppe (formerly: Kreditanstalt für Wiederaufbau). As with earlier holding arrangements, KfW purchased the shares with a significant discount to the current market price. At the same time, the Federal Republic received a debtor warrant, which secures the additional proceeds for it in the event that the shares are resold on the market. KfW sold part of its interest in Deutsche Post in December, and at the same time issued an exchangeable bond on Deutsche Post stock. The free float rose by 5.7% to 37.4%.

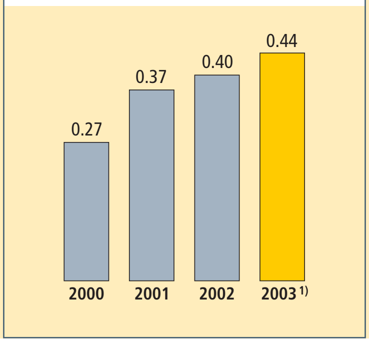
Dividend trend

in €m



Dividend per share

in €



[1] The Board of Management intends to propose this dividend to the Annual General Meeting

26.3% of the shares in free float are held by natural persons or private individuals; 73.7% are held by legal entities or institutional investors (see diagram below) based primarily in the UK, Germany, and the US.

Annual General Meeting authorizes share buy-back

In the year under review, the agenda for the Annual General Meeting included a share buy-back and the stock option program. Details on the stock option program can be found in item 49 of the notes to the consolidated financial statements and in the Group Management Report on page 80. The Company was again authorized to buy back its own shares for specific purposes, renewing a global authorization that had been resolved at the 2002 Annual General Meeting. To date, we have not exercised this option to buy back our own shares.

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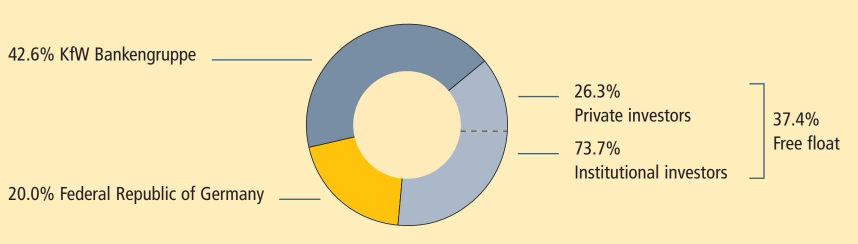
Ratings altered

In early February in the year under review, Standard & Poor's (S&P) introduced a new method of measuring pension provisions that now classifies them in full as financial liabilities. This led to a downgrade of our credit rating for long-term debt in Q2. In contrast to S&P, we believe that pension provisions in Germany represent capital that the Company has at its long-term disposal. All of the Company's pension provisions are covered by operating assets. Therefore, there is no underfunding, as can happen at Anglo-American companies, when pension provisions are taken off the balance sheet and transferred to an external pension fund.

The announcement of a merger agreement between our subsidiary DHL and Airborne, Inc. on March 25, 2003, led to some rating agencies placing our long- and short-term rating under observation. The downgrades in the year under review do not directly affect the Group's financing costs. This is because most of our financial liabilities are hedged by fixed rates of interest. In addition, the rating agencies have reiterated our above-average risk profile. It is our stated goal to continue to maintain this good credit rating. For this reason, we will continue to pursue our sound and conservative financial policy.

Deutsche Post's shareholder structure as of December 31, 2003



Ratings			
	Moody's Investors Service	Standard & Poor's	Fitch Ratings
Long-term	A1	A	A+
Outlook	Negative	Negative	Stable
Short-term	P-1	A-1	F1
Last change	September 29, 2003	May 12, 2003	August 1, 2003

More detailed explanations about the ratings system can be found on our website at: http://investorrelations.dpwn.com.

Second euro bond issue a success

The issue of our second bond at the end of October was a huge success in 2003. As was the case with our first issue in 2002, this euro bond also met with a highly positive reception on the international financial markets. There was significant demand, not just in Germany, but also from the rest of Europe. The bond was more than twice oversubscribed within 24 hours.

The funds raised will be used for the long-term refinancing of liabilities. The bond issue will not cause any increase in our net debt.

The bond terms reflect Deutsche Post World Net's above-average credit rating from the perspective of the capital markets. The following overview shows the features of both tranches of our first issue and key data relating to the latest bond:

Bonds			
	Euro bond	Euro bond	Euro bond
Currency	€	€	€
Nominal amount	€750 million	€750 million	€1,000 million
Nominal coupon	4.250%	5.125%	4.875%
Maturity	October 4, 2007	October 4, 2012	January 30, 2014
Start of trading [1]	October 10, 2002	October 10, 2002	November 3, 2003
ISIN [2] (International Securities Identification Number)	DE 000 927 9034	DE 000 927 9042	DE 000 801 6502
German securities code number (WKN)	927 903	927 904	801 650

1) Official Market, Frankfurt Stock Exchange
2) As of April 22, 2003 ISIN replaces WKN

Investor Relations intensified

We further stepped up our communication with investors in the year under review. For the first time, we invited them to our Capital Markets Days. At a total of three events, we informed them about the STAR value creation program, the MAIL Corporate Division, Postbank, and DHL. The positive response from participants has reaffirmed our intention to use this method in a targeted form in future.

We discussed our annual and interim earnings at analyst conferences. We held 30 days of roadshows, visiting institutional investors in Europe, Asia, and North America. At nine international investor conferences, our goal was to initiate a direct dialog with current and prospective shareholders. In addition, we spoke to many investors individually.

To give all interested parties an opportunity to find information when and as they wish, we have expanded our Internet offering. On our website all events for analysts and investors are now transmitted live and made available after the event as videos on demand. We supplement our offering by additional services. For example, our Board Member for Finance commented on business developments in the first nine months of the year under review in a live online interview. You can also find information about directors' dealings and a current update of members of the Company's executive bodies on our website. The response to our expanded offering was very positive – in a competition run by Capital magazine, we were rated third out of a total of 110 companies.

You can find the events planned for 2004 in the financial calendar on the back inside cover of this Report.

http://investorrelations.dpwn.com

Key performance indicators for the Group

As part of our value-based Group management, we present economic profit in addition to the EBITA performance indicator. Economic profit measures the value that we generate for our shareholders from operations, taking into account the cost of capital used to generate revenue and profits.

We use the Group's weighted average net cost of interest-bearing debt and equity expressed as a percentage, adjusted for division-specific risk factors, as the cost of capital. This rate is applied to the average net assets employed to determine the total cost of capital. The economic profit is then calculated by deducting the total cost of capital from the net operating profit after taxes. The calculation is based on the presentation of the Group in the "Postbank at equity" scenario and includes financial obligations from non-cancelable operating leases.

Economic Profit (Postbank at equity)

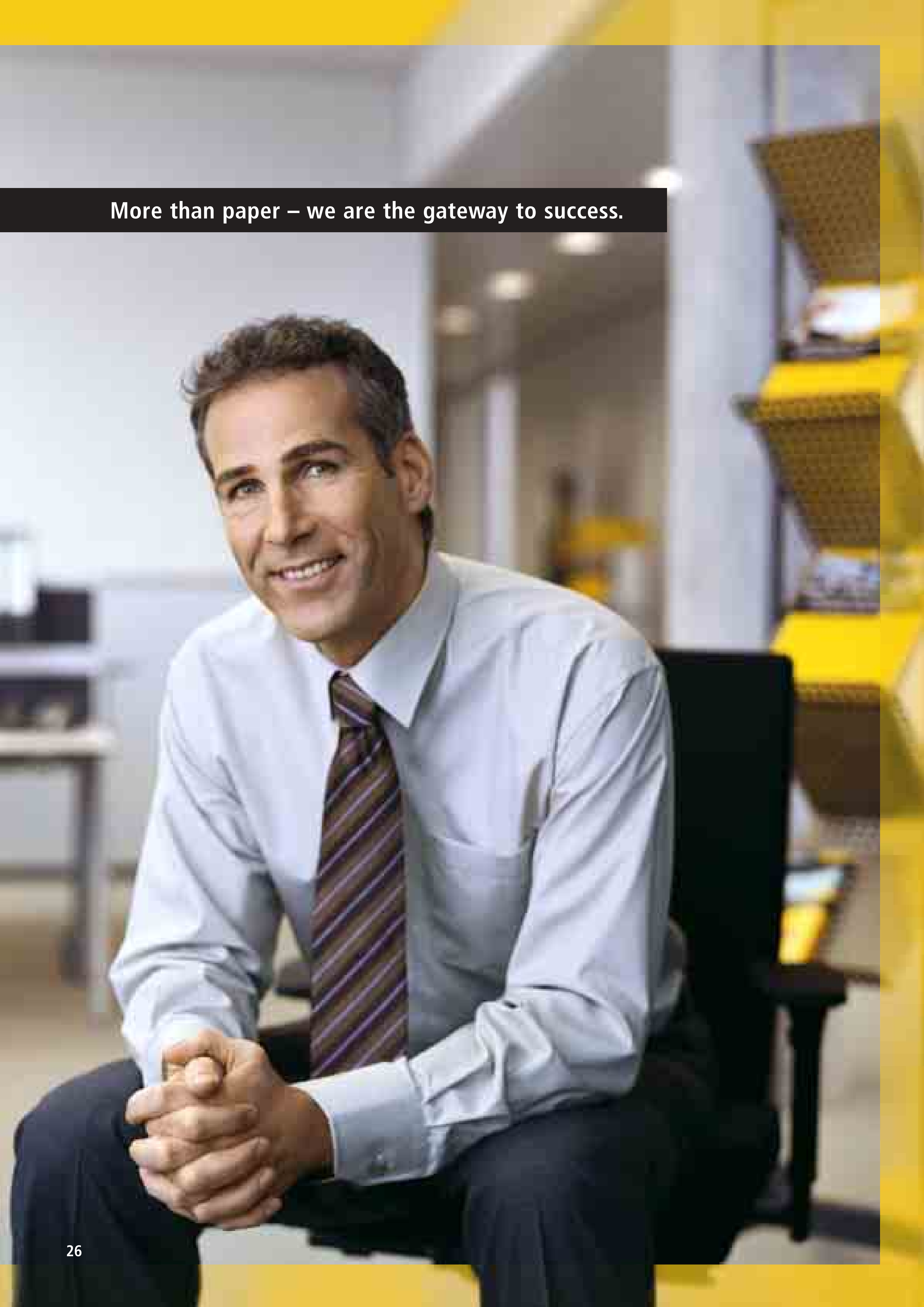
in €m	2002	2003	Change in %
Net operating profit after taxes	1,712	1,866	9.0
Average net assets	17,555	19,543	11.3
Total cost of capital	–1,071	–1,192	11.3
Economic profit	**641**	**674**	**5.1**

More than delivery – we bring the world together.

Thanks to DHL's international network,
express deliveries reach even the
most remote regions as fast as possible.
Shrinking distances, crossing boundaries.

More than money – we make dreams come true.

Postbank helps implement exciting ideas. Our easy-to-understand and cost-effective financial services turn visions into reality.



More than paper – we are the gateway to success.

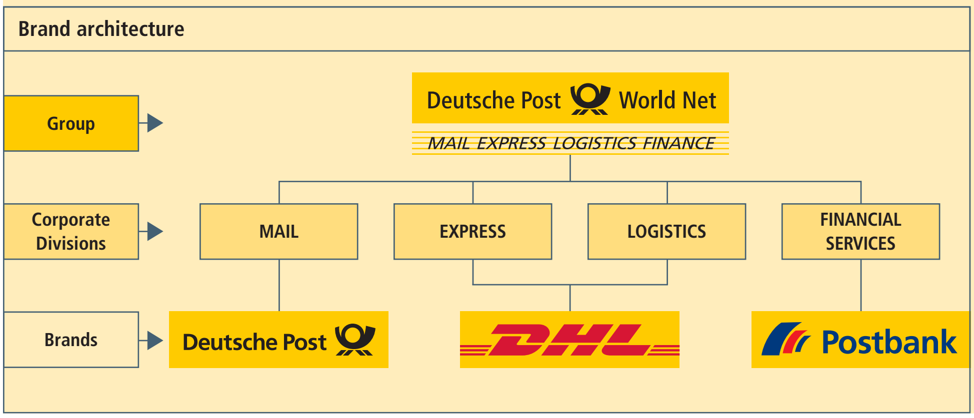
Direct marketing delivers targeted messages to customers. Our innovative solutions allow even small and medium-sized companies to penetrate new markets efficiently.

More than employees – we are a team.

Our employees are the key to our success. More than 380,000 people work as part of Deutsche Post World Net's team across divisions and countries.

We combine global reach with local expertise.

We have set ourselves the target of becoming the global leader for logistics by 2005. For us, being the number one means providing our customers with a network that offers the highest levels of accessibility and the most efficient flows of goods. We already transport more than 5% of all cross-border goods in the world. To achieve our goal, we have extended our global reach and adopted a strategic focus on integrating existing networks and increasing our enterprise value.



Key steps towards achieving our goal

In 2003, we again took some key steps towards becoming the global leader for express and logistics services.

Our operational success is due to our strategy of combining comprehensive international networks with specific expertise in regional markets. With this in mind, we strengthened our basis and our platforms in the year under review by implementing key strategic acquisitions:

- Following the acquisition of Airborne, Inc., we are now the third-largest express provider in the USA and have access to efficient transport networks. The integration of Airborne, Inc. is progressing well: a number of measures are currently being implemented or have already been completed.
- In Europe, we are systematically leveraging the opportunities arising from the increasing deregulation of the mail markets. Depending on the extent to which a target market is deregulated, we choose either to enter the market by offering value added services, or to establish our own delivery network – as in the Netherlands, for example.
- In the fast-growing Asian region, we improved our links to China by acquiring a 5% interest in the leading transport company Sinotrans. We also began establishing a domestic express network and formed a joint venture with Cathay Pacific.

As a result, we now possess a global network and are well positioned in all markets with growth potential throughout North America, Europe, and Asia.

Our customers want comprehensive, one-stop logistics services. Consequently, we combined all of our express and logistics activities under the DHL umbrella brand in 2003, and rebranded our presence. The new DHL is the embodiment of Deutsche Post World Net's one-stop shopping approach. The Group's brand architecture is now based on three strong pillars: Deutsche Post for mail services, DHL, and Postbank, our financial services brand.

STAR program mobilizes the entire Group

Our market advantage lies in the integrated offering of products and services that we manage via harmonized networks. This means that the STAR integration and value creation program is still the key instrument in our strategy. Its impact is being felt primarily in two areas: at Group level and at DHL.

The "corporate projects" relate to Deutsche Post World Net as a whole. We have created value in horizontal functions such as procurement, IT and Group-wide sales management, as well as within the MAIL and FINANCIAL SERVICES Corporate Divisions.

We enjoyed considerable success in the area of procurement, where we established a global organization in 2003 to perform centralized tasks, as well as bundling our purchasing power. By restructuring our procurement processes, we have already been able to make sustainable cost savings. The procurement initiatives are discussed in detail beginning on page 86 of the Group Management Report.

Group-wide sales management is another centralized task. Germany provided an example of how plans can be successfully implemented in practice: using Corporate Key Account Management, we have created a system that relies on Group-wide cooperation between the Corporate Divisions. The aim is to meet the requirements of our most important customers in defined key industries to the greatest possible extent, thus realizing additional revenue potential.

In the MAIL Corporate Division in particular, the optimization of operational processes and network structures offers additional potential for value creation. For example, we achieved structural improvements in our overnight airmail network, our retail outlet network, and the location of our mailboxes; details of these initiatives can be found in the sections on the MAIL and FINANCIAL SERVICES Corporate Divisions.

DHL integrates express and logistics services globally

The second set of measures under the STAR program is focused on the new DHL, which offers by far the largest potential for value growth. With more than 50 individual projects, the subject of integration was top of the agenda in 2003; in addition, value creation initiatives were introduced.

European integration is progressing well, and was reflected at an organizational level when we merged the former administrative centers of Deutsche Post Euro Express, Danzas (Eurocargo), and DHL at our Brussels location in the year under review.

To ensure a uniform customer approach, DHL is developing a sales strategy for our key clients with its international Global Customer Solutions (GCS) organization. A special function within GCS is assigned to the Global Customer Manager, who serves as the customer's sole contact person, combining resources and product and industry expertise.

Pick-up and delivery: in addition to delivering shipments from their vehicles, parcel deliverers pick up shipments from customers on their delivery rounds.

The European pilot project for network optimization was developed and launched following the example set by the Benelux region. In two phases, the terminals for scheduled transport and for pick-up and delivery are being optimized, hubs and depots harmonized, and scheduled transport itself improved. In the area of ground transport, we combined a number of freight centers. Our focus in Europe is now on optimally utilizing existing transport networks. We will press ahead with terminal consolidation in 2004 as part of the reorganization of our Europe-wide and country-specific transport network.

New management structures created for STAR

The organization of the Group-wide program is not separate from the operating units. Quite the opposite, in fact: The Corporate Divisions are now gradually assuming responsibility for the implementation of the projects developed under STAR and the realization of potential for improvement. Line management is now being tasked in particular with the integrated implementation of the program in the individual regions and countries. Corresponding management structures have been set up and existing structures adapted.

Earnings contribution from STAR exceeds targets

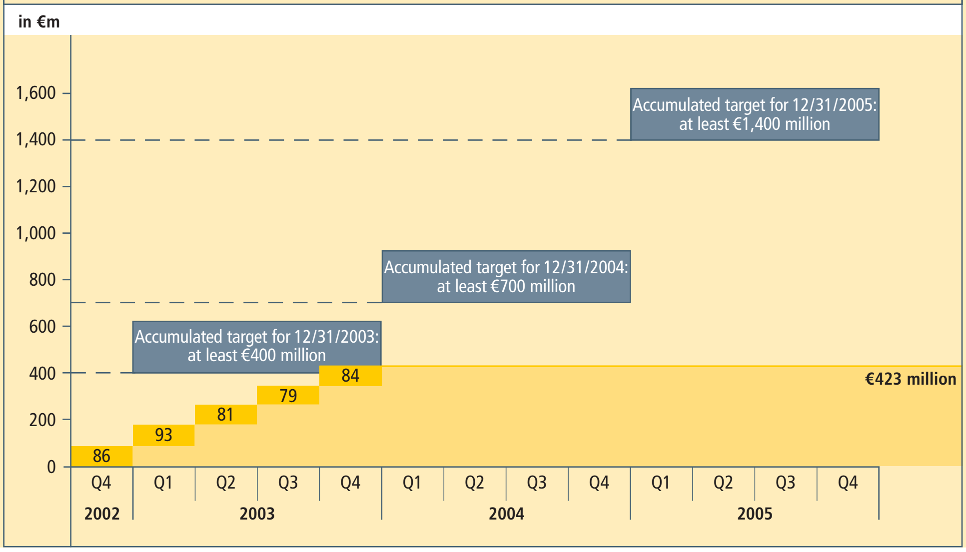
Our aim is to generate an earnings contribution from STAR of €1.4 billion in 2005. In the year under review, the program contributed €337 million to earnings, making a total of €423 million since its launch in November 2002. This means that we have exceeded our original targets for this period and are making excellent progress. We are therefore reiterating the projected earnings growth from STAR and expect the Group's profit from operating activities (EBITA) to reach at least €3.6 billion in 2005.

Postbank offers further potential for value creation

Following Postbank's successful turnaround, it has evolved into a modern, multichannel bank. On the hard-fought German banking market, it again demonstrated the innovative and successful nature of its focus in 2003 with its clear private customer strategy. Within the Group, we offer our customers complementary services, such as logistics finance and joint retail outlet customer advice, in line with our one-stop shopping approach.

To safeguard these positive synergy effects for the Group and for Postbank in the long term, we intend to retain a controlling interest in Postbank after the possible disposal of a minority interest. Our aim is to systematically continue to develop Postbank as a company; in addition, we aim to increase and make visible Postbank's enterprise value – and hence also that of Deutsche Post World Net – to ensure suitable resource allocation in future, too.

Accumulated earnings contribution from STAR since November 2002



MAIL Corporate Division

We support our customers' business success.

As the largest service provider for paper-based communication in Europe, we offer our customers national and international products and services under the Deutsche Post brand. In Germany, we serve 39 million households and 3 million corporate and small business customers. Globally, we have direct links in 190 countries, as well as sales offices in 13 countries and production centers in 11. We further raised our service profile in the year under review. We offer our customers end-to-end solutions tailored to their needs, and develop separate offerings for each industry. We consider it our responsibility to help our customers achieve their goals. In short: We no longer merely transport letters, but support our customers' business success.

The development in the year under review of the markets relevant to the Corporate Division, the revenue and earnings situation, and investments are discussed in detail beginning on page 56 of the **Group Management Report**.

Divisional structure changed to reflect international orientation

We changed the reporting structure of the MAIL Corporate Division in 2003 to reflect our increasing internationalization.

Our domestic activities continue to be grouped together in the Mail Communication, Direct Marketing and Press Distribution Business Divisions.

http://www.dpwn.de/de_de/konzern/unternehmensbereiche/mail/index.html

Mail Communication covers all mail products for private and business customers, as well as philately products. Electronic service products for selected industries complement our physical distribution portfolio and allow our customers to outsource business processes. For example, we have developed end-to-end meter-reading solutions for power utilities.

Direct Marketing supports our business customers in targeted communication with their clients using conventional direct marketing instruments. In addition, we develop end-to-end solution packages for advertising communications; we advise and accompany our customers from the initial idea, through creative implementation and distribution, right up to the analysis of response elements.

Response element: part of a mailshot that the recipient can use, for example, to request further information or to order articles.

Press Distribution covers the distribution and delivery of newspapers and magazines. We also offer magazine publishers our Leserservice (reader service) to help them attract new subscribers.

Our activities in the area of value added services form part of our **Solutions Business.** Until the end of July 2003, this Business Division was called Solutions International. Its operating units include PrintCom, Deutsche Post In Haus Service GmbH, and Merkur Systemhaus für Dialog-Kommunikation GmbH.

Since August 1, we have reported the international mail activities previously included in the EXPRESS Corporate Division in our new **Mail International** Business Division. This Business Division also reports the revenue generated by our national mail activities in other European countries, such as the Netherlands, which was reported in the Foreign Domestic International Business Division up to the end of July 2003. This means that we have reorganized all of the units in the Group involved in our international mail activities. The MAIL Corporate Division is now solely responsible for pressing ahead with the further internationalization of these activities.

Efficient, high-quality services

We have a nationwide infrastructure in Germany which is coordinated through 82 mail centers. These centers handled an average of 70 million items per day in the year under review. Well over 90% of standard and compact letters were sorted by machine. Modern coding and sorting programs allowed us to further increase sorting quality and the proportion of addresses read automatically. The level of sorting was also increased through the use of a total of 517 carrier sequence barcode sorters. These machines sort letters into the right order for delivery, a step that previously had to be performed manually. With almost 89% automation, our mail centers also operate extremely efficiently by international standards.

In 2003, we again achieved an excellent mail transit time rate of 95%. This means that, for every 100 letters handed to us during our daily opening hours or before the last collection, 95 were delivered to their recipients the next day, while more than 99 were delivered within two days. We succeeded in further cutting the transit time for addressed advertising mail: more than 98% of these items were delivered to their recipients four days after they were handed over to Deutsche Post. In our mail redirection service, address-reading machines have been able to forward items directly to the next redirection center without them first going to the old address since October 2003. This reduces the transit time of such items by one day.

Our high level of quality extends beyond national borders. For mail import, the European Union (EU) requires that at least 85% of letters within the EU be delivered to their recipients in the destination country three days after being handed over in the country of origin. We achieved a level of 96%, putting us in pole position in Europe.

To guarantee the high quality of our national and international mail transit times in the long term, we introduced a comprehensive information system in 2003. This allows routes to be tracked and measured at various points using test letters.

Joint delivery: delivery of both mail and parcels by mail carriers.

In the second half of the year under review, we started to expand our joint delivery system in rural areas. In cities, the mail and parcel delivery networks will remain separate, as the routes are shorter and the parcel volumes per stop greater. This project helps us make substantial cost savings while retaining a high level of service quality.

STAR value creation program: structural improvements

We have further optimized our overnight airmail network: the number of flights that transport letters within Germany was reduced from 32 to 23 per night. Letters are now being transported by road instead – a quick, cost-effective and environmentally friendly solution with no delay or loss in quality for our customers.

When deciding on the location of our mailboxes, we focus on three criteria: customer demand, the quality standards prescribed by the Post-Universaldienstleistungsverordnung (PUDLV – Postal Universal Service Ordinance), and cost. We have implemented a solution that meets all three criteria with the aid of new software. We have used it to tailor mailbox locations to actual customer demand, optimize our route planning, and hence cut costs while retaining a high level of quality. With more than 100,000 mailboxes, we still exceed the requirements of the PUDLV: our customers are on average no further than 500m from a Deutsche Post mailbox. We feel that we have a social obligation at certain locations, such as retirement homes and hospitals, and have generally retained mailboxes even where the low level of utilization means they are no longer an economic proposition.

As a further divisional initiative under the STAR program, we started charging for our previously free services.

Presence to be further expanded in future

In September of the year under review, the Regulatory Authority approved the postal rates applicable in 2004 as part of its annual review. Deutsche Post can therefore keep its rates largely at the same level as last year.

As part of our STAR program, we will further improve the technical equipment at our mail centers in 2004: we will install another 202 carrier sequence barcode sorters, and further increase the use of address readers for letters. Joint delivery of mail and parcels will also be expanded, with the aim of delivering around 45% of the daily total of 2.3 million parcels via Deutsche Post's mail delivery network by mid-2004.

We expect the healthcare sector reform that took effect in early 2004 to result in far-reaching changes in logistics and communication activities in the German healthcare market. Our Direct Marketing Business Division has developed corresponding solution modules for the pharmaceutical industry, health insurance funds, and patient organizations.

We will reinforce and further extend our presence in the international mail sector. We will prudently leverage the opportunities arising from the deregulation of the European mail markets. Our aim is to grow not only geographically but also in terms of our product offering.

EXPRESS Corporate Division

One-stop delivery the world over.

We have combined our global courier, express, and parcel activities in the EXPRESS Corporate Division. Our shipping solutions are based on strong regional companies that are well-positioned in their respective domestic markets and connected to each other via a global network. This allows us to achieve greater reach and efficiency, bundle our expertise in the area of transport solutions, and offer our customers one-stop, high-quality delivery services the world over. The external impact of this one-stop shopping approach is evident from the new DHL umbrella brand, under which Deutsche Post World Net now manages all express and logistics services.

The development in the year under review of the markets relevant to the Corporate Division, the revenue and earnings situation, and investments are discussed in detail beginning on page 57 of the **Group Management Report**.

Corporate Divisions

We combine air and ground transport for our customers

The EXPRESS Corporate Division not only provides the Group's courier, express, and parcel (CEP) activities but also contains the activities of the former Eurocargo Business Unit, which was transferred from the LOGISTICS Corporate Division at the start of the year.

The restructuring of the Mail International Business Division as of August 1, 2003 also impacted the EXPRESS Corporate Division. Since that date, our international mail activities have been reported in the MAIL Corporate Division. We have adjusted the reporting structure in the EXPRESS Corporate Division and now report our activities by region: Europe, Americas, Asia/Pacific, and Emerging Markets.

In our largely ground-based transport network in the **Europe** region, we deliver express shipments and parcels not only within European countries but also across borders within the whole of Europe and globally. Since the addition of the former Eurocargo activities, we also provide groupage services, as well as offering our customers transport solutions for less than container loads and full container loads (LCLs/FCLs). This reflects the trend towards larger, more cost-effective units.

The integration of DHL's air freight network means that we are now increasingly combining ground-based and air transport. This allows our customers themselves to decide the speed of transportation, and hence the price. While the business-to-consumer segment accounts for a large part of our business in Germany, our focus in the European network is on business-to-business. This results in differing product requirements: in Germany, our customers mostly send single parcels, whereas in most of the rest of Europe, we are primarily contracted for multi-parcel shipments or pallet distribution.

A multi-parcel shipment is a number of parcels sent together in a single delivery, which is transported on the basis of a single transport agreement.

We have expanded our position in the **Americas** region, which covers our activities in North, Central and South America.

We acquired the Canadian company Loomis in January 2003, thus strengthening our position on the market for ground-based express delivery; integration is now complete and serves as an example for other projects.

With the acquisition of Airborne, Inc. in the USA, we closed the final gap in our US network in August of the year under review. DHL's cross-border express services and Airborne, Inc.'s strong position on the domestic US market complement each other perfectly: with its comprehensive network, the new DHL can now offer its customers in the USA low-cost ground transport as well as combined air and ground transport.

Our transport networks in the **Asia/Pacific** region are largely air-based. We have launched a comprehensive investment program to leverage the flourishing domestic Chinese market for express services, with the aim of successively connecting all of China's major economic centers. The whole Asian region will in future be served by a central hub that is currently being built at Hong Kong International Airport. We are expanding the capacity of the express freight terminal there in three construction phases, the first of which is scheduled for completion in May 2004. This will also allow us to better integrate intercontinental routes to Europe and the Americas.

The **Emerging Markets** region contains our activities in Eastern and Southeast Europe, Africa, and the Middle East. We are the only express company to deliver to countries such as Afghanistan and Iraq, with direct connections from Brussels, Moscow, and Bahrain. In addition, we have established a domestic transport network in Russia, combining air and ground transport and connecting the major economic centers.

Reliable, quick delivery thanks to new technologies

Our shipping solutions are selectively tailored to the needs of our customers. No matter how time-critical they are, they must be fulfilled to a high level of quality and reliability.

We are systematically modernizing our parcel processing in Germany, and examining every step of the process while doing so. We are increasing the number of parcel address readers at our 33 national parcel centers. Parcels whose addresses can be read automatically can be processed more quickly and at a lower cost, thus enabling us to increase productivity and improve the quality of our services.

www.dhl.com

Our Packstation service offers our customers a flexible alternative at all times of the day: customers choose a parcel machine close to them and are informed by text message or e-mail when their delivery arrives. Using their customer number and a personal code, they can then collect their delivery at any time of the day or night. The machines can also be used to post parcels. As part of a project at 75 locations in Germany, Packstations are currently being used by approximately 67,000 customers.

STAR value creation program: significant progress in integration

A core measure of our STAR value creation program has been the consolidation of our national and international parcel and express business, as well as our global logistics business, under the DHL brand since the start of the year. In April 2003, we started rebranding vehicles, packaging materials, and buildings with the new, uniform design with red text on a yellow background. Almost all vehicles in Germany were rebranded by the end of the year under review, while around 70% of delivery vehicles in the rest of Europe already bear the new design.

We also made significant progress in integrating our information technology (IT) activities in the year under review. The global IT networks of DHL, Danzas, and Deutsche Post were combined, resulting in lower total costs, higher bandwidth, and even greater network stability. The more than 20 data centers previously in operation are being reduced to 3 locations: the existing installations in Malaysia and the USA will be supplemented by the new European data center currently being built in the Czech Republic, which will go online in summer 2004.

Further global integration under the DHL brand

We will complete the global rebranding of our activities under the DHL brand in 2004. In addition, we will further harmonize products and sales channels, as well as optimize our IT activities and operations.

Following the acquisition of Airborne, Inc., we will have completely merged our production activities in the USA by the end of 2004.

On the basis of the employment pact signed with the German trade union, ver.di, we expanded parcel delivery by mail carriers in Germany during the year under review. At the start of fiscal year 2004, we will also outsource deliveries in 600 parcel districts to third-party providers. These measures will allow us to react more flexibly to customer demand.

In the course of 2004, we will significantly increase the number of Packstations to a total of 650.

We will also harmonize our product range. In the year under review, we defined three product lines for DHL Express – same-day, time-definite, and day-definite. This allows customers to decide exactly when they want their items to be delivered. We allocated existing products accordingly, and identified product overlaps. The products have been marketed using the newly defined product lines since January 1, 2004. Finally, beginning in summer 2004, the harmonized product range will be gradually introduced. This will allow us not only to eliminate product overlaps but also to align production and service levels.

Each of the existing express and logistics networks within the Group features efficient processes for tracking and tracing. It is now our aim to merge these processes to create a uniform system that we can offer to our customers in all countries and throughout the Group by the end of 2004.

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LOGISTICS Corporate Division

We manage the entire supply chain.

In the LOGISTICS Corporate Division, we offer a comprehensive range of logistics services under the DHL brand. We meet the increasingly complex requirements of our customers by combining global presence with local know-how, and logistics expertise with industry knowledge. By consolidating all of the logistics services provided by Deutsche Post World Net, we are able to provide one-stop expert logistics solutions along the entire supply chain for large multinational customers as well as small and medium-sized companies. Our comprehensive global network also allows us to support our customers in entering new markets.

The development in the year under review of the markets relevant to the Corporate Division, the revenue and earnings situation, and investments are discussed in detail beginning on page 58 of the **Group Management Report**.

Services tailored to our customers' needs

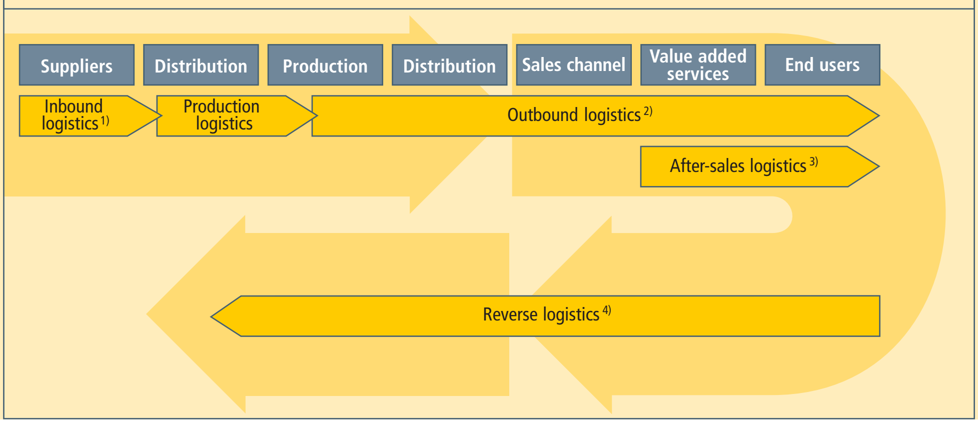
Since April 2003, the LOGISTICS Corporate Division has operated under the DHL umbrella brand, offering a wide range of logistics and value added services.

The **DHL Solutions** Business Division, with 250 transshipment hubs and warehousing space totaling 1.8 million m², provides tailored logistics solutions along the entire supply chain (see diagram below). Our activities are focused on selected industry sectors: automotive, pharma/healthcare, electronics/telecommunications, fast moving consumer goods, and textiles/fashion.

Fast moving consumer goods: consumer goods that sell quickly and are constantly restocked, such as food, drinks, and cleaning materials.

Although very different, these sectors all have one thing in common: they are not only exposed to seasonal fluctuations, but must also ensure that goods and services are always available as and when needed. This is why we combine target sectors with different seasonal cycles to best utilize our capacities.

Integrated solutions along the entire supply chain



1) Supply of production and assembly locations
2) Supply chain from manufacturer via wholesale/retail to the end customer
3) Repair and exchange logistics
4) Return and recycling of products and materials

Our offering is rounded off by value added services such as packaging, invoicing, and order processing.

In the year under review, we were able to extend over 70% of existing contracts. The average contract term is between three and five years; around 800 contracts have a volume of more than €1 million each. In addition, we have a pipeline of potential contracts, whose volume almost doubled year-on-year.

In July 2003, we started operations at a new logistics center for consumer goods in Dortmund on behalf of our long-standing customer, Johnson & Johnson. With a surface area of 19,500m^2, it will serve as the distribution center for the whole of Europe in future. This reflects the trend among our customers to move away from a focus on individual countries and towards optimization for entire product and market regions – a trend that we are responding to with the expansion of our European network.

We have reported our air and ocean freight activities under the **DHL Danzas Air & Ocean** name since 2003.

With 4,500 specialists and 350 branch offices, we have a close-knit air freight network that connects all of the world's commercial centers. Our range of time-definite products gives our customers a range of choices in terms of transportation time and cost, combining fast air freight with less expensive ocean transportation. In the area of ocean freight, we offer a comprehensive global service range for less than container load (LCL) and full container load (FCL) transportation. Within our established LCL network, less than container loads from a number of shippers are grouped into consolidated loads via gateways, and then shipped by container. In addition, the handling of complex industry projects in the areas of oil and gas, energy supply, petrochemicals and industrial plants, for example, is becoming increasingly important.

Gateway: collection center for the transshipment and consolidation of international flows of goods in a certain direction.

One example of the value added services we perform for large, globally active customers is our work for BMW. For the distribution of its new vehicles in Korea, this car manufacturer turned to DHL Danzas Air & Ocean's complete service for vehicle storage, warehouse management, delivery, and customs clearance. The largest passenger car logistics center in the country has been opened for this purpose in the port of Inchon. It will distribute around 10,000 vehicles every year.

The former **Eurocargo** Business Unit was transferred to the EXPRESS Corporate Division at the start of 2003.

Innovative logistics processes developed

We have bundled the IT applications which we use to control and manage the entire supply chain for air and ocean transportation under the "customer program management" product name. A wide range of value added services can be combined individually for each customer, such as the harmonization of delivery volumes and the coordination of supplier deadlines. Customers can also track their goods in real time throughout the entire logistics process.

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In the DHL Danzas Air & Ocean Business Division, we have been awarded global ISO 9001 : 2000 certification. In Asia, we are the first logistics company to achieve this standard, with a record number of 86 certifications in 13 countries. Our quality standards also extend to the selection of suppliers and freight carriers, and we make regular checks to ensure that they comply with our defined standards.

STAR value creation program: growth through integration

By consolidating all of the Group's logistics and express activities under the DHL umbrella brand, we have combined functions throughout the Group that were previously managed separately, such as finance, human resources, and IT; their integration is proceeding as planned. We will now start to gradually merge our locations, too.

In the year under review, we launched the "MORE" program in the DHL Solutions Business Division with a view to achieving qualitative growth. The key measures are aimed at focusing the infrastructure on a few specialized locations for capital-intensive projects, increasing warehouse productivity, and intensifying sales activities.

DHL Danzas Air & Ocean does not maintain its own air and ocean fleet; instead, it buys loading space and charter capacity as required. We are increasingly using DHL aircraft to increase capacity utilization and reduce overall costs. Additional freight capacities are now consolidated and procured jointly.

A focus on the industries and regions of the future

In the DHL Solutions Business Division, we intend expanding our existing customer relationships and ensuring risk diversification by retaining a balanced customer portfolio. We want to intensify our activities in Asia and the Americas.

We will expand and adapt our European network in the light of the imminent accession of a number of Eastern European states to the EU. To optimize our own infrastructure, we will bundle capacities at strategic locations in future and keep them available for the specific operational requirements of our customers.

In the DHL Danzas Air & Ocean Business Division, we are already well positioned in China. We have the necessary licenses for our locations that allow us to operate and manage the related transactions independently. Additional licenses obtained in 2003 now also allow us to provide domestic logistics services. In the next few years, we will press ahead with our strategy of continuous growth, open more offices, and intensify goods transport into and out of neighboring countries.

FINANCIAL SERVICES Corporate Division

A strong focus on private customers.

Retail banking is the core business of the FINANCIAL SERVICES Corporate Division. Under the Postbank brand, we offer private customers, the self-employed and small businesses a comprehensive range of easy-to-understand, cost-effective banking products. As a multi-channel bank, Postbank can be accessed via all communication media. Our customers are free to decide how and when they perform their banking transactions: at our retail outlets, over the telephone, by post, or over the Internet.

The development in the year under review of the markets relevant to the Corporate Division, the income and earnings situation, and investments are discussed in detail beginning on page 60 of the **Group Management Report**.

The right offering for each target group

In addition to Postbank, FINANCIAL SERVICES includes the retail outlet network as well as the Pension Service.

Postbank is active in Germany's retail banking industry for 11.5 million private and business customers and bundles its activities by customer group and brand area.

Retail banking: standardized mass-market banking.

Postbank offers private customers a wide range of financial services through its Business Divisions: Services and Loans, Savings and Mutual Funds, Insurance Products, and Mortgages. Its offering in the area of loans is complemented by the activities of DSL Bank. In 2003, Postbank formed Postbank Vermögensberatung AG to enable it to provide a tailored service for more affluent private customers. Mobile sales units now advise customers on questions about savings and investments personally and in private.

The business customer segment covers the self-employed and professionals, craftsmen and tradesmen, and small businesses with external revenues of up to €2.5 million. Its key product is the checking account, supplemented by the offering of a full-service bank, including the entire range of investment, loan, and insurance products.

Postbank defines companies with external revenues of more than €2.5 million as corporate customers. It offers its 40,000 customers in this target group all of the services relevant to payment transactions, as well as specialized forms of finance, such as commercial and logistics finance. Together with corporate finance, this latter forms the core business of Postbank's US subsidiary, PB Capital.

Postbank at a glance		2002	2003	Change[1] in %
Customers	millions	10.8	11.5	6.5
Private checking accounts	millions	3.94	4.14	5.2
Corporate checking accounts	millions	0.37	0.37	0.2
Number of credit cards	thousands	616	666	8.1
Number of debit cards	thousands	5,300	5,640	6.0
Online banking	millions	1.32	1.62	23.3
Telephone banking	millions	2.20	2.58	17.4
Brokerage accounts (Postbank Brokerage)	millions	0.45	0.47	4.3
Accident insurance	thousands	74.4	79.4	6.6
Life insurance	thousands	200.2	220.4	10.1
Savings deposits	in €bn	35.7	39.1	9.5
Fund assets	in €bn	2.9	4.0	40.8
Private loans	in €bn	0.9	1.0	9.9
Building loans	in €bn	15.2	17.2	13.1
Corporate customer lending business	in €bn	20.0	20.1	0.7

[1] Percentage change based on unrounded figures

Cross-selling: existing customer contacts are leveraged to sell additional products and services from various Corporate Divisions.

The retail outlets and the subsidiaries assigned to them, Deutsche Post Retail GmbH, Deutsche Post Vertriebsgesellschaft mbH, Deutsche Post Shop Gesellschaften mbH, and McPaper AG, together form the **retail outlet network.** With around 13,500 outlets, this network provides Postbank, as well as the MAIL and EXPRESS Corporate Divisions, with an extensive sales network and thus represents the nerve center for cross-selling in the Group. The sales and service activities performed for the Group by the retail outlets are remunerated on a transaction- and profit-related basis. Additional synergies are realized through the sale of telecommunications and energy supply services.

The **Pension Service** handles payments for the statutory pension and accident insurance funds in Germany, as well as for foreign social security providers. This Service also offers products for occupational pension provision.

The right approach for each target group

Bank sales are focused on the **retail outlets.** This is where Postbank offers its private customers easy-to-understand products and services directly at the point of sale. For further information about the retail outlets, see the table on page 49.

At approximately 780 Postbank Centers – modern outlets with an extensive service offering – our trained advisors support customers and offer expert help for complex financial services.

The quality of the services provided in the retail outlets is constantly examined by neutral test customers from the EMNID market research institute. The findings indicate that the retail outlets increased objective customer satisfaction in the year under review as planned to a level of 93% (previous year: 89%).

Retail outlet network: trends		2002	2003	Change in %
Retail outlets	number	12,683	13,514 [1]	6.5
Average weekly opening hours (per outlet)	in hours	42	42	
Proportion of customers served in open service outlets	in %	80	85	
Employees in retail outlets	headcount	41,300	42,800	3.6
Own retail outlets (employees in sales and advisory services)	headcount	21,900	21,400	−2.3
Partner outlets	headcount	19,400	21,400	10.3
Objective customer satisfaction at retail outlets (EMNID test customer satisfaction survey)	in %	89	93	

[1] Thereof around 1,600 Post Service

We further improved the technical basis for **multi-channel banking.** In addition, our Easytrade direct brokerage offering was integrated into Deutsche Postbank AG in 2003. Postbank's customers hold a checking account and a brokerage account, and can access them via various channels. This service is used extensively: more than 1.6 million checking accounts and 70% of the 466,000 brokerage accounts are managed online. In the year under review, Postbank's website was one of Germany's most visited finance portals. More than 2.6 million customers performed their banking transactions over the telephone; Postbank's call centers received more than 33 million calls.

Finance portals: subject-specific websites combining a variety of service offerings, such as search engines, online shops, e-mail services and news.

The criteria for successful multi-channel banking are accessibility, speed, and technical expertise. The market research studies we commission on a regular basis also ask our customers about these quality criteria. These subjective assessments are then compared with objectively measurable quality criteria, such as processing and waiting times. This allows us to draw clear conclusions about areas where there is currently potential for improvement.

Postbank advises **corporate customers** both individually and in standardized forms, with a multi-level approach that differentiates customers on the basis of potential and specific requirements, such as leasing, factoring or logistics finance.

Expanded offering of innovative products

New, innovative products such as DAX Sparbuch are what sets Postbank apart from its competitors. Postbank is also continuously expanding its offering by introducing capital guarantee products for funds and other securities investments.

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Following the introduction of Postbank SparCard 3000 plus in the previous year, a product that can be used in online banking, Postbank's Internet offering was expanded in 2003 to include Postbank Kapital plus *direkt* and a fund supermarket.

This allows customers to choose from various funds according to their risk profile and to sign the contract online. Customers can now sign up for all of Postbank's products online. This leads to cost reductions that we are able to pass on to our customers in the form of higher interest rates.

In the year under review, we also set up a direct portal combining all of Postbank's customer and account information. Since then, customers only have to access one site to call up their details and perform banking transactions.

STAR value creation program: structural improvements in retail outlet network

With over 604 million transactions per year, Postbank is one of the leading players in the field of domestic payment transactions. In recent years, Postbank has simplified all of its transaction banking procedures, thus considerably reducing its complexity costs. The transaction management program developed in cooperation with SAP that was introduced in the year under review means that Postbank can not only further reduce these costs. The highly efficient platform allows all checking account services to be performed with a high level of quality and cost-effectively, to the extent that we are now also offering this service to other banks. The new program also allows a much quicker response to changes in market situations. For instance, the checking account module contains variable parameters enabling new account types, including price models and services, to be created quickly without the need to program new software. As a result, Postbank will be able to reduce the time taken for new products to be prepared for market launch in future, from several months at present to just a few weeks.

As customers are making extensive use of multi-channel banking and performing more and more transactions online or over the telephone, some smaller retail outlets are now rarely being used for banking transactions. In the year under review, we responded to this development by adjusting our offering in our retail outlet network. Suitably qualified employees in the Postbank Centers are now concentrating increasingly on banking advisory services. At the same time, Postbank focused the activities of its around 1,200 smaller and micro retail outlets on larger outlets at the middle of the year.

We have also reduced the remuneration to partner outlets and created a new form of retail outlet – Post Service – which is particularly economical. Even following these structural adjustments, we remain fully compliant with the quality standards prescribed by the Post-Universaldienstleistungsverordnung (PUDLV – Postal Universal Service Ordinance).

Expansion of existing strengths

Postbank will continue to focus on its core competencies in future, and further expand them. Our stated goal is to remain the market leader for retail banking in Germany. As we still see significant growth potential here, there are currently no plans to internationalize our business. This decision is also due to the fact that retail banking is basically a regional business.

We intend to further expand our Internet offering. In the light of the imminent German pensions reform, we are primarily adapting for online use investment products that generate a comparatively high yield but still offer a sufficient level of security. The launch of Postbank DAX-Sparbuch *direkt* is scheduled for 2004. We will also expand and optimize the online brokerage functions.

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Postbank will further develop its personal advisory services for business customers.

In the area of corporate banking, it is not Postbank's aim to offer all of the features of a universal bank, nor will it do so in future. Instead, it will focus on its core competencies, with the three pillars of payment transactions, investment finance and logistics finance, and will continue to perform its lending activities prudently.

In addition, we will strengthen our presence in promising niche markets, such as transaction banking. The large German banks will continue to be forced to significantly improve their cost positions. As a result, Postbank will benefit from the outsourcing of IT-based processes, for example. Postbank intends to handle payments for Deutsche Bank and Dresdner Bank, and the banks signed the appropriate letters of intent in October 2003. Postbank also aims to offer this payment-handling service to other banks.

In future, we intend to further leverage the significant cross-selling potential offered by the retail outlet sales channel within Deutsche Post World Net. The PUDLV prescribes a network of 12,000 retail outlets. We will continue to examine our retail outlets, which currently number around 13,500, in terms of demand and profitability, and will gradually reduce them to the statutory level.

Postbank's Management Board is examining all opportunities to secure a listing for Postbank on the Frankfurt Stock Exchange in 2004. A listing would enhance public awareness of Postbank's competencies. Postbank's financial expertise and integration with the retail outlet network make it a key element in Deutsche Post World Net's efforts to become the global leader for logistics. Consequently, Deutsche Post AG plans to retain a majority interest in Postbank.

Group Management Report

We have laid the foundation for further growth.

Key figures		2002	2003	Change in %
Revenue, EBITA and return on sales[1]				
Total revenue	in €m	39,255	40,017	1.9
Total EBITA	in €m	2,969	2,975	0.2
Total return on sales	in %	7.6	7.4	
MAIL				
Revenue	in €m	12,129	11,934	–1.6
EBITA	in €m	2,144	2,036	–5.0
Return on sales	in %	17.7	17.1	
EXPRESS				
Revenue	in €m	14,637	16,443	12.3
EBITA	in €m	270	408	51.1
Return on sales	in %	1.8	2.5	
LOGISTICS				
Revenue	in €m	5,817	5,878	1.0
EBITA	in €m	173	206	19.1
Return on sales	in %	3.0	3.5	
FINANCIAL SERVICES				
Income	in €m	8,676	7,813	–9.9
EBITA	in €m	679	566	–16.6
Other key figures				
Earnings per share	in €	0.59	1.18	100.0
Dividend per share	in €	0.40	0.44[2]	10.0
Net debt (Postbank at equity)	in €m	1,494	2,044	36.8
Return on equity before taxes	in %	35.5	34.2	
Operating cash flow (Postbank at equity)	in €m	3,220	2,491	–22.6

1) EBITA/revenue
2) The Board of Management intends to propose this dividend to the Annual General Meeting

Overview

Positive business developments more than offset imposed price cuts

In fiscal year 2003, Deutsche Post World Net made significant progress towards becoming the global leader for logistics.

Our focus was on our **STAR** program, which integrates products, services, and networks and aims to increase our enterprise value. In 2003, we implemented or initiated extensive measures as part of this program. Our highest-priority task for integration was to bundle all our express and logistics activities under the DHL umbrella brand and to rebrand our presence globally. We achieved further synergies and often substantial cost savings in horizontal functions, such as Group-wide procurement. As STAR recorded very encouraging results in the course of the year, we were able to announce an upward revision of our original goal during the year. Instead of our previous goal of €350 million, we aimed to generate an earnings contribution of at least €400 million. We exceeded that figure, too. Since the beginning of the program in November 2002, STAR has contributed a total of €423 million to our profit from operating activities before goodwill amortization (EBITA).

In the year under review, we agreed on an additional package of measures with the German services union ver.di to safeguard the future. The **employment pact,** which is the first of its kind in Germany, benefits the Company and its employees. It allows Deutsche Post to improve cost structures in the long term, and gives our employees job security for the coming years.

As announced in last year's Annual Report, the **environment** in which we operate was impacted by two external decisions in 2003. On January 1, 2003, we reduced the prices of our key national mail products as ordered by the Regulierungsbehörde für Telekommunikation und Post (RegTP – Regulatory Authority for Telecommunications and Posts). These price reductions depress our revenue and earnings by around €300 million a year. In addition, competition on the German mail market intensified after the German parliament amended the Postgesetz (German Postal Act). This reduced the weight and price limits of the statutory exclusive license to 100g and three times the standard rate, respectively, and competitors were granted access to the market for outgoing cross-border mail services at the beginning of 2003. In a second step, the weight limit will be lowered to 50g starting in 2006. Our exclusive license will expire on December 31, 2007.

Although 2003 therefore began under a shadow, we made additional progress on our way to becoming the leading global provider of logistics services.

We intensified our global presence and strengthened our position in selected market segments thanks to strategically valuable **acquisitions.** Our DHL subsidiary acquired the express service provider Airborne, Inc. and now has a close-knit ground and air transport network at its disposal in the USA, the world's largest express market. Thanks to the acquisition of Mayne Logistics Loomis, the express and parcel delivery service, DHL has also advanced to number three on the Canadian market.

In the Chinese growth market, we acquired an interest in Sinotrans Ltd. In Europe, we expanded our parcel network with the acquisition of the Italian company, Casa di Spedizioni Ascoli S.p.A.

These acquisitions, coupled with our operational strengths, meant that we were able to withstand the negative effects of the price reductions imposed, and again reported positive **business developments.** We increased overall revenue by 1.9% to €40,017 million. The proportion of revenue generated abroad rose again, from 41.2% to 43.2%. The profit from operating activities before goodwill amortization (EBITA) also rose slightly year-on-year to €2,975 million.

Consolidated net profit increased to €1,309 million after being impacted in the previous year by the provision that we had to recognize for the European Commission's ruling on state aid. Earnings per share improved accordingly, doubling from €0.59 in the previous year to €1.18.

We intend to let our shareholders share in this positive development, and plan distributing a dividend of €0.44 per share or €490 million in total, equivalent to a 10% year-on-year increase.

Economic Environment

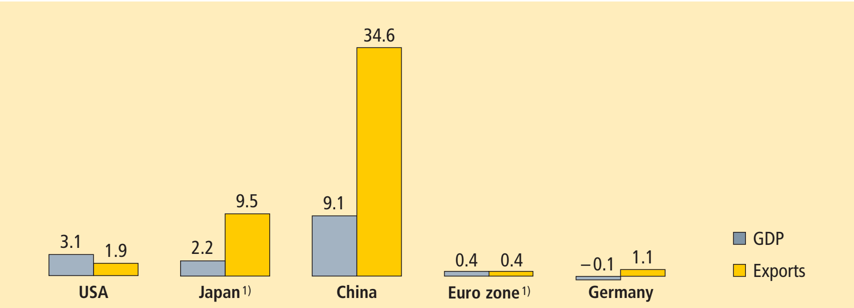
Global economy recovered slightly in H2

The global economy experienced a weak start to 2003. The Iraq war paralyzed economic activity by sharply curtailing investment and consumer spending. However, the global economy recovered after the end of the war and picked up further during the course of the year. In total, global trade rose by approximately 4% in the year under review.

The **USA** was the first of the large industrialized nations to recover. Private consumption and capital spending increased sharply again here in the second half of the year. US exports, too, saw a trend reversal in the course of the year, as they benefited increasingly from the economic recovery and the weak dollar.

Change in Gross Domestic Product (GDP) and exports in 2003

in %



1) Based on estimates as of mid-February 2004
Source: Postbank research

Japan's economic development in 2003 was surprisingly favorable. It benefited from its proximity to the emerging Southeast Asian economies, which currently represent the world's strongest growth region. **Chinese** economic development was outstanding, with export activity particularly strong (see table on page 54). After a slight drop in growth in the second quarter due to SARS, the economy grew at a very fast pace from the mid-year point. Foreign direct investment was again a key driver for the Chinese economy, totaling US$53.5 billion.

In the **euro zone,** by contrast, economic growth was sluggish, with growth in H1 hit by the weak global economy. Since domestic demand also remained very weak, the euro zone remained flat during this phase. However, the pick-up in the global economy boosted exports in the second half of the year, which in turn stimulated growth.

The **German** economy stagnated in 2003 at the previous year's level. Overall growth of a mere 1.1% was achieved in exports – the lowest growth in ten years. From the mid-year point, however, the German export economy also benefited from the global recovery. The upturn in the global economy finally saw sentiment in the German corporate sector also becoming more upbeat towards the end of the year.

2003 revealed the growing serious structural problems in Germany, with unemployment climbing further and consumer spending falling. This also reflected how unsettled people were by the looming reforms of the social security system. Negotiations on urgently needed fundamental reforms proceeded slowly, and the Mediation Committee only reached agreement on timid tax cuts and labor market reform shortly before Christmas.

Equity and bond markets much brighter

Initial uncertainty due to the Iraq war and the ensuing global economic recovery were also reflected in the **equity markets.** They recorded a further sharp slide in prices until March, with the export-driven DAX hit particularly hard. On the back of the ensuing recovery, however, it posted an above-average increase. On balance, it closed the year 2003 up by an impressive 37.1%, while the Euro STOXX 50 (15.7%) and the S&P 500 (26.4%) could only manage significantly lower growth.

The **bond markets** benefited until June from the uncertain economic situation, which led both the European Central Bank (ECB) and the US Federal Reserve to further lower key rates. This led to long-term interest rates in the euro zone reaching all-time lows. However, the trend started reversing at the middle of the year due to the emerging global economic recovery: interest rates rose again slightly and investors became less risk-averse at the same time. This reduced the risk premium for corporate bonds, and the environment for these issues remained favorable.

The US dollar was under pressure in 2003 due to the current account deficit in the USA. The euro bore the brunt of exchange rate changes, gaining a remarkable 20% against the US currency in the course of the year, and reaching an all-time high at US$1.25 towards the end of the year.

Slight growth in German mail market

The MAIL Corporate Division's markets are dependent on economic developments to varying degrees.

For example, the national **mail communication** market rose slightly by 0.2% to more than 9.8 billion letters, despite the difficult economic situation in Germany. The market volume fell to €7.5 billion (previous year: €7.8 billion) due to price cuts ordered by the regulator as of January 1, 2003.

Similarly, letters over 100g were opened up to competition at the beginning of 2003. With a volume market share of 93.7% (previous year: 94.4%), we were nonetheless able to hold our own on the national mail communication market. However, our competitors also benefited from this market growth and achieved increases mainly via so-called higher-value regional letters in the local post market, as shown in the table below.

Market share (volume) in mail communication in Germany

in %	2002	2003
Deutsche Post	94.4	93.7
Regional competition (local post)	5.0	5.6
National competition	0.6	0.7

Source: company estimates

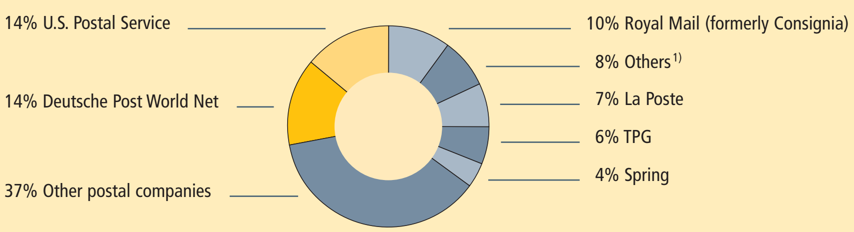
As in the past, the replacement of physical letters by electronic communication media – fax, telephone, e-mail, and text and picture messaging – remained moderate.

The German **advertising market** grew by 1.2% to €44.8 billion (previous year:* €44.3 billion) in 2003. Our relevant market sector, i.e. direct marketing in the narrower sense, covers all expenditures necessary for direct marketing media – advertising mailings, telephone and e-mail – along the value chain.This sector grew by 1.6% to reach a volume of €19.8 billion (previous year:* €19.5 billion), giving us a market share here of 12.2% (previous year:* 12.1%).

* The underlying data pool was extended in the year under review. We have adjusted the previous year's figures to make the data comparable. For further details, see our "Direktmarketing Deutschland 2003" study

Global cross-border mail market in 2002

Market volume: €11 billion



[1] Mercury 1%, UK Consolidators 2%, US Consolidators 2%, Others 3%
Source: UPU Statistics 2002 and company estimates

The heavily cyclical market for **press distribution** declined slightly in the year under review, from 20.1 billion items in the previous year to 19.8 billion. With consumer demand remaining weak and cost pressure at companies on the up, low-circulation professional publications and customer and employee magazines in particular were abandoned. In this very fragmented market, we had a market share of 11% in the year under review, unchanged from the previous year.

In 2002, the global market volume for **cross-border mail** amounted to €11 billion (previous year: €12 billion). The difficult economic situation contributed to this not insignificant decline. Our Mail International Business Division's market share amounted to 14% in this market, unchanged from last year (see diagram at the bottom of page 56).

Growing concentration in CEP markets

The courier, express, and parcel services (CEP) market is heavily dependent on GDP growth in the most important economic regions. Globalization and outsourcing remain the growth drivers, but their potential is limited by the economic environment.

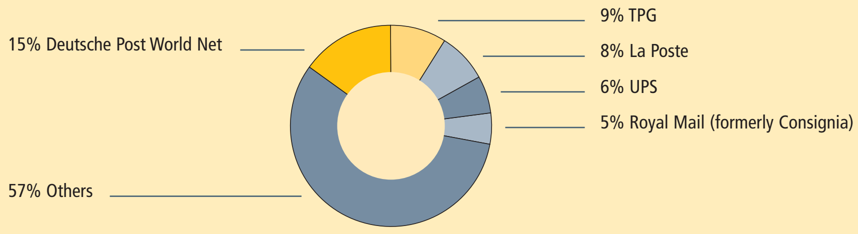
Volatile oil prices and the related fuel factor costs put CEP companies under pressure in the year under review, as they were often only able to pass on price increases after a time-lag. In addition, the weak US dollar also held back corporate growth in Europe, in particular in the cross-border international business.

With a market volume of €39.6 billion in 2002, revenue on the European CEP market rose only slightly. At 15%, we were able to successfully defend our leading position in **Europe** (see diagram below).

Throughout Europe, increases in parcel volumes (driven, for example, by online auction houses such as eBay) more than offset the decline in the more expensive express products on the back of economic conditions. The trend towards concentration also continued. A number of insolvencies further stimulated this process: an ever-diminishing number of steadily growing competitors are fighting for lucrative business customers.

European[1] CEP market in 2002

Market volume[1]: €35.2 billion; total European market volume: €39.6 billion



1) Belgium, France, Germany, Italy, Netherlands, Spain, UK
Source: company estimates

Concentration has had an even more noticeable effect on the express market in the **USA.** DHL significantly extended its market position on the world's largest express market by acquiring Airborne, Inc. in August of the year under review. This market segment was affected by the muted economic development in the USA in H1/2003, and recorded a slight decline in volumes for the year as a whole.

We similarly extended our position on the Canadian market in January of the year under review with the acquisition of the express service provider, Mayne Logistics Loomis, and are now the number three in this market.

The entire **Asian** CEP market recorded an estimated volume of €20 billion for 2002 and is growing at a faster pace than any other region, at an estimated 12% p.a. Boosted by strong GDP growth, the inner-Asian CEP market grew even more quickly than intercontinental business with Asia in the year under review. In China, Asia's largest single market, DHL is now already the market leader.

The **emerging markets** experienced a clear economic recovery; this is particularly true of the Middle East since the end of the Iraq war.

Logistics requirements on the rise

Demand for logistics services increased again in the year under review, with a continuing shift from a national to an international division of labor. While vertical integration is decreasing in industry, there is greater product diversity and a wider range of offerings in the retail sector; market proximity and the ability to react swiftly despite low inventory levels are increasingly becoming critical success factors. Customer requirements for logistics are correspondingly more tailored and more diverse than previously. To meet these demands, optimized procedures are necessary along the entire supply chain: one-stop logistics solutions are increasingly preferred, in particular by globally operating large companies.

Competition on the fragmented logistics market intensified still further due to the tense economic situation in 2003. Manufacturers and dealers also passed on the greater price pressure to their logistics service providers, at the same time as increasing the demands they place on them.

Market share in contract logistics 2002

Market volume: €130 billion in %	
Exel	3.3
TPG	2.2
Tibbett & Britten	2.1
Ryder	1.8
DHL Solutions	**1.7**
UPS Logistics	1.6
Hays	1.3

Source: Armstrong Associates, TNT, Dresdner Kleinwort Wasserstein, 2002

The global market for **contract logistics** is estimated at €130 billion. This large cake is shared by many providers, as shown in the table on page 58: the top 12 logistics providers together have a market share of only 16.7%.

Contract logistics: granting of longer-term logistics contracts to logistics service providers.

In the **air freight** market, there was continued freight space overcapacity in 2003, too. Rates developed differently depending on demand on different routes; on the whole they were stable or increased slightly. Average fuel and security surcharges rose. In addition, at times there were war risk surcharges due to the war in Iraq.

We hold pole position measured by IATA revenue, as the diagram below shows. Transported volumes, already at a high level, rose by 5% in the year under review. Declining volumes from existing multinational customers, in the high-tech sector in particular, prevented stronger growth.

Market share in air freight 2002

Market volume: €21.4 billion

in %

DHL Danzas Air & Ocean	**6.2**
Exel	5.2
Nippon Express	4.8
Schenker	3.3
Bax Global	3.2
Kühne & Nagel	3.0
Panalpina	2.9

Source: IATA/CNS and company estimates

In **ocean freight,** market rates rose by an average over the year of 10% to 20%, depending on the route, due to capacity bottlenecks. The largest increase was in transport from Asia to Europe, which rose by more than 30%. In 2003, the ocean freight market recorded an above-average volume growth of 23%. We consolidated our number two position on this market, as shown in the table below.

Market share in ocean freight 2002

Market volume for forwarding: 15.7 million TEUs [1)]

in %

Kühne & Nagel	6.3
DHL Danzas Air & Ocean	**4.9**
Panalpina	4.1
Schenker	3.4
Exel	1.2

1) Twenty-foot equivalent units

Source: Global Insight Trade Databank and company estimates

Outgoing transport volumes from Asia rose disproportionately in the year under review, a development that is attributable to the increasing significance of China as a production location. We are already very well positioned in China thanks to certification to operate as an NVOCC and the large number of A Licences. This means we are allowed to exercise direct control over all our logistics and transport services. Additional purchases in Chile, Turkey, and India broadened our international presence in emerging economies in the year under review. The acquisition of Corporación Cormar S.A. gave us the leading position in Central America.

NVOCC (Non-Vessel Operating Common Carrier): a transport company that carries goods by sea in its own name, and generally also issues its own bills of lading, but does not own any shipping space.

New business opportunities for specialized banks

Conditions for German banks remained difficult in 2003. The number of insolvencies rose to record levels due to Germany's economic problems. This led to loan defaults, which in turn hit the operating results of many banks. Falling fee and commission income, tight interest rate spreads, higher loan loss allowances and increased administration costs additionally eroded income.

Continuing cost pressure meant that banks were again forced to standardize their products, and automate or outsource their business processes. Key trends in 2003 were therefore investments in robust IT and the outsourcing of banking services, such as transaction banking. This offers new business opportunities to banks specialized in this sector.

The difficult economic situation also affected the behavior of German private investors: credit quality deteriorated and price sensitivity increased further. The debate about the future of the statutory social security systems unsettled consumers; at the same time, they had a growing need for security for their investments following the sharp slide in equity market prices in 2001 and 2002. This caused higher demand for traditional investment products. The trend towards multi-channel banking remained unchanged; it is now used by the majority of consumers.

Postbank is the leading single institution in the German retail banking market, with 11.5 million customers. It also has a good starting position on the market for transaction banking, with a 5% share of the market for domestic payment transactions. In the year under review, it processed around 604 million of these transactions.

Business Developments

Revenue and earnings growth

The business structure of Deutsche Postbank group (Postbank) differs substantially from the business of the other companies in the Group. For this reason, the following discussion explains key figures for the Group as well as key figures based on the "Postbank at equity" financial statements. Postbank is accounted for in these financial statements as a financial investment carried at equity.

Selected indicators for results of operations for the period January 1 to December 31		Deutsche Post World Net 2002	Deutsche Post World Net 2003	Deutsche Post World Net Postbank at equity 2002	Deutsche Post World Net Postbank at equity 2003
Return on sales (based on EBITA)	in %	7.6	7.4	3.2	7.2
Profit from operating activities before goodwill amortization (EBITA)	in €m	2,969	2,975	1,044	2,451
Profit from ordinary activities	in €m	1,856	1,915	1,589	1,770
Return on equity	in %	35.5	34.2	30.4	31.6
Income tax expense	in €m	266	573	8	429
Tax expense ratio	in %	28.0	29.9	1.2	24.2
Net profit for the period before minority interest and extraordinary expense	in €m	1,590	1,342	1,581	1,341
Consolidated net profit	in €m	659	1,309	659	1,309
Earnings per share	in €	0.59	1.18	0.59	1.18
Earnings per share before extraordinary expense	in €	1.41	1.18	1.41	1.18

In fiscal year 2003, Deutsche Post World Net recorded **revenue** of €40,017 million, which represents an increase of 1.9% (previous year: €39,255 million). After adjustment for currency effects and acquisitions, revenue remained constant compared with the previous year. Acquisitions contributed €1,928 million (4.9 percentage points) to revenue growth. By contrast, changes in euro exchange rates resulted in negative currency translation effects for the Group of €1,173 million (3.0 percentage points). In the "Postbank at equity" scenario, revenue rose by 4.8% to €33,907 million (previous year: €32,343 million). This positive development reflects the increasing strength of the EXPRESS and LOGISTICS Corporate Divisions.

Currency effects

We distinguish between two types of currency effect:

- The **translation effect** is a result of the translation of the single-entity financial statements that have been prepared in local currencies into the reporting currency, the euro. Changes in the exchange rate have a direct effect on the amounts of the balance sheet and income statement items in the consolidated financial statements; however, they do not affect cash flow. In the consolidated balance sheet, this effect is reflected in equity.
- The **transaction effect** is the effect of currency changes on the cash flow of individual companies and the Group. This is reflected directly in the amount of income and expense and is presented in the items "Other operating income" and "Other operating expenses" in the income statement. Our decentralized business structure in the international express and logistics business helps us limit this risk, as revenues in local currency are generally offset by costs in the same local currency. In addition, we use various hedging instruments to limit these effects as far as possible.

Other operating income fell by 60.0% in 2003 to €1,203 million (previous year: €3,007 million), mainly due to two reasons: firstly, the discontinuation of the reversal to income of Postbank's negative goodwill in the amount of €1,499 million; secondly, we realized one-time other operating income in the previous year.

Operating expenses before goodwill amortization fell by 2.7% year-on-year to €38,245 million (previous year: €39,293 million). A major reason for this decline relates to cost savings that we made as part of our STAR value creation program.

The **profit from operating activities before goodwill amortization (EBITA)** rose slightly year-on-year, reaching €2,975 million (previous year: €2,969 million). This resulted from a fundamentally strong operating performance that was nevertheless impacted by the price reductions imposed by the regulator. In the MAIL Corporate Division, however, we made up in part for the resulting losses of approximately €300 million by cost savings and additional revenue. EBITA thus fell by just 5.0% to €2,036 million (previous year: €2,144 million). The EXPRESS and LOGISTICS Corporate Divisions developed positively, recording sharp increases in earnings of 51.1% and 19.1% respectively. In the FINANCIAL SERVICES Corporate Division, profit from operating activities before goodwill amortization (EBITA) still contained income from the reversal of Postbank's negative goodwill in the amount of €212 million in 2002. EBITA was unable to match the previous year's level and fell 16.6% to €566 million (previous year: €679 million). On the whole, profit from operating activities before goodwill amortization (EBITA) developed better than we had expected at times. A major contributory factor was the various measures that we implemented as part of our STAR value creation program. The successful restructuring of our Group-wide procurement and the resulting cost savings we have achieved were the highlights here. The operating margin improved significantly due to the fact that the one-time other operating income of €1,804 million is no longer included.

Currency effects reduced the profit from operating activities before goodwill amortization (EBITA) by €46 million. The **return on sales** based on EBITA fell to 7.4% (previous year: 7.6%). In the "Postbank at equity" scenario, return on sales also rose, from 3.2% to 7.2%. The improvements – often significant – at the EXPRESS and LOGISTICS Corporate Divisions more than offset the declining operating margin in the MAIL Corporate Division.

Goodwill amortization fell by 29.0% to €319 million (previous year: €449 million). In 2002, it was impacted by an impairment loss of €205 million charged on the goodwill of DHL US Ground Co., USA. Adjusted for this effect, amortization rose in the year under review. This increase is mainly attributable to the extended consolidated group; for instance, in the course of 2003, we fully consolidated Securicor Omega Holdings Ltd., which was previously proportionately consolidated, and acquired Casa di Spedizioni Ascoli S.p.A., Mayne Logistics Loomis and Airborne, Inc.

As there was no requirement for any comparable impairment losses in the year under review, **EBIT** rose by 5.4% to €2,656 million due to lower goodwill amortization (previous year: €2,520 million).

Since the beginning of 2003, we have been reporting the interest cost on provisions for pensions and on other interest-bearing provisions under net finance costs, instead of in profit from operating activities before goodwill amortization (EBITA); prior-year amounts were adjusted. This brings us into line with the standard presentation of interest cost in the logistics sector. **Net finance costs** totaled €741 million (previous year: €664 million) in the period under review. This figure includes the interest cost on provisions for pensions and on other interest-bearing provisions of €578 million (previous year: €548 million). The **net loss from associates** amounted to €28 million in the period under review (previous year: €1 million). This figure includes losses on the sale of the interest in DHL Airways on July 14, 2003. In total, the Group recorded a **profit from ordinary activities** of €1,915 million, up 3.2% year-on-year (previous year: €1,856 million).

The **return on equity** based on net profit before taxes declined from 35.5% to 34.2%. In the "Postbank at equity" scenario, it rose by 1.2 percentage points to 31.6%.

With a tax rate of 29.9%, we recorded a **consolidated net profit** of €1,309 million in fiscal year 2003 (previous year: €659 million).

The extraordinary expense, and therefore the consolidated net profit, for the previous year were impacted by the provision that we had to recognize for the European Commission's ruling on state aid. **Earnings per share** improved accordingly, doubling from €0.59 to €1.18 in the year under review.

The Board of Management is therefore proposing a **dividend** of €0.44 per share to the Annual General Meeting. This corresponds to a total dividend of €490 million, and an increase of exactly 10%.

MAIL partly offsets price cuts

MAIL Corporate Division		2002 [1]	2003	Change in %
Total revenue	in €m	12,129	11,934	–1.6
Profit from operating activities before goodwill amortization (EBITA) [2]	in €m	2,144	2,036	–5.0
Return on sales [3]	in %	17.7	17.1	

1) Prior-period amounts restated due to restructuring of Mail International Business Division and other product portfolio optimization measures
2) Prior-period amounts restated due to reclassification of interest cost on pension obligations and other interest-bearing provisions from EBITA to net finance costs
3) EBITA/revenue

Since August 1, 2003, we have been reporting our international mail services, which previously fell under the responsibility of the EXPRESS Corporate Division, in the new Mail International Business Division. This Business Division also contains the revenue we generate from our national mail business in other European countries. We previously reported this in the Foreign Domestic International Business Division.

At the beginning of fiscal year 2003, we reduced the prices of our key national mail products to implement the price reductions imposed by the Regulierungsbehörde für Telekommunikation und Post (RegTP – Regulatory Authority for Telecommunications and Posts). As we expected, this led to a revenue reduction of around €300 million. On the back of the expansion of our international mail business in the Netherlands, we have already partly offset this decline in revenue, so that **revenue** only fell by a total of €195 million to €11,934 million in the year under review (previous year: €12,129 million). Revenue per employee rose again, increasing by 1.1% to €90,923 (previous year: €89,972).

Revenue by Business Division

in €m	2002 [1)]	2003	Change in %
Mail Communication	7,100	6,857	–3.4
Direct Marketing	2,344	2,403	2.5
Press Distribution	823	799	–2.9
Mail International/Solutions Business	737	821	11.3
Internal revenue	1,125	1,054	–6.3
Total	**12,129**	**11,934**	**–1.6**

1) Prior-period amounts restated due to restructuring of Mail International Business Division and other product portfolio optimization measures

In the **Mail Communication** Business Division, the imposed price cuts impacted our revenue development, as expected. We cushioned the impact of this development via intensified communication measures in the private customer segment. This Business Division continues to be driven by business customers. Revenue generated in this Business Division fell by €243 million to €6,857 million (previous year: €7,100 million). In view of the weak economic situation, sales volumes for business and private customers remained slightly below the prior-year level, as shown in the table below.

Mail Communication (Deutsche Post AG share)

in millions	2002 [1)]	2003	Change in %
Business customer letters	7,725	7,713	–0.2
Private customer letters	1,472	1,462	–0.7
Total	**9,197**	**9,175**	**–0.2**

1) Prior-period amounts restated due to restructuring of Mail International Business Division and other product portfolio optimization measures

Driven by the trend reversal experienced by the advertising market in 2003, revenue rose by 2.5% in our **Direct Marketing** Business Division to €2,403 million (previous year: €2,344 million). We maintained volumes at the prior-year level with 6,028 million Infopost/Infobrief items (addressed advertising mailings). Higher-value products saw volume increases. Partly and unaddressed mail also saw increases, with stronger customer demand for the Postwurf Spezial product. Despite reducing total volume by 3.3% to 3,473 million as planned (previous year: 3,593 million), we increased revenue slightly in this area.

Direct marketing (Deutsche Post AG share)			
in millions	2002 [1]	2003	Change in %
Infopost/Infobrief (addressed advertising mail)	6,028	6,028	0.0
Postwurfsendung/Postwurf Spezial (unaddressed/partly addressed advertising mail)	3,593	3,473	−3.3
Total	**9,621**	**9,501**	**−1.2**

[1] Prior-period amounts restated due to restructuring of Mail International Business Division and other product portfolio optimization measures

The **Press Distribution** Business Division continued to suffer under the persistently difficult situation in the German press industry. Both volume and revenue saw similar declines. The volume fell by 2.5% to 2,162 million items (previous year: 2,217 million). Revenue fell by 2.9% to €799 million (previous year: €823 million).

In the **Mail International** Business Division, we substantially intensified our activities in the Netherlands. Our joint venture with Wegener N.V., whose subsidiary Interlanden B.V. we acquired in fiscal year 2002, met with a positive response on the market. This allowed us to extend our customer base and increase volume.

Activities in the area of value added services are reported in the Business Division **Solutions Business.** Until the end of July of the year under review, it was known as Solutions International. Operating units recorded here, such as PrintCom and Merkur Systemhaus für Dialog-Kommunikation GmbH, saw a slight rise in revenue compared with the previous year.

For reasons of materiality, we report both Business Divisions – Mail International and Solutions Business – together. They generated revenue of €821 million in 2003 (previous year: €737 million).

The decline in revenue caused by the imposed price cuts was also noticeable in the **profit from operating activities before goodwill amortization (EBITA),** although to a much lesser extent. EBITA fell by €108 million to €2,036 million (previous year: €2,144 million). The prior-period amount was restated, as we reclassified interest cost on provisions for pensions and other interest-bearing provisions from EBITA to net finance costs.

We cushioned the negative earnings effects through a number of measures within our STAR value creation program, which enabled us both to generate additional revenue and to make cost savings. For example, we increased the prices for special services, such as Einschreiben Einwurf (registered items delivered to the addressee's letter box), and started charging for previously free services. At the beginning of April, we optimized our overnight airmail network, reducing the number of flights that transport letters within Germany from 32 to 23 per night, with no delay or loss of quality for customers.

At 17.1%, the **return on sales** generated significantly exceeded the target of above 16% (previous year: 17.7%).

Airborne helps EXPRESS grow

EXPRESS Corporate Division				
		2002 [1]	2003	Change in %
Total revenue	in €m	14,637	16,443	12.3
Profit from operating activities before goodwill amortization (EBITA) [2]	in €m	270	408	51.1
Return on sales [3]	in %	1.8	2.5	

1) Prior-period amounts restated due to restructuring of Mail International Business Division and other product portfolio optimization measures
2) Prior-period amounts restated due to reclassification of interest cost on pension obligations and other interest-bearing provisions from EBITA to net finance costs
3) EBITA/revenue

In the EXPRESS Corporate Division, we have been presenting our courier, express, and parcel service business under the DHL umbrella brand by region from the beginning of 2003. This also includes the activities of the Eurocargo Business Unit that were previously reported in the LOGISTICS Corporate Division. Our international mail services have been reported in the MAIL Corporate Division since August 1, 2003.

The **total revenue** for this Corporate Division increased by 12.3% to €16,443 million in 2003 (previous year: €14,637 million). The major part of this increase resulted from acquisitions, which accounted for €1,657 million. Business operations developed so well in all regions that we more than compensated for revenue shortfalls due to exchange rate losses of €787 million.

Revenue by region			
in €m	2002	2003	Change in %
Europe	10,659	11,371	6.7
Americas	1,689	2,693	59.4
Asia/Pacific	1,138	1,145	0.6
Emerging Markets (EMA)	524	624	19.1
Global Mail	768 [1]	724	–5.7
Reconciliation	–141	–114	–19.1
Total	**14,637**	**16,443**	**12.3**

1) Prior-period amounts restated due to restructuring of Mail International Business Division and other product portfolio optimization measures

The **Europe** region generated revenue growth of 6.7% year-on-year to €11,371 million (previous year: €10,659 million). We recorded external growth in the United Kingdom, Spain and Italy. Casa di Spedizioni Ascoli S.p.A. (Italy) was fully consolidated for the first time on February 1, 2003, and Securicor Omega Holdings Ltd. (United Kingdom) on July 1, 2003. On October 1, 2002, we fully consolidated Guipuzcoana in Spain.

Apart from the Alpine region, all countries generated positive growth. Growth in revenue in Germany was due to price increases that we achieved in particular from retail outlet customer products – parcels and small packets – and increases in prices and volumes in Europack National. In this sector, we are benefiting from the continuing business success of online auction houses, such as eBay. Positive revenue effects were also generated by the increase in shipment volumes on the Iberian peninsula.

Revenue rose in the **Americas** region, again due to acquisitions. After fully consolidating Mayne Logistics Loomis as of February 1, 2003, we retrospectively fully consolidated Airborne, Inc. for the first time as of August 15, 2003. In total, we increased revenue in this region by 59.4% to €2,693 million (previous year: €1,689 million) on the back of increased volumes, although we had to offset strong exchange rate effects.

Thanks to growing sales volumes for the most important products, we generated good operating growth in the **Asia/Pacific region;** unfortunately, however, this was mostly cancelled out by negative exchange rate effects. Total revenue finally rose just 0.6% year-on-year to €1,145 million (previous year: €1,138 million).

The **Emerging Markets (EMA)** also saw steady operating growth in 2003. Driven by an economic upturn in the Middle East after the end of the Iraq war, revenue increased by 19.1% to €624 million (previous year: €524 million).

Thanks to the positive development in Europe – the highest-revenue region – in particular, we improved our **profit from operating activities before goodwill amortization (EBITA)** in the EXPRESS Corporate Division by 51.1% to €408 million in the year under review (previous year: €270 million). This was despite a loss in the **Americas** region, which is affected by substantial operational losses at the US companies and the costs of integrating Airborne, Inc. The prior-period amount was restated, as we reclassified interest cost on provisions for pensions and other interest-bearing provisions from EBITA to net finance costs. In addition to increases in prices and productivity in Germany, the acquisitions mentioned also contributed to this improved result.

In 2003, we set ourselves a **return on sales** target of more than 2.1%. At 2.5%, we exceeded this target.

Earnings hike at LOGISTICS due to strong operating profit

LOGISTICS Corporate Division		2002 [1]	2003	Change in %
Total revenue	in €m	5,817	5,878	1.0
Profit from operating activities before goodwill amortization (EBITA)	in €m	173	206	19.1
Return on sales [2]	in %	3.0	3.5	

[1] Prior-period amounts restated due to restructuring of EXPRESS and LOGISTICS Corporate Divisions
[2] EBITA/revenue

The changes to the reporting structure implemented in 2003 also affect the LOGISTICS Corporate Division. The former Eurocargo Business Unit was transferred to the EXPRESS Corporate Division. Our activities in the LOGISTICS Corporate Division are now reported under the names DHL Solutions and DHL Danzas Air & Ocean.

Revenue for this Corporate Division increased by €61 million to €5,878 million in 2003 (previous year: €5,817 million). Both Business Divisions drove growth, and DHL Solutions developed particularly well. We recorded exchange rate losses of €366 million in the LOGISTICS Corporate Division, although these were more than counteracted by the growth in business.

Revenue by Business Division

in €m	2002	2003	Change in %
DHL Solutions	1,584	1,640	3.5
DHL Danzas Air & Ocean	4,233	4,246	0.3
Reconciliation		–8	
Total	**5,817**	**5,878**	**1.0**

Revenue increased by 3.5% to €1,640 million in the **DHL Solutions** Business Division (previous year: €1,584 million). The increase was a result of acquisitions on the one hand, and growth that we generated particularly in the electronics/telecommunication sector on the other.

DHL Solutions: revenue by sector

in €m	2002	2003	Change in %
Automotive	93	80	–14.0
Pharma/healthcare	72	71	–1.4
Electronics/telecommunications	563	618	9.8
Fast moving consumer goods	551	575	4.4
Textiles/fashion	235	239	1.7
Other	70	57	–18.6
Total	**1,584**	**1,640**	**3.5**

Revenue increased by €13 million to €4,246 million in the **DHL Danzas Air & Ocean** Business Division in the year under review. In air freight, the amount transported rose by 3.0% due to acquisitions; freight rates increased slightly compared with the previous year. In ocean freight, transport volumes recorded double digit growth; in addition, freight rates rose sharply, in particular on routes from the Asia/Pacific region.

The **profit from operating activities before goodwill amortization (EBITA)** for the entire Corporate Division rose to €206 million (previous year: €173 million), an increase of 19.1%. The prior-period amount was restated, as we reclassified interest cost on provisions for pensions and other interest-bearing provisions from EBITA to net finance costs, and activities from the former Eurocargo Business Unit are now reported in the EXPRESS Corporate Division. The earnings growth is largely due to successful cost management in Germany and Scandinavia in the DHL Solutions Business Division. Operating performance was also up on the previous year in the DHL Danzas Air & Ocean Business Division. However, it suffered greatly from foreign exchange losses.

The **return on sales** rose to 3.5% (previous year: 3.0%). We therefore met our target of achieving a figure in excess of 3.2% in the year under review.

FINANCIAL SERVICES reflect Postbank's success

FINANCIAL SERVICES Corporate Division		2002	2003	Change in %
Income[1]	in €m	8,676	7,813	–9.9
Profit from operating activities before goodwill amortization (EBITA)[2]	in €m	679	566	–16.6
Cost/income ratio	in %	77.7	76.1	
Return on equity before taxes (RoE)	in %	8.6	10.7	
Tier 1 ratio[3]	in %	6.9	6.6	

1) Prior-period amounts restated due to product portfolio optimization measures
2) Prior-period amounts restated due to reclassification of interest cost on pension obligations and other interest-bearing provisions from EBITA to net finance costs
3) Reported as of the respective balance sheet date

The FINANCIAL SERVICES Corporate Division consists mainly of Postbank. In addition, we report our retail outlet network and the Pension Service in this Corporate Division.

This Corporate Division generated **income** of €7,813 million in 2003 (previous year: €8,676 million). Income from banking transactions comprises gross income from interest, fees and commissions, and trading transactions; it is equivalent to an industrial company's revenue. The main reason for this decrease was lower interest income on the back of further cuts in interest rates.

The income development of the retail outlet network was down slightly compared with the previous year. We took steps here to reduce the cost of goods sold, for instance by switching to the electronic Cash&Go procedure for mobile phones. This means that our customers top up their credit at the terminal in the retail outlet, instead of purchasing new prepaid cards.

The Corporate Division's **profit from operating activities before goodwill amortization (EBITA)** fell in 2003 by 16.6% year-on-year to total €566 million (previous year: €679 million). The prior-period amount was restated, as we reclassified interest cost on provisions for pensions and other interest-bearing provisions from EBITA to net finance costs. In the previous year, profit from operating activities before goodwill amortization (EBITA) contained income from the reversal of Postbank's negative goodwill in the amount of €212 million. Excluding this income, profit from operating activities before goodwill amortization (EBITA) rose by €99 million. This positive development was a result of the significant increase in earnings at Postbank.

Income from banking transactions, i.e. Postbank's income from recognized assets (net interest income, net trading income and net income from investment securities) and net fee and commission income fell slightly by 1.9% to €2,378 million in the period under review (previous year: €2,423 million).

While total income from recognized assets was only down 2.9% on the previous year, despite lower interest rates, the structure of these amounts changed noticeably. Net interest income fell by 10.7% to €1,653 million, while at the same time the net trading income and net income from investment securities rose by 122.4% to €258 million (previous year: €116 million).

Net fee and commission income rose slightly by 2.6% to €467 million due to the positive development of the investment fund business, among other things (previous year: €455 million).

The **allowance for losses** on loans and advances rose by 13.1% to €154 million (previous year: €137 million). This was impacted by reduced debtor credit ratings due to the economic situation. Administrative expenses fell by 4.0% to €1,809 million (previous year: €1,883 million). We generated savings both in staff costs and non-staff operating expenses. Net other income and expenses improved by €87 million to €83 million. We reversed a provision here that was no longer necessary due to staff restructuring. This led to an increase in net profit before taxes of 24.6% to €497 million (previous year: €399 million).

The **cost/income ratio** fell from 77.7% in 2002 to 76.1%. We were not quite able to reach our target of below 75% due to lower income.

Postbank's **return on equity (RoE)** before taxes rose year-on-year from 8.6% to 10.7%. RoE is computed on the basis of equity in accordance with the IASs/IFRS. The prior-period amounts was restated accordingly.

IASs/IFRS: IASs is the abbreviation for International Accounting Standards, now: International Financial Reporting Standards (IFRS).

The **tier 1 ratio** in accordance with the Kreditwesengesetz (German Banking Act) fell slightly year-on-year from 6.9% to 6.6%. Postbank's risk-weighted assets rose by a total of around €1.9 billion, especially due to the expansion of customer transactions. This increase was limited by the first-time securitization of receivables in the amount of €1.2 billion. Core (tier 1) capital remained almost unchanged.

Postbank reports in detail on its business developments in 2003 in a separate Annual Report.

STAR value creation exceeds expectations

One focus in fiscal year 2003 was on an extensive package of measures as part of our STAR value creation program. In the initial phase of the program, we were mainly involved in cross-divisional projects. One example of this is our enhanced procurement performance. We intend to bundle our substantial purchasing power through the various measures that we outline in the section "Group-wide procurement organization established". Other STAR projects are presented in the revenue and earnings development review for our Corporate Divisions. In the year under review, the program contributed €337 million to earnings, making a total of €423 million since its launch in November 2002. This means that we exceeded our targets for this period.

International presence expanded through targeted investments

In 2003, the Group's **capex** amounted to €1,435 million, €399 million (21.8%) down on the previous year. Our investing activities centered on renewing our vehicles and expanding our central distribution warehouses.

Capex (capital expenditure): investments in property, plant and equipment and intangible assets (excluding goodwill).

In the **MAIL** Corporate Division, we renewed vehicles, machinery, and technical equipment, and had to procure additional vehicles for the expansion of our joint delivery system. In addition, we purchased sorting systems equipped with state-of-the-art scanner technology. We intend to use them to increase throughput times.

In the **EXPRESS** Corporate Division, we continued to renew our aircraft fleet and acquired another Boeing 757. In total, nine aircraft were converted to carry freight in the year under review; eight of these had already been purchased in 2002. In addition, we expanded our central distribution warehouses in Hong Kong and Cincinnati, thus extending our international presence. In Germany, we invested in replacing delivery vehicles.

In the **LOGISTICS** Corporate Division, we improved the technical equipment at our terminals, among other things.

We largely completed the development and implementation of our core banking software in the **FINANCIAL SERVICES** Corporate Division in 2003. The new program, developed in cooperation with SAP, allows Postbank to substantially increase the speed of transaction processing. In addition, we invested in IT operations and structural measures.

Investments in companies rose by €161 million to €1,358 million (Postbank at equity). This figure includes the acquisition of Airborne, Inc. for €983 million as well as the acquisition in full of Securicor Omega Holdings Ltd., plus a number of smaller acquisitions and increases in interests held.

Relaunch of the DHL brand publicized globally

In the year under review, we launched an advertising campaign to accompany the relaunch of the DHL brand. Its objectives were to ensure that the new brand position is recognized globally, emphasize the brand's strengths and increase awareness of DHL. Not least, it aimed to make the public aware of the fact that this brand is part of Deutsche Post World Net. The target groups of this campaign were existing and potential private and business customers, the financial community, opinion-shapers and Group employees. The key concept and slogan was the term "more", which we used to explain the additional benefits of the new DHL brand: more expertise in all areas of logistics; more efficiency via integrated transport networks; and more integrated distribution solutions.

The campaign ran simultaneously in more than 60 countries from May to September 2003. It included television advertisements, advertisements in specialized, business, and daily publications, Internet banners, billboards, and mailings. We also held roadshows in 14 countries. These advertising measures were supported by press relations work and internal communications. Results from market research show that the effect of this advertising has been outstanding. For instance, advertising recall in

Germany rose by 44% at the peak of the campaign; 61% of those surveyed recalled DHL, compared with 17% before. Awareness of DHL as part of Deutsche Post World Net increased by 35% to 68%. We also improved the number of positive ratings of DHL's image in this period by 17% to over 60%.

We have already started optical rebranding in the new design in the run-up to the advertising campaign. All areas of our express and logistics activities – delivery vehicles, aircraft, buildings, packaging materials, and headed paper down to company uniforms – bear the new design, making the brand a reality for our customers and employees. The total budget for the global advertising campaign and rebranding was €138 million.

Continued sound financial position

A variety of factors influenced the Group's economic position in fiscal year 2003:

- On August 15, 2003 we consolidated Airborne, Inc. for the first time. The full consolidation of this and other companies enlarged the consolidated group.
- We were obliged to repay allegedly unjustified state aid totaling €907 million (including interest) to the Federal Republic of Germany at the beginning of the year. This led to a corresponding cash outflow from operating activities.

Selected indicators for net assets and financial position

		Deutsche Post World Net	Deutsche Post World Net	Deutsche Post World Net Postbank at equity	Deutsche Post World Net Postbank at equity
		2002	2003	2002	2003
Equity ratio	in %	3.1	3.9	19.1	21.9
Ratio of equity to fixed assets	in %	35.1	38.3	28.7	31.0
Net debt	in €m	681	963	1,494	2,044
Net debt adjusted for leases	in €m	4,721	5,067	5,323	5,928
Net gearing	in %	11.8	13.6	22.7	25.1
Net interest cover		30.7	21.8	7.3	18.1

The analysis of the Group's net assets is based on the consolidated balance sheet, which can be found on page 96 in the consolidated financial statements contained in this Report. It is driven in particular by Postbank's business operations.

Total assets fell by 4.7% to €154,933 million as of the balance sheet date (previous year: €162,647 million). This decline is largely the result of the decrease in current assets; however, noncurrent assets increased.

Noncurrent assets grew by 9.8% to €15,957 million (previous year: €14,536 million). There was an increase in intangible assets in particular, which rose by €1,328 million to €6,404 million, as goodwill from Airborne, Inc. was included for the first time. We also present the increase in goodwill from Securicor Omega Holdings Ltd. here. In the year under review, we purchased less technical equipment and machinery than in the previous year. Property, plant and equipment therefore fell by €267 million to

€8,818 million (previous year: €9,085 million). This resulted in a reduction in the carrying amounts of technical equipment and machinery by 13.3% to €1,008 million (previous year: €1,162 million). The carrying amounts for aircraft rose by 17.6% to €797 million (previous year: €678 million), as we again modernized and expanded our aircraft fleet.

Noncurrent financial assets almost doubled year-on-year to €735 million (previous year: €375 million). This was due to so-called long-term deposits which we presented in noncurrent financial assets for the first time. These were previously carried as receivables and other assets. As of December 31, 2003, long-term deposits amounted to €356 million (previous year: €297 million).

Long-term deposits: in this context, these are long-term deposits used to secure aircraft leasing contracts.

Current assets fell by 5.9% to €138,060 million (previous year: €146,665 million). Receivables and other securities from financial services from the business operations of Postbank again constituted the largest single item, falling by 6.3% to €128,928 million (previous year: €137,641 million). This decline is mainly due to two reasons. On the one hand, Postbank's deposits at other banks fell by €3,702 million to €34,071 million, while on the other, noncurrent financial assets fell by €5,358 million to €38,804 million. In the year under review, registered bond and promissory note loan maturities expired, and money market activities were reduced.

Other assets fell by 18.9% to €1,994 million (previous year: €2,460 million). This was mainly due to the reclassification of long-term deposits of €297 million to noncurrent financial assets. Cash and cash equivalents increased by €520 million to €3,355 million. This increase resulted solely from net cash inflows from operations.

The decrease in loss carryforwards at Deutsche Post AG and Postbank led to a reduction in deferred tax assets from tax loss carryforwards by €325 million. Deferred tax assets from temporary differences also fell by €205 million. **Deferred tax assets** fell accordingly by 36.7% to €916 million (previous year: €1,446 million).

Changes in equity were also driven by offsetting developments. Equity was particularly strengthened by the consolidated net profit, rising by €1,309 million. In addition, it increased by €249 million due to the remeasurement of financial instruments in accordance with IAS 39 and other changes in equity not recognized in income. By contrast, the payment of a dividend of €445 million reduced equity in fiscal year 2002. In addition, it fell by €102 million due to currency translation differences (see the statement of changes in equity on page 98 in the consolidated financial statements). In total, equity increased by 19.8% to €6,106 million as of the balance sheet date (previous year: €5,095 million).

The **equity ratio** rose by 0.8 percentage points to 3.9% (previous year: 3.1%), as shown in the table on net assets on page 72. This figure is lower than for other service providers due to Postbank's business operations. After adjustment for the effect of the banking business, the Group's equity ratio was 21.9% in the year under review (previous year: 19.1%).

Securitized liabilities: in this context, debt instruments, including mortgage bonds, public-sector mortgage bonds (Pfandbriefe) and money market instruments.

The **ratio of equity to fixed assets** also rose, increasing to 38.3% for the Group (previous year: 35.1%) and to 31.0% in the “Postbank at equity” scenario (previous year: 28.7%).

Minority interest amounted to a total of €59 million (previous year: €117 million). This represented a drop of 75% due to the increase of our interest in the Guipuzcoana group.

Provisions remained on a par with 2002, at €12,673 million (previous year: €12,684). Tax provisions fell by 1.3% to €1,491 million (previous year: €1,510 million). €110 million of the STAR restructuring provision, established in the previous year, was utilized.

Liabilities primarily relate to liabilities from financial services. This contra account to receivables and other securities from financial services also fell as of the balance sheet date and was reduced by 7.2% to €123,317 million (previous year: €132,851 million). On the whole, liabilities fell by 6.0% to €136,095 million (previous year: €144,751 million).

Deposits from other banks decreased by €8,042 million to €20,257 million (previous year: €28,299 million), as we reduced our money market activities. Expiring maturities of bonds and mortgage bonds reduced securitized liabilities by €8,531 million to €26,266 million. Customer deposits, which Postbank shows as liabilities, grew by €7,226 million to €73,334 million. This was due to increases in the savings business and demand deposits.

Trade payables remained more or less constant at €2,755 million (previous year: €2,707 million). The same is true for other liabilities, at €5,274 million (previous year: €5,377 million). However, after adjusting other liabilities for the European Union state aid payment of €907 million included here in the previous year, they rose by €804 million. This is mainly due to two reasons: subordinated liabilities from Postbank’s hybrid capital increased by €522 million, and the fair values of derivatives increased by €111 million.

Financial liabilities grew by €933 million to €4,749 million. The main reason for this increase is the issue of a second euro bond with a volume of €1 billion. The Group will use the funds raised from the bond issue for the long-term refinancing of existing liabilities. A breakdown of the financial liabilities listed by maturity is presented in item 40 of the Notes.

The “Postbank at equity” scenario allows an analysis of the key figures relating to debt. We report the following key figures in this context.

In the year under review, we expanded the **net debt** indicator. It now includes cash equivalents in addition to financial liabilities minus securities and cash. The prior-period amounts were restated accordingly. On balance, net debt in the “Postbank at equity” scenario rose to €2,044 million in 2003 (previous year: €1,494 million), and **net gearing** rose to 25.1% (previous year: 22.7%). Adjusted for the repayment of European Union state aid of €907 million (including interest), net debt did not increase year-on-year. We were therefore able to finance all investments and acquisitions in the year under review from operating cash flow. Adjusted for discounted minimum lease payments (see also item 48 of the Notes), net debt in the “Postbank at equity” scenario (restated) increased, rising by 11.4% to €5,928 million (previous year: €5,323 million).

The **net interest cover** indicator compares the operating income (EBIT) available to cover financial liabilities with the balance of interest payments and interest received. As of December 31, 2003, operating income in the “Postbank at equity” scenario corresponded to 18 times net interest payment liabilities (previous year: 7 times).

The “Postbank at equity” scenario is also suitable for measuring financial strength.

The **current ratio** rose to 126.8% (previous year: 118.0%). This indicator compares current assets with current liabilities and represents an assessment at the balance sheet date. It is an indicator of the volume of cash resources available to cover current liabilities. Its development is a reflection of the Company’s significant short-term financial strength.

As of December 31, 2003, we had bank credit lines of around €3.9 billion at our disposal. Together with the existing cash reserves, the Group has sufficient funds to finance the further expansion of business operations.

We explain financial strength and the cash flow statement in detail in item 44 of the Notes.

Selected indicators for Deutsche Post World Net (Postbank at equity) financial position

in €m	Jan. 1–Dec. 31, 2002	Jan. 1–Dec. 31, 2003
Change in cash and cash equivalents	1,428	311
Net profit before changes in working capital	2,209	2,811
Net cash from operating activities	3,220	2,491
Net cash used in investing activities	–1,845	–1,887
Net cash used in (from) financing activities	72	–244

Group structure optimized

Deutsche Post World Net's overall structure is strictly classified by Corporate Divisions. It is managed by the Group's Board of Management, which is supported in this task by the Corporate Departments at the Group headquarters. The operating business is divided into four Corporate Divisions, which we present as segments in accordance with the IASs, and additional Corporate Services units.

The headquarters was restructured as part of the STAR value creation program as of July 1, 2003. It is a lean management unit that is now tailored exactly to its management tasks. Core Group management encompasses strategic development, performance and resource management. Operational tasks and responsibilities were transferred accordingly from the headquarters to the Corporate Divisions and service units. In the service units, this concerned horizontal functions performed by internal service providers, such as information technology.

In line with the new management and control principles, we also further developed our Corporate Guidelines that regulate efficient cooperation in the complex Group structure, and relaunched them on August 1, 2003. There were updated on November 1, 2003.

As of November 1, 2003, our Board Member Finance acquired responsibility for all financial matters, accompanied by the direct integration of the relevant organizations from the Corporate Divisions. This creates greater transparency and allows faster decision-making.

As of August 1, 2003, we reorganized the **MAIL** Corporate Division by restructuring the Mail International Business Division and those activities previously under the responsibility of, and reported in, the EXPRESS Corporate Division. The new Business Division also contains activities previously reported in the Foreign Domestic International Business Division.

We continued with our reorganization in the **EXPRESS** and **LOGISTICS** Corporate Divisions in 2003. For instance, we spread management responsibility over separate Board Departments. Dr. Frank Appel took over the management of the LOGISTICS Corporate Division as of November 1, 2003.

In addition, we streamlined our organization by dissolving the headquarters' EXPRESS regional business departments on January 1, 2003.

Until 2002, the Danzas group and its three Business Units, Solutions, Intercontinental, and Eurocargo, were part of the LOGISTICS Corporate Division. The Eurocargo Business Unit was incorporated into the EXPRESS Corporate Division in 2003.

In the **FINANCIAL SERVICES** Corporate Division too, we streamlined our management responsibility. The former structure of retail outlets with 25 branches was replaced by 10 sales directorates throughout Germany. At the same time, the number of business departments in the field was reduced from five to four.

In March 2003, we started a STAR project to examine Deutsche Post World Net's legal structure. The project's objective is to optimize this structure and to reduce the number of independent legal units globally. The restructuring aims to create

a lean, tax-optimized Group structure, reduce administration costs, and support the integration of operations. We began the relevant implementation at the beginning of 2004.

Express and logistics business strengthened internationally

In the year under review, we purposefully pursued our strategy of intensifying our activities in selected market segments and offering our customers additional value added services.

The acquisition of the remaining equity interests in the Italian company **Casa di Spedizioni Ascoli S.p.A.** on January 15, 2003, and in **Securicor Omega Holdings Ltd.** in the United Kingdom on July 1, 2003, enabled us to lay the groundwork for integrating the networks and sites acquired into DHL's European parcel network. We also gradually increased our interest in the Spanish company **Guipuzcoana Narrondo Desarrollo S.L.** in the year under review, from initially 51% to 75%.

On February 13, 2003, we purchased a share of around 5% in the leading Chinese transport and logistics company, **Sinotrans Ltd.,** at the time of its IPO. This will further strengthen our strategic position in the Chinese growth market.

In addition, our subsidiary DHL acquired Mayne Group Canada as of January 31, 2003. With the acquisition of this prominent express and parcel service provider known under the name **Mayne Logistics Loomis,** DHL further expanded its market share and advanced straight to number three on the Canadian market.

To strengthen its position in Central America, DHL increased its interest in the logistics service provider **Corporación Cormar, S.A.** to 100% on July 15, 2003.

DHL's acquisition of express service provider **Airborne, Inc.** was completed on August 15, 2003. The US company's former shareholders received a cash price of US$21.25 per share. This corresponds to a total purchase price of €983 million. In addition, they received one share in ABX Air for every Airborne share held, making them shareholders of this spun-off airline. Airborne, Inc. and ABX Air entered into service agreements.

Thanks to this strategic acquisition, DHL now also has a close-knit ground and air transport network in the USA, the world's largest express market. DHL introduced organizational changes in the USA; this represents a major step in establishing an efficient, competitive infrastructure for its operations there.

Employees

Headcount rises due to acquisitions

As of December 31, 2003, Deutsche Post World Net had a workforce of 341,572 people (calculated as full-time employees). In addition, the Group employed an average of 6,609 trainees during the year. The headcount rose by 4.2% year-on-year (an increase of 13,896 full-time employees), mainly due to acquisitions. For example, Airborne, Inc. was retrospectively consolidated for the first time as of August 15, 2003; Securicor Omega Holdings Ltd. was fully consolidated as of July 1, 2003. After adjustment for these effects, the number of employees amounted to 322,959 at the end of the year under review, a year-on-year decrease of 1.4%.

Change in workforce

	Dec. 31, 2002	Dec. 31, 2003	Change in %
Corporate Divisions			
Mail [1]	133,692	133,651	0.0
Express [1]	120,756	135,715	12.4
Logistics [1]	28,935	31,382	8.5
Financial Services [1] [2]	34,082	31,195	–8.5
Other/Consolidation [1]	10,211	9,629	–5.7
Group [1]	**327,676**	**341,572**	**4.2**
Group [3]	330,793	333,369	0.8
Regions [1]			
Germany	219,067	207,398	–5.3
Europe (excl. Germany)	65,599	74,772	14.0
Americas (North, Central, and South America)	23,905	39,600	65.7
Asia/Pacific	14,372	15,393	7.1
Other regions	4,733	4,409	–6.8
Total	**327,676**	**341,572**	**4.2**
Total workforce (incl. trainees) as of Dec. 31	371,912	383,173	3.0
Employees	296,107	298,357	0.8
Civil servants	73,157	70,130	–4.1
Trainees	6,626	6,609	–0.3
Average for the year	**375,890**	**375,096**	**–0.2**

1) Calculated as FTEs, excluding trainees, as of Dec. 31
2) thereof Postbank: 10,228 (Dec. 31, 2002), 8,697 (Dec. 31, 2003)
3) Calculated as average FTEs for the year

The number of employees in the EXPRESS Corporate Division rose by 12.4% to 135,715 due to the acquisitions mentioned above; after adjustment for these effects, it dropped by 3,654 to 117,102 full-time employees. The number of employees in the LOGISTICS Corporate Division also rose due to acquisitions to 31,382 (8.5%). After adjustment for these acquisitions, the number rose by 165 to 29,100 employees. A contrary trend was again seen in the other Corporate Divisions. The number of employees in the FINANCIAL SERVICES Corporate Division decreased by 8.5% to 31,195 due to rationalization and staff restructuring.

The number of employees in the MAIL Corporate Division remained more or less constant. We were able to compensate for the transfer of around 4,000 employees by ongoing outsourcing in the transport area and similar measures.

In addition, we have reduced our headcount by not refilling open positions.

With 207,398 full-time employees, Germany remained the region with the largest workforce. 74,772 people were employed in the rest of Europe (excluding Germany). The acquisition of Airborne, Inc. was the main reason behind a sharp increase in the number of employees in North, Central, and South America to 39,600, a rise of 65.7%. In total, 39.3% of all Group employees now work outside Germany (previous year: 33.1%)

Including trainees, the average workforce for the year amounted to 375,096. The number of civil servants fell again, as shown in the table on page 78.

Deutsche Post and ver.di sign employment pact

Deutsche Post AG agreed an employment pact – the first of its kind in Germany – with the services union Vereinte Dienstleistungsgewerkschaft e.V. (ver.di). The Company will refrain from issuing any compulsory redundancies until March 31, 2008 and will guarantee that deliveries are made by Deutsche Post employees until December 31, 2006, with the exception of up to 600 parcel delivery districts. In return, the joint delivery system can be expanded, meaning that mail carriers will also deliver parcels. In addition, weekly working hours in deliveries can be extended to 48 hours on a voluntary basis and 2 formerly non-working days have been abolished for all staff. The agreement is based on the continuation of the current average working week of 38.5 hours until December 31, 2006. The ground-breaking package enables Deutsche Post AG to achieve a sustained improvement in cost structures. The increase in flexibility benefits our customers and substantially enhances our competitiveness, particularly in the EXPRESS Corporate Division.

Competitive remuneration system introduced for all employees

On September 1, 2003, the old public-sector pay system for Deutsche Post AG's employees was completely replaced by a modern, competitive remuneration system. A distinction is no longer made between hourly-paid workers and salaried employees; instead, the system is based on a standardized framework agreement on employment conditions and a collective wage agreement. In future, all employees will be eligible for performance-related variable remuneration. The introduction of the new remuneration system enabled us to reduce salary levels to those of our competitors, while preserving the vested rights and legal situation of employees in permanent positions before September 1, 2003.

Salary structures for non-executive salaried employees who are not subject to collective wage agreements were laid down in an agreement concluded with our General Works Council. It was agreed for the first time that the variable remuneration component will contain an element that is dependent on the Company's success in addition to a performance-related portion. The variable remuneration can amount to between 17.5% and 40% of total annual remuneration.

A new function-oriented remuneration system was also agreed between Deutsche Postbank AG and the latter's social partner. Valid as of January 1, 2004, it includes compensation components that depend both on individual performance and the company's success.

Wage agreements provide planning security

In 2003, wage agreements were signed for periods of up to 24 months by the following German Group companies: DHL Worldwide Express GmbH, Deutsche Post Express GmbH, Deutsche Post Euro Express GmbH & Co. OHG, and Deutsche Post ITSolutions GmbH. This provides these companies with planning security in a difficult market environment.

Harmonization of executive compensation

We began standardizing the salary bands for our executives across the Group in 2002. In the meantime, job descriptions have been produced for the majority of second- and third-level executives in accordance with a uniform standard ("role classification system") and the appropriate salary bands per country have been largely defined. Since January 2004, we have been systematically implementing the new structure for third- and fourth-level management. We also have standardized guidelines for job titles, annual salary adjustments, and international management assignments throughout the Group. The Deutsche Post World Net Mobility Policy covers the international transfer and assignment of executives, thus supporting their integration within the Group. Approximately 600 executives are currently working abroad throughout the Group.

On August 1, 2003, we issued options and stock appreciation rights (SARs) to the members of the Group's Board of Management and the Group's executives in accordance with the conditions of the approved stock option program. Some of the options are linked to satisfying absolute performance targets, while others can be exercised if relative performance targets are met. In addition, members of the Board of Management and second-level Group executives must invest in Deutsche Post shares to receive options. In the year under review, 1,130 executives subscribed to the stock option plan. DHL's executives were included in the program for the first time. As a result, the number of options issued increased to 13,049,592 and the number of SARs to 731,736.

More added value from employee ideas

Our employees systematically improve Group business processes by taking a critical, productive approach to existing workflows. Our ideas management program continued its success in the year under review: around 98,000 ideas (previous year: around 92,000) were submitted to Deutsche Post AG and we implemented half of them. The resulting measurable savings amounted to around €73 million. This model employee initiative was awarded the Thinkers Prize 2003 from the Deutsches Institut für Betriebswirtschaft (German Institute for Business Economics).

As already announced last year, we are implementing ideas management throughout the entire Group on a step-by-step basis. Deutsche Postbank AG and Postbank Systems AG had already realized the technical and organizational requirements for this by the end of the year, and other Group companies are scheduled to introduce them in the near future.

Award-winning equal opportunities policy

Since 1997, we have used specific measures to promote a better work/life balance, individual professional development, and a cooperative spirit in the workplace. In the year under review, we again received an award from Total E-Quality Deutschland e.V. for our long-term equal opportunities activities.

In the European Year of People with Disabilities 2003, we signed a voluntary master agreement with Deutsche Post AG's representatives for the disabled on the integration of severely disabled employees. At the same time, we held a competition for new ideas on how to improve the integration of severely handicapped people in our facilities.

Sickness absence and accident rates down

In 2003, we continued with our extensive preventive measures to protect the health of our employees. Their success can be seen from a further reduction in our sickness absence rate, which reached its lowest ever level at 5.7%.

We also substantially reduced our accident rate. Deutsche Post AG received this year's DuPont Safety Resources Award for its focus program "Safe Hitching Makes Sense". Training sessions and video clips were used to familiarize drivers of towing vehicles with how to hitch trailers safely to heavy goods vehicles. Since the program began, we have drastically reduced the number of this type of accident in the Group, and no fatal accidents have occurred.

Establishment and maintenance of international networks

Deutsche Post World Net cooperates with a number of national and international universities and scientific institutes. Its MBA summer internship program enables MBA students from all over the world, who already have solid professional experience, to spend three-month periods working on strategic Group projects. The program's partners include well-known universities such as Wharton and the University of Pennsylvania, and the London Business School is one of the universities that joined in 2003.

By participating in this program, we are building an international network of universities and can meet their graduates at an early stage. In this way, the program helps us guarantee access to international executive talent and reinforces the Group's image as an employer.

We have extended the successful cooperation we established with the Wharton Business School in 2002. In total, around 300 third-level executives participated in the various programs in the year under review.

Safeguarding the Future

Managing risks, making the most of opportunities

Deutsche Post World Net operates an **opportunity and risk management system** throughout the Group. We aim to receive information about risks and their causes as early as possible so that we can control undesirable developments without delay. At the same time, we identify opportunities to grow our enterprise value that we are able to exploit after weighing up the risks and costs.

Our Group headquarters controls the information flow. The Group's individual Business Departments, Corporate Departments, and subsidiaries identify and report opportunities and risks appropriate to their devolved responsibility. The corresponding information is updated on a quarterly basis and transferred to higher levels in the hierarchy depending on predefined materiality levels. Finally, the Board of Management receives an annual overview of the entire procedure that can also be supplemented by ad hoc reports throughout the year. The functioning of the opportunity and risk management system is regularly audited by Corporate Audit on the basis of the Group manual.

Economic, political, or sociopolitical developments may represent **macroeconomic risks.** We do not consider the Group to be exposed to any material risks of this nature at present.

Financial risks arise from changes in exchange rates, commodity prices, or interest rates. We employ primary and derivative financial instruments to limit and reduce the Group's exposure to these risks. As a matter of principle, the relevant financial transactions of the Group are recorded in a treasury risk management program. This excludes Postbank's financial transactions, which are recorded in Postbank's own bank-specific risk management system. We only enter into derivative transactions with prime-rated banks within prescribed trading limits. Trading partner credit ratings are subject to regular checks. The Board of Management is informed regularly and in a timely manner about hedging measures. Financial instruments are accounted for in accordance with IAS 39.

Corporate Treasury: corporate function that manages all financial flows in the Group and advises the Group companies on questions of financing, financial risk management and payment transactions.

Financial risks in detail: Due to the Group's international presence, the management of exchange rate risks plays a central role in risk management. Group companies are obliged to hedge all local currency risks with Corporate Treasury. Corporate Treasury then calculates the net position for each currency and hedges it – depending on market estimates – with external counterparties. The US dollar is our most important foreign currency, as we conduct numerous business activities in the USA and in other countries whose currencies are linked to the US dollar, or depend on the development of the US dollar.

Risks from price movements for commodities arise in the Group principally from the purchase of kerosene, diesel, and gasoline. Fuel surcharges or corresponding clauses in our master agreements mean that we can partly pass on fuel price increases to customers. In addition, we reduce our risk by hedging part of our fuel requirements in advance.

Interest rate management is a further key component in managing financial risk by capturing interest rate risks from the Group's receivables and liabilities. We employ primary and derivative financial instruments to optimize financing costs and to limit interest rate risks. We combine contracts with fixed and variable interest rate terms in a portfolio and adjust the ratio, where necessary, as part of our active interest rate management.

Our Corporate Divisions are exposed to various **sector risks.**

The MAIL Corporate Division is exposed to significant risks arising from the following public policy framework in particular:

With the implementation of the EU Directive on further deregulation of the European postal markets into German law in 2002, letters and addressed catalogs over 100g or three times the standard rate, and outgoing cross-border mail services, were opened up to competition as of January 1, 2003. Starting in 2006, these ceilings will be cut to 50g or two and a half times the standard rate. The deregulation of other European mail markets opens up new opportunities for us on the one hand; but on the other, the change in the Postgesetz (German Postal Act) entails competition risks in Germany.

The Postgesetz allows exceptions on the basis of which competitors are allowed to operate within the weight and price ceilings in the boundaries of our exclusive license. This is intensifying competitive pressure. At the end of the year under review, the Regulierungsbehörde für Telekommunikation und Post (RegTP – Regulatory Authority for Telecommunications and Posts) had issued licenses to a total of 1,495 competitors.

In May 2003, the European Commission proposed a change in the current VAT exemption for postal universal services. It proposed that postal services should generally be subject to the member states' VAT rates. However, the member states could tax standard postal services of up to 2kg at a reduced rate. At the moment, the proposal is being discussed by the European Council of Ministers. However, the change in the current VAT Directive requires a unanimous vote by the member states in the European Council of Ministers. As they have not yet decided on their final positions, the outcome of the procedure is not yet foreseeable. In the event of a tax increase, the resulting risk would be cushioned by a price increase.

In July 2002, the RegTP announced its decision on the regulation of mail prices up to the end of 2007 in the so-called price-cap procedure. This stipulates that a price increase may not exceed the rate of inflation minus a productivity growth rate. On this basis, price cuts were required at the beginning of 2003, although they were partly offset. Mail prices for 2004 were approved by the RegTP in September 2003. This ensures that the prices for key products will remain stable in the current fiscal year.

Some German states are planning an initiative in the Bundesrat (upper house of the Federal German parliament) with the aim of expanding the requirements for universal services. Deutsche Post AG could incur substantial extra costs in implementing any resulting measures.

Reims II agreement: a system of terminal dues for the delivery of cross-border mail.

In October 2003, the European Commission approved the REIMS II agreement – applied by Deutsche Post AG and 16 other European postal companies – until the end of 2006. This now provides planning security for the European exchange of cross-border mail.

Electronic communication media are becoming more and more widespread and popular. In the MAIL Corporate Division, however, we believe that on balance we can attain stable volumes in the mid- to long-term, as the mail market is continuing to grow.

Within the EXPRESS and LOGISTICS Corporate Divisions, the main opportunities – and also the main risks – are in the integration of the global DHL companies. In particular, we aim to counteract a temporary decline in revenue or even the loss of customers that could occur while we are adjusting our product portfolio or networks. The US express company Airborne, Inc., which was acquired by our DHL subsidiary in August 2003, is the focus of these efforts. The rapid integration of Airborne, Inc.'s business units into DHL is both an opportunity and a challenge for us.

In addition, an investigation in the USA by the Department of Transportation (DOT) could affect our business there. DHL companies in the USA have entered into agreements with the two US air carriers ASTAR Air Cargo, Inc. (previously DHL Airways) and ABX Air, Inc. relating to the provision of certain air transportation services to DHL in the United States. The ownership of these two companies changed in July and August 2003, respectively. In this context, the DOT is required to conduct a citizenship review to confirm that both airlines continue to be controlled by US citizens and that they satisfy the requirements for citizenship status. If the DOT were to find that either or both the airlines were not controlled by US citizens and such finding was not reversed after all appeals had been exhausted, DHL would be exposed to the risk of having to enter into agreements with other US-certified air carriers. This would increase operational complexity.

However, ASTAR Air Cargo, Inc. won an important partial success in the citizenship review conducted by the DOT's federal judge in the investigation procedure. In his recommendation in December 2003, he established that ASTAR Air Cargo, Inc. fulfils all the criteria that establish the necessary citizenship status. This confirmed an earlier decision by the DOT. The DOT will probably make its decision in the first half of 2004. When making its decision, the DOT will take the recommendation into account, but is not bound by it.

In the FINANCIAL SERVICES Corporate Division, the main opportunities arise from the planned disposal of a minority interest in Postbank. This represents the opportunity for the Group to achieve corresponding proceeds. In addition, we believe there is the opportunity to strengthen Postbank's earnings power. Contributory factors are in particular the bank's improved image, greater visibility on the market, and related new business opportunities.

Postbank's business operations are exposed to material risks arising from changes in market prices and possible loan defaults. Postbank has an extensive set of instruments at its disposal for monitoring and managing risk, for instance in the areas of foreign exchange trading, securities trading, and lending. Postbank's Management Board has established a limit system, compliance with which is monitored on a daily basis. Postbank has also designed a system to measure and manage operational risks and began to implement it in the year under review to fulfill the capital adequacy requirements set out in the second consultation paper of the Basel Committee on Banking Supervision ("Basel II"), which will probably be applicable from 2006.

Legal risks arise from the cases pending before the European Commission: in the competition proceedings, which were initiated on the basis of accusations of excessive mail prices made by the Deutscher Verband für Post und Telekommunikation (DVPT – German Association for Posts and Telecommunications), we have presented the European Commission with detailed evidence of the reasonableness of our prices.

In addition, we are obliged to allow customers and competitors partial access to our networks in accordance with conditions determined by the regulator. Depending on the outcome of ongoing proceedings against the final decision by the RegTP in the administrative courts, the European Court of Justice, and the European Commission, there could be a substantial decline in revenue and earnings.

Additional risks arise from the pending cases before the Cologne administrative court against the RegTP's decision about the parameters of the price-cap procedure in July 2002 as well as against the RegTP's concrete price approvals for 2003 and 2004.

The European Commission's ruling in the state aid proceedings required Deutsche Post to repay the Federal Republic of Germany state aid of €572 million plus interest (€907 million in total). Although we immediately filed an appeal against this ruling, we were required to repay this amount in January 2003.

On January 21, 2004, the European Commission issued a state aid ruling on the assumption by the Belgium government of telecommunications company Belgacom's pension obligations to employees. Some press releases reported that the European Commission was planning to apply the state aid principles of this decision to Deutsche Post AG if the European Courts grant Deutsche Post AG's appeal against the European Commission's state aid ruling dated June 19, 2002. According to these press releases, this could result in a substantial financial burden for Deutsche Post AG.

However, the European Commission has not confirmed these reports. Neither has the decision yet been published, so that it is not known whether the statutory regulation of Deutsche Post AG's pension obligations is at all comparable with this case. No judgment on Deutsche Post AG's appeal against the European Commission's state aid ruling of June 19, 2002 is expected before 2005 at the earliest.

It should be noted in this matter that the European Commission examined in detail the contributions by the Federal Republic to finance pensions within the scope of the concluded state aid proceedings, and did not establish any illegal aid in this respect in its decision in June 2002. In this respect, Deutsche Post AG therefore claims protection under the principle of legitimate expectations.

The competition authorities allege that Deutsche Post AG contravened the prohibition on state aid enshrined in the EU Treaty by allowing Deutsche Postbank AG to use Deutsche Post outlets at below market rates. Deutsche Post AG believes that this allegation is inaccurate. The fee charged to Deutsche Postbank AG complies with the provisions on competition and state aid stipulated in European law.

We do not consider that there are any material risks relating to technical **infrastructure** other than temporary risks during the integration of DHL's global activities. We have reduced the possibility of potential business interruptions by systematically monitoring our sophisticated conveyor and sorting systems, and by taking a large number of precautions in the areas of fire protection and IT security. If, despite these measures, damage were to occur, we can significantly reduce the financial effects of any potential interruption to business by our emergency and contingency plans.

As Deutsche Post World Net is a service provider and does not conduct **research and development** in the narrower sense, there are no material risks to report in this area.

In the past year, there were no identifiable risks that, individually or collectively, could have **significantly affected the continued existence of the Company.** Nor are there any such risks apparent in the foreseeable future.

Group-wide procurement organization established

Our new Corporate Procurement organization is responsible for the procurement of so-called indirect goods and services. Indirect goods and services are those that do not directly affect income, such as vehicles and IT. In 2003, the total volume amounted to around €6 billion. The Corporate Divisions are responsible for organizing the purchase of all other products.

One of the highest-priority initiatives of the STAR program concerns Group-wide procurement. We restructured the entire area from scratch in the year under review to achieve our target cost savings potential of at least €200 million by 2005. Our primary goal was to structure procurement functions and order processes more effectively and efficiently. As a first step, we have extended the competence and scope of the newly-organized procurement organization throughout the Group and abolished the Corporate Divisions' previous procurement organizations. Strategic procurement was combined to form a Group-wide unit, to enable us to attain optimum bundling effects. We distinguish between 18 product categories, which each have their own global category management team responsible for procurement. The products can be broken down roughly into the following five groups:

1. Printed materials and business requirements
These include company uniforms, office materials, packaging materials, and all kinds of printed materials.

2. Production systems
This group includes sorting, conveyor and scanning systems, as well as security, logistics, and warehouse systems.

3. Fleet vehicles
This group includes all kinds of road vehicles, their maintenance, and servicing.

4. IT and communications
This group – with the highest spending levels in the year under review – encompasses all communications technology, including hardware and software, as well as the corresponding consulting services.

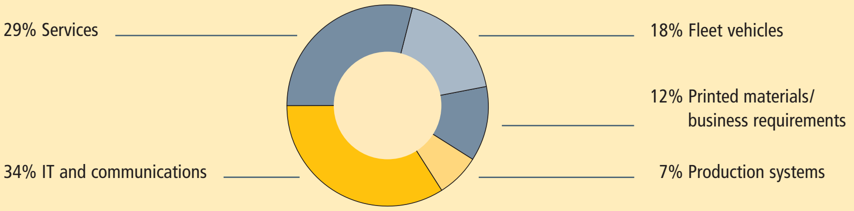
5. Services
In addition to the general consulting services, this group includes travel, marketing, and media.

In terms of regions, central procurement is divided into four cross-divisional procurement organizations. They were established for the Germany, Europe and Emerging Markets, Americas, and Asia/Pacific regions, and guarantee the efficient processing of local procurement procedures.

Restructuring in the year under review was accompanied by further measures: for example, we established Group-wide procurement standards. The Procurement Policy lays down our understanding of procurement, its relationship to the market and to internal customers. Procurement procedures were analyzed and standardized, taking into account business workflows. In addition, new functions were established, such as the development of standards for procurement procedures, and performance management as a method to assess performance.

Procurement: spending per product category

Total volume: approx. €6 billion



We have also redesigned the technical aspects of all our procurement procedures. Suppliers now participate in our tendering processes online using new software. Category managers examine suppliers for criteria such as product range and creditworthiness. They are then invited to provide more detailed information about their goods and prices. The category manager uses this to decide which suppliers to approve for the Internet auction.

In May 2003, we commissioned our new procurement portal. The intranet-based portal connects the existing Group platforms and will be the central information and transaction platform for Group procurement in the future. It will allow procurement employees to access all of the information relevant to them and use the related applications, such as the Project and Benefit Tracking System, from any location worldwide, and at any time. It provides transparent evidence of the effects of procurement savings on earnings.

The first successes were already noticeable in 2003. For instance, we significantly improved procurement conditions in the "packaging" and "fleet vehicles" categories. These savings are felt particularly by our subsidiaries. Further savings potential is emerging for early 2004 due to the improved progress in implementing these measures in the other product categories.

DHL Danzas Air & Ocean and DHL Express mainly purchase commercial air freight capacity. We have also bundled our procurement activities in this area and created a highly reliable procedure through long-term alliances. We enter into agreements with selected core carriers for guaranteed freight capacity and competitive rates. The capacities agreed on depend on the volumes on individual routes. DHL Danzas Air & Ocean also use freight capacities of their own DHL aircraft fleet in the entire network. The focus in this area is on Europe. We buy additional capacities on the spot market. One of the value creation initiatives, "Starbroker", aims to optimize freight procurement and control air freight volumes. This allows us to manage capacity bottlenecks and surpluses more efficiently.

New revenue and income potential developed

Deutsche Post World Net provides services. The Group does not conduct **research and development** in the narrower sense, comparable with the activities of manufacturing companies in this area.

At the same time, we have a keen interest in offering our customers continually improved services, and developing new revenue and income potential for ourselves in turn. As our business activities are very diverse, the corresponding Group initiatives are driven forward by the individual Corporate Divisions. Overall expenditures in this area – measured against consolidated revenue generated in the fiscal year – were negligible.

The following initiatives are two notable examples of improved services: in October 2003, Postbank introduced its new core banking software that it developed in cooperation with SAP. It doubles the speed of transaction processing and significantly reduces costs.

The automated Packstation service offers customers more flexibility in the EXPRESS Corporate Division: they can collect or post their parcels at any time from a Packstation near them, at one of currently 75 locations. In the year under review, the Group's Board of Management decided to extend this service in 2004 – after the successful development and pilot phase – to conurbations in Germany, such as Munich, Cologne, Berlin and Hamburg to win even more customers. We increased the number of customers in 2003 by more than 18,000 to around 67,000.

As of January 1, 2004, we extended our longstanding collaboration with the Rheinisch-Westfälische Technische Hochschule (RWTH – Aachen Technical University), Germany: we are financially supporting the chair "Deutsche Post – Lehrstuhl für Optimierung von Distributionswerken" (Deutsche Post – Chair for optimizing Distribution Networks). This enables us to further strengthen our role as the forerunner in terms of quality and processing standards in the MAIL Corporate Division by employing state-of-the-art scientific methods.

Social and environmental commitment

In a separate **Environmental Report,** which we published for the first time in May 2003, we provide information about our numerous activities concerning environmental protection and social responsibility. It can be requested free of charge, using the postcard on the inside back cover of this Report. In addition, the Environmental Report can be accessed online at www.dpwn.com and downloaded from there.

Medical care for people living in various crisis regions around the world was of major social importance in 2003. Deutsche Post World Net here proved itself to be a responsible and reliable logistics partner. For instance, our DHL subsidiary delivered a total of 26 tonnes of medical supplies to hospitals in Iraq. Just a few days after the devastating earthquake that shook the Iranian town of Bam in December 2003, DHL transported 75 tonnes of tents, blankets and mobile kitchens, among other things, to the crisis zone on behalf of the International and British Red Cross.

Events after the Close of the Fiscal Year

Changes in operating environment after the end of the year under review

There were no changes in the Group's operating environment after the end of the year under review.

Further expansion of international activities

Our subsidiary Deutsche Post Beteiligungen Holding GmbH acquired the British company Speedmail International Limited on January 23, 2004. Speedmail International Limited, which employs 110 people and handles more than 12 million items annually, is one of the few licensed postal companies that is active on the national mail market and transports international business mail to and from the UK.

From the summer of 2004, DHL and Lufthansa Cargo will jointly operate five international routes as part of a long-term strategic alliance. DHL and its customers will benefit from more frequent connections between the American, Asian, and European markets.

Outlook

Global economic upturn revives markets

Economic experts are very upbeat about the prospects for the global economy in 2004. After the prolonged period of recession and stagnation, they expect an economic upturn in 2004 and 2005.

The **USA** in particular has laid the foundations for transitioning its economic recovery, which is initially being bolstered by fiscal policy measures, to a self-sustained upturn. Its GDP growth therefore looks set to accelerate to 4.7% in the current fiscal year. For example, research departments at banks expect that the USA will also profit increasingly from the continuing global revival and the weak dollar, which should lead to a sharp 7.5% rise in exports.

Japan will continue to benefit from the global upturn and its exports are likely to rise substantially again. However, structural problems cast doubt on whether the stimulus provided by foreign trade will have a lasting effect on domestic demand. China, on the other hand, will again experience exceedingly strong growth, with GDP forecast to increase by more than 8%. Export growth will be on a par with previous years.

The entire **euro zone** should also feel the effects of the global recovery in 2004. The rise in the euro will probably continue to put a damper on exports. However, increasing global demand indicates that they will perform substantially better overall than in the previous year. Experts forecast a 4.5% rise in exports in the euro zone, while **Germany** should do somewhat better with at least 5%. This assumes, however, that the euro does not undergo another massive hike. Early indicators point to a more upbeat mood among private consumers in the euro zone. In the current fiscal year, GDP growth here is expected to total 2%, and the figure for Germany should be only slightly lower.

Overall, world trade is predicted to increase by around 8% in 2004.

The recovery in the global economy will create a positive environment for **equity markets.** However, they already priced in much of the recovery in 2003, so overall share price increases in 2004 will probably be lower than in the previous year. The US Federal Reserve is likely to raise its key interest rates again slightly in the course of the year, so capital market rates may well increase further as the recovery progresses. As the risk of inflation remains low, however, a sharp increase is not expected.

In addition to ongoing geopolitical tension, **exchange rate developments** pose a certain risk to the world economy. If the US current account deficit deepens, a further substantial depreciation of the dollar cannot be ruled out. This would impact the euro, which is currently slightly overvalued, according to expert estimates. Pressure would also grow on Asian countries to revalue their currencies. These circumstances would only allow the upturn to continue if exchange rate adjustments run smoothly and do not lead to serious shifts in international competitiveness.

Seizing opportunities on our markets

We expect the deregulation of the **mail markets** in Europe to continue apace this year, and will strategically exploit the opportunities this offers us. Demand for customized system solutions will also increase. From our perspective, the growing volume of international trade represents an excellent opportunity to further increase our international mail business.

As a result of the growing importance of just-in-time-production, customers in the **courier, express, and parcel service markets** in Europe are increasingly demanding time-definite products (i.e. express deliveries that arrive at a precise time). We will tailor our product offering to this trend.

Just-in-time-production: the timing of production is closely linked to customer demand, which means that storage space can be reduced to a minimum or eliminated altogether.

As the global economy picks up, we expect to see substantial growth in the US express market as well in 2004.

In the Asia/Pacific region, the opening up of the Chinese market in particular offers opportunities for DHL: since China joined the World Trade Organization (WTO) in 2001, it has allowed foreign companies to acquire up to a 75% interest in Chinese firms by forming joint ventures, and thus gain access to the Chinese express and freight markets. This restriction will be lifted at the end of 2005, enabling interests of up to 100% to be acquired.

Further consolidation is expected on the **logistics market.** Customers are increasingly demanding strategic advice and additional value added services, up to and including financing and insurance. This is accompanied by the continuing trend towards outsourcing, from which the market for contract logistics will continue to profit. Air freight is expected to record high average volume growth of over 5% per year over an extended period. Ocean freight also has substantial growth potential. As we are also forecasting increased demand in the coming years for the transport of sensitive goods, as well as temperature-controlled shipments and high value goods, we will reinforce our activities in this area.

Demand from consumers for private pension products will increase. The large German **banks** will continue to be forced to significantly improve their cost positions. As a result, Postbank can benefit from the outsourcing of IT-based processes, for example.

Standardizing Group-wide executive development

We have standardized our Group-wide procedures for executive development under the motto "integrate, motivate, develop performance". As part of the "motiv8" program, from 2004 every employee will receive a report at least once a year on their performance in eight defined skills areas, which are assessed using a standardized Group-wide benchmark. In addition, we are introducing the concept of development conferences. Line managers use them to assess their employees' further potential, and to establish a development strategy and individual development measures. This allows us to identify employee potential and deploy it effectively.

Further harmonization initiated under STAR program

In 2004, we will continue to harmonize our products, services, and networks and thus leverage potential for value creation within the Group.

Procurement will continue to be a key focus of the corporate projects under the STAR program. Further savings potential in Group-wide procurement activities is emerging for the current fiscal year due to the improved progress we have made in implementing these measures in the product categories examined to date.

DHL will focus even more strongly on integration in 2004. In Europe, we completed the planning for a standardized production network that will harmonize all the activities of Deutsche Post Euro Express, Danzas, and DHL. We will make **investments** by beginning the construction of new depots in France, Spain, and the Benelux countries. In the USA, we will invest particularly in IT.

Another key focus will be on the **further organizational development** of the new DHL. In the EXPRESS Corporate Division for example, we will reduce the EXPRESS Germany production branches from 33 to 13, without relinquishing the current production locations. At the same time, we will drastically streamline our administrative structure by merging the commercial management and personnel departments, as well as our quality and job preparation staff, into one unit each.

These measures will also be applied to the MAIL Corporate Division. We already have in place a structure for developing an international organization and will make full use of it in 2004. At the same time as consolidating the administrative structures in Germany, we will also reduce the number of branches here from 83 to 49, but retain our production locations.

By the end of 2004, we expect the STAR program to make a cumulative contribution to earnings totaling at least €700 million.

Increase in EBITA planned

As a result of the program's extremely successful launch, we are reiterating the projected earnings growth from STAR, and expect the Group's **profit from operating activities before goodwill amortization (EBITA)** to reach at least €3.6 billion in 2005. In the current fiscal year, we expect Group EBITA to increase by 5% to 10% compared with 2003.

Also in the future, we will aim to pay our shareholders a dividend that is based on our earnings.

Continuing our sound financial policy

Deutsche Post World Net is committed to a strong financial profile. As part of its financial management strategy, the Company will continue to pursue a policy that ensures financial flexibility and stability, and offers ready access to short- and long-term sources of finance.

IFRS Consolidated Financial Statements

Creating added value.

Our strategic acquisitions and operational strength enabled us to increase revenue and earnings despite the price reductions imposed at the start of the fiscal year. The success of our STAR value creation program in the course of the year exceeded even our own expectations. Building on this program and our sound financial position, we aim to continue to increase our enterprise value in future.

Income Statement

For the period January 1 to December 31			
in €m	Note	Deutsche Post World Net 2002	Deutsche Post World Net 2003
Revenue and income from banking transactions	9	39,255	40,017
Other operating income	10	3,007	1,203
Total operating income		**42,262**	**41,220**
Materials expense and expenses from banking transactions	11	–17,720	–18,466
Staff costs	12	–13,313*	–13,329
Depreciation and amortization expense excluding goodwill amortization	13	–1,403	–1,392
Other operating expenses	14	–6,857*	–5,058
Total operating expenses excluding goodwill amortization		**–39,293**	**–38,245**
Profit from operating activities before goodwill amortization (EBITA)		**2,969**	**2,975**
Goodwill amortization	15	–449	–319
Profit from operating activities (EBIT)		**2,520**	**2,656**
Net loss from associates	16	–1	–28
Net other finance costs	17	–663*	–713
Net finance costs		**–664**	**–741**
Profit from ordinary activities		**1,856**	**1,915**
Income tax expense	18	–266	–573
Net profit for the period before minority interest and extraordinary expense	19	**1,590**	**1,342**
Minority interest	20	–24	–33
Extraordinary expense	21	–907	0
Consolidated net profit for the period		**659**	**1,309**
in €			
Basic earnings per share	22	0.59	1.18
Basic earnings per share before extraordinary expense	22	1.41	1.18
Diluted earnings per share	22	1.41	1.18

* Prior-period amounts restated due to reclassification of interest cost on pension obligations and other interest-bearing provisions from EBITA to net finance costs

Downloadable spreadsheet. Online Annual Report
http://investorrelations.dpwn.com

Balance Sheet

As of December 31			
in €m	Note	Deutsche Post World Net 2002	Deutsche Post World Net 2003
Assets			
Noncurrent assets			
Intangible assets	24	5,076	6,404
Property, plant, and equipment	25	9,085	8,818
Noncurrent financial assets	26		
Investments in associates		126	79
Other noncurrent financial assets		249	656
		375	735
		14,536	**15,957**
Current assets			
Inventories	27	214	218
Receivables and other assets	28	5,972*	5,484
Receivables and other securities from financial services	29	137,641	128,928
Current financial instruments	30	3	75
Cash and cash equivalents	31	2,835*	3,355
		146,665	**138,060**
Deferred tax assets	32	**1,446**	**916**
Total assets		**162,647**	**154,933**
Equity and liabilities			
Equity			
Issued capital	33	1,113	1,113
Reserves	34	3,323	3,684
Consolidated net profit	35	659	1,309
		5,095	**6,106**
Minority interest	36	**117**	**59**
Provisions			
Provisions for pensions and other employee benefits	37	6,292	6,351
Tax provisions	38	1,510	1,491
Other provisions	39	4,882	4,831
		12,684	**12,673**
Liabilities			
Financial liabilities	40	3,816	4,749
Trade payables	41	2,707	2,755
Liabilities from financial services	42	132,851	123,317
Other liabilities	43	5,377	5,274
		144,751	**136,095**
Total equity and liabilities		**162,647**	**154,933**

* Item restated due to reclassification of cash equivalents from receivables and other assets to cash and cash equivalents

Downloadable spreadsheet. Online Annual Report
http://investorrelations.dpwn.com

Cash Flow Statement

For the period January 1 to December 31			
in €m	Note	Deutsche Post World Net 2002	Deutsche Post World Net 2003
Net profit before taxes and extraordinary expense		1,856	1,915
Extraordinary expense	21	–907	0
Net profit before taxes		**949**	**1,915**
Net interest income		639 [1]	723
Depreciation/amortization and reversals of write-downs of noncurrent assets		1,893	1,693
Gains on disposal of noncurrent assets		–312	–85
Non-cash income and expense		–189 [2]	228
Change in provisions		1,005 [1]	–963
Taxes paid		–66	–65
Net profit before changes in working capital		**3,919**	**3,446**
Changes in working capital			
Inventories		–7 [2]	9
Receivables and other assets		421 [2]	614
Receivables/liabilities from financial services		–1,762 [2]	–697
Liabilities and other items		396 [3]	541
Extraordinary expense from EU state aid proceedings		0	–907
Net cash from operating activities	44.1	**2,967**	**3,006**
Proceeds from disposal of noncurrent assets			
Divestitures		0	32
Other noncurrent assets		738	476
		738	**508**
Cash paid to acquire noncurrent assets			
Investments in companies		–1,256	–1,362
Other noncurrent assets		–1,844	–1,484
		–3,100	**–2,846**
Interest and dividends received		104	134
Current financial instruments		32	71
Net cash used in investing activities	44.2	**–2,226**	**–2,133**
Proceeds from issue of financial liabilities		2,810	1,798
Repayment of financial liabilities		–2,065	–1,401
Dividends and other payments to owners		–412	–445
Interest paid		–186	–256
Net cash used in (previous year: from) financing activities	44.3	**147**	**–304**
Net change in cash and cash equivalents		888	569
Effect of changes in exchange rates on cash and cash equivalents		–19 [3]	–49
Cash and cash equivalents at Jan. 1		1,966	2,835
Cash and cash equivalents at Dec. 31	44.4	**2,835 [4]**	**3,355**

1) Prior-period amounts restated due to reclassification of interest cost on pension obligations and other interest-bearing provisions from EBITA to net finance costs
2) Prior-period amounts restated due to reclassification of non-cash income and expenses
3) Prior-period amounts restated: effect of changes in exchange rates on cash and cash equivalents
4) Item restated due to reclassification of cash equivalents from receivables and other assets to cash and cash equivalents

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Financial Statements

Statement of Changes in Equity

For the period January 1 to December 31						
in €m	Issued capital	Reserves			Consolidated net profit	Total equity
		Capital reserves	Retained earnings	IAS 39 reserve		
Balance at Jan. 1, 2002	**1,113**	**344**	**2,413**	**–94**	**1,577**	**5,353**
Capital transactions with owner						
Capital contribution from retained earnings						0
Dividend					–412	–412
Other changes in equity not recognized in income						
Currency translation differences			–97			–97
Other changes		12	18	–438		–408
Changes in equity recognized in income						
Appropriation to retained earnings			1,165		–1,165	0
Consolidated net profit					659	659
Balance at Dec. 31, 2002	**1,113**	**356**	**3,499**	**–532**	**659**	**5,095**
Capital transactions with owner						
Capital contribution from retained earnings						0
Dividend					–445	–445
Other changes in equity not recognized in income						
Currency translation differences			–102			–102
Other changes		21	4	224		249
Changes in equity recognized in income						
Appropriation to retained earnings			214		–214	0
Consolidated net profit					1,309	1,309
Balance at Dec. 31, 2003	**1,113**	**377**	**3,615**	**–308**	**1,309**	**6,106**
Note	33	34	34	34	35	

Downloadable spreadsheet. Online Annual Report
http://investorrelations.dpwn.com

Notes to the Consolidated Financial Statements of Deutsche Post AG for the period ended December 31, 2003

1 Basis of accounting

The consolidated financial statements of Deutsche Post AG for fiscal year 2003 were prepared in accordance with the International Financial Reporting Standards (IFRS) adopted and published by the International Accounting Standards Board (IASB), and with the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), required to be applied as of the reporting date.

The requirements of the standards applied have been satisfied in full, and the consolidated financial statements of Deutsche Post World Net therefore provide a true and fair view of its net assets, financial position, and results of operations.

The accounting policies, as well as the explanations and disclosures in the notes to the IFRS consolidated financial statements for fiscal year 2003, are generally based on the same accounting policies used in the 2002 consolidated financial statements. The accounting policies are explained in note 6.

By publishing IFRS consolidated financial statements, Deutsche Post AG has made use of the option contained in section 292 a of the HGB (German Commercial Code) to prepare its consolidated financial statements in accordance with internationally accepted accounting principles and to dispense with the preparation of consolidated financial statements in accordance with the requirements of the German Commercial Code. The assessment as to whether the consolidated financial statements and the Group Management Report comply with the EC 7th Directive was based on the interpretation by the German Accounting Standards Board of the German Accounting Standards Committee (GASC) published as German Accounting Standard No. 1 (GAS 1).

The fiscal year of Deutsche Post AG and its consolidated subsidiaries is the calendar year. Deutsche Post AG, whose registered office is in Bonn, is registered in the commercial register of the Bonn Local Court.

The consolidated financial statements are prepared in euros (€). All amounts are given in millions of euros (€ million, €m).

2 Significant differences between International Financial Reporting Standards and German accounting principles

The accompanying consolidated financial statements incorporate the following significant accounting policies that differ from German law:

- Internally generated intangible assets are recognized where these meet the criteria for recognition as assets.
- Goodwill resulting from the acquisition of subsidiaries to be consolidated is capitalized and amortized. The amounts of goodwill deducted directly from reserves in accordance with HGB accounting principles prior to adoption of the IFRS have also been capitalized.
- Pension provisions are measured using the projected unit credit method reflecting future compensation and retirement benefit trends and the corridor rule in accordance with IAS 19. Both indirect and direct pension obligations (defined benefit plans) were included in the computation of pension obligations.
- Other provisions are only carried in the case of obligations to third parties that are more likely than not to arise (50 percent plus rule). Accruals, which are characterized by a far higher level of certainty in terms of the timing and amount of settlement of the obligation, are carried under liabilities.
- Foreign currency receivables and liabilities are translated at the closing rate, and the resulting changes in carrying amounts are recognized in the income statement.
- Deferred tax assets and liabilities are accounted for using the balance sheet approach on the basis of the enacted or expected tax rates applicable to future distributions.
- In accordance with IAS 39, all financial instruments, including derivatives, are recognized and measured at amortized cost or fair value, depending on the category to which they are assigned.
- In the case of finance leases, assets are capitalized and the residual liability is recognized as an expense using the allocation criteria set out in IAS 17.

3 Consolidated group

In addition to Deutsche Post AG, the consolidated financial statements for the period ended December 31, 2003 generally include all German and foreign operating companies in which Deutsche Post AG directly or indirectly holds a majority of voting rights, or from whose activities it can benefit due to the fact that it exercises economic control. The companies are consolidated from the date on which Deutsche Post World Net is able to exercise control.

The companies listed in the table below are consolidated in addition to the parent company Deutsche Post AG.

Consolidated group	Total 2002	German 2003	Foreign 2003	Total 2003
Number of fully consolidated companies				
at Jan. 1	**421**	**109**	**539**	**648**
Additions	37	–	5	5
Disposals	45	1	40	41
Change in method of consolidation	235	6	65	71
at Dec. 31	**648**	**114**	**569**	**683**
Number of proportionately consolidated companies				
at Jan. 1	**43**	**2**	**27**	**29**
Additions	–	–	1	1
Disposals	–	–	1	1
Change in method of consolidation	–14	–	–21	–21
at Dec. 31	**29**	**2**	**6**	**8**
Number of companies accounted for at equity				
at Jan. 1	**21**	**5**	**37**	**42**
Additions	–	–	–	–
Disposals	4	–	3	3
Change in method of consolidation	25	–	1	1
at Dec. 31	**42**	**5**	**35**	**40**

63 subsidiaries (December 31, 2002: 68) and 8 joint ventures (December 31, 2002: 7) were not consolidated for reasons of materiality; these companies were carried at amortized cost. 27 associates (December 31, 2002: 35) were carried at cost because they were not material to the results of Deutsche Post World Net.

The following table gives an overview of significant companies consolidated for the first time:

Companies consolidated for the first time	Equity interest in %	Date of first-time consolidation	Notes
MAIL			
Interlanden B.V., Netherlands	70	Jan. 1, 2003	Purchased
LOGISTICS			
Stock Express S.A., France	100	Jan. 10, 2003	Purchased
Commercial Safeway S.A., Chile	99	Mar. 1, 2003	Method of consolidation changed
Corporación Cormar S.A., Costa Rica	100	July 1, 2003	Equity interest increased
EXPRESS			
Casa di Spedizioni Ascoli S.p.A., Italy	100	Jan. 15, 2003	Purchased
DHL Express Canada Ltd., Canada	100	Jan. 31, 2003	Purchased
Securicor Omega Holdings Ltd., UK	100	July 3, 2003	Equity interest increased
Airborne, Inc., USA	100	Aug. 15, 2003	Purchased
Narrondo Desarrollo, S.L. (Guipuzcoana), Spain	75	Dec. 17, 2003	Equity interest increased

Interlanden B.V., Netherlands, was acquired for €37 million. First-time consolidation resulted in goodwill of €36 million as of December 31, 2003.

Significant acquisitions and the first-time consolidation of subsidiaries in the LOGISTICS segment had the following effect on the net assets, financial position, and results of operations:

LOGISTICS* in €m	Stock Express	Commercial Safeway
Assets	28	19
Liabilities and provisions	23	8
Revenue	47	47
EBITA	6	1

* Consolidated amounts at December 31, 2003

Stock Express S.A., France, has been part of Deutsche Post World Net since 2003. 100% of the shares of this company were acquired for €12 million. As of December 31, 2003, goodwill amounted to €11 million.

Deutsche Post World Net also acquired 99% of the shares of Commercial Safeway S.A., Chile, for €9 million. The logistics company will be integrated within DHL Danzas Air & Ocean. Consolidation did not result in any goodwill.

The acquisitions in the EXPRESS segment had the following effect on the net assets, financial position, and results of operations of the Group:

EXPRESS* in €m	Airborne	Securicor	DHL Express Canada
Assets	572	290	55
Liabilities and provisions	469	94	32
Revenue	1,034	255	195
EBITA	0	6	–2

* Consolidated amounts at December 31, 2003

On August 15, 2003, DHL Holdings (USA) Inc. (DHL USA) completed the acquisition of the US-based company Airborne, Inc. (Airborne). In accordance with US aviation law, Airborne's airline operations, which were spun off immediately prior to the acquisition, could not be taken over and thus remained under the control of the previous shareholders. For each share of Airborne, shareholders received a cash price of US$21.25 plus one share in the spun-off airline ABX Air, Inc. (ABX). The total purchase price amounted to €983 million. The future business relationship between Airborne and ABX was set out in a service agreement. The activities of Airborne and DHL USA will be merged within one to three years. The company has been fully consolidated since the acquisition date. First-time consolidation resulted in goodwill of €1,175 million (as of December 31, 2003), which will be amortized over a period of 20 years.

In July 2003, Deutsche Post World Net acquired all remaining shares of Securicor Omega Holdings Ltd., Sutton, United Kingdom (Securicor). The purchase price for this 50% of the shares of the company amounted to €250 million. As a result, Securicor has been fully consolidated since July. Goodwill amounted to €393 million as of December 31. Before July 3, 2003, Securicor was proportionately consolidated in line with the equity interest held at the time.

With the acquisition of Mayne Group Canada (Loomis), now known as DHL Express Canada Ltd., with effect from January 31, 2003, DHL was able to further expand its market share in Canada. The purchase price for this company was €96 million. Goodwill amounted to €63 million as of December 31, 2003.

In December 2003, Deutsche Post World Net increased its equity interest in Narrondo Desarrollo, S.L. (Guipuzcoana) by 24% to 75%. Goodwill amounted to €224 million as of December 31, 2003.

Deutsche Post World Net acquired the Italian parcel company Casa di Spedizioni Ascoli S.p.A., Milan, with effect from January 15, 2003. The purchase price amounted to €15 million. Goodwill in the amount of €8 million was reported as of December 31, 2003.

Overall, around €1.5 billion was spent on acquisitions in fiscal year 2003. The purchase prices of the companies acquired were settled exclusively on a cash basis. Further details of cash flows can be found in note 44. The significant companies acquired contributed €51 million to Group EBITA in fiscal year 2003.

50 subsidiaries, 27 joint ventures, and 6 associates have been deconsolidated since December 31, 2002. Of these companies, 5 were sold, 22 were merged, and 18 were liquidated. The method of inclusion or consolidation was changed for 38 companies. This did not materially affect the Group's net assets, financial position, and results of operations.

A list of significant subsidiaries, joint ventures, and associates is presented in note 50. A complete list of Deutsche Post AG's shareholdings has been filed with the commercial register of the Bonn Local Court.

The following table provides information about material balance sheet and income statement items attributable to the significant consolidated joint ventures:

Joint ventures

in €m	2002*	2003*
Noncurrent assets	198	10
Current assets	165	39
Liabilities and provisions	153	18
Revenue	650	355
EBITA	37	32

* Proportionate amounts; all figures at December 31

The consolidated joint ventures in fiscal year 2003 now relate primarily to DHL Sinotrans International Air Courier Ltd., China (DHL Sinotrans). Securicor, which was included here in the previous year, was fully consolidated in July 2003. The table above includes its proportionate contribution to revenue and EBITA for the first half of the year only.

4 Reclassifications

The interest cost on discounted provisions for pensions and other interest-bearing provisions measured in accordance with IAS 19 is reported under net finance costs for the first time in fiscal year 2003. For fiscal year 2003, this resulted in a €578 million increase in net finance costs. This primarily relates to interest cost on discounted provisions for pensions. The prior-year amount was adjusted accordingly in the amount of €548 million.

In addition, the short-term deposits of DHL International recognized in the previous year in the amount of €196 million were reclassified from receivables and other assets to cash and cash equivalents.

The following table shows the changes in the amounts of the balance sheet and income statement items recognized in fiscal year 2002 following these reclassifications:

Reclassifications

in €m	2002	2002 restated	Change
Balance sheet			
Receivables and other assets	6,168	5,972	–196
Cash and cash equivalents	2,639	2,835	+196
Income statement			
Staff costs	–13,772	–13,313	+459
Other operating expenses	–6,946	–6,857	+89
Net other finance costs	–115	–663	–548

These reclassifications improve the presentation of the net assets and results of operations.

5 Foreign currency translation

The financial statements of consolidated companies prepared in foreign currencies are translated into euros in accordance with IAS 21 (The Effects of Changes in Foreign Exchange Rates) using the functional currency method. The functional currency of all foreign companies of Deutsche Post World Net is the local currency, as the companies operate independently in terms of their financial and business activities, and organizational structures. Assets and liabilities are therefore translated at the middle rates prevailing at the consolidated closing date, while income and expenses are generally translated at average rates for the year. The resulting currency translation differences are taken directly to equity. Currency translation differences of €102 million were recognized directly in equity in fiscal year 2003 (previous year: €97 million). See also the statement of changes in equity.

Goodwill resulting from the capital consolidation of foreign companies is translated at the rates prevailing at the transaction dates and amortized over its useful life.

The following exchange rates were generally applied to foreign currency translation in the Group:

Foreign currency translation

Country	Currency	Closing rates		Average rates	
		2002 €1 =	2003 €1 =	2002 €1 =	2003 €1 =
USA	USD	1.04220	1.24990	0.944756	1.13080
Switzerland	CHF	1.45480	1.55940	1.467149	1.52090
United Kingdom	GBP	0.65000	0.70390	0.628732	0.69190
Sweden	SEK	9.15580	9.06880	9.158917	9.12450

The carrying amounts of non-monetary assets recognized in the case of consolidated companies operating in hyperinflationary economies are indexed in accordance with IAS 29 and thus reflect the current purchasing power at the balance sheet date.

In accordance with IAS 21, receivables and liabilities in the single-entity financial statements of consolidated companies that have been prepared in local currencies are translated at the closing rate. Currency translation differences are recognized in other operating income and expenses in the income statement. In fiscal year 2003, other operating income of €125 million and other operating expenses of €71 million resulted from currency translation differences.

6 Accounting policies

Revenue and expense recognition

Revenue and income from banking transactions, as well as other operating income, is generally recognized when services are rendered, the amount of revenue and income can be reliably measured and it is probable that the economic benefits from the transactions will flow to the Group.

Operating expenses are recognized when the service is utilized or when the expenses are incurred.

Intangible assets

Purchased intangible assets are carried at cost. Internally generated intangible assets are carried at cost if the criteria for recognition as an asset are satisfied. This is the case in particular if future economic benefits are expected to flow from the assets. At Deutsche Post World Net, these relate only to internally developed software. In addition to direct costs, the production cost of internally developed software includes an appropriate share of attributable production overheads. Any borrowing costs are not included in production costs. Value added tax arising in conjunction with the acquisition or production of intangible assets is included in the cost if it cannot be deducted as input tax.

Intangible assets are reduced by straight-line amortization over their useful lives. Capitalized software is amortized over two to six years, licenses over the term of the license agreement. Intangible assets are written down if there are indications of impairment and if the recoverable amount is lower than amortized cost. The write-downs are reversed if the reasons for the impairment losses no longer apply.

Goodwill, including goodwill from capital consolidation, is capitalized in accordance with IAS 22 and normally reduced by straight-line amortization over a useful life of 15 to 20 years. The useful life is determined in particular by the strategic importance to the Group of the underlying acquisitions. Additions during the year under review are amortized ratably. Goodwill is regularly tested for impairment and is written down if there are indications of impairment.

The negative goodwill from the first-time consolidation of the Deutsche Postbank group was reversed in full in the previous year.

Property, plant, and equipment

Property, plant, and equipment is carried at cost and reduced by depreciation for wear and tear. In addition to direct costs, production costs include an appropriate share of attributable production overheads. Borrowing costs are not included in production costs but are expensed directly. Value added tax arising in conjunction with the acquisition or production of items of property, plant, and equipment is included in the cost if it cannot be deducted as input tax. Depreciation is generally charged using the straight-line method. Deutsche Post World Net applies the following useful lives:

Useful lives

	Years
Buildings	6 to 80
Technical equipment and machinery	3 to 13
Passenger vehicles	3 to 8
Trucks	3 to 8
Aircraft	15 to 20
Other vehicles	4 to 10
IT systems	3 to 10
Other operating and office equipment	4 to 10

Items of property, plant, and equipment are written down if there are indications of impairment and if the recoverable amount is lower than amortized cost. The write-downs are reversed if the reasons for the impairment losses no longer apply.

Finance leases

In accordance with IAS 17, beneficial ownership of leased assets is transferred to the lessee if the lessee bears substantially all the risk and rewards incident to ownership of the asset. Where Deutsche Post World Net is the beneficial owner, the asset is capitalized at the date of inception of the lease either at the fair value or at the present value of the minimum lease payments, if this is less than the fair value. Depreciation methods and useful lives correspond to those of comparable purchased assets.

Noncurrent financial assets

Investments in associates are carried at equity in accordance with IAS 28 (Accounting for Investments in Associates). Based on the cost of acquisition at the time of purchase of the investments, the carrying amount of the investments is increased or reduced to reflect changes in the equity of the associates attributable to the investments of Deutsche Post AG. Goodwill contained in the carrying amounts of the investments is normally reduced by straight-line amortization over the expected useful life of 15 to 20 years. The useful lives are determined and goodwill is regularly tested for impairment using the same procedures as for the goodwill of subsidiaries.

Other noncurrent financial assets include in particular investments in unconsolidated subsidiaries, financial instruments, and other equity investments. Under IAS 39, noncurrent financial assets are classified as "available for sale" or "held to maturity".

Available-for-sale financial instruments are carried at their fair value, where this can be measured reliably. Changes in fair value between reporting dates are generally recognized directly in the revaluation reserve. This reserve is reversed to income either when the assets are sold or otherwise disposed of, or if the fair value of the assets falls more than temporarily below their cost. Held-to-maturity financial instruments are carried at amortized cost at the balance sheet date. Impairment losses are charged to income if the recoverable amount falls below the carrying amount.

Financial instruments classified as "loans and receivables originated by the enterprise" (originated loans and receivables), which include long-term loans, are measured at amortized cost.

Inventories

Finished goods and goods purchased and held for resale are carried at the lower of cost or net realizable value. Valuation allowances are charged for obsolete inventories and for slow-moving goods.

Receivables and other assets

Unless held for trading, receivables and other assets are carried at amortized cost at the balance sheet date. Doubtful receivables are carried at their principal amount, less appropriate specific allowances.

All financial instruments held for trading and derivatives are assigned to the "trading" category. They are generally measured at their fair values, and all changes in fair value are recognized in income. Under IAS 39, this applies to all derivatives that do not satisfy the strict criteria for cash flow hedge accounting under IAS 39.142. Fair value measurement is also applied irrespective of the effectiveness of the hedges. These financial instruments are accounted for at the trade date. Note 45 contains detailed disclosures on hedges.

Current financial instruments

Current financial instruments are available-for-sale financial assets, and are carried at their fair values at the balance sheet date. Unrealized gains or losses from remeasurement are generally credited or charged directly to the revaluation reserve in equity. This reserve is reversed to income either when the assets are sold or otherwise disposed of, or if the fair value of the assets falls more than temporarily below their cost. The financial instruments are accounted for at the settlement date.

Receivables and liabilities from financial services

Originated loans and receivables are carried at amortized cost. Purchased loans and receivables classified as held to maturity are measured at cost. Purchased loans and receivables classified as available for sale or held for trading are measured at their fair values. Held-to-maturity and originated securities are measured at amortized cost, while available-for-sale securities and securities held for trading are measured at their fair values.

Cash and cash equivalents
Cash and cash equivalents are carried at their principal amount.

Stock option plan
The stock option plan for executives is measured using investment techniques by applying option pricing models. Options are measured at their fair value on the grant date. The option price thus calculated is recognized in income under staff costs and spread over the term of the options.

Provisions
Provisions for pensions are measured using the projected unit credit method prescribed by IAS 19 for defined benefit plans. The interest component of pension expenses is reported under net finance costs.

Other provisions are recognized for liabilities to third parties arising from past events, whose settlement is expected to result in an outflow of economic benefits and that can be measured reliably. They represent uncertain obligations that are carried at the best estimate of the expenditure required to settle the obligation. Provisions with more than one year to maturity are discounted at market rates of interest that reflect the risk and the time until settlement of the obligation. The interest cost on discounted staff-related provisions is carried under net finance costs.

Liabilities
Liabilities from finance leases are carried at the lower of the present value of the lease payments or the market value of the capitalized leased asset, while other liabilities are carried at amortized cost.

Deferred taxes
Deferred taxes are calculated in accordance with IAS 12 (Income Taxes). In compliance with IAS 12.24 (b) and IAS 12.15 (b), deferred tax assets or liabilities can only be recognized for temporary differences between the carrying amounts in the financial accounts and in the tax accounts of Deutsche Post AG and Deutsche Postbank AG where the differences have arisen after January 1, 1996. No deferred tax assets or liabilities can be recognized for temporary differences resulting from initial differences in the opening tax accounts of Deutsche Post AG and Deutsche Postbank AG as of January 1, 1996.

In accordance with IAS 12, deferred tax assets and liabilities are calculated by using the tax rates expected to be enacted when the items reverse. The tax rate of 39.9% applied to German Group companies comprises the standard tax rate plus the solidarity surcharge, as well as an average trade tax rate. Foreign Group companies use their individual income tax rate to calculate deferred tax items. The income tax rates applied for foreign companies range from 15% to 48%.

Contingent liabilities
Contingent liabilities represent possible obligations whose existence will be confirmed only by the occurrence or nonoccurrence of one or more uncertain future events not wholly within the control of the enterprise. Contingent liabilities also include certain obligations that will probably not lead to an outflow of resources embodying economic benefits, or where the amount of the outflow of resources embodying economic benefits cannot be measured with sufficient reliability. In accordance with IAS 37, contingent liabilities are not recognized as liabilities (see note 46).

7 Consolidation methods

The consolidated financial statements are based on the IFRS financial statements of Deutsche Post AG and its consolidated subsidiaries, joint ventures and associates, which were prepared in accordance with uniform accounting policies as of December 31, 2003, and audited by independent auditors.

First-time consolidation of subsidiaries uses the purchase method of accounting in accordance with IAS 22 (Business Combinations). The cost of acquisition of the purchased interests is eliminated against the proportionate equity of the subsidiary. Purchased assets and liabilities are recognized in full in the consolidated balance sheet at the purchase date; hidden reserves and liabilities are recognized proportionately. Any remaining excess of cost of acquisition over net assets acquired is recognized as goodwill in intangible assets and amortized over its useful life.

Joint ventures are proportionately consolidated in accordance with IAS 31: assets and liabilities, and income and expenses, of jointly controlled companies are included in the consolidated financial statements in proportion to the interest held in these companies. Proportionate capital consolidation and recognition and measurement of goodwill use the same methods as applied to the consolidation of subsidiaries.

Companies on which the parent can exercise significant influence (associates) are carried at equity using the purchase method of accounting. Any goodwill is reported under investments in associates.

Intragroup revenue, other operating income and expenses, as well as receivables, liabilities, and provisions between consolidated companies, are eliminated. Intercompany profits or losses from intragroup deliveries and services not realized by sale to third parties are eliminated.

8 Segment reporting

Segments by Corporate Division

in €m	MAIL [1]		EXPRESS [1) 2)]		LOGISTICS [2]		FINANCIAL SERVICES		Other/ Consolidation		Group	
	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003
External revenue	11,004	10,880	14,442	16,150	5,816	5,815	7,869	7,021	124	151	39,255	40,017
Internal revenue	1,125	1,054	195	293	1	63	807 [1]	792	–2,128 [1) 2)]	–2,202	0	0
Total revenue	12,129	11,934	14,637	16,443	5,817	5,878	8,676 [1]	7,813	–2,004 [1) 2)]	–2,051	39,255	40,017
Profit or loss from operating activities before goodwill amortization (EBITA)	2,144 [3]	2,036	270 [3]	408	173 [3]	206	679 [3]	566	–297 [3]	–241	2,969 [3]	2,975
Goodwill amortization	6	10	349	218	93	90	1	1	0	0	449	319
Profit or loss from operating activities (EBIT)	2,138 [3]	2,026	–79 [3]	190	80 [3]	116	678 [3]	565	–297 [3]	–241	2,520 [3]	2,656
Net income from associates	0	0	–1	–28	4	0	0	0	–4	0	–1	–28
Segment assets [4]	4,862	4,224	9,716	11,814	3,159	2,910	140,135	131,080	–412 [1) 2)]	–638	157,460	149,390
Investments in associates [4]	0	0	108	63	18	16	0	0	0	0	126	79
Segment liabilities incl. non-interest-bearing provisions [4) 5)]	1,763	2,040	3,056	3,678	1,080	1,074	133,861	124,194	1,555 [1) 2)]	319	141,315	131,305
Segment investments	357	227	3,971	2,839	154	287	377	202	–27	–31	4,832	3,524
Depreciation, amortization and write-downs	404	412	933	797	161	156	277	274	77	72	1,852	1,711
Other non-cash expenses	126 [3]	143	202 [3]	153	24	17	281 [3]	320	789 [3]	63	1,422 [3]	696
Employees [6]	138,895	135,504	121,545	129,458	30,728	31,296	35,583	33,490	10,668	10,230	337,419	339,978

1) Prior-period amounts restated due to restructuring of Mail International Business Division and other product portfolio optimization measures
2) Prior-period amounts restated due to restructuring of EXPRESS and LOGISTICS Corporate Divisions
3) Prior-period amounts restated due to reclassification of interest cost on pension obligations and other interest-bearing provisions from EBITA to net finance costs
4) Segment assets, investments in associates, and segment liabilities are reported as of the balance sheet dates December 31, 2002 and 2003; the remaining items are reported for the periods ended December 31, 2002 and 2003
5) Prior-period amounts restated: from fiscal year 2003, segment liabilities include non-interest-bearing provisions
6) Number of employees calculated as averages for fiscal years 2002 and 2003 (FTEs)

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The decrease in revenue in the MAIL Corporate Division is largely due to the price cuts ordered as part of the so-called price cap procedure.

Segments by region

in €m	Germany		Europe excluding Germany		Americas		Asia/Pacific		Other regions		Group	
	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003
External revenue	23,068	22,729	10,276	10,334	3,522	4,419	2,047	1,990	342	545	39,255	40,017
Segment assets	136,421	126,253	14,311	15,306	5,518	6,445	897	819	313	567	157,460	149,390
Segment investments	946	516	2,558	1,109	835	1,725	366	87	127	87	4,832	3,524

8.1 Segment reporting disclosures

Segment reporting was prepared in accordance with IAS 14 (Segment Reporting). The presentation of specific data from the consolidated financial statements is classified by Corporate Divisions and regions, based on the Group's internal reporting and organizational structure. Segment reporting is designed to enable a transparent view of the earnings power, net assets, and financial position of the individual components of the Group's activities and regions.

Reflecting the predominant organizational structure of Deutsche Post World Net, the primary reporting format is based on the Group's Corporate Divisions. Deutsche Post World Net distinguishes between the following Corporate Divisions:

MAIL

In addition to the transport and delivery of written communications, the MAIL Corporate Division increasingly positions itself as an end-to-end service provider for the management of written communications. The Mail International Business Division has been restructured and now includes the activities of Global Mail, which was previously reported under the EXPRESS Corporate Division. Other product portfolio optimization measures have also been implemented. The prior-period amounts were restated accordingly.

EXPRESS

The EXPRESS Corporate Division is home to Deutsche Post World Net's national and international courier, express, and parcel (CEP) activities. The Global Mail Business Division is now reported under the MAIL Corporate Division within the Mail International Business Division. Further changes resulted from the optimization of the product portfolio.

The prior-period amounts for segment reporting were restated due to the restructuring of the EXPRESS and LOGISTICS Corporate Divisions. The former Eurocargo Business Unit was transferred from the LOGISTICS Corporate Division to the EXPRESS Corporate Division as part of this restructuring.

LOGISTICS

The LOGISTICS Corporate Division comprises the DHL Danzas Air & Ocean and DHL Solutions Business Divisions. Customers are offered a one-stop end-to-end service: air and ocean freight, as well as customized logistics solutions.

The former Eurocargo Business Unit was transferred from the LOGISTICS Corporate Division to the EXPRESS Corporate Division as part of the restructuring of these Corporate Divisions.

FINANCIAL SERVICES

The FINANCIAL SERVICES Corporate Division consists of Deutsche Postbank group's activities, among other things. Deutsche Postbank group offers a wide range of standardized banking services, including payments, deposits, retail and corporate banking, fund products, and investment securities services. The FINANCIAL SERVICES Corporate Division also includes the retail outlets, the retail outlet networks of Deutsche Post Retail and Deutsche Post Vertriebsgesellschaften, and the Pension Service.

The table below shows the reconciliation of Deutsche Postbank AG's consolidated profit from operating activities (EBITA) to the EBITA of the FINANCIAL SERVICES Corporate Division:

Reconciliation to EBITA of FINANCIAL SERVICES Corporate Division

in €m	Deutsche Postbank group 2002	Other segment components 2002	Total 2002	Deutsche Postbank group 2003	Other segment components 2003	Total 2003
EBITA before consolidation effects	398	11	409	532	34	566
Reversal of negative goodwill	212	–	212	–	–	–
Reclassification of interest cost	–	58	58	–	–	–
EBITA of FINANCIAL SERVICES Corporate Division	610	69	679	532	34	566

Other/Consolidation

The amounts for the Corporate Divisions are presented after consolidating intersegment transactions, which are eliminated in the Other/Consolidation column. The Other/Consolidation column also includes amounts not attributable to specific Corporate Divisions, such as real estate and housing activities.

8.2 Disclosures on the segment amounts by Corporate Division

- External revenue is the revenue generated by the Corporate Divisions from non-Group third parties.
- Internal revenue is revenue generated with other Corporate Divisions. Transfer prices for intragroup revenue are determined on an arm's length basis. Since August 1, 2003, transfer prices for services for which no external market exists have been based on incremental costs. The additional costs resulting from Deutsche Post AG's universal service obligation (nationwide retail outlet network, delivery every working day), and from its obligation to assume the compensation structure as the legal successor to Deutsche Bundespost, are allocated to the MAIL Corporate Division.
- The segment income and expense of the FINANCIAL SERVICES Corporate Division also include the Deutsche Postbank group's interest, fee and commission income and expense, because these are allocated to the business operations of this Corporate Division.
- Segment assets are composed of noncurrent assets (excluding noncurrent financial assets) and current assets (excluding income tax receivables, cash and cash equivalents, and current financial instruments) including receivables from financial services. Purchased goodwill is allocated to the Corporate Divisions.
- Segment liabilities relate to non-interest-bearing provisions and liabilities (excluding income tax liabilities) and to liabilities from financial services.
- Segment investments relate to intangible assets (including purchased goodwill) and property, plant and equipment.
- Depreciation, amortization and write-downs relate to the segment assets allocated to the individual Corporate Divisions.
- Other non-cash expenses relate primarily to expenses from the recognition of provisions.

8.3 Disclosures on the segment amounts by region

- The allocation of external revenue is based on the location of the customers. Only revenue generated from non-Group third parties is disclosed.
- Segment assets are allocated to the location of the assets. They are composed of the noncurrent assets (excluding noncurrent financial assets) and current assets (excluding income tax receivables, cash and cash equivalents, and current financial instruments) of the individual regions. Segment assets also include purchased goodwill, which is generally allocated on the basis of the domicile of the companies concerned.
- Segment investments are also allocated on the basis of the location of the assets concerned. They include investments in intangible assets (including purchased goodwill) and property, plant, and equipment.

Income statement disclosures

9 Revenue and income from banking transactions

Revenue and income from banking transactions is composed of the following items:

Revenue and income from banking transactions		
in €m	2002	2003
Revenue	31,798	33,345
Income from banking transactions	7,457	6,672
	39,255	**40,017**

As in the prior-year period, there was no revenue or income from banking transactions in fiscal year 2003 that was generated on the basis of barter transactions.

The increase in revenue is primarily due to the revenue contribution from companies consolidated for the first time in the past fiscal year, such as Airborne (ratably since August 2003), DHL Express Canada Ltd. (since January 2003), and Securicor, which has been fully consolidated since July 2003 (see note 3).

The further classification of revenue by Corporate Divisions (business segments) and the allocation of revenue and income from banking transactions to geographical regions is presented in the segment reporting (see note 8).

The following table shows the composition of income from banking transactions:

Income from banking transactions		
in €m	2002	2003
Interest income		
Interest income from credit and money market transactions	3,555	3,190
Interest income from fixed-income securities and book-entry securities	2,557	2,115
Income from equities and other non-fixed-income securities	29	35
Other interest income	733	621
	6,874	**5,961**
Commission income	**503**	**528**
Net trading income	**80**	**183**
	7,457	**6,672**

The decrease in income from banking transactions is largely due to the fall in interest rates.

10 Other operating income

Other operating income is composed of the following items:

Other operating income		
in €m	2002	2003
Income from the reversal of provisions	121	246
Gains on disposal of noncurrent assets	402	177
Income from currency translation differences	123	125
Rental and lease income	117	101
Income from the derecognition of liabilities	63	96
Income from investment securities and insurance business (financial services)	40	85
Income from prior-period billings	114	61
Insurance income	83	61
Income from loss compensation	32	35
Income from fees and reimbursements	15	32
Income from vehicle center services	16	24
Income from personnel services	15	19
Income from work performed and capitalized	43	15
Reversals of impairment losses on receivables and other assets	25	15
Income from housing management cost equalization	13	10
Income from the reversal of negative goodwill of Deutsche Postbank AG	1.499	0
Income from QTE leases	136	0
Miscellaneous	150	101
	3,007	**1,203**

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Other operating income fell by €1,804 million. Of this figure, €1,499 million is attributable to the fact that the income from the reversal of Deutsche Postbank AG's negative goodwill was no longer included. This negative goodwill was reversed in full in December 2002.

In addition, €221 million was realized in the previous year from the disposal of noncurrent assets resulting from the transfer of real estate to the Pension Trust, while a further €136 million was realized under QTE leases.

Miscellaneous other operating income includes a number of individual items, none of which exceeds €10 million.

11 Materials expense and expenses from banking transactions

The materials expense and expenses from banking transactions are composed of the following items:

Materials expense and expenses from banking transactions		
in €m	2002	2003
Materials expense	12,634	14,084
Expenses from banking transactions	5,086	4,382
	17,720	**18,466**

The materials expense is broken down as follows:

Materials expense		
in €m	2002	2003
Cost of raw materials, consumables and supplies, and of goods purchased and held for resale		
Fuel, repair materials	358	412
Office supplies	406	346
Aircraft fuel	179	192
Goods purchased and held for resale	244	174
Other expenses	65	44
	1,252	**1,168**
Cost of purchased services		
Transportation costs	8,988	9,919
IT services	678	765
Maintenance costs	685	706
Cost of temporary staff	422	554
Commissions paid to postal agencies	215	218
Energy	163	194
Internally developed software	74	32
Prior-period expenses	22	20
Other purchased services	135	508
	11,382	**12,916**
	12,634	**14,084**

The increase in the materials expense is largely due to the companies consolidated for the first time in 2003. It rose by €1,450 million, of which €671 million is attributable to Airborne, €117 million to DHL Express Canada Ltd., €52 million to Casa di Spedizioni Ascoli S.p.A. and €96 million to Securicor, which has been fully consolidated since July 2003.

Expenses from banking transactions are composed of the following items:

Expenses from banking transactions		
in €m	2002	2003
Interest expense on liabilities	2,293	1,970
Interest expense on securitized liabilities	1,769	1,348
Other interest expenses	888	906
Interest expense on hybrid capital	75	85
Commission expense	61	73
	5,086	**4,382**

The reduction in expenses from banking transactions is largely due to the fall in interest rates.

12 Staff costs/Employees

Staff costs are composed of the following items:

Staff costs		
in €m	2002	2003
Wages, salaries, and compensation	10,905	10,552
Social security contributions	1,541	1,589
Retirement benefit expenses	672*	928
Welfare and assistance benefits	195	260
	13,313*	**13,329**

* Reclassification of interest cost on discounted pension obligations to net other finance costs

Since the previous year, staff costs also include expenses relating to the stock option plans for the Board of Management and other executives.

Staff costs relate mainly to wages, salaries, and compensation, as well as all other benefits paid to employees of the Group for their services in the year under review.

Social security contributions relate in particular to statutory social security contributions paid by employers.

Retirement benefit expenses relate to current and former employees or their surviving dependants. These expenses consist of additions to pension provisions, employer contributions to supplementary occupational pension plans and retirement benefit payments by employers for their employees.

Retirement benefit expenses include €664 million (previous year: €645 million) relating to contributions by Deutsche Post AG and €77 million (previous year: €80 million) relating to contributions by Deutsche Postbank AG to Bundes-Pensions-Service für Post und Telekommunikation e. V. Further information can be found in note 37.

The average number of employees of Deutsche Post World Net in the year under review, classified by employee groups, was as follows:

Employees		
	2002	2003
Hourly workers and salaried employees	296,107	298,357
Civil servants	73,157	70,130
Trainees	6,626	6,609
	375,890	**375,096**

The number of full-time equivalents as of December 31, 2003 was 348,781 employees (December 31, 2002: 334,952 employees). The employees of companies acquired or disposed of during the year under review were included ratably. The employees of the joint venture companies have been included proportionately.

13 Depreciation and amortization expense excluding goodwill amortization

Depreciation and amortization charges are composed of the following items:

Depreciation and amortization expense		
in €m	2002	2003
Amortization of intangible assets, excluding goodwill amortization	236	240
Depreciation of property, plant and equipment		
Buildings	238	241
Technical equipment and machinery	251	246
Other equipment, operating and office equipment	606	585
Aircraft	72	80
	1,403	**1,392**

Depreciation and amortization charges for fiscal year 2003 do not include any material impairment losses.

14 Other operating expenses

Other operating expenses are composed of the following items:

Other operating expenses		
in €m	2002	2003
Rental and lease expenses	1,294	1,421
Public relations expenses	460	475
Legal, consulting, and audit costs	429	449
Travel, training, and incidental staff costs	318	350
Telecommunication costs	257	248
Insurance costs	190	214
Cost of purchased cleaning, transportation, and security services	180	179
Allowance for losses on loans and advances (financial services)	137	155
Other business taxes	185	153
Write-downs of current assets	165	117
Addition to provisions	1,442	105
Services provided by Bundesanstalt für Post und Telekommunikation	106	104
Voluntary social benefits	67	99
Entertainment and corporate hospitality expenses	95	84
Refunds and compensation payments	75	74
Expenses from currency translation differences	94	71
Cost of asset disposals	81	53
Warranty expenses	54	51
Prior-period other operating expenses	113	45
Contributions and fees	52	33
Other property-related expenses	25	32
Customs duties not oncharged	32	29
Commissions paid	31	29
Monetary transaction costs	18	19
QTE lease expenses	40	0
Miscellaneous expenses	917*	469
	6,857*	**5,058**

* Reclassification of interest cost on discounted other provisions to net other finance costs

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The fall of €1,799 million in other operating expenses is primarily due to the addition to provisions for the STAR program in the amount of €947 million in the previous year.

Miscellaneous other operating expenses include a number of individual items, none of which exceeds €10 million.

Taxes other than income taxes are either carried under the related expense item or, if no specific allocation is possible, under other operating expenses.

15 Goodwill amortization

Goodwill amortization charges in fiscal year 2003 amounted to €319 million (previous year: €449 million). This figure includes impairment losses of €8 million. The €130 million change in goodwill amortization is primarily due to the impairment loss of €205 million charged on the goodwill of DHL US Ground Co., USA, in the previous year.

16 Net loss from associates

Investments in companies on which a significant influence can be exercised and which are included at equity primarily contributed as follows to net finance costs:

Equity-accounted investments		
in €m	2002	2003
trans-o-flex Schnell-Lieferdienst GmbH (trans-o-flex), Germany *	–1	1
DHL Airways Inc. (now ASTAR Air Cargo), USA	0	–29
	–1	**–28**

* The net profit/loss in the prior year is included in each case

The increase in the net loss from associates is due to the loss on the sale of DHL Airways Inc., USA, in July 2003.

17 Net other finance costs

The structure of net other finance costs is as follows:

Net other finance costs		
in €m	2002	2003
Interest expenses	–759*	–862
thereof interest cost on discounted provisions for pensions and other provisions	–548	–578
Interest income	114	131
Income from other equity investments and financial instruments	16	11
Cost of loss absorption	–15	–7
Write-downs of financial instruments	–43	–7
Miscellaneous other financial income	24	21
	–663*	**–713**

* Reclassification of interest cost on pension obligations and other interest-bearing provisions from EBITA to net finance costs

The higher net other finance costs are primarily due to the increase in interest cost on discounted provisions for pensions and other provisions.

Income and expenses from the Deutsche Postbank group's banking transactions are not carried under net other finance costs. Income – in particular in the form of interest, fee and commission income, and income from equities and securities – is carried under revenue and income from banking transactions (see note 9), while expenses – in particular interest, fee, and commission expenses – are carried under materials expense and expenses from banking transactions (see note 11).

18 Income tax expense

The income tax expense is composed of the following items:

Income tax expense		
in €m	2002	2003
Current income tax expense	–179	–213
Current recoverable income tax	63	13
	–116	**–200**
Deferred tax expense (previous year: income) from temporary differences	100	–42
Deferred tax expense from the reduction in deferred tax assets from tax loss carryforwards	–250	–331
	–150	**–373**
	–266	**–573**

The income tax expense rose by €307 million, primarily as a result of the increase in the consolidated net profit and the resulting decrease in deferred tax assets from tax loss carryforwards at Deutsche Post AG and the Deutsche Postbank group; this resulted in a Group tax rate of 29.9% (previous year: 28.0%).

The reconciliation to the effective tax expense is shown below, based on consolidated net profit before minorities and income taxes, and the expected income tax expense:

Reconciliation		
in €m	2002	2003
Consolidated net profit before minorities and income taxes	**949**	**1,915**
Expected income tax expense	379	764
Deferred tax assets from temporary differences not recognized for		
Initial differences	–216	–252
Goodwill amortization	97	127
Restructuring provisions	378	–119
Reversal of negative goodwill	–598	0
Deferred tax assets of foreign Group companies not recognized for tax loss carryforwards	138	71
Effects from section 8 b KStG	108	7
Differences in tax rates at foreign companies	–14	–9
Other	–6	–16
Effective income tax expense	**266**	**573**

The difference between the expected and the effective income tax expense is due in particular to temporary differences between the carrying amounts in the IFRS financial statements and in the tax accounts of Deutsche Post AG resulting from initial differences in the opening tax accounts as of January 1, 1996. In accordance with IAS 12.15 (b) and IAS 12.24 (b), the Group did not recognize any deferred tax assets on these temporary differences, which relate mainly to property, plant and equipment, and to provisions for pensions and other employee benefits.

In accordance with IAS 12.88 in conjunction with IAS 37.33, Deutsche Post AG has opted not to recognize deferred taxes from loss carryforwards arising from the recognition of goodwill in the opening tax accounts, as there is still substantial uncertainty regarding the measurement of the goodwill for tax purposes.

The remaining temporary differences between the carrying amounts in the IFRS financial statements and in the opening tax accounts amount to €5.6 billion as of December 31, 2003 (previous year: €6.2 billion).

The effects from section 8 b KStG (German Corporate Income Tax Act) relate primarily to special funds of the Deutsche Postbank group. The Other item contains the adjustments from the German Flood Victims Act, as well as tax-exempt income and nonallowable expenses.

19 Net profit for the period before minority interest and extraordinary expense

In fiscal year 2003, Deutsche Post World Net recorded a net profit for the period before minority interest and extraordinary expense of €1,342 million (previous year: €1,590 million).

20 Minority interest

The profit for fiscal year 2003 attributable to minority shareholders amounts to €38 million (previous year: €31 million), and losses attributable to minority shareholders amount to €5 million (previous year: €7 million).

21 Extraordinary expense

The extraordinary expense of €907 million resulting from the European Commission's state aid ruling was disclosed under this item in the previous year. This expense was recognized gross of the attributable taxes of €215 million.

22 Earnings per share

Basic earnings per share are computed in accordance with IAS 33 (Earnings per Share) by dividing consolidated net profit by the average number of shares. Basic earnings per share for fiscal year 2003 were €1.18 (previous year: €0.59).

To compute diluted earnings per share, the average number of shares outstanding is adjusted for the number of all potentially dilutive shares. There were 25,701,258 stock options for executives at the reporting date (previous year: 15,479,178), of which 213,991 were potentially dilutive (previous year: 0). Diluted earnings per share were the same as basic earnings per share in the year under review.

23 Dividend per share

A dividend of €490 million is being proposed for fiscal year 2003 (previous year: €445 million). Based on the 1,112,800,000 shares recorded in the commercial register, this corresponds to a dividend per share of €0.44 (previous year: €0.40). Further details of the distribution can be found in note 35.

Balance sheet disclosures

24 Intangible assets

Changes in intangible assets in fiscal year 2003 are presented below:

Intangible assets in €m	Internally generated intangible assets	Purchased intangible assets	Goodwill	Negative goodwill	Advance payments	Total
Historical cost						
Opening balance at Jan. 1, 2003	678	665	5,344	–2,144	80	4,623
Changes in consolidated group	27	10	168	0	0	205
Additions	137	135	1,743	0	36	2,051
Reclassifications	–4	144	–32	0	–87	21
Disposals	–74	–55	–30	0	–1	–160
Currency translation differences	–17	–19	–173	0	0	–209
Closing balance at Dec. 31, 2003	**747**	**880**	**7,020**	**–2,144**	**28**	**6,531**
Amortization and impairment losses/Reversals						
Opening balance at Jan. 1, 2003	299	422	970	–2,144	0	–453
Changes in consolidated group	13	3	113	0	0	129
Amortization and impairment losses	123	117	319	0	0	559
Reclassifications	–2	20	–6	0	0	12
Disposals	–23	–49	0	0	0	–72
Currency translation differences	–7	–12	–29	0	0	–48
Closing balance at Dec. 31, 2003	**403**	**501**	**1,367**	**–2,144**	**0**	**127**
Carrying amount at Dec. 31, 2003	**344**	**379**	**5,653**	**0**	**28**	**6,404**
Carrying amount at Dec. 31, 2002	379	243	4,374	0	80	5,076

Only purchased software, concessions, industrial rights, licenses and similar rights, and assets are reported under purchased intangible assets. Internally generated intangible assets relate to development costs for internally developed software. Research expenses of €19 million (previous year: €15 million) were recognized as expenses in fiscal year 2003.

The additions to goodwill relate primarily to the goodwill of Airborne.

25 Property, plant, and equipment

Changes in property, plant and equipment in fiscal year 2003 are presented below:

Property, plant, and equipment in €m	Land and buildings	Technical equipment and machinery	Other equipment, operating and office equipment	Aircraft	Vehicle fleet and transport equipment	Advance payments and assets under development	Total
Historical cost							
Opening balance at Jan. 1, 2003	7,395	2,622	3,793	909	147	34	14,900
Changes in consolidated group	293	238	160	139	132	3	965
Additions	138	115	303	219	267	85	1,127
Reclassifications	13	–81	–1,216	0	1,304	–41	–21
Disposals	–244	–63	–238	–35	–259	–12	–851
Currency translation differences	–116	–79	–96	–160	–23	–2	–476
Closing balance at Dec. 31, 2003	**7,479**	**2,752**	**2,706**	**1,072**	**1,568**	**67**	**15,644**
Depreciation and impairment losses							
Opening balance at Jan. 1, 2003	1,679	1,460	2,345	231	100	0	5,815
Changes in consolidated group	159	174	152	92	133	0	710
Depreciation and impairment losses	241	246	396	80	189	0	1,152
Reversal of impairment losses	0	0	0	0	0	0	0
Reclassifications	0	–50	–706	0	744	0	–12
Disposals	–83	–39	–193	–22	–221	0	–558
Currency translation differences	–40	–47	–70	–105	–19	0	–281
Closing balance at Dec. 31, 2003	**1,956**	**1,744**	**1,924**	**276**	**926**	**0**	**6,826**
Carrying amount at Dec. 31, 2003	**5,523**	**1,008**	**782**	**796**	**642**	**67**	**8,818**
Carrying amount at Dec. 31, 2002	5,716	1,162	1,448	678	47	34	9,085

Advance payments relate only to advance payments on items of property, plant, and equipment where Deutsche Post World Net has paid advances in connection with uncompleted transactions. Assets under development relate to items of property, plant, and equipment in progress at the balance sheet date for whose production internal or third-party costs have already been incurred.

Items of property, plant, and equipment pledged as collateral have a total carrying amount of €855 million (previous year: €540 million).

26 Noncurrent financial assets

Changes in noncurrent financial assets in fiscal year 2003 are presented below:

Noncurrent financial assets

in €m	Investments in associates	Available for sale: Investments in subsidiaries	Available for sale: Noncurrent financial instruments	Available for sale: Other equity investments	Loans	Total
Historical cost						
Opening balance at Jan. 1, 2003	134	62	53	44	97	390
Changes in consolidated group	–6	7	0	11	63	75
Additions	8	7	406	55	59	535
Reclassifications	1	–1	0	0	0	0
Disposals	–42	–43	–14	–29	–25	–153
Currency translation differences	–4	0	–4	–2	–20	–30
Closing balance at Dec. 31, 2003	**91**	**32**	**441**	**79**	**174**	**817**
Impairment losses						
Opening balance at Jan. 1, 2003	8	0	33	–26	0	15
Changes in consolidated group	0	0	0	0	65	65
Impairment losses	4	0	1	5	0	10
Changes in fair value	0	0	–1	0	0	–1
Reclassifications	0	0	0	0	0	0
Disposals	0	0	–7	0	0	–7
Currency translation differences	0	0	0	0	0	0
Closing balance at Dec. 31, 2003	**12**	**0**	**26**	**–21**	**65**	**82**
Carrying amount at Dec. 31, 2003	**79**	**32**	**415**	**100**	**109**	**735**
Carrying amount at Dec. 31, 2002	126	62	20	70	97	375

€35 million of the disposals of investments in associates relates to the sale of DHL Airways Inc., USA.

€356 million of the additions to noncurrent financial instruments is attributable to the change in the presentation of DHL's long-term deposits, which serve as long-term collateral for aircraft leases. In the previous year, they were reported under receivables and other assets.

Compared with the market rates of interest prevailing at December 31, 2003, for comparable financial assets, most of the housing promotion loans are low-interest or interest-free loans. They are recognized in the balance sheet at a present value of €18 million (previous year: €21 million). The principal amount of these loans totals €39 million (previous year: €45 million). For all other originated financial instruments, there were no significant differences between the carrying amounts and the fair values. There is no significant interest rate risk, because most of these instruments bear floating rates of interest at market rates.

As in the previous year, investments in associates and other investees were subject to restraints on disposal in the amount of €4 million.

27 Inventories

Inventories are composed of the following items:

Inventories

in €m	2002	2003
Finished goods and goods purchased and held for resale	84	78
Spare parts for aircraft	61	68
Raw materials and supplies	43	56
Work in progress	7	4
Advance payments	19	12
	214	**218**

Standard costs for inventories of postage stamps and spare parts in freight centers amounted to €14 million, as in the previous year. There was no requirement to charge significant valuation allowances on these inventories.

28 Receivables and other assets

Receivables and other assets are composed of the following items:

Receivables and other assets

in €m	2002	2003
Trade receivables	3,410	3,415
Prepaid expenses	679	705
Tax receivables	383	433
Derivatives	85	153
Receivables from Group companies	103	75
Receivables from sales of assets	23	58
Rent receivable	14	30
Receivables from employees and executive body members	14	33
Creditors with debit balances	50	28
Advance payments	19	26
Equalization claim under section 40 DMBilG	37	25
Receivables from loss compensation (recourse claims)	50	21
Receivables from insurance business	131	20
Receivables from cash-on-delivery	17	18
Long-term deposits	296	16
Receivables from Bundesanstalt für Post und Telekommunikation	5	6
Interest-bearing assets	14	5
Receivables from private postal agencies	256	4
Receivables from Bundes-Pensions-Service für Post und Telekommunikation e. V.	40	0
Receivables from QTE leases	28	0
Miscellaneous other assets	318*	413
	5,972	**5,484**

* Short-term deposits reclassified to cash and cash equivalents

The decrease in other assets is primarily due to the reclassification of long-term deposits to noncurrent financial assets.

Miscellaneous other assets include a number of individual items, none of which exceeds €10 million.

The remaining maturities of receivables and other assets are structured as follows:

Maturities

in €m	2002	2003
Less than 1 year	5,591	4,966
1 to 5 years	68	94
More than 5 years	313	424
	5,972	**5,484**

In accordance with IAS 39, the fair values as of December 31, 2003, were additionally determined for noncurrent receivables measured at historical cost. This did not result in any significant differences between the carrying amounts and the fair values. There is no significant interest rate risk because most of these instruments bear floating rates of interest at market rates.

29 Receivables and other securities from financial services

Receivables and other securities from financial services are composed of the following items:

Receivables and other securities from financial services

in €m	2002	2003
Loans and advances to other banks		
thereof fair value hedges: 2,635 (previous year: 3,394)		
Originated loans to other banks	27,041	27,390
Purchased loans to other banks (available for sale)	1,730	1,190
Money market assets	9,003	5,491
	37,774	**34,071**
Loans and advances to customers		
thereof fair value hedges: 6,077 (previous year: 7,705)		
thereof secured by mortgage charges: 11,200 (previous year: 10,688)		
Loans and advances to customers	38,687	38,231
Purchased loans to customers (held to maturity)	779	710
Purchased loans to customers (available for sale)	4,412	4,289
	43,878	**43,230**
Allowance for losses on loans and advances		
Loans and advances to other banks	–9	–3
Loans and advances to customers	–579	–594
	–588	**–597**
Trading assets		
Bonds and other fixed-income securities	10,433	11,666
Equities and other non-fixed-income securities	19	21
Positive fair value of derivatives	442	508
Positive fair value of banking book derivatives	401	393
	11,295	**12,588**
Hedging derivatives (positive fair values)		
Assets	25	22
Liabilities	1,096	810
	1,121	**832**
Investment securities		
Bonds and other fixed-income securities		
thereof fair value hedges: 1,445 (previous year: 1,071)		
Purchased directly from the issuer	14,054	12,284
Held to maturity	3,102	2,633
Available for sale	26,094	22,441
thereof fair value hedges: 12,441 (previous year: 15,931)		
	43,250	**37,358**
Equities and other non-fixed-income securities		
Equities		
thereof fair value hedges: 70 (previous year: 49)	707	1,286
Investment fund shares	204	160
	911	**1,446**
	44,161	**38,804**
	137,641	**128,928**

Receivables and other securities from financial services relate exclusively to the Deutsche Postbank group.

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The maturity structure of receivables and other securities from financial services (gross of the allowance for losses on loans and advances) is as follows:

Maturities								
in €m	Less than 1 year		1 to 5 years		More than 5 years		Total	
	2002	2003	2002	2003	2002	2003	2002	2003
Loans and advances to other banks	20,863	22,312	7,883	5,985	9,028	5,774	37,774	34,071
Loans and advances to customers	5,899	6,591	17,125	18,232	20,854	18,407	43,878	43,230
Trading assets/Hedging derivatives	5,614	3,894	5,960	7,030	842	2,496	12,416	13,420
Investment securities	7,422	4,300	24,241	19,642	12,498	14,862	44,161	38,804
	39,798	**37,097**	**55,209**	**50,889**	**43,222**	**41,539**	**138,229**	**129,525**

€7,707 million of loans and advances to other banks are payable on demand (previous year: €1,354 million). €2 million was withdrawn from (previous year: €11 million taken to) the revaluation reserve for losses on the measurement of unhedged purchased available-for-sale loans to other banks. A gain of €0.3 million (previous year: €2 million) carried in the revaluation reserve was reversed to income in the period under review from the disposal of available-for-sale loans to other banks. No valuation allowances were recognized in the year under review for originated loans to other banks (previous year: €2 million).

Of the loans and advances to customers, €13,825 million is attributable to public-sector loans (previous year: €17,794 million), and €17,464 million to building finance (previous year: €15,221 million). €8 million was withdrawn from (previous year: €22 million taken to) the revaluation reserve for losses on the measurement of unhedged purchased available-for-sale loans to customers. A gain of €8 million (previous year: €23 million) carried in the revaluation reserve was reversed to income in the period under review from the disposal of available-for-sale loans to customers. Valuation allowances of €221 million (previous year: €185 million) were recognized for originated loans to customers in the year under review.

The allowance for losses on loans and advances is recognized in accordance with IAS 39.109 and covers all identifiable credit and country risks. Global valuation allowances were recognized for the potential credit risk on the basis of historical amounts.

The allowance for losses on loans and advances changed as follows in fiscal year 2003:

Change in loan loss allowance								
in €m	Specific risks		Country risks		Potential risks		Total	
	2002	2003	2002	2003	2002	2003	2002	2003
Opening balance at Jan. 1	561	538	9	7	51	43	621	588
Change in consolidated group	0	0	0	0	0	0	0	0
Additions	185	221	2	0	0	0	187	221
Utilization	133	97	0	0	0	0	133	97
Reversal	70	82	2	4	8	7	80	93
Currency translation differences	–5	–21	–2	–1	0	0	–7	–22
Closing balance at Dec. 31	**538**	**559**	**7**	**2**	**43**	**36**	**588**	**597**

€33 million (previous year: €29 million) of nonperforming loans and advances was written off directly and charged to income in the year under review. Recoveries on loans previously written off amounted to €7 million (previous year: €1 million).

Trading assets relate to trading in bonds and other fixed-income securities, equities and other non-fixed-income securities, foreign currencies, as well as derivatives that do not satisfy the IAS 39 criteria for hedge accounting. €11,345 million (previous year: €10,083 million) of the bonds and other fixed-income securities and €21 million (previous year: €19 million) of the equities and other non-fixed-income securities relate to securities listed on a stock exchange.

Hedges with positive fair values that qualify for hedge accounting under IAS 39 are composed of the items shown in the table on the right.

Hedging derivatives (fair value hedges)		
in €m	2002	2003
Assets		
Hedging derivatives on loans to other banks		
Originated loans	6	5
Hedging derivatives on loans to customers		
Originated loans	7	9
Hedging derivatives on investment securities		
Bonds and other fixed-income securities	8	7
Equities and other non-fixed-income securities	4	1
	25	**22**
Liabilities		
Deposits from other banks	64	63
Amounts due to customers	54	63
Securitized liabilities	969	672
Subordinated liabilities	9	12
	1,096	**810**
	1,121	**832**

€37,395 million (previous year: €42,539 million) of the investment securities relates to listed securities. Losses on the measurement of unhedged available-for-sale securities were charged directly to the revaluation reserve in the amount of €328 million (previous year: withdrawal of €537 million). €33 million was withdrawn from the revaluation reserve (previous year: charge of €201 million) and recognized in the income statement from the disposal of investment securities and the recognition of impairment losses. Postbank issued letters of pledge to the European Central Bank for securities with a lending value of €2 billion (previous year: €13.3 billion) for open market operations. Open market operations at the balance sheet date amounted to €2 billion (previous year: €8.9 billion). The securities deposited as collateral continue to be reported as non-current financial assets. Impairment losses of €7 million (previous year: €238 million) were recognized in fiscal year 2003 to reflect developments in the values of financial instruments.

30 Current financial instruments

Current financial instruments in the amount of €75 million (previous year: €3 million) are classified as available for sale. €58 million of this increase is attributable to Airborne.

31 Cash and cash equivalents

Cash and cash equivalents include cash equivalents in the amount of €84 million; this figure is primarily attributable to Guipuzcoana (€31 million), DHL Sinotrans (€13 million), and DHL Internacional de México SA de CV, Mexico (€10 million).

32 Deferred tax assets

Deferred tax assets are composed of the following items:

Deferred tax assets

in €m	2002	2003
Deferred tax assets from tax loss carryforwards	708	383
Deferred tax assets from temporary differences	738	533
	1,446	**916**

Deferred tax assets from temporary differences relate primarily to the Deutsche Postbank group in the amount of €289 million (previous year: €275 million), and to Deutsche Post AG in the amount of €112 million (previous year: €345 million).

No deferred tax assets were recognized on tax loss carryforwards of around €4.1 billion (previous year: €3.9 billion), as it can be assumed that the Group will not be able to utilize these tax loss carryforwards in future periods.

Deferred tax assets from tax loss carryforwards are broken down as follows:

Deferred tax assets from tax loss carryforwards

in €m	2002	2003
Deferred taxes from German tax loss carryforwards		
Corporation tax	352	179
Trade tax and solidarity surcharge	210	107
Deferred taxes from foreign tax loss carryforwards	146	97
	708	**383**

The following deferred tax assets and liabilities from temporary differences result from differences in the carrying amounts of individual balance sheet items:

Deferred tax assets from temporary differences

in €m	Assets 2002	Liabilities 2002	Assets 2003	Liabilities 2003
Intangible assets	13	106	10	89
Property, plant, and equipment	58	86	88	86
Noncurrent financial assets	12	8	4	8
Current assets				
Receivables and other securities from financial services	51	520	70	1,370
Other current assets	63	54	35	4
Pension provisions	140	0	229	10
Other provisions	267	56	344	337
Financial liabilities	0	0	12	0
Liabilities from financial services	0	0	796	52
Other liabilities	134	165	55	39
	738	**995**	**1,643**	**1,995**
Balance of deferred tax assets and liabilities	–	–	–1,110	–1,110
Carrying amount	**738**	**995**	**533**	**885**

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The maturity structure of deferred tax assets from temporary differences is as follows:

Maturities		
in €m	2002	2003
Less than 1 year	188	117
1 to 5 years	383	121
More than 5 years	167	295
	738	**533**

33 Issued capital

The issued capital amounts to €1,112,800,000 and is composed of 1,112,800,000 no-par value registered shares with a current notional value of €1 each.

The share capital changed as follows as of December 31, 2003:

Issued capital		
Number of shares	2002	2003
Federal Republic of Germany	556,400,026	222,560,000
KfW Bankengruppe (formerly Kreditanstalt für Wiederaufbau)	203,591,065	473,950,704
Free float	352,808,909	416,289,296
	1,112,800,000	**1,112,800,000**

Deutsche Post AG's share capital remained unchanged at €1,112,800,000. In November 2003, the German government sold around 30% of Deutsche Post AG's share capital to the KfW Bankengruppe (KfW). As with earlier holding arrangements, KfW purchased the shares with a significant discount to the current market price. At the same time, the government received a debtor warrant, which secures the additional proceeds for it in the event that the shares are resold on the market. KfW sold part of its interest in Deutsche Post AG in December, and at the same time issued an exchangeable bond on Deutsche Post stock. The free float has risen by 5.7% to 37.4%.

The authorization to increase the share capital by up to €11.25 million by issuing shares to satisfy the employee equity compensation program expired on January 30, 2003 (formerly Authorized Capital I). No shares were issued on options held by employees of the Company arising from the employee equity compensation program.

The authorized capital of €80 million through the issue of 80,000,000 no-par value registered shares as resolved by the Extraordinary General Meeting on October 13, 2000, is still in force. The Board of Management is authorized to increase the share capital of the Company correspondingly up to and including September 30, 2005. The shares will be issued against non-cash contributions. Shareholders' pre-emptive subscription rights have been disapplied. The Company did not exercise this authorization in fiscal year 2003.

The Annual General Meeting on June 5, 2003 resolved a contingent capital increase of €60 million to satisfy the Stock Option Plan 2003. Taken together with the contingent capital increase of €50 million resolved by the Extraordinary General Meeting on September 27, 2000, a total amount of €110 million is currently available to satisfy the 2000 and 2003 Stock Option Plans.

In accordance with the resolution adopted by the Annual General Meeting on June 5, 2003, Deutsche Post AG is authorized up to November 30, 2004 to buy back own shares amounting to no more than 10% of the current share capital for any purpose permitted by law, and in particular for the purpose of pursuing the objectives cited in the resolution by the Annual General Meeting on June 5, 2003.

Share-based payment system for executives

Under the Stock Option Plan 2000, eligible participants are granted stock options in annual tranches. Certain employees (Group management levels one to three and some specialists) were granted stock options for the first time on March 15, 2001 (Tranche 2001). The second tranche was issued on July 1, 2002.

On the basis of the Stock Option Plan 2003 adopted by the Annual General Meeting on June 5, 2003, no further options were granted under the previous plan. Options were granted under the new stock option plan for the first time on August 1, 2003. The plan provides for additional stock options to be granted to eligible participants on the first trading day in July in 2004 and 2005.

The grant of stock options to members of the Board of Management and executives in Group management level two still requires eligible participants to invest in shares of Deutsche Post AG. Eligible participants in Group management levels three and four receive stock options without any requirement to buy shares.

Tranches		
	Stock options	Stock Appreciation Rights (SARs)
Tranche 2001		
Board of Management	466,908	0
Other senior executives	5,070,576	345,432
Tranche 2002		
Board of Management	1,223,418	0
Other senior executives	9,082,620	446,934
Tranche 2003		
Board of Management	1,096,236	0
Other senior executives	11,953,356	731,736

The stock options issued under both stock option plans can only be exercised within a two-year period following the expiration of a lock-up period of three years after the relevant grant date. The options can only be exercised if the absolute or the relative performance targets have been satisfied. Unexercised options lapse after the end of the exercise period.

The absolute performance target depends on the performance of Deutsche Post stock during the performance period, and is deemed to have been satisfied if the increase in the price of Deutsche Post stock exceeds 10, 15, 20 or 25% or more. The relative performance target is tied to the performance of the shares versus the performance of the Dow Jones Euro STOXX Total Return Index. The relative performance target is satisfied if the performance of Deutsche Post stock during the abovementioned period matches the performance of the Index or outperforms it by at least 10%. The stock options of the respective tranche lapse without compensation if either the absolute or the relative performance targets are not satisfied by the end of the lock-up period. For every six options, a maximum of four may be earned on the basis of the absolute performance target, and a maximum of two on the basis of the relative performance target. The average price or index performance during two periods (reference period/performance period) is compared to establish whether and to what extent the performance targets have been satisfied. The reference period is the 20 consecutive trading days prior to the issue date; the performance period is the last 60 trading days prior to expiration of the lock-up period. The average price is calculated as the average closing price of Deutsche Post stock in Deutsche Börse AG's Xetra trading system.

Each stock option entitles the holder to acquire one share or to a cash settlement in the amount of the difference between the issue price and the average price of Deutsche Post stock during the five days prior to the exercise date, at the Board of Management's discretion.

Information on the individual tranches is presented in the following tables:

Information on individual tranches

	SOP 2000		SOP 2003
	Tranche 2001	Tranche 2002	Tranche 2003
Grant date	Mar. 15, 2001	July 1, 2002	Aug. 1, 2003
Stock options granted	5,537,484	10,306,038	13,049,592
Stock Appreciation Rights (SARs) granted	345,432	446,934	731,736
Issue price	€23.05	€14.10	€12.40
Lock-up expires	Mar. 14, 2004	June 30, 2005	July 31, 2006
Number			
Outstanding stock options at beginning of year	5,173,140	10,306,038	0
Outstanding SARs at beginning of year	336,876	446,934	0
Options granted			13,049,592
SARs granted			731,736
Options exercised	0	0	0
SARs exercised	0	0	0
Options lapsed	773,298	2,005,224	48,990
SARs lapsed	104,460	104,118	0
Outstanding options at end of year	4,399,842	8,300,814	13,000,602
Outstanding SARs at end of year	232,416	342,816	731,736
Options eligible for exercise at end of year	0	0	0
SARs eligible for exercise at end of year	0	0	0
in €			
Measurement per option at Dec. 31, 2003	1.40	0.86	0.56
Measurement per SAR at Dec. 31, 2003	0.13	1.94	0.75

Deutsche Post did not hold any own shares as of December 31, 2003.

Starting in fiscal year 2002, the stock option plan has been measured using investment techniques by applying option pricing models (fair value measurement). The expense of €22 million attributable to fiscal year 2003, comprising €21 million for the stock options and €1 million for the SARs, was reported under staff costs.

34 Reserves

The Group's reserves are composed of the following items:

Reserves

in €m	2002	2003
Capital reserves	356	377
Revaluation reserve in accordance with IAS 39	–495	–203
Hedging reserve in accordance with IAS 39	–37	–105
Retained earnings	3,499	3,615
	3,323	**3,684**

Capital reserves

Changes in the capital reserves are presented below:

Capital reserves

in €m	2002	2003
Capital reserves at Jan. 1	344	356
Measurement of stock option plans	12	21
Capital reserves at Dec. 31.	**356**	**377**

The measurement of the 2000 and 2003 Stock Option Plans resulted in staff costs for the stock options in the amount of €21 million (previous year: €12 million); this amount was charged to capital reserves. Further details of the stock option plans can be found in note 33.

Revaluation reserve in accordance with IAS 39

The revaluation reserve contains gains and losses from changes in the fair values of available-for-sale financial instruments that are unlikely to be more than temporary and have been taken directly to equity. This reserve is reversed to income either when the assets are sold or otherwise disposed of, or if the fair value of the assets falls more than temporarily below their cost.

Revaluation reserve

in €m	2002	2003
Balance at Jan. 1	–93	–495
Currency translation	0	1
Gains/losses credited/charged to revaluation reserve	–611	334
Reversed to income	209	–43
Balance at Dec. 31	**–495**	**–203**

In fiscal year 2003, available-for-sale financial instruments in the amount of €43 million were reversed to income, i.e. the negative revaluation reserve decreased by this amount. Further details can be found in note 29.

The negative revaluation reserve relates almost entirely to gains or losses on the fair value measurement of financial instruments of the Deutsche Postbank group. The change as against the previous year is due to the positive development of the global capital markets.

Hedging reserve in accordance with IAS 39
Net gains or losses from changes in the fair value of the effective portion of a cash flow hedge are taken directly to the hedging reserve. The hedging reserve is released to income if the hedged item is settled or the hedge is terminated.

Hedging reserve		
in €m	2002	2003
Balance at Jan. 1	0	–37
Gains credited to hedging reserve	0	87
Losses charged to hedging reserve	–37	–155
Balance at Dec. 31	**–37**	**–105**

Retained earnings
Retained earnings mainly contain the undistributed consolidated profits generated in prior periods. Retained earnings are composed of the following items:

Retained earnings		
in €m	2002	2003
Undistributed profit of prior-year periods	3,578	3,713
Currency translation differences	–97	–102
Other	18	4
	3,499	**3,615**

Changes in the reserves during the year under review are also presented in the statement of changes in equity.

35 Consolidated net profit

The consolidated net profit for fiscal year 2003 amounts to €1,309 million (previous year: €659 million).

Dividends
Dividends paid to the shareholders of Deutsche Post AG are based on the unappropriated surplus of €1,349 million (previous year: €1,406 million) reported in the annual financial statements of Deutsche Post AG prepared in accordance with the German Commercial Code. The amount of €859 million (previous year: €961 million) remaining after deduction of the total dividend of €490 million (previous year: €445 million) will be transferred to the retained earnings of Deutsche Post AG.

The dividend is tax-exempt for shareholders resident in Germany. No capital gains tax (investment income tax) will be withheld on the distribution.

36 Minority interest

Minority interest includes adjustments for the interests of non-Group shareholders in the consolidated equity from capital consolidation, as well as their interests in profit and loss. The interests relate primarily to the following companies:

Minority interest		
in €m	2002	2003
Guipuzcoana	83	18
Deutsche Postbank group	14	14
Other companies	20	27
	117	**59**

The increase in the Group's interest in Guipuzcoana meant that minority interest fell accordingly.

37 Provisions for pensions and other employee benefits

In a number of countries, Deutsche Post World Net maintains defined benefit pension plans on the basis of the pensionable compensation of employees and their length of service. Many of these benefit plans are funded through independent pension funds. The Group also maintains a number of defined contribution plans with assets in external funds.

Pension plans for civil servants in Germany
In addition to the state pension system operated by the statutory pension insurance funds, to which contributions for hourly workers and salaried employees are remitted in the form of non-wage costs, Deutsche Post AG and Deutsche Postbank AG pay contributions to defined contribution plans in accordance with statutory provisions.

Under the provisions of the Gesetz zur Neuordnung des Postwesens und der Telekommunikation (PTNeuOG – Posts and Telecommunications Reorganization Act), Deutsche Post AG and Deutsche Postbank AG make benefit and assistance payments via a special pension fund to retired employees and their surviving dependants who are entitled to benefits on the basis of a civil service appointment. The amount of the payment obligations of Deutsche Post AG and Deutsche Postbank AG is governed by section 16 of the Postpersonalrechtsgesetz (German Postal Employees Act). Since 2000, both companies have been legally obliged to pay into this special pension fund an annual contribution of 33% of the pensionable gross compensation of active civil servants and the notional pensionable gross compensation of civil servants on leave of absence. In the year under review, Deutsche Post AG paid contributions of €664 million (previous year: €645 million) and Deutsche Postbank AG paid contributions of €77 million (previous year: €80 million) to Bundes-Pensions-Service für Post und Telekommunikation e.V.

Under the PTNeuOG, the federal government takes appropriate measures to make good the difference between the current payment obligations of the special pension fund on the one hand and the current contributions of Deutsche Post AG and Deutsche

Postbank AG or the return on assets on the other, and guarantees that the special pension fund is able at all times to meet the obligations it has assumed in respect of its funding companies. Where the federal government makes payments to the special pension fund under the terms of this guarantee, it cannot claim reimbursement from Deutsche Post AG and Deutsche Postbank AG.

Until 2000, Deutsche Post AG and Deutsche Postbank AG each operated a separate pension fund for their active and former civil servant employees. These funds were merged with the pension fund of Deutsche Telekom AG to form the joint special pension fund Bundes-Pensions-Service für Post und Telekommunikation e.V. (BPS-PT).

Pension plans for hourly workers and salaried employees

The benefit obligations for the Group's hourly workers and salaried employees relate primarily to pension obligations in Germany. There are various commitments to individual groups of employees. The commitments depend on length of service, and usually final salary as well. The provisions for defined benefit plans are measured using the projected unit credit method in accordance with IAS 19 (Employee Benefits), under which the future obligations are determined using actuarial principles and actuarial assumptions. The expected benefits are spread over the entire length of service of the employees, taking into account changes in key parameters.

The significant defined benefit plans of Deutsche Post AG are funded via Versorgungsanstalt der Deutsche Bundespost (VAP), Unterstützungskasse Deutsche Post Betriebsrenten Service e.V. (DPRS), and Deutsche Post Pensionsfonds GmbH & Co. KG. VAP, DPRS and Deutsche Post Pensionsfonds GmbH & Co. KG were provided with plan assets (funded pension plans). Deutsche Post AG and Deutsche Postbank AG have entered into direct commitments for the remaining plans.

The Group also has further benefit obligations around the world. These relate primarily to pension obligations.

Provisions for pensions and other employee benefits classified by area:

Provisions for pensions and other employee benefits by area

in €m	Deutsche Post AG 2002	Deutsche Postbank group 2002	EXPRESS excl. DPAG 2002	LOGISTICS excl. DPAG 2002	Other 2002	Total 2002	Deutsche Post AG 2003	Deutsche Postbank group 2003	EXPRESS excl. DPAG 2003	LOGISTICS excl. DPAG 2003	Other 2003	Total 2003
Provision for pensions	5,480	563	34	63	56	6,196	5,450	572	150	125	11	6,308
Other employee benefits	39	0	0	57	0	96	0	0	12	31	0	43
Provision for pensions and other employee benefits	5,519	563	34	120	56	6,292	5,450	572	162	156	11	6,351
Plan assets	0	0	–49	0	0	–49	0	0	–34	–15	0	–49
Net provision for pensions	5,480	563	–15	63	56	6,147	5,450	572	116	110	11	6,259

Actuarial assumptions

The actuarial computation of the benefit obligations and pension expense in Germany (particularly of Deutsche Post AG and Deutsche Postbank AG) was based on the following assumptions:

Actuarial assumptions

in %	2002	2003
Discount rate	5.5 to 5.75	5.5 to 5.75
Expected wage and salary growth	2.5	2.5
Expected pension growth (depending on employee group)	2.0 to 2.5	2.0 to 2.5
Average expected fluctuation	1.0	1.0
Expected return on plan assets	3.0 to 4.25	3.0 to 4.25

At the German Group companies, longevity is calculated on the 1998 mortality tables published by Dr. Klaus Heubeck.

The following tables only include significant pension plans.

Reconciliation of present value of obligations and funded status

in €m	Deutsche Post AG 2002	Deutsche Postbank group 2002	EXPRESS excl. DPAG 2002	LOGISTICS excl. DPAG 2002	Other 2002	Total 2002	Deutsche Post AG 2003	Deutsche Postbank group 2003	EXPRESS excl. DPAG 2003	LOGISTICS excl. DPAG 2003	Other 2003	Total 2003
Funded obligations at Dec. 31	3,098	0	477	479	0	4,054	3,468	0	683	564	0	4,715
Unfunded obligations at Dec. 31	3,936	623	37	65	56	4,717	3,836	614	72	36	11	4,569
Total obligations at Dec. 31	7,034	623	514	544	56	8,771	7,304	614	755	600	11	9,284
Fair value of plan assets at Dec. 31	–1,422	0	–523	–451	0	–2,396	–1,668	0	–641	–457	0	–2,766
Unrealized gains/losses	–132	–60	–6	–30	0	–228	–186	–42	2	–33	0	–259
Provision/plan assets at Dec. 31	5,480	563	–15	63	56	6,147	5,450	572	116	110	11	6,259

Changes in the present value of obligations

in €m	Deutsche Post AG 2002	Deutsche Postbank group 2002	EXPRESS excl. DPAG 2002	LOGISTICS excl. DPAG 2002	Other 2002	Total 2002	Deutsche Post AG 2003	Deutsche Postbank group 2003	EXPRESS excl. DPAG 2003	LOGISTICS excl. DPAG 2003	Other 2003	Total 2003
Present value of obligations at Jan. 1	7,259	591	0	461	17	8,328	7,034	623	514	544	56	8,771
Service cost excl. employee contributions	110	7	18	22	35	192	91	9	41	23	4	168
Employee contributions	0	0	0	7	0	7	3	1	7	7	0	18
Interest cost	394	34	4	24	0	456	382	35	35	28	0	480
Pension payments	–459	–37	0	–14	–1	–511	–473	–42	–28	–21	0	–564
Past service cost	0	0	0	0	0	0	6	1	0	0	0	7
Plan curtailments	–237	5	0	8	0	–224	0	0	0	0	0	0
Transfers	–16	0	437	52	5	478	176	4	55	36	–49	222
Acquisitions	0	0	55	0	0	55	0	0	137	0	0	137
Actuarial gains/losses	–17	23	0	–18	0	–12	85	–17	12	8	0	88
Currency translation effects	0	0	0	2	0	2	0	0	–18	–25	0	–43
Present value of obligations at Dec. 31	**7,034**	**623**	**514**	**544**	**56**	**8,771**	**7,304**	**614**	**755**	**600**	**11**	**9,284**

The acquisitions in 2003 relate primarily to Airborne in the USA, Securicor in the United Kingdom, and DHL Express Canada Ltd. (Loomis) in Canada.

In accordance with IAS 19.92, actuarial gains and losses are recognized only to the extent that they exceed the greater of 10% of the present value of the obligations or of the fair value of plan assets. The excess amount is spread over the remaining working lives of the active employees and recognized in income.

Changes in plan assets

in €m	Deutsche Post AG 2002	Deutsche Postbank group 2002	EXPRESS excl. DPAG 2002	LOGISTICS excl. DPAG 2002	Other 2002	Total 2002	Deutsche Post AG 2003	Deutsche Postbank group 2003	EXPRESS excl. DPAG 2003	LOGISTICS excl. DPAG 2003	Other 2003	Total 2003
Fair value of plan assets at Jan. 1	1,200	0	0	378	0	1,578	1,422	0	523	451	0	2,396
Employer contributions	481	0	32	0	0	513	219	0	0	6	0	225
Employee contributions	0	0	0	7	0	7	0	0	7	7	0	14
Actual return on plan assets	27	0	3	–12	0	18	77	0	29	5	0	111
Pension payments	–286	0	0	0	0	–286	–198	0	0	0	0	–198
Transfers	0	0	488	75	0	563	148	0	34	–12	0	170
Acquisitions	0	0	0	0	0	0	0	0	46	0	0	46
Currency translation effects	0	0	0	3	0	3	0	0	2	0	0	2
Fair value of plan assets at Dec. 31	**1,422**	**0**	**523**	**451**	**0**	**2,396**	**1,668**	**0**	**641**	**457**	**0**	**2,766**

Plan assets largely consist of fixed-income securities, fixed-term deposits, other cash and cash equivalents, etc. (52.8%; previous year: 72.1%), equities and investment funds (11.1%; previous year: 6.5%), and other assets, such as real estate (36.1%; previous year: 21.4%). 65.2% of this real estate (fair value: €650 million) is used by Deutsche Post AG itself. The price risk is extremely low due to the conservative composition of these assets.

An internal Pension Trust, Deutsche Post Pensionfonds GbR, was formed in fiscal year 2002 and converted into Deutsche Post Pensionfonds GmbH & Co. KG in March 2003. Its objective is to secure the pension entitlements of employees by using insolvency-proof transferred assets. Deutsche Post AG and Deutsche Post Pensions e.V. are the limited partners of Deutsche Post Pensions-fonds GmbH & Co. KG. Deutsche Post Verwaltungs Objekt GmbH is the sole general partner. Deutsche Post AG transferred real estate to the company and leased it back. The company is also provided with cash and cash equivalents. In the event of Deutsche Post AG becoming insolvent, Deutsche Post Pensions e.V. would assume the pension payments. Transfer of the real estate to Deutsche Post Pensionsfonds GmbH & Co. KG results in a plan asset that is offset against the plan liabilities.

Changes in provisions

Changes in net pension provisions in 2002 and 2003 are shown in the table below:

Changes in net provisions

in €m	Deutsche Post AG 2002	Deutsche Postbank group 2002	EXPRESS excl. DPAG 2002	LOGISTICS excl. DPAG 2002	Other 2002	Total 2002	Deutsche Post AG 2003	Deutsche Postbank group 2003	EXPRESS excl. DPAG 2003	LOGISTICS excl. DPAG 2003	Other 2003	Total 2003
Provision at Jan. 1	5,945	552	0	65	19	6,581	5,480	563	–15	63	56	6,147
Pension expense	431	43	25	1	36	536	435	46	60	23	4	568
Pension payments	–173	–37	0	–14	–1	–225	–276	–42	–41	–3	0	–362
Contributions to funds	–481	0	–32	0	0	–513	–219	0	–7	–13	0	–239
Acquisitions	0	0	32	1	0	33	0	0	91	0	0	91
Gains/losses on plan curtailments	–237	5	0	8	0	–224	0	0	0	0	0	0
Transfers	–5	0	–36	0	2	–39	30	4	35	42	–49	62
Currency translation effects	0	0	–4	2	0	–2	0	1	–7	–2	0	–8
Provision at Dec. 31	**5,480**	**563**	**–15**	**63**	**56**	**6,147**	**5,450**	**572**	**116**	**110**	**11**	**6,259**

Pension expense

The pension expense recognized in the income statement is as follows:

Pension expense

in €m	Deutsche Post AG 2002	Deutsche Postbank group 2002	EXPRESS excl. DPAG 2002	LOGISTICS excl. DPAG 2002	Other 2002	Total 2002	Deutsche Post AG 2003	Deutsche Postbank group 2003	EXPRESS excl. DPAG 2003	LOGISTICS excl. DPAG 2003	Other 2003	Total 2003
Service cost	110	7	18	21	36	192	94	10	41	23	4	172
Interest cost	394	34	4	24	0	456	382	35	35	28	0	480
Expected return on plan assets	–47	0	–3	–25	0	–75	–55	0	–37	–26	0	–118
Recognized past service cost	–26	2	0	3	0	–21	6	1	–4	0	0	3
Amortized unrealized (gains)/losses	0	0	6	–22	0	–16	8	0	0	4	0	12
Other	0	0	0	0	0	0	0	0	25	–6	0	19
Pension expense at Dec. 31	**431**	**43**	**25**	**1**	**36**	**536**	**435**	**46**	**60**	**23**	**4**	**568**

With the exception of the interest cost reported under net finance costs, all income and expenses were carried under staff costs.

38 Tax provisions

Tax provisions contain provisions for current and deferred income tax obligations and for other taxes. Provided that they are due in the same tax jurisdiction and relate to the same type of tax and maturity, current income tax obligations are eliminated against corresponding recoverable taxes. Changes in tax provisions in fiscal year 2003 are presented in the table on the right.

Tax provisions 2003

in €m	Provisions for current taxes	Deferred tax liabilities	Total
Opening balance at Jan. 1	515	995	1,510
Changes in consolidated group	–17	12	–5
Utilization	–70	–78	–148
Reversal	–59	0	–59
Currency translation differences	–6	–21	–27
Additions	243	1,087	1,330
	606	**1,995**	**2,601**
Balance of deferred tax assets and liabilities	–	–1,110	–1,110
Carrying amount at Dec. 31	**606**	**885**	**1,491**

Maturities of tax provisions

in €m	Provisions for current taxes		Deferred tax liabilities		Total	
	2002	2003	2002	2003	2002	2003
Less than 1 year	478	531	77	12	555	543
1 to 5 years	37	75	755	799	792	874
More than 5 years	0	0	163	74	163	74
	515	**606**	**995**	**885**	**1,510**	**1,491**

Provisions for current taxes in the amount of €606 million (previous year: €515 million) largely relate to Deutsche Post AG (€419 million; previous year: €415 million). Deferred tax liabilities in the amount of €885 million (previous year: €995 million) are attributable to the Deutsche Postbank group in the amount of €836 million (previous year: €706 million) and Deutsche Post AG in the amount of €7 million (previous year: €241 million).

39 Other provisions

Changes in other provisions in fiscal year 2003 are presented below:

Changes in other provisions

in €m	Postal Civil Service Health Insurance Fund	STAR restructuring provision	Other workforce adjustment measures	Postage stamps	Miscellaneous provisions	Total
Opening balance at Jan. 1, 2003	1,386	1,077	1,078	550	791	4,882
Changes in consolidated group	0	0	105	0	45	150
Utilization	16	110	266	550	220	1,162
Currency translation differences	0	0	–21	0	–21	–42
Reversal	0	0	100	0	55	155
Reclassification	0	0	–18	0	–3	–21
Additions	148	0	148	500	383	1,179
Closing balance at Dec. 31, 2003	**1,518**	**967**	**926**	**500**	**920**	**4,831**

In fiscal year 2003, the miscellaneous provisions amounting to €920 million were composed of the items shown in the table on the right.

Miscellaneous provisions

in €m	2002	2003
Staff-related provisions	75	81
Technical reserves (insurance)	44	67
Risks from business activities	41	59
Litigation costs	37	33
Welfare benefits for civil servants	31	34
Miscellaneous other provisions	563	646
	791	**920**

Miscellaneous other provisions include a large number of individual items, none of which exceeds €30 million.

Maturities of other provisions								
Maturities	Less than 1 year		1 to 5 years		More than 5 years		Total	
in €m	2002	2003	2002	2003	2002	2003	2002	2003
Postal Civil Service Health Insurance Fund	57	20	228	212	1,101	1,286	1,386	1,518
Postage stamps	550	500	0	0	0	0	550	500
STAR restructuring	395	285	682	624	0	58	1,077	967
Other workforce adjustment measures	337	292	561	578	180	56	1,078	926
Miscellaneous provisions	447	356	83	240	261	324	791	920
	1,786	**1,453**	**1,554**	**1,654**	**1,542**	**1,724**	**4,882**	**4,831**

The provision for the funding of future shortfalls in the Postal Civil Service Health Insurance Fund, which closed on January 1, 1995, comprises the statutory obligation of Deutsche Post AG and of Deutsche Postbank AG, which was consolidated for the first time in 1999, together with another successor of Deutsche Bundespost.

The provision for postage stamps covers outstanding obligations to customers for mail and parcel deliveries from postage stamps sold but still unused by customers, and is based on studies by market research companies. It is measured at the nominal value of the stamps issued.

€1,077 million was provided for restructuring measures as part of the Group-wide STAR value creation program in the previous year, relating primarily to termination benefit obligations to employees (partial retirement programs, transitional benefits), expenses from the closure of terminals and subsequent impairment losses on noncurrent assets.

The interest cost on discounted provisions is composed of the following items:

Interest cost on discounted provisions		
in €m	2002	2003
Interest cost on Postal Civil Service Health Insurance Fund	80	88
Interest cost on other workforce adjustment measures	25	40
Interest cost on miscellaneous provisions	3	15
	108	**143**

40 Financial liabilities

Financial liabilities represent all interest-bearing obligations of Deutsche Post World Net not classified as liabilities from financial services. They are broken down as follows:

Financial liabilities								
Maturities	Less than 1 year		1 to 5 years		More than 5 years		Total	
in €m	2002	2003	2002	2003	2002	2003	2002	2003
Bonds	0	183	750	748	750	1,745	1,500	2,676
Due to banks	652	281	797	853	121	99	1,570	1,233
Finance lease liabilities	43	47	366	56	33	441	442	544
Liabilities to Group companies	3	65	0	1	0	0	3	66
Other financial liabilities	39	52	166	100	96	78	301	230
	737	**628**	**2,079**	**1,758**	**1,000**	**2,363**	**3,816**	**4,749**

The bonds can be broken down as follows:

Bonds	Nominal coupon in %	Issue volume	Issuer	Carrying amount 2002 in €m	Carrying amount 2003 in €m	Fair value 2003 in €m
Bond 2002/2007	4.25	€750m	Deutsche Post Finance B.V.	750	748	780
Bond 2002/2012	5.125	€750m	Deutsche Post Finance B.V.	750	748	806
Bond 2003/2014	4.875	€1,000m	Deutsche Post Finance B.V.	–	997	1,048
Bond 2003	1.15	US$230m	DHL Holdings (USA) Inc. via Kenton County Airport Board	–	183	183
				1,500	**2,676**	**2,817**

On October 21, 2003, Deutsche Post Finance B.V., Netherlands, issued a second euro bond on the capital market. With a total volume of €1 billion, the bearer bonds were issued at a coupon of 4.875% and a term of ten years and three months. The funds raised from the bond issue will be used for the long-term refinancing of liabilities, and will not cause any increase in net debt. The bonds issued by Deutsche Post Finance B.V. are fully guaranteed by Deutsche Post AG.

In June 2003, DHL Holdings (USA) Inc., USA, issued a tax-exempt bond in the USA in the amount of US$230 million via Kenton County Airport Board to finance a DHL hub in Cincinnati, USA. Deutsche Post World Net assumed the obligation to guarantee the bond.

The following table contains the terms and conditions of significant individual contracts reported under amounts due to banks:

Terms and conditions	Coupon in %	Term	Carrying amount 2003 in €m	Fair value 2003 in €m
Deutsche Post International B.V., Netherlands	5.19	Mar. 2006	104	104
Deutsche Post International B.V., Netherlands	5.81	Feb. 2011	82	76
Deutsche Post International B.V., Netherlands	5.82	Dec. 2005	33	35
Deutsche Post International B.V., Netherlands	3.85	Apr. 2006	102	107
Deutsche Post International B.V., Netherlands	3-mth. floater	June 2011	121	105
			442	**427**

€442 million of liabilities due to banks were collateralized.

€399 million of the finance lease liabilities relates to aircraft leases entered into by DHL Operations B.V., Netherlands, with Barclays Mercantile Business Financing Limited, London. The interest rate is 3.745%; the leases run until 2027 and 2028.

Other financial liabilities are mainly attributable to Deutsche Post International B.V., Netherlands, in the amount of €217 million, and relate to QTE leases.

Financial liabilities by company in €m	2002	2003
Deutsche Post Finance B.V., Netherlands	1,500	2,493
Deutsche Post International B.V., Netherlands	833	660
DHL Operations B.V., Netherlands	–	792
DHL Holdings (USA) Inc., USA	–	190
DHL International (subgroup)	1,053	–
Other Group companies	430	614
	3,816	**4,749**

The following table compares the fair values and carrying amounts of the financial liabilities of Deutsche Post World Net:

Carrying amounts/Fair values				
in €m	Carrying amounts 2002	Fair values 2002	Carrying amounts 2003	Fair values 2003
Bonds	1,500	1,547	2,676	2,817
Due to banks	1,570	1,570	1,233	1,218
Liabilities to Group companies	3	3	66	66
Finance lease liabilities	442	442	544	544
Other financial liabilities	301	301	230	207
	3,816	**3,863**	**4,749**	**4,852**

Differences between fair values and carrying amounts result from changes in market interest rates for financial liabilities of equivalent maturities and risk structures.

Short maturities or marking-to-market means that there are no significant differences between the carrying amounts and fair value of all other primary financial instruments. There is no significant interest rate risk because most of these instruments bear floating rates of interest at market rates. The differences between the fair values and carrying amounts of the financial liabilities are therefore relatively minor.

Details of existing credit lines can be found in the Group Management Report in the “Business Developments” section.

41 Trade payables

Trade payables are attributable to the following companies:

Trade payables		
in €m	2002	2003
Deutsche Post AG	988	818
Express and logistics companies	1,307	1,380
Deutsche Postbank group	79	88
Other Group companies	333	469
	2,707	**2,755**

The maturity structure of trade payables is as follows:

Maturities		
in €m	2002	2003
Less than 1 year	2,658	2,748
1 to 5 years	43	7
More than 5 years	6	0
	2,707	**2,755**

The carrying amount of trade payables corresponds to their fair value.

42 Liabilities from financial services

Liabilities from financial services are carried at amortized cost. Differences between the amount received and the amount repayable (premiums, discounts) are recognized or amortized over the remaining maturities of the liabilities. Proportionate accrued interest is reported together with the associated liability.

Liabilities from financial services are composed of the following items:

Liabilities from financial services		
in €m	2002	2003
Deposits from other banks thereof payable on demand: 243 (previous year: 1,139) thereof fair value hedges: 894 (previous year: 935)	28,300	20,257
Due to customers thereof fair value hedges: 1,233 (previous year: 683)		
Savings deposits	29,053	33,739
Other liabilities thereof payable on demand: 20,116 (previous year: 16,633)	37,055	39,593
	66,108	**73,332**
Securitized liabilities thereof fair value hedges: 10,556 (previous year: 10,753)		
Mortgage bonds	1,234	878
Public-sector mortgage bonds (Pfandbriefe)	5,508	3,570
Other debt instruments	28,055	21,819
	34,797	**26,267**
Trading liabilities		
Negative fair values of trading derivatives	515	506
Negative fair values of banking book derivatives	486	1,139
Other trading liabilities	0	2
	1,001	**1,647**
Hedging derivatives (negative fair values)	**2,645**	**1,814**
	132,851	**123,317**

The maturity structure of liabilities from financial services is as follows:

Maturities of liabilities from financial services

in €m	Less than 1 year		1 to 5 years		More than 5 years		Total	
	2002	2003	2002	2003	2002	2003	2002	2003
Deposits from other banks	21,432	13,107	2,991	3,482	3,877	3,668	28,300	20,257
Due to customers	52,586	64,366	8,724	5,105	4,798	3,861	66,108	73,332
Securitized liabilities	11,522	11,843	17,032	9,626	6,243	4,798	34,797	26,267
Trading liabilities/Hedging derivatives	620	1,360	1,985	1,211	1,041	890	3,646	3,461
	86,160	**90,676**	**30,732**	**19,424**	**15,959**	**13,217**	**132,851**	**123,317**

Fair value hedges with negative fair values that satisfy the requirements of IAS 39 for hedge accounting are composed of the following items:

Hedging derivatives (fair value hedges)

in €m	2002	2003
Assets		
Hedging derivatives on loans to other banks		
Originated loans	200	142
Purchased loans (available for sale)	39	34
	239	**176**
Hedging derivatives on loans to customers		
Originated loans	448	346
Purchased loans (available for sale)	177	109
	625	**455**
Hedging derivatives on investment securities		
Bonds and other fixed-income securities	1,641	1,062
Equities and other non-fixed-income securities	0	9
	1,641	**1,071**
	2,505	**1,702**
Liabilities		
Deposits from other banks	0	2
Due to customers	3	2
Securitized liabilities	137	107
Subordinated liabilities	0	1
	140	**112**
	2,645	**1,814**

43 Other liabilities

Other liabilities are classified as follows:

Other liabilities

in €m	2002	2003
Hybrid capital of Deutsche Postbank group	1,201	1,723
Deferred income	552	567
Tax liabilities	461	533
Compensated absences	326	342
Liabilities from the sale of residential building loans	266	266
Wages, salaries, severance	214	242
Derivatives	102	213
Payable to employees and members of executive bodies	152	181
Incentive bonuses	139	159
Social security liabilities	140	128
Overtime claims	86	85
COD liabilities	120	72
Liabilities from acquisitions	0	65
Other compensated absences	59	56
Debtors with credit balances	162	27
Advance payments received	16	24
Insurance liabilities	22	17
Housing management prepayments	20	16
Liabilities to Group companies	21	15
Liabilities on BHW loan	19	12
Liabilities from compensation payments	4	6
Liabilities to the federal government (EU state aid, note 21)	907	0
Miscellaneous other liabilities	388	525
	5,377	**5,274**

Miscellaneous other liabilities include €47 million of long-term liabilities and other liabilities to customers. This item also contains a large number of individual items, none of which exceeds €10 million.

The hybrid capital of the Deutsche Postbank group relates to subordinated liabilities, profit participation certificates outstanding and contributions by typical silent partners. Due to the current residual maturity structure, these items only represent liable capital as defined by section 10 (4), (5) and (5 a) of the Kreditwesengesetz (KWG – German Banking Act) in the amount of €1,438 million. €620 million of the subordinated liabilities is hedged against changes in fair value (previous year: €434 million).

The liabilities from the sale of residential building loans relate to obligations of Deutsche Post AG to pay interest subsidies to borrowers to offset the deterioration in borrowing terms in conjunction with the assignment of receivables in previous years, as well as pass-through obligations from repayments of principal and interest for residential building loans sold.

The maturity structure of other liabilities is shown below:

Maturities of other liabilities

in €m	2002	2003
Less than 1 year	3,893	3,505
1 to 5 years	355	414
More than 5 years	1,129	1,355
	5,377	**5,274**

Short maturities or marking-to-market means that there are no significant differences between the carrying amounts and fair value of all other primary financial instruments. There is no significant interest rate risk because most of these instruments bear floating rates of interest at market rates.

44 Cash flow disclosures

The consolidated cash flow statement is prepared in accordance with IAS 7 (Cash Flow Statements) and discloses the cash flows in order to present the source and application of cash and cash equivalents. It distinguishes between cash flows from operating, investing and financing activities. Cash and cash equivalents are composed of cash, checks, and bank balances with a maturity of not more than three months, and correspond to the cash and cash equivalents reported on the balance sheet. The effects of currency translation and changes in the consolidated group are adjusted when calculating cash and cash equivalents.

44.1 Net cash from operating activities

Cash flows from operating activities are calculated by adjusting net profit before taxes and extraordinary expense for non-cash factors, as well as taxes paid and changes in provisions (net profit before changes in working capital). Adjustments for changes in working capital and liabilities result in net cash from or used in operating activities.

Non-cash income and expense in the amount of €228 million can be broken down as follows:

Non-cash income and expense

in €m	2003
Net income from associates incl. write-downs of investments in associates	2
Write-downs of current assets and other valuation allowances	124
Income from reversal of write-downs of current-assets	–14
Current asset disposal losses	8
Staff costs relating to stock option plan	21
Expense from measurement of plan assets (IAS 19)	19
Income from reversal of negative goodwill	–3
Non-cash income and expense of the Deutsche Postbank group	94
Other	–23
	228

Compared with the year under review, the reversal of Postbank's negative goodwill impacted non-cash income and expense in the amount of €1,499 million in the previous year (amortization: €212 million; impairment loss: €1,287 million). This was offset by non-cash additions to restructuring and staff-related provisions, largely relating to the STAR program, which amounted to €1,600 million.

In the previous year, the net profit before taxes was impacted by the €907 million from the EU state aid proceedings reported as an extraordinary expense. The corresponding liability was settled by a payment of €907 million in January 2003. Due to this payment, net cash from operating activities increased only slightly from €2,967 million in the previous year to €3,006 million in the year under review.

44.2 Net cash used in investing activities

Cash flows from investing activities result from cash received from disposals of noncurrent assets and cash paid for investments in noncurrent assets. In addition, interest and dividends received in the amount of €134 million (previous year: €104 million) and changes in current financial instruments in the amount of €71 million (previous year: €32 million) are classified as investments and included in cash flows from investing activities. Net cash used in investing activities amounted to €2,133 million in the year under review (previous year: €2,226 million). Disposals of items of noncurrent assets generated income for the Group of €508 million (previous year: €738 million). €2,846 million (previous year: €3,100 million) was spent on investments in noncurrent assets. €1,362 million of this amount (previous year: €1,256 million) was attributable to the acquisition of companies, in particular the acquisition of the Airborne companies, which amounted to €983 million less cash and cash equivalents acquired in the amount of €185 million. The total cash and cash equivalents acquired with these acquisitions amounted to €201 million (previous year: €193 million).

The following assets and liabilities were acquired on the acquisition of companies:

Acquisitions		
in €m	2002	2003
Noncurrent assets	1,750	392
Receivables and other securities from financial services	0	1
Other current assets (excl. cash and cash equivalents)	1,811	721
Provisions	295	409
Other liabilities	1,970	911

Further details of the acquisitions can be found in note 3 "Consolidated group".

Investments in other noncurrent assets fell by €360 million year-on-year to €1,484 million (previous year: €1,844 million).

44.3 Net cash used in financing activities

Cash flows from financing activities result from the issue and repayment of financial liabilities, and from distributions. In addition, interest paid in the amount of €256 million (previous year: €186 million) is included in cash flows from financing activities, as this expense did not arise in the course of the Group's operating activities.

The proceeds from finance facilities raised, which totaled €1,798 million (previous year: €2,810 million), were significantly impacted by the proceeds from the bond issued by Deutsche Post Finance B.V. in 2003 in the amount of €1 billion and a bond issued by DHL Holdings (USA) Inc. in the amount of €196 million. The bond issue by Deutsche Post Finance is aimed at the long-term refinancing of liabilities. These proceeds were offset by the repayment of financial liabilities in the amount of €1,401 million (previous year: €2,065 million), which related primarily to the repayment of an EIB loan by Deutsche Post International B.V., as well as to repayments by individual express and logistics companies. In addition, a dividend of €445 million (previous year: €412 million) was paid to shareholders of Deutsche Post AG, resulting in a corresponding cash outflow in the period under review.

44.4 Cash and cash equivalents

Currency translation differences impacted cash and cash equivalents in the amount of €–49 million in the year under review (previous year: €–19 million). The cash inflows and outflows described above produced cash and cash equivalents of €3,355 million at year-end. Cash and cash equivalents therefore grew by €520 million over the prior-period comparable figure, with internal financing resources remaining strong.

Other disclosures

45 Financial instruments

Financial instruments are contractual obligations to receive or deliver cash and cash equivalents. In accordance with IAS 32 and IAS 39, these include both primary and derivative financial instruments. Primary financial instruments include in particular bank balances, all receivables, liabilities, securities, loans, and accrued interest. Examples of derivatives include options, swaps, and futures.

The Deutsche Postbank group accounts for most of the financial instruments in Deutsche Post World Net. The risks and derivatives of the Deutsche Postbank group's financial instruments are therefore presented separately below.

45.1 Risks and financial instruments of the Deutsche Postbank group

45.1.1 Risk management system

The Deutsche Postbank group defines risk management as a system that enables a systematic, permanent process across all areas of the Deutsche Postbank group, based on defined objectives. This process consists of strategy, analysis and evaluation, management, and control of overall bank risks.

Risk management thus forms part of overall risk- and earnings-based group management. The Deutsche Postbank group aims to ensure that risks are entered into in a controlled manner in terms of the group strategy and the available risk capital. An effective risk management system provides the necessary stimulus for strategic and daily business decisions, and enables the responsible, earnings-driven management of risk. The Deutsche Postbank group measures this for its board departments and business divisions using the ratio of capital employed to earnings, expressed by the performance indicator RoE (return on equity).

The Management Board of Deutsche Postbank AG is responsible for risk strategy, proper risk management organization, monitoring the risk content of all transactions entailing risk, and risk control.

The risk control units, which operate independently of operating risk management, measure and assess group-wide risks and ensure that limits are monitored and complied with.

Definition of risk categories and risk types

Price risk refers to potential losses from financial transactions that may be triggered by changes in interest rates, volatility, foreign exchange rates, and share prices. The changes in value are derived from daily marking-to-market.

Counterparty risk relates to the risk of loss due to changes in creditworthiness or default by a counterparty. Counterparty (default) risk consists of credit (issuer) risk, country risk and counterparty risk (settlement and replacement risk).

The Bank defines credit (issuer) risk as the potential loss that may arise due to the inability of a counterparty to discharge its payment obligations or due to a deterioration in its credit rating.

Country risk denotes the transfer risk inherent in cross-border payments due to the unwillingness (political risk) or inability (economic risk) of a country to discharge its payment obligations.

Counterparty risk denotes the risk of losses arising from default in the settlement of payment obligations (replacement risk) or the untimely performance of payment obligations (settlement risk).

The liquidity risk is the risk that Postbank will be unable to meet its current and future payment obligations either as they fall due or in the full amount due. Funding risk, a special form of liquidity risk, arises when the necessary liquidity cannot be obtained on the expected terms when required.

Model risk is a general term for the risk that arises when information for risk management can only be presented to decision-makers on the basis of simplified modeling.

Postbank defines strategic risk as the risk of earnings targets not being met as a result of the enterprise responding insufficiently to the respective business environment, including any changes at short notice. This means that strategic risks may result from inadequate strategic decision-making processes, unforeseeable discontinuities on the market, or the inappropriate implementation of the chosen strategy.

Operational risk is defined by Basel II as "the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events". Legal risks are also included here in accordance with the Basel II definition.

◻ Presentation of the risk situation

The Deutsche Postbank group employs a range of risk management instruments and processes for the various risk types. These allow the aggregated control and limitation of the Bank's overall risk across all risk types and business divisions. The methods and processes applied conform with all current statutory and regulatory requirements. They are constantly adjusted and improved to reflect changes in the market and the development of the group.

This meant that even in 2003, which was a difficult year in macroeconomic terms, Deutsche Postbank group was able to ensure that it had a low risk profile and that it could benefit from relatively low risk costs. In the year under review, a significant securitization of residential building loans was successfully placed for the first time as part of the Bank's credit portfolio management.

The new requirements set out in the MAK were implemented within the Bank's structure and workflows as planned in the year under review. They will also be implemented within its IT systems in good time as part of the Basel II project.

With regard to risk capital allocation, the business divisions of the Deutsche Postbank group were given sufficient leeway to allow them to systematically implement the Bank's growth-oriented business strategy. No risks that could impair Postbank's development or jeopardize its continued existence have been identified.

Risk-weighted assets and capital ratio

Regulatory own resources were as follows at December 31, 2003:

Own resources of the Deutsche Postbank group

		2002	2003
Risk-weighted assets	in €m	40,338	42,200
Market risk positions	in €m	4,200	3,750
Positions for which capital charges are required	in €m	44,538	45,950
Core (tier 1) capital	in €m	2,782	2,760
Supplementary (tier 2) capital	in €m	1,482	1,780
Liable capital	in €m	4,264	4,540
Eligible own funds	in €m	4,264	4,540
Tier 1 ratio	in %	6.9	6.6
Capital ratio	in %	10.6	10.6
Overall capital ratio	in %	9.6	9.9

With a capital ratio of 10.6% and an overall capital ratio of 9.9%, the Deutsche Postbank group more than satisfies the minimum requirement of 8%.

45.1.2 Derivatives

The Deutsche Postbank group uses derivatives primarily to hedge positions as part of its asset/liability management policy. Derivatives are also used for trading.

The presentation of derivatives follows the recommendation of the Verband öffentlicher Banken (Association of German Public Sector Banks). The notional amounts represent the gross volume of all sales and purchases. The notional amount is a reference value for determining reciprocally agreed settlement payments; it does not represent recognizable receivables or liabilities.

The derivatives portfolio is classified by economic purpose as follows:

Derivatives

in €m	Notional amounts		Positive fair values		Negative fair values	
	2002	2003	2002	2003	2002	2003
Trading derivatives	171,031	169,185	843	901	1,001	1,645
Hedging derivatives	39,225	34,059	1,121	832	2,645	1,814
	210,256	**203,244**	**1,964**	**1,733**	**3,646**	**3,459**

The following table presents the open interest rate and foreign currency forward transactions and option contracts of the Deutsche Postbank group at the balance sheet date.

Forward transactions and option contracts of the Deutsche Postbank group

Fair value in €m	Notional amount 2002	Positive fair values 2002	Negative fair values 2002	Notional amount 2003	Positive fair values 2003	Negative fair values 2003
Trading derivatives						
Currency derivatives						
OTC currencies						
Currency forwards	194	1	17	548	34	23
Currency swaps	7,262	188	267	7,633	297	267
Total portfolio OTC currencies	**7,456**	**189**	**284**	**8,181**	**331**	**290**
Total portfolio currency derivatives	**7,456**	**189**	**284**	**8,181**	**331**	**290**
Interest rate derivatives						
OTC derivatives						
Interest rate swaps	135,747	519	680	137,917	559	1,317
Cross-currency swaps	828	44	10	191	0	11
FRAs	3,510	13	13	920	1	1
OTC interest rate options	136	0	0	5,452	0	13
Other interest-related contracts	15	0	0	25	0	8
Total portfolio OTC derivatives	**140,236**	**576**	**703**	**144,505**	**560**	**1,350**
Exchange-traded interest rate futures	20,772	0	0	10,602	0	0
Exchange-traded interest rate options	445	0	0	5,240	5	1
Total portfolio interest rate derivatives	**161,452**	**576**	**703**	**160,347**	**565**	**1,351**
Equity/index derivatives						
Equity options (long/short)	2,085	73	6	11	1	0
Total portfolio OTC derivatives	**2,085**	**73**	**6**	**11**	**1**	**0**
Exchange-traded equity/index futures	–110	0	3	12	0	0
Exchange-traded equity/index options	44	1	1	570	3	1
Total portfolio equity/index derivatives	**2,019**	**74**	**10**	**593**	**4**	**1**
Credit derivatives						
Credit default swaps	104	4	4	64	1	3
Total portfolio credit derivatives	**104**	**4**	**4**	**64**	**1**	**3**
Total portfolio of derivative assets/ (liabilities) held for trading	**171,031**	**843**	**1,001**	**169,185**	**901**	**1,645**
thereof banking book derivatives	43,108	401	486	62,375	393	1,139
Hedging derivatives						
Fair value hedges						
Interest rate swaps	34,543	802	2,400	30,361	740	1,605
Cross-currency swaps	4,521	314	245	3,311	87	184
Equity options	148	4	0	386	1	9
Other interest-related contracts	12	0	0	0	4	16
Total portfolio of derivative assets/ (liabilities) from fair value hedges	**39,224**	**1,120**	**2,645**	**34,058**	**832**	**1,814**
Cash flow hedges						
Credit default swaps	1	1	1	1	0	0
Total portfolio of derivative assets/ (liabilities) from cash flow hedges	**1**	**1**	**1**	**1**	**0**	**0**
Total portfolio of derivative assets/ (liabilities) from hedges	**39,225**	**1,121**	**2,645**	**34,059**	**832**	**1,814**
Total portfolio of derivative assets/(liabilities)	**210,256**	**1,964**	**3,646**	**203,244**	**1,733**	**3,459**

The following table provides an overview of the recognized derivative assets and liabilities, structured by remaining maturity:

Maturities

in €m	Hedging derivatives				Trading and banking book derivatives			
	Positive fair values 2002	Negative fair values 2002	Positive fair values 2003	Negative fair values 2003	Positive fair values 2002	Negative fair values 2002	Positive fair values 2003	Negative fair values 2003
Less than 3 months	35	47	383	376	261	260	386	607
3 months to 1 year	69	52	19	76	110	261	259	302
1 to 5 years	729	1,726	304	788	310	259	130	420
More than 5 years	288	820	126	574	162	221	126	316
	1,121	**2,645**	**832**	**1,814**	**843**	**1,001**	**901**	**1,645**

Derivatives – Classification by counterparties
The following table presents the positive and negative fair values of derivatives by counterparties.

Classification by counterparties

in €m	Positive fair values 2002	Negative fair values 2002	Positive fair values 2003	Negative fair values 2003
Banks in OECD countries	1,890	3,426	1,710	3,429
Public institutions in OECD countries	73	197	0	0
Other counterparties in OECD countries	1	23	23	30
	1,964	**3,646**	**1,733**	**3,459**

45.1.3 Fair values of financial instruments carried at amortized cost or at the hedged fair value

In accordance with IAS 39.166 in conjunction with IAS 32, both the carrying amounts and the full fair values must be disclosed for financial instruments carried at amortized cost or at the hedged fair value. If there is an active market for a financial instrument, the full fair value is expressed by the market or quoted exchange price; otherwise, the full fair value is calculated using investment techniques.

In the following table, the carrying amounts are compared with the fair values:

Carrying amounts/Fair values

in €m	Carrying amount 2002	Fair value 2002	Carrying amount 2003	Fair value 2003
Assets				
Cash reserve	1,307	1,307	1,623	1,623
Loans and advances to other banks	36,044	36,891	32,881	33,068
Loans and advances to customers	39,517	39,895	39,021	39,237
Allowance for losses on loans and advances	–588	–588	–597	–597
Investment securities	17,195	17,837	14,942	14,704
Liabilities				
Deposits from other banks	28,300	29,011	20,271	20,791
Amounts due to customers	66,665	66,619	73,941	73,448
Securitized and subordinated liabilities	35,947	36,714	27,935	28,096

45.2 Risks and fair values of financial instruments in other Deutsche Post World Net companies

Derivatives

As part of Deutsche Post World Net's risk management strategy, derivatives are used to offset risks from exchange rate, interest rate and commodity price movements. Derivatives may generally be used only if they can be allocated to an underlying. If possible, the financial derivatives employed should satisfy the IAS 39 hedge accounting criteria. The derivatives held by the companies are continually measured and recognized at their fair values.

Liquidity management

Deutsche Post World Net's liquidity management functions ensure a sufficient supply of liquidity for Group companies, and eliminate or reduce unexpected financial events (financing and investment risk) for Deutsche Post World Net.

In October 2003, a bond (€1,000 million, 4.875% bond of 2003/2014) was issued by Deutsche Post Finance B.V., Rotterdam; this bond is guaranteed by Deutsche Post AG. Together with the existing cash funds and the Group credit lines extended by banks in the amount of €3.9 billion that were unused as of the end of the year, the Group has sufficient funds to finance its planned growth and investments.

Currency risk and currency management

Currency risks arise from planned and completed transactions in foreign currencies. At Deutsche Post World Net, foreign currency cash flows are offset in good time and hedged centrally. Currency risks are hedged using currency forwards, currency options, currency swaps, and cross-currency swaps.

Planned and binding contracts for future transactions relating to the supply of goods and services were hedged in the amount of €1.1 billion as of year-end 2003. The net fair value amounted to €–67.3 million. Short-term currency swaps amounting to €1.3 billion were entered into to hedge intragroup financing and investments. The net fair value at the balance sheet date amounted to €54 million.

Compared with the previous year, the open volume of cross-currency swaps fell slightly to €446 million. These swaps are used exclusively to hedge the exchange rate risk from long-term refinancing in foreign currencies. The strong appreciation of the euro resulted in a negative fair value of €42.9 million at the balance sheet date. With the exception of the cross-currency swaps, all instruments have a maximum of one year to maturity. Each hedging instrument is allocated to a hedged item.

Commodity price risk

Fuels, in particular diesel fuel and kerosene, represent a direct cost component in Deutsche Post World Net's mail, express and logistics business, and price increases can only be partly passed on to customers. Fuel worth €130.6 million was hedged at the balance sheet date. The net fair value amounted to €9.7 million.

Interest rate risk and interest rate management

Interest rate risk arises from changes in market interest rates for financial assets and financial liabilities. We study interest rates regularly to quantify the risk profile. Deutsche Post World Net uses interest rate derivatives, such as interest rate swaps and options, to achieve a balanced mix of differing interest rate terms in each portfolio irrespective of the liquidity tied up in individual financial contracts and thus limit the interest rate risk.

We use interest rate swaps to modify the fixed interest rates of financial liabilities. Interest rate swaps are structured so that Deutsche Post World Net pays a defined floating rate of interest on a particular amount of notional principal, and receives in return a certain fixed rate of interest on the same amount of notional principal (or vice versa). However, principal payments are never exchanged, only the interest payments. The maturities of swap contracts are matched to the maturities of the hedged items.

If an interest rate swap contract increases the Company's fixed interest position because it is allocated to a floating rate financial liability, the interest rate swap is classified as a cash flow hedge under IAS 39. By contrast, if the interest rate swap exchanges fixed interest payments for floating rate interest payments, it is classified under IAS 39 as a fair value hedge.

To determine the fair value of an interest rate swap, the expected future cash flows on both legs of the swap – i.e. the fixed interest leg and the floating interest leg – are discounted on the basis of the current yield curve. The difference between the two values thus calculated produces the net fair value of the interest rate swap. At December 31, 2003, Deutsche Post World Net had entered into interest rate swaps with a notional volume of €2,627.5 million. The net fair value of this interest rate swap position at the reporting date was €27.6 million.

Interest rate options are used to fix an interest rate cap or floor, but still allow one of the counterparties to take advantage of favorable interest rate movements. If a cap is bought, the floating interest rate is compared with the reference rate at the fixing date. If the interest rate exceeds the cap strike rate of the option, the buyer receives a cash payment in the amount of the difference between the reference interest rate and the cap strike rate from the option. Buying a floor option has the opposite effect of a cap.

The interest rate options traded by Deutsche Post World Net are caps that allow the Group to take advantage of favorable market developments to a certain extent. The interest rate options are recognized as cash flow hedges under hedge accounting rules. The fair value of interest rate options is estimated on the basis of option pricing models. At December 31, 2003, Deutsche Post World Net had entered into interest rate options with a notional volume of €150 million and a net fair value of €–2.9 million.

The following table provides an overview of the derivative financial instruments employed at other Deutsche Post World Net companies and their fair values:

Fair values of derivatives				
in €m	Notional amount 2002	Net fair value 2002	Notional amount 2003	Net fair value 2003
Interest rate products				
OTC products				
Interest rate swaps	1,630	10	2,628	28
FRAs	0	0	0	0
Interest rate options	150	−3	150	−3
Other	148	−21	0	0
	1,928	**−14**	**2,778**	**25**
Currency derivatives				
OTC products				
Currency forwards	857	−29	1,011	−64
Currency options	445	−5	116	−3
Currency swaps	1,173	35	1,363	54
Cross-currency swaps	456	12	446	−43
Other	175	9	0	0
	3,106	**22**	**2,936**	**−56**
Commodities				
Fuel hedging program	**93**	**11**	**131**	**10**
	5,127	**19**	**5,845**	**−21**

46 Contingent liabilities

The Group's contingent liabilities total €1,642 million (previous year: €1,671 million). In addition to these contingent liabilities, the Deutsche Postbank group has irrevocable loan commitments amounting to €12,890 million (previous year: €11,321 million).

47 Litigation

Details of litigation can be found in the Group Management Report.

48 Other financial obligations

In addition to provisions, liabilities, and contingent liabilities, there are other financial obligations amounting to €5,560 million (previous year: €5,607 million) from non-cancelable operating leases as defined by IAS 17.

The Group's future non-cancelable payment obligations under leases are attributable to the following asset classes:

Lease obligations		
in €m	2002	2003
Land and buildings	4,701	4,716
Technical equipment and machinery	131	146
Other equipment, operating and office equipment	408	380
Aircraft	367	318
	5,607	**5,560**

The maturity structure of future non-cancelable payment obligations from operating leases is presented below:

Maturities of minimum lease payments		
in €m	2002	2003
Year 1 after reporting date	859	886
Year 2 after reporting date	739	793
Year 3 after reporting date	610	642
Year 4 after reporting date	488	521
Year 5 after reporting date	450	435
Year 6 after reporting date and thereafter	2,461	2,283
	5,607	**5,560**

The present value of discounted minimum lease payments is €4,104 million (previous year: €4,040 million). Overall, rental and lease payments of €1,284 million (previous year: €1,294 million) arose in 2003, of which €840 million (previous year: €723 million) relates to non-cancelable leases.

Future lease obligations from non-cancelable leases relate primarily to the following companies:

Future lease obligations		
in €m	2002	2003
Deutsche Post AG	2,770	2,391
Express and logistics companies	2,185	2,325
Deutsche Postbank group	254	264
Other Group companies	398	580
	5,607	**5,560**

The purchase obligation for investments in noncurrent assets amounted to €1,625 million (previous year: €1,760 million).

49 Related party disclosures

In addition to the consolidated subsidiaries, Deutsche Post World Net has direct or indirect relationships with a large number of unconsolidated subsidiaries and associates in the course of its ordinary business activities. In the course of these activities, all transactions for the provision of goods and services entered into with unconsolidated companies were conducted on an arm's length basis at standard market terms and conditions.

All companies classified as related parties that are controlled by Deutsche Post World Net or on which the Group can exercise significant influence are recorded in the list of shareholdings together with information on the equity interest held, their equity, and their net profit or loss for the period, broken down by Corporate Division. The list of shareholdings is filed with the commercial register of the Bonn Local Court.

Further details of the obligations to the Federal Republic of Germany relating to contribution payments to Bundes-Pensions-Service für Post und Telekommunikation e. V. can be found in notes 12 and 37.

The remuneration of members of the Board of Management contains a fixed and a variable component. In addition to bonuses, members of the Board of Management receive a variable remuneration component with a long-term incentive effect in the form of options under the Company's stock option plan. Further details can be found in note 33. In fiscal year, the remuneration paid to active members of the Board of Management amounted to €10.2 million (previous year: €7.4 million). Of this amount, €4.7 million related to fixed components and €5.2 million to bonuses. The value attributable to fiscal year 2003 of the stock options granted to members of the Board of Management under the 2000 and 2003 stock option plans totaled €2.06 million. The remuneration of the Board of Management was broken down as follows:

Remuneration of the Board of Management	Fixed component in €	Bonus in €	Total in €	Change in value of stock options allocated 2003
Dr. Klaus Zumwinkel, Chairman	862,500.00	862,500.00	1,725,000.00	390,001.20
Dr. Frank Appel	400,000.00	400,000.00	800,000.00	109,605.96
Uwe Rolf Dörken	575,000.00	1,075,000.00*	1,650,000.00	259,992.36
Dr. Edgar Ernst	575,000.00	575,000.00	1,150,000.00	259,992.36
Dr. Peter E. Kruse	575,000.00	575,000.00	1,150,000.00	259,992.36
Dr. Hans-Dieter Petram	575,000.00	575,000.00	1,150,000.00	259,992.36
Walter Scheurle	575,000.00	575,000.00	1,150,000.00	259,992.36
Prof. Wulf von Schimmelmann	575,000.00	575,000.00	1,150,000.00	259,992.36
	4,712,500.00	**5,212,500.00**	**9,925,000.00**	**2,059,561.32**

* Thereof €517,500.00 bonus for fiscal year 2002 paid in 2003

In addition to the abovementioned remuneration, the members of the Board of Management received compensation in the amount of €0.3 million relating primarily to the use of company cars, the reimbursement of travel costs and telephone costs, and special allowances for overseas relocation. This compensation is taxable by the respective member of the Board of Management. In principle, it is available to all members of the Board of Management equally; the amount varies depending on different personal circumstances. In addition, 1,096,236 stock options were granted to members of the Board of Management in 2003.

The remuneration of former members of the Board of Management remained unchanged year-on-year at €1.1 million. Provisions for current pensions amounted to €12.1 million.

Subject to the resolution of the Annual General Meeting on the appropriation of profits, the total remuneration paid to members of the Supervisory Board for fiscal year 2003 amounted to €0.8 million (previous year: €0.6 million).

In accordance with Article 17 of the Articles of Association of Deutsche Post AG, each member of the Supervisory Board receives an annual fixed remuneration of €25,000 plus a variable remuneration amounting to €50 per euro cent of the dividend per share, but in any case no more than 10% of the fixed remuneration. The Chairman of the Supervisory Board receives double this amount, and any Deputy Chairman receives one and a half times this amount. Membership of each of the Executive, Finance and Audit, and Personnel Committees is remunerated by an additional annual amount of €6,000; the Committee Chairman receives double this amount in each case.

Persons who are members of the Supervisory Board for only part of a fiscal year receive the corresponding remuneration ratably.

The members of the Supervisory Board are entitled to claim out-of-pocket expenses incurred in the exercise of their office. Any value added tax on the Supervisory Board remuneration and on any out-of-pocket expenses is reimbursed. In addition, each member of the Supervisory Board attending a meeting receives an attendance allowance of €500 for each meeting of the full Supervisory Board or of one of the committees.

No payments or benefits were granted in return for services provided individually, especially consulting and arrangement services, with the exception of the remuneration of employee representatives as set out in their respective employment contracts.

The total remuneration for fiscal year 2003 was paid to the individual members of the Supervisory Board as follows:

Total remuneration of the Supervisory Board

in €	Fixed remuneration	Variable remuneration*	Total net remuneration
Josef Hattig	50,000.00	25,200.00	75,200.00
Willem G. van Agtmael	25,000.00	4,700.00	29,700.00
Frank von Alten-Bockum	25,000.00	4,700.00	29,700.00
Hero Brahms	25,000.00	19,200.00	44,200.00
Rolf Büttner	37,500.00	25,200.00	62,700.00
Marion Deutsch	25,000.00	4,700.00	29,700.00
Dr. Jürgen Großmann	25,000.00	4,700.00	29,700.00
Annette Harms (from June 5, 2003)	14,583.31	2,283.33	16,866.64
Henry Hillmann (until June 5, 2003)	11,458.33	2,008.34	13,466.67
Helmut Jurke (from Mar. 13, 2003)	20,833.33	17,333.33	38,166.66
Prof. Ralf Krüger	25,000.00	12,700.00	37,700.00
Dr. Manfred Lennings	25,000.00	18,700.00	43,700.00
Dirk Marx	25,000.00	12,700.00	37,700.00
Silke Oualla-Weiß (from June 5, 2003)	14,583.31	2,783.33	17,366.64
Dr. Manfred Overhaus	25,000.00	19,200.00	44,200.00
Petra Pfisterer (until June 5, 2003)	11,458.33	2,008.34	13,466.67
Franz Schierer	25,000.00	4,200.00	29,200.00
Alfred N. Schindler (until June 30, 2003)	12,499.98	2,100.00	14,599.98
Jürgen Sengera	25,000.00	4,700.00	29,700.00
Ulrike Staake	25,000.00	3,700.00	28,700.00
Dr. Jürgen Weber (from July 15, 2003)	12,499.98	2,100.00	14,599.98
Stefanie Weckesser	25,000.00	4,700.00	29,700.00
Margrit Wendt	25,000.00	25,700.00	50,700.00
	535,416.57	**225,316.67**	**760,733.24**

* Subject to the resolution of the 2004 Annual General Meeting on the appropriation of profits; including committee membership and meeting attendance allowances

In accordance with section 15 a of the Wertpapierhandelsgesetz (WpHG – German Securities Trading Act), members of the Supervisory Board and the Board of Management are required to disclose the purchase or sale of shares of Deutsche Post AG or subscription rights to these shares, to the extent that they exceed the stipulated lower limit and are not acquired as a component of remuneration.

In line with their duty of disclosure as set out by section 15 a WpHG, the members of the Company's Board of Management and Supervisory Board disclosed the purchase of 48,800 shares of Deutsche Post AG in fiscal year 2003. The members of the Board of Management and the Supervisory Board did not disclose the sale of any shares of the Company.

The aggregate shareholdings of all members of the Board of Management and Supervisory Board amount to less than 1% of the shares issued by the Company.

50 Significant subsidiaries, joint ventures, and associates

Significant subsidiaries, joint ventures, and associates	Country	Equity interest and share of voting rights in % Dec. 31, 2002	Equity interest and share of voting rights in % Dec. 31, 2003	Revenue[1] in €m 2002	Revenue[1] in €m 2003
Significant subsidiaries					
MAIL					
Deutsche Post Global Mail, Ltd.[2]	USA	100.00	100.00	211	161
Interlanden B.V.[3]	Netherlands	–	70.00	–	74
Deutsche Post In Haus Service GmbH	Germany	100.00	100.00	66	63
Deutsche Post Global Mail GmbH[2]	Germany	100.00	100.00	50	54
EXPRESS/LOGISTICS					
Deutsche Post Euro Express Deutschland GmbH & Co. OHG	Germany	100.00	100.00	1,437	1,539
Air Express International USA, Inc.	USA	100.00	100.00	1,251	1,070
Securicor Omega Holdings Ltd. (subgroup)[4]	UK	25.00/50.00	100.00	573[5]	1,061
Airborne, Inc. (subgroup)[3]	USA	–	100.00	–	1,034
DHL Worldwide Express Inc.	USA	100.00	100.00	1,104	999
Danzas S.A.	France	100.00	100.00	880	874
Danzas ASG Eurocargo AB	Sweden	100.00	100.00	688	698
Danzas GmbH	Germany	100.00	100.00	695	692
DHL International (UK) Ltd.	UK	100.00	100.00	539	506
Danzas S.p.A.	Italy	100.00	100.00	472	440
DHL Danzas Air & Ocean Germany GmbH	Germany	100.00	100.00	354	403
DHL Worldwide Express GmbH	Germany	100.00	100.00	329	355
Van Gend & Loos B.V.	Netherlands	100.00	100.00	301	328
Danzas AG	Switzerland	100.00	100.00	339	320
DHL International S.A.	France	100.00	100.00	309	320
Danzas Limited	UK	100.00	100.00	308	310
DANZAS Euronet GmbH	Germany	100.00	100.00	316	302
Danzas Limited	Hong Kong	100.00	100.00	285	280
DHL Japan Inc.	Japan	100.00	100.00	259	270
FINANCIAL SERVICES					
Deutsche Postbank AG (subgroup)	Germany	100.00	100.00	7,475	6,687
Significant joint ventures					
DHL Sinotrans International Air Courier Ltd.	China	50.00	50.00	77[5]	88[5]
Significant associates					
trans-o-flex Schnell-Lieferdienst GmbH	Germany	24.80	24.80	–	–

1) IAS amounts reported in single-entity financial statements
2) Included in MAIL segment since August 1, 2003 (previously EXPRESS)
3) Not a consolidated subsidiary in 2002
4) 100% equity interest and share of voting rights since July 3, 2003. Previous year: equity interest of 25%, share of voting rights of 50%, interest in net assets (basis of proportionate consolidation) of 49.99%
5) Proportionate amount

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http://investorrelations.dpwn.com

51 Declaration of conformity with the Corporate Governance Code

On December 18, 2003, the Board of Management and the Supervisory Board of Deutsche Post AG together published the declaration of conformity with the German Corporate Governance Code for fiscal year 2003 required by section 161 of the Aktiengesetz (German Stock Corporation Act). This declaration of conformity can be accessed on the Internet at www.corporate-governance-code.de and on our homepage at www.dpwn.de.

52 Consolidated financial statements including the Deutsche Postbank group at equity

The activities of the Deutsche Postbank group differ substantially from the ordinary activities of the other companies in Deutsche Post World Net. To enable a clearer presentation of the net assets, financial position and results of operations of the Group, the Deutsche Postbank group was excluded from full consolidation in the accompanying consolidated financial statements for the period ended December 31, 2003. The Deutsche Postbank group is accounted for in these financial statements only as a financial investment carried at equity.

The consolidated financial statements of Deutsche Post AG including the Deutsche Postbank group at equity were prepared in accordance with the International Financial Reporting Standards (IFRS) adopted and published by the International Accounting Standards Board (IASB), and with the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), required to be applied as of the reporting date.

The accounting treatment differs from the standards required by the IFRS to the extent that the Deutsche Postbank group was not fully consolidated, as required by IAS 27, but was accounted for at equity.

The following tables on pages 138 and 139 show the reconciliation of the financial statements of Deutsche Post World Net to those of Deutsche Post World Net including Postbank at equity. Transactions between the Deutsche Postbank group and the other Group companies are included in the financial statements.

- Column 1 contains the data for Deutsche Post World Net including the fully consolidated Deutsche Postbank group.
- Column 2 contains the IFRS reporting data (carrying amounts in subgroup consolidated financial statements adjusted to comply with uniform Group accounting policies) of the Deutsche Postbank group. This includes all transactions for the provision of goods and services entered into with the rest of Deutsche Post World Net.
- Column 3 contains the consolidation adjustments recognized in the income statement between the Deutsche Postbank group and the rest of Deutsche Post World Net that were removed between the financial statements including the fully consolidated Deutsche Postbank group and the financial statements including Postbank at equity. In particular, these relate to the counter services provided by Deutsche Post AG for the Deutsche Postbank group.
- Columns 4 and 7 contain the entries for the consolidation of intercompany balances between the Deutsche Postbank group and the rest of Deutsche Post World Net.
- Column 5 contains the interest of Deutsche Post AG in the net profit for the period.
- Column 6 contains the data for Deutsche Post World Net including Postbank at equity. This is calculated by measuring the Deutsche Postbank group at equity and adding columns 1 through 5.
- Column 8 contains the investments in the Deutsche Postbank group reported under noncurrent financial assets and measured at equity.

The cash flow statement including Postbank at equity on page 140 is based on the consolidated financial statements including Postbank at equity. This means that the cash flows of Deutsche Postbank group are eliminated, but the cash flows between Deutsche Post World Net and Deutsche Postbank group are reincluded. In addition, net income from the measurement of Deutsche Postbank group at equity is included as non-cash income in net cash from operating activities. The dividend paid by Deutsche Postbank AG to Deutsche Post AG is included in cash flows from investing activities. All other items are treated in the same way as in the consolidated cash flow statement. Further disclosures relating to the cash flow statement can be found in note 44.

52.1 Reconciliation of Deutsche Post World Net income statement to Deutsche Post World Net including Postbank at equity

For the period January 1 to December 31							
in €m	Deutsche Post World Net 2003	Deutsche Postbank group 2003	Consolidation of income and expense 2003	Consolidation of inter-company balances 2003	Other 2003	Deutsche Post World Net Postbank at equity 2003	Deutsche Post World Net Postbank at equity 2002
Revenue	40,017	–6,687	577	0	0	33,907	32,343
Other operating income	1,203	–293	91	0	0	1,001	1,479
Total operating income	**41,220**	**–6,980**	**668**	**0**	**0**	**34,908**	**33,822**
Materials expense	–18,466	4,682	–121	0	0	–13,905	–12,435
Staff costs	–13,329	574	–4	0	0	–12,759	–12,709*
Depreciation and amortization expense excluding goodwill amortization	–1,392	112	0	0	0	–1,280	–1,292
Other operating expenses	–5,058	1,080	–535	0	0	–4,513	–6,342*
Total operating expenses excluding goodwill amortization	**–38,245**	**6,448**	**–660**	**0**	**0**	**–32,457**	**–32,778**
Profit from operating activities before goodwill amortization (EBITA)	**2,975**	**–532**	**8**	**0**	**0**	**2,451**	**1,044**
Goodwill amortization	–319	1	0	0	0	–318	–448
Profit from operating activities (EBIT)	**2,656**	**–531**	**8**	**0**	**0**	**2,133**	**596**
Net loss from associates	–28	0	0	0	0	–28	–1
Net income from measurement of Deutsche Postbank group at equity	0	0	0	0	353	353	1,640
Net other finance costs	–713	34	–8	–1	0	–688	–646*
Net finance costs/financial income	**–741**	**34**	**–8**	**–1**	**353**	**–363**	**993**
Profit from ordinary activities	**1,915**	**–497**	**0**	**–1**	**353**	**1,770**	**1,589**
Income tax expense	–573	144	0	0	0	–429	–8
Net profit for the period before minority interest and extraordinary expense	**1,342**	**–353**	**0**	**–1**	**353**	**1,341**	**1,581**
Minority interest	–33	1	0	0	0	–32	–15
Extraordinary expense	0	0	0	0	0	0	–907
Consolidated net profit for the period	**1,309**	**–352**	**0**	**–1**	**353**	**1,309**	**659**
See explanations on page 137	1	2	3	4	5	6	

* Prior-period amounts restated due to reclassification of interest cost on pension obligations and other interest-bearing provisions from EBITA to net finance costs

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52.2 Reconciliation of Deutsche Post World Net balance sheet to Deutsche Post World Net including Postbank at equity

As of December 31						
in €m	Deutsche Post World Net 2003	Deutsche Postbank group 2003	Consolidation of inter-company balances 2003	Other 2003	Deutsche Post World Net Postbank at equity 2003	Deutsche Post World Net Postbank at equity 2002
Assets						
Noncurrent assets						
Intangible assets	6,404	–168	0	0	6,236	4,937
Property, plant and equipment	8,818	–961	0	0	7,857	8,108
Noncurrent financial assets						
Investments in associates	79	0	0	0	79	126
Investments in the Deutsche Postbank group	0	0	0	4,876	4,876	4,405
Other noncurrent financial assets	656	–30	–2	0	624	197
	735	–30	–2	4,876	5,579	4,728
	15,957	**–1,159**	**–2**	**4,876**	**19,672**	**17,773**
Current assets						
Inventories	218	0	–3	0	215	211
Receivables and other assets	5,484	–344	158	0	5,298	5,736*
Receivables and other securities from financial services	128,928	–128,928	0	0	0	0
Current financial instruments	75	0	0	0	75	3
Cash and cash equivalents	3,355	–1,623	601	0	2,333	2,022*
	138,060	**–130,895**	**756**	**0**	**7,921**	**7,972**
Deferred tax assets	**916**	**–564**	**0**	**0**	**352**	**862**
Total assets	**154,933**	**–132,618**	**754**	**4,876**	**27,945**	**26,607**
Equity and liabilities						
Equity						
Issued capital	1,113	–410	0	410	1,113	1,113
Reserves	3,684	–4,104	0	4,104	3,684	3,323
Consolidated net profit	1,309	–352	–1	353	1,309	659
	6,106	**–4,866**	**–1**	**4,867**	**6,106**	**5,095**
Minority interest	**59**	**–14**	**0**	**0**	**45**	**103**
Provisions						
Provisions for pensions and other employee benefits	6,351	–572	0	0	5,779	5,729
Tax provisions	1,491	–873	0	0	618	772
Other provisions	4,831	–259	1	0	4,573	4,529
	12,673	**–1,704**	**1**	**0**	**10,970**	**11,030**
Liabilities						
Financial liabilities	4,749	–621	680	0	4,808	3,816
Trade payables	2,755	–88	0	0	2,667	2,629
Liabilities from financial services	123,317	–123,317	0	0	0	0
Other liabilities	5,274	–2,008	74	9	3,349	3,934
	136,095	**–126,034**	**754**	**9**	**10,824**	**10,379**
Total equity and liabilities	**154,933**	**–132,618**	**754**	**4,876**	**27,945**	**26,607**
See explanations on page 137	1	2	7	8	6	

* Item restated due to reclassification of cash equivalents from receivables and other assets to cash and cash equivalents

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Financial Statements

52.3 Cash flow statement of Deutsche Post World Net including Postbank at equity

For the period January 1 to December 31		
in €m	Deutsche Post World Net Postbank at equity 2002	Deutsche Post World Net Postbank at equity 2003
Net profit before taxes and extraordinary expense	1,589	1,770
Extraordinary expense	–907	0
Net profit before taxes	**682**	**1,770**
Net interest income	600[1]	685
Depreciation/amortization and reversals of write-downs of noncurrent assets	1,777	1,580
Gains on disposal of noncurrent assets	–315	–85
Non-cash income and expense	122[2]	134
Net income from measurement at equity	–1,640	–353
Change in provisions	1,032[1]	–875
Taxes paid	–49	–45
Net profit before changes in working capital	**2,209**	**2,811**
Changes in working capital		
Inventories	–9[2]	9
Receivables and other assets	465[2][4]	519
Receivables/liabilities from financial services	0	0
Liabilities and other items	555[3]	59
Extraordinary expense from EU state aid proceedings	0	–907
Net cash from operating activities	**3,220**	**2,491**
Proceeds from disposal of noncurrent assets		
Divestitures	0	23
Other noncurrent assets	667	496
	667	**519**
Cash paid to acquire noncurrent assets		
Investments in companies	–1,197	–1,358
Other noncurrent assets	–1,588	–1,356
	–2,785	**–2,714**
Interest and dividends received	104	138
Postbank dividend	137	99
Current financial instruments	32	71
Net cash used in investing activities	**–1,845**	**–1,887**
Proceeds from issue of financial liabilities	2,854	1,867
Repayment of financial liabilities	–2,184	–1,410
Dividends and other payments to owners	–412	–445
Interest paid	–186	–256
Net cash used in (previous year: from) financing activities	**72**	**–244**
Net change in cash and cash equivalents	1,447	360
Effect of changes in exchange rates on cash and cash equivalents	–19[3]	–49
Cash and cash equivalents at Jan. 1	594	2,022
Cash and cash equivalents at Dec. 31	**2,022[4]**	**2,333**

1) Prior-period amounts restated due to reclassification of interest cost on pension obligations and other interest-bearing provisions from EBITA to net finance costs
2) Prior-period amounts restated due to reclassification of non-cash income and expenses
3) Prior-period amounts restated: effect of changes in exchange rates on cash and cash equivalents
4) Item restated due to reclassification of cash equivalents from receivables and other assets to cash and cash equivalents

Downloadable spreadsheet. Online Annual Report
http://investorrelations.dpwn.com

Bonn, February 17, 2004
Deutsche Post AG, Board of Management

Auditor's Report

We have audited the consolidated financial statements of Deutsche Post AG, Bonn, consisting of the balance sheet, the income statement, and the statements of changes in equity and cash flows as well as the notes to the financial statements for the fiscal year from January 1 to December 31, 2003. The preparation and the content of the consolidated financial statements according to the International Financial Reporting Standards of the IASB (IFRS) are the responsibility of the Company's Board of Management. Our responsibility is to express an opinion, based on our audit, whether the consolidated financial statements are in accordance with the IFRS.

We conducted our audit of the consolidated financial statements in accordance with German auditing regulations and generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer in Deutschland (IDW) and additionally observed the International Standards on Auditing (ISA). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatements. Knowledge of the business activities and the economic and legal environment of the Group and evaluations of possible misstatements are taken into account in the determination of audit procedures. The evidence supporting the amounts and disclosures in the consolidated financial statements are examined on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by the Board of Management as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the net assets, financial position, results of operations, and cash flows of the Group for the fiscal year in accordance with the IFRS.

Our audit, which according to German auditing regulations also extends to the Group Management Report prepared by the Board of Management for the fiscal year from January 1 to December 31, 2003, has not led to any reservations. In our opinion, on the whole the Group Management Report, together with the other information of the consolidated financial statements, provides a suitable understanding of the Group's position and suitably presents the risks of future development. In addition, we confirm that the consolidated financial statements and the Group Management Report for the fiscal year from January 1 to December 31, 2003 satisfy the conditions required for the Company's exemption from its duty to prepare consolidated financial statements and the Group Management Report in accordance with German accounting law.

Düsseldorf, February 17, 2004

PwC Deutsche Revision
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Brebeck	Menke
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Certified	(German Certified
Public Accountant)	Public Accountant)

Glossary

Basel II
The revised Basel Capital Accord that seeks to make the capital adequacy requirements for banks more risk-sensitive than the original 1988 Accord. It also reflects recent developments on the financial markets and in risk management techniques.

Business-to-Business (B-to-B)
The exchange of goods, services, and information between companies.

Business-to-Consumer (B-to-C)
The exchange of goods, services, and information between companies their consumers.

Carrier sequence barcode sorter
Sorts machine-readable letters automatically according to carrier route.

Consolidated load
Combination of several standard loads into a consolidated shipment.

Contract logistics
Granting of longer-term logistics contracts to logistics service providers.

Cross-selling
Existing customer contacts are leveraged to sell additional products and services from various Corporate Divisions.

Direct brokerage
Online securities brokerage business.

Direct marketing
The focusing of business activities on current or potential customers who are addressed personally, for example by visiting them, or by letter, telephone, fax, or e-mail.

Direct portal
The homepage of a website that bundles information for specific target groups.

Directors' dealings
Since July 1, 2002, securities transactions by Managing Board and Supervisory Board members of listed companies, as well as by their immediate families, that involve their own company's shares must be published without delay in accordance with section 15 a of the WpHG (German Securities Trading Act).

Emerging markets
Economic growth regions, for example in Southeast Asia, Latin America, and Eastern Europe.

Exclusive license
In accordance with the Postgesetz (German Postal Act), Deutsche Post AG has the exclusive license (which will expire at the end of 2005) to transport letters and addressed catalogs weighing less than 100g and costing less than three times the standard rate. Exceptions include the transportation of letters with identical content weighing more than 50g and higher-value services providing special features. As of January 1, 2006, the exclusive license (which will expire at the end of 2007) will be lowered to 50g or two-and-a-half times the standard rate.

Fast moving consumer goods
Consumer goods that sell quickly and are constantly restocked, such as food, drinks, and cleaning materials.

Full container load (FCL)
Combination of several part loads.

Gateway
Collection center for the transshipment and consolidation of international flows of goods in a certain direction.

German Postal Act (Postgesetz)
The purpose of the German Postal Act, which was adopted on January 1, 1998, is to promote postal competition through regulation and ensure the nationwide provision of appropriate and sufficient postal services. The Postal Act includes regulations on licensing, price control, and the universal service.

Groupage
Goods of a relatively small volume that are transported in groups.

Hub
Collection center for the transshipment and consolidation of flows of goods in all directions.

IATA
International Air Transport Association.

ISO 9001
Standard issued by the International Organization for Standardization that is regarded globally and across industries as the core standard for quality management systems.

Joint delivery
Delivery of both mail and parcels by mail carriers.

Just-in-time-production
The timing of production is closely linked to customer demand, which means that storage space can be reduced to a minimum or eliminated altogether.

Less than container load (LCL)
Loads sent by several shippers and/or destined for several recipients that will not fill a container by themselves and are therefore grouped into a consolidated load.

Multi-channel bank
A bank that markets its products and services using several sales channels.

NVOCC (Non Vessel Operating Common Carrier)
A transport company that carries goods by sea in its own name, and generally also issues its own bills of lading, but does not own any shipping space.

One-stop shopping
The supply of all products and services from a single source.

Online banking
Banking services that are processed electronically and offered to customers via the Internet.

Open service outlet
Modern retail outlet with open service areas.

Outsourcing
The subcontracting of logistics tasks.

Philately
Deutsche Post's philately division not only coordinates the development, production, and distribution of German postage stamps, but also operates the largest philately mail-order business of all postal organizations in the world.

Pick-up and delivery
In addition to delivering shipments from their vehicles, parcel deliverers pick up shipments from customers on their delivery rounds.

Postal Universal Service Ordinance (PUDLV – Post-Universaldienst-leistungsverordnung)
This ordinance was issued in 1999 and decrees to what extent and under what quality standards letters, parcels, and press products must be transported within Germany and in Europe.

Price-cap procedure
The RegTP (see below) approves prices for mail products on the basis of the parameters it stipulates to set the average changes in these prices within a basket of consolidated services.

Rating
The assessment of a company's credit rating based on qualitative and quantitative factors.

Regulatory Authority for Telecomunications and Posts (RegTP – Regulierungsbehörde für Telekomunikation und Post)
Created on January 1, 1998, as the successor to the Bundesministerium für Post und Telekommunikation (BMPT – Federal Ministry of Posts and Telecommunications) and the Bundesamt für Post und Telekommunikation (BAPT – Federal Office for Posts and Telecommunications); regulates the German postal and telecommunications market.

Same day
Delivery of express shipments on the day they were handed over to Deutsche Post.

STAR
Deutsche Post World Net's Group-wide integration and value creation program.

TEU
Twenty-foot equivalent unit. Standardized container unit measuring 20 feet in length (1 foot = approx. 30 cm)

Tracking & tracing
Electronic system for following shipments. Tracking refers to establishing the current status of the shipment, and tracing to the process of determining its history.

Value added services
Services that go beyond the core services offered and thus create added value.

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Group 7-Year Review

1997 – 2003		1997	1998	1999	2000	2001	2002	2003
Revenue and earnings								
Revenue								
MAIL	in €m	10,788	11,272	11,671	11,733	11,707	12,129 [1]	11,934
MAIL share	in %	75.3	74.3	49.1	34.5	32.4	29.4	28.4
EXPRESS	in €m	3,533	3,818	4,775	6,022	6,421	14,637 [1][2]	16,443
EXPRESS share	in %	24.7	25.2	20.1	17.7	17.8	35.5	39.0
LOGISTICS	in €m	0	0	4,450	8,289	9,153	5,817 [2]	5,878
LOGISTICS share	in %	0	0	18.7	24.3	25.3	14.1	14.0
FINANCIAL SERVICES	in €m	0	81	2,871	7,990	8,876 [3]	8,676 [1]	7,813
FINANCIAL SERVICES share	in %	0	0.5	12.1	23.5	24.5	21.0	18.6
Corporate Divisions total	in €m	14,321	15,171	23,767	34,034	36,157	41,259	42,068
Other/Consolidation	in €m	–189	–502	–1,404	–1,326	–2,778 [3]	–2,004 [1][2]	–2,051
Total	in €m	**14,132**	**14,669**	**22,363**	**32,708**	**33,379**	**39,255**	**40,017**
EBITDA	in €m	**1,299**	**1,554**	**1,830**	**3,426**	**3,611**	**4,372** [4]	**4,367**
Profit from operating activities before goodwill amortization (EBITA)								
MAIL	in €m	599	944	1,009	2,004	1,960	2,144 [1][4]	2,036
MAIL share	in %	110.1	101.1	91.7	74.3	69.6	65.6	63.3
EXPRESS	in €m	–55	–7	60	76	176	270 [1][2][4]	408
EXPRESS share	in %	n/a	n/a	5.5	2.8	6.2	8.3	12.7
LOGISTICS	in €m	0	0	–27	113	159	173 [2][4]	206
LOGISTICS share	in %	0	0	n/a	4.2	5.6	5.3	6.4
FINANCIAL SERVICES	in €m	0	–4	58	505	522	679 [4]	566
FINANCIAL SERVICES share	in %	0	n/a	5.3	18.7	18.5	20.8	17.6
Corporate Divisions total	in €m	544	933	1,100	2,698	2,817	3,266	3,216
Other/Consolidation	in €m	15	–100	–179	–319	–270 [5]	–297 [4]	–241
Total	in €m	**559**	**833**	**921**	**2,379**	**2,547**	**2,969** [4]	**2,975**
Return on sales [6]	in %	4.0	5.7	4.1	7.3	7.6	7.6	7.4
EBIT	in €m	**556**	**827**	**851**	**2,235**	**2,376** [5]	**2,520** [4]	**2,656**
Net profit for the period before minority interest and extraordinary expense	in €m	**751**	**925**	**1,029**	**1,527**	**1,587** [5]	**1,590**	**1,342**

n/a = not available

1) Prior-period amounts restated due to restructuring of Mail International Business Division and other product portfolio optimization measures
2) Prior-period amounts restated due to restructuring of EXPRESS and LOGISTICS Corporate Divisions
3) Prior-period amounts restated due to reallocation of retail outlet operations from Other/Consolidation to the FINANCIAL SERVICES Corporate Division
4) Prior-period amounts restated due to reclassification of interest cost on pension obligations and other interest-bearing provisions from EBITA to net finance costs
5) Prior-period amounts restated: see item 7 of the Notes
6) Total EBITA/revenue

1997 – 2003		1997	1998	1999	2000	2001	2002	2003
Cash flow/investments/depreciation and amortization								
Cash flow [7]	in €m	895	–397	4,514	2,216	3,059	2,967	3,006
Investments	in €m	1,084	1,400	4,553	3,113	3,468	3,100	2,846
Depreciation and amortization	in €m	743	741	993	1,204	1,285	1,893	1,693
Asset and capital structure								
Noncurrent assets	in €m	9,907	9,485	9,791	11,081	12,304	14,536	15,957
Current assets	in €m	2,854	4,448	62,957	137,381	142,906	146,665	138,060
Deferred tax assets	in €m	1,029	1,187	2,268	1,818	1,491	1,446	916
Equity	in €m	994	1,765	2,564	4,001	5,353	5,095	6,106
Minority interest	in €m	226	229	56	79	75	117	59
Provisions	in €m	9,293	9,302	11,009	11,107	10,971	12,684	12,673
Liabilities [8]	in €m	3,265	3,792	5,913	9,723	8,770	11,900	12,778
Deferred items	in €m	12	32	0	0	0	0	0
Total assets	in €m	**13,790**	**15,120**	**75,016**	**150,280**	**156,701**	**162,647**	**154,933**
Employees/staff costs								
Total workforce (headcount including trainees)	at Dec. 31	270,817	260,520	301,229	324,203	321,369	371,912	383,173
Workforce calculated as FTEs (including trainees)	at Dec. 31	233,350	223,863	264,424	284,890	283,330	334,952	348,781
Workforce calculated as FTEs (excluding trainees)	at Dec. 31	228,758	218,916	257,836	278,705	276,235	327,676	341,572
Average workforce		277,538	263,342	304,265	319,998	323,298	375,890	375,096
Staff costs	in €m	9,992	9,860	11,503	11,056	11,246	13,313 [4]	13,329
Key figures								
(Diluted) earnings per share [9]	in €	0.67	0.83	0.92	1.36	1.42	0.59	1.18
(Diluted) earnings per share [9] before extraordinary expense	in €	0.67	0.83	0.92	1.36	1.42	1.41	1.18
Cash flow [7] per share [9]	in €	0.76	– 0.36	4.05	1.99	2.75	2.67	2.70
Dividend per share [9]	in €	0.05	0.14	0.16	0.27	0.37	0.40	0.44
Return on equity before taxes [10]	in %	133.8	63.1	35.9	62.1	45.9	35.5	34.2

7) Cash flow from operating activities
8) Excluding liabilities from financial services
9) To enhance comparability, the calculation was based on the number of shares after the increase in share capital and the conversion to euros, as well as conversion to 1,112,800,000 no-par value shares (1997 – 1999: 42,800,000 shares)
10) Profit from ordinary activities/average equity

Financial calendar	
March 9, 2004	Financials press conference and analyst conference call[1] on fiscal year 2003
March 23, 2004	Publication of 2003 Annual Report
May 6, 2004	Annual General Meeting[2]
May 7, 2004	Dividend payment
May 14, 2004	Analyst conference call[1] on the first quarter of 2004
July 30, 2004	Financials press conference and analyst conference call[1] on the first half of 2004
October 26, 2004	Analyst conference call[1] on the first nine months of 2004

[1] **Live Internet broadcast** at http://investorrelations.dpwn.de
[2] **Live Internet broadcast** of the speech by the Chairman of the Board of Management at http://investorrelations.dpwn.de

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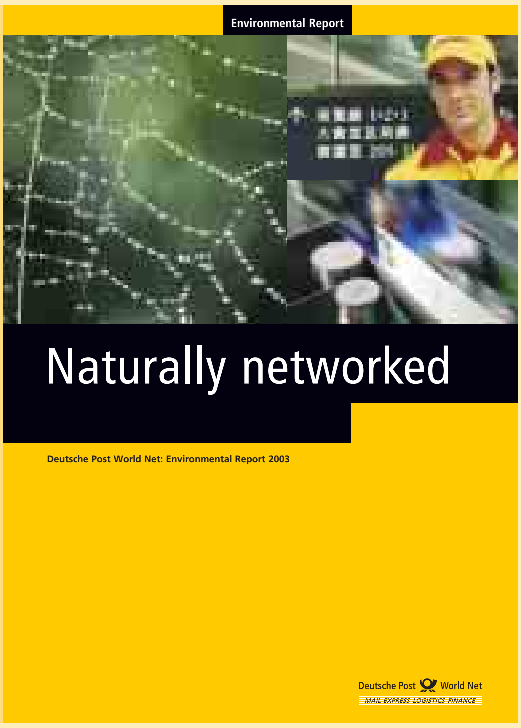

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