Annual Report 1999

Deutsche Post World Net on its Way to Becoming No. 1 Worldwide.

Deutsche Post World Net

MAIL EXPRESS LOGISTICS FINANCE

Annual Report 1999

We provide global logistics networks for global flows of goods and ancillary flows of information and money.

Deutsche Post World Net is one of the largest logistics groups in the world. We make systematic use of the opportunities arising from globalization and digitization by providing top-quality services and technologies for our customers throughout the world.

Our strategy foresees the intelligent interlinking of global flows of goods and information and the financial transactions associated with them. With this goal in mind, we are expanding our Group with determination and developing increasingly comprehensive one-stop-shopping options in keeping with customer wishes.

In the area of one-stop-shopping, the provision of global products and services is a critical factor for customers with an increasingly global orientation. Having steadily expanded our range of products, we offer customers the entire spectrum of state-of-the-art logistics services – from a single source. In addition, one-stop-shopping also requires innovative value-added services.

E-Commerce is opening up enormous growth areas for our global logistics Group. For this reason, Deutsche Post World Net is establishing the conditions necessary for taking a leading role in the e-Logistics field – with new products, partnerships, Internet-based processes and substantial investments.

Deutsche Post World Net

MAIL EXPRESS LOGISTICS FINANCE

Brand Levels and Business Segments

Deutsche Post World Net

MAIL EXPRESS LOGISTICS FINANCE

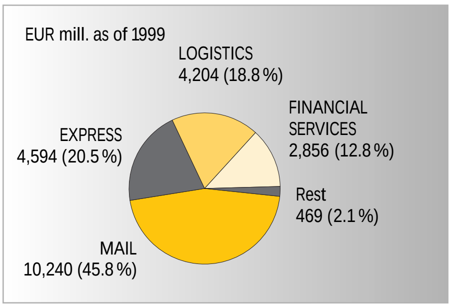
Deutsche Post		Danzas	Postbank
MAIL COMMUNICATION	*EURO EXPRESS*	*SOLUTIONS*	*SERVICE AND LOANS*
DIRECT MARKETING	*GLOBAL MAIL*	*INTERCONTINENTAL*	*INSURANCE AND PRECAUTION*
PRESS DISTRIBUTION	*FULFILMENT*	*EUROCARGO*	*SAVE AND INVEST*
PHILATELY	*REAL ESTATE*		*HOME LOAN SAVINGS*
IN HOUSE SERVICE	*PENSION SERVICE*		*BUSINESS CLIENTS*
	eBUSINESS		

Deutsche Post World Net Financial Highlights

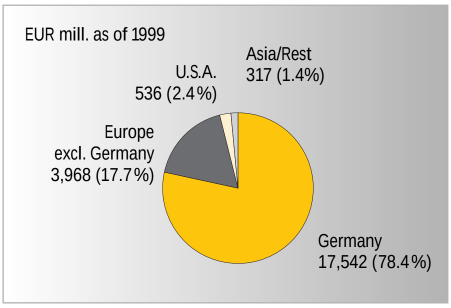
		1999	1998	Change
Revenue	EUR mill.	22,363	14,669	52.5 %
of this international revenue	in percent	21.6	2.1	
Return on sales[1]	in percent	5.0	6.3	
Profit from operations (EBIT) before amortization of goodwill	EUR mill.	1,011	833	21.4 %
Profit from operations (EBIT) after amortization of goodwill	EUR mill.	939	827	13.5 %
Net profit	EUR mill.	1,117	925	20.8 %
Cash flow[2]	EUR mill.	1,544	1,382	11.7 %
Balance sheet total	EUR mill.	77,118	15,120	410.0 %
of this balance sheet total, excl. Postbank	EUR mill.	15,608	15,120	3.2 %
Shareholders' equity	EUR mill.	2,652	1,765	50.3 %
Return on equity[3]	in percent	42.1	52.4	
Workforce as of Dec. 31[4]		301,229	260,520	15.6 %
Staff costs as a percentage of total revenue	in percent	51.4	67.2	

[1] Net profit / revenue
[2] Cash flow before changes in net working capital
[3] Net profit/shareholders' equity as of Dec. 31
[4] Total workforce

External revenue by business units



Revenue by regions



Corporate Structure

	Dr. Klaus Zumwinkel **Chairman of the Board of Management**	Dr. Hans-Dieter Petram	Uwe R. Dörken	Peter Wagner	Prof. Dr. Wulf von Schimmelmann	Walter Scheurle **Personnel**	Dr. Edgar Ernst **Finance**
Corporate Divisions		**MAIL**	**EXPRESS**	**LOGISTICS**	**FINANCIAL SERVICES**		
Business Divisions		Mail Communication Direct Marketing Philately	Express Germany Express Europe Global Mail* International Mail*	Solutions Intercontinental Eurocargo	Retail Banking Corporate Banking Financial Markets		
Corporate Departments	e-Business Corporate Executives/ Corporate Organization Corporate Communications Corporate Development Corporate Office Public Affairs and Regulations	Corporate Real Estate Corporate Purchasing			Retail Outlets**	Compensation Policies Personnel Administration Training	Corporate Controlling Corporate Accounting Corporate Finance/ Investor Relations IT Development IT Infrastructure Taxes/Risk Management Legal Affairs Audit

* Business Unit
** Interface between Deutsche Post and Postbank

Dr. Klaus Zumwinkel
Chairman of the Board of Management

Born 1943. After obtaining a business degree, his Master of Science, studies at the Wharton Business School and a doctorate in political science, Zumwinkel joined McKinsey & Co. in 1974, where he became Partner and member of the German management in 1979. Five years later he moved into worldwide management as Senior Partner. In 1985, he was appointed Board member and Chairman of the Board at Quelle Group. He has been Chairman of the Board of Management of Deutsche Bundespost POSTDIENST since 1990, and of Deutsche Post AG since 1995.

Dear Reader,

you can already see from our company's expanded name that a new era has dawned for us and our customers. Deutsche Post World Net – the name under which the Deutsche Post Group has been operating since the start of this year – developed into a very successful international corporation during the course of 1999, truly reflecting our motto "We're moving the world". I am pleased to have the opportunity here to outline for you the circumstances and developments that shaped this evolution.

1999 - A year of expansion and growth

Globalization changes markets and trade patterns. The internationalization of production and marketing, together with technological progress, is rewriting the rules for many companies. If they want to hold their own in the marketplace, companies must think and act internationally and actively respond to the challenges posed by the Internet. This applies in general to many industries and it applies in particular to Deutsche Post World Net as a global mail, express, logistics and financial services provider. We have geared our corporate strategy to these new demands since 1998 and were consequently able to produce outstanding results during the 1999 business year. Our 1999 financial statements – which we prepared for the first time on the basis of International Accounting Standards (IAS) – reveal further improvement in our key data. Revenue increased by 52.5 percent to EUR 22.4 billion – thanks not least of all to our successful acquisition policy. The share of total revenue generated by international business grew from 2.1 percent in 1998 to 21.6 percent. Group profit topped the EUR one billion mark for the first time and increased by 20.2 percent to some EUR 1.1 billion. Staffing levels at Deutsche Post AG were reduced by some five percent to 243,933 (including trainees) – using socially acceptable means, as has been the practice in past years – while the number of people working for Deutsche Post World Net worldwide increased to 301,229 as of December 31, 1999.

Deutsche Post World Net - Armed with a clear-cut strategy on its way to becoming No. 1 worldwide

Today, the global operator Deutsche Post World Net is already Europe's leading logistics company and is forging ahead to becoming No. 1 worldwide. This positive development reflects the four pillars of our strategy – internationalization via the expansion of our global logistics network, enlargement of our product base via product offerings in all weight categories, expansion of our value-added services via the provision of comprehensive logistics solutions for every link in the entire value-added chain and e-Business.

MAIL – No. 1 in Europe with the best quality around

The MAIL corporate division asserted its standing as a solid growth segment once again in 1999. This was particularly true of the direct marketing business segment. A network currently consisting of 40 Direct Marketing Centers offers companies of all sizes customized consultancy services that range from concept development to the processing and management of successful direct marketing campaigns.

Deutsche Post World Net's MAIL corporate division is the market leader in Europe, handling 21 billion letter items each year – the equivalent of EUR 10.2 billion in revenue in 1999 – and occupying approximately 24 percent of the market. We also put in top-level performance in terms of quality, with 95 percent of all domestic letter mail being delivered the day after it is posted.

We also made continued progress in expanding our value-added services. Deutsche Post Com GmbH, for instance, fulfills customer wishes for smooth-operating multiple communications channels that take even changeovers from one medium to another in stride. Regardless of how we receive an item – as a letter, fax, EDI or via the Internet – we can transform it into any other medium and subsequently deliver it.

EXPRESS – A pan-European network for cross-border business

Our customers demand cross-border solutions from one single source. Having set up our own companies and acquired stakes in leading parcel and express service providers in Europe, we now offer our business customers integrated logistics services in currently 18 European countries under our Deutsche Post Euro Express brand. The local expertise of our subsidiaries – together with our Europe-wide network – gives Deutsche Post Euro Express an unrivaled competitive edge.

The EXPRESS corporate division generated some EUR 4.6 billion revenues in 1999. Deutsche Post World Net's approximately 13-percent market share makes it the leading provider on the European parcel and express market today. Further, we gained access to a worldwide logistics network for express delivery services through the stake we acquired in 1998 in DHL International Ltd., the market leader for international express delivery services which it currently offers in 227 countries around the globe.

Our subsidiary Deutsche Post Fulfilment GmbH offers customized logistics solutions for trade and industry, with a special focus on the mail-order business. Its modular service range encompasses the entire logistics value-added chain, extending from order management, dispatch preparation and distribution, all the way to invoicing.

LOGISTICS – Leading positions worldwide with Danzas

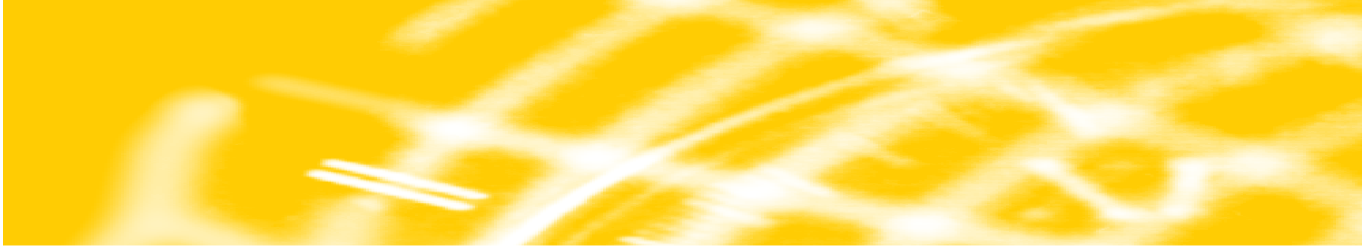
In the wake of several acquisitions, Deutsche Post World Net's logistics services took on a new dimension during the past year and generated EUR 4.2 billion in net revenue. We acquired the global Danzas Group in March 1999. With the addition of Danzas to our lineup, we were able to substantially enlarge our European and global distribution network, markedly increase our range of services in the value-added logistics field and considerably expand our product base. We also closed geographic gaps in our corporate map of Europe through our acquisition of the European Transport Division of the Dutch company Royal Nedlloyd and the Swedish transport and logistics service provider ASG. Our acquisition of Air Express International in the U.S.A. – which was approved by all authorities involved in February 2000 – has not only broadened our geographic growth through the addition of its operations in 140 countries around the world, it also boosted Danzas, and Deutsche Post World Net along with it, into the leadership position in the air freight service field. We are No. 1 in the Eurocargo business segment which covers European road transport. We also hold a leading position throughout Europe in the solutions (value-added services) business segment.

FINANCIAL SERVICES – Integration of Postbank, Deutsche Post and DSL Bank generates largest customer base in Germany

Deutsche Post World Net acquired Postbank in 1999 and DSL Bank on January 1, 2000. Our new FINANCIAL SERVICES corporate division with its balance sheet total of some EUR 61 billion (excluding DSL Bank) and EUR 2.9 billion in income will pursue a clearly-defined strategy that is based on the following two goals:

1. Become one of the leading retail banks in Germany. Postbank has enormous strengths to build on here, such as 14,000 retail outlets, 10 million customers, a leading position in Germany's online banking field with 650,000 customers, and No. 1 standing in telephone banking with 1.5 million customers. By teaming up with Deutsche Post World Net's retail outlet network, it has gained access to more than two million customers every day.
2. Expand its payment services and commission business, develop its brokerage and financing services in the logistics and e-Business segments. Postbank has access to Deutsche Post's customer base in MAIL, EXPRESS and LOGISTICS business to accomplish this. Current examples of this include the payment services for Deutsche Post's e-Business (*eVITA*) activities and the financing of logistics projects conducted by Deutsche Post World Net and Danzas customers.

We want to interlink our logistics networks for goods flows and the information and money flows connected with them and meet the competition with corresponding services for our customers.



E-Commerce: Market of the future – Enormous business opportunities for Deutsche Post World Net

E-Commerce is the fast-growing market of the future, a global marketplace without limits or national borders. As such, it is an integral part of our corporate strategy. E-Commerce offers logistics service providers sizable new market opportunities because products that are ordered with the click of a mouse generally are delivered to the customer via parcel mail. All estimates foresee above-average growth rates in this field.

Internet merchants can turn to Deutsche Post World Net's e-Commerce services business segment to integrate all elements of the logistics chain into their online offerings and manage all logistics activities for them. From Internet-shop outfitting to the entire range of logistics tasks including payment handling, e-Commerce services takes back-office activities off the merchant's hands, putting Deutsche Post World Net's well-established competence as a full-service provider to use for him in the process. Deutsche Post World Net's launch of the successful *eVITA* Internet marketplace with its special mix of information, entertainment and shopping, created an electronic shopping mall where currently more than 100 permanent shop partners and some 2,500 additional shops showcase their goods and services.

All in all, Deutsche Post World Net's involvement in e-Business is built on a broad foundation. We serve both providers and users, business customers and private customers. Integrating the flows of goods, information and money is crucial to success in e-Commerce. Deutsche Post World Net meets this challenge by interlinking the products offered by its various brands, such as Euro Express and Postbank. We established an e-Business holding at the start of the year 2000 to pool our competencies in this field with the aim of taking advantage – fully and quickly – of the business opportunities e-Business has to offer.

Globalization – An opportunity and challenge for Deutsche Post World Net

The increasing globalization of the economy is fueling a need for blanket logistics solutions. Deutsche Post World Net's systematic implementation of its strategy has made it a powerful international Group. We offer our customers package solutions on a one-stop-shopping basis.

Our corporate logo and the brand architecture behind it were developed to convey Deutsche Post World Net's strategy and position in a nutshell.

Deutsche Post underscores Deutsche Post's origins and more than 500-year-old tradition, with Germany as its domestic market.

World reflects the Group's strong global position and its strategy – on its way to becoming No. 1 in logistics worldwide.

Net recalls that the Group operates networks for the transport of goods and the ancillary transmission of information and money and commands an outstanding position in e-Commerce, the fast-growing market of the future.

MAIL, EXPRESS, LOGISTICS and FINANCIAL SERVICES represent the Group's four pillars.

Deutsche Post World Net was able to markedly improve its revenue and profit levels in 1999. This success was due primarily to the dedication and motivation of our managers and employees. Looking to the future, I am confident that we will continue to improve our quality for our customers, strengthen the substance of our company in the future and generate a solid return on equity. I hope that you will continue to accompany us along this path as a satisfied customer and business partner.

Dr. Klaus Zumwinkel

Deutsche Post World Net
MAIL EXPRESS LOGISTICS FINANCE

Deutsche Post

DANZAS

Postbank

The Board of Management

Walter Scheurle
Personnel

Peter Wagner
LOGISTICS

Dr. Hans-Dieter Petram
MAIL

Dr. Klaus Zumwinkel
Chairman of the Board of Management

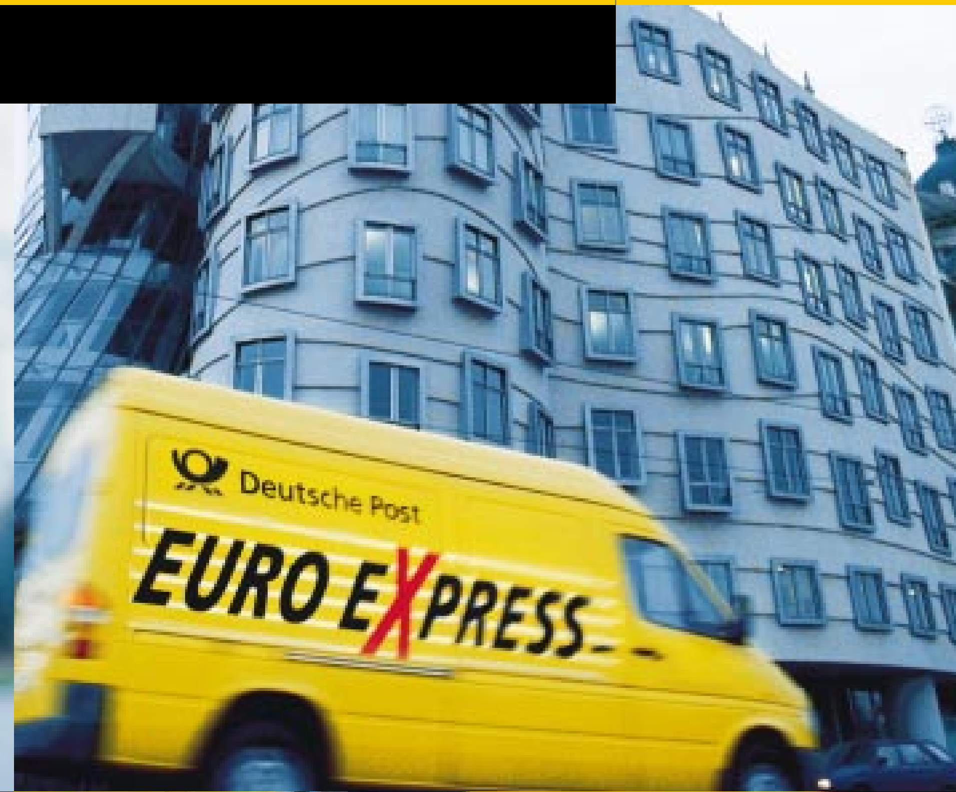
Uwe R. Dörken
EXPRESS

Prof. Dr. Wulf von Schimmelmann
FINANCIAL SERVICES

Dr. Edgar Ernst
Finance

Group Management Report – Internationalization and Growth

Deutsche Post World Net performed in line with our expectations in both corporate and business terms in 1999. During the year, Deutsche Post World Net took important steps toward becoming one of the world's largest integrated international companies for logistics services, while clearly maintaining its leading market positions in the traditional business segments for national express and letter mail business.



Management Report 1999

Overview

Figures in EUR mill.	1999	1998
Revenue	22,363	14,669
Net profit	1,117	925

The acquisitions of Danzas, Nedlloyd ETD, ASG and Postbank expanded the range of global logistics services and financial services we are able to offer our customers. Numerous other acquisitions – which included foreign express and letter mail service providers – laid the foundation for the internationalization of these business segments.

This realignment led to a substantial increase and shift in revenue. At the same time, our traditional business segments were also able to achieve significant revenue growth – by considerable amounts in some cases. As a result, our profit after tax this year grew to EUR 1.1 billion, an increase of 20.8 percent over 1998.

Our systematic expansion of new growth segments is founded on our rigorous and successful restructuring of all the traditional corporate divisions which existed when Germany's "new post office" first began operation in 1995.

Together, these two components comprise the basis for our business success and provide the ideal conditions for a future-oriented, increasingly global Deutsche Post World Net Group.

1. The overall economic environment in 1999

Deutsche Post World Net was able to raise its sales and revenue levels last year despite a lack of momentum in Germany's economy. Compared to the previous year, Germany's gross domestic product grew by only 1.5 percent in real terms in 1999, noticeably less than the 2.2 percent growth posted in 1998.

The business service, financing and leasing industries reported the fastest growth last year with a 3.6-percent real increase. This development was favorable for Deutsche Post World Net because these sectors are significant users of postal services. By contrast, private consumer spending generated little impetus. At 2.1 percent, growth in consumer spending was subdued once again last year, and even undercut the 2.3 percent growth reported in 1998. Visible trade – an important factor in generating cross-border mail to and from Germany – grew at lower levels than in 1998. Due to the long-term effects of the economic crises in East Asia and other emerging markets, Germany's export trade grew by 4.2 percent in 1999, compared to 7.0 percent in 1998. At 7.1 percent, import trade also recorded lower growth in 1999 than in the previous year when the sector posted an 8.5-percent growth rate.

In the face of these developments, our Group's internationalization strategy is of increasing importance. Growth has been stronger in other economically important countries in the EU than in Germany. Further, cross-border trade is growing at a considerably faster pace than domestic economic output. Global trade grew at nearly twice the rate that global production did in the 1990s. As globalization progresses, the division of specialization between countries will increase and, with it, the magnitude of global trade.

Internet trade – also widely known as e-Commerce – is a primary driving force behind these trends. According to a study by the International Gardner Group, Internet-related business in Europe reached a magnitude of some EUR 15 billion in 1999. This study also indicates that the volume of e-Commerce conducted in Europe will grow to at least EUR 180 billion by the year 2002. The e-Commerce field is opening up enormous opportunities, in particular for Deutsche Post's cross-border distribution and logistics networks.

2. Markets in the midst of dramatic change

The mail, logistics and financial markets continued to see vigorous change in 1999. Liberalization, globalization and technological change arising primarily in the wake of the e-Commerce revolution are in full swing and will change the markets dramatically for us and our customers.

2.1. Changes in the marketplace

The rapid, worldwide availability of information through the Internet, in conjunction with the progressive elimination of trade barriers, such as within the European Union - will substantially accelerate the internationalization of information, goods and services. Customers increasingly demand package solutions for the physical execution of these activities, solutions that do not stop at national borders or weight limits and come in conjunction with value-added services, all from a single source.

Four core trends underlie these changes in the logistics markets:

- Internationalization
- Broad range of products, one-stop-shopping
- Provision of value-added services from a single source
- E-Commerce revolution

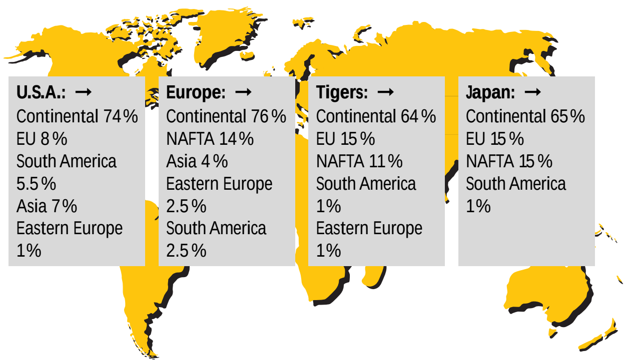
Internationalization

Large companies and a growing number of small and medium-sized firms in all sectors are seizing the opportunity offered by the European Monetary Union, the Single European Market and the liberalization of markets around the world to internationalize their business. This is generating a growing need for seamless, cross-border services. Studies conducted by the Center for Logistics and Corporate Planning at the Technical University of Berlin in January 2000 confirm this trend. According to these studies, one third of all commodity flows are already globally distributed today. This figure was approximately 20 percent in 1995.

One third of all commodity flows are distributed globally

This trend is expected to continue. We believe that it will demand efficient, international network logistics with fast-growing capacity.

Percentage of goods (based on value) going to the following regions:



Source: The Next Wave of Logistics: Global Supply Chain Efficiency, Berlin/Boste, 1999, TU Berlin

Single-source value-added services

The worldwide trend toward outsourcing is gaining momentum because trade and industry have to make use of every opportunity available to cut costs. According to studies conducted by the Institute for Technology and Management at the Technical University of Berlin, outsourcing logistics services remains one of the preferred methods for reducing operating costs. European companies are expected to follow this trend in growing numbers over the next several years. In the process, they will close the gap that exists between them and American companies in the levels of logistics services being outsourced.

At the same time, the increasing integration of physical flows with information and financial flows is leading to the emergence of new service packages which go by the name of supply chain management (SCM) services.

Reliable logistics, distribution and financial services providers are an indispensable prerequisite for successful outsourcing and SCM projects. This situation offers companies which are able to offer the entire range of services from a single source – in other words, one-stop-shopping – a unique opportunity.

The e-Commerce revolution

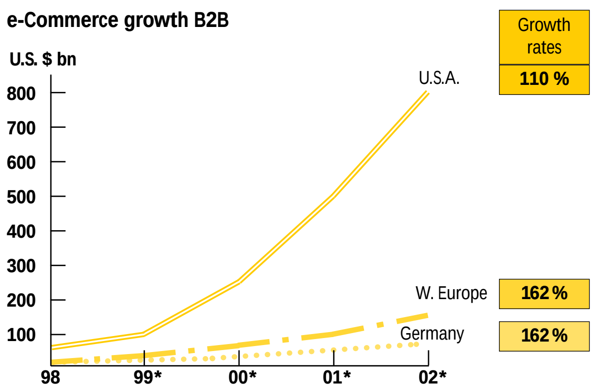
The Internet and the many other new means offered by information technology are dramatically changing the rules governing the global economy. They are creating worldwide transparency, opening up new ways of accessing new markets and giving rise to entirely new business models.

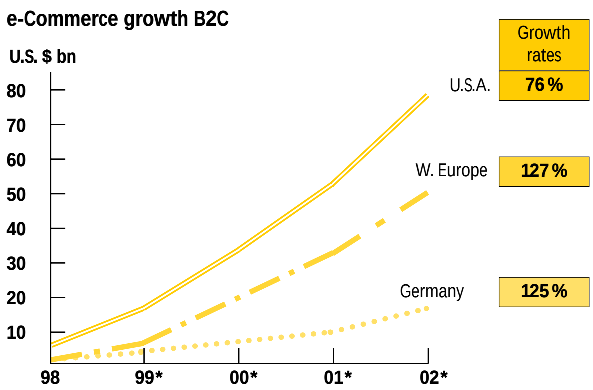
This has a fundamental impact on the transport, logistics and service sectors and on payment systems. In particular, the electronic handling and execution of business transactions – known as "e-Business" – will require new kinds of services. This development is being shaped by a number of global trends:

- Manufacturers are stepping up their direct sales activities. This in turn is leading to the elimination of various commercial levels in favor of end-customer commissioning.
- Item flows – in both the business-to-business (B2B) and the business-to-consumer (B2C) areas – are increasingly segregated. Customer demands for greater speed and reliability are also growing.
- New intermediaries (distributors/dealers) are establishing themselves in the electronic net with a value added that they generate primarily by improving information and financial flows.
- The growing globalization of business relations is generating ever-larger international transport volumes and fueling a need for integrated global solutions – in other words, for global transparency in offerings and prices.

This scenario offers logistics providers an enormous opportunity to play an active and decisive role in expanding and shaping these developments. Many companies need help in organizing, coordinating and, most of all, executing their business transactions. Logistics services providers are qualified partners for meeting these needs.

The so-called "pure plays" of e-Business – companies that devote themselves exclusively to marketing and selling products and services in the Internet – are particularly dependent on partners who can manage the entire physical and financial side of their business activities for them.





Source: Forrester, IDC

* estimated

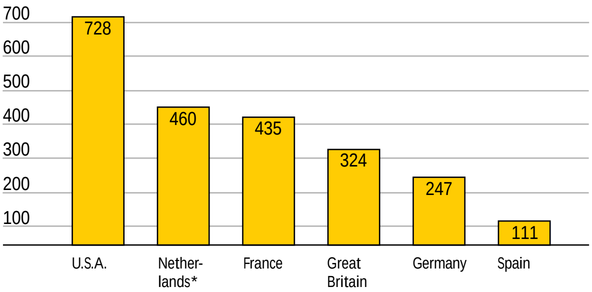
2.2 Specific market opportunities

We expect our markets for mail, express, logistics and financial services to continue growing in future years.

MAIL

An international comparison of letter item volumes per capita reveals distinct – and, in some cases, substantial – differences between individual countries. These differences can often be attributed to factors that are specific to the individual country, such as the large percentage of financial mail items (mail delivery of checks) in the United States.

Letter items per capita



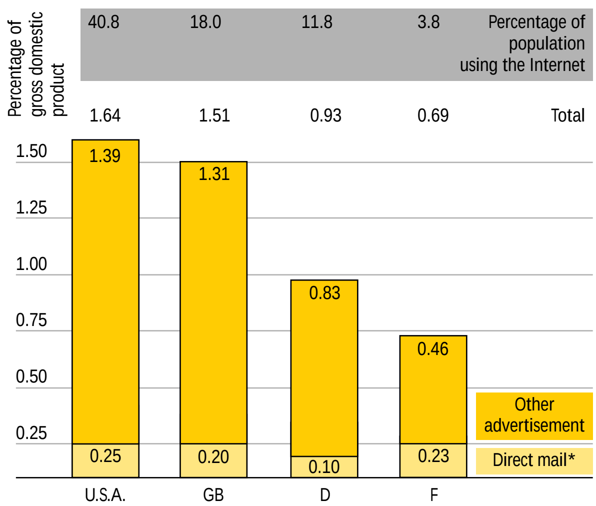
Source: UPU 1998, *TPG for the Netherlands

For us, this comparison with our European neighbors and the sustained growth seen in German letter sales point to even further growth potential. The rise of the fax machine in the 1990s, for example, did not lead to any significant decline in sales in Germany. Nonetheless, the traditional standard letter is faced with the threat of substitution over the medium term. Sales could fall off particularly in the area of business communication (B2B) as the result of electronic data interchange (EDI) activities and e-mail.

By contrast, we expect to see continued growth in B2C volume. The liberalization of Europe's telecommunications, electricity and insurance markets has led to an increase in the number of providers and consequently to more letter mail, such as bills, personalized advertising (direct mail) and the like. The expansion in the online banking business will also lead to ever-larger B2C letter mail volume.

The spread of the Internet is bringing global transparency – and global competition. This in turn creates more pressure to advertise. All providers have to ensure brand awareness in their respective segments. They also have to present and offer their products and services in such a way that they set themselves perceptibly apart from the competition and can consequently attract and retain customers. For this reason, the future of marketing is to be found in the individual approach. Direct advertising – addressed and unaddressed advertising items – acts as a kind of personal messenger and opens up an active dialogue which binds the customer to the company on an individual basis. This increasingly calls for target group-oriented products and services that offer customized solutions. Sales and consultancy strategies for specific industries, response processing, credit checks and collection services are just a few of the services that are in strong demand from small and medium-sized businesses in particular. Paper-bound direct mail is also expected to benefit from this scenario, even in the Internet age. A comparison with countries, which in some cases have even higher levels of personal computer and Internet penetration, reveals the untapped potential the German market has to offer in this area.

1999 advertising market



*** addressed and unaddressed advertising items**
Sources: Zenithmedia Market Research, NUA, 1999, NOP Research Group, Business Areane Stockholm, AIMC ProActive, Osservatorio Internet, IDC Research, Interactive Media Brussels, Amarach Consulting

All in all, market liberalization and the spread of the Internet are expected to steadily boost transnational letter item volumes in all segments of the letter mail market. Mail service providers that expand their entire range of services into a single-source, international product line will be able to take advantage of this growth opportunity.

EXPRESS

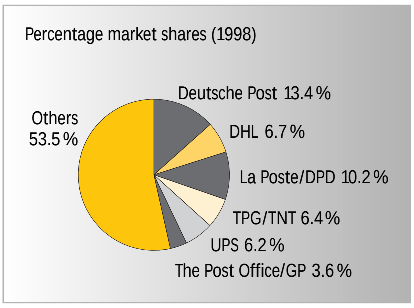
The European express market - in other words, the market for courier, express and parcel items – is also undergoing dramatic change. The e-Commerce revolution and the business customer's increasing focus on internationalization strategies are accelerating the trend toward single items and growing trade in goods. The growth rates achieved in international commerce, the B2B express segment and the B2C segment could lead to a doubling of the market in this area within the next five to seven years.

A powerful trend toward consolidation and concentration has developed to handle these growing volumes and meet the steadily greater demands for speed and reliability. Customers in the Single European Market demand reliable delivery times, a uniform price system and a standardized product mix. An international parcel service that has to make use of various networks in various countries, each with their own complicated price and clearing systems, cannot meet these demands. In our view, competitively priced solutions that make use of a uniform network and come from one single source offer particularly important advantages for customers who are very active in the international arena. Large-scale operators with efficient, cross-border delivery networks will be able to satisfy these market requirements in Europe. Such companies are the only ones with enough volume to operate networks which involve large overhead costs.

This consolidation process is already well advanced in the United States. On the other hand, the European parcel and express mail market is still extremely fragmented. Together, the six largest providers (Deutsche Post World Net, DHL, La Poste/DPD, TPG/TNT, UPS, UK Post Office/General Parcel) account for less than 50 percent of the entire market.

Deutsche Post is No. 1 in the European parcel and express market.

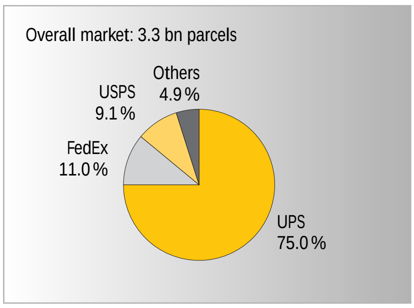
The European parcel and express market



Sources: MarketLine study – "European Courier and Express 1998 and 1999", MarketLine International, 16 Connaught St., London W2 2AF, U.K.; TellSell study – "Länder Potentialstudien", commissioned by DPEE; various press releases and articles; European Logistics Company / Benchmarking & Profiles, MarketLine International; internal sources and McKinsey

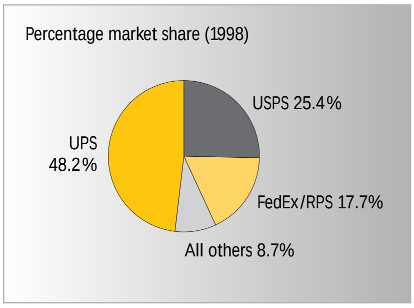
By contrast, the U.S. Postal Service, UPS and FedEx dominate more than 80 percent of the U.S. parcel and express market (air and ground traffic). While the ground parcel markets in Germany and Europe are fiercely competitive, the U.S. ground parcel market is dominated by UPS, which accounts for a 75-percent market share.

Market shares in the U.S. ground parcel market in 1998



Source: The Colography Group, Inc. http://www.colography.com/press/prLTLSlow.htm

U.S. market for domestic ground and air transport of parcel and express items



Source: Report – The Colography Group, Inc., Atlanta, GA (August 10/31, 1999)

A further comparison with the United States reveals the potential that border-free parcel services have to offer. According to the U.S.-based Parcel Shipper Association, eight billion parcels were delivered in the U.S.A. in 1998. This translates into approximately 30 parcels per person. In Europe, the equivalent figure is only about eight parcels per person.

Companies that are in a position to offer border-free services within their own network will be able to take advantage of these enormous opportunities. Package solutions from a single source make life easier for the customer. The volumes generated in this way make it possible for service providers to use their networks to full capacity and consequently offer attractive prices.

LOGISTICS

We define logistics as the process of planning, executing and controlling the transport and warehousing of all materials and goods and as the handling of attendant information, from the first link in the supply chain to the last one - in other words, right down to the end consumer.

According to the International Monetary Fund, worldwide commodity export volume has grown twice as fast on annual average as production has since 1991. Accordingly, cross-border transport business will continue to increase in importance. Major factors fueling this trend include e-Commerce, increased outsourcing and the globalization of production and procurement. Here, the market for integrated logistics solutions – which especially benefits from the growing trend toward outsourcing in the industrial and service sectors – is a particularly fast-growing segment.

Still highly fragmented, the European logistics market is marked by a large number of small and medium-sized companies. The market trend is expected to lead to further consolidation processes in both the European and the international logistics markets.

Looking at the medium term, we expect those companies that offer the following conditions - which are critical to success - to be particularly successful in the logistics market:

- Cost leadership arising from economies of scale since networks have enormous overhead costs.
- An integrated range of one-stop-shopping services that cover the entire logistics value-added chain – including information and financial flows; services that were designed for specific industries or sectors and are supported by powerful, integrated IT systems and strong partners.
- A range of worldwide services to help customers expand their businesses into new parts of the world.

FINANCIAL SERVICES

A shift in customer behavior is currently triggering changes in the banking market. Customers are demanding higher quality from banking products and services. In addition to traditional stationary sales operations at retail outlets, customers are also taking advantage of an increasing range of other services, such as:

- Self-service banking (in retail outlet premises, self-service banking locations, as well as so-called points of public);
- Call centers which offer customers the convenience of making transactions at any time of the day;
- Home banking and Internet banking;
- Mobile sales operations and collaboration with distribution partners (insurance agencies, retailers).

We believe that the combination of several different sales channels such as call centers, the Internet and traditional advisory services opens up good sales opportunities for banks.

Looking at traditional stationary banking offered through retail outlet networks, the interaction between the customer and his advisor takes center stage. A fundamental feature of retail outlet networks that are geared to meet the demands of the future is the presence of a special area for one-on-one consultations and the provision of top organizational and technical support for the bank's advisors.

Internet trade in goods and services is giving rise to an entirely new kind of service, namely, the certification of digital signatures, a security standard for e-Commerce. We believe that banks with a nationwide network of retail outlets are also best qualified for acting as certification offices – and can create greater customer loyalty in the process.

Today's customer particularly expects his or her bank to offer a broad range of products which include not only traditional savings vehicles but also new and attractive investment instruments such as stocks and funds. The demand for additional financial services (building loans, new types of payment transactions) is also growing, whereby a strong nationwide presence makes it possible to maintain direct customer contact and offers opportunities for cross selling, as seen in the case of banks and insurance companies.

The strategy aims at achieving a portfolio of investment, credit and annuity products. The many synergies to be found between products by banks and insurance companies provide a favorable platform for such activities:

- The products and services currently available in the marketplace are moving increasingly into line with one another.
- They share the same customers.
- There are similarities in their production.
- Their sales channels function similarly.

We believe that in the long term only those players will succeed who, on the one hand, efficiently bundle their sales channels and staff them with competent personnel and, on the other hand, offer a broad standardized product range that meets every customer's demands, at reasonable prices.

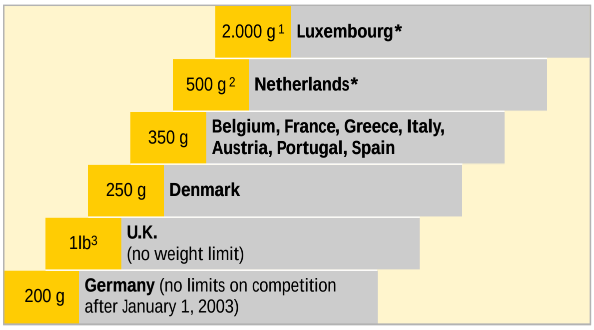
3. Regulatory conditions

Only in the letter market does Deutsche Post World Net have to deal with any particular regulatory requirements.

3.1. Postal Act

The EU Directive on competition in the European postal market reserves the conveyance of all items up to a maximum weight of 350 grams for existing national post offices. Germany reorganized its entire postal sector following the Postal Reform I which became effective in 1990. With the passage of its Postal Act, Germany has become one of Europe's leaders in implementing the EU Postal Service Directive and in liberalizing its postal markets. Germany's Postal Act divides postal services into three categories: the exclusive license area, the area that is subject to license, and the area which is open to competition and does not require a license. The special burdens that Deutsche Post World Net bears are partially covered by the revenues it generates in the exclusive license area.

The conveyance of letter items up to the following weight limits is currently reserved for national post offices:



EU Postal Service Directive: Letters up to 350 g
*** EU Directive has not yet been implemented**
[1] 350 g proposed; bill has been submitted, scheduled to take effect on July 1, 2000
[2] 100 g proposed; bill has been submitted, scheduled to take effect on July 1, 2000
[3] 350 g + 1/2 lb, proposed; bill has been submitted, date that it is to go into effect still unclear

As of March 2000

Current law stipulates the end of the letter mail monopoly in Germany on December 31, 2002. The exclusive license area in Germany is already much smaller and more restricted than the EU Directorate General requires. Unrestricted competition already exists for letters in excess of 200 grams. The market for direct mail items weighing more than 50 grams has also been liberalized. Further, several exceptions have been granted in the reserved area which make it increasingly possible for competitors to operate in the exclusive license area. Over 500 licenses have been issued to rival companies by the regulator, providing an indication of today's increasingly tough competitive conditions. Deutsche Post World Net expressly welcomes this competition. We are not, however, fully convinced of the legitimacy of some of the decisions to issue licenses and are therefore initiating legal action in such cases.

We view liberalization, Germany's role as forerunner and the competition it generates as an opportunity. In the spirit of maintaining a level playing field, steps must be taken to ensure that distortions do not develop in individual markets. A number of member states have not yet fully implemented the targets laid down by the EU Directorate General. We consider it very important that liberalization be harmonized in all EU member states, in the spirit of maintaining a level playing field in line with the Treaties of Rome.

3.2. Ordinance Concerning Universal Services for the Postal Sector

The Ordinance Concerning Universal Services for the Postal Sector (PUDLV) which took effect retroactively on January 1, 1998 and the Ordinance Regulating Postal Tariffs (PEntgV) which went into effect in December, 1999 established greater planning security for the universal provision of postal services and detailed the regulations governing the amounts that companies operating in postal markets can charge for their products and services. Deutsche Post World Net is the only company in Germany that provides comprehensive, nationwide universal service that meets the product and quality standards set out in the PUDLV. The German government implemented the provisions stipulated by the EU's Postal Service Directive through its Postal Act and supplementary regulations.

The most important parameters set forth in this legislation, i.e. obligations Deutsche Post must meet:

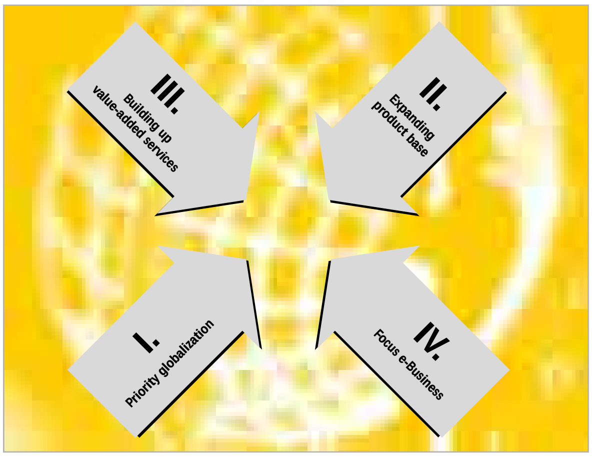
- Product parameters:
  Conveyance of letter items up to a maximum of 2 kg throughout Germany, conveyance of parcels up to a maximum of 20 kg throughout Germany, conveyance of express letters, registered letters, insured letters and insured parcels, COD, conveyance of newspapers and magazines

- Quality parameters: 12,000 retail outlets nationwide, 5,000 self-operated retail outlets, delivery six days a week, defined transit-time targets
- Prices: Letters: regulatory authority to approve prices, uniform tariffs for products falling under the exclusive license.

4. Corporate strategy

Deutsche Post World Net views current global market trends as an enormous opportunity for corporate development that is marked by rapid growth and high profit levels. We have set ourselves the goal of becoming the world's leading provider of integrated logistics services. In order to achieve this goal, we have translated market trends into a growth-oriented corporate strategy. Put into concrete terms, we are aligning Deutsche Post World Net in such a way that we can

- offer customers our entire range of services on a one-stop-shopping, cross-border basis (internationalization);
- cover the entire spectrum of transport, logistics and financial services by providing one-stop-shopping (expanded product portfolio);
- additionally offer our customers new value-added services and integrated solutions, such as supply chain management, warehouse and contract logistics into our portfolio (value-added services);
- make active use of all the opportunities that the e-Commerce revolution has to offer for our company (e-Business strategy).



Market trend	Deutsche Post World Net's Group strategy
Internationalization of business activities	Establish networks that are uniform from country to country
Merging of logistics production markets	Expand product range (weight, measured transit times, services for ancillary flows of information and funds)
Value-added services and integrated solutions from a single source	Enlarge our product range, expand value-added services
The e-Business revolution	Actively adjust and expand services to meet e-Business requirements

Deutsche Post World Net took a number of important steps toward realizing this strategy in 1999.

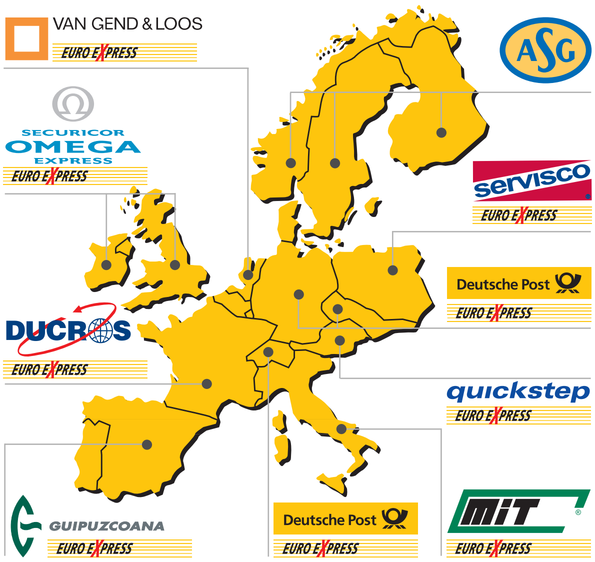
4.1. Internationalization of business activities

Well-targeted acquisitions and investments undertaken by our MAIL, EXPRESS and LOGISTICS corporate divisions in 1999 pushed the internationalization of our business activities significantly ahead. The share of total revenue generated by foreign activities grew from 2.1 percent in 1998 to 21.6 percent in 1999.

In the letter mail segment, we established a presence in the attractive U.S. market with the acquisitions of Global Mail and YellowStone. We also began operating in the U.K. in March 2000 following our acquisition of Herald International Mailings. Deutsche Post World Net's worldwide mail operations also include 15 sales branches around the globe (U.S.A., Singapore, Hong Kong, etc.). Thanks to these additions to our lineup, we are in a position to offer, for example, the use of our letter mail network to American companies with advertising activities in Europe. We want to take advantage of the worldwide opportunities that the liberalization of the letter mail market has to offer – worldwide.

Deutsche Post World Net pooled its national and European parcel and express mail service activities in its EXPRESS corporate division in 1999. This step was taken with an eye to expanding our quality and market leadership – together with our Euro Express partners – in Europe's attractive courier/express/parcel market. In this area we offer customers an efficient, Europe-wide network which we were able to realize largely through pinpointed acquisitions. Our external revenue-sales grew by 28.5 percent over 1998, clear evidence of our increased pan-European focus.

Deutsche Post's strategic answers to the trend in the European parcel service market – A uniform network for 420 million people



Using its acquisitions of Danzas, Nedlloyd's European transport division and ASG as a springboard, our LOGISTICS corporate division has become the top European provider in the surface transport area of Europe's dynamic, fast-growing logistics market. Not only does the LOGISTICS corporate division operate the largest pan-European network and offer a correspondingly broad range of services, it has also set the stage to take over cost leadership in Europe. Danzas is the global leader in the air forwarding business – not least of all due to its acquisition of the U.S.-based air freight carrier AEI in February 2000. AEI operates 249 branch offices (including joint ventures) in 41 countries around the world. Deutsche Post World Net is consequently very strongly positioned as a global provider of transport and logistics services with a presence (including AEI) in more than 140 countries around the globe.

4.2. Expanding our product base and value-added services

In a step to meet the trend toward one-stop-shopping and single-sourcing, we continued to round out our product range last year. Today, we are in a position to offer services in all weight and dispatch categories along with a wide variety of possible transit times. By adding Danzas to our Group, we were also able to add to our own range all the conventional forwarding and logistics services that had been missing in Deutsche Post AG's product portfolio to date. These include container shipments, European ground traffic, sea and air forwarding. Add to this value-added services like supply chain management which are offered for both trade and industry.

Today, customers find in Deutsche Post World Net a competent partner for outsourcing logistics services falling outside their core business. We have the competence today to offer a substantial number of services on a one-stop-shopping basis for physical, electronic and financial processing needs. Both sides benefit from this business model. The customer has a partner for all his or her logistics needs. The joint use of warehouse space and logistics facilities opens up economies of scale for our own operations.

Having expanded our services' vertical value-added range, we can now offer services that are located upstream from transport activities – services such as warehouse management, commissioning and packaging – as well as 'downstream' services such as invoice dispatch and returns management. The ability to offer financial services also gives rise to further opportunities in this area. In the future, we will, for example, also be able to handle all payment transactions for our customers' deliveries and to finance inventories.

Further, we are in a position to route the volumes generated by our value-added services through our existing logistics and transport networks. Value-added services therefore not only meet demand in a new, fast-growing field, they also generate additional volumes and consequently help us make full use of our national and international network capacity.

4.3. Expanding our e-Business activities

Our Internet strategy follows three primary thrusts:

- First, to profit from the trade flows that are generated through the Internet;
- Second, to make our products Internet-enabled;
- Third, to promote e-Commerce among customers via Internet marketplaces such as *eVITA* and among online dealers via our range of electronic products and services (Electronic Commerce Services).

Deutsche Post World Net took important steps in 1999 to participate in the development of e-Business. The organizational implementation is carried out by Deutsche Post's e-Business Holding at Headquarters and by the divisions.

e-Business Holding includes *eVITA*, Electronic Commerce Services (ECS), our Trust Center and venture capital activities. We offer e-Business shops through our *eVITA* Internet portal. *eVITA* is a topic-oriented Internet marketplace that offers online shopping at more than 2,500 shops. In the process, *eVITA* combines information, interaction and shopping in a portal operated by Deutsche Post. According to a survey conducted by ComCult, approximately 50 percent of all German Internet users were aware of *eVITA*'s presence on the Net within just six months of its launch. Seventy percent of the respondents spontaneously rated *eVITA*'s offerings as "good" to "very good". In December 1999 alone, *eVITA* received more than two million hits, more than quadrupling its performance in the course of six months. By comparison, the ten leading providers in this segment reported 30 percent growth during the same period, according to information from the German Magazine Publishers Association.

Operating as a service provider in the e-Commerce field, we were able to position our Electronic Commerce Services (ECS) in the Internet. Deutsche Post World Net will consequently be able to take advantage of changes that e-Business generates – such as the shortening of wholesale/retail and value-added chains – to the benefit of our company. The Electronic Commerce Services we offer in the Internet range from assistance with outfitting shops to worldwide home delivery combined with fiduciary responsibility (order handling, payment transactions, warehousing and transport) in either package form or as individual service modules. Deutsche Post World Net has also opened a Trust Center to ensure the security of Internet business transactions. Our Trust Center enables us to offer electronic signatures for e-Business.

Our venture capital activities include our participating interest in GFT, zouk holding, e-Stamp and our own Venture Capital fund. In order to strengthen our IT competence, which is also a key factor for success in e-Business, Deutsche Post World Net acquired a 16-percent stake in GFT, an Internet service company that is listed on Germany's Neuer Markt stock exchange. This fast-growing company specializes in Internet software solutions. Further, we also acquired 12 percent of the British venture capital company zouk holding ltd. Zouk helps Internet start-ups with seed capital and know-how, giving us an inside track on current trends and market developments in the e-Commerce sphere. We also acquired a minority stake in the American company e-Stamp Corp. so that we can take advantage of the opportunities offered by electronic franking in the future. And last but not least, we established our own venture capital fund with initial financial resources of EUR 50 million that invests in companies associated with the Internet business.

In addition to these new Internet services for the entire Group which are controlled by Headquarters, we are also developing special e-Business products and solutions in all of our four corporate divisions. We do so by combining letter mail, logistics and financial services with the means offered by the Internet, generating additional volumes for our networks in the process. Examples of these services include:

MAIL:

- Deutsche PostCom (www.deutschepost.de/dpcom), a communications broker that handles the integration and intermeshing of various forms of communication. PostCom makes sure that the transition from electronic to physical communication works – in both directions. Its range of services in this area extends from electronic data interchanges to e-mail, all the way to fax communication.
- Deutsche Post Printcom (www.postag.de/printcom), the attractive hybrid postal service for large volumes of regular mail. *ePOST* is a constantly growing printing, enveloping and mail service. *ePOST* centers receive the customer's letters in electronic format which they then print, envelope, prepare for dispatch and mail.
- Adress Factory (www.postadress.de) provides electronic address verification and address list collation services.

Value-added services represent an important growth area in the e-Business field as well. We offer various services from the e-Business supply chain which are located along the interface between electronic services and physical services.

EXPRESS:

- Deutsche Post Fulfilment (www.postag.de/kontraktlogistik) offers traditional logistics services such as warehouse management, order processing, dispatch preparation and distribution and extends to innovative services in the areas of order and financial management. Solutions that are tailor-made for specific industries have been developed with an eye to individual customer requirements.

LOGISTICS:

- Danzas Solutions (www.danzas.com) also offers e-Business-driven services. For example, Danzas is the preferred logistics partner of an Internet auction site which specializes in industrial equipment and facilities and was set up as an initiative of the World Economic Forum.

FINANCIAL SERVICES:

- Online Banking (www.postbank.de). With 650,000 customers, we hold a top position in Germany.
- Online Brokerage (beginning in the summer of 2000). With around 10 million Postbank customers, we have a favorable starting position.

5. Business development

5.1. Accounting according to IAS

Deutsche Post World Net prepared its Consolidated Financial Statements for 1999 for the first time ever on the basis of the International Accounting Standards (IAS).

This decision was taken with an eye to facilitating international comparisons of our performance figures and accommodating the information needs of the capital markets, and of investors and analysts in particular.

5.2. Revenue

Group revenue grew by 52.5 percent to a total of EUR 22.4 billion during the 1999 business year. Deutsche Post AG generated EUR 14.5 billion in sales. This growth was due primarily to new acquisitions. The FINANCIAL SERVICES corporate division, for example, was created with the acquisition of Postbank; the LOGISTICS corporate division with the acquisition of the Danzas Group. LOGISTICS accounted for EUR 4.2 billion of total Group revenue in 1999. Fueled by its successful direct mail activities, the MAIL corporate division – our largest division – was able to increase sales by 2.9 percent to EUR 10.2 billion. The EXPRESS corporate division also reported positive development with sales increasing by 28.5 percent to EUR 4.6 billion, largely due to acquisitions.

In 1998 just 2.1 percent of all sales were generated outside of Germany. By 1999, external sales accounted for 21.6 percent of all Group sales. This growth was also strongly influenced by our international acquisitions, and most particularly by our acquisitions of Danzas and ASG. Nearly 18 percent – or EUR 4.0 billion – of our external sales were generated in other European countries; nearly 2.4 percent – EUR 536 million – were reported in North and South America. The remainder came from other regions.

5.3 Profit from operating activities

During the 1999 business year, it was possible to increase operating profit (EBIT) before amortization of goodwill for the Group by 21.4 percent to EUR 1,010.9 million. Deutsche Post AG reported a profit from operating activities of EUR 911.3 million.

For the Group, the decrease in the operating margin from 5.7 percent to 4.5 percent was firstly the result of a reconsolidation of our logistics activities and was due secondly to peculiarities of the banking business which, being a commission business, generally reports smaller selling profit margins.

The operating profit (EBIT) before amortization of goodwill posted by the EXPRESS corporate division was particularly gratifying, increasing from a loss of EUR 6.6 million in 1998 to a profit of EUR 64.9 million in 1999. We also improved our operating profit in the MAIL corporate division by 6.9 percent to EUR 1,008.7 million.

After allowing for the financial results and income tax, we were able to generate an annual net profit of EUR 1,117 million, compared to EUR 925 million in 1998.

All in all, the acquisitions effected during the 1999 business year have a substantial impact on our expenditure and earnings situation. However, increased network capacity utilization and further cost-cutting measures also contributed to improving our results.

5.4 Cash flow statement

Compared to the previous year, our cash flow from operating activities (before changes in net working capital) increased from EUR 1,382 million to EUR 1,544 million.

Cash from operations improved from an outflow of EUR 398 million in 1998 to an inflow of EUR 4,642 million. A primary factor behind this increase was the reduction of receivables vis-à-vis the Deutsche Post Pensions-Service e.V. (DPPS). We prepaid our contributions for 1999 in 1998 and therefore provided for corresponding receivables. However, the increase in the level of our liabilities also had a positive effect on our cash flow.

It was therefore possible to finance the acquisitions effected during the 1999 business year largely from the inflow of funds from operating activities and from the proceeds from the sale of non-essential noncurrent assets, particularly real estate.

Some EUR 2.2 billion in cash and cash equivalents were also acquired along with these companies, particularly from Postbank. The total amount of cash and cash equivalents within the Group rose from EUR 710 million in 1998 to EUR 1,877 million as of December 31, 1999.

5.5. Balance sheet total

With a consolidated total of EUR 77.1 billion, the Group's total assets grew by five times over the previous year. Our new acquisitions – and Postbank in particular – were decisive factors behind this increase.

Our Consolidated Balance Sheet is an industrial balance sheet in which the following items refer almost exclusively to Postbank operations: "Receivables and marketable securities from financial services" on the assets side and "Liabilities from financial services" on the liabilities side. A comparison of the Group's balance sheet total (including Postbank) and the balance sheet total of Postbank alone reveals that Postbank brought in EUR 59.1 billion (before consolidation) – in other words, 93.9 percent – of the Group's EUR 63.0 billion total non-current assets. The picture looks much the same on the liabilities side, with Postbank contributing EUR 56 billion in liabilities – 91.4 percent – of the Group's EUR 61.3 billion in total liabilities.

In general, most of the changes in the Consolidated Balance Sheet are the result of acquisitions. The increase in intangible assets – to approximately EUR 2 billion - was due solely to the increase in goodwill resulting from the acquisitions made during the 1999 business year. The growth in the amount of receivables and other assets to a total of EUR 5.3 billion can be attributed primarily to the increase in trade receivables among our new acquisitions.

The changes seen on the liabilities side of the balance sheet are due particularly to the increases in shareholders' equity and in provisions and other liabilities. Shareholders' equity rose to EUR 2.7 billion, primarily through the increase in Group profit.

5.6. Human resources

Our total workforce, including part-time employees, grew by 15.6 percent to 301,229 as of December 31, 1999. Of this growth, some 61,000 employees came from new acquisitions completed during the 1999 business year. This figure also includes the entire workforce of our joint ventures. The Group employed 264,424 full-time equivalents as of December 31, 1999. We also reduced the number of employees within Deutsche Post AG by some five percent to 243,933 (incl. trainees).

Measured in terms of sales volume, staff costs for the entire Group fell from 67.2 percent of sales in 1998 to 51.4 percent in 1999. This was due to staff level adjustments at Deutsche Post AG and to structural changes arising from the integration of the logistics business, which does not provide for such a large workforce.

5.7. Capital expenditures

Total investment transacted by the Group in 1999 rose to EUR 5,035 million, six times the amount invested in the previous year. Much of this increase was due to new acquisitions effected during the year. The LOGISTICS corporate division with segment investments worth EUR 2,033 million and the FINANCIAL SERVICES corporate division with EUR 1,329 million in investments were important contributors to this growth.

6. Corporate divisions

Deutsche Post World Net conducts its operational business through four independently managed corporate divisions, namely, MAIL, EXPRESS, LOGISTICS and FINANCIAL SERVICES. Besides being responsible for generating profit, these organizational units are also independently responsible for their own strategic and operational development. The corporate divisions are directed by the Corporate Board of Management and are headed by respective divisional boards.

MAIL

The MAIL corporate division is largely comprised of the Mail communication, Direct Marketing and Philately business segments. We were able to increase our operating profit (EBIT) before amortization of goodwill by 6.9 percent to EUR 1,008.7 million during the 1999 business year. Primary reasons for this growth were the increase in sales arising from intensified marketing and sales activities, the implementation of cost reduction measures and success in securing revenue protection. Further, the Direct Mail business segment in particular extended its growth from 1998 on through the 1999 business year, reporting a gratifying ten percent increase in sales. External sales grew by 2.9 percent to some EUR 10.2 billion.

Having completed work on setting up a one-of-its-kind production network of 83 standardized, state-of-the-art mail sorting centers throughout Germany, our focus turned to developing our range of services and increasing our sales and direct marketing activities in 1999. As part of these activities, we implemented a new nationwide sales organization with specially trained sales staff. In addition, our network of currently 40 Direct Marketing Centers offers customers personalized consultancy services and the management of customized direct marketing solutions.

And last but not least, our new Central Key Account Management – together with the time-tested Business Club – builds and expands lasting partnerships with major customers.

Specialized subsidiaries handle the growing demand for value-added services that go beyond our traditional range of services and, in doing so, generate impetus for further growth in the MAIL corporate division.

Significant subsidiaries include: **Deutsche Post In House Service**, specializing in In Haus Post and In Haus Logistic, In Haus Druck and In Haus Kommunikation; **Post Adress** providing for the only existing address data base in Germany with more than 20 million verified old and new addresses; **Deutsche Post Direkt** for comprehensive direct marketing services; **Deutsche Post Com** offering customers a combination of various media such as letter, fax and electronic data interchange.

EXPRESS

The EXPRESS corporate division encompasses the Euro Express Germany and Euro Express Europe business segments and the Global Mail and International Mail business units. The division put in another good performance in 1999, increasing its operating profit (EBIT) before amortization of goodwill by EUR 71.5 million to EUR 64.9 million for the year, its first positive value ever. Factors behind this marked growth included the implementation of further rationalization measures, larger market shares and greater utilization of network capacity. Thanks to the acquisitions effected during the year, it was possible to increase sales by 28.5 percent to some EUR 4.6 billion.

Sales and revenue in the Euro Express Germany business segment each rose by 3.9 percent, reflecting the somewhat subdued overall economic development in Germany.

Our subsidiary Deutsche Post Fulfilment GmbH – which offers specialized solutions along the entire logistics chain – was able to land the largest contract issued on the German market in 1999, namely, for the provision of all order management activities for Tchibo and Eduscho's mail order business.

We intensified our cooperation with DHL, in which we hold a 25.001 percent stake, and improved access to the world's largest express mail service network which reaches 227 countries around the globe. Today, express mail items received at our retail outlets are fed directly into the DHL network.

Looking at the Euro Express Europe business segment, we are in the process of integrating our new acquisitions and standardizing our product range. As part of Deutsche Post World Net, our subsidiaries are working under the banner of the Euro Express brand in 18 countries throughout Europe. By interlinking local strengths into a Europe-wide network, we have built an outstanding platform for offering efficient, high-quality solutions in the fast-growing cross-border B2B parcel distribution area.

As in the parcel and express mail field, partnerships and a foreign presence are becoming increasingly important in the letter mail area as well. For this reason, we have expanded our internationalization activities to include letter mail and have located them in the EXPRESS corporate division which is already well established at an international level.

Our International Mail and Global Mail business units were able to grow both their revenue and sales volumes substantially during the year. Having joined forces, our U.S. subsidiaries Global Mail and YellowStone guarantee letter mail volumes from foreign business customers and, in the process, strengthen our sales presence in the attractive U.S. market. We want to continue expanding in the fast-growing international mail and press distribution area. With this objective in mind, we acquired the British letter mail service provider Herald International Mailings in March 2000. Following these moves, we are fully prepared to meet the pending liberalization of the letter mail area and the ensuing competition in other countries.

LOGISTICS

The LOGISTICS corporate division was set up in 1999 on the basis of several acquisitions. We identified the Swiss logistics conglomerate Danzas as the ideal partner for entering this segment. All other acquisitions in this corporate division were undertaken to expand Danzas's regional range or product lineup. Today, we can offer customers one-stop-shopping with a complete range of services for the entire logistics chain. Danzas offers conventional global air and sea freight services, European surface transport services and, first and foremost, customized logistics solutions for every need.

Our acquisitions of ASG and Nedlloyd European Transport and Distribution constitute the ideal complement to the Danzas service portfolio. The Nedlloyd division is particularly strong in Benelux and Germany. ASG closes our geographic gap in Scandinavia and, in the process, completes our powerful network in Europe.

The integration of Nedlloyd Unitrans, Nedlloyd NTO, van Gend & Loos and Gerlach has also added special logistics solutions, which in some cases are tailored for specific industries, to our range of products and services.

Following our acquisition of AEI, which became part of Danzas Intercontinental in February 2000, we have taken a very strong position in the global air freight business. Further, AEI also excels in value-added services, with fast growth in various areas such as customs clearance and warehousing.

Despite high acquisition and integration costs, the LOGISTICS corporate division generated an operating profit (EBIT) before amortization of goodwill of EUR 49.7 million in its first business year. Net revenue totaled EUR 4.2 billion, putting us in the leading ranks. Although the year got off to a slow start for the

Intercontinental business segment due to subdued economic activity, the second half more than made up for the first. Business activity exhibited strong momentum toward the close of the year in Europe and the Far East in particular. Thanks to its integration of ASG, Eurocargo posted a quantum leap, profiting from its now seamless European network. Gratifyingly few customers were lost following ASG's integration. Currently in the process of being built up, the solutions business surged, fueled by both internal and external growth.

FINANCIAL SERVICES

The FINANCIAL SERVICES corporate division fundamentally consists of Postbank which became a fully-owned Deutsche Post subsidiary on January 1, 1999. It was joined by DSL Bank on January 1, 2000. The acquisition of DSL Bank constitutes an optimal combination of core competences. Being a multichannel bank, Postbank has a special focus on the private customer segment, whereas DSL Bank specializes in private and commercial building loans. As a result, we have a solid foundation for expanding our lending business even further. With DSL Bank's strengths in the lending business, Postbank can now optimize the asymmetrical structure of its balance sheet.

In its first year, the FINANCIAL SERVICES corporate division posted an operating profit before amortization of goodwill of EUR 66.7 million. Postbank increasingly made a name for itself not only in its traditional business segments but also in profitable segments which were new to it, such as building loans and private lending. The number of installment loans granted in 1999 was up 100 percent over the previous year. Together with its collaborating partner Bausparkasse Wüstenrot and the PB Versicherung joint venture, Postbank offers customers both home loans and savings products as well as insurance policies. Some EUR 500 million in home loan and savings contracts were concluded last year, double the amount in 1998. With stocks becoming an increasingly popular form of investment, it was possible to expand our mutual fund business, reaching a volume of EUR 10.7 billion for all mutual funds together.

External sales and revenue, repectively, generated by the FINANCIAL SERVICES corporate division topped EUR 2.9 billion in 1999.

7. Risk report

It is our aim to identify as early as possible all opportunities and risks in the international and national letter mail, parcel/express and logistics service markets and for financial services so that we can initiate appropriate action without delay.

The fundamental risks to the company arise from the liberalization of the German and European postal markets and from the infrastructure tasks stipulated by Germany's Postal Act. We are countering these risks with:
A comprehensive strategic reorganization of the Group in order to become less dependent on political or regulatory control – and a realignment of our operating business toward even greater customer orientation.

In concrete terms, the following risks can be identified:

Market growth

Looking at growth in the letter mail market, it is possible that conventional letter mail volumes could stagnate as the volume of electronic communication increases. To offset this trend, we are launching growth strategies in the direct marketing field, customized full-service products and special strategies for the e-Business opportunities in the letter mail area – such as data base marketing.

Regulation of individual services

The so-called regulation of individual services regulates our competitors' use of Deutsche Post's value-added chain. The extent to which we will be opening parts of our networks to our competitors and which costs they have to reimburse for this use are currently being clarified at the political level. Generally speaking, removing individual elements from the value-added chain could trigger a fall in the price of the remaining services. We are counteracting this risk with greater customer-orientation and measures to increase customer loyalty vis-à-vis our entire range of products and services.

Competition for city mail delivery

Competition for city mail delivery can be expected to grow even tougher as a consequence of the Regulatory Authority's granting of licenses. We are responding to this situation with a customer-oriented price and product strategy and local solutions that are tailored to local needs.

State aid proceedings

In August 1999, the European Commission initiated proceedings against the Federal Republic of Germany under Article 88, Paragraph 2 of the EC Treaty in response to complaints lodged by United Parcel Service (UPS) and the Federal Association of International Express and Courier Services. In their complaints, our competitors maintain that Deutsche Post World Net received a sizable amount of illegal state subsidies from the Federal Republic of Germany. According to the complaints, these subsidies consisted primarily of:

- Coverage of the losses generated over years in the parcel service area and cross-subsidization using funds from the revenues generated through the monopoly business in the letter mail segment.
- Financing the acquisition of express and logistics companies using revenues from business activities in the monopoly area and through the sale of real estate which the German government transferred to Deutsche Post AG when it was founded in 1995.
- The government's assumption of the shortfalls in the Postal Retirement Fund for civil servants.

The European Commission has informed the German government that under Article 14 of Council Ordinance No. 659 from 1999, recipients (in this case, Deutsche Post World Net) must return all illegal subsidies.

In an extensive statement to the European Commission, the German government rejected these accusations and explained why this was not a case of illegal subsidies. We expect the proceedings to be abandoned with the finding that there were no illegal subsidies and that Deutsche Post World Net is not obliged to return these funds. The European Commission is expected to issue its decision this summer.

Price authorization

The Regulatory Authority for Telecommunications and Post has to authorize the prices we charge for services falling under the exclusive license area. The authorization for our current prices expires on August 31, 2000. The Federal Ministry of Economics – to which the Regulatory Authority reports – recently stipulated that the current prices will apply through the year 2002.

Discontinuation of the exclusive license

New competitors will be able to enter the market when the exclusive license is discontinued on December 31, 2002 and Germany's postal market consequently opens up for further liberalization. Revenue could come under pressure from lower prices and smaller market shares if we are not able to compensate with greater market growth.

An examination of the current risk situation indicates the absence of any risks which posed a threat to the Group's existence during the 1999 business year and that no such risks are discernible for the future.

8. Group development / Objectives for the year 2000

Deutsche Post World Net plans to systematically push ahead with its strategic realignment during the current business year. We want to assume international market leadership, improve our performance even further and offer our customers the best quality available at an international level.

8.1. Focus on integration

We consider the successful integration of all our investments to be a crucial prerequisite for corporate development that is both successful and puts us in a position to meet the challenges of the future. We want our customers to perceive Deutsche Post World Net as a leading international logistics partner. Consequently, one of the primary challenges facing us during the 2000 business year will be the systematic implementation of our integration programs in each of our corporate divisions. As part of these activities, we plan to make use of cost and sales synergies with our partners, without diminishing the local strengths that the respective acquisition enjoys in its various markets. It is our objective to integrate production and IT systems while preserving their respective – even cultural – individuality.

Our most important integration activities include:

- Establishing a seamless, pan-European IT system in the express business;
- Interlinking the U.S.-based AEI with the LOGISTICS corporate division;
- Merging Postbank with DSL Bank.

The experience and expertise we gained during our successful integration of the former GDR postal service and Danzas will provide a solid foundation for this work.

8.2. Brand development

A consistent brand image is an important factor for success in today's globalized economy. We will be aggressively marketing our new corporate brand throughout the world during the 2000 business year. Deutsche Post World Net will serve as the umbrella brand for the Deutsche Post, Danzas and Postbank brands. We will offer our products and services under these individual brands, supported by a worldwide marketing campaign.

8.3. E-Business development

We are consciously not limiting ourselves to playing a passive role in the e-Business revolution and plan to do more than simply feed additional item volumes into our existing networks.

The Internet demands that we make enormous changes even in our traditional product development methods, production structures, marketing and sales organization and, last but not least, in the strategic positioning of our overall Group.

With this in mind, we have pooled our cross-divisional e-Business activities into a holding company which reports directly to the chairman of the Board of Management.

The objectives targeted by this step:

A. Horizontal expansion

Develop and offer new, customized products and solutions that interface with the entire value-added chain. This objective will be realized both within the holding company (by establishing portals, for instance) and in the individual corporate divisions (such as through the provision of online banking services).

The four levels of brand architecture

1. Group Level	Deutsche Post World Net MAIL EXPRESS LOGISTICS FINANCE			
2. Brand Level	Deutsche Post	Deutsche Post	DANZAS	Postbank
3. Business Division	MAIL COMMUNICATION	EURO EXPRESS	EUROCARGO	SERVICE AND LOANS
4. Product Level	PLUSBRIEF®	EUROPACK	EURAPID	GIRO PLUS

B. Vertical use
Establish e-Business competence within the Group and coordinate its use in all business processes. This will entail:
- Making all our products and services available on the Internet.
- Using the opportunities offered by the Internet to optimize our internal processes (such as procurement).

In addition, we are striving to establish partnerships and cooperation link-ups with well-known, very successful Internet and e-Business companies. One example of these activities is the joint venture we recently established with IBM to promote online trade.

The development of new, virtual intermediaries is opening up enormous market opportunities for postal and logistics enterprises because these intermediary firms outsource transport and logistics services to a much larger degree than conventional providers do. As Deutsche Post World Net, we will gear our range of services to this trend. Market analyses conducted by Forrester and negative headlines about delivery problems experienced during the holiday season in the United States show just how critical high-quality logistics (back-end services) are for e-Commerce.

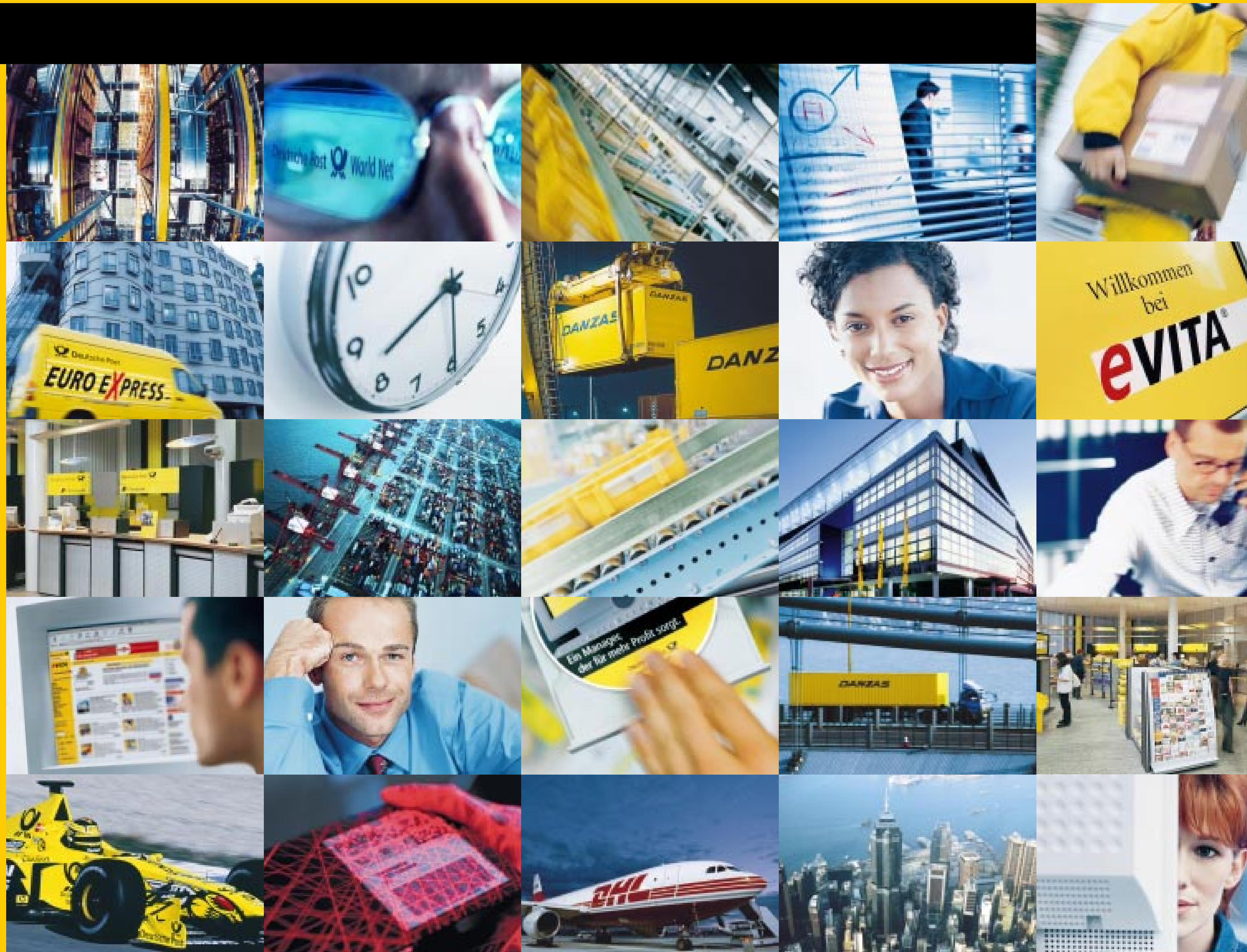
Deutsche Post World Net has completed its transition from a purely national transport service provider to a global fulfilment service provider. Our future strategy will be to establish ourselves as a competent partner for e-Commerce companies and as the leading e-Commerce logistics service provider.

To support our objectives, we will be expanding our comprehensive quality program which is geared to the integrated quality concept used by the European Foundation for Quality Management (EFQM), because what is true today will also be true tomorrow: Top-level quality is the foundation for success.

We are enormously optimistic about the future. The global markets served by our business segments offer new potential. We are determined and ready to seize this opportunity.

Milestones and Visions

The 1999 financial year was marked by the consistent implementation of our internationalization strategy, the expansion of our basic product range, the increase in value-added services and the focus on e-Business.



January

Acquisition of Postbank (D). Deutsche Post World Net acquires the German government's remaining shares of Postbank as of January 1, 1999.

February

Acquisition of a majority interest in Danzas (CH). The requirements for Deutsche Post World Net's acquisition of Danzas Holding AG, one of the world's leading logistics companies, have been met. With this acquisition, Deutsche Post World Net reaches another milestone in its efforts to offer its customers one-stop-shopping for international package solutions along the entire logistics chain.

Entry into mail-order trade logistics. Deutsche Post Fulfilment GmbH takes charge of all logistics activities for Völkner Electronic GmbH & Co. KG. Working out of Bremen, it handles all activities involved in order processing for Tchibo Versand GmbH.

March

Acquisition of Nedlloyd (NL). Deutsche Post World Net announces its acquisition of 100 percent of the parcel and logistics division of the Dutch company Royal Nedlloyd. Deutsche Post World Net will integrate Nedlloyd's parcel business into its pan-European distribution network. Less-than-truck and logistics activities will be merged with Danzas's operations.

April

Acquisition of Qualipac (CH). Deutsche Post expands its market presence in Switzerland with its acquisition of Qualipac, the third largest company on the Swiss parcel market.

Stake in ITG (D). Deutsche Post World Net acquires a majority stake in Internationale Spedition GmbH (ITG) which operates out of Munich. ITG specifically targets the textile industry with a comprehensive range of contract logistics services.

Bid for ASG (S). Danzas in its capacity as a Deutsche Post World Net subsidiary submits a bid to acquire a majority holding in Sweden's ASG AG, one of Scandinavia's leading logistics firms. This move will close a geographic gap in its operations.

Launch of PREMIUM. The starting shot is fired for the PREMIUM project with the objective to coordinate the integration of Deutsche Post World Net's new subsidiaries and associates. Headed by the Board of Management, the project's 13 steering committees will implement the four pillars of Deutsche Post World Net's corporate strategy in all its corporate divisions.

May

Acquisition of YellowStone (U.S.A.). Deutsche Post World Net acquires YellowStone, an American company that specializes in the dispatch of international press items, addressed bulk mail and catalogues. This step expands the range of services offered by Global Mail, an American letter service provider that joined the Deutsche Post World Net Group in 1998.

Launch of *eVITA*. Deutsche Post goes online with its new Internet marketplace at http: //www.eVita.de. This virtual marketplace offers visitors information on topical subjects in the five fields of Family, Fitness, Work, Wining & Dining, and Computers. Cooperating Internet shops also invite visitors to purchase their goods and services at the *eVITA* site. As a service to these companies, Deutsche Post World Net offers to handle their logistics activities.

Stake in GFT (D). Using a strategic shareholding in GFT, an information technology company, as a springboard, Deutsche Post World Net plans to further expand its new e-Commerce Services business segment and foster the use of information technology.

June

Court confirms interpretation of remailing. The Düsseldorf Regional Court confirms Deutsche Post World Net's stance on the remailing system. According to this ruling, domestic mailers who mail domestic items from other countries are required to pay the difference between German domestic postage rates and the terminal dues which foreign postal services must pay to Deutsche Post World Net under the international clearing system.

Acquisition of Janssen advertising agency (D). Deutsche Post acquires Janssen, a Düsseldorf-based advertising agency and one of the most high-powered providers in the household advertising market (brochures and product samples).

Launch of the Forward Program at Postbank. Postbank implements its most important strategic goals with the launch of its Forward Program which is aimed at growing its lending and commission business, expanding its position as a multichannel bank and realigning its information technology.

July

Stake in Guipuzcoana (E). Another step toward completing Deutsche Post World Net's European network is taken with the acquisition of a 49-percent stake in the Spanish distribution company Guipuzcoana. Deutsche Post World Net also has the option of acquiring a further two percent of Guipuzcoana's stock in three years' time.

Announcement of Postbank's acquisition of DSL Bank (D). Postbank announces plans to acquire the German government's interest in DSL Bank in order to strengthen its lending business.

August

100th Center outlet - 1,000th open-service retail outlet. Deutsche Post World Net's 100th Center outlet opens its doors to the public. A total of 720 Center outlets offering all postal services and Postbank's complete range of financial services are to be serving the entire country by the year 2002. The 1,000th open-service retail outlet is also inaugurated. The open-service concept uses open service counters rather than the traditional enclosed windows that separate agent from customer.

September

Participation in E-Stamp (U.S.A.). September sees Deutsche Post World Net's acquisition of a stake in the American company E-Stamp Corporation, a pioneer in the development of a system for directly franking letters using a PC.

October

Acquisition of Orgadis (F). Deutsche Post World Net expands its parcel network in France with the acquisition of the French express and parcel company Orgadis.

Launch of Euro Express. The German and European parcel and distribution network operated by Deutsche Post World Net and its partner companies goes on the market under the new name Euro Express.

November

Bid for AEI (U.S.A.). Deutsche Post World Net signs a takeover agreement with Air Express International (AEI), the largest international air freight service provider in the United States. Plans foresee integrating all AEI activities into the Danzas Group's Intercontinental business unit. With this move, Danzas becomes the world's leading provider of air freight services.

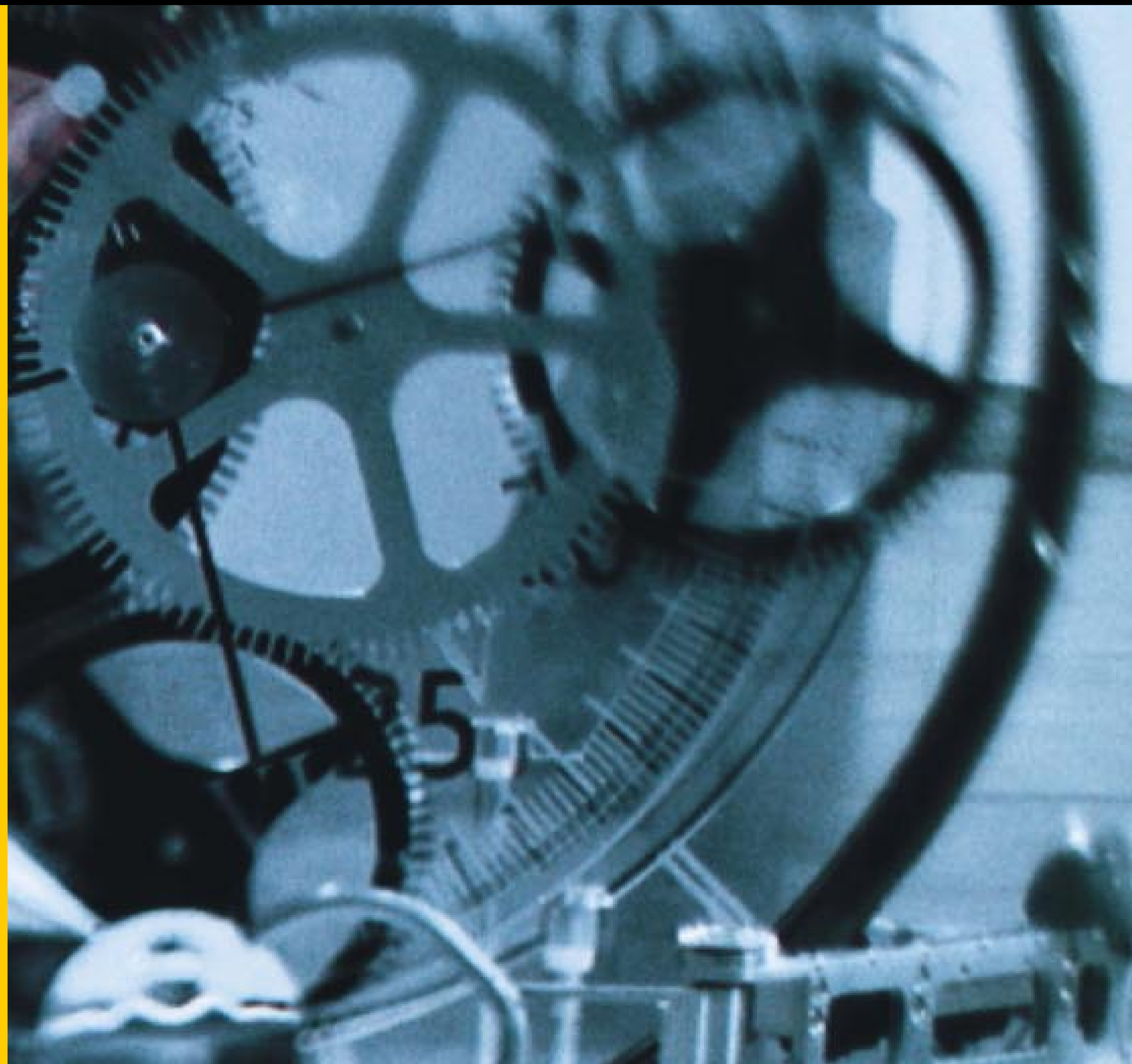
December

Digital signature – Trust Center. Adding digital signatures to its service lineup, Deutsche Post World Net sets up a new Internet-based business segment. Digital signatures take the place of written signatures in the Internet, making it possible to effect legally binding transactions using electronic means.

1999

Integration Policy – Combining progress and stability

We perceive integration as a holistic task comprising the standardization of our products, the linking of existing networks, the harmonization of IT structures, a uniform brand architecture and the integration of the management cultures of acquired companies.



Creating value through rapid, systematic integration

During the past two years we have pursued an expansionary acquisition policy. Driven by our strategy's three fundamental thrusts – internationalization, broadening of our product base and expansion of our value-added logistics services – we acquired more than 20 firms.

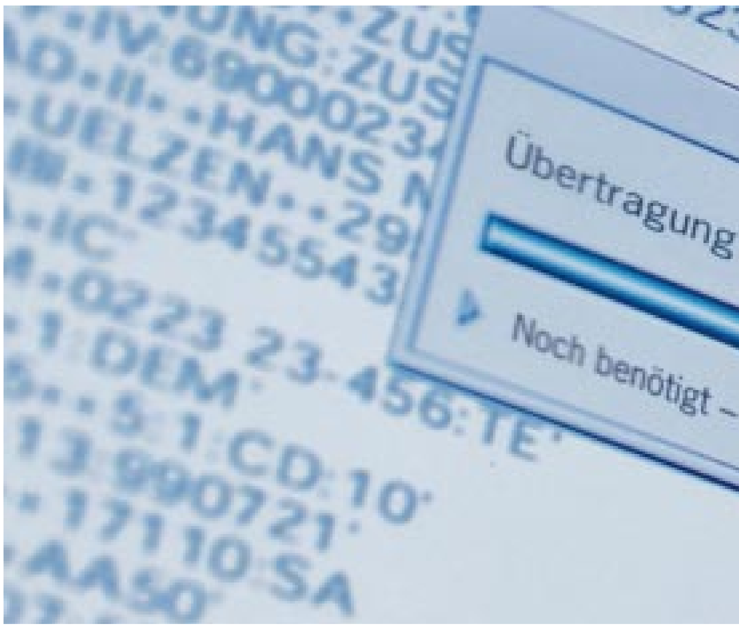
Major steps on our way to becoming a modern international logistics corporation were the acquisition of ten parcel distribution companies in Europe and our stake in DHL for the EXPRESS corporate division, the purchase of Danzas, the European Transport Division of Nedlloyd, ASG and AEI for our LOGISTICS corporate division, and Postbank and DSL Bank for our FINANCIAL SERVICES corporate division.

To ensure the success of these acquisitions, we have assigned top priority to integrating them smoothly and efficiently into our Group. As a first step, we integrate newly acquired firms into the respective corporate division following a structured process.

- Phase 1: Immediately establish the basic conditions necessary for success. In our opinion, the only way to ensure sufficient stability for integrating a company is to make crucial decisions without delay shortly after the acquisition is made public. For this reason, for each and every new acquisition, we set up a new organizational structure, adopt a corporate vision and objectives for the new entity, fill key positions in the new organization and set up a project team for integrating the new acquisition during the first six weeks of the integration process.

- Phase 2: Develop a master plan for integration. During this phase, the tasks and issues involved in integration are prioritized on the basis of their urgency and the scope of the changes they entail. Corresponding plans are developed. The tasks involved in integrating a new acquisition can be broken down into the following general categories:

- Detailed layout of the regional and functional organization;
- Systematic stipulation of individual measures to support targeted synergies;
- Product standardization to enable us to offer uniform products, prices and services at international level;
- Network integration which entails linking the individual companies' transport and logistics networks with one another, coordinating routes, merging terminals and hubs;
- Standardization and interlinking of IT infrastructures – the backbone of today's modern logistics service provider;
- Harmonization of reporting systems. We have adopted the International Accounting Standards for our Group;
- Establishment of a uniform brand architecture. Brand awareness is very important in our business. In Germany, we stand for reliability and quality. Looking at Europe, we plan to build up a uniform brand in the express delivery field and gradually retire our new acquisitions' local company names. We will market our logistics services worldwide under the Danzas name;
- Delineation of clearly defined responsibilities with the incorporation of the acquired company's management and culture, a move which will allow us to benefit from their experience.



The second phase takes two to four months to complete, depending upon the complexity and scale of the process.

- Phase 3: Implement all integration measures. Work on implementing the individual sets of measures begins immediately upon approval. During implementation, special attention is given to ensuring that all measures are wrapped up quickly, ideally within one year, and to putting potential synergies which have been identified to the greatest possible use. A stringent integration controlling organization ensures that additional measures are developed whenever unexpected problems arise in realizing planned profit potential.

Going beyond the actual integration of newly acquired firms into the respective corporate division, a second integration process located at group level (the PREMIUM Program) ensures that potential cross-divisional synergies are harnessed and vital interfaces between the individual corporate divisions are optimized. Fundamental issues involved in these activities include adjustment of the Group's organization, collaboration between the Group and the corporate divisions, demarcation of the individual business segments and customer care for customers who are served by more than one division.

The progress we have achieved with these activities is outlined below in a summary of the level of integration already achieved for the individual corporate divisions and the Group itself. The projects are executed by the respective corporate divisions under their own responsibility. The EXPRESS corporate division is setting up a European network. DANZAS has assumed the role of central coordinator in the LOGISTICS corporate division and is teaming up with Nedlloyd's Land Division, ASG and AEI to form a powerful logistics service provider. Our FINANCIAL SERVICES corporate division is in the process of pooling the potential offered by Postbank and DSL Bank.

LOGISTICS – A global corporate division in the making

The integration process in the LOGISTICS corporate division is aimed not only at merging the four logistics companies Danzas, Nedlloyd ETD, ASG and AEI into a single, financially successful entity, but also at bringing four different corporate cultures into line with one another.

The first phase – establishing the framework for integration – was wrapped up on schedule by late May 1999. The first step in this phase was to set up the future organizational structure of the LOGISTICS corporate division and implement it in individual countries or groups of countries. The various individual activities were then assigned to the respective business segments and functional units.

In the subsequent phase which lasted from June through August, we planned integration activities, defined the measures to be taken by the respective business segments and identified corresponding synergies. Those persons who were to hold key positions were designated during this early stage of integration in order to keep uncertainty among employees to a minimum.

The new management team – well prepared and already firmly anchored in the overhauled organizational structures – could then tackle the third and final phase of integration in September, namely, actual implementation. Execution of the previously developed action plans is proceeding at a brisk pace – and should take one to two years, depending upon the project. A performance measurement system was established to monitor the qualitative and quantitative aspects of integration. This system enables us not only to keep an eye on whether implementation is proceeding according to schedule but also to obtain information about the economic effects achieved to date.

A wide variety of communications measures will be implemented parallel to the entire integration process so that our employees and customers are also continually up to date on the latest developments.

EXPRESS – Building Europe's leading parcel distribution network

We launched the STEP (STarting Europe's leading Parcel network) project in March 1999 to handle the numerous tasks involved in integrating our various new acquisitions. This project's objective is to develop our future distribution platform, decide upon its basic features and position it in the market in close cooperation with our European partners.

A standardized international product portfolio is being developed on the basis of a jointly agreed vision. This portfolio will offer customers extensive service in the cross-border parcel and pallet distribution field while simultaneously underscoring our position as a high-quality provider.

During the network's start-up phase, our interfaces with the customer – in other words, our sales and customer service organizations – will continue to use existing systems. This will enable a customer-by-customer migration. We will strengthen Deutsche Post Euro Express's new image by implementing uniform standards and a rebranding and communications strategy throughout Europe.

The individual operative processes were developed to reflect our new products. This concept is built around an innovative centralized transport management system for international traffic between various locations. The use of uniform checkpoints and the interlinking of national IT systems will make it possible to track and trace items throughout Europe.

This project will not only implement measures to increase quality and ensure smooth-functioning invoicing processes, it will also conduct personnel exchange programs to foster an international corporate culture.

Implementation moved to center stage at the start of the year 2000, with requisite structures and processes now being put in place in the individual countries. This transitional phase will be wrapped up during the second quarter of 2000 with the launch of our new product portfolio in the individual countries.

We plan to expand our range of add-on services, further optimize our operational procedures and establish a uniform IT platform by mid-2001. In the process, Deutsche Post Euro Express will further strengthen its role as Europe's leading distribution partner.

FINANCIAL SERVICES – Strengthening our sales power

With strengths and activities that complement each other in many areas, Postbank and DSL Bank pose an excellent match for one another. However, before we can make use of this potential and integrate their business operations, it will be necessary to establish the requisite legal conditions. DSL Bank was converted into a stock corporation in late 1999. Postbank acquired the federal government stake in DSL Bank as of January 1, 2000. In the next step, DSL Bank will be merged with Postbank during the first half of 2000.

The employees of both banks have been working since early November 1999 on 20 individual projects to create a strong, efficient bank out of two financial service providers. Project teams coordinate joint product and price policies, standardize IT systems and processes, and harmonize central functions. Thanks to its savings and deposit business, Postbank provides for a strong borrowing business. At the same time, DSL Bank's greatest strength as a specialized building finance bank is its lending business. We are pursuing a dual-brand strategy with an eye to putting these strengths to use for our Group. At the same time, we are opening up avenues for increasing efficiency by operating a tightly-knit network of sales channels.

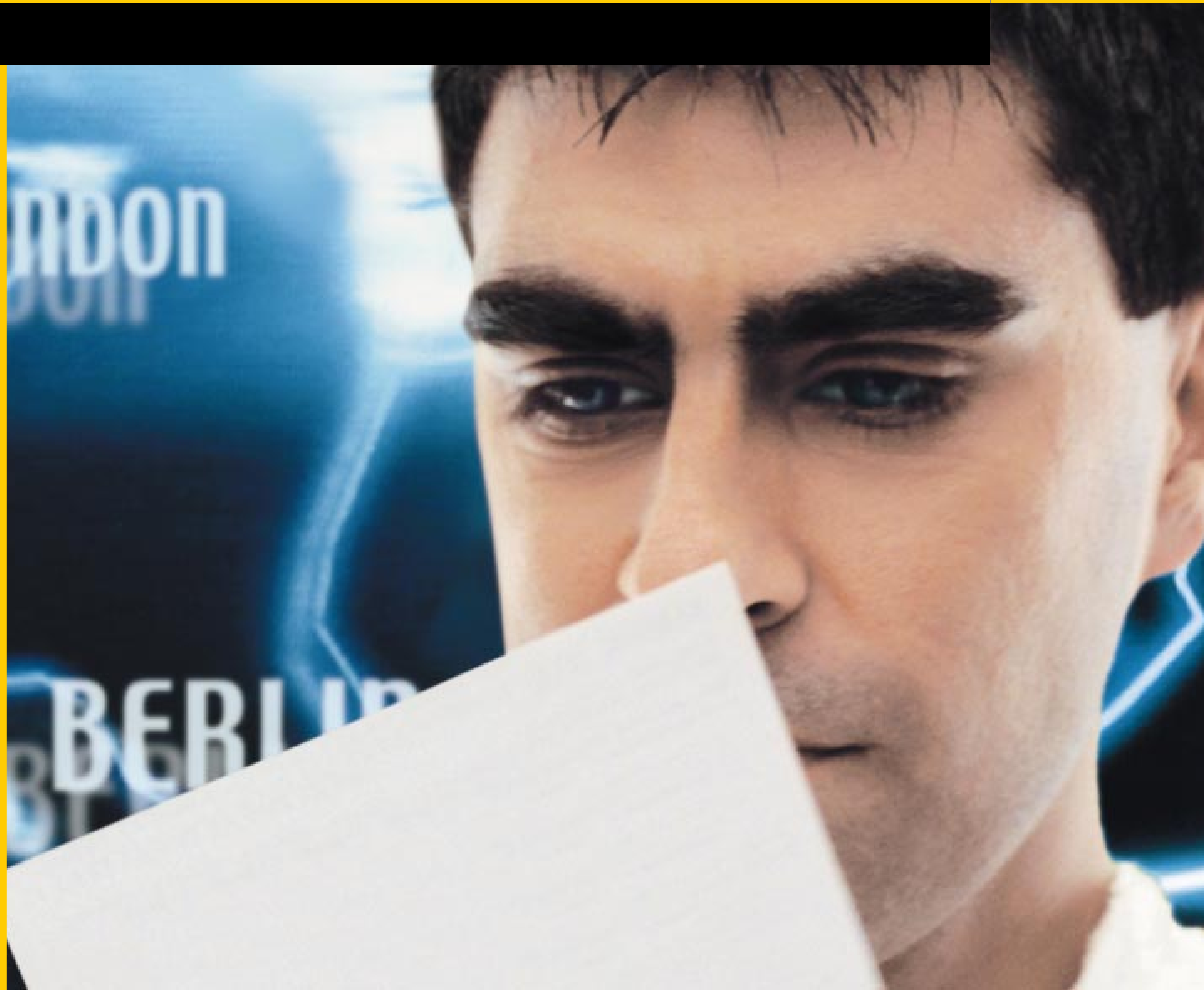
Deutsche Post World Net – Establishing an integrated Group

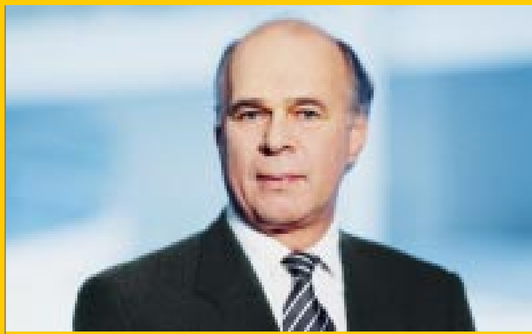
With an eye to integrating our new acquisitions quickly into the Group, our PREMIUM-Program, which was launched in April 1999, has also been dealing with fundamental integration-related tasks at Group level. These tasks include:

- Making necessary adjustments in the Group's organization with the establishment of four corporate divisions which bear full responsibility for their business performance (introduction of divisional boards) and eliminating a management level in the MAIL corporate division and in the national express business.
- Setting up panels of experts, councils, which will deal on a pinpointed basis with cross-divisional issues in the areas of IT, purchasing, financing and personnel.
- Developing new Corporate Instructions that reorganize collaboration between headquarters and the corporate divisions.
- Clearly delineating business activities with the reassignment of business units within the organizational structure.

Mail – Confidence and innovation

Customer orientation by the MAIL corporate division is illustrated by the following facts: Every day, Deutsche Post handles 70 million letter items, thus setting standards in terms of speed and reliability. The consistent linking of the traditional letter product with the opportunities provided by the Internet clearly proves that we are prepared for the future.





Dr. Hans-Dieter Petram
MAIL

Born 1943. Early in his career, the business economist was responsible for financial services sales at Deutsche Anlagen Leasing. From 1975 he held various posts at Deutsche Immobilien Leasing, the last being that of Director and Authorized Officer. In 1986 he became Director of the real estate division at Gustav Schickedanz KG, where he was responsible for real estate, construction and equipment of the large mail order company Quelle. Since 1990 he has been a board member of Deutsche Bundespost POSTDIENST, and since 1995 a member of the Board of Management of Deutsche Post AG.

The letter: prepared for the future

"Deutsche Post is the only provider in Germany offering a product portfolio that covers all physical and hybrid forms of mail that also couples trust, reliability and nationwide service with innovation and operational efficiency at the top of the international quality scale."

Solid growth

Our MAIL corporate division is roughly comprised of the Mail Communication and Direct Marketing business segments. The improved economy was one of several factors generating an increase in the traditional mail business in 1999. Communication in a number of liberalized areas such as the telecommunications, energy and financial services industries increased in frequency and scale, a development that also helped boost volumes for the year. Our Direct Marketing business segment is seeing strong growth as a result of the trend toward directly approaching sub-groups on an individualized basis. Compared to traditional advertising media, the direct approach offers greater efficiency.

Defending our market leadership

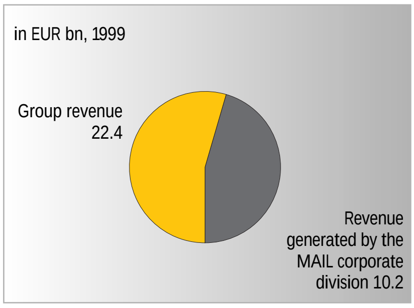
Building on its market leadership in the transport and distribution of paper-bound communication, the MAIL corporate division is redefining itself as a provider of integrated solutions, offering customers a comprehensive range of products and services. Special attention is paid to tapping additional potential by growing our systems and solutions businesses among existing customers and new target groups, particularly in the small-business customer segment. In terms of its strategic orientation, the MAIL corporate division regards itself as a mediator, manager and fiduciary of the content and media-related communications needs of senders and recipients.

Business development – Revenue growth on all fronts

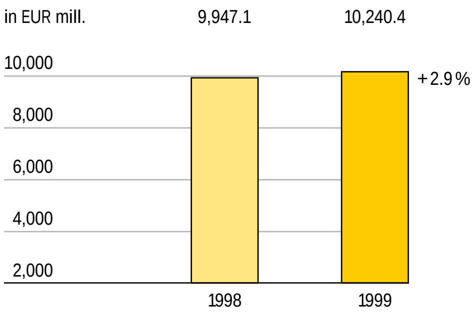
Our mail business was able to hold its own once again in 1999 as a robust growth market competing with primarily electronic media in the marketplace. Backed by innovative products and solutions, Deutsche Post successfully dealt with a difficult environment that has been further aggravated by the licensing of more than 500 rival postal services in Germany.

We increased our operating profit before amortization of goodwill by 6.9 percent to EUR 1,008.7 million last year. This positive performance was driven on the one hand by the introduction of cost-reduction measures. On the other hand, we were able to increase external revenue by 2.9 percent to EUR 10.2 billion and volume by approximately five percent to some 21 billion items as a result of an increase in marketing and sales activities. Income generated by ancillary activities such as collection from the customers' premises, post office box and forwarding address notification services developed extremely well, posting 93-percent growth.

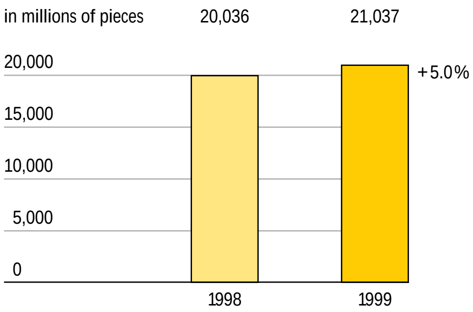
External Revenue Group MAIL corporate division



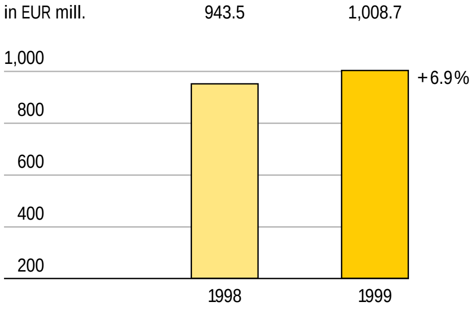
External revenue generated by the MAIL corprorate division



Volumes MAIL corporate division



Operating profit (EBIT) before amortization of goodwill – MAIL corporate division



The driving force behind sales and revenue growth for the year, however, was the undiminished growth reported by the new Direct Marketing business segment. Sales in this area grew by 9.7 percent, while revenue increased by 7.3 percent over the previous year. At some 30 percent, partial-address products booked particularly strong sales and revenue growth. Press Distribution generated a marked revenue gain primarily in the customer magazine segment and exceeded its 1998 performance by 3.6 percent. New full-service offerings and customized solution packages reflect the customer-oriented focus of our product and service range in the highly competitive press item market as well.

Direct Marketing – Strong growth with new products and services

The direct marketing field continues to grow at an undiminished pace, a trend that Infratest's representative Direkt Marketing Monitor survey has once again confirmed. Virtually all experts predict that expenditure on direct marketing will increase at above-average rates in coming years as well.

The leading direct marketing tool continues to be the addressed advertising mail item. With newly developed products, we offer customers greater flexibility in this area as well. A new service module has been added to the lineup for partially addressed advertising mail items. *POSTWURF SPEZIAL PLUS*, a variation of our *POSTWURF SPEZIAL* unaddressed mail product, was developed to selectively reactivate dormant customer groups. With *INFOPOST KREATIV*, we offer customers the possibility of sending written items with a creative design. We have expanded our Infopost (addressed bulk mail) range to include pallet warehousing services, and our Postwurfsendung (unaddressed mail) range by a special collection service.

Direct marketing provides for substantial growth in mail volumes.

The method of choice for approaching customers is shifting away from mass communication and toward individualized dialogue. We are using this trend to our benefit by offering corresponding services. Within this scenario, we view ourselves as a driving force behind direct marketing. Using an extensive concept, we also actively help small and medium-sized businesses take their first steps in the direct marketing field. As part of these activities, we developed a program especially for this target group under the motto "DIREKT MEHR". This program consists of three equally important modules, a direct marketing catalogue, solution packages and our "DIREKT MEHR" newsletter and is based on an intensive, collaborative dialogue between Deutsche Post and its business customers.

Parallel to our dialogue program, we also expanded our online presence into a comprehensive platform for the entire direct marketing sector. For the first time last year, we offered a free catalogue of service providers, listing more than 1,600 providers and containing company profiles of players in the direct marketing and associated fields. This catalogue offers speedy help for all those customers looking for a suitable partner to help them with their direct marketing campaigns.

"Speed marketing", the top performance of Deutsche Post Direkt GmbH put in a nutshell.

Deutsche Post is responding to the growing importance of sales mediators in the advertising market with innovative sales cooperations and partnership programs with agencies, "lettershops", multimedia firms and industrial associations.

We substantially expanded our range of products with the acquisition of the Werbeangentur Janssen GmbH advertising agency. One of the most able providers on the market, Janssen specializes in the distribution of unaddressed advertising items (catalogues, brochures, samples) to all households in a particular area. It booked a 33.8-percent increase in revenue in 1999 over the previous year.

We can offer expanded service in the direct-response field through the full-service provider MERKUR Direktwerbegesellschaft mbH & Co. KG, a specialist in direct-response advertising. Merkur booked a 38.6-percent increase in revenue last year. It tailors its customized solutions packages to the customer's specific needs, using the modules Address Management, Database Management, "Lettershop", Telemarketing and Fulfilment.

Deutsche Post Direkt GmbH booked a 37-percent increase in revenue over the previous year. Its Beleglesung (document reading) and Adressabgleich (address updating) product lines in particular helped establish the term "speed marketing" in the direct marketing sector. Our online address updating service offers customers the opportunity to check and correct addresses in seconds via a dedicated line to Deutsche Post Direkt. This service effectively protects call centers and Internet shops against input errors and attempted fraud. Further, addresses can be qualified using credit checks, geocoding and the addition of socio-demographic information. Thanks to its use of high-powered scanners, Beleglesung can evaluate more than a million responses a day with the highest level of accuracy.

At Deutsche Post Adress GmbH, revenue was raised by 21.7 percent last year. With more than 20 million validated addresses in its database, Deutsche Post Adress GmbH has the only up-to-date forwarding (= new and old) address databank in Germany, which it uses to prevent misdeliveries. Address validation services are offered through CD-ROM subscription or online via ISDN and the Internet.

Deutsche PostCom GmbH pooled its activities in the area of media-integrated business communications last year, incorporating the former MLC Systeme GmbH with the electronic services offered by the PostCom business segment into its newly enlarged operations. Together, the two subsidiaries increased their aggregate revenue by 27.1 percent for the year. Deutsche PostCom GmbH combines various media such as letter mail, fax and electronic data for its customers, eliminating the problem of "media crush" for them.

Our PrintCom business segment markets the *ePOST* product line to business customers. The product *ePOST KLASSISCH* offers business customers the option of giving us their large item volumes in digital form which we then print and subsequently deliver in letter form. Solutions for PCs and workstations are also available. One such alternative allows customers to send us mailings directly from their computer by way of a user interface we developed together with Microsoft. Letters and postcards can also be electronically generated and transmitted to us via the Internet. We then print and forward them to our mail carriers for delivery.

The former GMS Deutsche Post Logistik GmbH was renamed Deutsche Post In House Service GmbH in 1999. The market leader in the provision of in-house mailroom services on an outsourcing basis, this company boosted its revenue by 56 percent last year. Its product portfolio revolves around the four areas "In Haus Post", "In Haus Logistik", "In Haus Druck" (printing services) and "In Haus Kommunikation". Today, Deutsche Post In House Service GmbH's 640 employees run the internal mail operations of more than 80 companies throughout Germany. These customers include major corporations such as Siemens and national associations such as the Federation of German Industries and the Association of German Chambers of Industry and Commerce.

Sales – Enhanced customer care and greater responsiveness to customer needs

Our Mail Communication sales operations were reorganized in 1999. The new sales structure is aimed at systematically taking Deutsche Post World Net's aspiration to market leadership in all fields and turning it into reality throughout our organization and operations. Thirty-seven new sales branches and 400 employees ensure the efficiency of our sales structure, enabling us to further strengthen contact with our customers. We have also expanded our network of Direct Marketing Centers. At 40 sales offices around the country, we inform companies about the opportunities successful direct marketing has to offer, covering the entire range of activities from concept development to campaign execution.

The recently created Central Key Account Management business division services major customers in the Mail Communication area. We systematically geared work processes, organization, IT support and human resources to the needs of these key accounts and set standing optimization processes into motion in 1999. Our centralized key account management activities ensure innovative solutions with customer-specific, tailor-made products for customer acquisition, customer development and customer loyalty activities at national and international levels. These solutions include Deutsche Post World Net's entire product range, business solutions for the classical letter product portfolio, the entire spectrum of direct-response communication and package solutions offered in association with our new business segments.

We started a nationwide partnership program for business customers from the Mail market field with the launch of our Business Club in early 1999. The club's offerings include consultancy and other specialized services that revolve around active business promotion measures, plus concrete activities to foster dialogue between club members.

Mail Communication and Philately – Campaigns have a positive impact on private correspondence volume

By using highly creative, innovative products and directly approaching various target groups, we were able to stop the negative trend in the private mail area in 1999 and maintain revenue at 1998 levels.

In the private customer field, we actively promoted letters as a valuable yet simple and commonplace means of communication. Using direct marketing, postcard campaigns and promotional measures at our postal retail outlets and pinpointed approaches at locations where target group traffic is high – such as restaurants and sporting arenas – we were even able to post 43-percent growth in the advertising postcard field. Event-related campaigns such as Greetings from Space to mark the start of the new millennium and successful ideas such as our *PLUSBRIEF* (pre-paid envelopes) are generating new interest in letter-writing.

Our successful Letternet pen pal club – which counts more than 300,000 members – acquaints children and teenagers with letter-writing. Even our convenience products, such as our postcard service for informing family and friends of a change of address, helped boost revenue.

Deutsche Post World Net is developing into a full-service provider for stamp collectors, offering not only stamps but also attractive philatelic accessories. We supply more than one million private and business customers, including more than 800,000 collectors who have standing orders, with stamps, philatelic products and other items by mail order. Special event-related philatelic products such as "50 Jahre Bundesrepublik" (50th Anniversary of the Federal Republic of Germany), "250. Geburtstag Goethe/Weimar" (250th Anniversary of the Birth of Johann Wolfgang von Goethe) in 1999 and "10 Jahre Deutsche Wiedervereinigung" (10th Anniversary of the German Reunification) round out our broad range of offerings.

Quality – The best transit times in Europe

Within our domestic mail network, 95 percent of all letter items are delivered the day after they are mailed – the best performance among all mail services providers in Europe. A total of 99 percent of all letters are delivered to their addressees by the second day after posting. The level of customer satisfaction with delivery times has risen in tandem with the level of our delivery performance and is already at 1.9 (1 being the best mark). Deutsche Post World Net received the 1999 German Project Management Award in October in recognition of its work in implementing its new letter logistics system – confirmation of our accomplishments.

Our production system is one of the most modern in the world. We also ensure that it remains state-of-the-art by checking and modifying it on an ongoing basis. We continually raise our level of automation by introducing new technologies. In the area of mail sorting for example, we have made headway thanks to the use of improved OCR (optical character recognition) systems.

Today, approximately 85 percent of all standard letters we handle are processed by automated systems, compared to some 80 percent in 1998.

Our dynamic transport planning system accommodates the rapid growth seen in the direct mail field and the increasingly flexible deployment of transport vehicles. Using this system, we were able to reduce our daily night-time airmail tonnage by approximately ten percent in 1999. Our transport costs fell markedly as a result. Handling expenses will also be trimmed since loading and unloading activities at the airports have been reduced correspondingly.

We were also able to improve our IT systems substantially in 1999. Thanks to the introduction of a coding and sorting software that is unique in the world to date, our mail sorting centers can now adjust their flow of operations online. It is also possible to automatically "reroute" the mail of customers who have moved to a new address, making it possible to deliver their mail without any delay, even if it was mailed using the old address.

The outlook – Launch of new products and services and the introduction of new technologies

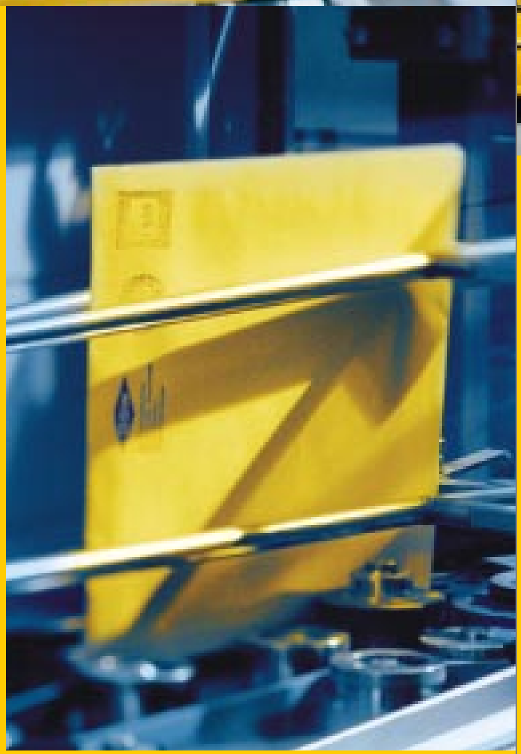
The year 2000 will be shaped by growing competition in Germany and abroad. Our efforts to expand our market position will revolve primarily around increasing customer satisfaction, optimizing processes, introducing innovative full-service products and launching new offerings in the advertising market and the e-Business field.

In the Direct Marketing business segment, we plan to develop customized products on the basis of extensive customer need analyses. Special attention will be paid in the future to developing corresponding package solutions in the Mail, Logistics and Direct Marketing areas.

Inaugurated in February 2000, our Trust Center was set up to meet the special needs involved in written communication in e-Commerce and electronic transactions in the Internet. Trust centers serve as validation and depositary offices for "signatures" used for effecting payment transactions in the Internet. Deutsche Post World Net's Trust Center is operated in accordance with the stringent standards laid down by Germany's Digital Signature Act.

The introduction of the Euro is necessitating changes in our franking procedures. It also presents an opportunity to streamline and standardize these procedures to enable the use of optoelectronic OCR systems in the future. Modern electronic equipment will also be introduced among most of our customers who use franking machines. Deutsche Post is pushing this introduction of new technologies because we will benefit from the increasing accuracy of these new systems. The use of new technologies in the mail sorting area will also help increase overall productivity and quality.

Working together with Royal Mail, Pitney Bowes and Neopost, Deutsche Post has developed and tested an entirely new standard for the interface between the sender and the post office in its REMPI (REengineering the Mailer Post Interface) project, further confirming our role as Europe's technological pacesetter.



By using state-of-the-art technology we achieve transit times unparalleled by other European service providers.

Express – Meeting customer needs at an international level

Deutsche Post has combined its national and international parcel and express activities in its EXPRESS corporate division, creating an efficient parcel and express network available to 420 million people in Europe.

Uwe R. Dörken
EXPRESS

Born 1959. The bank officer and graduate of the St. Gallen Business School began his career in 1986 at McKinsey & Co., where he focused in particular on strategic studies for global transport and logistics companies. In 1991 he moved to Deutsche Bundespost POSTDIENST, where he headed the International Post segment until his appointment to the Board of Management of Deutsche Post AG in 1999.

Deutsche Post Euro Express – Partner for international parcel and letter distribution

"We have set ourselves the goal of establishing Deutsche Post Euro Express throughout Europe as the name for quality national and international parcel, express and distribution services on a one-stop-shopping basis. Our range of products and services is built on our logistics, technology and sales network, a network that is unique in Europe. We are also putting this network to use in developing new market opportunities in the international mail field."

Growth opportunities through globalization

Logistics and communications markets throughout Europe are currently undergoing a phase of profound change. The opening of the monopoly areas has led to more and more major international corporations entering Europe's mail, parcel and express markets and thereby intensifying competition.

Comprehensive logistics expertise is particularly in demand in the fast-growing e-Commerce field. An increasing number of companies use the Internet to boost their sales volume. However, when it comes to transporting the goods their customers have ordered via the Internet, these companies are dependent upon experienced partners who can provide innovative distribution and dispatch channels coupled with fast response times.

The cross-industry internationalization of markets and increasing segregation are also generating noticeable impetus for further growth. Segregation is the term used to designate the trend toward greater numbers of shipments in tandem with less volume per shipment. The need for efficient transport and distribution services has grown enormously in the wake of this trend.

Our strategy – Set up a European network

The European courier/express/parcel (CEP) market offers promising growth opportunities.

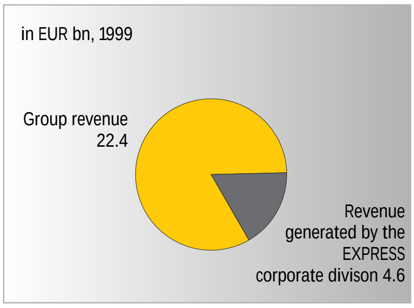
In keeping with this strategy, we have acquired strong local companies and are integrating them into Deutsche Post Euro Express, our European parcel, express and distribution network.

Besides expanding our product portfolio with specific target groups in mind, we are extending the range of our focus, putting increasing effort into developing the business customer segment (B2B) in addition to our present priority, the private customer segment (B2C). In the business customer segment, we are opening up new growth fields with systems and industry solutions and by expanding our value-added services which range from order processing to dispatch preparation, distribution and warehousing all the way to invoicing. As a consequence, we have established a first-class position in e-Commerce, a market with a promising outlook for strong growth in the market of the future.

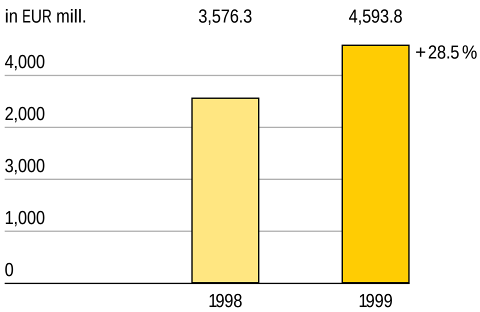
In addition to restructuring our product range, we are also giving priority to our new sales strategy. This means that sales and customer services will be more closely interlinked with one another. These efforts are aimed at providing our customers comprehensive services with solutions from "a single source".

Our 25.001-percent stake in DHL International, the global leader in cross-border express delivery service, allows us to offer our customers DHL's entire range of products in more than 227 countries worldwide.

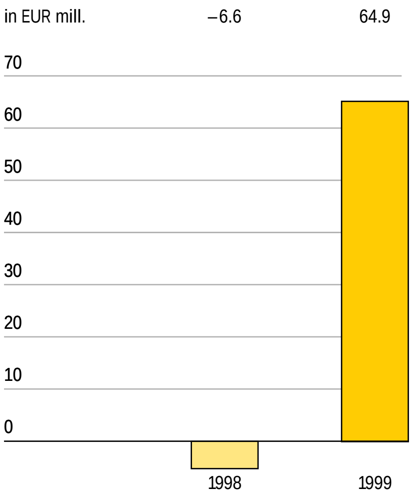
External Revenue Group
EXPRESS corporate division



External Revenue
EXPRESS corporate division



Operating Profit (EBIT)
before amortization of goodwill
EXPRESS corporate division



With the progressive opening of the letter mail markets, we can provide our mail customers tailor-made dispatch solutions that do not stop at national borders. Working within international organizations such as the Universal Postal Union, PostEurop and the International Post Corporation, we promote liberalization efforts and international competition. We are presently expanding our cross-border letter mail activities in our Deutsche Post Global Mail business unit, offering business customers a broad range of international mail solutions. Global Mail is now present in both Europe and America's most important markets.

Strong growth through acquisitions

Revenue continued to develop positively through 1999, with external sales for the entire EXPRESS corporate division growing by 28.5 percent to EUR 4.6 billion for the year. Euro Express was a major factor behind this performance. The acquisition of express delivery service providers which hold strong positions in their national markets especially helped boost growth in sales. Acquired in 1999, Van Gend & Loos (NL), Ducros (F) and MIT (I) each made particularly significant contributions to overall sales performance. We were also able to increase revenue in our Global Mail and International Mail business units, due mainly to the geographic expansion of Global Mail's activities.

Evidencing a turnaround, operating profit (EBIT) before amortization of goodwill was positive for the first time ever in 1999. We improved last year's results by a total of EUR 71.5 million, resulting in a profit of EUR 64.9 million. Acquisitions effected during 1999 also played a role in expanding our market shares and improving our profit standing. Successful rationalization measures also contributed to the improvement in our operating profit.

Express Germany – Firmly established in the marketplace

Sales and revenue in the Express Germany area both grew by 3.9 percent in 1999. Revenue growth was due in particular to our *FREEWAY*, *PÄCKCHEN* and *POSTPAKET* products. Business during the holiday season was also very strong, with the month of December reporting double-digit growth over the previous year.

Deutsche Post Express GmbH (DPE) was a significant force behind this positive development. One of the leading express delivery firms in the German market, it expanded its role as a premium service provider even further during the year.

Teaming up with DHL International Ltd. (DHL), DPE also provides an *EXPRESS INTERNATIONAL* service, offered in our retail outlets. The use of DHL's worldwide network ensures customers fast delivery.

Deutsche Post Fulfilment GmbH develops customized logistics solutions, particularly for the mail-order trade. We are currently executing the largest contract issued in the German market in 1999, namely, for the provision of all order processing activities for Tchibo and Eduscho's mail order business. We are consequently responsible for all logistics services, beginning with order processing and extending to dispatch preparation and distribution, all the way to invoicing.

Realignment of our sales organization

Our sales organization in Germany was restructured and totally realigned during the course of 1999 in order to strengthen our position vis-à-vis the competition. We combined the previously separate sales areas covered by Parcel, Express and International. With an eye to providing individualized customer care, each customer now has a competent sales representative assigned to him as his own personal point of contact.

Euro Express with a presence in 18 European countries.

Using local know-how all over Europe.

Production capacity expanded

Many of our parcel sorting centers in Germany reached their capacity limits in 1999. In response, we optimized work processes and installed new conveyance systems in a number of parcel sorting centers. As a result of these measures, we were able to extend our capacity substantially while maintaining costs at approximately the same level. Teaming up with Deutsche Bahn railways, we ensure problem-free transport of parcels in the time-sensitive courier/express/parcel (CEP) market with our Parcel Intercity project. Further, by shifting road transports onto the rail, we contribute to environmental protection.

Improved quality using TQM

Our previously established Total Quality Management system continued to produce positive results in 1999. The constructive work done in our quality control groups was continued through the year. A total of 3,247 of our employees have undergone training in this area in Germany. Their inclusion in these groups led to a marked improvement in motivation and quality levels. In Germany, parcels were delivered within an average of 1.1 days following their dispatch.

Express Europe – On the up and up

Revenue generated by the Express Europe business segment in 1999 increased by 15.2 percent over the previous year. The market for items destined for other countries is subject to strong pricing pressure. Distinctions must, however, be made between the various types of products. With virtually no change in prices, we doubled both sales and revenue for small parcels. Despite noticeable price competition, we were able to compensate for lower prices by generating greater sales in the higher-end business parcels area. The picture looks somewhat different for cross-border items. In this category, revenue grew, in conjunction with upward price movement and increased volumes, by 42.4 percent.

As part of our efforts to gear ourselves more to the European market, we have systematically acquired leading transport firms or established our own presence in all important countries. As a result, we have become the first company in Europe to operate an integrated network in 18 countries. This year, we will round out our European network and systematically integrate our new team members. As part of our integration activities, we began to harmonize our product portfolio and market approach throughout Europe last year. As a result, we offer our customers comprehensive international parcel and pallet distribution services. Deutsche Post Euro Express has already successfully positioned itself in the marketplace as a national and international player. Our strategy also foresees gradually establishing this business as Europe's quality leader.

Global Mail and International Mail – Marked increase in revenue

The Global Mail business segment stands for international letter mail services for business customers in the areas of Direct Marketing, Press Distribution and Corporate Communications. The International Mail business segment is in charge of the import and export of international letter items to and from Germany. Overall revenue continued to develop well in 1999, increasing by 11.5 percent over the previous year's level. This positive performance was due to the development of new products and services which are geared to the needs of special customer groups. Further contributing factors include our strong focus on the quality of our service and the systematic geographic expansion of Global Mail's operations.

The "REIMS II" agreement which was concluded in 1999 – and which 17 European countries comply with today – also played a role in the overall positive development seen in the import and export of international letter items.

"REIMS II" is aimed at gradually effecting cost-covering cross-remuneration between partner countries for international mail items. This agreement has reorganized the terminal dues which national post offices have to pay one another for the transport, sorting and delivery of international mail items, based on the actual amount of work and expense incurred by the respective service provider. In concrete terms, this means that the national post office which did the most processing work in delivering the items should also receive the larger portion of the postage paid. Thanks to "REIMS II", we were able to prevent a loss of revenue in Germany arising from remailing, a process in which a domestic customer posts his mail from another country. In essence, that country's postal service sends this mail back as "international" mail, which is then delivered by the national post office. The reason companies use remailing is to avoid paying domestic postage. With "REIMS II" in place, the remuneration Deutsche Post receives for conveying and delivering this type of mail will now be more in line with its own cost. Remailing will become less attractive as a result.

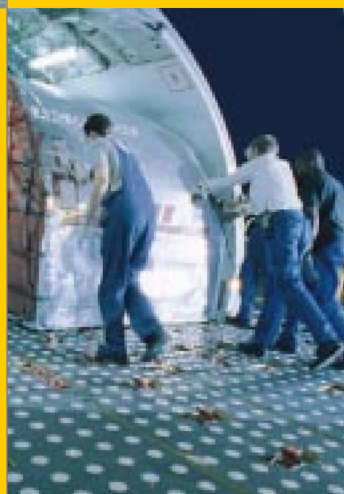
The rapid, worldwide expansion of Global Mail in the international letter mail service field has firmly established Deutsche Post as the leading provider of these services on all continents. We opened further sales offices in Switzerland, Austria, France, Singapore and Australia in the course of 1999. We also strengthened our business in America with our acquisition of YellowStone International, the leading international private provider of press distribution services in the U.S.A. Both Global Mail and YellowStone operate in the U.S. cross-border mail market, a market that was already completely liberalized ten years ago. Using the companies we have acquired in recent years as a platform, we have been able to establish ourselves as the second-largest provider of cross-border mail services in this market, following the U.S. Postal Service.

DHL International – Still on the road to success

DHL reported continued positive growth through the 1999 business year. Express parcel volume increased by 15 percent for the year, fueled primarily by the e-Commerce market. As a consequence, DHL maintained its leadership in the international express service.

In addition, DHL is pursuing an extensive worldwide investment program. It has enlarged its hubs in the U.K. and Germany and has substantially expanded production in Asia. It also plans to wrap up the purchase of 44 B-757 aircrafts by the year 2003. On top of this, DHL has been the global pioneer in introducing Tracking & Tracing with WAP (Wireless Application Protocol) enabled cell phones.

Together we are making very constructive use of the synergies arising in, for instance, the dispatch area where DHL's worldwide tracking and tracing system is at our disposal. We are also putting synergies in the product development field to use. Here, DHL has joined with Danzas in the integrated logistics area to form a technology team that makes it possible for us to offer our customers "one-stop-shopping".



Deutsche Post and DHL: successful synergies.


PackSet


DUCROS
EURO EXPRESS

Outlook – Development of international parcel and express service markets with a standardized range of innovative products

The Deutsche Post Euro Express business segment will continue to be a key element in achieving our strategic objective of seizing new growth opportunities arising from the progressive liberalization of the world's mail, parcel and express service markets. We will continue to move rapidly ahead with our internationalization and, most importantly, with the integration of our new acquisitions.

Upcoming measures revolve primarily around the implementation of a standardized, pan-European range of products based on uniform European quality standards and IT solutions.

A broad product line and top customer service are key factors for strengthening our competitiveness, factors that we plan to steadily strengthen and enhance in the future. When targeting business customers, such steps will include enlarging our product portfolio, launching market development activities that are aimed at specific industries, and developing customized services that cover every link in the logistics value-added chain.

Europolitan, DHL's parcel product for the European market, is set to be integrated during the year 2000. We will handle the ground transport for DHL. Thanks to our partnership with DHL, we now have another option for fast delivery to offer our customers.

Backed by our newly restructured sales organization, we will be focusing in the coming year on expanding our customer base among small and medium-sized customers and on strengthening our business relations in all fields.

With an eye to expanding our capacity levels, we will also be upgrading our production systems in those parcel sorting centers with particularly heavy traffic and gearing up for growing item volumes. Over the course of the year 2000, our parcel sorting centers will be equipped with an IT-based OCR system that automatically recognizes the address on parcel items. Developed at IBM's research and development centers, our PALS (Parcel Address Reading System) system is setting new standards in the global postal market.

Logistics – Precision worldwide

By acquiring Danzas, Nedlloyd and AGS, we have reached a top position in the fast-growing global logistics market.

Peter Wagner
LOGISTICS

Born in 1946, Peter Wagner, who holds a diploma in controlling, has been active in the logistics business since 1979. He held various executive positions as commercial director both in the U.S. and Germany. In 1989, as a member of the Executive Board, he became director of the finance and controlling division at Danzas Holding AG. Responsible for the European freight forwarding and transport division starting in 1995, he was appointed Chief Executive Officer one year later. In 1999, he joined the Board of Management of Deutsche Post AG.

The entire logistics spectrum

"With its dedicated, competent staff and its outstanding solutions in the IT and communications technology fields, Danzas ensures that our customers' goods are always at the right place at the right time in the right quantities – anywhere in the world."

Our new LOGISTICS corporate division encompasses all activities handled by Danzas, the globally active group we acquired in March 1999. This company continues to operate under the name Danzas, which has been firmly established in the marketplace since 1815.

In terms of the LOGISTICS corporate division's strategic orientation, Danzas and its parent company Deutsche Post World Net are a perfect match. The addition of Danzas's extensive range of services has enabled us to realize our three most important strategic corporate objectives – internationalization, expansion of our product base, and value-added services – in one stroke.

Danzas is one of the world's leading logistics corporations with presently some 38,000 employees worldwide. The top-quality service that Danzas offers its customers is founded on its many years' collaboration with first-class airlines, shipping lines and other freight carriers. Danzas operates on all continents, offering customers the appropriate links for their business needs and, in doing so, helps pave their way to new markets.

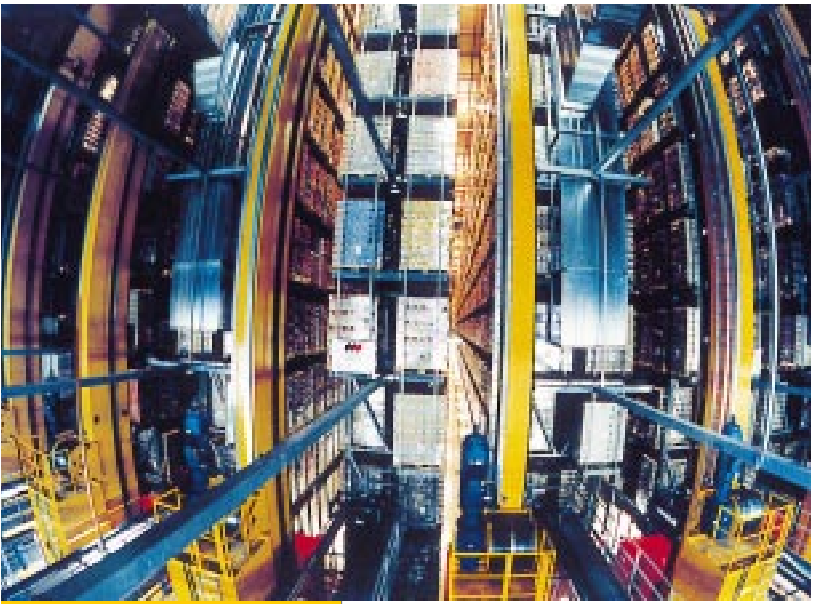
Besides its dense and far-reaching network of branch offices in Europe, Danzas also maintains an international IT network that ensures a rapid flow of information to and from its customers.

With Danzas on board, our LOGISTICS corporate division can offer the entire range of IT-based logistics services. We provide manufacturers and distributors of consumer and industrial goods with customized solutions for every step in the supply chain. In order to meet market and customer needs optimally, the Danzas Group is divided into the following three business units:

- **Solutions** (food, cosmetics, pharmaceuticals, telecommunications, electronics and automotive sectors. The Solutions unit is also the market leader in the fashion logistics business).
- **Intercontinental** (air and sea freight forwarding plus project business).
- **Eurocargo** (European ground transportation).

The logistics sector faces new challenges

The logistics sector currently finds itself in the midst of rapid change. Developments in the global economy have been a major force behind this change. The present scenario is also driven by the industry's growing tendency to outsource logistics activities in order to focus more completely on its core business, and by the breakneck speed at which information technology is developing. E-Commerce also has a positive impact on the logistics sector by markedly increasing demand for such services. The market for contract logistics is growing at a correspondingly fast pace. Third-party logistics encompasses services which a logistics provider renders for a company on the basis of an individual contract or within the framework of a long-term business relationship. Services can range from a few specific services to complete coverage of the entire supply chain. The logistics industry itself is undergoing a concentration and consolidation process. A broad range of products and services plus a global presence will be crucial factors for successfully competing in this market.



Our strategy – Offer international logistics services from a single source

Back in 1998, Danzas made public a strategy which is now being implemented under the Deutsche Post World Net banner. This strategy has four main thrusts:

The first thrust targets the expansion of Danzas's business in the area of customer-oriented, integrated **logistics solutions**. Danzas is continually working to optimize the customized solutions for every step in the supply chain, which it develops with manufacturers and traders of consumer and industrial goods in mind. The key activities involved in this area are warehousing and distribution. They are rounded out by a broad range of value-added services (commissioning, co-packing, price labeling, invoicing, order processing, sales promotion measures, financial services, returns management and the like) which is being expanded on an ongoing basis so that we can offer customers true one-stop-shopping, enabling them to concentrate completely on their core business. Notably, complex IT solutions are emerging as an increasingly decisive factor for success.

The second thrust of the Danzas strategy is the expansion of its **intercontinental operations**, which encompass worldwide air and sea freight activities as well as its project business (which entails the coordination and execution of logistics services for large-scale infrastructural and industrial projects). It is our declared objective to improve the service we offer customers beyond its present high level by developing various regions even further – in other words, by offering additional air and sea routes. In working toward this goal, we attach particular value to keeping our capital intensity down. This means that rather than maintain fleets of ships and planes, we will purchase freight capacity on the market as needed.

Optimization of our **European ground transportation** constitutes the third thrust of this strategy. Freight will

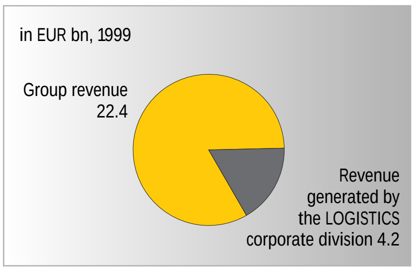
be transported by road, by rail or by intermodal means. The foundation for success in this area is our extensive, closely-knit dense and far-reaching network of branch offices throughout Europe, which will be improved even further. With few exceptions, rather than maintain its own fleet of vehicles, Danzas will opt for flexibility, purchasing required transport capacity on the market when and where it is needed.

The fourth and final thrust of this strategy was laid down in 1998 with the creation of a systematically market-oriented **organizational structure**, undertaken in response to the insight that only those who meet market and customer requirements on an optimal basis can hold their own in the logistics market over the long haul.

Danzas made this strategy public following its transformation from freight carrier to logistics service provider, initiating the next stage of its market and customer-oriented reorganization launched with the aim of enhancing its corporate value. For Danzas, the goal has been and will be to selectively strengthen its leading position in the marketplace and further increase profitability.

Successful year for the new LOGISTICS corporate division

External Revenue Group
LOGISTICS corporate division (net)



Danzas joined Deutsche Post World Net in 1999. Our LOGISTICS corporate division was also set up in 1999 and proceeded to position itself firmly in the marketplace during the year with a number of significant acquisitions which were integrated into Danzas. During its first year of operations, LOGISTICS generated EUR 4.2 billion in net sales and moved directly into the front ranks. In light of the sizable acquisition and integration costs incurred during the year, we are also satisfied with the division's operating profit (EBIT) before amortization of goodwill of EUR 49.7 million. All three business units have developed according to plan. Not yet completely in place, the Logistics Solutions business unit was substantially enlarged in 1999 – also with the help of acquisitions. Our takeover of Nedlloyd ETD played a particularly important role here.

The first half of the year was somewhat subdued for the Intercontinental business unit. We were, however, able to more than make up for this during the second half of the year when business in Europe and the Far East in particular began to build up steam.

The integration of ASG was a special factor in the overall positive performance posted by the Eurocargo business unit. By adding ASG to our lineup, we not only significantly expanded our geographic focus, but also enlarged our range of products and services.

Market position substantially stronger

Our LOGISTICS corporate division was able to strengthen its market position through internal and external growth during the year. One decisive factor in this development was the ongoing expansion of our worldwide network, which we pursued through corporate acquisitions.

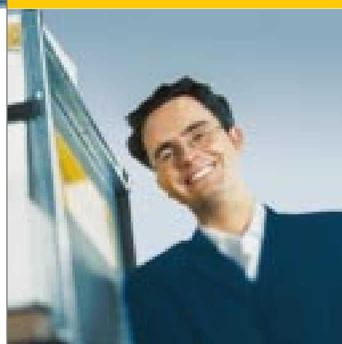
One of these new additions is the Dutch company Nedlloyd European Transport and Distribution (ETD) which Danzas and Deutsche Post acquired jointly in July 1999. Nedlloyd ETD closed a number of geographic gaps in our coverage of Europe (particularly in Germany and the Benelux countries), improving market penetration for the entire Danzas Group in the process. Further, by bringing Nedlloyd ETD on board, we also added a new business unit, Nedlloyd Fashion Services. This move also expanded our product range. The companies Nedlloyd Districenters and Nedlloyd Flowmasters have been integrated into the Industry Solutions business unit, a step that has led to efficiency gains in this area as well.

Another milestone was reached with the acquisition of ASG, Scandinavia's leading transport and logistics corporation. The merging of our networks that came in the wake of this acquisition also closed a few more geographic gaps (particularly in northern Europe) and consequently strengthened Danzas's position as market leader. With its three divisions ASG Logistics (integrated contract logistics), ASG Road Transport (road transport within Scandinavia and the Baltic states and throughout continental Europe) and ASG Air & Sea (international air and sea freight services), ASG augments Danzas's operations perfectly.

Another important stage in improving our market position was our acquisition of the American company Air Express International (AEI) which was announced in November 1999. Also a global operator, AEI is the oldest and largest air freight carrier in the United States. This acquisition became legally effective after Deutsche Post World Net acquired some 96 percent of the AEI outstanding shares on the basis of a corresponding bid and after the cartel offices in Europe and the U.S.A. approved the takeover in February of this year.

Logistics solutions – Danzas leads the pack

The individual business units can also look back on a successful year. Danzas noticeably improved its market standing in the area of third-party logistics. This was due to the previously mentioned acquisition of Nedlloyd ETD and to our acquisitions of the Philips subsidiaries DDF Logistica in Brazil and Vindo Logistik in Austria. These acquisitions not only expanded our existing network. The addition of the Philips subsidiaries to our lineup also extended our operations into up-and-coming markets such as Latin America and – via that vital gateway, Austria – eastern Europe. We also strengthened our textile logistics business by transferring our subsidiary Deutsche Post Kontrakt Logistik GmbH to Danzas as of January 1, 2000. Deutsche Post Kontrakt Logistik GmbH's operations encompass, for example, ITG, a company specializing in logistics solutions for the fashion and shoe industries. Put in a nutshell, Danzas leads Europe's logistics solutions field today, particularly in the area of textile logistics. Its position in the electronics and telecommunications sectors is strong, and it was also able to establish itself firmly in the automotive sector.



Intercontinental – No. 1 worldwide

We were able to increase our net revenue in the Intercontinental business unit. Further, it was possible to expand the geographic presence of the Intercontinental business unit through acquisitions effected during the reporting year. In this area, the most significant was our acquisition of the American company Air Express International (AEI), announced last year. Lined up together against their international competition, Danzas and AEI rank first in the air freight business and fifth in the sea freight business, giving Danzas No. 1 standing in the intercontinental forwarding business. Merging Danzas and AEI's global networks also led to a noticeable expansion of our range of services.

Our acquisition of the logistics provider Hammond International Limited also contributed to reinforcing and expanding the Intercontinental business unit's market position. This new addition extended our business activities in New Zealand. In the intercontinental business, our project business was further strengthened by the acquisition of the specialist French company Start S.A.

Our range of special services also grew in 1999. Besides adding the Cargo Insurance program to our list, we launched our Cash Forwarding trade finance system.

Eurocargo – No. 1 in Europe

The Eurocargo business unit (European ground transport) is also able to look back on a good year. Following its integration of ASG and Nedlloyd ETD, Eurocargo is now the No. 1 European ground transport business. The integration of Nedlloyd, Unitrans, Nedlloyd NTO and the Nedlloyd subsidiary Gerlach into our Eurocargo business unit provided the springboard for expanding our good market position into market leadership. The last of the geographic gaps in our map were closed with the acquisition of the Irish logistics provider Meadowsfreight and the signing of a cooperational agreement with Securicor Omega International for groupage and less-than-truck load shipments in the U.K.. The future will also see the release of further synergies within Deutsche Post World Net, thanks to Deutsche Post Transport GmbH's (DPT) incorporation into Eurocargo's operations.

Our formula for success – Information technology and systematic cost management

The improvement in last year's results was due not only to the expansion of our business activities but also to a rigorous cost management which falls under the responsibility of the individual business units. At Danzas, 1999 was strongly shaped by the integration of newly acquired companies, which generated synergies on the one hand and continues to entail restructuring on the other. The cost-saving synergies these activities released significantly strengthened our purchasing position. This was enhanced by savings arising from the consolidation of branch offices. Eliminating duplication in the IT field also cut costs. Looking at the medium-term, cross-selling effects in particular will produce further revenue synergies.

Information technology also contributed to the logistics business' successful performance in 1999. We implemented several new information systems during the year. These included an expanded IT solution for tracking and tracing purposes in the European ground transport field, and a new application that supports work in our terminals. Our some 800 IT experts around the world made a valuable contribution toward the integration of Nedlloyd ETD and ASG by bringing the various IT platforms used by these companies in line with one another. Our IT team is currently developing new applications and integrating AEI's software.

The outlook – On our way to becoming No. 1 worldwide

Under Danzas's direction, the LOGISTICS corporate division will continue to systematically pursue its strategy throughout the current business year. This strategy is aimed at establishing Danzas – under the Deutsche Post World Net banner – as the world's leading logistics provider and at putting synergies with other corporate divisions to work. The LOGISTICS corporate division will mobilize all available forces to selectively strengthen its leading position in the marketplace and boost its profitability further.

Growing this business with integrated, customized logistics solutions is one of the goals we have set. In May 2000, we will bring the three previously independent business units Consumer Solutions, Industry Solutions and Specialties together under the name Solutions. We undertook this reorganization of our customized solutions to make Danzas's logistics products and services more easily accessible to customers. The new Solutions business unit will continue to focus on the key automotive, electronic, textile, pharmaceutical and telecommunications industries and on fast-moving consumer goods. As part of these activities, Danzas's range of value-added services will be continually optimized and expanded. Other strategic goals include generating internal and external growth and, consequently, enlarging our worldwide network. This goes hand in hand with securing and continually improving our market position in all business segments.

An important strategic objective in this context is to expand our intercontinental business. We also plan to optimize our European ground transportation operations, working from the platform offered by the dense, far-reaching network of branch offices we maintain throughout Europe. We plan to improve this network even further.

Financial Services – Available to everyone, everywhere

As a result of its integration into the dense retail outlet network of Deutsche Post and its continuously growing business, Postbank has become a veritable multichannel bank. Its comprehensive product portfolio is attractive to both private and corporate customers.

Prof. Dr. Wulf von Schimmelmann
FINANCIAL SERVICES

Born 1947. Following various international positions with McKinsey & Co., in 1987 the economist was appointed to the Board of the Landesgirokasse Stuttgart. He was responsible, inter alia, for the international corporate customers at DG Bank from 1984 and at BHF-Bank from 1991. In 1997 he headed the holding company Regius as Managing Partner. He was appointed Chairman of the Board of Management of Postbank AG in 1999 and board member at Deutsche Post AG in that same year.

Financial Services

"Integration of Postbank within Deutsche Post World Net is paving the way for Postbank to become one of Germany's leading retail banks. Postbank has capitalized on synergies in joint sales structures, making it a highly capable multichannel bank. Based on its position as the German market leader in payment services, Postbank adds to our product portfolio of standardized financial services for private and business customers and financing of value-added logistics services."

Changes in investment behavior

The basic framework of the banking sector is changing markedly. While the market is growing briskly, it is also becoming more and more competitive. Since 1990, lending institutions have nearly doubled their business volume. This growth is accompanied by three trends:

First, the behavior of German customers is changing. They are becoming increasingly price-conscious, and thus more open to switching banks.

Second, a shift in investment focus is becoming apparent: while conventional investment options are still in demand, interest in opportunities such as stocks and investment funds is growing markedly.

Third, new forms of sales, such as telephone and electronic banking, are growing in importance and will shape banking business in the future. As a result, success in the financial services industry now depends centrally on an adequately structured mixture of sales channels.

Postbank's Forward Strategy

In June 1999, we launched the "Postbank Forward Program". The key points of this strategy include:

- Expanding the bank's position as a true multichannel bank that offers its customers the best possible availability, via a range of channels, including retail outlets, telephone banking, the Internet and banking by mail;
- Expansion of the bank's range of products – especially through introduction of direct brokerage – and intensification of the bank's successful activities in investment funds;
- Reorientation of the bank's IT systems, combined with the aim of achieving major cost reductions.

Postbank made a major move toward these aims in 1999 through a highly effective reorganization, and all "Forward Program" projects have now been assigned to the new corporate divisions. Thanks to this program, we achieved savings of approx. EUR 25 million in 1999.

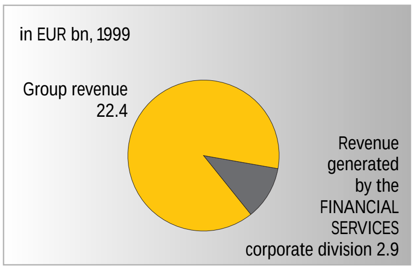
Postbank has already achieved a significant position as the first true multichannel bank. Home banking via the telephone, the Internet or T-Online complements the retail-outlet services. Postbank now reaches its customers via the retail outlet network, call centers, the Internet, mail and self-service terminals.

Within the scope of Postbank's reorientation, both expansion of the bank's traditional business and development of new business segments are envisaged. In the conventional deposit banking and savings accounts business, we offer products that truly shine in terms of customer focus. To meet growing demands for new types of investment opportunities, we have also intensified our activities in the area of broadly diversified investment funds.

In mid-1999, Postbank and the Federal Ministry of Finance agreed that Postbank would acquire the federal government's stake in DSL Bank as of January 1, 2000. DSL Bank specializes in private and commercial building loans and in issues of marketable securities. This spectrum will complement Postbank's products and services and help enhance the bank's lending operations.

Postbank will take the role of frontrunner in the information technology field.

External Revenue Group
FINANCIAL SERVICES corporate division



Postbank, a multichannel bank with an extensive product portfolio.

With new products for corporate customers, we are seeking to build additional market share in this segment as well. These efforts are being supported by a newly established "Corporate Customers" Board Department.

Within the framework of the Deutsche Post World Net's strategic development into an integrated provider of logistics and financial services, Postbank will be responsible for financing value-added logistics services and e-Business payment transactions.

Postbank is breaking new ground in the banking business with its decision to undertake a fundamental overhaul of its information technology (IT) systems. We have entered into a strategic partnership with the software company SAP, and are working with it to develop standard software for large retail banks. We are aiming to reorient our IT systems completely, using this development, and to introduce a highly automated and integrated cost-effective business transaction system within the Group. Once the necessary investments have been made, we will gain considerable cost advantages over the competition.

Business development

The FINANCIAL SERVICES corporate division, which was established in early 1999, primarily consists of Postbank. Postbank is Germany's largest retail bank. Overall, it serves more than ten million customers. In our core business segments of payment transactions and deposits, we have a 5 percent share of the German market. In its first financial year, the corporate division achieved an operating income before amortization of goodwill of EUR 66.7 million, on gross income of EUR 2.9 billion. The balance sheet total reached EUR 61.5 billion as of December 31, 1999.

Home banking: Market leadership expanded

We now have a leading position in Germany in home banking via the telephone, the Internet and T-Online. At present, some 650,000 customers use our online banking services and manage their Postbank accounts via the Internet or T-Online. Our customers made over 15 million electronic transfers, an increase of nearly 15 percent.

We also have increasing usage frequency in telephone banking: in our call centers, we are now available 24 hours a day, 7 days a week, to over 1.5 million customers. An average of 74,000 customers contact Postbank by telephone every day, and the total volume of telephone-banking calls increased by 62 percent in 1999. Calls to our direct service and voice-computer system increased by a very impressive 79.5 percent, to some 26 million customer contacts.

Deposit banking still attractive

In the field of deposit banking, Postbank continued to strengthen its leading market position in 1999. While the elimination of the "Sparen mit festem Zins" product (saving at a fixed interest rate) led to an 8.1 percent reduction of savings accounts with notice periods of over three months, this reduction was more than offset by other types of deposit accounts in our redesigned product range, such as "Kapital plus" (saving at a staggered interest rate). The "Sparen 3000 plus" product (3000 plus savings account) also did well in 1999. Following growth of 2.7 percent, this successful savings account product now accounts for 82.5 percent of all savings deposits. The "Postbank SparCard", which was introduced in the previous year, has been particularly successful – a total of 600,000 cards have been issued.

Strong increase in private lending

We registered strong increases in both building loans and private lending. In 1999, we approved 26,379 private loans, twice as many installment loans as in the previous year. The average loan amount grew to EUR 8,800. This has brought us closer to our declared goal of vigorously expanding our consumer loan operations. In the current financial year, to promote this development we are working to involve all of Deutsche Post World Net's retail outlets more intensively in this business. Postbank has also continued its success in building loans – as of December 31, 1999, our aggregate contract volume in building loans amounted to nearly EUR 1.5 billion, and the trend in new business has been very positive. Moreover, our building loans business segment will be considerably strengthened through our merger with DSL Bank.

Now also an experienced loan partner for corporate customers

The merger with DSL Bank is opening up a broader range of products for our corporate customers. Jointly, we now provide commercial real-estate and special financing solutions for property development and leasing. Postbank also offers business loans and is developing new loan products in the area of payment transactions. In other words, Postbank has already taken decisive steps toward the aims of offering loans tailored to specific groups of corporate customers and of providing special competence in this area.

Investment fund business continuing to develop well

The Postbank Group has registered strong growth in investment funds. At the end of the year, the volume of special funds managed by Deutsche Postbank Invest Kapitalanlagegesellschaft mbH had reached nearly EUR 7.7 billion. The company established 19 special funds. The publicly offered funds of Deutsche Postbank Privat Investment in Bonn and the proven products of Deutsche Postbank International S.A., Luxembourg, have also developed very well. The two companies attracted an investment volume of some EUR 3 billion in 1999. The journal "Capital" awarded a first place ranking, among globally investing stock funds, to "Postbank Dynamik Global", managed by our Luxembourg subsidiary.

Strong growth in home loans and savings products

In its retail outlets throughout the country, Deutsche Post World Net has been successfully offering the product "Postbank plus: Bausparen mit Wüstenrot" (mortgage loans and savings products from Wüstenrot). The company has been cooperating with Wüstenrot since the end of 1997. Last year, the cooperation generated contracts worth over half a billion Euros, twice as much as in 1998.

Insurance: New in the portfolio

Postbank has also been cooperating successfully with Haftpflichtverband der Deutschen Industrie, the HDI insurance group. Postbank and HDI jointly founded PB Lebensversicherung AG and PB Versicherung AG. The two companies, whose business operations began in April 1999, were presented to the market under the name "PB Versicherung – Partner von Postbank und Deutsche Post World Net". As a result, our portfolio now includes pension, accident and life insurance, as well as term life insurance and loan-based insurance in combination with private lending.

Sales network enhanced

In 1999, we continued optimizing our retail outlet network. Deutsche Post World Net now has some 14,000 permanent retail outlets, one of Germany's largest branch networks. This sales structure is a special competitive advantage for the FINANCIAL SERVICES corporate division. The combination of the postal retail outlet network with Postbank is thus a logical extension of the long-existing cooperation. Business of the two companies Postbank and Deutsche Post is now linked in a very profitable way through joint use of retail outlets – resulting in strong cross-selling effects. In the retail outlets, customers have access to both financial services and the full range of products of the MAIL and EXPRESS corporate divisions. This allows Deutsche Postbank to set up its sales network in a considerably more effective and comprehensive way than its competitors.

Every day, some two to three million customer contacts take place in the 14,000 retail outlets. Approximately three quarters of Postbank's business is handled over the counters in retail outlets. At the same time, Postbank's customer business accounts for more than one quarter of all services provided at retail outlet counters. These facts highlight Postbank's role as the leading retail bank.

Nationwide service is backed by diversity in retail outlet types and operators. This enables us to respond to different types of customer requirements, whether the priority is availability, cost or quality. The "Center" outlets are the heart of the company's own retail outlet network. In addition to the standard range of products and services, they offer separate consultation areas for Deutsche Post, Postbank and telecommunications business. A total of 240 competence centers were opened in 1999, and some 300 were available to customers by the end of 1999.

In order to meet the special needs of smaller and medium-sized business customers, a total of 97 new business-customer outlets were opened by the end of 1999, following a successful pilot test and positive responses from customers surveyed.

The outlets operated by our subsidiaries are also meeting with good customer response. They are operated by our Deutsche Post Service- und Vertriebsgesellschaft (DPSV) and McPaper AG subsidiaries. Some 190 McPaper AG retail outlets and about 200 DPSV retail outlets were opened by the end of 1999.

In addition, by the end of 1999 we opened some 8,000 "partner outlets" in department stores, supermarkets and retail stores. These retail outlets have met with an excellent response on the part of customers and partners alike. They also generate considerable cost savings for Deutsche Post World Net.

Trends in retail outlets, by type of operator	End of 1995	End of 1996	End of 1997	End of 1998	End of 1999
The company's own retail outlets	**13,983**	**12,000**	**10,095**	**7,946**	**5,956**
of these, DPAG	13,983	11,981	10,000	7,788	5,562
of these, DPSV	0	19	80	118	206
of these, McPaper	0	0	15	40	188
Partner outlets	**2,988**	**4,604**	**5,236**	**6,536**	**7,992**
Total	**16,971**	**16,604**	**15,331**	**14,482**	**13,948**

New business unit: Commercial customers

For commercial customers, we have established a separate unit that serves companies with revenue of up to EUR 2.6 million, along with professional and self-employed customers. To this group, we offer a special "business line" for telephone consultations.

This change within the framework of the Postbank organization's development is following a similar approach to that used in the retail business. Initially, products with obvious value for the relevant target group are to be developed as the market demands. Products and services will be provided as easily, quickly and cost-effectively as possible.

Payment service streamlined

To offer even more value to customers and enhance our own cost-effectiveness, we have optimized processes and infrastructure in our traditionally strong Payment Transactions business segment.

Hence, we have concentrated our domestic and international payment transactions, in order to achieve synergies and minimize the time required to process and manage customer orders. We have also eliminated unnecessary interfaces. In the period of only ten months, we reduced the number of locations involved in national payment services from fourteen to five, thereby considerably increasing cost-effectiveness. In addition, we have concentrated all international payment transactions in our Saarbrücken location. This has considerably shortened processing times.

Active loan management implemented

To expand our loan business, we require active loan management. We have initiated implementation and introduced customer-specific risk measurement procedures. Postbank's future credit-risk management system will control risks on both the individual loan and portfolio levels. The commercial scoring and rating procedures introduced on the individual loan level will support our lending operations by enhancing early identification of credit risks and thus minimizing defaults on loans.

Great demand for social security service package

The pensions service plays a special role within the corporate division. Deutsche Post World Net offers a comprehensive social security services package to all pension-paying institutions, including those responsible for company old-age pensions. Last year, the pensions service processed a total of some 274 million pension payments, with a total volume of EUR 174 billion, on a trust basis. The customers included the statutory pension and accident insurance authority as well as various organizations that pay company pensions.

Outlook

As early as in summer 2000, our own direct brokerage company, “Postbank EasyTrade AG”, will bring an attractive range of products and services to the market. It will respond to the growing demand for capital market securities (stocks, bonds, etc.).

By making it possible to order stocks and marketable securities cost-effectively by phone or online, Postbank will soon offer its customers all the services of a very convenient key relationship bank, including direct banking services. Securities business is also being added to the retail outlets.

An important, strategic goal for the current financial year is to integrate DSL Bank. It provides Postbank with comprehensive know-how in the issue of marketable securities and building loans. With DSL Bank, we will be able to achieve our ambitious growth goals in building loans. In addition, the merger will provide a healthy balance between lending and deposit operations.

Enhanced consultation services, especially in the corporate customer segment, and improved sales culture, are additional important aims. In our retail outlets, over the phone and the Internet, our customers will enjoy the complete services of a multichannel bank, across a broad range of products. Further successful execution of the Forward Program and transition to the new Postbank organization will continue to improve our profitability.

Most importantly, we must stay on course in our core business. In 1999, for the first time, we were able to stop a decline in private checking accounts. We are aiming for modest growth in this area in 2000. With market-oriented and customer-oriented products at favorable terms, we want to expand on our position as Germany's leading savings bank. We also plan to build on the good results we achieved in the investment business in 1999. Early trends in the current financial year show that we have taken the right approach.

In the future, Postbank will offer financing of value-added services in the areas of transport and logistics. This will include financing of stocks and warehousing as well as processing payment transactions and clearing in e-Commerce and mail-order business.

To further increase the effectiveness of our sales network, by the year 2002 some 700 Center retail outlets, with up to 4,000 sales representatives for postal and financial services, are envisaged. Efficient, active cross-selling efforts will ensure access to the millions of customers who visit the retail outlets each day.

Around 650,000 customers make use of Postbank's home-banking service

Staff – Promotion and motivation

We successfully recruit qualified junior staff using forward-looking personnel marketing activities. Progressive, need-oriented continuing education programs are deployed to advance the skills and capabilities of our employees. "Executive Development" activities are used to selectively foster junior managers within our Group and simultaneously attract highly qualified experts from the private sector. Investment in these areas ensures high quality and productivity levels while boosting our international competitive strength.

Walter Scheurle
Personnel

Born 1952. He began his career in 1967 with an apprenticeship at Deutsche Post. From 1979, he held various full-time positions for the German postal workers' union, Deutsche Postgewerkschaft. He was also a member of the European Commission's Joint Committee on postal services. As a member of the Postgewerkschaft's National Executive, since 1995 he has been responsible for postal policy, educational policy and youth affairs. In the same year, he became a member of the Supervisory Board of Deutsche Post AG, and has been a member of the Board of Management since April 1, 2000.

Qualified employees, thanks to well-targeted training

Continued adjustment of staffing levels

Deutsche Post World Net employed 304,265 people on annual average in 1999. This is 15.5 percent more than the 263,342 reported in 1998. This increase was driven primarily by our new acquisitions which raised our staff levels by some 61,000. As in recent years, we continued adjusting our staff size at Deutsche Post AG in 1999. As a result, the number of people working for Deutsche Post AG (including trainees) declined by five percent to 243,933 during the year.

Deutsche Post World Net's workforce totaled 264,424 full-time equivalents as of December 31, 1999, compared to 223,863 one year before. Our acquisitions also affected the amounts we spent on wages, salaries and remuneration, raising them by 19 percent to EUR 7.4 billion. Total personnel expenditures including pension costs grew by 16.7 percent to EUR 11.5 billion. On the positive side, total personnel expenditures have fallen from 67.2 percent of revenue in 1998 to 51.4 percent in 1999.

Investment in the individual's professional future

We view it as our duty to offer our junior staff members qualified training. Teenagers and young adults can undergo training in one of eleven occupations at Deutsche Post World Net in Germany. The types of vocational training available to the more than 6,300 new recruits range from letter and freight mail specialist to commercial or electrical engineering-related fields, all the way to specialized computer scientist or information technology officer. In 1999, we were able to offer 1,300 young Deutsche Post World Net employees who successfully passed their exams a wide variety of jobs with good prospects for career advancement.

For the first time in 1999, the College of Advanced Vocational Studies offered high school graduates the opportunity to enroll in a so-called "dual" course of study that combines theoretical instruction with practical training and leads to a degree in business administration. Once they obtain their degree, these students will have a good chance of landing a position of responsibility within Deutsche Post World Net.

Our Group offers university and college graduates interesting and even international career opportunities. Be it as a trainee undergoing selective training in preparation for an executive position in our company or as a direct entrant in a specialized field, our international Group offers a broad range of job options and alternative career opportunities.

As part of its personnel marketing measures, Deutsche Post World Net showcases this wide range of opportunities in the Internet and at university conferences. Going beyond personnel recruitment, it offers students the chance to develop links with our Group even during their studies – through internships or assistance with their Master's theses and doctoral dissertations.

Training for growing competition

A further focus of our work in 1999 was to raise our employees' qualification levels to help them successfully meet ever-growing competition. We systematically continued our work in 1999 with specialized, forward-looking further training measures open to all Deutsche Post World Net employees.

Using internal job bulletin boards in our Intranets, we have offered employees the opportunity to switch jobs within the company and move up the career ladder since 1999. This system allows employees to check for internal vacancies and even place anonymous wantads for a new job. With these activities, we offer our employees occupational security and thus prevent a know-how drain within our company.

Executive staff

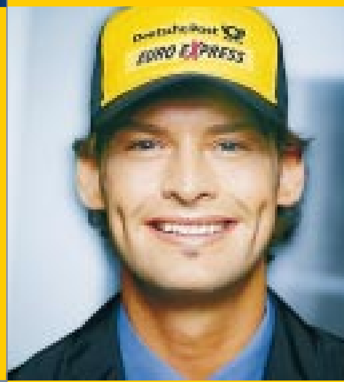
Using internal personnel development plans, we were able to recruit and foster a large number of executives from our own ranks. Candidates who have potential for executive responsibilities are screened in special career advancement seminars. We then selectively prepare them for career-advancing jobs in Germany and abroad. We continue to recruit outside managers as reinforcement for our executive team. Last year, we were particularly successful in recruiting managers in the sales, marketing, tax and finance fields, as well as in the international area. We actively supported Deutsche Post World Net's expansion strategy by recruiting top international managers. To us, establishing and cultivating business relations is primarily a local task. As a consequence, we specifically create teams whose thinking and actions are infused with an international dimension.

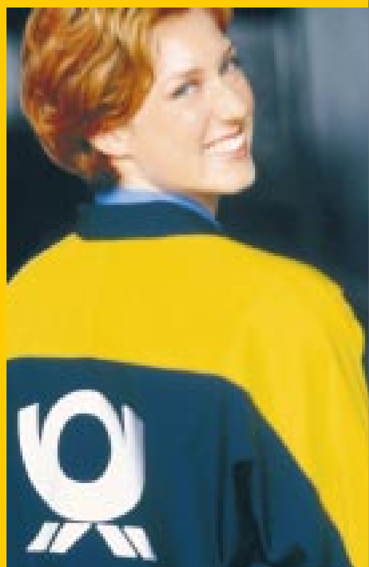
In the wake of Deutsche Post World Net's recent acquisitions, we used a general management appraisal project to assess our managers' aptitude for their future responsibilities. Based on our findings, we prepared appointment decisions. Our priority in this process was to ensure that successful management teams develop their full potential in the new combined Group as well. Our extremely low turnover rate shows that newly recruited managers also find the hands-on jobs we offer attractive. We want our pay structures to provide performance incentives as well. With this in mind, we developed our remuneration system even further to include ever-larger variable components that are determined by the individual's actual performance or operating results. Most of our employment contracts are fixed-term contracts. Depending on the management level, variable components constitute between 20 and 50 percent of the total cash compensation paid to a particular employee.

Integration

Deutsche Post World Net's internationalization was another important focal area for our personnel work. Our job during the integration of new acquisitions into our new corporate divisions is to help the enormous potential of know-how in our Group develop to its fullest. This requires taking account of both regional peculiarities as well as the particular corporate and industry-specific situation. We are currently in the process of establishing a standing internal benchmarking system with our larger subsidiaries. A groupwide internal personnel reassignment system to handle shifting personnel requirements and a corresponding exchange program are also currently on the drawing board.

Personnel





We translate successful personnel development into continued training and career advancement programs.

Downsizing our structural organization

We adjusted our structural organization to meet coming demands. Reorganized as of April 1, 2000, our Board of Management is now divided into the four clearly-defined corporate divisions of MAIL, EXPRESS, LOGISTICS and FINANCIAL SERVICES plus the two service units of Personnel and Finance. A leaner structure was introduced in order to make our Group even more efficient. As a result of these changes, Deutsche Post AG will have only two management levels running it in the future – headquarters and our branch offices. The previous intermediate "directorate" level has been eliminated. Parallel to this, we launched further measures to reduce our overhead and increase our internal productivity. One example of these measures was our bundling of all service tasks into individual organizational units.

We also geared our sales organization even more closely to the respective markets and raised the number of sales employees. At the same time, we introduced a competitive, performance-based remuneration system throughout our entire sales organization with large, variable pay components.

Optimization of the company suggestion system

By incorporating our quality program into the company suggestion system, we were also able to further increase our quality activities in the personnel service area. Deutsche Post AG's company suggestion system was revamped in 1999. Employee participation skyrocketed as a result, with the number of submissions more than doubling from 8,655 in 1998 to 17,826 last year.

Germany's largest employer of women

Deutsche Post World Net is the largest employer of women in Germany today. Deutsche Post AG and Postbank employed a total of 125,062 women in 1999, 49.5 percent of their combined workforce. We also consciously fostered women's career prospects in 1999 with our equal opportunity concept. Our efforts in this area include offering a diversified range of seminars for both male and female employees during family-related leave to facilitate their later return to the working world.

Employee communication with traditional and new media

Deutsche Post World Net cultivates an open, transparent culture of employee communication. Keeping our employees informed – comprehensively, quickly and openly – about current events throughout our Group is important to us. For this reason, we use business TV and the Intranet to supplement our newspapers, which offer managers and employees group-level and division-related news.

Consolidated Financial Statements

1999

Dr. Edgar Ernst
Finance

Born 1952. Following posts as university assistant and management consultant at McKinsey & Co, the mathematician and business economist joined Gustav Schickedanz KG. Here, he held the post of Director of Corporate Development at Quelle, a large mail order company. In 1990 he moved to Deutsche Bundespost, first as Head of Planning and Controlling, then as a board member. He has been a member of the Board of Management of Deutsche Post AG since 1995.

Consolidated Income Statement

For the Period January 1 to December 31,1999

	Notes	Deutsche Post Group 12.31.1999 EUR mill.	Deutsche Postbank Group 12.31.1999 EUR mill.	Deutsche Post Group 12.31.1998 EUR mill.
Revenue and income from banking transactions	(7)	22,363	2,964	14,669
Other operating income	(8)	1,169	254	860
Total operating income		**23,532**	**3,218**	**15,529**
Raw materials and consumables used, and expenses for banking transactions	(9)	– 7,204	– 1,404	– 2.207
Staff costs	(10)	– 11,503	– 716	– 9.860
Depreciation and amortization expense, excl. amortization of goodwill	(11)	– 911	– 117	– 721
Other operating expenses	(12)	– 2,903	– 897	– 1.908
Total operating expenses, excl. amortization of goodwill		**– 22,521**	**– 3,134**	**– 14,696**
Profit from operations (EBIT), before amortization of goodwill		**1,011**	**84**	**833**
Amortization of goodwill		– 72	0	– 6
Profit from operations (EBIT), after amortization of goodwill		**939**	**84**	**827**
Income from associates	(13)	3	0	– 10
Other financial income	(14)	– 78	0	53
Financial income		**– 75**	**0**	**43**
Net profit or loss from ordinary activities		**864**	**84**	**870**
Income taxes	(15)	253	– 105	55
Net profit		**1,117**	**– 21**	**925**
Minority interest	(16)	– 5	0	0
Group profit		**1,112**	**– 21**	**925**

In Euro	Notes	Deutsche Post Group 12.31.1999	Deutsche Post Group 12.31.1998
Undiluted earnings per share	**(18)**	**25.98**	**21.61**
Proposed/paid dividend per share	**(19)**	**4.18**	**3.58**

Consolidated Balance Sheet

as of December 31,1999

Assets	Notes	Deutsche Post Group 12.31.99 EUR mill.	Deutsche Post-bank Group 12.31.99 EUR mill.	Deutsche Post Group 12.31.98 EUR mill.
Non-current assets				
Intangible assets	(20)	1,956	34	226
Property, plant and equipment	(21)	9,048	1,121	7.936
Financial assets	(22)			
Investments in associates		771	306	442
Other financial assets		118	11	881
		889	317	1,323
		11,893	**1,472**	**9,485**
Current assets				
Inventories	(23)	120	0	114
Trade and other receivables	(24)	5,250	2,695	3,555
Receivables and marketable securities from financial services	(25)	55,623	54,925	0
Marketable securities	(26)	87	0	69
Cash and cash equivalents		1,877	1.502	710
		62,957	**59,122**	**4,448**
Deferred tax assets	(27)	**2,268**	**916**	**1,187**
		77,118	**61,510**	**15,120**

as of December 31,1999

Equity and liabilities	Notes	Deutsche Post Group 12.31.99 EUR mill.	Deutsche Postbank Group 12.31.99 EUR mill.	Deutsche Post Group 12.31.98 EUR mill.
Shareholders' equity				
Issued capital	(28)	1,094	409	1,094
Reserves	(29)	446	3,947	-254
Consolidated profit for the period		1,112	-21	925
		2,652	**4,335**	**1,765**
Minority interest	(30)	**56**	**36**	**229**
Provisions				
Retirement benefit and similar obligations	(31)	6.594	460	6,128
Tax provisions	(32)	1,345	218	527
Other provisions	(33)	3,062	492	2,647
		11,001	**1,170**	**9,302**
Liabilities				
Borrowings	(34)	1,749	0	1,838
Trade and other payables	(35)	2,111	303	762
Liabilities from financial services	(36)	55,474	55,408	0
Other liabilities	(37)	1,939	251	1,192
		61,273	**55,962**	**3,792**
Deferred income	(38)	**2,136**	**7**	**32**
		77,118	**61,510**	**15,120**

Consolidated Cash Flow Statement

For the Period January 1 to December 31, 1999

	Deutsche Post Group 12.31.99 EUR mill.	Deutsche Post-bank Group 12.31.99 EUR mill.	Deutsche Post Group 12.31.98 EUR mill.
Net profit before taxation	864	84	870
Gains of non-current assets	– 258	– 4	– 176
Depreciation of non-current assets	997	117	741
Income and expenses not recognized in the income statement	– 125	99	0
Interest income	66	0	– 53
Operating profit before working capital changes/cash flow I	**1,544**	**296**	**1,382**
Changes in current assets and liabilities			
Inventories	– 14	0	31
Receivables	229	– 2,472	– 2,185
Marketable securities	231	0	– 2
Receivables/liabilities and marketable securities from financial services	1,809	1,727	0
Provisions	16	– 65	33
Liabilities	931	414	414
Other balance sheet items	99	– 50	– 26
Net cash from /used in operations/cash flow II	**4,845**	**– 150**	**– 353**
Interest paid	– 141	0	– 69
Interest received	38	0	70
Taxes paid	– 100	0	– 46
Net cash from/used in operating activities/cash flow III	**4,642**	**– 150**	**– 398**
Proceeds from disposal of non-current assets			
Sales of companies	369		382
Property, plant & equipment, and intangible assets	932	22	700
	1,301	22	1,082
Cash used for investing in non-current assets			
Acquisitions of companies	– 2,710	– 268	– 750
Property, plant & equipment, and intangible assets	– 1,843	– 124	– 650
	– 4,553	– 392	– 1,400
Net cash from/used in investing activities	**– 3,252**	**– 370**	**– 318**
Proceeds from short- and long-term borrowings	235	0	386
Repayments of short- and long-term borrowings	– 301	0	– 33
Dividends paid	– 157	0	– 56
Net cash from/used in financing activities	**– 223**	**0**	**297**
Change in cash and cash equivalents	1,167	– 520	– 419
Cash and cash equivalents at beginning of period	710	2,022	1,129
Cash and cash equivalents at end of period	**1,877**	**1,502**	**710**

Consolidated Statement of Changes in Equity

For the Period January 1 to December 31, 1999

		Reserves				
in EUR mill.	**Issued capital**	Capital reserve	Retained earnings	Revaluation surplus	**Group profit**	**Total equity**
as of 12.31.1997	**1,094**	**376**	**–1,973**	**748**	**749**	**994**
Capital transactions with owner						
Capital contribution						
Dividend					–53	–53
					–53	**–53**
Other changes not recognized in the income statement						
Changes on revaluation			464	–457		7
Currency translation differences			0			0
Other changes			–108			–108
			356	**–457**		**–101**
Changes recognized in the income statement						
Allocation to retained earnings			696		–696	0
Group profit			925	925		
			696		**229**	**925**
as of 12.31.1998/01.01.1999	**1,094**	**376**	**–921**	**291**	**925**	**1,765**
Capital transactions with owner						
Capital contribution						
Dividend					–153	–153
					–153	**–153**
Other changes not affecting net income						
Changes on revaluation			291	–291		0
Currency translation differences			–9			–9
Other changes			–63			–63
			219	**–291**		**–72**
Changes recognized in the income statement						
Allocation to retained earnings			772		–772	0
Group profit					1.112	1.112
			772		**340**	**1,112**
as of 12.31.1999	**1,094**	**376**	**70**	**0**	**1,112**	**2,652**

Notes to the Consolidated Financial Statements

(1) Accounting policies

The annual financial statements of Deutsche Post AG for the 1999 business year have been prepared in compliance with the International Accounting Standards (IAS) approved and published by the International Accounting Standards Committee (IASC), and their interpretations by the Standing Interpretations Committee (SIC). Standards that have not taken effect whose application is, however, recommended by the IASC have been generally observed. The IAS and SIC interpretations applied are listed in Paragraph 5.

With its Consolidated Annual Financial Statements in accordance with IAS, Deutsche Post AG made use of its option, stipulated by Section 292a Commercial Code, to prepare the annual financial statements in accordance with internationally accepted accounting standards while at the same time giving up the preparation of annual financial statements in accordance with the provisions of the German Commercial Code. The exemption is justified, as DSL Holding AG, being an included company, was quoted on the stock exchange as of December 31, 1999 and therefore, according to Section 2 (1) Sentence 1 of the Securities Trading Act, has its shares traded on a regulated market. In assessing whether Consolidated Annual Financial Statements and the Consolidated Management Report are in accordance with the 7th EC Directive we refer to the interpretation by the German standardization body DRSC e.V. in the Deutscher Rechnungslegungsstandard Nr.1 (DRS1, German accounting standard No.1).

For a greater transparency of the influence exerted by the Deutsche Postbank Group on the Consolidated Annual Financial Statements of Deutsche Post AG, the Income Statement, Balance Sheet and Cash Flow Statement are complemented by a separate presentation of the Deutsche Postbank Group. This presentation is to take into account the specific business activities of the FINANCIAL SERVICES corporate division. For reasons of comparability with other financial service providers operating on the market, the Deutsche Postbank Group is shown as a sub-group, i.e. before consolidation with the remaining Deutsche Post Group (stand-alone presentation), by applying the structure of the Group as a whole. The sub-group's financial statements have also been prepared on the basis of the International Accounting Standards.

(2) The consolidated Group

The Consolidated Financial Statements cover, besides Deutsche Post AG, all domestic and foreign companies with business activities, in which Deutsche Post AG directly or indirectly has majority voting rights. The consolidated Group includes Deutsche Post AG as the parent company, 75 domestic and 222 foreign companies. Following the materiality principle, 38 companies were not included in the Consolidated Financial Statements, because they were not material to the results of Deutsche Post World Net.

Two domestic and 41 foreign Group companies were included on the basis of proportionate consolidation principles. Seven Group companies were not included, because they were not material to the results of the Group.

Six domestic and 11 foreign companies were included using the equity method. 17 more associated companies that were not material to the results of the Group were included using the book value method.

In the 1999 financial year, a total of 258 companies have been newly included in the Consolidated Financial Statements, the most significant of which are:

Company	Capital share* in %	Date of first consoli-dation	Remarks
Assoware GmbH	51.00	01.01.1999	New acquisition**
Danzas Holding AG, Switzerland, with 90 companies	100.00	01.01.1999	New acquisition
Danzas Beteiligungen GmbH	100.00	07.05.1999	New acquisition
Deutsche Postbank AG with 10 companies	100.00	01.01.1999	New acquisition 82.5 % more purchased
Ducros Services Rapides, France, with Transportes Y Servicios Rapides Transserra, Spain (100 %)	99.25	01.01.1999	New acquisition**
ITG GmbH Logistik und Distribution	82.00	01.01.1999	New acquisition
ITG GmbH Internationale Spedition with 2 companies	80.20	01.01.1999	New acquisition
M.I.T. Srl., Italy	99.99	01.01.1999	New acquisition
Merkur Direktwerbeges. mbH & Co. KG with 4 companies	51.11	01.01.1999	New acquisition**
Securicor Omega Holdings Ltd., U.K., with 24 companies	25.00	04.01.1999	New acquisition
YellowStone Int. Marketing Inc., U.S.A.	100.00	04.30.1999	New acquisition
Janssen Werbeagentur GmbH	100.00	07.01.1999	New acquisition
Nedlloyd Logistikbereich (now Danzas sub-group) with 71 companies	100.00	07.01.1999	New acquisition
Nedlloyd ETD Holding B.V., Netherlands	100.00	07.01.1999	New acquisition
Nedlloyd ETD Beheer B.V., Netherlands	100.00	07.01.1999	New acquisition
Selektvracht B.V., Netherlands, with 2 companies	100.00	07.01.1999	New acquisition
Van Gend & Loos B.V., Netherlands, with 8 companies	100.00	07.01.1999	New acquisition
Deutsche Post Auslandsbeteiligungsges. mbH	100.00	10.25.1999	New acquisition
ASG AB, Sweden (now Danzas sub-group), with 53 companies	99.86	09.01.1999	New acquisition
Narrondo Desarrollo S.L., Spain, with 15 companies	49.00	10.01.1999	New acquisition
DSL Holding AG	81.20	12.01.1999	New acquisition

***The capital share is generally equal to the percentage of voting rights. Only Securicor Omega Holdings Ltd., U.K., provides for a capital share of 25 percent but for voting rights amounting to 50 percent. The basis for the proportionate consolidation of Securicor Omega Holdings Ltd., U.K., is the 49.99 percent share in economic rights.**

****Newly acquired in 1998, in 1999 included for the 1st time**

In the 1999 financial year, expenses for acquisitions amounted to a total of EUR 5,101 million. EUR 2,211 million were accounted for by the Deutsche Postbank Group, EUR 933 million by Danzas, EUR 678 million by the Nedlloyd Group, EUR 384 million by the ASG Group, EUR 303 million by the Securicor Group, and EUR 242 million by DSL Holding AG. The acquisition prices were paid exclusively through the transfer of cash and cash equivalents.

With the 100 percent takeover of the Deutsche Postbank Group, which is primarily operating the retail market, on January 1, 1999 the Deutsche Post Group expanded its corporate division for FINANCIAL SERVICES and is now well prepared to operate the Deutsche Post AG retail outlet network with improved economic feasibility by selling financial products and services. The acquisition is also meant to open up new cross-selling opportunities. Further, a majority stake in DSL Holding AG was acquired in preparation of our acquisition of DSL Bank. DSL Holding AG held a 48-percent dormant equity stake in DSL Bank as of December 31, 1999.

By acquiring Danzas, the Deutsche Post Group incorporated a logistics group offering air and sea shipments around the world, road transportation all over Europe and providing customers with tailor-made logistics solutions. The acquisition of the ASG Group, which operates in the Scandinavian market, and of the logistics division of Nedlloyd which is prominent in Benelux and Germany, rounded out the product and service portfolio of the LOGISTICS corporate divisions of Deutsche Post World Net. Extensive reorganization efforts are required to realize synergy effects arising from the acquisition of these three logistics groups. Therefore, restructuring provisions were made as of the acquisition dates in line with IAS 22 (Business Combinations): EUR 107 million for the Nedlloyd companies and EUR 37 million for the ASG companies. These restructuring provisions were primarily made with a view to staff reduction plans.

All other acquisitions abroad were made under Deutsche Post's internationalization strategy, in particular for setting up an efficient pan-European parcel distribution and express network.

Seven fully consolidated companies, WohnBau Rhein-Main AG, Deutsche Post Wohnen Verwaltungs- und Dienstleistungsgesellschaft mbH and five DTZ companies as well as one DTZ company valued at equity were sold and left the consolidated Group in the 1999 financial year. These disposals are part of the strategy of a medium-term withdrawal from the residential building sector in order to focus on the core business of the Group.

The changes in the composition of the Group due to acquisitions and sales of subsidiaries had the following effects on the net worth, financial position and results for the period:

EUR mill.	1999
Intangible assets	1,705
Property, plant and equipment	1,996
Financial assets	405
Current assets	60,975
Deferred tax	897
Liabilities and provisions	59,459

Sales and acquisitions of subsidiaries affected the earnings position as follows:

The contribution of WohnBau Rhein-Main AG sold on June 30, 1999 to the 1999 Group profit amounted to EUR -3 million. Its contribution to the 1998 Group profit amounted to EUR 1 million. The sales of other companies were without significant effects on the 1999 Group profit. The contribution of companies acquired in the period under review to the 1999 Group profit amounted to EUR -8 million.

Paragraph 44 provides a list of principal affiliated companies, Group companies and associated companies. A full list of Deutsche Post investments is filed with the Commercial Registry of the Bonn District Court.

(3) Foreign currency translation

Currency translation (Euro) of the financial statements of included foreign subsidiaries was made in accordance with the functional currency method, in line with IAS 21 (The Effects of Changes in Foreign Exchange Rates). The functional currency of all foreign subsidiaries is the local currency, as the subsidiaries pursue their business independently in terms of finances, commerce and organization. Therefore, in the Consolidated Financial Statements, the translation of all items shown in the balance sheets of these companies from foreign currencies into Euro was performed using the middle rates on the balance sheet date. Gains and losses resulting from translation were recorded, without affecting net income, directly to retained earnings. Expenditures and income were translated at the average annual exchange rate. Currency translation differences arising therefrom as well as from foreign currrency translations of prior year carry forwards are recorded under shareholders' equity, without affecting net income.

The following exchange rates were applied for currency translation:

Currency	Country	Exchange rate on balance sheet 1999, 1 EUR =	Exchange rate on balance sheet 1998, 1 EUR =	Average exchange rate 1999,1 EUR =	Average exchange rate 1998, 1 EUR =
USD	U.S.A.	1.00460	1.16906**	1.05803	1.11177**
CHF	Switzerland	1.60510	1.60052**	1.60103	1.61088**
GBP	U.K.	0.62170	*	0.65549	*
SEK	Sweden	8.56250	*	8.78688	*
PLZ	Poland	4.15870	4.09058**	4.23165	3.88934**
CZK	Czech Rep.	36.10300	34.93177**	36.87396	35.84732**
ATS	Austria	13.76030	13.76030**	13.76030	13.76029**
BEF	Belgium	40.33990	40.34053**	40.33990	40.34636**
FRF	France	6.55957	*	6.55957	*
IEP	Ireland	0.78756	0.78753**	0.78756	0.78080**
ITL	Italy	1,936.27000	*	1,936.27000	*
NLG	Netherlands	2.20371	2.20368**	2.20371	2.20465**
PTE	Portugal	200.48200	*	200.48200	*
ESP	Spain	166.38600	*	166.38600	*

*) No Group company with a financial statement in this currency in 1998
**) No currency translation rate in 1998; for comparisons the rate 1 EUR = DEM 1.95583 was assumed in 1998

In compliance with IAS 21, in the financial statements of foreign consolidated enterprises using the respective local currencies, foreign currency receivables and cash and cash equivalents are translated at the buying rate, foreign currency liabilities at the selling rate on the balance sheet date. Rate-hedged items, however, are translated at the corresponding hedge rate. Exchange differences are recorded, affecting net income, in other operational expenses and income.

(4) Consolidation principles

The Consolidated Financial Statements of the Deutsche Post Group were prepared on the basis of the financial statements of Deutsche Post AG and the included subsidiaries prepared on December 31, 1999 in accordance with the uniform accounting and valuation principles and audited and certified by independent auditors.

Capital consolidation of newly included subsidiaries is performed using the purchase method by applying benchmark treatment (in line with IAS 22: Business Combinations). Under this method, the purchase consideration for an acquisition is allocated to the assets and liabilities acquired based on their fair values. Any resulting excess of the purchase consideration over the parent's interest in the fair value of net assets acquired is capitalized as goodwill and amortized over its useful life. Any excess of the purchase consideration over the parent's interest in the fair value of net liabilities resulting from the capital consolidation is recognized under deferred income and reversed, affecting net income.

In accordance with IAS 31 (Financial Reporting of Interests in Joint Ventures), Group companies are included in the Consolidated Financial Statements on a proportionate basis. Assets, liabilities, income and expenses are reported in the Consolidated Financial Statements in accordance with the interest the parent holds in the respective company. Proportionate capital consolidation and the treatment of goodwill follow the principles applied for including subsidiaries.

Associates included at equity are accounted for using the carrying-amount method taking into consideration their equity portion. Existing goodwill is disclosed under the associates' equity values.

Revenue, income and expenses as well as receivables and liabilities between the consolidated companies are eliminated. Inter-group profit and losses not realized through sales to third parties are not included.

(5) IAS and SIC Interpretations applied

The Consolidated Financial Statements of Deutsche Post AG are based on those IAS and SIC Interpretations which have been approved and entered into force by the date of the preparation of the financial statements. Standards that have been approved but not yet become operative whose early application is, however, generally recommended by the IASC have also been taken into consideration. The following IAS and SIC Interpretations have been applied in the 1999 Consolidated Financial Statements of Deutsche Post AG.

Standards and SIC-Interpretations used in the 1999 Financial Statements

Standards

IAS 1	Presentation of Financial Statements
IAS 2	Inventories
IAS 4	Depreciation Accounting
IAS 7	Cash Flow Statements
IAS 8	Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies
IAS 9	Research and Development Costs
IAS 10 (rev. 1999)	Events After the Balance Sheet Date
IAS 11	Construction Contracts
IAS 12	Income Taxes
IAS 14	Segment Reporting
IAS 16 (rev. 1993)	Property, Plant and Equipment
IAS 17	Leases
IAS 18	Revenue
IAS 19	Employee Benefits
IAS 20	Accounting for Government Grants and Disclosure of Government Assistance
IAS 21	The Effects of Changes in Foreign Exchange Rates
IAS 22 (rev. 1993)	Business Combinations
IAS 23	Borrowing Costs
IAS 24	Related Party Disclosures
IAS 25	Accounting for Investments
IAS 26	Accounting and Reporting by Retirement Benefit Plans
IAS 27	Consolidated Financial Statements and Accounting for Investments in Subsidiaries
IAS 28 (rev. 1998)	Accounting for Investments in Associates
IAS 29	Financial Reporting in Hyperinflationary Economies
IAS 30	Disclosures in the Financial Statements of Banks and Similar Financial Institutions
IAS 31	Financial Reporting of Interests in Joint Ventures
IAS 32	Financial Instruments: Disclosure and Presentation
IAS 33	Earnings per Share
IAS 37	Provisions, Contingent Liabilities and Contingent Assets

SIC-Interpretations

SIC 1	Consistency – Different Cost Formulas for Inventories
SIC 3	Elimination of Unrealized Profits and Losses on Transactions with Associates
SIC 6	Costs of Modifying Existing Software
SIC 7	Introduction of the Euro
SIC 8	First-time Application of IAS as the Primary Accounting Basis

(6) Segment Reporting

Primary reporting

EUR mill.	MAIL		EXPRESS		LOGISTICS		FINANCIAL SERVICES		Reconciliation		Group	
	1999	1998	**1999**	1998	**1999**	1998	**1999**	1998	**1999**	1998	**1999**	1998
External revenue	**10,240.4**	9,947.1	**4,593.8**	3,576.3	**4,204.0**	0.0	**2,855.7**	80.5	**468.8**	1,064.8	**22,362.7**	14,668.7
Internal revenue	**1,430.6**	1,324.7	**309.9**	241.5	**14.3**	0.0	**15.3**	0.0	**–1,770.1**	–1,566.2	**0.0**	0.0
Total revenue	**11,671.0**	11,271.8	**4,903.7**	3,817.8	**4,218.3**	0.0	**2,871.0**	80.5	**–1,301.3**	–501.4	**22,362.7**	14,668.7
Profit from operations (EBIT) before amortization of goodwill	**1008.7**	943.9	**64.9**	–6.6	**49.7**	0.0	**66.7**	–4.7	**–179.1**	–100.1	**1,010.9**	832.5
Profit from operations (EBIT) after amortization of goodwill	**1,007.7**	943.5	**34.6**	–10.8	**9.9**	0.0	**66.6**	–4.7	**–179.4**	–101.1	**939.4**	826.9
Income from associates	**0.0**	0.0	**3.6**	–13.5	**0.0**	0.0	**0.0**	0.0	**–0.4**	4.0	**3.2**	–9.5
Segment assets	**5,924.6**	5,483.6	**5,034.4**	3,191.4	**3,098.3**	0.0	**60,075.5**	69.4	**–1,364.9**	3,528.9	**72,767.9**	12,273.3
of these: investments in associates	**0.0**	0.0	**427.5**	430.9	**28.1**	0.0	**306.1**	0.0	**8.7**	10.5	**770.4**	441.4
Segment liabilities	**1,341.2**	1,083.9	**1,219.6**	574.4	**2,160.9**	0.0	**56,211.9**	34.2	**–1,294.5**	1,172.1	**59,639.1**	2,864.6
Segment investments	**481.2**	504.8	**1,141.3**	200.9	**2,033.4**	0.0	**1,328.6**	1.2	**50.2**	58.6	**5,034.7**	765.5
Depreciation and devaluation	**440.7**	431.5	**244.3**	235.8	**117.0**	0.0	**145.0**	0.8	**36.1**	58.9	**983.1**	727.0
Other non-cash expenses	**241.4**	303.6	**163.9**	–92.6	**158.3**	0.0	**192.3**	30.2	**–17.7**	0.0	**738.2**	241.2

Secondary reporting

EUR mill.	Germany		Europe, excl. Germany		U.S.A.		Asia/Pacific		Other regions		Group	
	1999	1998	**1999**	1998	**1999**	1998	**1999**	1998	**1999**	1998	**1999**	1998
External revenue	**17,541.7**	14,364.8	**3,968.1**	260.8	**536.2**	9.9	**211.8**	0.0	**104.9**	33.2	**22,362.7**	14.668.7
Segment assets	**63,883.4**	11,719.1	**7,898.9**	82.5	**371.2**	3.3	**140.6**	0.0	**473.8**	468.4	**72,767.9**	12,273.3
Segment investments	**2,588.3**	654.7	**2,071.2**	48.7	**231.3**	0.1	**94.8**	0.0	**49.1**	62.0	**5,034.7**	765.5

Notes to the Segment Reporting

Segment Reporting has been prepared in accordance with IAS 14 (Segment Reporting). In orientation to the organizational and internal reporting structure of the Group, individual data for the Consolidated Financial Statements are presented differentiating between business segments (=corporate divisions) and geographical areas. The segmentation is meant to provide transparency in terms of the revenue situation and success factors as well as net worth and financial position of the individual components of the Group.

Based on the overriding organizational structure of the Group, the primary reporting is oriented toward the business segments (=corporate divisions) of the Group. The Deutsche Post Group distinguishes between the following business segments:

MAIL

The MAIL corporate division increasingly perceives itself as all-round service provider for the management of written communications, going beyond its traditional role as provider of mere transport and delivery services.

EXPRESS

Deutsche Post AG has combined its national and international activities on the distribution market in the EXPRESS corporate division. The international letter business and the remaining international postal activities were combined and are now under one management.

LOGISTICS

The LOGISTICS corporate division was established in the financial year 1999 with the acquisition of DANZAS Holding AG, Switzerland. Customers are offered integrated services from a single source: air and sea freight forwarding worldwide, road transportation all over Europe and tailor-made logistics solutions.

FINANCIAL SERVICES

The FINANCIAL SERVICES corporate division represents the Group's banking business in the fields of payment transactions and deposits, investment funds and loans and advances. Prior-year figures refer exclusively to the postal pension business segment (handling of payments from social security institutions).

The data referring to these two business segments (=corporate divisions) are reported after consolidating the relationships within the corporate divisions. The relationships between the corporate divisions are eliminated in the reconciliation of Group financial statement values. Non-allocable items and other components of the Group, such as the real estate and building construction area and the counter services rendered on behalf of Deutsche Postbank AG, are also eliminated.

Notes to the Segment Reporting

Notes on the primary reporting values:

- External revenue is the revenue generated with parties outside the Group.
- Internal revenue shows the revenue generated with other corporate divisions. The determination of the transfer prices for intercompany revenue is oriented towards the market, applying the arm's length principle. Non-marketable services are generally reported at their actual costs. Additional expenses arising from Deutsche Post AG's universal service obligation (nationwide retail outlet network, delivery on each workday) and, being a legal successor to Deutsche Bundespost, its obligation to take over the former compensation structure are fully allocated to the MAIL corporate division.
- Segment income and expenses of the FINANCIAL SERVICES corporate division also include interest income and interest expenses of the Deutsche Postbank Group.
- Segment assets consist of non-current assets (intangible assets, property, plant and equipment, investments in associates) and current assets (excluding cash and cash equivalents and marketable securities), including receivables arising from financial services. Acquired goodwill is allocated to the corporate divisions.
- Segment liabilities refer to non-interest bearing liabilities and liabilities arising from financial services.
- Segment investments refer to intangible assets (including acquired goodwill) and property, plant and equipment.
- Depreciation and amortization refer to the segment assets attributed to the individual corporate divisions.
- Other non-cash expenses are mostly expenses for provisions.

Secondary reporting by geographical segments distinguishes between the following regions: Germany, Europe (excl. Germany), the Americas, Asia/Pacific and other regions.

Notes on the secondary reporting values:

- External revenues are attributed according to the location of the customers. Only revenues generated with customers outside the Group are accounted for.
- Segment assets are allocated according to the location of assets. They cover non-current assets (intangible assets, property, plant and equipment, investments in associates) and current assets (excluding cash and cash equivalents and marketable securities) of the individual regions as well as acquired goodwill attributed by the domicile of the respective companies.
- Segment investments are also attributed according to the location of the respective assets. They comprise investments in intangible assets (including acquired goodwill) and property, plant and equipment.

(7) Net revenue and income from financial services

Net revenue and income from financial services activities break down as follows:

Notes to the Consolidated Income Statement

EUR mill.	1999	1998
Net revenue	19,572	14,669
Income from banking activities	2,791	0
	22,363	**14,669**

Net revenue and income from financial services are recognized to the extent that the respective services have been rendered, the amount of income can be reliably determined and the economic benefit from the service rendered is sure to be allocated to the Group.

In the 1999 financial year, as in the previous year, no net revenue or income from financial services was generated based on swaps.

Another splitting of revenue by business segments (=corporate divisions) as well as the allocation of net revenue and income from financial services to geographical regions is described in the enclosed segment reporting chapter.

Income from financial services included:

EUR mill.	1999	1998
Interest income		
interest income from credit and money market business	1,427	0
interest income from fixed-income securities and debt securities	712	0
	2,139	**0**
Commission income	381	0
from equities and marketable securities	263	0
from insurance business	4	0
Net income from financial operations	3	0
Other income	1	0
	2,791	**0**

Net income from financial operations is the profit minus losses from marketable securities of the trading portfolio.

(8) Other operating income

Other operating income in 1999 consisted of:

EUR mill.	1999	1998
Gains on disposal of intangible assets and properties, plant and equipment	243	227
Income from reversal of negative goodwill of the Deutsche Postbank Group	225	0
Income from additions to receivables and marketable securities of the Deutsche Postbank Group	87	0
Rent received	75	102
Proceeds from sale of WohnBau Rhein-Main AG	63	0
Income from reversal of provisions	42	149
Other	434	382
	1,169	**860**

(9) Raw material and consumables used and expenses from financial services

Expenses for raw material and consumables used and expenses from financial services break down as follows:

EUR mill.	1999	1998
Raw materials and consumables used	5,939	2,207
Expenses from financial services	1,265	0
	7,204	**2,207**

Expenses for raw material and consumables used consisted of:

EUR mill.	1999	1998
Expenses for raw material, consumables and goods	778	570
Expenses for purchased services	5,161	1,637
	5,939	**2,207**

Under these expenses the costs of goods consisted almost entirely of the costs of phone cards sold. This item also includes the costs of office supplies, printed matter and consumables. Expenses for purchased services consisted principally of haulage, maintenance and energy costs.

Expenses for financial services include:

EUR mill.	1999	1998
Interest expenses	1,232	0
Commission expenses	31	0
Expenses from insurance business	2	0
	1,265	**0**

(10) Staff costs

Staff costs consisted of:

EUR mill.	1999	1998
Wages, salaries and other emoluments	7,447	6,258
Pension expenses	2,811	2,620
Social security contributions	1,002	762
Benefits	243	220
	11,503	**9,860**

Pension expenses include EUR 2,045 million (1998: EUR 2,045 million) of post-retirement contributions by Deutsche Post AG to Deutsche Post Pensions-Service e.V. and EUR 159 million (1998: EUR 159 million) of contributions by Deutsche Postbank AG to Postbank Pensions-Service e.V.. Deutsche Post Pensions-Service e.V. and Deutsche Postbank Pensions-Service e.V. are the pension funds responsible under Sections 15(1) and 16(1), respectively, of the Personalrechtsgesetz for the payment of pensions and healthcare benefits to retired civil servants.

In the period under review, the average numbers of staff were as follows:

	1999	1998
Wage earners	142,581	133,121
Civil servants	96,065	97,815
Salaried employees	59,656	27,555
Staff in training	5,963	4,851
	304,265	**263,342**

As of December 31, 1999, the Group's total workforce (FTEs), including staff in training, amounted to 264,424 (as of December 31, 1998: 223,863).

(11) Depreciation and amortization, excluding amortization of goodwill

Depreciation and amortization consisted of:

EUR mill.	1999	1998
Amortization of intangible assets, excl. amortization of goodwill	95	42
Depreciation on property, plant and equipment		
Buildings	198	197
Technical equipment and machinery	162	147
Other equipment, plant and office equipment	456	335
Repayments and construction contract work in progress	0	0
	816	679
	911	**721**

(12) Other operating expenses

Other operating expenses arose from:

EUR mill.	1999	1998
Leases	460	254
Transfers to provisions	290	374
Allowances for receivable and marketable securities of the Deutsche Postbank Group	270	0
PR activities	242	123
Travel, training and supplementary staff costs	238	188
Services provided by the Federal Post and Telecommunications Agency	127	130
Taxes	109	123
Disposals of non-current assets	49	51
Other	1,118	665
	2,903	**1,908**

(13) Income from associates

The contribution of investments in companies in which Deutsche Post AG exercises a significant influence and which are to be consolidated using the equity method, to the corporate financial result amounted to EUR 3 million (1998: EUR -10 million). They include income from investments in associates amounting to EUR 17 million (1998: EUR 4 million) and amortization of goodwill amounting to EUR 14 million (1998: EUR 14 million).

(14) Other financial income

Other financial income is structured as follows:

EUR mill.	1999	1998
Interest and similar expenses	–147	–111
Depreciation of short-term securities	–13	0
Income from debt securities and long-term loan receivables	48	101
Interest and similar income	33	63
Income from other participating interest	1	0
	–78	**53**

Expenses and income from banking operations of the Deutsche Postbank Group are not recognized under other financial income.

While income, especially in the form of interest income, income from shares and marketable securities and commission income, are disclosed under net revenue and income from banking operations (see (7)), expenses, especially in the form of interest and commission expenses, are disclosed under raw material and consumables used and expenses from banking operations (see (9)).

(15) Income taxes

Income taxes consisted of:

EUR mill.	1999	1998
Current taxes on profit	19	46
Deferred tax expenses		
resulting from tax loss carry forwards	– 111	– 75
resulting from timing differences	– 161	– 26
	– 253	**– 55**

Due to a high deferred-tax income, an all-in-all positive profit contribution is disclosed under "Income Tax". Deferred tax income is the result of tax loss carry forwards (especially those of Deutsche Post AG and Deutsche Postbank AG) requiring deferred tax assets affecting net income. They are also the result of a rise in tax deferrals on temporary differences between valuations applied in the commercial balance sheet and the tax balance sheet. The rise in deferred tax liabilities, affecting net expenses, is overcompensated by the rise in deferred tax assets, affecting net income. For details on deferred tax assets and liabilities see (27) and (32).

In accordance with IAS 12 (Income Taxes), deferred taxes are determined by applying the tax rates to be expected at the point of time of realization. As no tax rate changes were passed for future periods, the tax rates valid on the balance sheet date are applied. The tax rate for Deutsche Post AG and all other group companies was fixed at 44.2 percent. This rate includes the corporation tax distribution rate including the "solidarity levy"(reunification tax) and the trade tax rate. Foreign Group companies use individual income tax rates to compute their deferred tax items.

In the 1999 financial year, tax income will actually be generated, although the profit on ordinary activities predicts a calculatory tax expense amounting to EUR 382 million (1998: EUR 384 million). This results in the following tax reconciliation:

EUR mill.	1999	1998
Profit from ordinary activities	864	870
Calculatory income tax	381	384
Deferred taxes not recognized for temporary differences	– 632	– 438
Tax rate differences between calculatory and actual tax rate	– 2	– 1
Actual income tax	**– 253**	**– 55**

The difference between calculatory tax expense and actual/current tax income is based almost exclusively on temporary differences between Deutsche Post AG and Deutsche Postbank AG's IAS balance sheets, commercial balance sheets and tax balance sheets, that have not resulted in the formation and subsequent retransfer of deferred taxes (especially deferred tax assets). In accordance with IAS 12.15 (b) and IAS 12.24 (b) deferred taxes shall not be recognized for temporary differences resulting from initial recognition in the opening tax balance sheet as of January 1, 1996.

(16) Minority interest

In the 1999 financial year, minority interest income amounted to EUR 6 million (1998: EUR 5 million); loss attributable to minorities amounted to EUR 1 million (1998: EUR 5 million).

(17) Other taxes

Taxes other than taxes on income and profit are recognized either under the respective expense items or, if an individual attribution is not possible, under other operating expenses. In the period under review, other tax expenses amounted to EUR 127 million (1998: EUR 142 million).

(18) Earnings per share

In accordance with IAS 33 (Basic Earnings per Share) the basic earnings per share are determined by dividing the Deutsche Post Group profit by the average number of shares. In 1999, the number of shares (42,800,000) remained unchanged compared to the previous year. In the 1999 financial year, earnings per share (nominal value: DEM 50) amounted to EUR 25.98 (1998: EUR 21.61). Diluted earnings per share varying from the basic earnings per share cannot be determined, as no option rights on shares are outstanding.

(19) Dividend per share

The proposed dividend for the 1999 financial year amounts to EUR 179 million. Given a total of 42,800,000 shares, this means a dividend per share amounting to EUR 4.18. In 1998, the dividend amounted to EUR 153 million. With the same number of shares, this meant a dividend per share amounting to EUR 3.58.

(20) Intangible assets

In accordance with IAS 38 (Intangible Assets), purchased intangible assets are recognized with their purchase costs. Internally produced intangible assets are recognized at manufacturing costs, provided the assets criteria are met, especially if the intangible assets are expected to generate future economic benefits. Within the Group, this applies to Deutsche Post's own software developments. The manufacturing costs of the self-produced software cover, besides single item costs, adequate proportions of attributable manufacturing overhead expenses. If debt financing costs arise, they are not treated as a manufacturing cost element. Turnover tax arising in connection with the acquisition or manufacturing of intangible assets is recognized under acquisition and manufacturing costs to the extent that it cannot be deducted as prior tax.

Intangible assets are amortized on a straight-line basis over their estimated useful lives. Capitalized software is amortized over 3 to 6 years, licenses are amortized according to their terms.

Whenever there is an indication that the asset may be impaired and the recoverable amount is below the carrying amount, intangible assets are subject to special amortization. If reasons for special amortization cease to exist, the appropriate write-ups are performed.

In line with IAS 22 (Business Combinations), goodwill, including goodwill resulting from capital consolidation, is capitalized and amortized on a straight-line basis over useful lives of 15 to 20 years. Useful lives of goodwill are primarily determined by the importance of each acquisition to the corporate strategies with a view to achieving synergy effects and opportunities of accessing new markets. The values of goodwill are reviewed at regular intervals. If there is an indication that goodwill may be impaired, it is subject to appropriate special amortization.

Starting with the opening figures for the 1998 financial year – in the 1999 financial year, intangible assets developed as follows:

EUR mill.	Concessions, industrial and similar rights and assets, and licenses in such rights and assets	Goodwill	Prepayments	Total
Acquisition or manufacturing costs				
January 1, 1998	200	37	0	237
Changes in the consolidated Group	1	1	0	2
Additions	39	57	0	96
Reclassification	0	0	0	0
Disposals	2	0	0	2
December 31, 1998	238	95	0	333
Changes in the consolidated Group	133	13	9	155
Additions	138	1,708	4	1,850
Reclassification	7	0	–7	0
Disposals	28	7	1	36
December 31, 1999	488	1,809	5	2,302
Amortization				
January 1, 1998	57	3	0	60
Changes in the consolidated Group	1	0	0	1
Amortization	42	6	0	48
Reclassification	0	0	0	0
Disposals	2	0	0	2
December 31, 1998	98	9	0	107
Changes in the consolidated Group	92	7	0	99
Amortization	95	72	0	167
Reclassification	0	0	0	0
Disposals	25	2	0	27
December 31, 1999	260	86	0	346
Recognized value as of December 31, 1999	**228**	**1,723**	**5**	**1,956**
Recognized value as of December 31, 1998	140	86	0	226

(21) Property, plant and equipment

With the exception of real estate, all property, plant and equipment is valued at acquisition or manufacturing costs, less scheduled depreciation on a straight-line basis (in line with IAS 16: Property, Plant and Equipment). Manufacturing costs cover single-item costs as well as appropriate proportions of attributable overhead expenses. Debt financing costs are not recognized under acquisition and manufacturing costs, but directly as expenses. Turnover tax arising in connection with the acquisition or manufacturing of property, plant and equipment is recognized under acquisition and manufacturing costs to the extent that it cannot be deducted as prior tax.

Within the entire Deutsche Post Group, scheduled depreciation, generally following the straight-line method, is based on the following useful lives:

Buildings	10	to	80	years
Technical equipment and machinery	4	to	10	years
Passenger cars	3	to	5	years
Heavy goods vehicles	4	to	7	years
Other motor vehicles	4	to	8	years
IT systems	3	to	5	years
Other furniture & fixtures and office equipment	4	to	10	years

If there is an indication that an asset may be impaired and the recoverable amount is below the carrying amount, property, plant and equipment is subject to special depreciation. If reasons for special depreciation cease to exist, the appropriate write-ups are performed.

Unlike other property, plant and equipment, real estate is carried at a revalued amount (IAS 16.30 ff.). Revaluation of real estate is oriented to the capital gains that can be achieved on the market. Revaluation also takes into consideration findings from market research and analyses, as well as previous sales negotiations and already completed sales of comparable objects.

If the carrying amount of the real estate rises as a result of a revaluation, the amount by which the acquisition or manufacturing costs of the real estate less scheduled depreciation are exceeded is not recognized in the Income Statement. Revaluation surplus is included in equity to the amount exceeding the net carrying amount. If the carrying amount decreases as a result of a revaluation, the decrease is recognized as an expense to the extent that the decrease cannot be charged directly against any related revaluation surplus. If the revaluation surplus is realised by the sale of real estate, a transfer from revaluation surplus is made to retained earnings, in accordance with IAS 16. Thus the Group profit does not include non-recurring gains on disposals.

In previous years the revaluation method was applied to value this part of property, plant and equipment at its fair market value, with a view to the envisaged sale of the real estate. Meanwhile, with the sale of WohnBau Rhein-Main AG effected in the period under review, major parts of the Group's real estate holding have been disposed of. Therefore, today the revaluation method is only of minor importance to the Group's accounting.

Starting with the opening figures for the 1998 financial year – in the 1999 financial year, property, plant and equipment developed as follows:

EUR mill.	Land and buildings, incl. buildings on land owned by third parties	Machinery	Other equipment, furniture and fixtures and office equipment	Prepayments and construction in progress	Total
Acquisition or manufacturing costs					
January 1, 1998	7,449	1,559	1,649	115	10,772
Changes in consolidated Group	– 782	3	27	1	– 751
Additions	133	95	399	42	669
Revaluations	13	0	0	0	13
Reclassifications	51	40	– 2	– 89	0
Disposals	262	79	127	13	481
December 31, 1998	6,602	1,618	1,946	56	10,222
Changes in consolidated Group	472	212	597	33	1,314
Additions	421	308	712	198	1,639
Revaluations	0	0	0	0	0
Reclassifications	29	2	9	– 40	0
Disposals	348	146	318	10	822
December 31, 1999	7,176	1,994	2,946	237	12,353
Depreciation					
January 1, 1998	944	385	613	1	1,943
Changes in consolidated Group	– 144	1	19	0	– 124
Depreciation	197	147	335	0	679
Reclassifications	0	1	– 1	0	0
Disposals	57	55	100	0	212
December 31, 1998	940	479	866	1	2,286
Changes in consolidated Group	– 12	145	386	0	519
Depreciation	198	162	456	0	816
Reclassification	0	0	0	0	0
Disposals	64	53	199	0	316
December 31, 1999	1,062	733	1,509	1	3,305
Recognized value as of December 31, 1999	**6,114**	**1,261**	**1,437**	**236**	**9,048**
Recognized value as of December 31, 1998	5,662	1,139	1,080	55	7,936

There are restraints on the disposal of property, plant and equipment with a carrying amount of EUR 55 million (1998: EUR 0 million). Property, plant and equipment pledged as security provide for a carrying amount of EUR 10 million (1998: EUR 1 million). Commitments were taken on to acquire property, plant and equipment valued at EUR 10 million (1998: EUR 0 million).

(22) Financial assets

Investments in associates are accounted for under the equity method (IAS 28: Accounting for Investments in Associates). The investment is initially recorded at cost. On the basis of the acquisition costs, the carrying amount of the investment is increased or decreased by the changes in the investee's equity to the extent that they effect the investment of Deutsche Post AG.

Goodwill included in the carrying amounts of the investment is amortized over a period of 20 years using the straight-line basis, taking into consideration its estimated useful life. Its value, like that of the goodwill of subsidiaries, is reviewed at regular intervals. If necessary, special amortization is carried out.

Other financial assets include investments in affiliated companies that are not included in the consolidated Group, other participating interest and loans. They are recorded at their acquisition cost. If there is a decline other than temporary in the value of the financial assets, they are subject to non-scheduled depreciation, in accordance with IAS 25 (Accounting for Investments). If the reasons for non-scheduled depreciation no longer exist, appreciation is provided.

Starting with the initial figures for the 1998 financial year – in the 1999 financial year, financial assets developed as follows:

EUR mill.	Shares in affiliated companies	Investments in associates	Other participating interest	Loans to participating interest	Housing promotion loans	Long-term investments	Other loans	Total
Acquisition or manufacturing costs								
January 1, 1998	15	27	471	1	386	0	4	904
Changes in consolidated Group	–14	4	–26	0	47	0	0	11
Additions	33	451	239	0	18	0	1	742
Reclassification	0	0	0	0	0	0	0	0
Disposals	0	26	0	0	291	0	2	319
December 31, 1998	34	456	684	1	160	0	3	1,338
Changes in consolidated Group	–31	28	18	–1	42	3	9	68
Additions	18	327	20	14	18	0	14	411
Reclassification	447	0	–447	0	0	0	0	0
Disposals	448	12	235	0	197	0	8	900
December 31, 1999	20	799	40	14	23	3	18	917
Depreciation								
January 1, 1998	0	0	0	1	2	0	0	3
Changes in consolidated Group	0	0	0	0	0	0	0	0
Depreciation	0	14	0	0	0	0	0	14
Reclassification	0	0	0	0	0	0	0	0
Disposals	0	0	0	0	2	0	0	2
December 31, 1998	0	14	0	1	0	0	0	15
Changes in consolidated Group	0	0	0	–1	0	0	0	–1
Depreciation	0	14	0	0	0	0	0	14
Reclassification	0	0	0	0	0	0	0	0
Disposals	0	0	0	0	0	0	0	0
December 31, 1999	0	28	0	0	0	0	0	28
Recognized value as of Dec. 31, 1999	**20**	**771**	**40**	**14**	**23**	**3**	**18**	**889**
Recognized value as of Dec. 31, 1998	34	442	684	0	160	0	3	1,323

(23) Inventories

Inventories include the following:

EUR mill.	1999	1998
Finished goods	64	49
Raw material and consumables used	48	42
Work in progress	8	23
	120	**114**

Work in progress and finished goods are stated at cost or moving average prices or using the LIFO method. These inventories are not stated net of valuation allowances.

Raw material and consumables used include postage stamps not yet issued, heating fuel and spare parts for the freight mail centers. They are stated at fixed values. All other raw material and consumables used are recognized at the lower of average (moving or weighted) or year-end prices.

(24) Trade and other receivables

Trade and other receivables are recognized at their nominal values net of appropriate individual valuation allowances. Trade and other receivables include:

EUR mill.	1999	1998
Trade receivables	1,845	471
Receivables from affiliated companies	62	43
Receivables from participating companies	48	48
Receivables from Deutsche Post Pensions-Service e.V.	13	2,026
Prepaid expenses	395	194
Other assets	2,887	773
	5,250	**3,555**

Of the receivables and prepaid expenses, EUR 0 million (1998: EUR 0 million) and of the other assets, EUR 6 million (1998: EUR 4 million) fall due in more than one year.

(25) Receivables and securities from financial services

Receivables and securities from financial services result exclusively from Deutsche Postbank Group operations. In accordance with IAS 30 (Disclosure in the Financial Statements of Banks and Similar Financial Institutions), securities include trading assets and financial assets. Carrying amount and valuation of these assets are in line with IAS 25 (Accounting for Investments).

Receivables and marketable securities from financial services break down as follows:

EUR mill.	1999	1998
Placements with banks		
payable on demand	736	0
Other receivables	26,433	0
	27,169	0
Loans and advances to customers	3,585	0
Provisions for loans and advances		
from general allowances	– 62	0
from itemized allowances	– 188	0
	– 250	0
	30,504	0
Trade assets		
Debt securities and other fixed-income securities	7	0
Equities	1	0
Investment certificates	3	0
	11	0
Financial assets		
Debt securities and other fixed-income securities	17,024	0
Equities	70	0
Investment certificates	8,014	0
	25,108	0
	55,623	**0**

Receivables from banks and from customers are recognized at cost, if appropriate, net of depreciation. Premium and discount are recognized under the respective item and are accrued, in accordance with their respective maturities, as interest expense (under raw material and consumables used, and expenses from banking operations) or as interest income (under revenue and income from banking operations).

Placements with banks and loans and advances to customers are carried at cost, if appropriate, net of depreciation. Premium and discount are recognized under the respective balance sheet item and accrued as interest expense (under raw material and consumables used, and expenses from banking operations) or as interest income (under revenue and income from banking operations).

Special risks involved in lending are fully taken into consideration by applying itemized and general allowances. Itemized allowances apply to existing credit-standing risks, to the amount of the potential loss. General allowances apply to latent credit risks. The amounts of allowances are determined based on experiences with previous actual losses.

Uncollectable loans and advances include those subject to default action and legal proceedings by the bank. Default proceedings are generally IT-based and provide for three steps, depending on the number of days a facility has been overdrawn or on the number of back installments. After expiration of the final deadline the loan is terminated and legal proceedings are initiated, including recovery of the receivables.

Itemized allowances are applied to the provisions for loans and advances. Based on the average repayment rates, the bank determines an itemized bad loan charge ratio. Prior-year charges for terminated loans are adjusted in line with the updated repayment rates.

Default interest is capitalized and carried as receivables, and a respective charge is made.

No amounts were set aside in respect of general banking risks according to IAS 30.50.

Notes to the Consolidated Balance Sheet

In the 1999 financial year, **provisions for loans and advances** developed as follows:

EUR mill.	Itemized allowances	General allowances	Total
January 1, 1999	180	52	232
Application	50	0	50
Reversal	13	0	13
Transfer	71	10	81
December 31, 1999	**188**	**62**	**250**

In 1999, income from receivables written off amounting to EUR 1 million were realized. The total of loans for which no interest was received amounted to EUR 0 million in the period under review.

Residual terms of placements with banks, and loans and advances to customers break down as follows:

Trading assets are carried at their fair values. Listed securities are recognized at their respective market price. All realized profits and losses are reported in the Income Statement under other operating income / other operating expenses.

Financial assets from financial services rendered by the Deutsche Postbank Group include debt securities and other fixed-income securities, equities and investment certificates, which the Deutsche Postbank Group does not hold for dealing purposes, but rather for investing purposes. As these securities are part of Deutsche Postbank AG's operations, they are reported in the current assets of the Deutsche Post Group.

EUR mill.	Residual terms as of 12.31.1999: within 1 year	in 1 to 5 years	after 5 years	Total
Placements with banks	14,924	8,340	3,905	**27,169**
Loans and advances to customers (after taking provisions into account)	1,774	599	962	3,335
	16,698	**8,939**	**4,867**	**30,504**

In the balance sheet, the financial asset securities are recognized at cost. Premiums and discounts are recognized under the respective balance sheet item and are accrued either as interest expenses (under raw material and consumables used, and expenses from banking operations) or as interest income (under revenue and income from banking operations), taking their maturities into consideration. In the case of lasting impairment, depreciation is made on the lower value. If the reasons for impairment cease to exist, a write-up is performed, the maximum amount being the respective purchasing cost. Depreciation is reported in the income statement under other operating expenses; write-ups are reported under other operating income.

(26) Marketable securities

All marketable securities of the Group that do not belong to the financial assets or to the securities from financial services are reported under this item. In accordance with IAS 25 (Accounting for Investments), marketable securities are valued at market price. Depreciation and appreciation on account of changed market values were recognized in the income statement under other financial income.

(27) Deferred taxes

Deferred tax assets are determined in line with IAS 12 (Income Taxes). They result primarily from tax losses brought forward of Deutsche Post AG and Deutsche Postbank AG. Deferred tax assets could be recognized for the temporary differences between values used in the commercial balance sheet and those used in the tax balance sheet of Deutsche Post AG and Deutsche Postbank AG only to the extent that the differences occurred after January 1, 1996 (IAS 12.24 (b)). Deferred tax assets must not be recognized for differences resulting from the initial recognition in the opening tax balance sheet of Deutsche Post AG and Deutsche Postbank AG at January 1, 1996. Deferred tax assets include:

EUR mill.	1999	1998
Deferred taxes on tax losses brought forward		
Deutsche Post AG	1,117	894
Deutsche Postbank AG	744	0
Other Group companies	91	83
	1,952	977
Deferred taxes on temporary differences		
Deutsche Post AG	137	210
Deutsche Postbank AG	172	0
Other Group companies	7	0
	316	210
	2,268	**1,187**

(28) Issued capital

As in the 1998 financial year, the issued capital amounting to EUR 1,094 million provides for a denomination of 42,800,000 shares with a nominal value of DEM 50. The shares are not subject to any restrictions. On behalf of the Federal Republic of Germany, the Bundesanstalt für Post und Telecommunikation (Federal Office for Post and Telecommunications) administers Deutsche Post AG's shares and holds a major stake in the company, in accordance with Section 16 (1) of the German Stock Corporation Act. On December 21, 1999, the Federal Republic of Germany sold 21,399,999 shares to the Kreditanstalt für Wiederaufbau, KfW (Reconstruction Loan Corporation) in Frankfurt am Main. The KfW therefore holds 50 percent of Deutsche Post AG's shares minus one share. No authorization exists for the issue of further shares.

Notes to the Consolidated Balance Sheet

(29) Reserves

The Group's reserves include:

EUR mill.	1999	1998
Capital reserve	376	376
Retained earnings	70	–921
Revaluation surplus	0	291
	446	**–254**

The revaluation surplus resulting from the revaluation of real estate of the Group was released, as WohnBau Rhein-Main AG, Frankfurt am Main, was sold, together with its residential real estate. The net income affecting reduction of retained earnings amounting to EUR 63 million is also the result of the sale of that company. The main reason underlying this reduction is the elimination of Group loan accumulations not affecting net income, whose basis no longer exists after the final consolidation of WohnBau Rhein-Main AG, Frankfurt am Main.

All other 1998 reductions of retained earnings not affecting net income amounting to EUR 108 million also result to a great extent from eliminating loan accumulations not affecting net income, whose basis ceased to exist after the final consolidation of Deutsche Post Wohnbau Köln GmbH and Deutsche Post Wohnbau GmbH.

For an overview of reserves during the business year, see the Consolidated Statement of Changes in Equity on page 103.

(30) Minority interest

Minority interest represents the minority shareholders' proportionate share in the equity of the consolidated subsidiaries. This applies to a major extent to the Deutsche Postbank Group, the Danzas Group and Merkur Direktwerbegesellschaft mbH.

(31) Retirement benefit and similar obligations

Starting with the opening figures for the 1998 financial year – in the 1999 financial year, retirement benefit and similar obligations developed as follows:

EUR mill.	Pension provisions	Obligations similar to pension	Total
January 1, 1998	6,147	18	6,165
Application	576	2	578
Reversal	0	1	1
Transfer	541	1	542
December 31, 1998	6,112	16	6,128
Change in the consolidated Group	412	0	412
Application	553	2	555
Reversal	34	0	34
Transfer	635	8	643
December 31, 1999	**6,572**	**22**	**6,594**

Deutsche Post AG alone provisions for pension obligations amounting to EUR 6,016 million. For most of the Deutsche Post AG staff, post-retirement provisions are made. Retirement benefit plans can be defined contribution plans or defined benefit plans.

In addition to the statutory benefit systems of the pension insurance institutions, to which contributions for wage earners and salaried employees are transferred via incidental wage costs, Deutsche Post AG also, in line with statutory regulations, pays contributions to a defined contribution plan to finance in particular the pension claims of staff with civil servants status and of retired civil servants. A fixed amount of EUR 2,045 million is due every year, for the last time in 1999. From the year 2000 onward, the contribution will amount to 33 percent of the pensionable gross remuneration of active civil servants and of the assumed pensionable gross remuneration of civil servants granted leave of absence. The company is not obliged to pay benefits exceeding the aforementioned contributions.

All other benefit systems of Deutsche Post AG are defined benefit plans. They are to a great extent financed by provisions. Various pension commitments to individual staff groups exist. These commitments depend on the years of service and final salaries. In accordance with IAS 19 (Employee Benefits), the provisions for defined benefit plans were computed using the “projected unit credit” method: Future obligations are determined following actuarial valuation principles and taking relevant influential factors into account. Reflecting demographic and financial assumptions, benefits are attributed on a relative straight-line basis over the staff’s entire period of employment.

The actuarial computation of benefits and the respective expenses for the period was based on the following parameters:

	1999	1998
Rate of interest	6.0%	6.0%
Expected development of wages and salaries (per staff group)	2.0 to 3.5%	2.0 to 3.0%
Expected development of pension (per staff group)	1.5 to 2.5%	1.5 to 2.5%
Expected average fluctuation	1.0%	1.0%
Expected return on assets	3.1 to 6.0%	4.0%

The 1998 Life Expectancy Tables according to Dr. Klaus Heubeck were applied for the relevant computation of the German Group companies.

1999 expenses for defined benefit plans amounted to EUR 635 million (1998: EUR 541 million). The total amount includes:

EUR mill.	1999	1998
Current service costs	148	150
Interest costs	456	367
Expected returns on assets	33	–26
Amortization of actuarial losses	–51	–3
Past service costs	8	33
Effects of plan reductions and settlements	41	20
	635	**541**

Interest costs are recognized under other staff costs, together with other expenses arising from pension obligations.

In line with IAS 19.92, actuarial gains/losses are recognized to the extent that they exceed 10 percent of the maximum of the defined benefit obligation and of the plan assets. The excess amount is attributed to the remaining working lives of the employees participating in that plan and is stated in the Income Statement.

(32) Tax provisions

Starting with the opening figures recorded for the 1998 financial year – in the 1999 financial year, tax provisions developed as follows:

EUR mill.	Actual tax provisions	Deferred tax provisions	Total
January 1, 1998	159	123	282
Application	21	0	21
Reversal	1	0	1
Transfer	231	36	267
December 31, 1998	368	159	527
Change in the consolidated Group	295	303	598
Application	169	0	169
Reversal	19	0	19
Transfer	359	49	408
December 31, 1999	**834**	**511**	**1,345**

Deferred tax liabilities could be recognized for the temporary differences between values used in the commercial balance sheets and those used in the tax balance sheets of Deutsche Post AG and Deutsche Postbank AG only to the extent that the differences occurred after January 1, 1996 (IAS 12.15 (b)). Deferred tax liabilities must not be recognized for differences resulting from the initial recognition in the opening tax balance sheet of Deutsche Post AG and Deutsche Postbank AG as of January 1, 1996.

(33) Other provisions

In accordance with IAS 37 (Provisions, Contingent Liabilities and Contingent Assets), other provisions include uncertain legal or constructive obligations toward parties outside the Group that result from past events, that make an outflow of resources embodying economic benefits possible and that can be reliably determined. They are distinguished from the so-called “accruals” and “contingent liabilities”.

Accruals are characterized by a far greater degree of certainty than provisions, with regard to the date of fulfilling the obligation and to its amount. They are based on already executed past trade relations. In line with IAS 37, they are not reported as provisions but as part of trade and other payables.

Contingent liabilities are either possible obligations, i.e., it has yet to be confirmed whether the enterprise has a present obligation that could lead to an outflow of resources embodying economic benefits, or present obligations, i.e., it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligations, or a sufficiently reliable estimate of the amount of the obligation cannot be made. Under IAS 37, Contingent Liabilities are not to be reported in the balance sheet.

Starting with the opening figures for the 1998 financial year – in the 1999 financial year, other provisions developed as follows:

EUR mill.	Civil Service Health Insurance Fund	Postage stamps	Restructuring provisions	Other provisions	Total
January 1, 1998	1,146	670	756	274	2,846
Application	0	670	234	150	1,054
Reversal	104	0	0	43	147
Transfer	0	596	304	102	1,002
December 31, 1998	1,042	596	826	183	2,647
Changes in the consolidated Group	50	0	337	167	554
Application	0	596	442	58	1,096
Reversal	14	0	0	28	42
Transfer	89	593	129	188	999
December 31, 1999	**1,167**	**593**	**850**	**452**	**3,062**

The provision for the expected shortfall between the sources of regular income of the Postal Civil Service Health Insurance Fund and the benefits paid covers the obligations of Deutsche Post AG and Deutsche Postbank AG, for the first time included in 1999, to be met, together with another legal successor to the former Deutsche Bundespost. The balancing payments to the Postal Civil Service Health Insurance Fund represent so-called "other long-term employee benefits" which were determined by actuarial valuation, in accordance with IAS 19 (Employee Benefits).

The provision for postage stamps covers unperformed services relating to the sale of postage stamps.

Restructuring provisions exclusively cover obligations towards employees resulting from the termination of their employment (part-time employment programs for old-age pensioners, bridge allowances). In line with IAS 19, they are qualified as "termination benefits" and accordingly determined by actuarial valuation.

Restructuring provisions include:

EUR mill.	1999	1998
Deutsche Post AG		
Mail	377	524
Retail outlets	137	232
Express	62	70
	576	826
Deutsche Postbank AG	173	0
Danzas Group	101	0
	850	**826**

Other provisions represent uncertain obligations, in line with IAS 37 recognized at the amount determined by best estimate. Provisions falling due after more than one year are discounted at market rates reflecting both risk and period until performance of the obligation.

Interest cost resulting from other provisions are reported under staff costs, provided the provisions have to be valued in accordance with IAS 19. Otherwise they are recognized under financial income, in accordance with IAS 37.

Interest cost includes:

EUR mill.	1999	1998
Interest cost resulting from Postal Civil Service Health Insurance Fund	62	77
Interest cost resulting from restructuring provisions	65	43
Interest cost resulting from other provisions	15	3
	142	**123**

Interest cost resulting from other provisions affected the financial income to the amount of EUR 2 million (1998: EUR 2 million).

(34) Borrowings

Borrowings include all interest-bearing obligations of the Deutsche Post Group, provided they do not belong to liabilities arising from financial services:

EUR mill. 12.31.1999	Total	of which due within 1 year	of which due after 5 years
Bonds	9	9	0
Amounts owed to banks	952	101	429
Other borrowings	788	453	0
	1,749	**563**	**429**

EUR mill. 12.31.1998	Total	of which due within 1 year	of which due after 5 years
Bonds	0	0	0
Amounts owed to banks	928	96	344
Other borrowings	910	462	0
	1,838	**558**	**344**

Of the reported borrowings, amounts owed to banks amounting to EUR 46 million are secured by mortgage (on Dec. 31, 1998: EUR 103 million). Other borrowings are not secured by mortgage (and were not on Dec. 31, 1998).

Borrowings include the following essential individual items:

	Contract currency	12.31.99 Amount EUR mill.	of which due within 1 year	of which due after 5 years	12.31.98 Amount in EUR mill.	of which due within 1 year	of which due after 5 years	average interest rate in % 1999	average interest rate in % 1998
Loans from banks	DEM	767	13	384	561	0	253	3.13 – 5.95	4.72
Loans from other than banks	DEM	431	100	0	531	100	0	6.95	7.17
Loans from other than banks	DEM	351	351	0	358	358	0	3.78	3.85
Bonds	DEM	9	9	0	0	0	0	3.00	–
Loans from banks	DEM	0	0	0	233	75	0	–	7.17
Other borrowings	DEM	191	90	45	155	25	91	3.00 – 8.44	3.56 – 8.97
		1,749	**563**	**429**	**1,838**	**558**	**344**		

(35) Trade and other payables

All trade payables fall due within one year. Their recognized values correspond essentially to the market values.

(36) Liabilities arising from financial services

Liabilities arising from financial services comprise the following:

EUR mill.	1999	1998
Amounts owed to banks		
payable on demand	1,676	0
with agreed maturity or period of notice	1,068	0
	2,744	0
Amounts owed to customers		
Saving deposits		
with agreed notice of three months	27,859	0
with agreed notice of three months	1,591	0
	29,450	0
Other liabilities		
Payable on demand	15,345	0
with agreed maturity or period of notice	7,935	0
	23,280	0
	52,730	0
	55,474	**0**

The repayment amounts are carried as liabilities. EUR 80 million of the total amount owed are secured by mortgage.

The remaining terms for amounts owed to banks and customers are as follows:

EUR mill.	Residual terms as of 12.31.1999 within 1 year	1 to 5 years	after 5 years	Total
Amounts owed to banks	2,730	0	14	2,744
Amounts owed to customers	50,189	2,517	24	52,730
	52,919	**2,517**	**38**	**55,474**

Loan commitments that are irrevocable, because any one-sided revocation would entail the risk of significant penalties or liabilities, were not made. Other obligations such as note issuance facilities or revolving underwriting facilities, or purchase or re-purchase obligations do not exist.

(37) Other liabilities

Other liabilities are generally of a short-term nature and are not subject to interest payments. They are recognized in the balance sheet at their nominal values.

(38) Deferred income

Deferred income includes:

EUR mill.	1999	1998
Negative goodwill, Deutsche Postbank Group	2,022	0
Other deferred income	114	32
	2,136	**32**

Based on the Deutsche Postbank Group's contribution to the Group's profit (i.e., its contribution to the Group profit after consolidation), negative goodwill resulting from Deutsche Postbank AG's first consolidation as of January 1, 1999 is reversed. A reversal period of 10 years is determined. In the 1999 financial year, negative goodwill developed as follows:

EUR mill.	Negative goodwill
Additions	
January 1, 1999	2,247
Additions	0
Reclassification	0
Disposals	0
December 31, 1999	2,247
Reversals	
January 1, 1999	0
Reversals	225
Reclassification	0
Disposals	0
December 31, 1999	225
Recognized value as of December 31, 1999	**2,022**
Recognized value as of December 31, 1998	0

Notes to the Consolidated Cash Flow Statement

In line with IAS 7 (Cash Flow Statements), the Consolidated Cash Flow Statement shows the changes in cash and cash equivalents within the Group during the period under review, due to cash flows from and into various activities.

Deutsche Postbank AG has prepared its own Consolidated Cash Flow Statement, in addition to Deutsche Post AG's Consolidated Cash Flow Statement. For reasons of comparability, Deutsche Postbank AG used the same rules for preparation as Deutsche Post AG.

For the reporting on cash flows, a distinction is made between cash flows from operating, investing and financing activities. Cash and cash equivalents include cash on hand, checks and credit with banks. They correspond to cash and cash equivalents as disclosed in the balance sheet.

In the Group's Cash Flow Statement, inflow of cash from operating activities amounted to EUR 4,642 million in 1999, as against an outflow of cash amounting to EUR 398 million in the 1998 financial year. The main reason for this result was the decrease in receivables and other assets, the changes in receivables and marketable securities from financial services, and in liabilities from financial services, as well as an increase in liabilities.

Cash used for investing in non-current assets amounted to EUR 4,553 million in the period under review (1998: EUR 1,400 million). Gains on the disposal of non-current assets amounted to EUR 1,301 million (1998: EUR 1,082 million).

The following assets and debts were taken over/sold with the acquisitions/disposals of companies (as of the dates of acquisition/sale):

EUR mill.	1999	1998
Acquisitions		
Non-current assets	1,604	9
Receivables from financial services	57,153	0
Other current assets (excl. cash and cash equivalents)	3,085	20
Provisions	1,727	2
Liabilities from financial services	54,863	0
Other liabilities	1,566	14
Disposals		
Non-current assets	677	697
Other current assets (excl. cash and cash equivalents)	53	116
Provisions	4	62
Other liabilities	197	184

Cash and cash equivalents amounting to EUR 2,226 million (1998: EUR 4 million) were taken over with the acquisitions of the companies. Cash and cash equivalents amounting to EUR 8 million (1998: EUR 1 million) were transferred with the sales of the companies. Acquisition and sales prices for the companies were paid with cash and cash equivalents.

Cash flow from financing activities is mainly due to raising and repayment of short- and long-term borrowings. Furthermore, dividends in the period under review amounted to a total of EUR 157 million (1998: EUR 56 million).

Deutsche Postbank Group's net cash used for operating activities, amounting to EUR 150 million, is mainly due to the setting-up of liabilities from financial services (offset against receivables and marketable securities from financial services) and the other liabilities.

Net cash used for investing activities amounted to EUR 370 million and was the result of high investments in non-current assets, largely due to the acquisition of DSL Holding AG.

(39) Financial instruments

Financial instruments are contractual agreements covering claims for payments. In accordance with IAS 32 (Financial Instruments: Disclosure and Presentation), they include both primary and derivative financial instruments. Primary financial instruments include in particular credits with banks, all receivables, liabilities, marketable securities, loans and borrowings and accrued interest. Derivative financial instruments include e.g., options, swaps and futures.

The great majority of the Group's financial instruments is accounted for by the Deutsche Postbank Group. Risks and fair values of Deutsche Postbank's financial instruments are therefore presented separately.

(39.a) Risks and market values of Deutsche Postbank Group's financial instruments

Risk control

The risk control unit of Deutsche Postbank AG performs their independent functions in Deutsche Postbank's headquarters for the entire Postbank Group. Their activities focus on the internal information updating required for the control of risks inherent in market prices and liquidity. This control function is performed by the responsible corporate division of the Deutsche Postbank Group.

Market risks

The market risks of Deutsche Postbank AG are measured using the value-at-risk method: A holding period of ten trading days and a 99-percent confidence level are assumed for the portfolios. The probability that losses do not exceed the thus-determined risks within ten days amounts to 99 percent.

In line with these policies, the following risk values were determined for the trading portfolio of Deutsche Postbank AG as of December 31, 1999:

EUR mill.	Financial markets interest rate trading money market	Financial markets interest rate trading capital market	Financial markets equity trading	Total trading portfolio incl. correlation
Value-at-risk as of 12.31.1999	1.3	0	0.1	1.3
Minimum value-at-risk as in 1999	0	0	0	0
Maximum value-at-risk as in 1999	1.6	3.1	0.7	3.1
Average value-at-risk as in 1999	0.3	0.3	0.3	0.6

The quality of the computed value-at-risk values is subject to regular backtesting.

Worst-case scenarios are computed at regular intervals, in addition to the value-at-risk values, in order to estimate the effects of extreme market movements on the Postbank portfolio.

Interest rate risks

Interest rate risks are associated with changes in the market values of fixed-interest bearing financial instruments which result from changes in the market interest rate. Interest risks occur when, for certain maturities ranges, differences exist between fixed-interest bearing assets and liabilities. For an identification of the interest rate risk, the interest-bearing financial instruments are assigned a maturity in accordance with the date when they are to mature or be repriced. Up to this date, the interest rates will be fixed.

The following table shows the open fixed-interest rate positions of Deutsche Post AG. Positions with a positive value determine the fixed-interest rate risk of assets, which means there is a surplus of asset items. Negative values determine a surplus of liability items.

Fixed-interest gap

EUR mill.	1 to 4 years	4 to 6 years	6 to 8 years	8 to 10 years
Fixed-interest bearing assets	16,349	4,432	4,179	2,271
Fixed-interest bearing liabilities	17,927	4,604	4,525	2,320
Fixed-interest gap	–1,578	–172	–346	– 49

The bank controls the open fixed-interest rate positions as part of the fixed-interest balance sheet prepared and evaluated at regular intervals. It also determines the so-called “marginal” interest rate. A balanced interest income is achieved when this marginal interest rate is applied to the surplus. As of December 31, 1999, the bank acounted for a high negative marginal interest rate reflecting the bank’s low interest rate risk.

Concentration of credit risks

The following table shows the industries serviced by the Postbank Group, based on the balance sheet statistics:

	Commitment percentage as of 12.31.1999
Banks	
Domestic banks	66.3
Foreign banks	23.6
Customers	
Private customers	7.1
Trade, service providers, transport companies	1.7
Financial institutions and insurance companies	0.6
Building, real estate	0.3
Data processing	0.2
National public authorities	0.1
Enterprises and private customers abroad	0.0
Manufacturing sector	0.1
Other	0.0
Total	**100.0**

Derivatives business

The Deutsche Postbank Group used derivative instruments mostly for hedging positions affecting/not affecting the balance sheet, in order to control assets/liabilities. Derivative instruments also served to cover fluctuations in interest rates and other market prices occurring in commercial business.

The following table shows Postbank’s interest rate and currency – related futures that had not been settled as of the balance sheet date.

The negative market values have been disclosed in the balance sheet. The market values include hedging transactions and, to a lesser extent, outright transactions.

Other Notes

EUR mill.	Nominal values 12.31.1999	Market values positive 12.31.1999	Market values negative 12.31.1999
Interest-rate related transactions			
OTC products			
Swaps	3,536	19	79
FRAs	480	0	0
Interest-rate options, purchase	0	0	0
Interest-rate options, sales	0	0	0
Exchange-traded products			
Interest-rate futures	468	0	1
Interest-rate options	0	0	0
	4,484	19	80
Currency-related transactions			
OTC products			
Currency-related futures	779	2	16
Cross-currency swaps	36	1	1
Currency options, purchases	0	0	0
Currency options, sales	0	0	0
Exchange-traded products			
Currency options	0	0	0
Currency futures	0	0	0
	815	3	17
Total	**5,299**	**22**	**97**

With the presentation of our derivatives business, we have followed the recommendations by the German association of public sector banks. The nominal values represent the gross volume of all purchases and sales combined. This value is a reference value for the determination of mutually agreed settlement payments. The value cannot be compared with the receivables and liabilities reported in the balance sheet.

Replacement costs apply to all contracts providing for positive market values. Contracts and negative market values were not offset. Replacement costs are calculated on the basis of the market values of the individual contracts.

Terms:

Nominal values in EUR mill.	Interest-rate risks		Currency risks		Equity and other price risks	
Maturities	**12.31. 1999**	**12.31. 1998**	**12.31. 1999**	**12.31. 1998**	**12.31. 1999**	**12.31. 1998**
within 3 months	1,420	1,587	571	1,444	0	0
within 1 year	1,245	562	208	581	0	0
within 5 years	1,409	876	36	0	0	0
more than 5 years	410	224	0	21	0	0
Total	**4,484**	**3,249**	**815**	**2,046**	**0**	**0**

Counterparties:

	Nominal values		Replacement costs	
EUR mill.	**12.31. 1999**	**12.31. 1998**	**12.31. 1999**	**12.31. 1998**
OECD banks	5,299	5,294	22	21

Trading:

	Nominal values		Replacement costs	
EUR mill.	**12.31. 1999**	**12.31. 1998**	**12.31. 1999**	**12.31. 1998**
Interest-rate contracts	383	99	0	0
Equity contracts	1	0	0	0
Total	**384**	**99**	**0**	**0**

Market values (fair values) of primary financial instruments

Reflecting the balance sheet structure, the fair values of the primary financial instruments can be determined as follows:

- The portfolios are recognized at the fair value, i.e., the carrying amount matches the fair value.
- Cash funds: The fair value matches the carrying amount.
- Receivables from banks account for a fair value of EUR 27,261 million. The carrying amount is EUR 27,169 million. The difference results from the valuation of borrower's-note loans and the valuation of registered bonds.
- Receivables from customers account for a fair value of EUR 3,337 million, as against a carrying amount of EUR 3,336 million. The difference results from the valuation of borrower's-note loans.
- Borrower's-note loans and other fixed-interest bearing securities in connection with financial assets and trade assets account for a fair value of EUR 16,377 million, as against a carrying amount of EUR 16,980 million. Shares and other non-fixed interest bearing securities account for a fair value of EUR 8,340 million, as against a carrying amount of EUR 8,088 million.
- All other receivables and liabilities: Fair values largely match carrying amounts.

(39.b) Risks and market values of the remaining Deutsche Post Group's financial instruments

Apart from the Deutsche Postbank Group, no Deutsche Post AG unit held significant derivative financial instruments on December 31, 1999 (as on December 31, 1998).

Interest rate risk, i.e., the risk that the value of financial instruments may change due to changes in market interest rates, is especially associated with receivables, liabilities and marketable securities providing for maturities of more than one year. Such maturities are only relevant to financial assets and borrowings.

Of the financial assets, only housing promotion loans involve interest rate risks. Compared with the market interest rate for similar financial assets as of December 31, 1999, the majority of the housing promotion loans bear lower than market interest or are even non-interest bearing. They are recognized with a fair value amounting to EUR 23 million (1998: EUR 205 million).The nominal value amounts to EUR 56 million (1998: EUR 363 million).

On the balance sheet date (12.31.1999), the liabilities disclosed under borrowings do not provide for any significant interest rate risk, since most of these liabilities are floating rate financial instruments. Accordingly, the differences between fair values and carrying amounts of the borrowings are relatively small.

Other risks

Other risks such as currency risks, market risks, credit risks and cash flow risks are of minor importance to the primary financial instruments of the Group.

Market values (fair values)

The market value of a primary financial instrument is the amount obtainable from the sale, or payable on the acquisition in an active market. From a comparison with the respective carrying amounts, the following market values result from the financial debts of the Deutsche Post Group:

EUR mill.	1999			1998		
	Carrying amounts	Market values	Differ-ence	Carrying amounts	Market values	Differ-ence
Amounts owed to banks	952	896	–56	928	922	–6
Bonds	9	9	0	0	0	0
Other borrowings	788	788	0	910	951	42
	1,749	**1,693**	**–56**	**1,838**	**1,873**	**36**

Market values varying from the carrying amounts are the result of changed market interest for borrowings providing for corresponding terms and risk structures.

For all other primary financial instruments, shorter terms or market based valuations do not entail any significant differences between reported carrying amounts and market values.

(40) Contingent liabilities

Contingent liabilities are possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the enterprise. They may also be defined as present obligations which probably do not lead to an outflow of resources embodying economic benefits and whose outflow of resources cannot be measured with sufficient reliability.

The Group's contingent liabilities include:

EUR mill.	1999	1998
Value guarantees	334	0
Contingent liabilities arising from court and legal costs	77	55
Contingent liabilities arising from claims to ownership by third parties	50	48
Other contingent liabilities	250	34
	711	**137**

The value guarantees are guarantees of Deutsche Postbank AG vis-à-vis investors in shares in funds. The other contingent liabilities mainly comprise possible liabilities on bill commitments amounting to EUR 105 million as well as warranty obligations and other obligations, claims to which are not expected to be made.

As compared to the contingent liabilities, the contingent receivables amount to EUR 5 million (1998: EUR 0 million).

In addition, as of the Group balance sheet date there exist warranties amounting to EUR 1,571 million (1998: EUR 13 million). This amount includes a general warranty of Deutsche Postbank AG vis-à-vis a credit institute securing an agreed building loan of EUR 767 million. Further, Deutsche Post AG vouches vis-à-vis the European Investment Bank for a loan of EUR 755 million, taken out by Deutsche Post International B.V. and passed on to Deutsche Post AG. Claims arising from these warranties are not expected to be made.

Following complaints filed by two competitors of Deutsche Post AG, in accordance with Article 88 (2) EC Treaty, the European Commission has initiated proceedings against the Federal Republic of Germany. The competitors allege that Deutsche Post AG received a considerable amount of unlawful state subsidies from the Federal Republic of Germany. The European Commission subsequently informed the Federal Government that in accordance with Article 14 of the Regulation (EC) No. 659/1999 of the Council, all unlawful subsidies must be claimed back.

In a comprehensive statement addressed to the European Commission, the Federal Government refuted the allegations made and demonstrated why no unlawful subsidies had been paid. Deutsche Post AG expects the case to be closed upon the conclusion that no unlawful subsidies have been paid and that there is no obligation to return any payments. A decision by the European Commission is expected by the summer of 2000.

(41) Other financial obligations

In addition to the provisions, liabilities and contingent liabilities, on 12.31.1999 there exist other financial obligations amounting to EUR 3,950 million (1998: EUR 962 million), exclusively vis-à-vis third parties. They primarily consist of future payments arising from long-term haulage contracts and lease agreements as well as purchase contracts for non-current assets.

According to IAS 17 (Leases), lease agreements are operating leases. The due dates of the cumulative minimum lease payments, which amount to a total of EUR 689 million (1998: EUR 250 million) and which result from these agreements as unavoidable financial obligations, are structured as follows:

EUR mill.	1999	1998
Minimum lease payments for the period		
up to 1 year	315	216
between 1 year and 5 years	253	32
more than 5 years	121	2
	689	**250**

The expected income from minimum lease payments from sub-letting leasing properties amount to EUR 1 million (1998: EUR 0 million).

(42) Significant events following the balance sheet date

With effect from January 1, 2000, Deutsche Postbank AG, as a subsidiary of Deutsche Post AG, has taken over DSL Bank, previously transformed from an institution under public law to an AG. DSL Bank AG is viewed as an expert for private and commercial building finance as well as for the issue of marketable securities. It complements and strengthens the product and service range of Deutsche Postbank AG, which is mainly active in the retail segment.

In November 1999, Deutsche Post AG issued a takeover bid amounting to US $33 per share for American logistics provider Air Express International (AEI). The company, domiciled in Darien, Connecticut, benefits from a network of 705 branch offices in 135 countries and, besides being the oldest and largest air freight provider in the United States, is the worldwide leader in logistics, multi-modal transport, warehousing, distribution, customs clearance and IT-supported logistics services. By the offer's expiry date of February 9, 2000, more than 90 % of the then shareholders had accepted. Immediately following the expiry date, all remaining shareholders were compensated with the above-mentioned price per share. In total, Deutsche Post AG has acquired 34 million shares and 9 million options at a total price of US $1,144 million.

(43) Emoluments of members of the Board of Management and the Supervisory Board

The emoluments of members of the Board of Management in the 1999 financial year amounted to EUR 3.9 million (1998: EUR 3.7 million). Those of former board members amounted to EUR 0.4 million (1998: EUR 0.3 million). Provisions for pensions obligations to former board members and their surviving dependents amounted to EUR 6.7 million (1998: EUR 4.9 million) on December 31, 1999.

The sum total of emoluments of members of the Supervisory Board amounted to EUR 0.4 million (1998: EUR 0.3 million) for the 1999 financial year.

(44) Significant subsidiaries and participating interests

	Country	Capital share and voting rights 12.31.1999	Capital share and voting rights 12.31.1998	Revenue 1999 in EUR mill.	Revenue 1998 in EUR mill.
Significant subsidaries					
Danzas Holding AG (sub-group, incl. ASG ground and Nedlloyd logistics segment)	Switzerland	100.00	–	4,842*	–
Deutsche Postbank AG	Germany	99.99	17.50	2,800*	–
Deutsche Post Transport GmbH	Germany	100.00	75.20	243	206
Van Gend & Loos B.V.	Netherlands	100.00	–	199*	–
Ducros Services Rapides SA.	France	99.25	–	159	–
Deutsche Post Express GmbH	Germany	100.00	100.00	149	121
McPaper Aktiengesellschaft	Germany	100.00	100.00	132	95
Deutsche Post Service- und Vertriebsgesellschaft mbH	Germany	100.00	100.00	96	104
M.I.T. Srl.	Italy	99.99	–	68	–
ITG GmbH Internationale Spedition	Germany	80.20	–	59	–
Global Mail Ltd.	U.S.A.	100.00	100.00	57	10
Deutsche Post Kontrakt Logistik GmbH	Germany	100.00	100.00	49	18
Deutsche Post In Haus Service GmbH	Germany	100.00	100.00	46	29
Deutsche Post Immobilienservice GmbH	Germany	100.00	0.00	42	–
Servisco Sp. z.o.o.	Poland	60.00	60.00	40	31
Transportes Y Servicios Rapidos Transserra S.A.	Spain	100.00	–	38	–
Merkur Direktwerbeges. mbH & Co. KG	Germany	51.11	–	31	–
Deutsche Post (Switzerland) AG	Switzerland	100.00	100.00	26	20
Deutsche Post Consult GmbH	Germany	100.00	100.00	25	25
Selektvracht B.V.	Netherlands	100.00	–	23*	–
DSL Holding AG	Germany	81.20	–	0	–
Significant Group companies					
Securicor Omega Holdings Ltd.	U.K.	25.00/50.00**	–	244*	–
Narrondo Desarrollo S.L.	Spain	49.00	–	23*	–
Significant associated companies					
DSL Bank	Germany	48.00	–	n. a.	–
DHL International Limited	Bermuda	25.001	25.001	n. a.	n. a.
Trans-o-flex Schnell-Lieferdienst GmbH	Germany	24.80	24.80	n. a.	529*

- not yet part of the Group
*** Group revenue**
**** In the case of Securior Omega Holdings Ltd. U.K., Deutsche Post World Net holds a 25-percent equity stake, 50 percent of all voting rights, and 49.99 percent of its economic rights, the latter serving as the basis for the pro rata consolidation.**
n.a. not available

Company Organs

Members of the Board of Management of Deutsche Post AG

Dr. Klaus Zumwinkel	
Dr. Helmut Benno Staab	(until Sept. 30, 1999)
Dr. G nter W. Tumm	(until March 31, 2000)
Uwe Rolf D rken	(as of June 1, 1999)
Wolfhard Bender	(until March 31, 2000)
Dr. Hans-Dieter Petram	
Prof. Dr. Wulf von Schimmelmann	(as of Oct. 1, 1999)
Peter Wagner	(as of June 1, 1999)
Horst Kissel	(until March 31, 2000)
Walter Scheurle	(as of April 1, 2000)
Dr. Edgar Ernst	

as of April 1, 2000

Dr. Klaus Zumwinkel	Chairman
Dr. Hans-Dieter Petram	MAIL Corporate Division
Uwe Rolf D rken	EXPRESS Corporate Division
Prof. Dr. Wulf von Schimmelmann	FINANCIAL SERVICES Corporate Division
Peter Wagner	LOGISTICS Corporate Division
Walter Scheurle	Personnel
Dr. Edgar Ernst	Finance

Members of the Supervisory Board of Deutsche Post AG

Shareholders representatives:

Josef Hattig	(Chairman)
Willem G. van Agtmael	
Hero Brahms	
Adolf Kracht	
Prof. Dr. Ralf Kr ger	(as of May 1, 1999)
Dr.-Ing. Manfred Lennings	
Dr. Manfred Overhaus	
Dr. Klaus Rauscher	
Wilhelm Rawe	(until April 30, 1999)
Prof. Dr. J rgen Richter	
Ulrike Staake	

Employees representatives

Kurt van Haaren	(Deputy Chairman)
Petra Heinze	
Henry Hillmann	
Gabi Lips	(until Oct. 31, 1999)
Pauline Mayer	(until Feb. 29, 2000)
Walter Scheurle	(until March 31, 2000)
Franz Schierer	
Siegfried Schulze	
Armin Stoffleth	
Benita Unger	(as of Nov. 24, 1999)
Erwin Wohlketzetter	(until March 31, 2000)

Josef Hattig
Chairman of the Supervisory Board

Born 1931. Following various posts including assistant to the management and junior judical officer, he joined the management at the Dortmund brewery Thier & Co. in 1965. In 1972, he moved to the Bremen brewery Beck & Co. as managing director, where he spent 25 years. Since 1997 he has played an active role in Federal State policy as a senator in Bremen, first responsible for economic and European affairs, and since July 1999 for regional economy and ports. In addition to various posts and functions, Josef Hattig is Chairman of the Supervisory Board of Deutsche Post AG.

Report by the Supervisory Board on the 1999 Annual Report

The Supervisory Board performed the duties assigned by legal mandate and statutes. In the 1999 financial year, it held six meetings.

The management has regularly informed the Supervisory Board in writing about developments in sales and turnover and about the income situation of the company. The Supervisory Board was informed of all important business transactions. All measures requiring the approval of the Supervisory Board were discussed at length. The Chairman of the Supervisory Board kept in constant contact with the Chairman of the Board of Management and was informed of all important business transactions.

At the meetings held by the Supervisory Board, the Board of Management gave a detailed account of the development of the business and of the income of the company and its business divisions. The Board of Management answered all questions posed by the Supervisory Board. In addition, numerous other reports provided the Supervisory Board with comprehensive information about the company's general situation as well as about issues of particular importance to the development of the company. The topics discussed at length by the Supervisory Board included a series of interest acquisitions as part of the growth strategy of Deutsche Post, approved by the Supervisory Board in 1997, as well as the Board of Management's report on the PREMIUM Program which is intended to ensure a swift integration of the new companies and a successful stock market flotation in the year 2000.

The General Committee of the Supervisory Board held four meetings. The agendas included preparing the meetings of the Supervisory Board with an in-depth discussion of the key issues. At its two meetings, the Personnel Committee discussed a range of human resources issues including the Corporate Principles and the Management Guideline as well as the corporate executives' development. The Committee for Miscellaneous Affairs held six meetings, intensively discussing and agreeing, inter alia, upon the 1998 Annual Financial Statement, the salient points of the 2000 business plan, the acquisition of participating interests as well as the sale of commercial and residential real estate. The Mediation Committee did not meet in the year under review. This is in accord with § 27(3) of the Co-Determination Law.

The financial statements, the Consolidated Financial Statements, the respective management reports, the Board of Management's report on relations with affiliated companies (the Dependency Report) and the audit report prepared by PwC Deutsche Revision AG in Düsseldorf were made available to all members of the Supervisory Board.

The auditors expressed an unqualified opinion on the financial statements, incl. the Management Report, and the Consolidated Financial Statements, incl. the Management Report.

Report by the Supervisory Board on the 1999 Annual Report

The PwC Deutsche Revision Aktiengesellschaft Wirtschaftsprüfungsgesellschaft accountancy firm also audited the Board of Management's report on relations with affiliated companies (the Dependency Report) prepared in compliance with §312 of the German Stock Corporation Law. The auditors reported on the results of their audits and issued the following audit certificate:

"Based on the results of our statutory audit and our judgment, we confirm that:
1. All actual information included in the report is correct,
2. The company's compensation with respect to the legal transactions listed in the report was not inappropriately high."

The Supervisory Board noted and concurred with the results of the audit. The Supervisory Board has reviewed the financial statements, the Management Report, the Board of Management's report on relations with affiliated companies, the Consolidated Financial Statements and the Group's Management Report. No objections were raised. The Supervisory Board has therefore approved the financial statements and the Dependency Report prepared by the Board of Management and concurred with the Management Report. The auditor attended the meeting. The financial statements have thus been formally adopted.

In preparation for the stock market flotation, a new Board of Management team was appointed in the 1999 financial year. On September 30, 1999, Dr. Benno Staab, Board Member Letter Services - Marketing and Sales, and on March 31, 2000, Dr.-Ing. Günter W. Tumm, Board Member Parcel Services/Express (national), Wolfhard Bender, Board Member Letter Services - Production, Legal Affairs, and Horst Kissel, Board Member Personnel, left the Board of Management. Peter Wagner, Board Member LOGISTICS, and Uwe Rolf Dörken, Board Member Parcel Services/ Express International, were appointed to the Board of Management on June 1, 1999. Prof. Dr. Wulf von Schimmelmann, Board Member FINANCIAL SERVICES, was appointed on October 1, 1999, and Walter Scheurle, Board Member Personnel, on April 1, 2000. The contracts of Dr. Klaus Zumwinkel, Dr. Hans-Dieter Petram and Dr. Edgar Ernst have been renewed.

During the 1999 financial year, the composition of the Supervisory Board also underwent some modifications. On April 30, 1999, Wilhelm Rawe and, on October 31, 1999, Gabriele Lips left the Supervisory Board. Benita Unger and Prof. Dr. Ralf Krüger were appointed to the Supervisory Board. The Supervisory Board underwent further changes in the 2000 financial year. On February 29, 2000, Pauline Mayer and, on March 31, 2000, Walter Scheurle and Erwin Wohlketzetter left the Supervisory Board. As replacements, Stefanie Weckesser, Margrit Wendt and Rolf Büttner were elected to the Supervisory Board on April 1, 2000.

The Supervisory Board would like to thank its retired members, the management team and all the staff of Deutsche Post for their commitment and the successful work accomplished in 1999.

Bonn, April 14, 2000
The Supervisory Board

Josef Hattig
Chairman

Auditor's Report

We have audited the Consolidated Financial Statements of Deutsche Post AG, 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 business year from January 1, 1999 to December 31, 1999. The preparation and the content of the Consolidated Financial Statements according to the International Accounting Standards (IAS) are the responsibility of the Company's Board of Managing Directors. Our responsibility is to express an opinion, based on our audit, whether the Consolidated Financial Statements are in accordance with IAS.

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) as well as in accordance with 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. 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 Managing Directors, 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, based on our audit, the Consolidated Financial Statements give a true and fair view of the net assets, financial position, results of operations and cash flows of the Deutsche Post Group for the business year in accordance with IAS.

Our audit, which according to German auditing regulations also extends to the Group Management Report prepared by the Board of Managing Directors for the business year from January 1, 1999 to December 31, 1999, has not led to any reservations.

In our opinion, on the whole the Group Management Report 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 business year from January 1, 1999 to December 31, 1999 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, March 22, 2000
PwC Deutsche Revision
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

(Klotzbach) Certified Public Accountant
(Menke) Certified Public Accountant

Imprint

Published by:
Deutsche Post AG, Headquarters
Corporate Communications

53105 Bonn

Responsible for contents:
Prof. Dr. Gert Schukies
Coordination/Editors:
Wolfgang Giehl, Lothar Sindel,
Kathrin Engeländer, Wolfgang Mueller
Concept and Layout: BBDO, Düsseldorf
Produced by: Vignold, Ratingen
Printed by: MOHN Media
Mohndruck GmbH, Gütersloh
Publication No. 675-200-647

Deutsche Post on the Internet:
www.deutschepost.de

This Annual Report is also
published in German.

This document does not constitute an offer of security for sale in the United States of America, securities offered or sold in the United States absent registration or an exemption from registration. Any public offering of securities to be made in the United States must be made by means of a prospectus obtainable from the issuer or the selling security holder(s) and containing detailed information about the company and management as well as financial statements.

Deutsche Post World Net

MAIL EXPRESS LOGISTICS FINANCE

Deutsche Post AG
Headquarters
Corporate Communications

53105 Bonn

Investor Relations
Tel.: +49 228 182-6461
Fax: +49 228 182-6664
E-mail: ir@deutschepost.de

Press Office
Tel.: +49 228 182-9988
Fax: +49 228 182-9880
E-mail: pressestelle@deutschepost.de

Deutsche Post on the Internet:
www.deutschepost.de

As of: May 2000
Mat. No. 675-200-647

Deutsche Post World Net

MAIL EXPRESS LOGISTICS FINANCE