

Growth in global markets

1998 Annual Report



The world's international leader in letter services and logistics

Deutsche Post is well on its way to becoming the world's leading letter service and logistics group.

We offer customers top-quality services at competitive prices. In doing so, we meet the expectations generated by a competitive market and satisfy the demands placed on a broad national and international infrastructure. By progressively developing established products, we safeguard the trust placed in us and establish a foundation for introducing innovative services and expanding our operations into fast-growing markets. Moreover, our entire value added is underpinned and steered by state-of-the-art information technology.

We plan to increase goodwill on a lasting basis by

- strengthening our leadership on the German market,
- developing foreign markets,
- expanding our range of value-added services and
- providing one-stop package solutions.



		1998	1997	Change
Net revenue	(DM mil.)	28,689	27,640	3.8 %
Profit on ordinary activities	(DM mil.)	1,276	758	68.3 %
Cash-flow according to DVFA/SG formula	(DM mil.)	2,771	2,374	16.7 %
Unappropriated retained earnings	(DM mil.)	308	103	199.0 %
Balance sheet total	(DM mil.)	24,747	22,374	10.6 %
Shareholders' equity	(DM mil.)	5,408	6,141	-11.9 %
Equity	(in %)	21.9	27.4	
Return on equity*	(in %)	16.8	8.5	
Capital expenditures in property, plant and equipment	(DM mil.)	1,308	1,994	-34.4 %
Depreciation of property, plant and equipment	(DM mil.)	1,503	1,529	-1.7 %
Workforce as of December 31**		260,520	270,817	-3.8 %
Full-time employees as of December 31***		223,863	233,350	-4.1 %
Personnel expenses as a percentage of total	(in %)	66.2	67.9	

* Profit on ordinary activities, less taxes

** Including junior staff

*** Full-time equivalents including junior staff

LETTER SERVICES

Deutsche Post 

BRIEF

PARCELS/EXPRESS/LOGISTICS

Deutsche Post 

PAKET

INTERNATIONAL

Deutsche Post 

INTERNATIONAL

Deutsche Post 

DIREKT MARKETING

Deutsche Post 

~~E~~XPRESS

Deutsche Post 

IMMOBILIEN

Deutsche Post 

ADRESS SERVICE

Deutsche Post 

WERT LOGISTIK

Deutsche Post 

RENTEN SERVICE

Deutsche Post 

PRESSE DISTRIBUTION

Deutsche Post 

TRANSPORT LOGISTIK

Deutsche Post 

ELEKTRONISCHE DIENSTE

Deutsche Post 

KONTRAKT LOGISTIK

Deutsche Post 

PHILATELIE

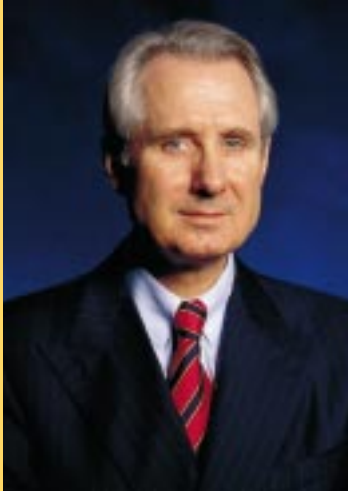
Deutsche Post 

IN-HAUS SERVICE

Deutsche Post 

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Dr. Klaus Zumwinkel,
Chairman of the
Board of Management
of Deutsche Post

“Service – The key to winning customers worldwide”

Foreword

Deutsche Post put in a strong performance once again in 1998: We completed the restructuring process during the year and are currently using our position as Europe's largest postal company as a springboard to becoming the world's leading letter services and logistics group.

1998 – Another year of growth

Deutsche Post Group's economic ratios reached new highs in the 1998 financial statements: During the year, profit from ordinary business activities totaled DM 1,276 million, outstripping 1997's profit of DM 758 million by 68 per cent. Revenue increased by nearly four per cent to DM 28.7 billion. Staff downsizing measures continued according to schedule and were effected on a socially acceptable basis at all times. As a result, Deutsche Post had just under 261,000 employees on its payroll at year's end. The 1998 business year was dominated by measures to gear Deutsche Post up for increasingly fierce competition within the internal European postal market and prepare it for its own continued internationalization.

Going on the offensive with a three-tier strategy

Deutsche Post is using an aggressive, customer-focused service strategy to pave its way to becoming the world's leading international letter services and logistics group. Based on customer needs, this strategy pursues internationalization with the expansion of Deutsche Post's European and international distribution networks, enhancement of its value-added logistics with the development of comprehensive logistics solutions and enlargement of its product base with the provision of integrated logistics products for all weight categories.

Letter Services – Communication with a future

In the year under review, the LETTER SERVICES division generated the largest share of overall revenue. In December 1998, we wrapped up our Letter 2000 Concept with the opening of the last of the eighty-three letter mail centers – a year ahead of schedule. As a result, we have a solid foundation on which to build in coming years, looking ahead to the complete liberalization of Germany's postal market scheduled to occur in less than four years under the Postal Act. Our letter mail transmission times are already setting standards in Europe: In 1998, some 95 per cent of all letters were delivered to their addressees within just one day.

The demands placed on value-added services have shifted markedly with the merging of economic areas throughout the world. Increasingly complex tasks must be performed within ever shorter time frames. For this reason, the provision of customer-oriented value-added services is becoming the key factor in forging lasting partnerships with customers. With this in mind, we have once again greatly expanded and internationalized the range of value-added letter mail service products that constitute our core postal business. We offer customers innovative, customer-oriented package solutions with ePost and with the products of our subsidiaries Deutsche Post Adress, Deutsche Post Direkt and GMS Deutsche Post Logistik.

Parcel Services/Express/Logistics – One-stop package solutions

After reversing the downward trend in 1997, we were able to achieve a marked increase in sales and revenue in the PARCEL SERVICES / EXPRESS / LOGISTICS division. We halved our deficit according to plan. As a result, we will be posting a profit in the year 2000 despite our Universal Service costs. We also shortened parcel transmission times noticeably in 1998: Domestic parcels sent via Deutsche Post are currently en route an average of only 1.1 days.

Companies are responding to ever shorter production cycles with increasingly time-sensitive distribution and warehousing strategies. The demand for especially rapid and flexible transport services has increased enormously, particularly in the business-to-business sector. We are responding to these customer requirements through our subsidiary Deutsche Post Express which, for example, launched not only next-day but also same-day delivery in early 1998.

Customers expect their logistic service providers to handle their parcel mail needs – for parcels on either side of the 31.5-kg weight limit – on a worldwide basis. By acquiring the long-established Swiss company DANZAS we added a competent logistics keystone to our organization. This new addition to our lineup enables us to offer customers a virtually globe-spanning transport network that encompasses all weight categories.

Our PARCEL SERVICES / EXPRESS / LOGISTICS division also provides customers innovative value-added services and integral solutions to facilitate their national and international business activities. Deutsche Post Kontrakt Logistik for example – and DANZAS in particular – provide solutions for the partial or complete outsourcing of logistics functions, combining logistical intelligence with customized information technology and the advantages of an international delivery network.

Retail Branches – Expanding into modern communication and financial service centers

Investment to establish a modern, customer-oriented outlet network was stepped up in 1998. As early as 2000, Deutsche Post plans to be serving half of its customers at modern retail branches equipped with open-plan, customer-friendly counters. By using new kinds of sales outlets such as PostPlus or Shop-in-Shop partner branches – which include 41 McPaper branches – we have measurably improved the quality and economic efficiency of our retail branches to the benefit of our customers. In the years ahead, some 750 ‘Center branches’ will be opened nationwide as cornerstones in our retail branch network. Besides offering Deutsche Post’s entire range of products and services, these branches will also provide special financial consultancy services.

Deutsche Post’s acquisition of Postbank will be a decisive factor in the modernization of our retail branch network: By pooling our services with those offered by Postbank, we will be able to improve utilization of our retail branches and safeguard our branch network infrastructure on a long-term basis. Looking to the future, we plan to help Postbank become “The Basic Banking Service Bank” for private customers and their No. 1 financial services provider. Further plans foresee the development and expansion of other financial products such as various types of insurance, alongside Postbank’s core savings and giro transfer products.

International – Establishing a global presence

As competition becomes increasingly global, only those providers will survive that reach beyond their national borders and which offer their customers a wide range of products and services. Only by joining forces will it be possible to meet the challenges arising from and even play a role in shaping the growing trend toward the globalization and concentration of markets. For this reason, Deutsche Post developed its parcel mail network in 1998: Thanks to our joint venture with Securicor in the UK and Ireland, our own establishment of Quickstep from scratch in the Czech Republic and our acquisitions of MIT in Italy and Ducros Services Rapides in France, we are operating together with strong partners in the most important and fastest-growing parcel and express mail markets in Europe today.

Deutsche Post has taken a further step toward increasing its international orientation by acquiring a participating interest in DHL, the global market leader for express mail services. Our collaboration with DHL gives us access to a global express mail logistics network that currently operates in 227 countries around the world.

With the acquisition of the US postal company Global Mail we have also set course for the globalization of our business in our Letter Services division.

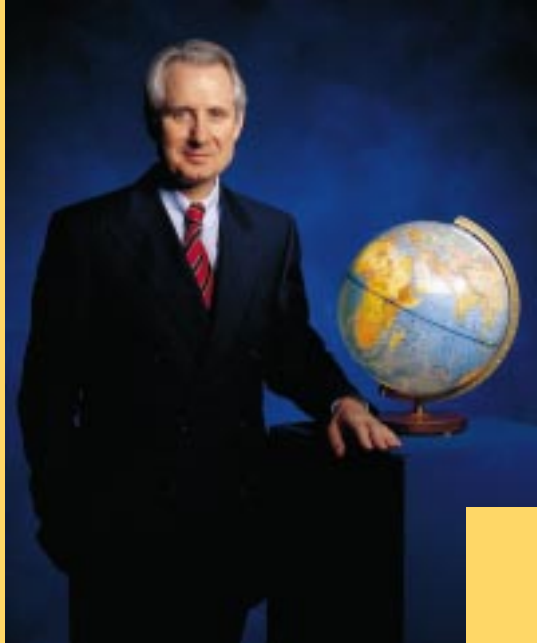
The global trend on the world's logistics markets is unmistakably toward international one-stop shopping that puts the just-in-time concept into cross-border practice for customers. As a provider of package logistics services, Deutsche Post is optimally prepared for this development. We provide a wide range of products and can manage our customers' entire transport chains for them – including all upstream and downstream activities. In the future, Postbank will also be on hand to satisfy all customer needs for logistics financing arising in this connection. The market for national and international courier, express and parcel mail service will also continue to see rapid growth in the future. This growth will open up many opportunities which we plan to exploit by further expanding our international parcel mail and logistics network.

IPO in sight

We laid the foundation for boosting our national and international competitiveness with a number of investments and activities last year, creating a strong competitive edge for the future. As one of the largest postal and logistics companies in the world, Deutsche Post is more than ready to face the challenges posed by the increasing liberalization and globalization of today's postal and logistics markets. Looking to Deutsche Post's stock market flotation in the year 2000, we have geared our corporate activities to increasing our corporate value with the aim of ensuring an adequate return for future shareholders and of making Deutsche Post shares an attractive investment.

As in the past, the success of our endeavors will be largely determined by the level of commitment and motivation among our entire staff. With this in mind, I wish to thank all our employees for their ongoing efforts and dedication.

Ladies and gentlemen, you will undoubtedly find that the information contained in the following annual report clearly confirms that we have made considerable progress along the road we have mapped for ourselves, further increased the intrinsic value of our company and – looking ahead to our IPO – will be offering an interesting and safe rate of return on investment. I hope that you will continue to accompany us along this road – as satisfied customers, business partners and even future shareholders.



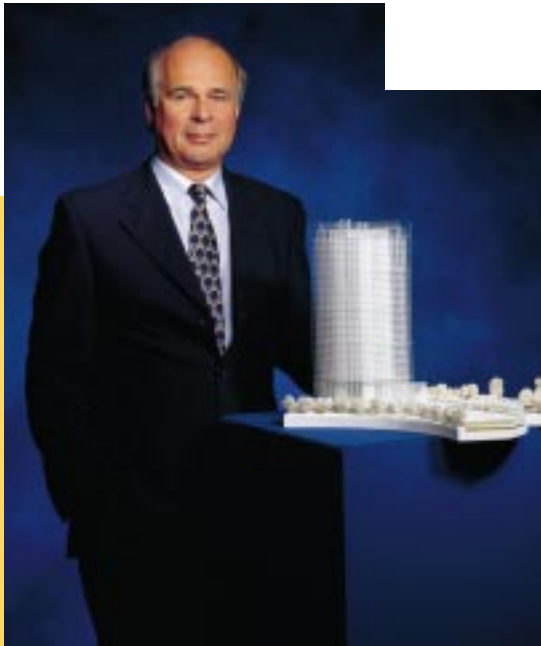
Dr. Klaus Zumwinkel
Chairman of the Board of Management



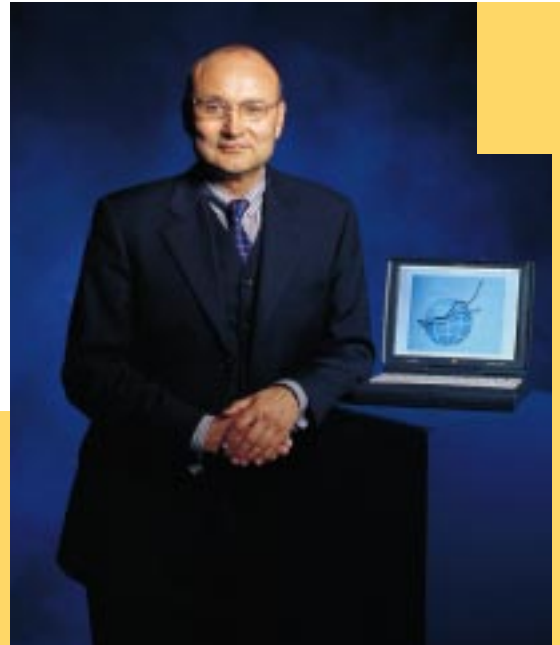
Dr. Helmut Benno Staab
LETTER SERVICES
Marketing and Sales



Wolfhard Bender
LETTER SERVICES
Production, Legal Affairs

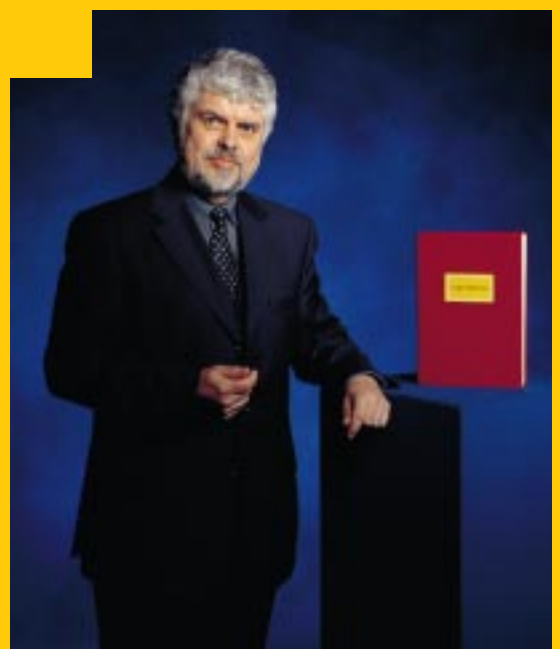


Dr. Hans-Dieter Petram
RETAIL BRANCHES, Real Estate, Purchasing



Dr. Edgar Ernst
Finances

Dr. Günter W. Tumm
PARCEL SERVICES / EXPRESS / LOGISTICS
INTERNATIONAL



Horst Kissel
Personnel

Vision out of tradition



Group management report for the 1998 financial year

Deutsche Post substantially increased both its business volume and results once again in 1998. Development of our core postal business was stable and successful despite growing competition. Selective, well-aimed internationalization measures were also a primary focus of our activities during the year.

Our convincing performance in maintaining our strong market position, the systematic development of new growth segments and the observance of strict cost management principles were once again the basis for our resounding business success in a variety of areas. Following completion of the first phase of the “new Deutsche Post” – reorganization and restructuring – we launched the second phase of this undertaking in 1998. This latest phase revolves around the systematic expansion of our business base, with a special focus on internationalization.

The economic environment

All in all, 1998 offered a more favorable economic environment for Deutsche Post than past years. Germany's gross domestic product grew by 2.8 per cent over 1997, the largest rate of growth reported since German unification.

However, a closer look at general economic conditions reveals a more nuanced picture of the implications these conditions have for Deutsche Post. Private consumption generated little impetus during the year. Although disposable income increased noticeably, private consumption grew by only 1.9 per cent. Falling short of average growth levels, this rate was not strong enough to stimulate mail order trade which is a major source of Deutsche Post business. At 4.7 per cent, growth in the service sector – which as a rule makes intensive use of postal services – was much higher than average and considerably more favorable for Deutsche Post. Despite a marked slow-down in growth in 1998, the export sector – which is particularly important for development of our international mail business – was still able to post 5.4 per cent growth.

Postal markets and general regulatory conditions

Postal markets throughout the world are in the midst of radical change. Market liberalization, new competitors and rapid technological change are impacting general conditions. Individual sectors of the market – such as parcel mail and express mail service – are merging. Internationalization of the postal industry also picked up noticeable speed in 1998. Customers are becoming more demanding: Besides expecting high quality, they increasingly look to providers for integrated solutions as well. However, these new challenges also hold special opportunities for efficient, innovative service companies.

Today's postal markets will continue to record strong growth. Europe's aggregate courier, express and parcel mail market is currently estimated at around 23 billion euro. Many observers expect market volume to double by the year 2010. The dramatic increase in the use of the opportunities offered by the Internet (e-commerce with mail-order companies, for example) will be a major source of strong impetus for this growth. With the time factor becoming increasingly important for corporate success, the express mail service segment will also continue to register double-digit growth.

The European letter mail service market (excluding press item mail) is currently estimated to be worth more than 45 billion euro. The letter mail and Infopost markets in Germany – where the number of letter items mailed per household is smaller than in the USA or France, for example – offer particularly interesting growth potential.

The international freight mail and logistics business is in the process of extensive consolidation and concentration. Besides the major integrators, growing numbers of postal enterprises have begun operating in foreign domestic markets or offering integrated transborder services through alliances. In view of the fact that world trade (in goods and services) is growing approximately three times as fast as production, the cross-border transport business will continue to gain in importance.

Upon entering into force on 1 January 1998, Germany's new Postal Act not only introduced markedly more competition. In some cases, it even increased the amount of regulation in the German postal market. This new legislation lays down Germany's regulatory framework for the years up to 2002 and has brought Germany to the forefront of postal liberalization in Europe, alongside Sweden and Finland. Current regulation differentiates between three types of postal service: the exclusive license sector (which will exist until the year 2002 for Deutsche Post), the sector which is otherwise subject to license and the sector which is open to competition and is not subject to license. The still remaining sales in the exclusive license field partially offset the special burdens which Deutsche Post is required to bear.

Germany's new Postal Services Act created a broad range of market entry opportunities for Deutsche Post's competitors. The regulatory authorities issued licenses for letter mail services to 155 companies in the first year alone. It is our opinion that a number of these licenses were wrongfully issued. We have consequently initiated legal action. We do however fundamentally accept the gradual introduction of "normal" market conditions in the postal industry, when a level playing field can be established for all providers. The progressive opening of the German postal market poses a major challenge which we will meet head on.

All in all, the new Postal Act provides an acceptable framework for ensuring Deutsche Post's competitiveness. Above all, its enactment allows Deutsche Post to pursue a forward-looking corporate strategy without the regulatory uncertainties of the past.

Business development in 1998 –

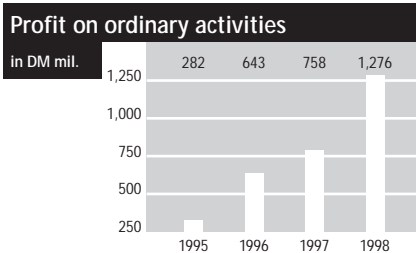
Further improvement in revenue and business volume

Total group revenue grew by DM 1,049 million to DM 28,689 million in 1998, an increase of 3.8 per cent over the previous year. Revenue generated by Deutsche Post AG totaled DM 27,872 million. The Letter Services division generated DM 19,621 million of total group revenue, the largest share by far. Some DM 19,532 million of this amount was generated by Deutsche Post AG. All business segments – letter mail, advertising mail, press items mail – reported a marked year-on-year increase. Revenue generated by the Parcel Services/Express/Logistics division rose to DM 4,803 million (DM 4,539 million of which was generated by Deutsche Post AG). The International Mail division reported DM 2,315 million in revenue (with DM 2,172 million attributable to Deutsche Post AG) and the Retail Branches/Financial Services division posted revenues of DM 1,829 million (with DM 1,453 million being generated by Deutsche Post AG).

The picture for sales volume is equally positive, with the total number of items and transactions (effected at our postal retail outlets) increasing by 4.6 per cent to 23,386 million items (for Deutsche Post only). Parcel mail volume in particular saw above-average growth.

Strong increase in profits

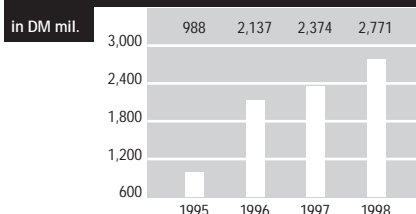
Profit on ordinary activities topped the DM billion mark for the first time in 1998. Posting DM 1,276 million for the year, we improved our profit by 68 per cent over 1997 (DM 758 million). Our systematic implementation of cost-reduction measures was a particularly strong factor in increasing our profit. A further contributing factor was the continued improvement in our revenue situation.



Although costs incurred for materials rose by 19.3 per cent to DM 4,436 million, we were able to reduce personnel expenses by 0.7 per cent to DM 19,677 million. The increase in our costs for materials was due primarily to the increased cost of purchased services.

Our extraordinary charge for the year was –DM 591 million, primarily due to an additional transfer to accruals for pension obligations. Following taxes (DM 367 million), net income for the year was DM 318 million, compared to –DM 402 million in 1997.

Cash flow based on the DVFA/SG formula



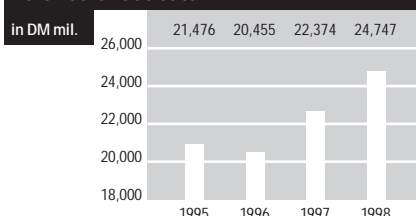
Statement of capital flows

Deutsche Post provided convincing proof of its financial strength again in 1998. Its cash flow calculated using the DVFA/SG formula improved substantially once again and now accounts for a sizable ten per cent of total revenue.

Cash flow increased to DM 2,771 million, topping 1997's level (DM 2,374 million) by DM 397 million.

All in all, cash and cash equivalents diminished by DM 821 million and now represent 5.6 per cent of the balance sheet total.

Balance-sheet total



Increased balance-sheet total

The group balance sheet total rose by 10.6 percent to DM 24.7 billion during the 1998 business year. Changes in current assets were a major factor in this development. Here, other assets grew primarily due to increased receivables from Deutsche Post Pensions-Service e.V. (DPPS), which is responsible for the pensions and benefit entitlements of retired civil servants. This entailed an advance payment which was charged at the beginning of 1999. Other marketable securities reflect the first stage of our planned acquisition of the Swiss logistics group DANZAS. The disposal of land, buildings and housing promotion loans had a reductive effect on non-current assets.

Obligations for pensions and similar obligations which had been reported in the Notes in years past were carried as liabilities again in 1998, with DM 2.0 billion being allocated for this item. However, corresponding obligations vis-à-vis active and retired white collar staff members and employees falling under collective pay agreements which were not carried as liabilities declined by only DM 1.1 billion. This was due primarily to the issue of new life expectancy tables which have increased Deutsche Post's pension obligations. Obligations to the Deutsche Post Betriebsrenten-Service e.V. company pension service were the main reason for the increase in other obligations.

As part of its activities to internationalize its business, Deutsche Post completed a number of important acquisitions (such as DHL) and initiated several more during the 1998 business year. The goodwill acquired in the process was offset against the capital reserve and was a major factor in reducing shareholders' equity by DM 733 million. These costs were consequently eliminated from the group's future earnings position.

Deutsche Post's acquisitions and advance payments to DPPS in particular had the effect of reducing liquid assets by DM 821 million. The equity ratio fell from 27.4 per cent in 1997 to 21.9 per cent on 31 December 1998 due to the balance sheet extension and the fact that goodwill was offset against the capital reserve in 1998.

Staff level adjustments continue according to plan

As of 31 December 1998, the group had a total of 260,520 employees (including trainees) on its payroll, 3.8 per cent fewer than one year before. Necessary staff cuts could be effected on the basis of socially acceptable arrangements. Collective agreements exist with labor that allow us to adjust our personnel factor costs in order to remain competitive in the face of the changing market situation. The latest collective wage agreement finalized in March 1999 stipulates a 3.1-per cent increase in wages and salaries as of April 1999. This agreement runs until 31 March 2000.

Investment volume remains high

At DM 1,308 million, investment in property, plant and equipment was sizable once again in 1998. This amount was however less than in 1997 because major investment programs for setting up letter and freight mail centers have since been brought to a close. Deutsche Post's investment activities focused in particular on the information technology field and on the development of international networks. Massive investments are to be made in these areas in the years ahead as well. The stakes we have acquired in other companies were financed largely through the release of non-current assets that are not essential to operations.

Corporate divisions and business segments

LETTER SERVICES

Implementation of Deutsche Post's Letter 2000 concept was wrapped up last year when the last of 83 planned letter mail centers went online in late 1998, a year ahead of schedule. Thanks to Letter 2000, the quality of our letter mail service has improved enormously and productivity has leapt. Despite substitution through electronic media, the "traditional" business letter will remain important. Special services – such as our PostIdent Service for the personal identification of new customers or our Frankier Service franking service – augment our letter mail products.

In the direct marketing field, we offer not only Infopost and catalogs, but other products as well, such as our "Postwurf Spezial" product which provides a high degree of accuracy in getting partially addressed brochures and advertising material to their intended target groups. We offer our customers various ancillary services that put them in a position to directly market and sell their products to their customers. Deutsche Post Direkt GmbH provides address and response management services. Deutsche Post Adress GmbH offers rapid collation and adjustment of address lists. Our 30 Direct Marketing Centers inform primarily small and medium-sized companies about the possibilities of advertising by mail. Merkur Direktwerbe-GmbH – in which we acquired a majority stake in 1998 – offers a full range of direct marketing services.

We launched the Deutsche Post Business Club in November, an attractive, new partnership program for our business customers. The Business Club gives us a platform for an intensive exchange [[of information]] with our business customers who in turn receive the best in information, contacts and special services.

Factors contributing to our success in the Press Item Distribution business segment are our nationwide, daily service combined with top transmission-time quality and customer service that is tailored to customer needs.

Thanks to products such as Press Items and Wrapper-Packed Newspapers, Deutsche Post is the undisputed market leader and the prime service partner for the publishing industry.

We are systematically expanding our electronic services. In addition to ePost, our proven hybrid letter mail service, Deutsche Post also offers a number of services such as EDI support.

Our range of value-added services includes the Deutsche Post In Haus Service offered by GMS Deutsche Post Logistik GmbH which handles all aspects of our customers' mailroom management for them.

PARCEL SERVICES/EXPRESS

With its 33 high-tech freight mail centers, Deutsche Post provides top-quality parcel mail service. Our modern Tracking & Tracing system makes it possible to track an item through all stages of its journey (even via the Internet). Our core products are complemented by special services such as the Post Box – a modern, value-added packaging product – and our “Post Kleiderhängeversand” service which mail-order companies use to send clothes hung on racks rather than folded in packages. New, innovative products such as the “Small Package with the Integrated Stamp” were successfully launched during the year.

Deutsche Post Express GmbH offers customers excellent value for their money in the high end of the express mail service segment. Core services in this area – such as express letter and express parcel mail services – are also augmented by additional and special services.

LOGISTICS

Deutsche Post Kontrakt Logistik GmbH operates state-of-the-art logistics centers where we store goods, prepare them for dispatch and send them according to schedule for our customers.

In the years ahead, we will be building our logistics business on the strong foundation provided by the global Swiss group DANZAS which Deutsche Post acquired in early 1999.

INTERNATIONAL

Our international letter and parcel mail services make it possible for Deutsche Post to dispatch letters and parcels to destinations throughout Europe and the world. IMS International Mail Service GmbH offers package solutions in the international letter mail field. IPP International Parcel Post GmbH is our international parcel mail specialist in the business-to-business sector. And IPS International Postal Service GmbH develops customized marketing and logistics concepts to help companies enter new markets.

Deutsche Post also provides worldwide express mail services through its partner DHL, the worldwide market leader in the international express mail service business.

RETAIL BRANCHES/FINANCIAL SERVICES

Diversity and greater customer-orientedness are the hallmarks of our new retail branch concept. By combining a variety of concepts, our new retail outlet/sales strategy targets customer-oriented services and the use of state-of-the-art IT-supported processes. Our retail branch network is being modernized and optimized on an ongoing basis.

Quality – A vital performance factor

Deutsche Post's letter and freight mail logistics system offers first-class service quality that tops the international scale. Our systematic quality campaigns were energetically continued through 1998, and we were able to top our transmission time records once again. Together, the smooth interplay between our new, state-of-the-art letter mail centers, optimized transport tours and night air-mail flights, and a professional delivery system further improved the prerequisites for our already outstanding letter mail transmission times. Within Germany, 95 out of every 100 letters reach their addressees in just one day (speed: J+1). Ninety-nine per cent of all letters are delivered within two days (reliability: J+2). Our parcel mail service has also set new records, with transmission times averaging only 1.1 days. We were also able to increase customer satisfaction with our retail outlets in 1998. This trend has been documented by a number of sources including the "Deutsches Kundenbarometer."

Deutsche Post Express GmbH has also received outstanding marks in independent comparative tests.

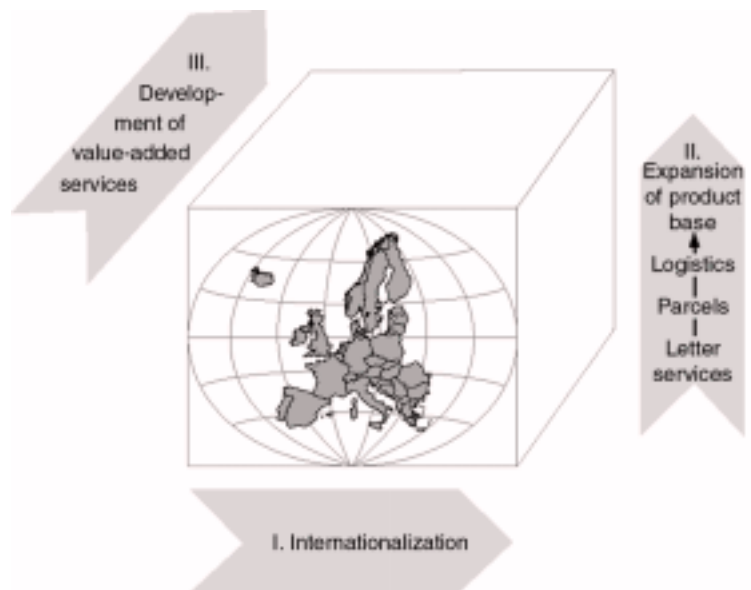
Our current quality activities focus on customer interfaces in particular. Our company-wide quality management system fundamentally follows the integrated quality approach and methodological evaluation procedures used by the European Foundation for Quality Management (EFQM).

Growth strategy and service development

Increasing economic globalization in general and the European integration process in particular have had an enormous impact on international communications, transport and logistics markets. Economic regions are rapidly converging and cross-border business is on the rise. As a consequence, corresponding transport and logistics services are also becoming increasingly important.

Looking at the logistics business, customers increasingly expect integrated, international solutions that are capable of mastering complex conditions, can be depended upon for meeting deadlines, and offer good value for their money. Deutsche Post was quick to recognize the opportunities these market trends offer. Today, its range of services already includes far more than the conveyance of documents and goods. Starting upstream from the dispatch stage, Deutsche Post's service range encompasses package solutions for acquiring customers and building customer loyalty, for warehousing and invoice management and for industry-specific problems and extends all the way to company mailroom management. We provide customers both national and international support.

Conscious of these worldwide trends, Deutsche Post adopted its current growth strategy in late 1997. This strategy follows three concurrent, fundamental directions: Firstly, as part of our internationalization strategy we are developing new networks, especially in Europe, through selective acquisitions, participations and collaboration. Secondly, we are systematically expanding our range of products and services in the express mail and logistics field. Our customers demand products with various transmission time frames in all weight categories. Thirdly, we are pushing ahead with the development of our value-added services. Many customers are presently outsourcing their logistics operations and are looking for top-quality one-stop solutions.



Activities toward internationalizing the group were stepped up markedly throughout 1998 and the early months of 1999. A few results: Deutsche Post is now directly selling its parcel mail products in more than ten European countries. Further, a solid foundation has been laid for developing an efficient, Europe-wide parcel mail network for serving 330 million people.

We will be offering our business customers uniform haulage and delivery service quality throughout Europe. This will, in turn, afford us a good starting point for meeting the competition in the international postal markets. Deutsche Post's logistics network also includes its equity stake in the trans-o-flex company. We offer quality express mail services through DHL in 227 countries worldwide. With DANZAS, Deutsche Post has acquired a strong logistics platform in 47 countries across the globe.

Well-guided group development

Our 25.001-per cent stake in DHL, the world market leader in express mail services, our participations in parcel mail and logistics firms in Great Britain, France and Italy, and our acquisition of the McPaper stationery chain were important milestones in our purposeful development of the Deutsche Post group during the 1998 business year.

Deutsche Post International B.V. submitted a bid in December 1998 to acquire the internationally operating DANZAS Holding AG logistics group (Basel). This bid has since been accepted by DANZAS shareholders. A perfect complement to Deutsche Post's range of products, DANZAS is the third largest transport and logistics group in the world and generates revenues of some CHF 7 billion with its 16,000 employees. As a result of this acquisition, we are able to offer our customers integrated logistics solutions. DANZAS' Europe-wide surface haulage and worldwide air and sea freight activities round out Deutsche Post's range of parcel and express mail products. As a member of the Deutsche Post family, DANZAS will continue to operate as an independent company.

Deutsche Post took its first step toward tapping into the particularly attractive direct advertising market in the USA with its acquisition of Global Mail Ltd.

We will also be intensifying our activities in the financial services field. We acquired the remaining 82.5 per cent of Deutsche Postbank's capital on 1 January 1999 – in addition to the already committed 17.5 per cent. This acquisition established the conditions we have long desired for ensuring the economic efficiency of our retail branch network. Postbank will retain its independence in the future. Having established a new, long-term foundation, both companies can now team up to implement an aggressive financial services sales strategy.

Gearing up for the euro and the year 2000

Preparations for our upcoming conversion from the mark to the euro are proceeding according to schedule, with all stages laid out in a detailed plan. As part of a group-wide project, all measures necessary to ensure that our IT systems are Y2K compliant have been initiated and in part already completed. Technical experts are pinpointing risks arising from the changeover to the year 2000.

Performance in 1999 and the outlook for the future

Business development for 1999 is proceeding according to plan. Special focus is being placed on developing the Deutsche Post group into an international leader in communication and logistics services. We will also be systematically improving quality levels and increasing productivity in all areas.

Our corporate transformation and internal modernization will be continued through the 1999 business year.

Deutsche Post will change over from its previous three-tier structure to a two-tier structure in mid-1999, a step that will substantially strengthen our sales force in particular. This reorganization will further increase Deutsche Post's effectiveness and bring it closer in line with customer requirements.

We will also be systematically implementing our long-term growth strategy with its three prongs – internationalization, expansion of our product base, and value-added logistics – in the years ahead.

The wide range of developments in the multimedia field opens up a variety of avenues for Deutsche Post. In the area of the fast-growing electronic commerce (e-commerce) market, we plan to make use of our special competitive advantages by “bundling” various service products. We will begin offering integrated services in this area during the first half of 1999.

IPO in the year 2000

Our systematic growth strategy – and the integration of our business segments and corporate divisions – will define our corporate policy in this and coming years. All measures currently being taken are aimed at further increasing goodwill and safeguarding jobs on a long-term basis. Our upcoming initial public offering provides an important guidepost for these activities.

Deutsche Post's sound balance sheet and financial situation enables us to further expand and reinforce our market position. We will be steadily strengthening our fast-growing communications and logistics group in preparation of our planned stock market floatation in the second half of the year 2000.

Closing statement from the Board of Management's Report on Relations with Affiliated Companies ("Dependency Report")

None of the transactions entered into in 1998 and described in this report were prejudicial to the Company's interests. In each transaction, the Company received fair and reasonable consideration. No transactions were entered into with third parties at the request of the Federal Government or in the interests of the Federal Government or its affiliated companies. Deutsche Post AG neither took, nor omitted to take, any measures in 1998 at the request or in the interests of the Federal Government or its affiliated companies.

Extending our lead step by step



Postal Act enters into force

The compromise reached through political consensus offers a sensible framework for safeguarding Deutsche Post's competitive strength and goodwill while providing the planning security necessary for future-oriented corporate policies.

Launch of Deutsche Post Express

A specialist in the fast, reliable transmission of courier and express mail items, Deutsche Post Express GmbH begins operation in the German express mail services market on January 1. Its strategic reorientation centered on a comprehensive reorganization of its product range and logistics and sales system.

Retail branch concept unveiled

Greater customer orientation is the objective of Deutsche Post's new retail branch strategy. Individualized advice, longer opening hours and convenient locations are the key to increased customer satisfaction. Following our new strategy, we will be serving at least 50 per cent of all our customers at modernized retail branches by the year 2000.

Participating interest in DHL

Deutsche Post acquires an approximately 25-per cent stake in the DHL International Ltd. express mail service company. This equity interest provides a platform for strategic collaboration between Europe's largest mail company and the global market leader in international courier services.

Acquisition of McPaper

With retroactive effect from 1 January, Deutsche Post acquires the McPaper stationery chain which markets a wide range of stationery goods and general office supplies. Deutsche Post plans to open some 550 Deutsche Post/McPaper retail branches throughout Germany in the course of the next five years.

1998 collective wage agreement

The round of collective pay bargaining concluded in April produces notable results which, by injecting greater flexibility into working hours, enhance not only Deutsche Post's competitive strength but also take our employees' interests into account.

Opening of 17 Center branches

With an eye to establishing a chain of competence centers, Deutsche Post begins setting up retail branches for expanded postal and financial services known as 'Center' branches. A trial phase for this new type of retail branch begins at 17 locations. What sets Center branches apart from normal retail branches is the addition of a separate area where comprehensive consulting services are offered for all postal and financial matters.

January

February

March

April

Company uniforms issued

In just five months, Deutsche Post outfits some 148,000 of its employees with new uniforms. An important element in our public image, these uniforms are an expression of our strong, consistent identity.

**New record for J+1:
95 per cent**

During the second quarter of the year, Deutsche Post delivered letters within Germany faster than ever before. Ninety-five out of a hundred letters were delivered to their addressee within one day; 99 per cent reached their destination within two days. This translates into an average transmission time of 1.06 days.

**Customer Helpline opens
in Marburg**

A new Customer Helpline – the second Deutsche Post Call Center in Germany – goes on line in Marburg. The Helpline answers all customer questions regarding our products and services.

2,300 new trainees

Deutsche Post raises the number of its trainees once again in 1998 – by ten per cent – providing promising opportunities for even more young people fresh out of school. Those who successfully complete their training will be offered a job with Deutsche Post.

**Acquisition of Global Mail
(USA)**

Deutsche Post enters the North American market in September through its acquisition of Global Mail, the largest private provider of international mail services in the United States today. Posting double-digit growth rates, Global Mail has clearly demonstrated that it is a flourishing enterprise. Deutsche Post took this step to further internationalize its postal business in response to customer wishes and ever-growing competition.

May

July

August

September

EuroPack launched

Deutsche Post introduces the EuroPack forwarding service for business-to-business parcel dispatch in October. By offering calculable transmission times and a comprehensive range of value-added services, EuroPack meets the wishes of international business customers for new quality standards in business-to-business parcel mail service.

“Kundenbarometer”

Deutsche Post's total quality management system meets with approval. In the “Customer Barometer”, an annual national study on customer satisfaction in Germany, Deutsche Post's retail outlets gained 16 points – the second largest increase reported among all sectors of trade and industry.

Stake in Securicor (UK)

Deutsche Post takes a further step in its efforts to establish a Europe-wide parcel mail network with its decision to acquire a 50-per cent participating interest in Securicor Omega Express/ Securicor Distribution, the distribution division of the UK company Securicor. Express and parcel mail services for businesses in the United Kingdom and Ireland constitute the company's primary business segment.

Second “tranche” of Center outlets

Following a highly successful six-month trial phase with 17 Center retail outlets, approximately 40 more Centers go online in 1998.

Business Club launched

Deutsche Post gives the green light for establishing a “Business Club” of its own. Members will have the opportunity to exert decisive influence on the future development of Deutsche Post's products, quality levels and services by providing input on what they want from them.

All 83 Letter Mail Centers online

Deutsche Post completes implementation of its “Letter 2000” concept a year ahead of schedule. With 83 letter mail centers around the country, Deutsche Post now has one of the world's most modern letter transport networks at its disposal.

Participating interest in Ducros (F)

Deutsche Post takes a majority stake in Ducros Services Rapides, a Nimes-based parcel and express mail service company that is listed on the French stock exchange. In addition, Ducros' fully-owned subsidiary Transerra operates on the Spanish market. The Ducros stake represents yet another important step forward in Deutsche Post's efforts to develop a Europe-wide parcel mail network.

Decision on Postbank takeover

Deutsche Post acquires Postbank's entire capital stock with effect from January 1, 1999. This acquisition will strengthen both Deutsche Post and Postbank, and pave the way for a strategy that will ensure the future success of both companies.

Bid for DANZAS

Deutsche Post AG submits a bid to DANZAS Holding AG shareholders to purchase all privately held shares. Using the Deutsche Post platform, the DANZAS Group is to be developed into a leading, globally active logistics company. By adding DANZAS to its lineup, Deutsche Post has opened up a new dimension in service – with one-stop, package solutions along the entire logistics chain – for customers of both companies.

Participating interest in Merkur

Deutsche Post acquires a 51-per cent interest in Merkur, a direct-marketing company operating out of Einbeck. As a systems service provider, Merkur offers services located upstream from actual mail dispatch activities. The Merkur stake constitutes another step in establishing value-added services.

Stake in MIT (I)

Deutsche Post announces the acquisition of a majority interest in MIT, the Italian express and parcel mail company headquartered in Milan. This stake sets another milestone in the development of Deutsche Post's Europe-wide parcel mail network, which is on its way to serving some 330 million persons. As a result of this new interest, Deutsche Post will be able to offer customers top-quality transport and delivery service in Italy as well.

October

November

December

New ideas create new markets

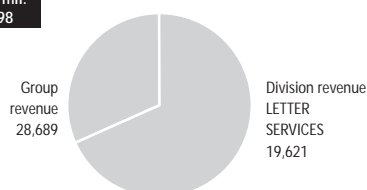


Letter services – Communication with a future

The only provider to offer a complete portfolio of physical and hybrid letter service products, Deutsche Post combines trustworthiness, reliability and nationwide availability with innovation and operational efficiency at an internationally unparalleled level.

Group revenue – LETTER SERVICES

in DM mil.
for 1998

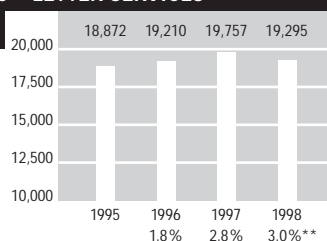


Rising revenue in growing markets

The ongoing growth seen in the physical and hybrid letter service market in recent years continued through 1998. Despite increasingly tough competition, our Letter Service division was able to up its revenue in this area by a total of 4.3 per cent for the year. This positive performance was buoyed by our solid core business in the traditional letter service field, which firmly held its own at a very high level despite a growing amount of competition, generating a four-per cent increase in revenue over 1997.

Revenue – LETTER SERVICES*

in DM mil.



*) Excluding subsidiaries

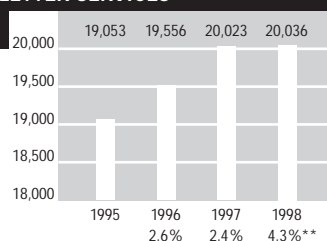
**) Due to reorganization, growth rates calculated on a comparable basis

The market's positive overall development in 1998 owed much to the above-average growth in direct marketing – which set another record with its 9.5-per cent growth in 1998. Postal direct marketing media provided the driving force behind this rapid growth by generating an 11-per cent increase in revenue with both established and new products. An entirely new market segment was developed with partially addressed products to serve the medium price range of the direct mail market.

The Press Distribution field was able to slightly increase both sales and revenue in the fiercely competitive press items market by 1.8 and four per cent respectively. Marked growth in the customer magazine field was primarily responsible for this rise.

Sales – LETTER SERVICES*

in units mil.



*) Excluding subsidiaries

**) Due to reorganization, growth rates calculated on a comparable basis

New service and problem-solving products in value-added areas that center on postal services have developed into a booming additional business for the Letter Services division, with revenue climbing by 59 per cent last year and double-digit growth rates forecast for the coming years.

Following several years of diminishing annual revenues, Deutsche Post's stamp collector market entered an upswing, with revenue increasing sharply to DM 138.2 million thanks to the introduction of new products developed for specific target groups.

Growth through innovative products and services

Making letter-writing more attractive for our private customers

Our new product ideas not only give private customers new impetus for writing letters, they make it easier too. The fun and convenience products that we have positioned in the German market showcase the letter as an attractive means of personal communication. Our Plusbrief for example – an envelope with an integrated stamp – makes it easier than ever to mail a letter. Set up for children and young people between the ages of nine and 19, our LetterNet club matches up pen pals both in Germany and other countries. It already counts more than 200,000 members.

Our promotional postcards with their creative designs and messages have been expanded to include StudyCards which we launched at 33 universities last year. StudyCards encourage the spontaneous use of postcards to send greetings to friends and challenge the sender to be creative.

Innovation and solutions for our business customers

Deutsche Post offers its business customers products and services that have been optimized to meet target group needs and feature customized solutions.

For the advertising market, we've created a new range of partially addressed advertising products in the medium price range. Following a successful market test, our new "Postwurf Spezial" partially addressed mail product was launched on nationwide basis in 1998 with an extended range of allowable sizes and expanded weight classes. Sales reached nearly 170 million units during its first year on the market.

In addition to cost advantages, our new Postwurf rate schedule which went into effect in April 1998 offers customers considerably more options in the lowest weight class. As a result, sales rose by nearly 30 per cent over the previous year.

Full service for
customized
direct marketing
solutions





Our 30 Direct Marketing Centers offer competent consultancy service

Deutsche Post's Letter Services division placed a new direct advertising tool at our customers' disposal with its introduction of the InfoCard as one of its standard products. The InfoCard combines two addressed cards, making it a mailing card and reply card in one. This convenience generated sales of more than eight million items within an extremely short time in 1998. Deutsche Post also offers its customers software which facilitates and expands their access to direct advertising activities.

Some 4,000 customers took advantage of the convenience offered by our Infopost Manager software in 1998. Available on CD-ROM, this address management software includes a postage optimizing function, plus information and forms for the dispatch of Infopost and Infobrief items. More than 5,500 Deutsche Post customers are currently using our Prospekt-Service software which calculates and displays the costs for unaddressed mailings according to the number of items to be dispatched and the specific distribution areas designated by the user. Printing posting lists and address labels is straightforward and easy with ProspektService. Deutsche Post also offers target group-specific applications such as VALyou for companies which have proven direct marketing know-how and/or direct marketing-related expertise and which operate in the service or trade industries or in the Fashion Mail field for small and medium-sized textile retail businesses.

Deutsche Post also holds the lead in consultancy services for both new and established direct marketing methods. Business customers will find a competent partner in Deutsche Post. With its 30 Direct Marketing Centers (DM Centers) throughout Germany, Deutsche Post can help all customers – regardless of whether they are novices or direct marketing professionals – and offers tailor-made mailings and modular solutions in addition to seminars and workshops. In the process, our DM Centers tap into new potential, particularly among small and medium-sized businesses with strong potential for growth in their direct marketing investment activities. Add to this the Call Center set up at the end of last year to serve business customers. Our new Business Club provides the framework for promoting a dialogue between directing advertising customers and direct marketing professionals – a dialogue that drives direct marketing.



New additions to our traditional product portfolio have increased the range of application options and service, and help our customers optimize their costs. The first stage of the relaunch of our Postal Franking product was initiated in the Frankier Service franking service field, where we optimized processes and extended this service to include Infopost.

Our PostKIT software tool facilitates access to special services.

Developed for collecting and delivering letters to post office boxes, our new “Hin + Weg” product is one of the new additions to our extended range of value-added products for traditional letter mail services.



Ticket Service –
Now available
at all Deutsche
Post outlets and
on the Internet

Selective development of new business segments

With an eye to rounding out our core business and enhancing our systems expertise, Deutsche Post's New Business Segments field is selectively developing know-how in the fast-growing areas of address and response management, software development, and outsourcing.

These activities in the New Business Segments field address three trends in particular:

- The growing demand for professional address and response management in direct marketing activities;
- The need of many companies to optimize their mailrooms and in-house printing services through outsourcing;
- The wish for customized software solutions that integrate electronic postal service, letter mail, faxes and electronic data exchange.

The individual services offered by our New Business Segments field complement one another and can be combined as needed. As a result, Deutsche Post's customers benefit from the synergies generated by the use of the following services:

Optimizing company mailrooms

The specialists at **GMS Deutsche Post Logistik GmbH** optimize in-house mail-processing systems. The demand for this type of customized solution is growing in the marketplace, as evidenced by the fact that **GMS Deutsche Post Logistik GmbH** more than doubled its revenue in 1998. Siemens alone has outsourced its mailrooms and a large printing plant at seventeen of its locations to Deutsche Post's In Haus Service, which handles mailroom activities more efficiently and cost-effectively.



Mailed through the
information highway
and delivered by
conventional means



Interface between media

The world of communication is in a process of particularly radical change. Our forms and channels of communication are becoming increasingly diverse and complex. Written messages are no longer sent solely by letter, but by fax, e-mail and even electronic data transmission. This opens up new opportunities. It also poses new challenges, especially when information is to be transferred from one medium to another.

Deutsche PostCom is meeting these challenges with an innovative concept: the seamless integration of conventional media into electronic media and vice-versa. In other words, incorporating the use of various media into business communication.

With the eCard, Internet users can, for example, mail individual postcards through the Internet with the click of a mouse. These postcards are delivered by a mail carrier, just like conventional postcards. This service is slated for expansion – and will soon include the letter mail field as well, where PostCom already offers ePost for business customers.

MLC Systeme applies Lotus Notes and its expertise in electronic data interchange (EDI) processes to topical software developments such as extranet, intranet and Internet systems. In addition, MLC also offers the latest in logistics software with its new route planning systems.

Unique address validation and collation service

Deutsche Post Direkt GmbH has developed a unique on-line address validation and collation service with its Address Factory. All that's needed is an Internet access and customers can have their address records adjusted and updated any time, day or night. Deutsche Post Direkt GmbH is also on the cutting edge with a service that registers standardized documents – such as catalog orders – rapidly and efficiently: Proving this point, our Response Management Center in Mannheim made the Guinness Book of Records in 1998 with its performance in a high-volume capacity test.

Business communication
that incorporates
various media –
An innovative concept



Deutsche Post Adress GmbH offers a change-of-address database that was generated from mail-forwarding applications received by Deutsche Post. With its database of 20 million postally verified addresses, Deutsche Post Adress GmbH boasts Germany's only up-to-date former/current address database. Upon request, it furnishes this data to customers – by subscription, on a data medium or online for one-off inquiries.

On our way to becoming a full service provider

Deutsche Post filled out its network of new business segments even further in 1998 by acquiring **Merkur** (a full service provider in the direct marketing sector) and **AssoWare** (a provider of specialized software for automatic address validation and collation). These acquisitions will bring Deutsche Post substantially closer to achieving its objective of being a full service provider in the communications, transport and logistics markets.

New products for stamp collectors

The stamp service offered by our Postal Philatelic Service is growing in popularity. As a result, philately revenue posted a marked increase in 1998 – the first in four years. New products such as the “Deutschland Abo” subscription for postmarked new issues fresh from the post office, combination products such as the NumisSheet, and new products that are aimed at specific target groups are stimulating the collectors' market and also offer attractive opportunities for young people to start their own collections.

A new addition to our philately lineup, the Deutsche Post Collection offers exclusive collectors' items that revolve around the subject of postal service. The Collection concentrates particularly on replicas and miniatures of originals on display at postal and communication history museums. These items are produced exclusively by renowned manufacturers; their authenticity and exquisite detail are guaranteed by noted artists and historians. Models of railway mail cars, mail delivery vehicles and much more can be ordered by catalog.



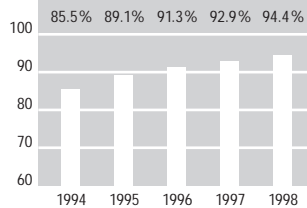
Marked increase in philately revenue



Our International Mail Center successfully completed its initial operating phase in 1998



J+1 on annual average



Using quality programs to systematically expand our leadership

With our newly implemented mail logistics system in place, we topped our prior record for speed in 1998. Delivering 95 per cent of all letters within one day of dispatch, Deutsche Post also went on to take top honors among Europe's postal services. Our reliability rate – in other words, the percentage of letters being delivered by the second day at the latest – rose to 99.3 per cent. Our transmission time levels are measured every year by independent testing and control institutes that use a million test items in a certified procedure. Quality standards that are relevant to direct marketing are monitored in conjunction with customers.

Our mail and parcel carriers are the source of most addressees' first-hand experience with Deutsche Post service. In keeping with the company-wide trend, we were able to enhance service quality markedly in this area as well in 1998. As a result, customer satisfaction with delivery service is currently close to the top of our five-point scale. The fact that both our business and our private customers turned in similarly positive assessments of delivery service quality demonstrates that we've made substantial progress in strengthening our customer-orientedness. Deutsche Post invests a considerable amount of time and money in eliminating deficits in its address files and in correcting addressing errors, an investment aimed at increasing the percentage of correct deliveries beyond our current level of 98.3 per cent.

Our nationwide presence is visibly signaled by the new company uniform that our carriers began wearing in 1998. Besides boosting our public image, these uniforms foster our employees' identification with Deutsche Post.

Making quantum leaps in automation and efficiency with the world's most modern logistics network

The last of our 83 new letter mail centers went online in the autumn of 1998, one year ahead of schedule. Our conversion to the new production system was effected without any disruption in day-to-day operations. Since we substantially undercut the planned investment volume and productivity increased faster than anticipated, this DM 4 billion project will now reach its break-even point much sooner than planned.



Our new company uniforms are visible signs of our presence



Implementation of our Letter 2000 concept was wrapped up in 1998



Deutsche Post's International Mail Center at Frankfurt airport – our logistics gateway to the world – concluded its initial operating phase in 1998. Besides improving our international letter mail transmission times markedly, this new facility offers optimum conditions for foreign mail requirements such as customs clearance.

State-of-the-art sorting and handling technology is now standard at all Deutsche Post mail centers. Some 80 per cent of the 35,000 letters Deutsche Post processes every hour are automatically read by OCR equipment. Our sorting machines can process up to 400 destinations in one run, enough to serve the needs of an entire region. To handle large-size letters, we developed a new generation of machines whose capacity can be expanded as needed in the future. Modern, high precision tilt-tray systems are used for processing Maxi letters in high-volume centers. Tray flows at our letter mail centers are routed through fully automatic IT-controlled conveyor systems. In order to protect letter items and optimize handling, we developed yellow letter trays sized according to the different letter formats. Our conveyance and transport systems were designed around the use of these trays. All in all, our Letter 2000 system is a superior operating concept because of the company-wide reorganization that laid the foundation for its realization and systematic implementation.

Fine-tuned to letter mail logistics requirements, our transport systems, means of conveyance and vehicles meet the highest quality and cost optimizing standards.

As a complement to our technical systems, we have already implemented extensive IT systems to support our physical logistics. These IT systems provide advance information which enable reliable production planning and control. They are also used to record and process data in order to ensure system-wide transparency. And last but not least, these IT systems monitor and control the entire process chain – linking production sequences and making it possible to identify quality reserves and cost-optimizing potential. Direct data interfaces with customers are currently being developed and set up with the goal of increasing data accuracy and reducing administrative costs.

Deutsche Post maintains Germany's most extensive database for address recognition and letter sorting activities. Processed through online networks, the most up-to-date data is also made available to customers who need this information to ensure the correctness of the addresses they use.

Technological advances are being developed to support well-established operations



We also laid the groundwork for fundamental technological advances in two areas: A pilot project with automatic carrier sequence barcode sorters was successful in the delivery service field. And low-cost versions of our conveyor and sorting systems plus driverless transport systems are being tested at our smaller letter mail centers.

The outlook for the future

The year 1999 will be dominated by increased sales initiatives which we will be launching to counter fast-growing competition. We will be introducing new individual services and service packages in response to the growing demands being placed on package services. Our plans also include the use of creative incentives to increase our competitive edge in the written communication field. Direct mail will be deployed to reach customers more efficiently.

Making purposeful use of technology, we will reinforce our claim to leadership in the areas of quality and increased efficiency.

As a result of its postal legislation, Germany has one of the most competitive postal markets in the world, with further liberalization already stipulated by existing law. Given these conditions, Deutsche Post will – in its capacity as the leading company on the market – be generating further impetus for growth in the Letter Services market, by investing in advertising and in developing and improving its groundbreaking direct marketing know-how.



Our Plusbrief – an envelope with an integrated stamp – another example of customer-orientedness in an increasingly tough market

A stylized, high-contrast illustration of a cityscape. The buildings are depicted as yellow blocks with black outlines and internal details like windows and doors. The roads are also yellow with black dashed lines. The overall style is graphic and modern. A central black rectangle contains the text "One-stop package solutions" in white.

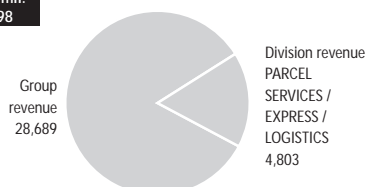
One-stop package solutions

Parcel services / Express / Logistics – One-stop package solutions

We want to be the provider of choice for one-stop package solutions in the courier, express and parcel mail market. Which means that besides reinforcing our market leadership in Germany, we will also be expanding our range of products and services along the entire value-added chain and making exceptional use of the growth potential offered by these markets.

Group revenue – PARCEL SERVICES / EXPRESS / LOGISTICS

in DM mil.
for 1998

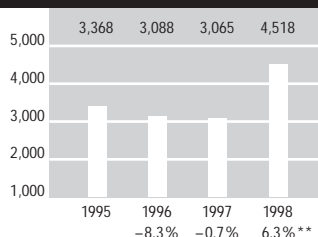


Parcel services – Doing everything for our customers, growing through our customers

By systematically developing the operational side of our domestic parcel mail activities, we have created a solid foundation for our pan-European parcel network. Efforts to consolidate the PARCEL SERVICES / EXPRESS / LOGISTICS division continue to make progress. We improved our result once again in 1998, which in turn cut our loss to 50 per cent of the previous year's level. With their business dealings becoming increasingly international, our customers expect Deutsche Post to deliver one-stop, high-quality products for the domestic and international postal markets. In light of this trend, we expanded our services and marketing activities in 1998 to enhance our ability to respond to customer wishes.

Revenue – PARCEL SERVICES / EXPRESS / LOGISTICS*

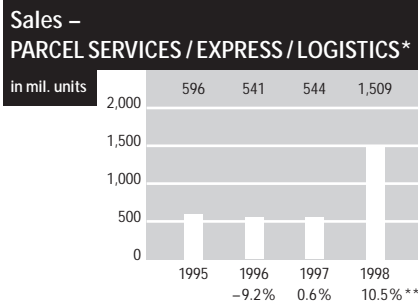
in DM mil.



*) Excluding subsidiaries

**) Due to reorganization, growth rates calculated on a comparable basis

Thanks to these efforts, the positive trend seen in the parcel mail area in recent years – particularly with regard to price stability – continued through 1998. At 10.5 per cent, sales growth in 1998 far exceeded both our 1997 performance and 1998 target. Since consolidation in 1997, our growth curve has reversed direction and is heading upward once again, the result of new acquisitions and the landing of additional contracts with existing customers. Calculated on a comparable basis, we were also able to increase turnover by 6.3 per cent over 1997.



*) Excluding subsidiaries

**) Due to reorganization, growth rates calculated on a comparable basis



More convenience for private customers

Deutsche Post offers private customers an easy, inexpensive way to send parcels to destinations in Germany, Europe or even further abroad with its new “Small Prepaid Package” product. We will be expanding our “FreeWay – Parcel-Post Stamp” product for private customers and small businesses who look to Deutsche Post for a service that is currently not available from any other parcel mail service provider. We have developed a market niche in this segment with good prospects for rapid growth and greater customer acceptance.

Business customer segment expanding

Sales and turnover in the business customer segment are continuing their positive development thanks to active direct marketing efforts to approach small and medium-size customers and the acquisition of new customers through parcel deliverymen with whom they have direct contact. Parallel to this, we have also improved the products and services we offer business customers.

A variety of innovations involving all aspects of parcel mail service round out our range of products and services for domestic parcel mail service. Customers from all sectors use our “Postbox” – an economical and environmentally friendly form of reusable packaging – to send parcels to private and business addressees throughout the country.

Deutsche Post offers both private and business customers nationwide J+1 service which gets parcels to their destination within just one day after posting. As a result, it has been possible to substantially increase service quality, with transmission times for all parcels reduced to an average of only 1.1 days.

Service quality could be markedly improved for all parcel mail, with transmission times averaging only 1.1 days





We are striving to produce greater flexibility and more innovation through value-added and sector-specific solutions alongside reliability and trustworthiness

The use of key account management to systematically develop business relations with customers from the multimedia, trade, textile/clothing, transport and publishing/printing industries led to a substantial increase in our market shares. We finalized a number of important deals – with Karstadt, for example – in the retail trade supplier logistics field.

Within the course of our strategic marketing efforts, we plan to develop integrated, cross-divisional products for meeting segment-specific requirements. Already familiar values that Deutsche Post pursues such as reliability and trustworthiness will be augmented by modified value-added/sector-specific solutions to increase our flexibility and innovativeness in dealing with customer wishes in the future.

Haulage – The foundation of our postal services

Haulage is one of Deutsche Post's core tasks. Organized on an integrated, cross-divisional basis, haulage activities constitute an important link between our divisions and our customers. The introduction of twenty-four-hour nationwide service (J+1) for parcel mail posed a particular challenge which we were able to master successfully. The optimization of our transport networks and the installation of modern IT systems at all our letter and freight mail service district offices led to considerable cost savings. These systems enable cost transparency in all of Deutsche Post's haulage processes. We offer customers a growing number of value-added or package logistics services for both the domestic and international postal markets. Our haulage operation also focuses on integrating new companies and making better use of the synergies existing between Deutsche Post and its subsidiaries.

The transfer of long-distance parcel haulage to our subsidiary **Deutsche Post Transport GmbH** – which acts as our primary contractor – is just one example of how we use these synergies. Long-distance parcel haulage went to 100-per cent nationwide J+1 service in mid-April 1998. As sales posted strong growth and business operations expanded, we systematically continued ongoing optimization measures and were able to substantially reduce our costs during the year.

The outlook for **Deutsche Post Transport GmbH** continues to be bright. As a competitive, customer-oriented service company, we are striving to expand our existing operations and acquire additional business volume – by handling shipments for Kühne & Nagel, for example – from within the Deutsche Post group as well as from external sources.



Express mail services fuel growth

The trend toward increasing speed is a part of normal business life in today's industrial society. Computers are becoming faster, product life cycles are becoming shorter, information has to be made available more quickly and our customers want their products and documents delivered within ever shorter time frames. We launched an advance into this fast-growing segment with our subsidiary Deutsche Post Express GmbH which successfully positioned itself in the 1998 business year both in its core express mail service segment and as a premium service provider in the Deutsche Post group. Measured in volume, **Deutsche Post Express GmbH** assumed market leadership among German express mail service providers in just its first year, outperforming the competition by transporting a total of six million items.

At international level, Deutsche Post Express GmbH entered into a co-operation agreement with **DHL International**, the market leader for international express mail service, in July 1998. As a result, Deutsche Post Express GmbH is now active in the international segment with a product that is co-branded with DHL and sold over some 2,000 postal counters.

Keeping our strategic goal of taking market leadership in the courier and express mail service market in mind, we will be expanding our range of services in 1999 by introducing new products that will help us successfully develop market niches and maintain our competitive edge. Deutsche Post Express GmbH is well equipped to expand its leading position on the German courier and express mail service market even further.



Deutsche Post Express became the market leader in volume handled within its first year

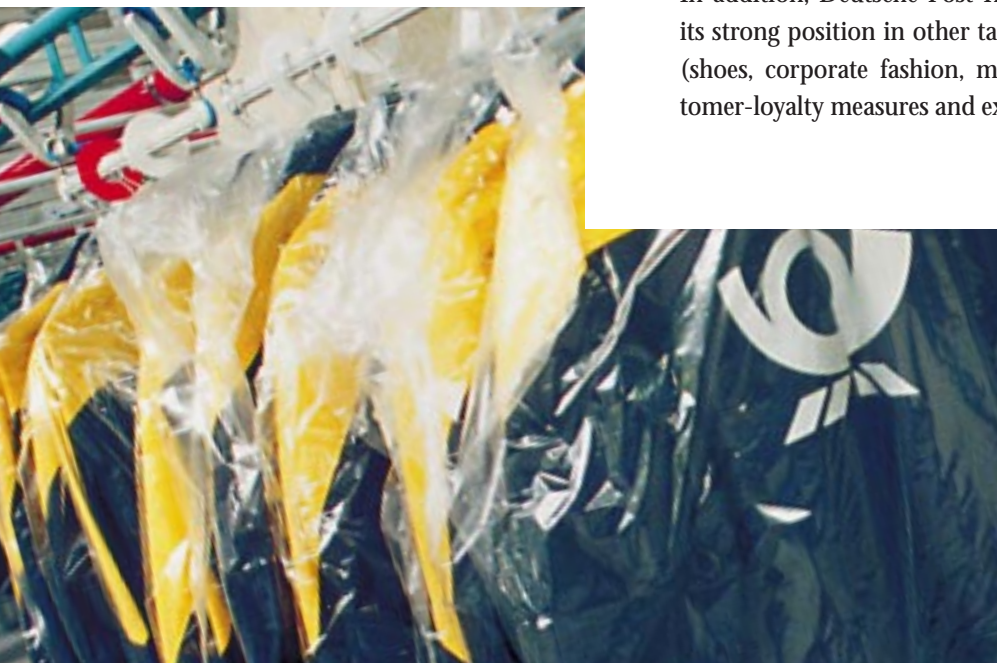


Value-added logistics services – A promising business

We want to put our customers in a position to concentrate on their core business. For this reason, we are extending our range of straight distribution services along the entire value-added chain. Our subsidiary **Deutsche Post Kontrakt Logistik GmbH** can take charge of the entire value-added chain for our customers – handling everything from order acceptance and physical consolidation all the way to collection and dunning. Within its first year of operation, Deutsche Post Kontrakt Logistik GmbH quickly established itself in the marketplace as a specialist for parcel mail-related contract logistics. By directing its marketing efforts to targeted industries, Deutsche Post Kontrakt Logistik GmbH has been able to up its sales volume. As a result of these two factors, it has generated a high level of awareness among customers and, concomitantly, unusually high growth rates in the contract logistics market segment.

Growth proceeded according to plan during the 1998 business year. Production capacity at the Troisdorf Logistics Center was doubled. Having targeted the fashion logistics/corporate fashion industry, we succeeded in entering this market with the implementation of our Corporate Fashion project. To back up the work of the Stuttgart Logistics Center which was already online, a special department for shoe industry logistics was set up at our Munich Logistics Center. Deutsche Post Kontrakt Logistik GmbH was able to expand its share of the German market in this segment from 20 per cent in 1997 to more than 25 per cent in 1998. One reason for this strong performance was our success in recruiting Salamander AG, an international shoe manufacturer, as a customer.

Our acquisition of two key accounts in the mail order logistics business – Tchibo and Völkner – opened the door to another market we had targeted. Starting in spring 1999, several million items will be processed and prepared at our facilities in Bremen and Brunswick for delivery to end customers. In addition, Deutsche Post Kontrakt Logistik GmbH will be expanding its strong position in other target industries where it is already operating (shoes, corporate fashion, mail order business), using well-aimed customer-loyalty measures and extending its vertical range of services.



Deutsche Post Kontrakt Logistik was able to establish itself in the fashion logistics industry with its Corporate Fashion project

Parallel to this, our marketing and project activities focus on the spare parts logistics field and the health care sector. Practicable plans for the medical supplies trade, medical sample dispatch business, hospital supply logistics field and other areas are ready for the green light.

Besides generating strong growth through sales and marketing activities, we are also pursuing a strategy of enhancing our competitive strength by acquiring specialized contract logistics service providers who are already successful in the marketplace.

“Wert Logistik” – As safe as Fort Knox

Customers looking for optimal solutions can look to **Deutsche Post Wert Logistik GmbH** for the rapid and safe dispatch of valuable items. Building on its cooperative service agreements with Deutsche Post Express GmbH and GTG Kassel mbH, Deutsche Post Wert Logistik GmbH is a modern valuables logistics company that also offers all the services of a courier and express mail service company, giving it a crucial competitive advantage. Deutsche Post Wert Logistik GmbH offers banks, insurance companies, industry and trade transport services tailored to their specific needs.

European transport services with sector-specific solutions

Our participating interest in the **trans-o-flex Schnell-Lieferdienst GmbH** express delivery company – which we want to expand to a majority stake in early 1999 pending approval from the Cartel Office – helps ensure that our expansion of the group's range of products and services reflects customer needs and wishes. The areas covered by trans-o-flex – individualized, sector-specific solutions – round out our range of services with a big plus in added value for the customer. trans-o-flex has subsidiaries operating in six countries and is a member of the pan-European Eurodis network which operates in 17 countries.



Modern, IT-based
logistics ensures
competitive strength



DANZAS complements Deutsche Post activities, taking its place as the company's logistics cornerstone



The outlook for the future

In the coming year, our activities in the PARCEL SERVICES / EXPRESS / LOGISTICS division will center on standardizing and streamlining our price and product portfolio. Our range of products must be straightforward and clear-cut so that our customers in Germany and Europe can easily understand and use them. Our activities will concentrate on setting up a sales network for all Deutsche Post parcel-related products and on expanding our information technology so that we remain on top of our game throughout Europe. In tandem with these activities, capacity at our freight mail centers is to be enlarged to ensure that we can continue to process anticipated volumes quickly and reliably. We strengthened our Contract Logistics segment through our acquisition of DANZAS, the Swiss logistics firm, and will now turn our attention to fully integrating this new member into our team.



Our range of one-stop services will open the door to leadership in the global logistics market

Just around the corner all around the world



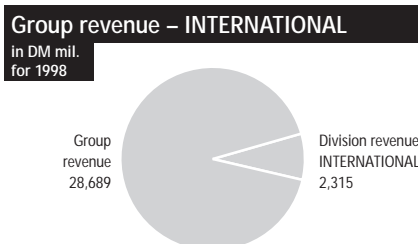
Deutsche Post – On its way to a global presence

It is our intention to become quality and market leader for postal services in Europe. To achieve this goal, we are developing a powerful international parcel and express mail network that will soon be serving 330 million people.

We are making use of the market opportunities that liberalization offers for further growth by acquiring participating stakes, entering into cooperative agreements and setting up joint ventures with leading domestic and international parcel and express mail service providers.

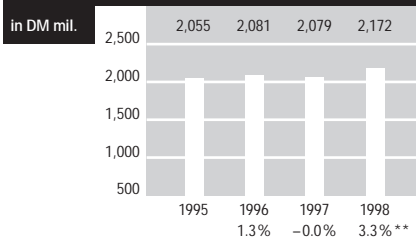
Setting course in internationalization

Our INTERNATIONAL division serves the global letter mail, parcel mail and logistics market with customer-oriented products and services. Our activities are currently dominated by two trends: the liberalization of Europe's postal markets on the one hand, and customer wishes for a one-stop source of services at international level on the other. Which means that foreign providers are entering the German market. And that we must develop a logistics network that serves all of Europe for our customers. We directed special attention to the development of this network in 1998.



We have consolidated our position in the express mail service area by entering into a cooperative agreement and acquiring a stake in **DHL**, the global market leader for express mail service. Our acquisition of Global Mail gives us a bridgehead in the USA for serving international letter mail business customers. And our joint venture with Securicor will allow us to tap into the British and Irish express and parcel mail market. As the year drew to a close, further acquisitions followed in quick succession: In France, we acquired a majority interest in the Ducros Services Rapides parcel and express mail service provider. Looking to Italy, we also acquired a majority stake in the Milan-based express and parcel mail service company MIT and, last but not least, we submitted a takeover bid for DANZAS, the Swiss logistics company. As a result, we are very close to achieving our goal of establishing a Europe-wide network.

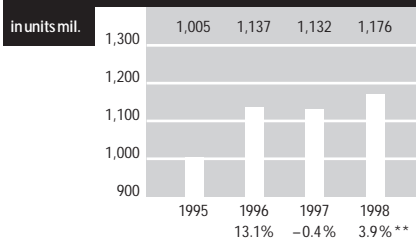
Revenue – INTERNATIONAL*



*) Excluding subsidiaries

**) Due to reorganization, growth rates calculated on a comparable basis

Sales – INTERNATIONAL*



*) Excluding subsidiaries

**) Due to reorganization, growth rates calculated on a comparable basis

Turnabout in sales and revenue

Following a year of stagnation, regional expansion and efforts to enlarge our range of products led to an increase in sales and revenue in the International division in 1998. Revenue grew by 3.3 per cent while sales increased by 3.9 per cent.

Letter mail business stabilized

We were able to stabilize revenue in the international letter mail area in 1998 – and even raise it by 0.8 per cent over 1997's level. Sales volume increased by a satisfactory 3.9 per cent. All in all, sales in the business customer segment grew more than in the private customer segment.

Written communication in the private customer segment is seeing a large degree of substitution through electronic media. Despite this trend, it was possible to stabilize sales generated by private letter mail customers. Since the letter mail market for private customers is expected to stagnate over the medium term, communication and target group cultivation which injects an emotional element into the notion of communicating by letter are to be stepped up.

Our subsidiary **International Mail Service** develops new services for our international letter mail business customers and markets our letter products worldwide. Despite increasingly tough competition, we were even able to exceed planned increases in sales for letters mailed in Germany. Our "Kilo Tariff Letters" and "Infopost" addressed bulk mail products were very successfully positioned in the market. New direct marketing concepts were responsible for this success in the Infopost field. We also increased business customer sales in the Corporate Communication, Direct Mail and Press Distribution product fields once again in 1998.

Participations in a number of countries including Poland, Great Britain, Italy and Switzerland



Business developed positively in the international business customer segment during the 1998 financial year. Despite the rapid spread of electronic means of communication, letter mail was able to hold its strong position among the various vehicles being used by corporations for their communication needs. Market surveys confirm that the market for cross-border mailings is still growing. Having consolidated its position in foreign markets, **International Mail Service** will continue its systematic pursuit of growth in 1999 by opening additional sales and marketing offices abroad. Looking to the future, International Mail Service will be giving priority to its value-added letter mail products and to the development of customized product solutions. Using these package solutions as our springboard, we plan to become the world-wide market leader in this field.

International parcel mail sector in flux

With the help of cooperative agreements, joint ventures and the establishment of new companies, we are developing a pan-European parcel mail network through our subsidiary **International Parcel Post**. Our goal is to develop and launch a standardized, Europe-wide parcel mail service that satisfies the needs of business customers with business contacts in Europe. This network emphasizes reliable, day-certain delivery, easy handling, tracking and tracing, and straightforward, attractive pricing.

Deutsche Post's international parcel mail products for business customers – which are marketed only in Germany – put in a positive performance in 1998. Sales volume, for example, grew by 18.3 per cent to some six million parcels and revenue increased by more than three per cent over 1997 to DM 141 million.

By launching new products (such as the small prepaid package) and organizing campaigns for special occasions (promotional activities during the Christmas season, for example) it was possible to stop the decline previously reported in the private parcel mail customer field. We also stimulated counter business by adding more convenience to our products. Our parcel and small package product portfolio is to be reorganized and made more attractive to customers.

These efforts have already produced results, with sales climbing by 4.4 per cent over 1997. Revenue grew by 1.2 per cent for the year. The pursuit of this strategy is helping Deutsche Post expand its share of the European and international markets as one of the leading letter mail and logistics service companies operating in Europe today.





“Kontrakt Logistik” spreading to Europe

We tend the fast-growing business segment for value-added postal dispatch services such as marketing, transport and warehouse logistics services through our subsidiary **International Postal Service**. With our products and services, we help domestic and foreign companies tap international markets and make it possible for them to enter new markets in the first place by taking over a wide range of services for them. International Post Service offers a number of modular services which customers can order individually or as packages. These modules cover the entire range of services necessary for successfully entering national and international markets or expanding existing market shares – services that extend from market entry strategies, direct-marketing campaigns, order management, warehousing, filling orders and dispatch management all the way to receivables, returns and complaint management. Pressure to internationalize and the opportunities offered by today's new media are inducing a growing number of companies to use direct commerce and e-commerce in both their business-to-business and their business-to-consumer operations. As a result, order activity can be expected to grow substantially.

Deutsche Post Consult International

Deutsche Post Consult International GmbH has made a business out of marketing Deutsche Post's experience and expertise – by offering consultancy services and assistance in the launch and continued development of modern postal services. Parallel to these activities, it also explores and develops international postal markets by preparing and implementing strategic cooperation agreements, management contracts, joint ventures and participations – concomitantly contributing to the development of the group's global business.

Deutsche Post Consult International GmbH concentrates on those European countries where no other affiliated company is operating or where such companies want local support, and in southern Africa – Africa's fastest-growing region – where it opened its first foreign branch office. Deutsche Post Consult International GmbH is also active in South America, Central America and Asia.



Opening international markets with value-added services such as e-commerce

New terminal dues agreement signed


Deutsche Post supports a globe-spanning logistics network through its contacts with 187 countries. With strong involvement on our part, Europe's leading industrial nations signed the new REIMS II terminal dues agreement in 1998, establishing the conditions necessary for the fair, causality-based allocation of costs among signatory postal organizations. Following a short three-year transitional period, subsidization of incoming foreign mail from the REIMS II nations and the attractiveness of exploiting rate differences arising from remailing activities will be things of the past. This agreement is scheduled to enter into force in the spring of 1999 pending approval by the European Commission.

Alliance with the express mail service provider DHL

Our participating interest in DHL International Ltd., the global market leader for international express mail service, gives us access to its worldwide logistics network for express mail products and puts us in a position to offer time-sensitive dispatch with the shortest guaranteed delivery times around. This new strategic alliance is aimed at developing new, strategic products, optimizing service quality for customers and offering flexible solutions for customer needs and wishes as an integrated logistics service provider. Deutsche Post and DHL operate in different markets, offering services that complement one another's range.

The outlook for the future

Deutsche Post's international activities will follow a clearly defined goal in the coming years – namely, that of expanding our international networks along the interface of customer needs. This will include growing our international express mail business as a new element in the Deutsche Post strategy.



Our declared goal is and remains the expansion of our international network



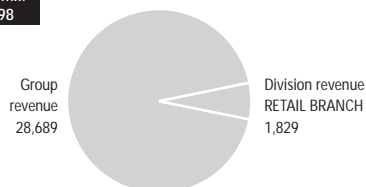
Diversity and competence

Retail branches – Expanding into modern communication and financial service centers

Our retail branches are developing into modern service centers that offer a comprehensive range of letter mail, logistics and financial services through a unique, nationwide network.

Group revenue – RETAIL BRANCHES

in DM mil.
for 1998

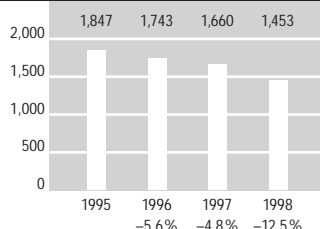


Substantial progress in consolidating and modernizing our retail branches

We made good progress in consolidating our retail branches and were able to further streamline our broad retail branch network in 1998. Even after these measures, Deutsche Post still operates one of the largest sales networks in Germany with more than 17,000 employees in Mobile Mail Service (letter carriers who offer an expanded range of services, making them comparable to a small retail branch). Our dense retail branch network – with locations and type of outlet determined by customer needs as well as demand, cost and quality factors – ensures provision of postal service for the entire country.

Revenue – RETAIL BRANCH division with external partners

in DM mil.



At 284 million, the number of transactions effected on behalf of our external partners by our retail branches during the year declined slightly over 1997 when 296 million transactions were recorded. Revenue generated with retail branch network partners fell by 12.5 per cent. This drop was primarily due to the long-ongoing decline in phonecard sales which have suffered from increased competition from other providers and substitution through mobile phones. The sharp decline in revenue from monetary transactions seen in recent years as a result of the increase in cashless transactions and in the number of automatic teller machines eased in 1998.

Consulting services generate revenue

Consulting services fuel sales. Besides generating revenue, such services are really what modern service centers are all about. In keeping with the demands of this concept, we will be developing a nationwide network of innovative, trend-setting Center branches which – as part of our new retail branch and sales strategy – will serve as expanded regional service centers. Our first 60 Center branches opened their doors to the public last year. The increased revenue generated by these branches is proof positive that this concept works. Our Center branches gear their opening hours to those kept by retail trade and offer the entire range of postal service plus all Postbank and Wüstenrot-Bausparen savings and loan financial services. Life and accident insurance will be added to this lineup in spring 1999. Besides their modern, open-service counters where customers can buy Deutsche Post's traditional services, what also sets our Center branches apart is the fact that they operate separate areas for postal and financial consultancy services.

Alternative marketing methods gaining ground

Customers have responded very positively to the new direction we have taken with our retail branch network. Apart from the longer opening hours, they like having the opportunity for one-stop shopping at convenient retail locations. This added value has generated cost-cutting potential and synergies in our collaboration with these sales partners. The positive response to these combination branches has induced our **Deutsche Post Service- und Vertriebsgesellschaft** to steadily increase the number of its PostPlus branches to a total of 118.

Following 1997's very successful pilot project to set up Shop-in-Shop branches together with the McPaper stationery chain, Deutsche Post acquired **McPaper & Co. Aktiengesellschaft** from Herlitz AG on 1 January 1998. A total of 40 Shop-in-Shop branches began operation by the end of 1998. We plan to open some 550 of these branches across the nation in the next few years. In light of the high level of customer and partner satisfaction, our positive experience with branches operated by partners, and the cost advantages these branches offer, Deutsche Post decided to push ahead with



Rising revenue at our 60 Center branches confirms that our new outlet and sales strategy works





At least half of all our customers are to be served in open-service branches by the year 2000

plans to establish partner-operated multi-counter branches in department stores and supermarkets. By late 1998, we had set up more than 50 Shop-in-Shop/partner branches.

In 1998, we also continued setting up postal agencies at locations where we had previously operated retail branches of our own that were either uneconomical or did not receive enough business. By the end of the year we had added some 1,200 of these branches, for a total of more than 6,400. Our considerable success with this type of branch has convinced us to continue this expansion in the future.

Our opening hours – a critical quality factor for our customers – improved steadily during the year. Although the number of our retail branches has declined, the average number of hours a branch is open during the week increased by 20 per cent.

Deutsche Post retail branches by type of outlet				
	1995	1996	1997	1998
Post-operated branches				
Deutsche Post	13,983	11,981	10,000	7,788
DPSV PostPlus	–	19	80	118
McPaper	–	–	14	40
Partner branches				
Shop-in-Shop	–	–	1	53
Agencies	2,988	4,604	5,236	6,483
Total	16,971	16,604	15,331	14,482

Open and aesthetic design for a pleasant atmosphere

The physical appearance of our retail branches should be a reflection of our open and service-oriented attitude toward customers. For this reason, we revamped a further 250 branches on the basis of our open service concept, more than doubling the number of these innovative branches. We plan to be serving at least half of all our customers in modern open-service branches by the year 2000. This “transformation” into innovative branches cost some DM 160 million in 1998. All in all, we will invest approximately DM 1 billion in remodeling our entire retail branch network.



One-stop postal and financial services

Our acquisition of Postbank with effect from 1 January 1999 added an important building block to Deutsche Post's strategy. The sale of financial products and services increases branch utilization and generates opportunities for cross-selling. This acquisition also provides long-term security for the joint sales network between Deutsche Post and Postbank. This in turn is the basis for the rapid, aggressive implementation of our financial services marketing strategy. Our aim here is to help Postbank become a force to be reckoned with in the German retail banking sector.

When buying financial services, customers expect expert advice and discreet service – in other words, qualified consultants and separate consulting areas. We have responded to this customer wish with our new Center branches, establishing a platform for actively acquiring new customers and building customer loyalty.

Growing sales activities have already led to an increase in our share of the savings market. After years of shrinking giro market shares, it was possible to substantially slow this trend in 1998. The sale of home loan and savings contracts from the Wüstenrot savings and loan association at Deutsche Post retail outlets was launched in 1998. Actual sales volume for the year outstripped our projections. Our first steps in the sale of investment funds and in arranging home financing were also more than satisfactory.

Our agenda for 1999 includes a substantial expansion of our range of life and accident insurance products. We also plan to markedly increase lending operations and introduce the sale of securities.

Our Postal Pension Service is a very special kind of financial service. We offer all institutions that provide pension benefits – as well as company pension schemes – a comprehensive, reasonably priced service package for social security-related needs. The Postal Pension Service's Postal Pension Service Centers processed some 270 million domestic pension payments worth a total of more than DM 320 billion on behalf of statutory pension and accident insurance schemes and various company pension funds in 1998. In addition, some 13 million payments worth DM 6.8 billion were made to recipients in 150 countries around the world. As a new service to Germany's statutory pension insurance scheme, information was also furnished for the first time to authorized agencies for the purpose of updating social security data.



Our acquisition of Postbank created a solid foundation for the joint sales network between Deutsche Post and Postbank

Increasing service quality

A wide range of efforts to improve service quality – be it in regard to having to wait in line, the provision of advice at the counter, the appearance of our branches, or more flexible opening hours – has led to an increase in customer satisfaction. This positive trend was confirmed by the results of objective interviews conducted with test customers following a Technical Control Board-certified method.

The outlook for 1999

In addition to implementing our new retail branch strategy, we will be focusing our efforts in 1999 on our new corporate branding approach and its enhancement of our image. With this goal in mind, we will be revamping more than 1,000 retail branches in the course of extensive construction and remodeling projects in 1999 alone. Once completed, these branches will welcome customers in new luster.

We also plan to set up approximately 50 more Shop-in-Shop/partner branches in conjunction with local retail stores plus some 160 additional PostPlus or McPaper/Deutsche Post branches at convenient locations.

A new sales format – business customer retail branches that offer a range of services specially tailored to business customer needs – will be tested during the year. This new format was developed to meet business customers' special requirements and wishes.

All in all, our top priority for the year will be to further optimize our retail branch network for both our private and business customers while keeping an eye on further cutting costs.



Our customers welcome the convenience of one-stop shopping and retail business hours

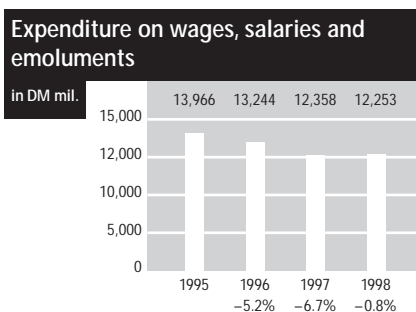
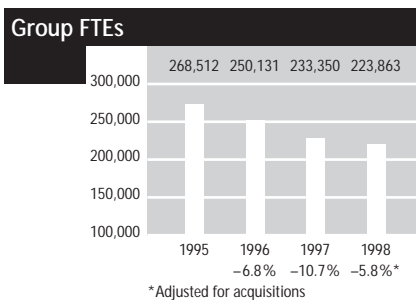


Vocational training bears fruit

Innovative personnel management boosts staff motivation

Our personnel policy focused on three tasks in 1998: Improving our personnel cost structures in order to increase Deutsche Post's competitive strength, adjusting our staffing levels to actual requirements in a socially acceptable manner and injecting greater flexibility into working hours.

In the area of further training measures, centerstage was given to strengthening our employees' service mentality. By implementing well-aimed measures, we also increased staff motivation and, concomitantly, enhanced employee health levels.



Deutsche Post continued to systematically reduce staffing levels in 1998, with the group employing a total average of 263,342 people during the year. Following adjustment for acquisitions, this figure reflects a 5.8-per cent decrease over the previous year. When our calculation counts each part-time employee as half of a full-time employee, our workforce at the end of the year totaled 223,863 employees, compared to 233,350 one year before. This adjustment in our staffing levels also had an impact on wages, salaries and remuneration, lowering them by 0.8 per cent to DM 12,253 million. Total personnel expenditure – including pension expenses – declined by 0.7 per cent to DM 19,677 million and now represents only 66.2 per cent of total expenditure, compared to 67.9 per cent in 1997.

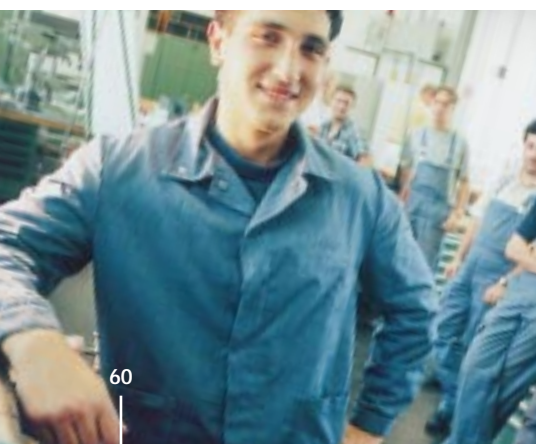
Personnel policy – An innovative solution enables flexible deployment of personnel resources

Labor and management agreed to the introduction of flexible working hours in 1998. This new flexitime system gives us greater flexibility in deploying personnel, allowing us to respond to fluctuations in customer demand and other operational requirements without having to resort to overtime. The new wage agreement also gives our employees greater latitude in coordinating their working hours with their personal interests. In other words, employees can work fewer hours on individual days for personal or work-related reasons and still have the opportunity to make up these hours at some other time. As a result, they do not have to forego paid time.

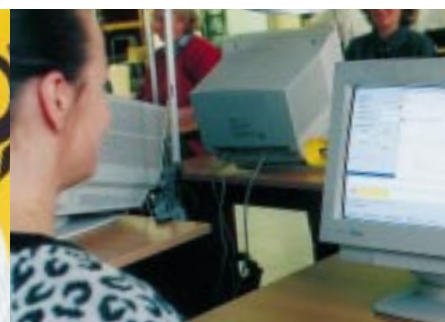
Conditions were established that will allow the some 92,000 civil servants working for Deutsche Post to make greater use of their part-time employment or partial retirement options than in the past. This step has given us the flexibility in personnel management matters we need for our medium-term and long-term personnel policies.

Turning the equal opportunity concept into equal job opportunities

Women comprise 47.2 per cent of Deutsche Post's workforce, making us the largest employer of women in Germany today. In 1998, our internal equal opportunity approach focused on women's prospects and career plans. A number of measures such as further training and employment during family-related leave were developed to maintain these employees' occupational skills and facilitate their return to the working world.



Flexitime allows additional scheduling latitude for operational processes and for our employees





Launch of a quality program to complement our company-wide quality management system

Innovative quality program launched in the Personnel division

Our Personnel division launched an innovative quality program during the 1998 business year as a complement to Deutsche Post's quality management system. Implemented on a company-wide basis, this system follows the integrated quality approach and methodological evaluation procedures used by the European Foundation for Quality Management. Using on-going quality-enhancing activities, we put the principle of placing our internal focus on customers and employees into everyday practice. Parallel to this, key personnel processes were reviewed in light of their cost efficiency levels and then adjusted to meet market demands.

Company suggestion system promotes creativity

Our employees submitted a total of 8,655 suggestions to our internal suggestion system in 1998, some 19 per cent more than the year before. Deutsche Post plans to cultivate this positive trend: Corresponding measures to encourage greater use of the suggestion system will be implemented and a higher percentage of suggestions will be put into practice.

Vocational qualification – A major advantage in competition

Internationalization, new business segments, new products – Deutsche Post's ongoing development makes growing demands of its employees. Investment in basic and further training raises the level of our staff's vocational qualification and increases our competitive strength at home and abroad. Suitable, qualified new staff members are being recruited using selective personnel marketing measures for all our divisions.



By raising qualification levels and increasing motivation, further training enhances our competitive strength



We raised the number of traineeships we offer by ten per cent over 1997

Deutsche Post raised the number of traineeships it offers once again last year, this time by nearly ten per cent. As a result, some 2,300 young people began their training with our company in 1998. Besides these 200 new traineeships, we added training programs in IT systems electronics and specialized computer science to our in-house curriculum last year. A total of 5,000 young men and women underwent training at Deutsche Post in 1998.

Deutsche Post's technical and management trainee program fosters university and polytechnic graduates and prepares them for their duties as technicians and managers. Some 50 young graduates began individualized trainee programs in 1998. These programs last anywhere from six to 18 months, depending on the individual's prior training.

In addition to our trainee program and the vocational training we already offer in eight trades, we will also be launching an integrated business administration course for high school graduates at special colleges of advanced vocational studies in 1999.

Managerial staff development is becoming increasingly important in the wake of progressive internationalization. Deutsche Post screens candidates with potential for their first or higher managerial responsibilities in special career advancement seminars. We then prepare them for jobs in Germany and abroad that lead to career advancements by assigning them challenging tasks and integrating them into managerial development groups. Our focus here is on training and developing entrepreneurially-minded, self-starting persons who are capable of bearing responsibility.



Our integrated
health management
program sets
new standards



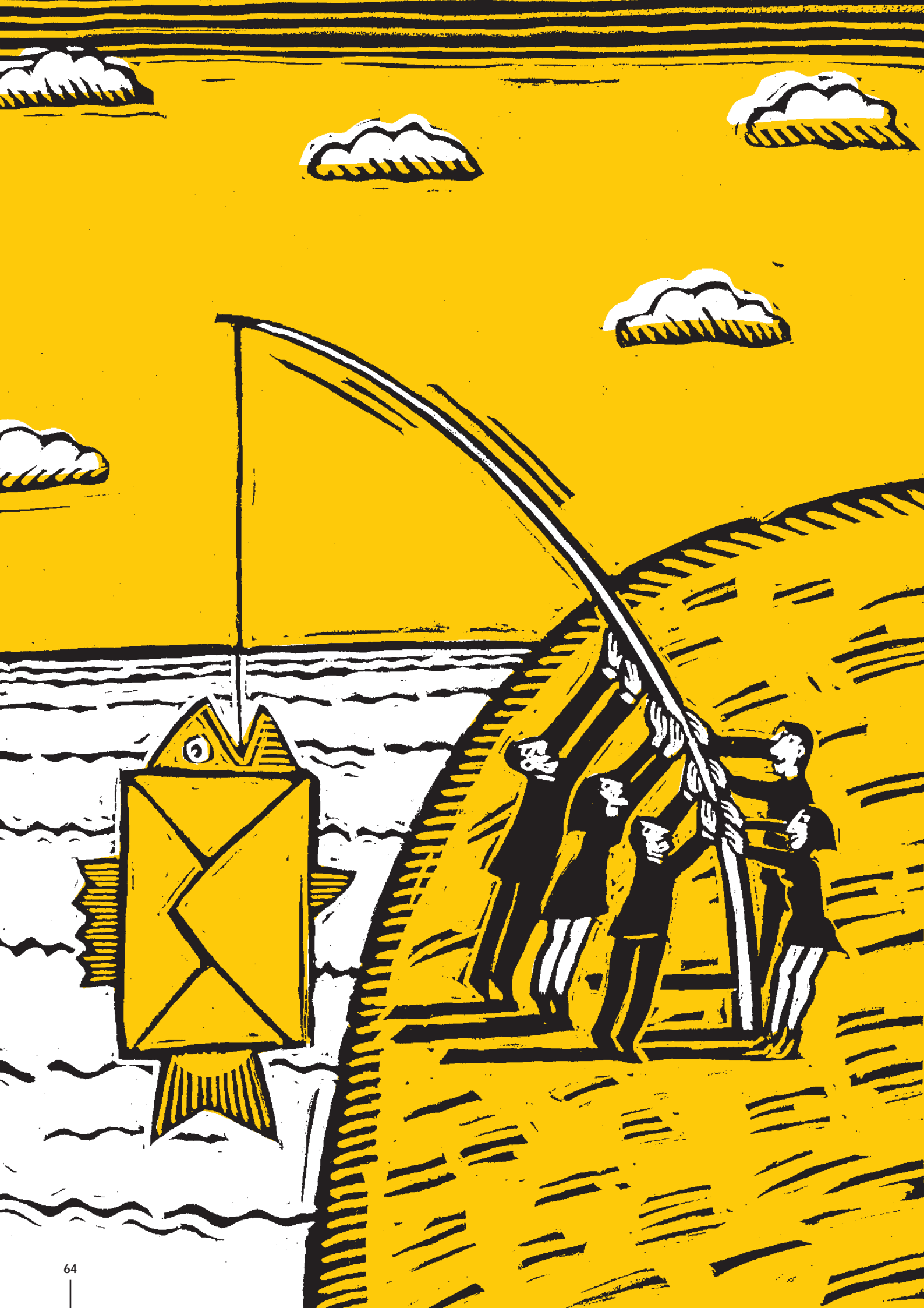
Intensive health management increases motivation

We implemented a new program in 1998 with the aim of improving health levels among our employees on an ongoing basis. This program revolves around providing organized, systematic health management work in the workplace. Working groups analyze health levels in their respective divisions and draw up proposals for measures necessary to improve health levels and working conditions. As an adjunct, further measures are being planned and implemented on a centralized basis.

Efforts to increase communication between our managers and staff members are of particular importance. We hold personal discussions with employees to let them know that they do not have to deal with their problems alone. Going a step further, we analyze the causes of the individual's problems with him/her and discuss possible remedies. This new concept provides a springboard for improving the health of our employees using communication measures and activities that promote good health.



Some 5,000 young
people underwent
training at Deutsche
Post last year



Financial Statements 1998

Assets	Group Annex	Dec. 31, 1998 DM '000	Dec. 31, 1997 DM '000
A. Noncurrent assets	1		
I. Intangible Assets			
1. Concessions, industrial property and similar rights and assets and licenses for such rights and assets		68	57
2. Goodwill	2	1	45
3. Advance payments		0	0
		69	102
II. Property, plant and equipment			
1. Land and buildings, incl. buildings on land owned by third parties		9,993	10,830
2. Technical equipment and machinery		2,229	2,297
3. Other equipment, plant and office equipment		1,566	1,605
4. Advance payments and construction in progress		108	223
		13,896	14,955
III. Financial assets			
1. Shares in affiliated companies		67	30
2. Participations in associated companies		360	24
3. Other participations		885	921
4. Loans to participations		0	0
5. Housing promotion loans	3	312	750
6. Noncurrent-asset securities		0	0
7. Other loans		7	9
		1,631	1,734
		15,596	16,791
B. Current assets			
I. Inventories			
1. Raw materials, supplies and consumables		82	73
2. Unfinished products, unfinished services		45	69
3. Finished products and goods		96	136
		223	278
II. Receivables and other assets	4		
1. Trade accounts receivable		919	646
2. Receivables from affiliated companies		85	6
3. Receivables from participations		95	85
4. Other assets		5,475	1,727
		6,574	2,464
III. Marketable securities			
Other securities		586	130
IV. Liquid assets		1,388	2,209
		8,771	5,081
C. Prepaid expenses and charges	5	380	502
		24,747	22,374

Shareholders' equity and liabilities

Group Annex

		Dec. 31, 1998 DM '000	Dec. 31, 1997 DM '000
A. Shareholders' equity			
1. Subscribed capital	6	2,140	2,140
2. Capital reserve	7	2,358	3,045
3. Retained earnings	8	526	783
4. Net group income		308	103
5. Minorities' interest in shareholders' equity		76	70
		5,408	6,141
B. Accruals			
1. Pensions and similar obligations	9	5,054	3,437
2. Taxation	10	721	311
3. Other accrued liabilities	11	7,307	7,189
		13,082	10,937
C. Liabilities	12		
1. Amounts owed to banks		1,895	2,006
2. Advance payments received on orders		50	75
3. Trade payables		1,070	1,049
4. Amounts owed to affiliated companies		1	1
5. Amounts owed to participations		0	0
6. Other liabilities	13	3,179	2,142
		6,195	5,273
D. Deferred income		62	23
		24,747	22,374

	Group Annex	1998 DM '000	1997 DM '000
1. Net revenue	1	28,689	27,640
2. Increase or decrease in the inventories of finished and unfinished products		-5	-8
3. Other capitalized costs		4	6
4. Other operating income	2	1,977	2,103
		30,665	29,741
5. Costs of materials	3		
a) Raw materials, supplies and goods		1,115	1,002
b) Purchased services		3,321	2,717
		4,436	3,719
6. Personnel expenses	4		
a) Salaries, wages and other emoluments		12,253	12,358
b) Social security contributions, pension expenses and other benefits		7,424	7,463
		19,677	19,821
7. Depreciation			
a) on intangible assets and property, plant and equipment	5	1,539	1,582
b) Amount written off special loss account from the setting up of certain accruals		0	398
		1,539	1,980
8. Other operating expenses	6	3,852	3,416
		29,504	28,936
9. Financial income/expense (-), net	7	115	-47
10. Profit on ordinary activities		1,276	758
11. Extraordinary income/charges (-), net	8	-591	-925
12. Taxes on income and profit		89	9
13. Other taxes		278	226
14. Net income/loss (-)		318	-402
15. Profit/loss brought forward		1	-671
16. Transfer from capital reserve		0	1,104
17. Transfer from retained earnings		12	89
18. Allocations to retained earnings		-9	-6
19. Minority interest income		-14	-12
20. Loss attributable to minorities		0	1
21. Unappropriated retained earnings/accumulated loss (-)		308	103

Statement of Capital Flows

	1998 DM '000	1997 DM '000	Difference DM '000
Net income/loss (–)	318	–402	720
Depreciation of noncurrent assets and amount written off special loss account	1,539	1,980	–441
Changes in long-term accruals	1,785	1,782	3
Other non-cash expenses and income	–182	–122	–60
Material cash income from unusual transactions	–689	–864	175
Cash flow acc. to DVFA/SG* formula	2,771	2,374	397
Gains on disposal of noncurrent assets	–573	–411	–162
Changes in short-term accruals	479	240	239
Changes in current assets and liabilities			
Inventories	61	–42	103
Receivables and marketable securities	–4,759	–989	–3,770
Liabilities	1,322	207	1,115
Changes in prepaid expenses and deferred income	163	–50	213
Net cash used for operating activities	–536	1,329	–1,865
Proceeds from disposals of noncurrent assets	2,191	1,663	528
Capital expenditures	–2,303	–2,064	–239
Net cash used for investing activities	–112	–401	289
Proceeds from short- and long-term borrowings	51	18	33
Repayments of short- and long-term borrowings	–120	–754	634
Dividend payments	–110	–2	–108
Net cash used for financing activities	–179	–738	559
Change in cash and cash equivalents	–827	190	–1,017
Influence of changes in the consolidated group on cash and cash equivalents	6	–	6
Total change in cash and cash equivalents	–821	190	–1,011
Cash and cash equivalents at beginning of year	2,209	2,019	190
Cash and cash equivalents at end of year	1,388	2,209	–821

*) DVFA = German Association for Financial Analysis and Investment Consulting; SG = Schmalenbach Gesellschaft

Notes

to the Consolidated Financial Statements of Deutsche Post AG as of 31 December 1998

I. General Information

(1) Legal foundation

Deutsche Post was formed on 1 January 1995. Under section 2 of the Post Transformation Act it is the legal successor to Deutsche Bundespost POSTDIENST, which was part of a Federal asset.

The consolidated financial statements of Deutsche Post AG have been prepared in accordance with the accounting rules of the German Commercial Code (sections 290ff). Where captions have been combined in the balance sheet or in the profit and loss account, details are given in the notes.

The comparative figures given in () are those of the financial statements for the year ended on 31 December 1997.

(2) The consolidated group

The consolidated statements include the individual company financial statements of the parent company Deutsche Post AG, as well as all domestic and foreign companies with business activities in which Deutsche Post AG directly or indirectly has majority voting rights. The consolidated group comprises Deutsche Post AG as the parent company and 34 domestic and 10 foreign companies. 10 companies were included for the first time. Final consolidation was effected for two companies. 15 companies were not included due to their lack of economic activities and their being not material to the results of the Deutsche Post group respectively. This was in accordance with section 296 (2) of the Commercial Code. 10 companies were not included in accordance with section 296 (1) of the Commercial Code, because they had not been acquired before the end of the 1998 business year.

Three domestic and two foreign associated companies were accounted for using the equity method. One company was finally included. In compliance with section 311 (2) of the Commercial Code, seven companies were not accounted for using the equity method, due to their lack of business activities and their being not material to the results of the Deutsche Post group respectively. A full list of associated companies and participations is filed with the Commercial registry of the Bonn District Court.

(3) Consolidation principles

Pursuant to statutory provisions, all financial statements of the domestic and foreign companies included in the consolidated financial statements were prepared in accordance with Deutsche Post AG's uniform accounting and valuation policies.

Capital consolidation was performed following the book value method in accordance with section 301 (1) sentence 2 No.1 of the Commercial Code. 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 pursuant to section 309 (1) sentence 3 of the Commercial Code. Negative goodwill from capital consolidation is included under retained earnings.

Pursuant to section 312 (1) sentence 1 No.1 of the Commercial Code, in the consolidated financial statements, shares in associated companies were included at equity at their book value at the beginning of the business year and the date acquisition respectively and are carried forward pursuant to section 312 of the Commercial Code. No adjustment was made to Deutsche Post's uniform principles of valuation. Asset-side accounting differences were deducted from the reserves.

Revenue, expenditure and income as well as receivables and liabilities were omitted. Inter-company profits and losses with associated companies were calculated separately or even omitted due to insignificance.

(4) Foreign currency translation

Currency translation of the financial statements of included foreign subsidiaries and associated companies was made in accordance with the functional currency method. Therefore, in the consolidated financial statements, the translation of all items shown in balance sheets of these companies from foreign currencies into DM 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. Difference arising from translation at balance sheet date exchange rates and translation at average exchange rates are taken into account under the captions 'other operating income' and 'other operating expenses'.

The following exchange rates were applied to the U.S.A., Switzerland and Poland:

Country	Currency	Exchange rate on balance-sheet date	Average annual exchange rate
U.S.A.	USD	1.67300	1.75920
Switzerland	CHF	1.22200	1.21414
Poland	PLZ	0.47813	0.50287

II. Formats, Accounting and Valuation Methods

(1) Formats

The formats used for the balance sheet and profit and loss account are based on those set out in section 298 in conjunction with sections 266 and 275 of the Commercial Code. In the noncurrent asset section of the balance sheet a separate caption has been provided for Housing promotion loans. The profit and loss account has been prepared in the “type of expense” format.

(2) Accounting and valuation policies

Purchased intangible assets are valued at cost, including incidental costs of acquisition, less amortization provided by the straight-line method.

Property, plant and equipment are stated at purchase or construction cost, including incidental costs, less systematic depreciation provided by the straight-line method. Subsidies received are recorded as deferred income and recognized as income over the term of the subsidies. Systematic depreciation is provided over useful lives consistent with those specified in the tax rules. The adjusted tax depreciation tables by the Federal Minister of Finance have been taken into consideration for the asset additions during the 1998 business year. Special depreciation is provided where it is necessary for an asset to be stated at a lower value.

In providing depreciation on movable items of plant and equipment advantage is taken of the simplification rule in the Income Tax Regulations permitting provision of a full year's depreciation on additions during the first six months and half of a full year's depreciation on additions during the second half-year. Low-value fixed assets are written off completely and treated as disposals in the year of acquisition.

Shares in affiliated companies and other participations are valued at cost. Valuation of the right to have Postbank shares transferred to Deutsche Post AG is based on a valuation report. In the balance sheet this right is included under Other participations. No adjustment to the group's uniform valuation methods is made for the valuation of Participations in associated companies.

Loans receivable bearing no or only low rate of interest are stated at present value. Other loans are stated at nominal value. The increase in present value from year to year is treated as an addition to the loan.

Inventories of postage stamps, heating fuel and spare parts at the freight mail centers are stated at fixed values. Inventories of other raw materials, supplies and consumables are stated at the lower of average (moving or weighted) or year-end prices. Unfinished products, unfinished services and finished products as well as goods are stated at the lower of (i) cost (determined by the LIFO method) or moving average prices or (ii) market price. To the extent necessary, inventories are stated net of reasonable valuation allowances.

Receivables and other assets are stated at nominal amounts less appropriate individual valuation allowances. Noninterest-bearing receivables with a maturity of more than one year are stated at present value. A general valuation allowance is provided to cover general credit risks.

Marketable securities are valued at the lower of cost or market price.

The accruals for pensions and similar obligations were determined by the “Teilwert” method described in section 6a of the Income Tax Law (approximately equivalent to the “entry-age normal” method) using actuarial methods and applying the interest rate of 6 per cent required by that statute. The new 1998 Life Expectancy Tables for the calculation of pension accruals were applied in full.

Accruals for taxation and other accruals present provision for all identifiable risks and uncertain liabilities. They have been set up in the amounts dictated by prudent business judgement. The premises for the valuation of amounts accrued for the expected shortfall between the sources of regular income of the Postal Civil Servants’ Health Insurance Fund and the benefits paid were modified. Calculations were based on an interest rate of 6 per cent (1997: 7 per cent) and on a 3.5 per cent increase (1997: 5 per cent) in benefits and contributions. The new 1998 Life Expectancy Tables were again been applied.

Liabilities are stated at repayment amount. Recurring obligations are stated at present value. Foreign currency receivables and liabilities are translated at the lower (receivables) or higher (payables) of the historical rate or the year-end rate of exchange.

III. Notes to the Group Balance Sheet and the Group Profit and Loss Account

A. Notes to the group balance sheet

- (1) Details of noncurrent assets are given in the schedule forming Appendix 1 to the Group Annex.
- (2) Asset-side accounting differences resulting from capital consolidation amounting to DM 44 million (posted as goodwill in 1997) are deducted from the reserves for the purpose of uniform balance-sheet treatment of all asset-side accounting differences. The group results have thus been eased of depreciations amounting to DM 16 million, compared with 1997.
- (3) Housing promotion loans include DM 16 (1997: 189) million of loans to participations.
- (4) Trade receivables amounting to DM 0 (0) million and other assets amounting to DM 7 (8) million provide for a maturity of more than one year. All other receivables provide for a remaining maturity of less than one year. The remaining assets include receivables from Deutsche Post Pensions-Service e.V. as well as from postal agencies, postal staff and financial authorities.
- (5) Prepaid expenses and deferred charges include DM 6 (8) million of un-amortized debt discount which is being written off over the term of the debt.

- (6) The subscribed capital was presented by 42,800,000 bearer shares of DM 50 each.
- (7) The capital reserve decrease is due to the deduction of asset-side accounting differences resulting from goodwill capitalized and subsequently deducted in 1997, amounting to DM 44 million. It is also due to a first capital consolidation of DM 643 million. This includes accounting differences resulting from the first capital consolidation using the equity method, amounting to DM 530 million. The capital reserve at the balance sheet date consists of amounts taken to the reserve under 272(2) no.1 of the Commercial Code.
- (8) The retained earnings of DM 526 (783) include the following:

	1998	1997
Special contingency reserve pursuant to section 17(4)		
Deutsche Mark Balance Sheet Act	398	398
Accounting difference from debt consolidation	24	262
Accounting difference from capital consolidation	81	109
Other retained earnings	23	14
	526	783

The accounting difference from debt consolidation is due to discounting of loans to affiliated companies prior to their incorporation in Deutsche Post AG on 1 January 1995. The accounting difference from capital consolidation is mainly due to the first capital consolidation in 1995. In both cases the accounting differences are mainly due to the final consolidation of Deutsche Post Wohnbau GmbH, Düsseldorf, and Deutsche Post Wohnbau Köln GmbH, Köln.

- (9) Pension accruals represent obligations to serving and retired management staff and employees subject to collective bargaining agreements. The accruals for similar obligations were set up for retrospective contributions.

In 1998, Deutsche Post set up accruals amounting to DM 1,493 (2,410) million for part of the indirect obligations to pensioners of the VAP (Deutsche Bundespost's Supplementary Pensions Fund). These obligations were accrued for the first time in 1997, and prior to that year had been disclosed only in the notes to the financial statements.

Deutsche Post AG has pension obligations amounting to DM 3,896 (5,010) million to non-civil-service employees which are in excess of the pension accruals set up in 1998. These obligations were computed using actuarial methods and in accordance with the rules for pension accruals set out in section 6a of the Income Tax Law.

Deutsche Post AG also has indirect obligations through Deutsche Post Pensions-Service e.V. relating to pensions and allowances payable to retired civil servants and corresponding expectancies of serving civil servants. These obligations are partly funded by regular contributions from Deutsche Post AG. The amount of these obligations was determined by actuarial valuation to be approximately DM 14,448 (16,710) million.

The continuing obligations of Deutsche Post AG to pay contributions to Deutsche Post Pensions-Service e.V. are limited by section 16 of the Postpersonalgesetz to annual amounts of DM 4.0 thousand million up to and including 1999, and thereafter to 33 per cent of the gross emoluments of serving civil servants and those granted leave of absence.

- (10) Accruals for taxation were set up principally for corporation tax, real property tax, turnover tax and wage tax.
- (11) Other accruals consist principally of amounts accrued for the expected shortfall between the sources of regular income of the Postal Civil Servants' Health Insurance Fund and the benefits paid, unperformed services relating to the sale of postage stamps, the letter mail and other reorganization concepts and miscellaneous personnel expenses.
- (12) The portions of liabilities falling due in less than one year or more than five years from the balance sheet date are shown in the schedule forming Appendix 2 to these notes.
- (13) Other payables include the loan from Deutsche Telekom AG under section 2 (2) of the Postal Transformation Act, as well as employee wages, salaries and emoluments for civil servants and loans granted to Deutsche Post Betriebsrenten-Service.
- (14) Under section 119 of the Sixth Book of the Code of Social Law, Deutsche Post AG acts as paying agency for social insurance authorities. Under the Ordinance Regulating the Postal Pension Payments Service, Deutsche Post AG's status relative to the funds entrusted to it for this purpose is that of a trustee. This trusteeship is not disclosed in the group balance sheet. On 31 December 1998, the assets held in trust by Deutsche Post AG in this activity amounted to DM 96 (210) million.
- (15) The assets held in trust by Deutsche Post AG in its function as administrator of housing promotion loans amounted to DM 1,322 (593) million on 31 December 1998.
- (16) Contingent liability guarantees amounted at the group balance sheet date to DM 25 (24) million.
- (17) On 31 December 1998, other financial commitments amounted to DM 1,881 (1,802) million. They consisted principally of future payments under long-term haulage contracts and lease agreements and purchase contracts for noncurrent assets.

B. Notes to the Group Profit and Loss Account

- (1) Net revenue in 1998 consisted of

	1998	1997
Deutsche Post AG	27,685	27,043
Housing	195	258
Other	809	339
Net revenue total	28,689	27,640
(millions of DM)		

- (2) Other operating income consisted principally of income from the reversal and application of accruals, gains on disposal of noncurrent assets (real property in particular) and rent received.
- (3) Cost of materials: cost of merchandise consisted almost entirely of the cost of phonecards sold. This caption also includes the cost of office supplies, printed matter and consumables. Cost of purchased services consisted principally of haulage, maintenance and energy costs.
- (4) Personnel expenses: pension expenses amounted to DM 5,496 (5,478) million. This item includes DM 4,000 million of contributions to Deutsche Post Pensions-Service e.V., which is the pension fund responsible under section 15(1) of the Postpersonalrechtsgesetz for the payment of pensions and medical allowances to retired civil servants.
This item also includes transfers to the accruals for indirect obligations to pensioners of the VAP who retired on or after 1 January 1991 and before 31 May 1997, transfers to the accruals for individual pension commitments, for obligations to part-time employees hitherto not or insufficiently provided for, for company pensions in accordance with collective agreement no. 15 and the Postal Pension Regulations as well as transfers to Deutsche Post Betriebsrenten-Service e.V.
- (5) Amortization and depreciation expense includes DM 88 (175) million of non-systematic charges.
- (6) Other operating expenses consisted principally of transfers to various accruals, rent, the cost of services provided by the Federal Posts and Telecommunications Agency and outside services.
- (7) Financial income/expense consisted of:

	1998	1997
Income from associated companies	8	2
Income from affiliated companies	0	0
Income from other participations	0	0
Income from other securities and from loans carried as noncurrent assets	199	154
Other interest and similar income	123	65
Depreciation of financial assets and marketable securities	0	1
Interest and similar expense	215	267
Financial income/expense, net	115	-47

(millions of DM)

- (8) Extraordinary income/charges consisted of extraordinary income from the sale of participations amounting to DM 689 (864) million and extraordinary charges from the transfer to accruals for indirect pension obligations to employees who retired prior to 1 January 1991, amounting to DM 1,280 (1,789) million.

Previously these obligations had been disclosed in the notes to the financial statements in accordance with Article 28(2) of the Implementation Act to the Commercial Code.

IV. Other Particulars

(1) Numbers of employees

The average numbers of employees during the year were as follows:

	1998	1997
Civil servants	97,815	106,821
Wage earners	133,121	139,522
Salaried staff	27,555	26,664
	258,491	273,007

In addition to the above, Deutsche Post AG also had 4,851 (4,531) junior staff on its payroll.

On 31 December 1998 the number of FTEs, including junior staff, amounted to 223,863.

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

The emoluments of members of the Board of Management in 1998 amounted to DM 7.2 (6.5) million. The emoluments of former members amounted to DM 0.5 (0.6) million. Accruals for pension obligations to former members of the Board of Management and surviving dependents amounted to DM 8.7 (8.1) million on 31 December 1998. The emoluments of members of the Supervisory Board amounted to DM 0.6 (0.6) million.

(3) Share ownership

The Federal Posts and Telecommunications Agency administers the shares of Deutsche Post AG on behalf of the Federal Republic of Germany, for which it holds a majority interest in Deutsche Post AG as defined in section 16(1) of the Stock Corporation Act.

	1 Jan. 1998	Changes to the consolidated group	Purchase or production cost			31 Dec. 1998	
	in DM million	in DM million	Additions in DM million	Reclassifications in DM million	Disposals in DM million	in DM million	
I. Intangible assets							
1. Concessions, industrial property rights and similar rights and assets and licenses in such rights and assets	122	3	46	0	4	167	
2. Goodwill	64	0	0	0	63	1	
3. Advance payments	0	0	0	0	0	0	
	186	3	46	0	67	168	
II. Property, plant and equipment							
1. Land, equivalent rights and buildings, including buildings on land owned by third parties	12,736	–622	260	100	513	11,961	
2. Technical equipment and machinery	3,051	5	185	79	155	3,165	
3. Other equipment, plant and office equipment	3,226	52	780	–4	247	3,807	
4. Advance payments and construction in progress	224	1	83	–175	24	109	
	19,237	–564	1,308	0	939	19,042	
III. Financial assets							
1. Shares in affiliated companies	30	–28	65	0	0	67	
2. Shares in associated companies	24	7	351	0	22	360	
3. Other participations	921	–50	14	0	0	885	
4. Loans to participations	1	0	0	0	0	1	
5. Housing promotion loans	754	93	35	0	570	312	
6. Noncurrent asset securities	0	0	0	0	0	0	
7. Other loans	9	0	2	0	4	7	
	1,739	22	467	0	596	1,632	
	21,162	–539	1,821	0	1,602	20,842	

Amortization, depreciation and write-downs					Net book value		
1 Jan. 1998	Changes to the consolidated group	Charge for year	Reclassifications	Disposals	31 Dec. 1998	31 Dec. 1998	31 Dec. 1997
in DM million	in DM million	in DM million	in DM million	in DM million	in DM million	in DM million	in DM million
65	1	36	0	3	99	68	57
19	0	0	0	19	0	1	45
0	0	0	0	0	0	0	0
84	1	36	0	22	99	69	102
1,906	-254	427	1	112	1,968	9,993	10,830
754	0	287	1	106	936	2,229	2,297
1,621	39	789	-2	206	2,241	1,566	1,605
1	0	0	0	0	1	108	223
4,282	-215	1,503	0	424	5,146	13,896	14,955
0	0	0	0	0	0	67	30
0	0	0	0	0	0	360	24
0	0	0	0	0	0	885	921
1	0	0	0	0	1	0	0
4	0	0	0	4	0	312	750
0	0	0	0	0	0	0	0
0	0	0	0	0	0	7	9
5	0	0	0	4	1	1,631	1,734
4,371	-214	1,539	0	450	5,246	15,596	16,791

	31 Dec. 1998			31 Dec. 1997		
	of which due within 1 year	of which due after 5 years	total	of which due within 1 year	of which due after 5 years	total
	in DM million	in DM million	in DM million	in DM million	in DM million	in DM million
Amounts owed to banks						
of which secured by charges on land						
DM 201m; 1997: DM 326m	246	672	1,895	89	1,016	2,006
Advance payments received on orders	47	2	50	75	0	75
Trade payables	1,069	0	1,070	1,048	0	1,049
Amounts owed to affiliated companies	1	0	1	1	0	1
Amounts owed to participations	0	0	0	0	0	0
Other						
of which for taxes						
DM 207m; 1997: DM 155m						
of which for social security						
DM 93m; 1997: DM 92m						
of which secured by charges on land						
DM 39m; 1997: DM 70m	2,098	137	3,179	1,028	303	2,142
	3,461	811	6,195	2,241	1,319	5,273

After completion of our audit no objections were raised. We therefore expressed the following unqualified opinion on the consolidated financial statements for the year ended 31 December 1998 and on the combined management report of Deutsche Post AG, Bonn:

The consolidated financial statements, which we have audited in accordance with professional standards, comply with the legal provisions. With due regard to the generally accepted accounting principles, the consolidated financial statements give a true and fair view of the net worth, financial position and results for the group. The combined management report for Deutsche Post AG and the Group is consistent with the consolidated financial statements.

Düsseldorf, 19 March 1999

C & L Deutsche Revision
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Klotzbach
Wirtschaftsprüfer

Menke
Wirtschaftsprüfer

1. Members of the Board of Management

Dr. Klaus Zumwinkel (Chairman)
Dr. Helmut Benno Staab
Prof. Dr. Günter W. Tumm
Wolfhard Bender
Dr. Hans-Dieter Petram
Horst Kissel
Dr. Edgar Ernst

2. Members of the Supervisory Board of Deutsche Post AG

Shareholders' representatives:

Josef Hattig (Chairman)
Willem G. van Agtmael
Hero Brahms
Adolf Kracht
Dr. Ing. Manfred Lennings
Dr. Manfred Overhaus
Dr. Klaus Rauscher
Wilhelm Rawe
Prof. Dr. Jürgen Richter
Ulrike Staake

Employees' representatives:

Kurt van Haaren (Deputy Chairman)
Peter Freis (until 28 Jan. 1998)
Petra Heinze
Henry Hillmann
Gabi Lips
Pauline Mayer (from 29 Jan. 1998)
Günter Nehls (until 28 Jan. 1998)
Walter Scheurle
Franz Schierer (from 29 Jan. 1998)
Monika Schleidgen (until 28 Jan. 1998)
Siegfried Schulze
Armin Stoffleth (from 29 Jan. 1998)
Erwin Wohlketter



Josef Hattig,
Chairman

The Supervisory Board performed the duties assigned by legal mandate and statutes. In financial 1998, it held five 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 about 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 about 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 in 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, the acquisition of a majority share in Deutsche Postbank AG; a first strategy report by the Board of Management, and an update on preparations for the stock market flotation scheduled for the year 2000.

The company's growth strategy focussing on internationalization, expansion of the product basis and value-added services, is being implemented primarily through acquisitions, participating interests and cooperation arrangements. Important corporate development milestones were the participation in DHL, the market leader for express mail services, the acquisition of and participation in European parcels and logistics companies with the aim of setting up a pan-European parcel network, and the take-over bid submitted in December 1998, for the logistics group DANZAS AG, which has meanwhile been accepted by the shareholders.

In the financial services area, with the purchase of the remaining 82.5 % of the shares of the Deutsche Postbank AG – in addition to the 17.5 % already in hand – an alliance reaching far beyond the existing contractual relations could be created which provides the foundation for a joint offensive sales strategy and creates additional opportunities for the realization of new income and growth potentials.

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 four meetings the Personnel Committee discussed a range of human resources issues including the Corporate Principles and the Management Guideline. The Committee for Miscellaneous Affairs held five meetings and discussed and agreed upon the 1997 Annual Financial Statement, the salient points of the 1999 business plan, the acquisition of participating interests, the economic situation of the

freight mail division 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 C&L Treuhand-Vereinigung Deutsche Revision in Düsseldorf were made available to all members of the Supervisory Board.

The auditors expressed an unqualified opinion on the financial statement, incl. the management report, and the consolidated financial statements. The C&L Treuhand 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 judgement 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 groups' 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.

During financial 1998 the composition of the Supervisory Board underwent some modification. With the first election on 29 January 1998 of the previously court appointed staff representatives Ms. Monika Schleidgen and Messrs. Peter Freis and Günter Nehls left the Supervisory Board. Ms. Pauline Mayer and Messrs. Franz Schierer and Armin Stoffleth were elected to the Supervisory Board. 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 1998.

Bonn, 15 April 1999
The Supervisory Board



Josef Hattig, Chairman

Principal Subsidiaries and Associated Companies

	Country	Direct shares in company (in %)	Net revenue as of 31 December 1998 (DM '000; provisional)	Net revenue as of 31 December 1997 (DM '000)
Belgian Parcel Distribution N.V.	Belgium	98.0	15.9	20.7
Deutsche Post Adress GmbH	Germany	51.0	19.6	15.5
Deutsche Post Consult GmbH	Germany	100.0	48.1	75.7
Deutsche Post Consult International GmbH	Germany	100.0	3.1	2.4
Deutsche Post Direkt GmbH	Germany	100.0	16.5	–
Deutsche Post Express GmbH	Germany	100.0	237.4	269.2
Deutsche Post Kontrakt Logistik GmbH	Germany	100.0	35.2	11.4
Deutsche Post Service- und Vertriebsgesellschaft mbH	Germany	100.0	203.5	22.2
Deutsche Post Transport GmbH	Germany	75.2	402.3	171.4
DTZ Zadelhoff GmbH	Germany	100.0	26.6	24.4
Ducros Services Rapides SA	France	68.3	295.0	287.2
Global Mail Ltd.	USA	100.0	94.5	73.8
GMS Deutsche Post Logistik GmbH	Germany	100.0	57.0	27.9
IMS International Mail Service GmbH	Germany	100.0	20.5	1.8
IPP Paketbeförderung Gesellschaft m.b.H.	Austria	100.0	19.3	6.7
McPaper Aktiengesellschaft	Germany	100.0	186.4	151.7
Merkur Direktwerbegesellschaft mbH u. Co. Kommanditgesellschaft	Germany	51.1	44.2	46.0
quickstep parcel service AG	Switzerland	100.0	40.2	45.4
Servisco Sp. z o.o.	Poland	60.0	61.2	41.1
trans-o-flex Schnell-Lieferdienst GmbH	Germany	24.8	1,035.0	927.0

Deutsche Post		1995	1996	1997	1998
Net revenue	(in DM millions)	27,409	27,469	27,640	28,689
Profit on ordinary activities	(in DM millions)	282	643	758	1,276
Cash flow acc. to DVFA/SG	(in DM millions)	988	2,137	2,374	2,771
Net income/loss (–)	(in DM millions)	–1,251	393	–402	318
Noncurrent assets	(in DM millions)	16,240	15,751	16,791	15,596
– intangible assets	(in DM millions)	27	58	102	69
– property, plant and equipment	(in DM millions)	14,848	14,879	14,955	13,896
– financial assets	(in DM millions)	1,365	814	1,734	1,631
Current assets	(in DM millions)	4,187	3,859	5,081	8,771
– inventories	(in DM millions)	235	235	278	223
– receivables and other assets	(in DM millions)	1,851	1,565	2,464	6,574
– liquid assets and other securities	(in DM millions)	2,101	2,059	2,339	1,974
Prepaid expenses and deferred charges (incl. special loss account from setting up certain accruals)	(in DM millions)	1,049	844	502	380
Shareholders' equity	(in DM millions)	5,328	5,721	6,141	5,408
– subscribed capital	(in DM millions)	2,000	2,000	2,140	2,140
– accruals	(in DM millions)	4,526	4,327	3,828	2,884
– unappropriated retained earnings/accumulated loss (–)	(in DM millions)	–1,257	–671	103	308
– minorities' interest in shareholders' equity	(in DM millions)	59	65	70	76

Deutsche Post		1995	1996	1997	1998
Liabilities	(in DM millions)	16,148	14,734	16,233	19,339
– accruals	(in DM millions)	8,706	8,915	10,937	13,082
– liabilities (incl. deferred income)	(in DM millions)	7,442	5,819	5,296	6,257
Balance sheet total	(in DM millions)	21,476	20,455	22,374	24,747
Capital expenditures in property, plant and equipment	(in DM millions)	2,615	1,973	1,994	1,308
Depreciation of property, plant and equipment	(in DM millions)	1,246	1,485	1,529	1,503
Debts ¹⁾	(in DM millions)	4,791	3,839	3,071	3,594
Financial income, net	(in DM millions)	–20	21	–47	115
Personnel expenses	(in DM millions)	20,583	20,119	19,821	19,677
– salaries, wages and other emoluments	(in DM millions)	13,966	13,244	12,358	12,253
– social security contributions, pension expenses and other benefits ²⁾	(in DM millions)	6,617	6,875	7,463	7,424
Personnel expenditure as % of total	(in %)	70.6	67.2	67.9	66.2
Annual average workforce ³⁾		317,621	299,366	277,538	263,342
Workforce as of 31 December ³⁾		308,502	287,695	270,817	260,520
Workforce as of 31 December ^{3) 4)}		268,512	250,131	233,350	223,863
Return on equity after tax ⁵⁾	(in %)	1.2	6.9	8.5	16.8
Return on sales before income tax and interest expenses ⁶⁾	(in %)	1.1	2.4	2.9	4.2
Equity	(in %)	24.8	28.0	27.4	21.9

¹⁾ Total of interest-bearing liabilities

²⁾ Including social security costs and expenses for welfare

³⁾ Including junior staff

⁴⁾ FTEs

⁵⁾ Profit on ordinary activities minus taxes (excl. levies payable to the Federal Government in 1995)

⁶⁾ Profit on ordinary activities minus other taxes plus interest paid

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