FitchRatings

Corporates
Distribution/Postal Services
Germany

Deutsche Post AG

Ratings

Rating Type	Rating	Outlook	Last Rating Action
Long-Term IDR	BBB+	Stable	Affirmed 4 Dec 19
Short Term IDR	F2		Affirmed 4 Dec 19

Click here for full list of ratings

The ratings of Deutsche Post AG (DP) reflect its global scale, geographic and operational diversity, and market leadership in the areas of its operations. They also reflect a balanced business-risk profile between the high-growth parcel and Express businesses, fuelled by ecommerce, the contracted Supply Chain operations, the highly cyclical global forwarding freight (GFF) business, as well as the structural decline in conventional mail.

Fitch Ratings forecasts the company to maintain strong credit metrics compared with peers during 2019-2023, driven by the expected recovery of the Post & Parcel Germany (P&P) division and good performance in other divisions. The balanced business profile and solid financials should support DP's ability to withstand an expected continued slowdown in the global economy in 2020 following slower global growth in 2019, and also the impact of the coronavirus outbreak.

Key Rating Drivers

Global Scale: DP's ratings benefit from its global leadership in its core operations, including its fast-growing Express division. Its network size and diversity are a competitive advantage, enabling the company to improve efficiency, balance risks and opportunities, and adapt to new technologies. However, the transportation and logistics sector is changing rapidly.

Increasing customer expectations and new technologies, business models, and entrants are leading to a highly challenging and competitive environment where speed of reaction and adaptability are increasingly important.

Ability to Defend Strategic Fit: We believe DP's profitability will be supported by the company managing the transition in the P&P division and focusing on yields and cost management in other divisions. DP's long-term competitiveness will depend on it defending its strategic fit, after shifting from conventional postal service to transportation and logistics provider, and anticipating customer needs and technological and competitive challenges.

DP's Strategy 2025 targets faster digital transformation (including cumulative investment of EUR2 billion until 2025 in digitalisation) and focuses on the profitable growth of its core businesses.

Diversified Business Profile: DP's ratings incorporate a balanced business risk profile between high-growth divisions and those in structural decline as well as the company's cyclical and more stable businesses. The operations are also balanced between asset-intensive, such as P&P, DHL eCommerce and Express, and asset-light, such as GFF and Supply Chain.

This balance supports the visibility and stability of its cash-flow generation and provides operational flexibility especially in light of the forecast global economic slowdown. It also provides a platform for future growth and enables the company to benefit from growth trends on international markets. In addition, this contributes to its ability to extract synergies across its divisions.

P&P Restructuring on Track: The restructuring measures initiated at the P&P division, which accounted for 25% of DP's total 9M19 EBIT (including IFRS 16 and excluding negative items and gain on the sale of a business in Supply Chain), are on track and supported the division's 2019

Applicable Criteria and Related Research

Corporate Rating Criteria (February 2019)
Short-Term Ratings Criteria (May 2019)
Corporates Notching and Recovery Ratings Criteria (October 2019)
Corporate Hybrids Treatment and Notching Criteria (November 2019)

Analysts

Arkadiusz Wicik
+48 22 338 6286
arkadiusz.wicik@fitchratings.com

Angelina Valavina
+44 20 3530 1314
angelina.valavina@fitchratings.com

performance. We forecast P&P's EBIT at around EUR1 billion in 2019 and around EUR1.6 billion in 2020 (including IFRS 16).

The P&P division is facing the challenge of balancing growth in the parcel unit with structural decline in mail, although at a slower rate than peers, leading to pressure on costs. In addition to efficiency measures and early retirement benefits, we expect performance in P&P in 2019-2020 to be underpinned by price increases in mail and parcel and volume growth in parcel.

Growth in Express Continues: We expect the Express division, which transports urgent documents and goods on time from door to door, to continue to be the main growth driver for DP in the short to medium term. Express accounted for over half of EBIT in 9M19 including IFRS 16, excluding negative items and gain on the sale of a business in Supply Chain.

B2B and B2C Segments Growing: Dynamic volume growth in the Time Definite International (TDI) and Time Definite Domestic (TDD) product lines is underpinned by global GDP growth supporting the B2B segment but also by strong growth in e-commerce in the TDI product line serving the B2C segment. We forecast healthy volume growth in both product lines in 2019-2023, despite slower global economic growth and trade restrictions.

Focus on Margins in GFF and Supply Chain: The expected slowdown in global economic and trade growth is likely to adversely affect the GFF division, the most cyclical of DP's businesses with a direct correlation to global trade volumes. However, we expect profitability to slowly improve due to efficiency measures and yield management. The Supply Chain division remains a steady growth business with about EUR1 billion of new orders per year.

In 9M19 the division concluded additional contracts for EUR694 million with new and existing customers. The contracts are diversified across industries.

Competitive Risks to GFF/Supply Chain: Both GFF and Supply Chain are asset-light businesses, which provide them with additional flexibility to adjust to economic cycles. The company's global scale and diversification across industries and regions in both divisions makes DP well-placed to navigate economic downturns; however, both sectors are highly fragmented and competitive with the threat of new entrants and long-term evolution of global supply chains.

EBIT Improvement Expected: We forecast a gradual improvement in EBIT following the recovery of the P&P division and good performance in Express as well as margin improvement in GFF and Supply Chain over 2019-2023. While our projections are more conservative they show a trend similar to that of DP, which confirmed its expectation for its EBIT to exceed EUR5 billion by 2020 (excluding the impact of the coronavirus outbreak).

We project DP's EBIT margin (excluding IFRS 16) to have remained above 5% in 2019 and increase above 6% from 2020. We assume in our forecasts that the coronavirus will negatively affect DP's 2020 EBIT by about EUR300 million.

Solid Credit Metrics: Despite an expected increase to 3.3x in 2019, we forecast funds from operations (FFO) adjusted net leverage (excluding IFRS 16 impact and based on lease capitalisation) at below 3x over 2020-2023 and to remain comfortably within our rating sensitivities.

We forecast FFO fixed-charge coverage to gradually increase to around 3x in 2023 from 2.5x in 2019. Investments in new intercontinental aircraft at the Express division and other businesses will keep capex high during 2019-2021, resulting in negative free cash flow (FCF). Dividend payout is 40%-60% of net profit, with DP guiding towards around 50%. Its financial policy is driven by its publicly stated target of maintaining a 'BBB+' rating.

Financial Summary

(EURm)	Dec 17	Dec 18	Dec 19F	Dec 20F
Gross revenue	60,444	61,550	63,892	63,243
Operating EBITDAR margin (%)	11.4	10.7	11.2	12.8
FFO fixed-charge coverage (x)	2.8	2.6	2.5	2.7
FFO adjusted leverage (x)	3.2	3.4	3.6	3.2
FFO adjusted net leverage (x)	2.8	3.0	3.3	3.0

Source: Fitch Ratings, Fitch Solutions

Rating Derivation Relative to Peers

DP's global scale of operations, leading market positions and operationally diversified business provide a competitive advantage versus peers such as FedEx Corporation and government-related operators La Poste (A+/Stable) and Poste Italiane SpA (BBB/Negative). DP has better profitability than La Poste and Poste Italiane in the P&P division and than FedEx in its Express division; however, its profitability in the GFF and Supply Chain divisions lags behind its peers. DP has strong credit metrics compared with peers.

Navigator Peer Comparison

Issuer		Business profile						Financial profile		
	IDR/Outlook	Operating Environment	Management and Corporate Governance	Sector Competitive Intensity	Sector Trend	Company's Market Position	Diversification	Profitability	Financial Structure	Financial Flexibility
Deutsche Post AG	BBB+/Sta	aa	a-	bbb+	bbb	a-	a	bb-	bbb	bbb+
FirstGroup plc	BBB-/Sta	aa	a-	bbb+	bbb	bbb	bbb	bb	bbb-	bbb
National Express Group Plc	BBB/Sta	aa-	a-	bbb+	bbb	bbb	bbb+	bbb-	bbb-	bbb
Nobina AB	BBB-/Sta	aa-	a	bbb+	bbb+	bbb	bbb-	bbb-	bb+	bbb

Source: Fitch Ratings. Importance: Higher / Moderate / Lower

Issuer		Business profile						Financial profile		
Name	IDR/Outlook	Operating Environment	Management and Corporate Governance	Sector Competitive Intensity	Sector Trend	Company's Market Position	Diversification	Profitability	Financial Structure	Financial Flexibility
Deutsche Post AG	BBB+/Sta	5.0	1.0	0.0	-1.0	1.0	2.0	-5.0	-1.0	0.0
FirstGroup plc	BBB-/Sta	7.0	3.0	2.0	1.0	1.0	1.0	-2.0	0.0	1.0
National Express Group Plc	BBB/Sta	5.0	2.0	1.0	0.0	0.0	1.0	-1.0	-1.0	0.0
Nobina AB	BBB-/Sta	6.0	4.0	2.0	2.0	1.0	0.0	0.0	-1.0	1.0

Source: Fitch Ratings. Worse positioned than IDR / In line with IDR / Better positioned than IDR

Rating Sensitivities

Developments That May, Individually or Collectively, Lead to Positive Rating Action

- FFO lease-adjusted net leverage below 2.5x and FFO fixed-charge coverage above 3.5x on a sustained basis
- Successful restructuring of P&P with continued increase in cash-flow contribution from the domestic parcel business to compensate declining traditional mail profits; growth in Express, and sustainable improvement in EBIT growth at GFF and Supply Chain
- Positive FCF generation

Developments That May, Individually or Collectively, Lead to Negative Rating Action

- FFO lease-adjusted net leverage above 3.5x on a sustained basis and further weakening of FFO fixed-charge coverage
- Significant deterioration in business fundamentals due to a protracted economic downturn or structural changes leading to significant volume and margin reduction and consistently negative FCF

Liquidity and Debt Structure

Good Liquidity: DP's liquidity at end-September 2019 was supported by a combination of a strong cash balance and an undrawn credit facility. At this date, unrestricted cash position was EUR1.3 billion (we assume EUR977 million to be restricted, in line with 2018's) compared with EUR2 billion at end-2018. Short-term debt at end-September 2019 was EUR3.4 billion (including leases) and at end-2018 EUR2.6 billion (including leases) and EUR490 million (excluding leases). DP has a committed undrawn EUR2 billion credit facility maturing in 2023. We forecast DP to be FCF-negative in 2019 and 2020 due to capex increase and slow financial improvement in the P&P division.

ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or to the way in which they are being managed by the entity.

For more information on our ESG Relevance Scores, visit www.fitchratings.com/esg.

Liquidity and Debt Maturity Scenario with No Refinancing

Deutsche Post AG – Liquidity Analysis

Available liquidity (EURm)	2019F	2020F
Beginning cash balance	2,040	588
Rating case FCF after acquisitions and divestitures	-962	-511
Total available liquidity (A)	**1,078**	**77**
Liquidity uses		
Debt maturities[a]	-490	-648
Total liquidity uses (B)	**-490**	**-648**
Liquidity calculation		
Ending cash balance (A+B)	588	-571
Revolver availability	2,000	2,000
Ending liquidity	**2,588**	**1,429**
Liquidity score	**6.3**	**3.2**

Source: Fitch Ratings, Fitch Solutions, DP

Scheduled debt maturities[a]	Original
Statement date	**31 December 2018**
2019	490
2020	648
2021	1,048
2022	498
2023	497
Thereafter	3,422
Total	6,603

[a] Debt maturities excluding leases
Source: Fitch Ratings, Fitch Solutions, DP

Key Assumptions

Fitch's Key Assumptions Within our Rating Case for the Issuer

- P&P volume trend in 2019 in line with 9M19; steady decline in mail volumes over 2020-2023 and growth at a CAGR of 6.6% over 2018-2023 for parcel Germany
- Better pricing discipline for parcel Germany from 2019
- Express volume growth in 2019 in line with 9M19; good volume growth in both TDI and TDD over 2020-2023, albeit at slower rates than in 2019
- Focus on yield management in GFF division affecting both volumes and prices
- Excluding gain on sale of the business in China in Supply Chain from DP's EBIT
- DHL eCommerce loss-making at EBIT level in 2019, before turning profitable in 2020
- The coronavirus outbreak will have a negative impact on 2020 EBIT of about EUR300 million
- Excluding IFRS 16 at DP level; capitalising operating leases using the multiples for each asset class based on the useful lives of the assets
- Capex in line with the company's projections
- Dividend payout ratio in line with the company's guidance

Financial Data

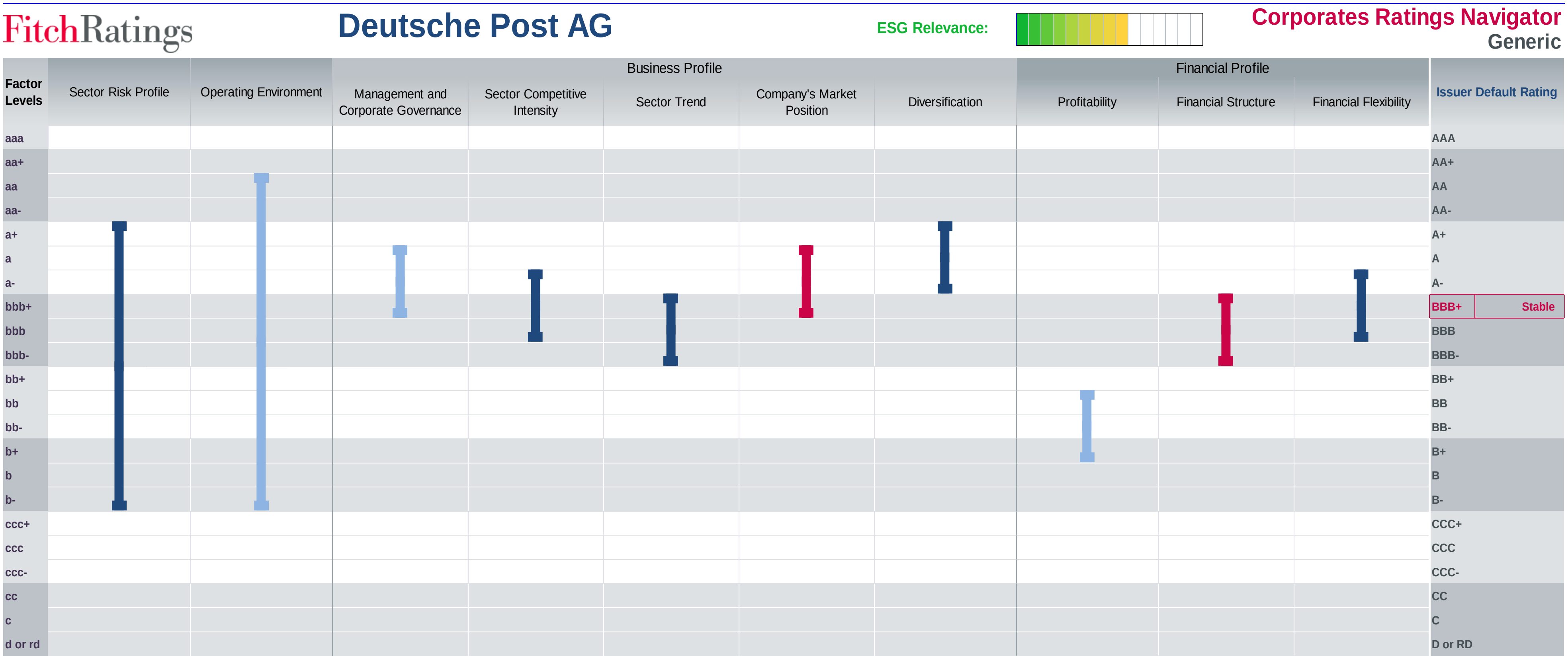
(EURm)	Historical		Forecast		
	Dec 2017	Dec 2018	Dec 2019F	Dec 2020F	Dec 2021F
Summary Income Statement					
Gross Revenue	60,444	61,550	63,892	63,243	69,914
Revenue Growth (%)	5.4	1.8	3.8	-1.0	10.5
Operating EBITDA (Before Income from Associates)	4,955	4,545	4,823	5,723	6,276
Operating EBITDA Margin (%)	8.2	7.4	7.5	9.0	9.0
Operating EBITDAR	6,865	6,556	7,135	8,122	8,760
Operating EBITDAR Margin (%)	11.4	10.7	11.2	12.8	12.5
Operating EBIT	3,484	3,125	3,303	4,135	4,621
Operating EBIT Margin (%)	5.8	5.1	5.2	6.5	6.6
Gross Interest Expense	-239	-187	-150	-177	-219
Pretax Income (Including Associate Income/Loss)	3,330	2,586	3,620	3,990	4,431
Summary Balance Sheet					
Readily Available Cash and Equivalents	2,162	2,040	1,588	1,429	1,756
Total Debt with Equity Credit	6,050	6,603	7,113	7,465	7,917
Total Adjusted Debt with Equity Credit	18,274	19,473	21,910	22,818	23,816
Net Debt	3,888	4,563	5,525	6,036	6,161
Summary Cash Flow Statement					
Operating EBITDA	4,955	4,545	4,823	5,723	6,276
Cash Interest Paid	-160	-150	-150	-177	-219
Cash Tax	-626	-579	-724	-798	-886
Dividends Received Less Dividends Paid to Minorities (Inflow/(Out)flow)	-117	-122	-135	-122	-122
Other Items Before FFO	-419	-137	-150	-150	-150
Funds Flow from Operations	3,685	3,609	3,705	4,508	4,928
FFO Margin (%)	6.1	5.9	5.8	7.1	7.0
Change in Working Capital	-121	-283	-326	-337	-488
Cash Flow from Operations (Fitch Defined)	3,564	3,326	3,379	4,171	4,440
Total Non-Operating/Non-Recurring Cash Flow	-495	0			
Capital Expenditure	-2,203	-2,649			
Capital Intensity (Capex/Revenue) %	3.6	4.3			
Common Dividends	-1,270	-1,409			
Free Cash Flow	-404	-732			
Net Acquisitions and Divestitures	345	127			
Other Investing and Financing Cash Flow Items	-461	1,501	0	0	0
Net Debt Proceeds	643	-970	510	352	452
Net Equity Proceeds	-95	-44	0	0	0
Total Change in Cash	28	-118	-452	-159	327
Calculations for Forecast Publication					
Capex, Dividends, Acquisitions and Other Items Before FCF	-3,623	-3,931	-4,341	-4,682	-4,565
Free Cash Flow After Acquisitions and Divestitures	-59	-605	-962	-511	-125
Free Cash Flow Margin (After Net Acquisitions) (%)	-0.1	-1.0	-1.5	-0.8	-0.2
Coverage Ratios					
FFO Interest Coverage (x)	23.7	24.7	25.4	26.4	23.4
FFO Fixed-Charge Coverage (x)	2.8	2.6	2.5	2.7	2.8
Operating EBITDAR/Interest Paid + Rents (x)	3.3	3.0	2.8	3.1	3.2
Operating EBITDA/Interest Paid (x)	30.2	29.5	31.2	31.7	28.2
Leverage Ratios					
Total Adjusted Debt/Operating EBITDAR (x)	2.7	3.0	3.1	2.9	2.8
Total Adjusted Net Debt/Operating EBITDAR (x)	2.4	2.7	2.9	2.7	2.6
Total Debt with Equity Credit/Operating EBITDA (x)	1.3	1.5	1.5	1.3	1.3
FFO Adjusted Leverage (x)	3.2	3.4	3.6	3.2	3.1
FFO Adjusted Net Leverage (x)	2.8	3.0	3.3	3.0	2.9

Source: Fitch Ratings, Fitch Solutions

How to Interpret the Forecast Presented

The forecast presented is based on Fitch Ratings' internally produced, conservative rating case forecast. It does not represent the forecast of the rated issuer. The forecast set out above is only one component used by Fitch Ratings to assign a rating or determine a rating outlook, and the information in the forecast reflects material but not exhaustive elements of Fitch Ratings' rating assumptions for the issuer's financial performance. As such, it cannot be used to establish a rating, and it should not be relied on for that purpose. Fitch Ratings' forecasts are constructed using a proprietary internal forecasting tool, which employs Fitch Ratings' own assumptions on operating and financial performance that may not reflect the assumptions that you would make. Fitch Ratings' own definitions of financial terms such as EBITDA, debt or free cash flow may differ from your own such definitions. Fitch Ratings may be granted access, from time to time, to confidential information on certain elements of the issuer's forward planning. Certain elements of such information may be omitted from this forecast, even where they are included in Fitch Ratings' own internal deliberations, where Fitch Ratings, at its sole discretion, considers the data may be potentially sensitive in a commercial, legal or regulatory context. The forecast (as with the entirety of this report) is produced strictly subject to the disclaimers set out at the end of this report. Fitch Ratings may update the forecast in future reports but assumes no responsibility to do so. Original financial statement data for historical periods is processed by Fitch Solutions on behalf of Fitch Ratings. Key financial adjustments and all financial forecasts credited to Fitch Ratings are generated by rating agency staff.

Ratings Navigator



FitchRatings

Deutsche Post AG

Corporates Ratings Navigator
Generic

Operating Environment

aa+	Economic Environment	aa	Very strong combination of countries where economic value is created and where assets are located.
aa	Financial Access	aa	Very strong combination of issuer specific funding characteristics and of the strength of the relevant local financial market.
	Systemic Governance	aa	Systemic governance (eg rule of law, corruption; government effectiveness) of the issuer's country of incorporation consistent with 'aa'
b-			
ccc+			

Management and Corporate Governance

a+	Management Strategy	a	Coherent strategy and good track record in implementation.
a	Governance Structure	a	Experienced board exercising effective check and balances. Ownership can be concentrated among several shareholders.
a-	Group Structure	bbb	Some group complexity leading to somewhat less transparent accounting statements. No significant related-party transactions.
bbb+	Financial Transparency	a	High quality and timely financial reporting.
bbb	Financial Sponsor Attitude (LBO only)		

Sector Competitive Intensity

a	Industry Structure	bbb	Larger number of competitors with some track record of price discipline in downturns.
a-	Barriers to Entry/Exit	a	Time and significant financial commitment required to enter the industry meaningfully.
bbb+	Relative Power in Value Chain	a	Stronger bargaining power than suppliers and customers.
bbb			
bbb-			

Sector Trend

a-	Long-Term Growth Potential	bbb	Mature industry. Traditional markets may be under some pressure but opportunities arise in new markets.
bbb+	Volatility of Demand	bbb	Demand volatility in line with economic cycles.
bbb	Threat of Substitutes	bbb	Facing substitutes of comparable quality but switching costs are significant.
bbb-			
bb+			

Company's Market Position

a+	Market Share	aa	Market leader in most of its segments.
a	Competitive Advantage	bbb	Some competitive advantages with reasonably good sustainability.
a-	Operating Efficiency	bbb	Return on invested capital in line with industry average.
bbb+			
bbb			

Diversification

aa-	Geographic Diversification	a	Strong diversification but balance between emerging and growth markets could be better.
a+	Product/End-Market	a	Well balanced exposure to at least three business lines or markets with different sensitivity to the economic cycle.
a			
a-			
bbb+			

Profitability

bb+	FFO Margin	b	7%
bb	EBIT Margin	b	7%
bb-	FCF Margin	b	Neutral to negative FCF margin.
b+	Volatility of Profitability	a	Lower volatility of profits than industry average.
b	EBITDAR Margin	b	15%

Financial Structure

a-	Lease Adjusted FFO Gross Leverage	bbb	3.5x
bbb+	Lease Adjusted FFO Net Leverage	bbb	3.0x
bbb	Net Debt/(CFO - Capex)	bb	3.5x
bbb-	Lease Adjusted Gross Debt/EBITDAR	bbb	3.0x
bb+	Funding Structure (LBO only)		

Financial Flexibility

a	Financial Discipline	a	Clear commitment to maintain a conservative policy with only modest deviations allowed.
a-	Liquidity	aa	Very comfortable liquidity; no need to use external funding in the next 24 months. Well-spread debt maturity. Diversified sources of funding.
bbb+	FFO Fixed Charge Cover	bb	3x
bbb	FX Exposure	bbb	Some exposure of profitability to FX movements and/or debt/cash-flow match. Effective hedging in place.
bbb-	EBITDAR/(Gross Interest + Rents)	bb	3.5x

Credit-Relevant ESG Derivation

Deutsche Post AG has 12 ESG potential rating drivers

- GHG emissions; air quality
- Energy management
- Waste and hazardous materials management; ecological impacts; product design & lifecycle management; supply chain management - product
- Impact of climate change and extreme weather events on assets and operations
- Human rights; relationships with communities and/or land right holders; access and affordability
- Customer privacy; data security; product quality and safety; customer welfare; selling practices and product labeling

Showing top 6 issues

			Overall ESG
key driver	0	issues	5
driver	0	issues	4
potential driver	12	issues	3
not a rating driver	0	issues	2
	2	issues	1

For further details on Credit-Relevant ESG scoring, see page 3.

How to Read This Page: The left column shows the three-notch band assessment for the overall Factor, illustrated by a bar. The right column breaks down the Factor into Sub-Factors, with a description appropriate for each Sub-Factor and its corresponding category.

Navigator Version: RN 2.1.12.0

FitchRatings

Deutsche Post AG

Corporates Ratings Navigator
Generic

Credit-Relevant ESG Derivation

Deutsche Post AG has 12 ESG potential rating drivers

- Deutsche Post AG has exposure to emissions regulatory risk but this has very low impact on the rating.
- Deutsche Post AG has exposure to energy productivity risk but this has very low impact on the rating.
- Deutsche Post AG has exposure to waste & impact management risk and supply chain management but this has very low impact on the rating.
- Deutsche Post AG has exposure to extreme weather events but this has very low impact on the rating.
- Deutsche Post AG has exposure to land rights/conflicts risk, access/affordability risk or human rights violations risk but this has very low impact on the rating.
- Deutsche Post AG has exposure to customer accountability risk or product quality/ethical marketing risk but this has very low impact on the rating.

Showing top 6 issues

			Overall ESG Scale
key driver	0	issues	5
driver	0	issues	4
potential driver	12	issues	3
not a rating driver	0	issues	2
	2	issues	1

Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference	E Scale
GHG Emissions & Air Quality	3	GHG emissions; air quality	Diversification; Profitability; Financial Structure; Financial Flexibility	5
Energy Management	3	Energy management	Diversification; Profitability; Financial Structure; Financial Flexibility	4
Water & Wastewater Management	1	Water and wastewater management	Diversification; Profitability; Financial Structure; Financial Flexibility	3
Waste & Hazardous Materials Management; Ecological Impacts	3	Waste and hazardous materials management; ecological impacts; product design & lifecycle management; supply chain management - product	Diversification; Profitability; Financial Structure; Financial Flexibility	2
Exposure to Environmental Impacts	3	Impact of climate change and extreme weather events on assets and operations	Diversification; Sector Trend; Profitability; Financial Structure; Financial Flexibility	1

How to Read This Page
ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the individual components of the scale. The left-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies the [number of] general ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's sector and sub-sector ratings criteria and the General Issues and the Sector-Specific Issues have been informed with SASB's Materiality Map.

Social (S)

General Issues	S Score	Sector-Specific Issues	Reference	S Scale
Human Rights, Community Relations, Access & Affordability	3	Human rights; relationships with communities and/or land right holders; access and affordability	Management and Corporate Governance; Company's Market Position; Diversification; Profitability; Financial Flexibility	5
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Customer privacy; data security; product quality and safety; customer welfare; selling practices and product labeling	Management and Corporate Governance; Sector Competitive Intensity; Company's Market Position; Profitability	4
Labor Relations & Practices	3	Impact of labor negotiations and employee (dis)satisfaction; supply chain management - labor; employee diversity and inclusion	Operating Environment; Diversification; Profitability; Financial Structure; Financial Flexibility	3
Employee Wellbeing	3	Employee health and safety	Diversification; Profitability; Financial Flexibility	2
Exposure to Social Impacts	1	Shifting social preferences; social resistance to major projects or operations that leads to delays or cost increases	Operating Environment; Sector Trend; Company's Market Position; Diversification; Profitability	1

Governance (G)

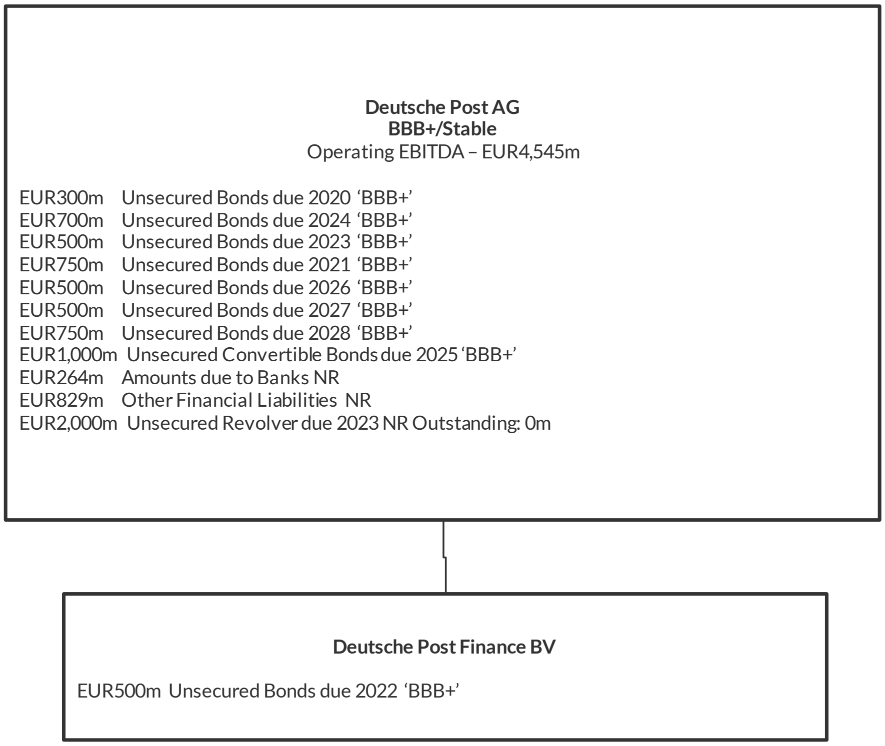
General Issues	G Score	Sector-Specific Issues	Reference	G Scale
Management Strategy	3	Strategy development and implementation	Management and Corporate Governance	5
Governance Structure	3	Board independence and effectiveness; ownership concentration	Management and Corporate Governance	4
Group Structure	3	Complexity, transparency and related-party transactions	Management and Corporate Governance	3
Financial Transparency	3	Quality and timing of financial disclosure	Management and Corporate Governance	2
				1

CREDIT-RELEVANT ESG SCALE

How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

Simplified Group Structure Diagram



Source: Fitch Ratings, Fitch Solutions, Deutsche Post AG, as at end-2018

Peer Financial Summary

Company	IDR	Financial Statement Date	Gross Revenue (EURm)	Operating EBITDAR Margin (%)	FFO Fixed-Charge Coverage (x)	FFO Adjusted Leverage (x)	FFO Adjusted Net Leverage (x)
Deutsche Post AG	BBB+						
	BBB+	2018	61,550	10.7	2.6	3.4	3.0
	BBB+	2017	60,444	11.4	2.8	3.2	2.8
	BBB+	2016	57,334	11.2	2.6	3.4	3.0
National Express Group Plc	BBB						
	BBB-	2018	2,770	17.4	4.3	3.8	3.5
	BBB-	2017	2,649	18.6	3.3	4.2	3.4
	BBB-	2016	2,560	18.5	3.8	4.0	3.2
FirstGroup plc	BBB-						
	BBB-	2019	8,080	10.4	3.6	3.5	3.2
	BBB-	2018	7,251	11.9	3.1	3.4	3.2
	BBB-	2017	6,724	13.7	3.8	3.2	3.0
Nobina AB	BBB-						
		2018	941	13.3	6.4	3.9	3.3
		2017	934	13.8	6.1	3.9	3.3
		2016	891	11.4	2.9	5.4	4.7

Source: Fitch Ratings, Fitch Solutions

Reconciliation of Key Financial Metrics

(EUR Millions, As reported)	31 Dec 2018
Income Statement Summary	
Operating EBITDA	4,545
+ Recurring Dividends Paid to Non-controlling Interest	-124
+ Recurring Dividends Received from Associates	2
+ Additional Analyst Adjustment for Recurring I/S Minorities and Associates	0
= Operating EBITDA After Associates and Minorities (k)	**4,423**
+ Operating Lease Expense Treated as Capitalised (h)	**2,011**
= Operating EBITDAR after Associates and Minorities (j)	**6,434**
Debt & Cash Summary	
Total Debt with Equity Credit (l)	**6,603**
+ Lease-Equivalent Debt	12,870
+ Other Off-Balance-Sheet Debt	0
= Total Adjusted Debt with Equity Credit (a)	**19,473**
Readily Available Cash [Fitch-Defined]	2,040
+ Readily Available Marketable Securities [Fitch-Defined]	0
= Readily Available Cash & Equivalents (o)	**2,040**
Total Adjusted Net Debt (b)	**17,433**
Cash-Flow Summary	
Preferred Dividends (Paid) (f)	**0**
Interest Received	52
+ Interest (Paid) (d)	**-150**
= Net Finance Charge (e)	**-98**
Funds From Operations [FFO] (c)	**3,609**
+ Change in Working Capital [Fitch-Defined]	-283
= Cash Flow from Operations [CFO] (n)	**3,326**
Capital Expenditures (m)	**-2,649**
Multiple applied to Capitalised Leases	**6.4**
Gross Leverage	
Total Adjusted Debt / Op. EBITDAR* [x] (a/j)	**3.0**
FFO Adjusted Gross Leverage [x] (a/(c-e+h-f))	**3.4**
Total Adjusted Debt/(FFO - Net Finance Charge + Capitalised Leases - Pref. Div. Paid)	
Total Debt With Equity Credit / Op. EBITDA* [x] (l/k)	**1.5**
Net Leverage	
Total Adjusted Net Debt / Op. EBITDAR* [x] (b/j)	**2.7**
FFO Adjusted Net Leverage [x] (b/(c-e+h-f))	**3.0**
Total Adjusted Net Debt/(FFO - Net Finance Charge + Capitalised Leases - Pref. Div. Paid)	
Total Net Debt / (CFO - Capex) [x] ((l-o)/(n+m))	**6.7**
Coverage	
Op. EBITDAR / (Interest Paid + Lease Expense)* [x] (j/-d+h)	**3.0**
Op. EBITDA / Interest Paid* [x] (k/(-d))	**29.5**
FFO Fixed-Charge Cover [x] ((c+e+h-f)/(-d+h-f))	**2.6**
(FFO + Net Finance Charge + Capit. Leases - Pref. Div Paid) / (Gross Int. Paid + Capit. Leases - Pref. Div. Paid)	
FFO Gross Interest Coverage [x] ((c+e-f)/(-d-f))	**24.7**
(FFO + Net Finance Charge - Pref. Div Paid) / (Gross Int. Paid - Pref. Div. Paid)	
* EBITDA/R after Dividends to Associates and Minorities	

Source: Fitch Ratings, Fitch Solutions, DP

Fitch Adjustment Reconciliation

	Reported Values 31 Dec 18	Sum of Fitch Adjustments	Preferred Dividends, Associates and Minorities Cash Adjustments	Exceptional items	CORP - Lease Treatment	Adjusted Values
Income Statement Summary						
Revenue	61,550	0				61,550
Operating EBITDAR	6,291	265		502	-237	6,556
Operating EBITDAR after Associates and Minorities	6,291	143	-122	502	-237	6,434
Operating Lease Expense	0	2,011			2,011	2,011
Operating EBITDA	6,291	-1,746		502	-2,248	4,545
Operating EBITDA after Associates and Minorities	6,291	-1,868	-122	502	-2,248	4,423
Operating EBIT	2,999	126		502	-376	3,125
Debt & Cash Summary						
Total Debt With Equity Credit	6,603	0				6,603
Total Adjusted Debt With Equity Credit	6,603	12,870			12,870	19,473
Lease-Equivalent Debt	0	12,870			12,870	12,870
Other Off-Balance Sheet Debt	0	0				0
Readily Available Cash & Equivalents	2,040	0				2,040
Not Readily Available Cash & Equivalents	977	0				977
Cash-Flow Summary						
Preferred Dividends (Paid)	0	0				0
Interest Received	52	0				52
Interest (Paid)	-526	376			376	-150
Funds From Operations [FFO]	5,603	-1,994	-122		-1,872	3,609
Change in Working Capital [Fitch-Defined]	-283	0				-283
Cash Flow from Operations [CFO]	5,320	-1,994	-122		-1,872	3,326
Non-Operating/Non-Recurring Cash Flow	0	0				0
Capital (Expenditures)	-2,649	0				-2,649
Common Dividends (Paid)	-1,409	0				-1,409
Free Cash Flow [FCF]	1,262	-1,994	-122		-1,872	-732
Gross Leverage						
Total Adjusted Debt / Op. EBITDAR* [x]	1.0					3.0
FFO Adjusted Leverage [x]	1.1					3.4
Total Debt With Equity Credit / Op. EBITDA* [x]	1.0					1.5
Net Leverage						
Total Adjusted Net Debt / Op. EBITDAR* [x]	0.7					2.7
FFO Adjusted Net Leverage [x]	0.8					3.0
Total Net Debt / (CFO - Capex) [x]	1.7					6.7
Coverage						
Op. EBITDAR / (Interest Paid + Lease Expense)* [x]	12.0					3.0
Op. EBITDA / Interest Paid* [x]	12.0					29.5
FFO Fixed-Charge Coverage [x]	11.6					2.6
FFO Interest Coverage [x]	11.6					24.7

Source: Fitch Ratings, Fitch Solutions, DP

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.