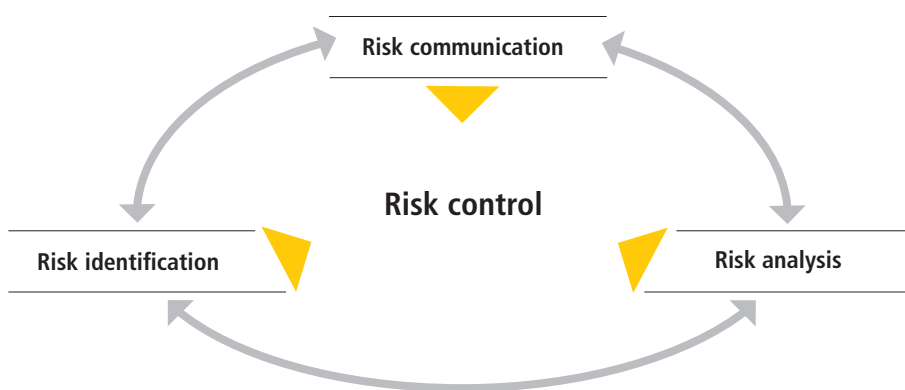


Risks

Opportunity and risk management

Organisation of opportunity and risk management

All business fundamentally involves opportunities and risks. Active control of these opportunities and risks is supported within Deutsche Post World Net by a Group-wide opportunity and risk management process. The objective is to strengthen the Group's firmly established culture of tackling risks and opportunities proactively in order to secure our business success for the long term. The process developed to this end is based on uniform methods and standards for identifying, analysing and communicating the issues concerned.



Tightly integrated into the existing controlling processes are quarterly opportunity and risk identification and reappraisal. This analysis covers events and developments both within and outside the Group that might lead to deviations from the planned course of commercial success. In the event of significant changes, ad-hoc announcements may be issued at any time.

Opportunity and risk analysis also involves the investigation of major influencing factors, the compiling of action plans and determining indicators for the early detection of critical situations. The analysis is performed on a results-orientated basis using scenarios. Opportunities and risks are assigned to managers responsible for taking action as appropriate to exploit the opportunity or control the risk. This helps clarify who is responsible, particularly with cross-cutting issues.

We deploy identical software for recording, reporting and documenting risk throughout the Group. This replicates the multi-level risk reporting structure and ensures that the managers responsible are involved at various strata of the hierarchy. The process is closely integrated with management and control tools, safeguarding regular communication between the controlling function and management. The Board of Management is kept informed by central risk control, which is organisationally part of Corporate Controlling.

i Note 48.1

Postbank's **i** risk control system complies with the bank-specific requirements of the Basel Committee on Banking Supervision (Basel II in line with EU directives) and the Minimum Requirements for Risk Management (MaRisk, laid down by BaFin, Germany's federal financial supervisory authority). Postbank is also integrated into the Group's opportunity and risk control process.

We consider the risks set out in the following to be the significant negative factors currently affecting our net assets, financial position and results of operations. However, these are not necessarily the only risks to which the Group is exposed. Risks of which we are currently unaware or which we do not yet consider to be material could also have an adverse effect on our business activities.

Risk categories and individual risks

General business environment and industry-specific risks

Our business success substantially depends on the financial health of our customers. Despite turbulence in the financial markets, the world's countries are expected on average to sustain their GDP growth, with particularly strong growth rates in emerging and developing economies. A sustained upturn is also accelerating the process of globalisation, leading to growth in demand for storage and transport. This can boost demand for the services of high-performance logistics providers but may also stoke regional and global competition with established and new market players. A cyclical slowdown could reduce customer demand to such an extent as to pose risks for our business activities. However, we do not currently perceive any far-reaching general economic risks facing the Group.

Risks associated with the general business environment primarily arise from the fact that both the Group and its subsidiaries provide some of their services in a regulated market. Our statutory exclusive licence was abolished in Germany on 1 January 2008. However, the *Postgesetz* (German postal act) has allowed exceptions enabling competitors to operate within the weight and price ceilings laid down in our exclusive licence from January 1998 onwards. As a result, around 55% of the revenue generated by competitors in 2007 was within the weight ceilings stipulated by the exclusive licence. By the end of the year, the regulatory authority (*Bundesnetzagentur* – Federal Network Agency) had issued licences to around 2,370 competitors.

On 7 November 2007, the regulatory authority announced its benchmark decision specifying the conditions which will apply from 2008 until the end of 2011 to regula-

tions under the price cap procedure for mail prices requiring approval. This stipulates the general rate of inflation and the expected productivity growth rate for Deutsche Post AG as the key factors applicable to mail prices. Prices have to be lowered if the inflation rate in the reference period is less than the productivity growth rate specified by the regulatory authority. No price cuts are required in 2008, allowing the mail prices requiring approval to remain unchanged. The regulatory authority accepted an application from Deutsche Post AG to this effect on 20 November 2007.

On 18 October 2006, the European Commission presented its proposal for a third Postal Directive and recommended opening the EU postal markets fully to competition starting in January 2009. The European Parliament and Council have begun consultations on the proposal under the EU co-decision procedure. In a first hearing on 11 July 2007, the European Parliament came out in favour of fully opening the EU markets by 1 January 2011 – later than in the Commission proposal – and of granting certain member states a transitional period until 1 January 2013. The Council adopted its common position on 8 November, in which it endorsed the European Parliament's proposed date for market opening. The European legislative procedure continues.

Whilst liberalisation of postal markets entails risks for Deutsche Post AG due to increased competition in Germany, it also opens up new opportunities in other European mail markets.

In 2007, cross-border mail in Europe between Deutsche Post AG and fifteen other western European postal operators was governed by the REIMS II agreement and with another nine eastern European postal companies by the REIMS EAST agreement. The postal operators are currently negotiating a new agreement called REIMS III, which is to come into force with retroactive effect from 1 January 2008 and replace the REIMS II and REIMS EAST agreements.

Discussions continue regarding the extent to which postal services should be exempt from value-added tax (VAT). In correspondence dated 10 April 2006, the European Commission initiated infringement proceedings against the Federal Republic of Germany with regard to the VAT exemption of postal universal services provided by Deutsche Post AG. Germany considers the current VAT exemption to be in compliance with applicable law and responded to the European Commission accordingly. On 24 July 2007, the Commission announced in its decision on the proceedings that the VAT exemption for postal universal services provided by Deutsche Post AG was too far-reaching and called on the German government to amend the applicable law. Independently of these infringement proceedings, the German government

announced that it would review the VAT exemption of Deutsche Post AG against the backdrop of the expiration of the exclusive licence on 31 December 2007. In a first statement on the infringement proceedings, a spokesman for Germany's finance ministry stated that the German government considers the current VAT exemption in Germany to be tenable throughout Europe. The German cabinet has resolved to retain the VAT exemption for nationwide universal services in the postal sector.

Concurring with Deutsche Post AG, the regulatory authority is of the opinion that the prices it approved are net prices not including VAT. VAT could therefore be added to the approved prices. However, it cannot be ruled out that the application of VAT would lead to a decrease in revenue and earnings.

Business strategy risks

Deutsche Post World Net continues to focus on meeting the needs of its customers at all times. To do this, we aim to make optimum use of our global platform. In regional expansion of the services network, priority is given to organic growth over business acquisitions.

Starting 1 January 2008, our MAIL Division with its diverse range of mail and parcel services will face heightened competition in the liberalised German mail market. This may result in loss of market share, most of all in the business customer segment. The spread of digital technology also continues, with conventional mail increasingly being replaced by electronic communication methods. We aim to absorb impending losses of market share in the German mail market as far as possible through consistent customer focus, new products and further internationalisation of our mail business. The parcels business in Germany is unaffected by mail market liberalisation, since it has been exposed to competition for many years.

The EXPRESS Division has unified its worldwide management structure. The aim here is maximum possible efficiency in marshalling resources and capital expenditure and to strengthen our position in the regions we serve. As reflected in the successful launch of our First Choice programme, customer satisfaction is amongst our central strategic goals. In a fiercely competitive environment, our focus on customer satisfaction and cost efficiency forms the basis for numerous projects, including the cost-efficient expansion of our infrastructure. Despite intensive planning, temporary quality lapses may arise in the course of complex infrastructure projects, in rare instances with an adverse effect on revenue and earnings.

The LOGISTICS Division has integrated logistics provider Exel sooner than planned. The division grew to take in the European overland transport business in 2006 and now offers a full logistics service portfolio. We plan to extend our market lead, to enhance customer focus and to continue our predominantly organic growth. Our growth targets are dependent on growth in the global economy. If there were to be a cyclical slowdown, worldwide or in specific regions, our commercial success could suffer as a result.

Earnings in the FINANCIAL SERVICES Division are almost exclusively accounted for by Postbank, which plans to strengthen its position in the German banking market, particularly in the fiercely contested private customer segment. To counter the heightened competition as well as meet customer and capital market needs, Postbank will continue to improve sales and internal processes.

Performance and profitability risks

The global expansion of our Group has placed increasing demands on our mission-critical infrastructure. This applies to posting and collection, sorting, transport, delivery and information technology. We aim to avoid business interruptions at key locations by continually monitoring critical infrastructure such as sorting and conveyor systems, air hubs and data centres. The precautions we take and our emergency and contingency plans are effective tools in preventing business interruptions or minimising their effects.

Following the complete opening up of the German mail market, our MAIL Division now faces growing competition. We are well prepared for the changed situation. With modern sorting facilities and efficient processes, we set high quality standards. We are also optimising and rendering more flexible the costs of our transport and delivery network. Consistent customer focus in conjunction with sales and marketing activities additionally reduce the risk of loss of market share.

The EXPRESS Division is exposed to fierce competition both nationally and internationally. To hold our own in this business, we are optimising our global transport network, amongst other things by building or enlarging air hubs. All processes are subject to regular analysis with the aim of effective use of deployed resources. We continuously match up the product portfolio to customer needs. With our First Choice programme, we ensure workforce awareness of the need to view customer satisfaction as a key competitive criterion.

This applies equally in the LOGISTICS Division. Loss of customers, particularly major customers, could put the attainment of our earnings and revenue targets at risk. Far-sighted management can limit this risk but not eliminate it altogether. With custom-tailored logistics solutions especially, our commercial success is closely bound to that of our customers. We therefore aim to support our customers with our experience, the quality of our work and a broad service portfolio.

Postbank accepts normal banking risks whilst strictly observing its risk-bearing capacity. The relevant risks are continuously measured and monitored, and regularly reported to the management. The Basel II capital adequacy requirements in force since 1 January 2007 and the Minimum Requirements for Risk Management (MaRisk) were integrated into Postbank's risk management system at an early stage. Germany's federal financial supervisory authority (BaFin) has permitted Postbank to use its own rating and scoring models to assess risk and ensure capital adequacy for the majority of its transactions. In the course of credit substitute transactions, Postbank has also invested in structured credit products. It has closely monitored the disruption of the capital markets arising from the developments on the US real estate market with regard to potential defaults in its structured credit portfolio. Postbank has systematically analysed its holdings on an ongoing basis and tested them for impairment. Based on a conservative assessment of the portfolio, an impairment loss in the amount of €112 million was recognised in 2007. In the event of an appreciable increase in the turbulence arising from the US real estate market and the crisis spreading to the real economy, further financial impacts cannot be ruled out.

Environmental risks

Monitoring environmental regulations is an integral part of the Group-wide risk management process. We do not currently know of any significant environmental risks with a substantial potential financial impact on the Group. However, we are closely following political discussions within the EU that deal with the introduction of an emissions trading system, especially for the air transport sector. As it is impossible to foresee the outcome of the political discussions, we cannot assess the financial impact, were such a system to be introduced.

Personnel risks

The hard work, expertise and commitment of the workforce are essential to our commercial success. We therefore place high priority on initial and further training, and use motivation-enhancing, performance-based pay structures, with performance assessment that is standardised Group-wide. These are linked to human resources development activities specially tailored for each employee target group. The increasing internationalisation of our business and the growing demands on management

increase the need for highly qualified young talent. We identify and promote outstanding managerial talent on an ongoing basis, amongst other things in connection with *Berufsakademien* (German universities of co-operative education) and the Group's own university. International education opportunities and challenging career openings make the Group highly attractive, enabling us to hold our own in the competition for highly qualified specialists and managers as well as to actively counter the risks associated with workforce fluctuation, **i** demographic developments and loss of expertise.

i Employees, page 75

Liberalisation of the German mail market may pose further personnel risks. If despite all efforts Deutsche Post AG suffers substantial losses in market share, jobs may come under threat within the Group.

Information technology risks

Information technology is an integral part of our Group's production and service processes. Our business performance therefore depends heavily on the functioning and availability of our applications and infrastructure. Our three globally operating data centres constitute a key success factor. We prevent faults and any downtime by active risk management, and have set up redundant systems and developed detailed emergency plans.

In everyday use, the effectiveness of IT security relies largely on the workforce's implementation of our security guidelines. We have therefore taken steps to enhance workforce risk-awareness. Amongst other things, we have set up the Information Security Knowledge Centre, an interactive platform providing key information on IT security.

We block unauthorised data access and data manipulation with various measures involving the workforce, organisational structure, applications, systems and networks. We continuously improve security mechanisms and plans. The appointment of a global committee on IT security underscores the priority given to IT security within the Group.

Management of financial risks

Information on financial risk management is provided in the **i** Notes.

i Note 48.2

Risks from pending legal proceedings

Information on legal risks is provided in the **i** Notes.

i Note 50

Other risks

The US Department of Transportation (DOT) has not yet completed a US citizenship test for ABX Air Inc. ABX Air Inc. is an independent company that provides transport services for DHL. There is no deadline for the routine citizenship test by the DOT. ABX advises that it expects a positive outcome of this test that will confirm that it is a US airline pursuant to US laws and DOT regulations. A similar review of ASTAR Air Cargo Inc. was decided positively by the DOT in 2003/2004.

External audits are currently underway at DHL Express (USA) and Airborne Inc. in line with the US unclaimed property laws. These laws state that abandoned assets must either be returned to their rightful owner or transferred to the last known owner's home state or, if this is not known, to the state in which the company is domiciled.


In the course of its expansion, the Group has recognised significant goodwill. According to IAS 36, this goodwill must be subjected to an impairment test at least once a year. If the value of the goodwill is determined to be impaired, an impairment loss must be recognised.


Our insurance strategy separates insurable risks into two groups. The first group comprises risks with a high probability of occurrence and low individual cost. These risks are insured via a captive, an insurance company owned by the Group. The in-house company is able to insure such risks at a lower cost than commercial insurers. The second group comprises risks that have a low probability of occurrence but could entail high losses, such as air transport risks. These risks are transferred to commercial insurers. This global financing and insurance strategy produced cost savings approaching €100 million during the year.

The threat of terrorist attacks could also have negative effects on our business and particularly on our air-based express operations. Higher insurance premiums cannot be ruled out in such an eventuality.

As a service provider, we do not conduct research and development in the narrower sense. There are therefore no material risks to report in this area.

Overall assessment of the Group's risk position

Significant risks capable of threatening the attainment of our budgeted earnings figures are largely associated with the liberalisation of the German mail market. Our risk situation is also affected by fierce competition in our other markets and businesses. The volume of the markets we serve primarily depends on the development of the world economy and cyclical trends in individual countries. In the past financial year, there were no identifiable risks for the Group which, individually or collectively, cast significant doubt upon the company's ability to continue as a going concern. Nor are any such risks apparent in the foreseeable future. For a description of the risk position of Deutsche Postbank AG, please refer also to the Postbank Group's  risk report.

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