

# chapter 2 – general review of the company in 2007

2007 –  
Annual report

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## General

TNT N.V., through its two divisions, Express and Mail, is in the business of transferring goods and documents around the world. With its activities, TNT is part of the global transportation and distribution industry; a vast industry whose market size is estimated to be over US dollars (US\$) 3,500 billion (as at 31 December 2007 approximately €2,400 billion). TNT serves more than 200 countries and employs around 161,000 people. Over 2007, TNT reported €11 billion in revenues and an operating income of €1,192 million. TNT N.V. is listed and traded on Euronext Amsterdam by NYSE Euronext (ticker “TNT”).

TNT is strongly committed to responsible global corporate citizenship. TNT implements various international standards in order to retain its licence to operate. TNT measures, benchmarks and reports its performance. TNT ranked first in the Dow Jones Sustainability Index (DJSI) 2007. Simultaneously with this annual report, TNT is publishing its social responsibility report.

## Mission and strategy

### Mission statement

TNT’s mission is to exceed its customers’ expectations in the transfer of their goods and documents around the world. TNT delivers value to its clients by providing the most reliable and efficient solutions through delivery networks.

TNT aims to lead the industry by:

- instilling pride in its people,
- creating value for its shareholders, and
- sharing responsibility for the world in which it operates.

### Business description

TNT is in the business of transferring goods and documents around the world tailored to its customers’ requirements with

a focus on time and/or day certain pick up and delivery. It is TNT’s business to deliver the “business” of its customers at the right time and at the right place.

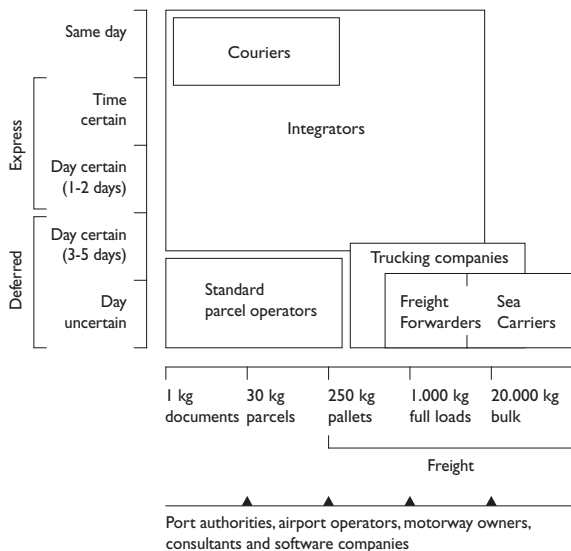
TNT picks up, transports, sorts, handles, stores and delivers documents, packets, parcels, and freight by combining physical infrastructures such as depots and trucks, electronic infrastructures such as billing and track-and-trace systems, and commercial infrastructures to attract and retain customers.

Goods and documents have different weights, shapes and sizes. They can be as light and small as a postcard or they can be as heavy and as big as the engine of a jumbo jet. They can also change shape, such as when several parcels are combined into a single pallet, and they can have different requirements in terms of speed of delivery, security and point of delivery. Goods and documents can have very different distance characteristics, ranging from domestic to cross-border/regional to intra-continental to intercontinental.

In general, weight and speed are most commonly used to characterise different kinds of customer requirements. This is illustrated in two-dimensional charts such as the one shown below, where the weight categories are below one kilogramme (documents), between one and 30 kilogrammes (parcels) and above 30 kilogrammes (pallets, full loads and bulk) and the speed categories are same day, time (and day) certain (e.g. 10:00 next day), day certain/1-2 days, day certain/3-5 days and day uncertain.

All these different types of requirements need different delivery networks and are served by different operators (see the chart below). These range from very efficient and time-sensitive (air and road) express networks operated by *integrators* to less expedited *sea carriers*. *Freight forwarders* operate virtual networks, using block space on other operators’ planes, ships and (to a lesser extent) trucks, and their own (small) depots and sites in harbours and at airports. *Couriers* focus on same day delivery. Finally, in the widest sense, peripheral operators such as infrastructure providers (*port authorities, airport operators, motorway owners*), *consultants* and *software companies* can also be considered as actors in this sector.

## Global transportation industry — segmentation



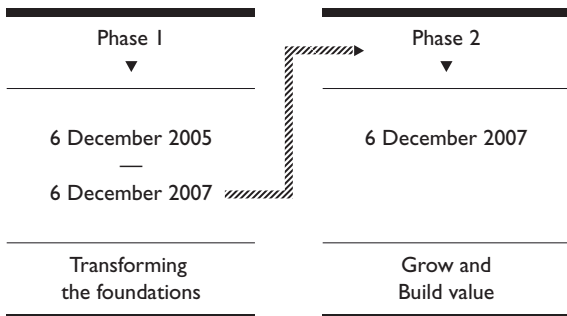
Global revenues US\$ 3,500 billion  
 (Source: R.W. Baird, report “Global Integrators”,  
 January 2007)

## Focus on Networks strategy

TNT’s strategy is to focus on providing delivery services by expertly managing delivery networks. Thus, TNT calls its strategy Focus on Networks. This strategy was first presented in December 2005, contains manageable execution risks, and is based on TNT’s core strengths, with the objective of achieving profitable growth. For more information on key risks, see chapter II.

In the first phase of its Focus on Networks strategy, TNT concentrated on transforming its foundations by exiting its logistics and freight management activities, concentrating on (Mail and Express) networks and optimising its capital structure. With the start of the second phase (“Grow and Build Value”) in December 2007, the emphasis is now on further strengthening both the core of the portfolio (Mail Netherlands and Express Europe) and the emerging platforms such as European Mail Networks, parcels and Express emerging businesses.

### Focus on Networks — two phases

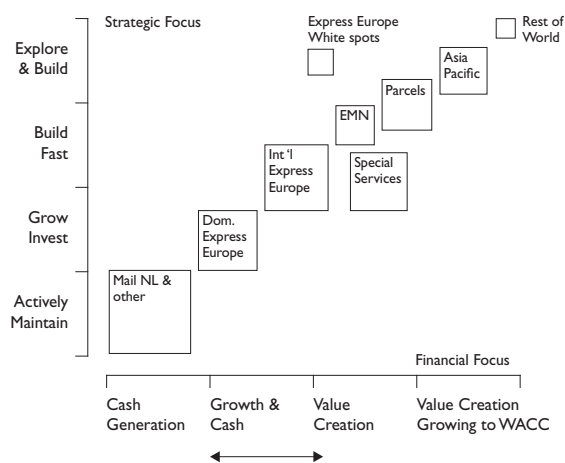


TNT manages a portfolio of networks with different speed characteristics, ranging from same-day to some day, and different weight characteristics, ranging from letters to heavy parcels and pallets. TNT’s Express business focuses on transferring documents, parcels and pallets that require time or day certain delivery, whilst TNT’s Mail business focuses on transferring documents with day uncertain delivery (however, in practice, in the Netherlands almost 100% of deliveries is next day). Due to the further optimisation of its network strategy, TNT introduced in 2007 the segment “Other networks” in which TNT reports its Innight business. Formerly, this business was reported as part of the Express division and prior to the sale of the Logistics division as part of Logistics. Consequently, TNT reports its Express business as of 2007 without the Innight business and has adjusted the 2006 comparatives accordingly.

TNT’s networks are in different development phases and offer a plethora of growth opportunities. TNT’s most mature business is its Mail network in the Netherlands, where TNT actively seeks to maintain its market leadership in a declining market with increasing competition. TNT’s Express networks in Asia, in particular in India, China and South-east Asia, and in selective other emerging markets, such as Brazil, are at the other end of the spectrum and are among the least mature networks in its portfolio. In these geographies TNT can shape the market, strongly grow its networks and attain market leadership. In Europe, TNT continues to grow its Express and Mail networks by building on its existing strong position. TNT aims to accelerate growth in its networks organically, as well as through selected acquisitions.

The chart below reflects an analytical and conceptual view on the relation between strategic focus and financial focus. It does not represent a management segmentation. From this chart TNT has derived 10 strategic priorities which it manages.

### TNT’s portfolio of networks



The combination of Express and Mail networks in TNT’s current portfolio has several strategic advantages. TNT believes the combination of business-to-business and business-to-consumer deliveries, for which it has unique expertise in its Express and Mail divisions respectively, becomes increasingly relevant in an era where e-related deliveries are growing exponentially and megacities, which require complex high density citizen services, will emerge. TNT also believes that over time, certain operational and strategic synergies can be

achieved across its portfolio, for example in linehaul activities. Having both Express and Mail in its portfolio gives TNT unique cross-selling opportunities. And finally, the fact that Express and Mail require comparable management capabilities, such as network design, execution and planning, customer focus, market segmentation and brand awareness, allows TNT to optimise management and competence development across the company.

In Express, TNT's strategic intent in phase I was fourfold: to strengthen the number one position in Europe in national and intra-European flows, to build uplift capacity from China to fuel its European network and establish an intra-China network, to build the number one position in rest-of-the-world selected emerging markets, and to expand its position in the broader market through offering special services. Underpinning TNT's Express networks is a strong focus on key customer interfacing processes, by understanding customer needs, winning and keeping profitable customers, delivering excellent customer service and delivering on time and in perfect condition. In all four strategic intent areas TNT has made excellent progress in 2007. TNT has continued to strengthen its position in Europe by, amongst others, finalising the integration of Trespertrans S.L. (TG+), a Spanish company acquired in 2006, and capturing high growth in Eastern Europe. In China, TNT is integrating Hoau Group of China (Hoau) to build the leading domestic network in that country, and it has implemented its own Boeing 747 freighter service between China and Europe to capture the strong growth on this intercontinental flow. TNT has acquired domestic networks in India and Brazil and extended the reach of its South-east Asian road network. Lastly, TNT has expanded its position in special services by further growth in its same-day business and continued fast growth in time-critical freight. TNT's Express division thus created a strong platform by delivering on all four strategic intents mentioned above.

In the second phase, the emphasis will be on network optimisation to further strengthen the leading positions of the Express division, to strengthen the Europe-Asia connectivity, and to transform the newly acquired domestic platforms in China, India and Brazil into integral international Express operations.

More details on Express can be found in chapter 3.

In Mail, TNT's strategic intent in phase I was twofold: to actively maintain its market share in its home market of the Netherlands and to capture growth opportunities outside its home market. In the Netherlands, TNT is faced with continuing competitive pressure and substitution. TNT believes that without new commercial and cost initiatives a volume decline of up to 40% by 2015 compared to 2006 would be inevitable.

In the first phase of the Focus on Networks strategy, successfully completed at the end of 2007, TNT's Mail division thus prepared itself for full liberalisation of the Dutch mail market, whilst outside the Netherlands, platforms were established to become the number one challenger to incumbent European mail operators.

In the second phase Mail Netherlands will further detail and execute the cost and commercial initiatives and continue to monitor, evaluate and respond to regulatory developments, whereas outside the Netherlands, it will focus on optimising and growing market positions and realising growth in profitability.

At the end of 2006, TNT launched a number of initiatives along two tracks: commercial initiatives to limit volume decline to 30% by 2015 compared to 2006 and cost initiatives to save €300 million of annual costs. In 2007, TNT took restructuring costs of €110 million for the efficiency projects that its Mail division will start in 2008 to standardise the collection, preparation, and delivery of mail as much as possible. TNT is now in the process of negotiating with trade unions to enable expeditious implementation of the latter. At the same time, TNT has made substantial progress in growing its Mail activities outside the Netherlands. TNT has continued to significantly expand its regional networks in Germany and the United Kingdom. TNT believes the combination of cost and commercial initiatives in the Netherlands and growth initiatives outside the Netherlands will contribute to Mail being able to continue to deliver a strong cash flow going forward. However, barriers to competition (such as value added tax (VAT) exemption, hidden state subsidies, and, as recently adopted in Germany, a generally binding minimum wage) may hamper TNT's ambition to grow its Mail activities outside the Netherlands.

More details on Mail can be found in chapter 4.

## Financial strategy

TNT's financial strategy is based on three pillars:

- driving business performance by using value-based performance measures and standardisation of business processes,
- maintaining the right financial flexibility to support growth platforms via capital expenditure and mergers and acquisitions, and
- keeping the capital structure efficient, at an investment grade long term credit rating of "around BBB+".

These three key components of the financial strategy directly relate to:

- effective risk management, internal control and compliance,
- financial risk management and risk insurance structures,
- aligned legal and funding structures, and
- a balance in short and medium term shareholder returns through profitable growth, dividends and incidental share repurchases or other shareholder returns from medium term excess cash.

TNT's current capital structure is based on and managed along the following components:

- maintaining a credit rating at investment grade "around BBB+",
- availability of at least €500 million of undrawn committed facilities,
- structural funding via a combination of public and bank debt, with a risk-weighted mix of fixed and floating interest,
- cash pooling systems facilitating optimised cash requirements for the group by facilitating centralised funding and surplus cash concentration at group level, and
- a tax optimal internal and external funding focused at optimising the cost of capital for the group, within long term sustainable boundaries.

TNT's current long term credit ratings are BBB+ (stable outlook) for Standard & Poor's Ratings Services (S&P) and A3 (stable outlook) for Moody's Investors Services (Moody's). These credit ratings result from an evaluation and analysis of many different factors. As mentioned, TNT focuses on maintaining an investment grade credit rating of "around BBB+".

For this purpose it monitors the development of the key credit ratios which are used by the rating agents and which may vary from time to time:

- FFO / Debt, whereby Funds From Operations (FFO) is based on operating profits from continuing operations, after tax, corrected for, amongst others, depreciation and amortisation and other major non-cash items, and Debt is defined as total interest-bearing borrowings of the company, adjusted for on and off-balance sheet debt-like components and surplus cash.
- Debt / EBITDA, whereby EBITDA is defined as operating profits before interest and taxes, corrected for, amongst others, depreciation and amortisation as well as operating leases.
- FFO / Interest, whereby Interest is corrected for, amongst others, pensions and leases.
- RCF / Debt, whereby Retained Cash Flow (RCF) is defined as FFO less dividend.

The weighted mix of the four ratios above forms an important building block in TNT's financial parameter framework, whereby the current credit ratings are roughly based on the following ranges: an FFO / Debt between 30%-35%, a Debt / EBITDA of 2.0x-2.5x, an FFO / Interest around 5%, and an RCF / Debt around 17%. These ranges per ratio may change over time, depending on market conditions and analytical considerations.

For its financial requirements in the context of its capital structure components, TNT works with approximately ten relationship banks. This number is influenced by financial service requirements of TNT related to its global spread in activities, businesses and legal entities.

TNT aims to grow its free cash flow in the medium term. TNT defines its free cash flow as the net cash from operating activities minus net capital expenditure on property, plant, equipment and intangible assets, and proceeds from sale of smaller assets.

Part of free cash flow is used for dividends after the appropriation to reserves of (part of) the profit. TNT tries to meet shareholders' return requirements through growth in value of the company's shares, dividends, and incidental share repurchases. As part of its dividend guidelines, TNT intends to pay interim and final dividends in cash annually. The TNT Reserves and Dividend Guidelines can be viewed on TNT's corporate website, [group.tnt.com](http://group.tnt.com). During 2007, TNT announced its intention to increase the dividend pay-out from around 35% of normalised net income currently to around 40% by 2010. Normalised net income is defined as "profit attributable to the equity holders of the parent" adjusted for significant one time and special items. Remaining free cash flow will be allocated to strategic profitable growth of the group.

In case of medium term excess cash other forms of value creation for its shareholders will be evaluated, including tax exempt share buy-backs.

As with any global organisation, operating cash flows are affected by economic and business trends. A significant portion of TNT's operating cash flows is derived from TNT's Mail division, particularly from operations in the Netherlands. Amongst other factors, the impact of electronic substitution on mail volumes, postal regulations in the Netherlands, and the

pace of postal liberalisation in Europe continue to affect those cash flows, although it is not possible to predict what the long term cash flow effects will be.

Cash requirements for capital expenditure fluctuate from year to year, depending on the extent of strategic capital projects, but have been well covered by operating cash flows. The ratio of cash from operating activities to net capital expenditure was 2.3 in 2007, 2.7 in 2006 and 3.7 in 2005. This ratio is calculated as follows: net cash provided by operating activities divided by the sum of capital expenditure on other intangible assets, disposals of other intangible assets, capital expenditure on property, plant and equipment and disposals of property, plant and equipment, all as stated in TNT's consolidated cash flow statements. TNT expects these operating cash flows to continue to cover its capital expenditure requirements in the foreseeable future. TNT believes its working capital generates sufficient liquidity to cover its requirements.

For any acquisitions or buy-back of shares that exceed the company's immediate cash resources, the company would seek to raise capital in the financial markets by means of bank borrowings and private or publicly traded debt. For very substantial transactions, if required TNT would also consider issuing hybrid debt or equity in order to maintain an investment grade "around BBB+". Given the strength of TNT's financial position, credit ratings, and bank relationships, TNT currently does not foresee an inability to access a wide range of capital markets including equity, public debt, private debt and bank borrowing. TNT monitors and manages key financial ratios that are consistent with a strong credit rating. There are no aspects of TNT's current capital structure that TNT believes would trigger a material increase in the cost of its debt or the inability to access to capital markets.

For details on the interest rates charged on TNT's more significant long term loans as well as the maturity of TNT's long term loans and commitments, see notes 13 and 30 to TNT's consolidated financial statements.

TNT does not hold or issue financial instruments for trading purposes, nor does TNT allow its subsidiaries to do so. For details on TNT's use of financial derivatives for hedging purposes, see notes 3, 6, 13, 30 and 31 to TNT's consolidated financial statements.

TNT implements a comprehensive insurance policy covering its operational risk profile as appropriate, using a mix of self insurance, re-insurance, and direct external insurance. As frequency losses (such as cargo and vehicle claims) are of an operational and customer service nature, TNT believes that self insurance is the best method to motivate operational units to address the underlying causes of these losses. Improved risk management then has an immediate positive financial effect. TNT's total self insured frequency claims are structured via an in-house captive insurance company and capped on an annual basis via re-insurance. During 2007, TNT's total annual retention cap on these losses was €6 million.

TNT's "catastrophe exposures" are insured in the traditional insurance markets. These include aviation, property and business interruption, general liability, fraud, and director and officers' liability insurance. TNT has a strict policy to transfer risks only to insurers with a rating of A- or higher, and this is monitored on an ongoing basis.

Attention is being given to adjust TNT's insurance protection to the ever changing legal and regulatory environment in which it operates, and all insurance policies are therefore tailor-made to TNT's unique requirements. In addition, current insurance arrangements also need to support strategic developments and the changing risk profile of the company.

All of TNT's financial strategies and actions will take into account the key components of its financial solidity requirements as mentioned.

## Industry context

TNT believes the following four trends will be increasingly relevant to its business over the next five to 10 years:

### Environment

There is growing consensus amongst the general public, politicians and others that climate change is threatening the environment. Increasing levels of carbon dioxide (CO<sub>2</sub>) in the atmosphere are trapping more heat, thus increasing global temperatures. This phenomenon, referred to as global warming, will give rise to all sorts of measures and regulations that try to abate the CO<sub>2</sub> emissions around the globe. Since transport and distribution contribute nearly one-fifth to these emissions, the transport and distribution industries will be affected significantly by any measures or regulations. TNT has responded pro-actively to this challenge by launching its Planet Me initiative. More details on Planet Me can be found in this chapter under Differentiating ourselves as well as in TNT's 2007 social responsibility report.

### Demographic trends

Demographic trends are changing the composition of the population across the globe. For example, in the largest Western European countries it is estimated that between 20% and 25% of the population will be above the age of 65 by 2020. Also, people will live increasingly in cities with more than five million inhabitants (so-called megacities), posing significant distribution challenges.

As a result of the ageing population, spending on healthcare will increase significantly. In addition, there is a trend towards more biopharma products and an increased need for special handling services in healthcare. These trends have several implications for the transport and distribution industries, such as accelerated growth of healthcare product flows, an increasing demand for to-consumer distribution networks, and possibly more challenges in attracting and retaining staff.

### Restructuring of global supply chains

Driven by globalisation, intercontinental trade is growing continuously. Multinationals continue to move their manufacturing to countries with low-cost labour such as China. With an increasing middle class in the emerging countries, spending in those markets will rise, driving regional transportation and global flows as well. In contrast, environmental concerns may eventually lead to a renewed regionalisation of manufacturing and regional "self sufficiency" models.

## Digitisation

Digitisation is a trend that TNT has faced for quite some time. As a result of continuously improving technologies, documents can be digitised, transmitted and reproduced without requiring delivery of the printed material. Digitised design of goods and services as well as globalisation of product development and promotion will also influence delivery requirements.

## Markets and economic environment

### Express markets

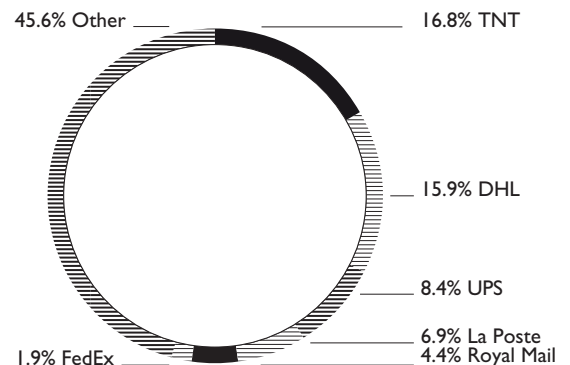
The express sector is very competitive. Competition centres on network coverage, speed and other service elements as well as price. Larger players, such as the global integrators, can achieve attractive margins through economies of scale and (to a lesser extent) scope. Local and regional players focus on high local network density. The industry historically has shown growth rates double those of Gross Domestic Product (GDP) and is expected to continue to do so given increasing demand for express-like products. The US market has over the last 30 years moved from being fragmented to very concentrated, Asia is fragmented and developing, and Europe is in between.

The express sector has significant barriers to entry, mainly the required scale and network reach, ICT capabilities, investments in fixed assets, and brand name and reputation. New entrants may come from the parcel and freight sectors where companies might improve their offerings to day-definite products. This could increase price competition.

TNT Express uses a clear market definition to clarify its position within the sector. This express market definition encompasses time certain, next day, and fastest by air or road day certain delivery for business-to-business consignments transported through a scheduled network with door-to-door track-and-trace of individual items/consignments. For 2006 TNT estimated the size of this market in Europe to be approximately €21 billion, based on analysis of available detailed data. TNT has the highest market share in Europe (17%), followed by DHL (16%), UPS (8%) and La Poste (7%).

### European Express market

Excluding intercontinental



Key value drivers for the express market can be broken down into three categories: growth, pricing, and cost. The main growth drivers for the express market are GDP growth (+), increasing globalisation of supply chains (+) and a shift to deferred services (-). Important pricing drivers are consolidation (+) and intensifying competition (-). Key cost drivers are increasing scale economies through consolidation and organic growth (+) and a potential for network optimisation (+).

There are essentially two types of express players: the four global integrators UPS, FedEx, DHL and TNT Express, and local/regional players, with standard parcel operators (often related to postal incumbents) and Less-Than-Truckload (LTL) operators as potential new sub-regional entrants.

## Express economic environment in 2007

Whilst the year 2007 showed strong economic growth at the beginning of the year, it ended with increasing uncertainties as a result of the turbulence in the financial markets and with an estimated global GDP growth just under 5%. For the transportation and express industry 2007 was a good year despite the year-end slow down and the US economy weakening. Volumes remained strong with double digit growth rates fuelled by growth from the emerging markets.

### Europe

It is estimated that Europe GDP growth in 2007 was in line with or just below 2006 at around 3%. The European express market is estimated to have grown faster than economic growth, yet modestly in comparison to the fast growing express markets in emerging markets like Asia. As a result of globalisation and export expansion the international express services are growing stronger than domestic services at double digit growth rates. Competition in the fragmented European express market intensified further in 2007, and there were signs of further market consolidation in the UK and Eastern European markets. In the mature Western European markets, the focus has been on improving efficiency, improving customer service, and expanding coverage as well as service levels. Parcel operators have continued to edge into the express market, and initiatives such as expansion of parcel shops, drop-off points and parcel stations have illustrated the perceived increased importance of the to-consumer markets.

### Asia

Economic conditions continued to be favourable in 2007 thanks to strong Chinese and Indian economic growth, which helped to boost export expansion. There was continued strong investment in the region, through acquisitions, expanded infrastructure, connectivity and enhanced services. China and India are driving growth in the regions, whilst the large Japanese market showed more moderate growth. Other markets such as South Korea, Vietnam and the rest of South-east Asia continued to attract investment and are estimated to accelerate growth and demand for express transportation.

### China

TNT's major competitors have continued to execute their long term investment strategies and expanded their product offerings by upgrading international connectivity, network

expansion, and investments in new hub facilities. They are also beginning to focus on the domestic market, although TNT with its dense network and over 1,100 depots in China continues to be far ahead of its international competitors in this area.

### India

The express sector benefited from India's further integration into the global economy and development of the domestic market. It also emerged as a competitive express market with a trend of market consolidation through strategic acquisitions. For instance, FedEx acquired Pafex, while UPS formed an alliance with AFL. Again, as in China, TNT offers a more comprehensive network for domestic services.

### Americas

As a result of the slowing US economy and uncertainties in the financial markets, the industry experienced moderate growth for domestic services. Double digit growth was however achieved by most operators from premium and international services into Europe and Asia.

### South America

In South America, there was good growth in Brazil due to the appreciation of the currency and the strong car market. However, the overall GDP growth, whilst still around 5%, was lower than in 2006, due to the other currencies' depreciation and the slowdown in the US economy, which is the main trading partner.

## Mail markets

The mail sector in Europe, in which TNT Post operates, has a market size of approximately €60 billion and is still a highly regulated domestic sector, with incumbent operators that are protected from competition in many countries through their monopolies, especially in Southern and Eastern Europe. The size of the market will continue to decline as a result of substitution of mail products by electronic products; this volume decline is most pronounced in countries where internet penetration is highest, i.e. in Northern and Western Europe. In the Netherlands, TNT estimates its market share to be approximately 88%. In other European countries its market share ranges between 1% (small countries) and 9% (United Kingdom) for addressed mail and between 7% (Germany) and 48% (small countries) for unaddressed mail.

Going forward, the attractiveness of the mail sector will depend on the level of liberalisation, which drives competitive intensity. Once liberalised, the mail business has some barriers to entry, notably economies of scale (network density) and scope, and in some cases, technology. These barriers protect incumbents to some extent, but are in principle not insurmountable, and can be mitigated by selective market approaches, gaining access to the incumbent's delivery network, and using other challenger tactics.

Once new players have entered the market, the market structure tends to be one of a universal service provider maintaining the largest share and one or more focused challengers. The increasing number of competitors, competing mainly on price and to a lesser extent on service, is likely to lead to increasingly intense competition and declining margins for the incumbent.

- In Europe, three types of mail companies can be identified:
- the incumbents: in most smaller countries they are exclusively focused on domestic activities in mail and parcels, whereas the largest ones have extended into international mail and parcel activities. Oesterreichische Post AG is the only listed company in this group. De Post (Belgium) and Post Danmark are now partly owned by private equity firm CVC. Some incumbents, such as France's Groupe La Poste and Italy's Poste Italiane, also offer financial services and own a bank.
  - challengers: they tend to focus on the "easier" market segments and less complex activities of (unaddressed) bulk mail, allowing them to deliver fewer times a week, collect electronically or in high volumes at large corporate clients, and benefit from pre-sorted volumes. From this position, they increase their service quality and frequency of pick-up, sorting and delivery step by step.
  - integrators: only TNT and Deutsche Post have extended their home mail base into global express and/or freight and contract logistics activities, as well as selected European mail markets.

Most European postal operators were converted into government owned corporations starting in 1989. Many governments are now considering privatisation of their national postal operator. In the process of privatisation there is an active interest by private equity as well as several industry players. This may result in a fundamental change in the European postal landscape and might trigger a consolidation process that will limit the number of independent postal players.

European liberalisation of the postal market is slowly taking shape. The final step of the process of gradual liberalisation in the EU will take place in 2011. A derogation is granted to 11 Member States to open their markets as of 2013. However, a level playing field is not to be expected to be established immediately after liberalisation. Barriers to competition, such as the VAT exemption many incumbents enjoy and other market distortions, like (hidden) state subsidies, licensing conditions and a generally binding high-level minimum wage (such as the one recently adopted in Germany, which is significantly higher than the general minimum wage the trade unions in Germany were demanding), continue to exist. These barriers will make it difficult for new entrants to gradually grow into a mature and profitable business model.

Closely related to this liberalisation process will be the definition of the Universal Service Obligation (USO) and its funding. A further discussion both at national and European levels on how the content of universal service is to be shaped in the future is to be expected. The VAT exemption for universal services granted to the universal service provider, which now leads to substantial market distortion in most Member States, needs close attention. Other forms of non-regulation based market distortion of full competition are closely monitored by TNT as well.

## Mail economic environment in 2007

### Mail Netherlands

TNT's Mail business in the Netherlands is highly regulated, the most important details of which are presented in chapter 10. The current Dutch Postal Act requires TNT to provide the mandatory postal services in the Netherlands at regulated prices and grants TNT the exclusive right to provide some of

these services (referred to as reserved postal services). Dutch and EU regulations prohibit TNT from using the revenues from reserved postal services to cross-subsidise non-reserved activities.

Over 50% of the Dutch mail market is accessible to competition. This is *de facto* well ahead of most other European mail markets, even of some that have already legally fully liberalised. In the liberalised part of the Dutch mail market, TNT believes there is no market distortion. This can be illustrated by two main competitors, each of which has full nationwide coverage for end-to-end mail delivery with a growing market share. TNT believes this to be unique in Europe.

In the Netherlands, TNT's two main competitors in the addressed mail market, Sandd B.V. and Selekt Mail (the latter is owned by Deutsche Post World Net and Dutch publisher Koninklijke Wegener N.V.), have both built their own nationwide delivery capability based on a delivery frequency of twice a week. TNT estimates that its competitors have delivered a total of around 800 million addressed postal items in 2007 and that their joint market share was around 12% of the total volume of the Dutch addressed mail market. TNT expects that these competitors will continue to grow.

TNT's domestic Mail business is seasonal in the sense that it is affected by public and local holiday patterns. The third quarter is traditionally TNT's weakest quarter due to the summer holiday season in the Netherlands, and the revenue in the month of December is positively impacted by the distribution of Christmas greeting cards and presents.

Due to the efficiency of TNT's operations and its customer orientation, TNT believes that in spite of liberalisation, it has and will continue to retain its leadership position in its home market the Netherlands. Adjusting to reduced mail volumes and facilitating initiatives to limit volume decline, however, will require a continuous and increased effort to realise cost flexibility in order to remain competitive and sustain TNT's stable source of revenue and income.

A notable event has been the passing of the new postal law in the Dutch Second Chamber of Parliament. The main objective was full liberalisation of the Dutch postal market in January 2008, but the final decision has been postponed given uncertainty around the true opening of the German market (i.e. level playing field). Before the new act can be implemented, the Dutch First Chamber of Parliament will have to approve it. This is now scheduled for the first quarter of 2008. The enactment date is dependent on the condition of a level playing field in real terms on the postal markets of Germany and the United Kingdom and the outcome of the negotiations with regard to the labour conditions for new entrants in the mail market. In the Dutch postal deregulation some important issues will have to be settled in lower regulation, such as tariffs for the USO, and potential network access.

### Cross-border Mail

The Universal Postal Union (UPU) is a specialised agency within the United Nations framework, responsible for the regulation of cross-border postal services. The common rules applicable to cross-border postal services are laid down in the UPU Convention and its regulations. In this Convention, the UPU has established an international system for mutual payments for the delivery of cross-border letter mail, known as the terminal dues

system. However, a significant majority of the European postal operators are party to the separate, multilateral REIMS II agreement where terminal dues are related to a higher percentage of domestic tariffs and to a certain extent to service quality as well. TNT has not entered into the REIMS II agreement but has concluded commercially oriented bilateral agreements with most of the European postal operators. The REIMS II parties plus TNT and Royal Mail have entered into negotiations with a view to concluding a market oriented "REIMS III" agreement. The negotiations have been lengthy and complicated, due to the differences in the domestic market circumstances throughout Europe. The resulting agreement, of which only minor details remain to be solved, has not been signed by TNT, Royal Mail or Correos of Spain. TNT has not signed the agreement because of the negative effects it will have on its competitive position on the Dutch cross-border mail market (export and import).

In international postal services, other than reserved postal services, TNT faces competition from other public postal operators and from a wide variety of private, internationally operating companies. Competition for these services is based primarily on price and quality of service.

### European Mail Networks (EMN)

TNT wants to be a pan-European mail distribution provider with focus on key markets in Germany and the United Kingdom and profitable niches in selected other countries. The key products will be business-to-consumer and business-to-business transactional mail, direct mail, correspondence and publications. The expansion strategy is based on capitalising on the gradual liberalisation of the European addressed mail market and takes into account the regulatory reality and competitive situations in each of the EMN countries.

Key to further expansion of EMN is the ability to attract the optimal mix of addressed and unaddressed volumes to be able to gradually grow into a mature and profitable business model, unhindered by regulatory and other market distortions such as the ones mentioned before. In this respect certain events in 2007 such as the minimum wage developments in Germany give cause for concern. For other recent developments in Germany and the United Kingdom, see chapter 4.

### Parcels

The European parcels market consists of two sub-segments with different characteristics: to-consumers (B2C) and to-business (B2B). Both segments are still mostly domestic: cross-border flows are less than 10% of total volume, but this percentage is steadily increasing. The business context for these activities is very different: the market has been fully liberalised for a number of years, competition is therefore not a new phenomenon, and volumes, especially in the B2C segment, are increasing as a result of home shopping and e-commerce.

The parcel activities of TNT Post are fully separated operationally. In the B2B segment some operators are starting to offer 2-3 day certain deliveries which approaches some economy offerings of TNT Express. TNT believes parcels to be an attractive growth opportunity, which, as a result of TNT's core understanding of the network nature of this business and the current fragmented market, offers opportunities for value creation.

## Customers

TNT strives to be a company that knows its customers extremely well – what they value, their needs and preferences – and that responds to them with tailored products and services. TNT believes that this approach delivers a sustainable competitive advantage, as no competitor can replicate the insight and knowledge that TNT has of its customers.

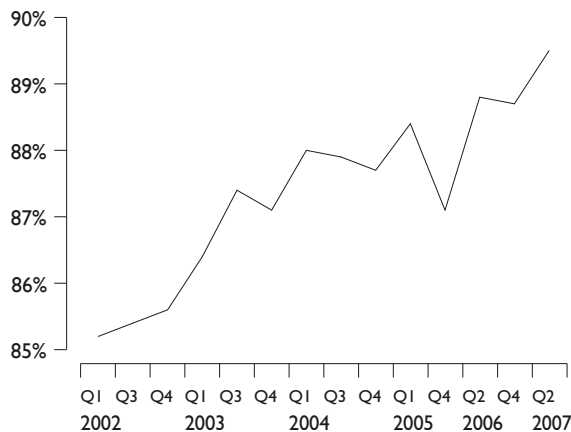
TNT aims to exceed the expectations of its customers by providing distinctive levels of customer care. TNT strives to treat its customers in a friendly and professional manner at all points of contact and is focused on improvement wherever possible. Customer needs and levels of satisfaction are therefore identified through regular contact and structured surveys and TNT takes action on their feedback. TNT encourages all of its people to go the extra mile in their dealings with customers, knowing that providing exceptional service will allow TNT to become distinctive in the market and further improve customer satisfaction and loyalty.

TNT Express measures customer satisfaction and loyalty twice a year, reaching at least 60% of the trading account base, covering all customer sizes from global to small and ad hoc customers, and covering all lines of business. The measurement relates to the key customer satisfaction drivers as stated by customers in customer forums. Satisfaction is measured for each key transaction component from the booking through to the invoicing process and is analysed independently with an external specialist provider.

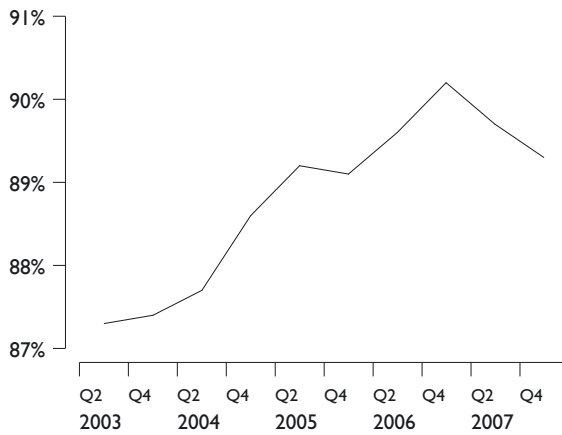
Once every quarter TNT Post conducts a customer satisfaction survey among consumers and small and medium sized enterprises served by the call centre (telephone sales). An annual survey is conducted among the larger business customers. In addition, Intomart GfK annually collects information from 13,000 customers on four customer values. The final score is calculated by taking the weight customers give to these customer values and multiplying this by the score for each value. The graph below shows the SME final score. From a management point of view this score is more relevant and reliable than the consumer score, and in addition the other scores give virtually the same picture.

The following two charts show the evolution of customer satisfaction as described above over the last few years for Express and Mail, respectively.

Customer satisfaction Express increasing



**Customer satisfaction Mail  
increasing and stabilising around 90%**



competencies to deliver performance and enable career development and personal growth. TNT engages employees to go the extra mile for its customers, enforcing its company values. As a company TNT will ensure that it rewards performance according to market practice. TNT strives for a best-in-class HR community and processes, giving the business the opportunity to attract, motivate and retain the people who deliver TNT's current and future results.

Inspiring and leading people to a desired level of performance gives excellent customer experience. The managers of TNT are expected to treat all of TNT's people with integrity and respect. They feel responsible for creating the safest possible work environment, stimulate the development of all, both professionally as well as personally, and care for their team creating a performance culture which is fun to work in. TNT will increasingly apply the same thinking to its subcontractors.

The TNT HR strategy is derived from the business strategy and includes specified areas for action based on business needs.

## Key enablers

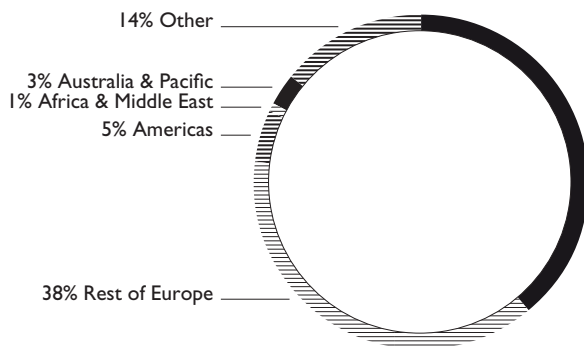
### Human resources (HR)

TNT aims to make "instilling pride in our people" a living reality. This means that every employee perceives that he or she is recognised as a valued individual and that TNT consistently supports development of his or her capabilities, skills and

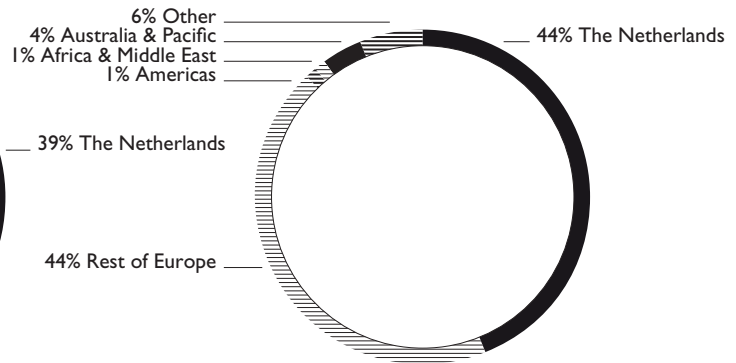
### Management development

Both TNT's customer experience and employee engagement are strongly dependent on the quality of TNT's leadership. Identifying and developing leadership potential is therefore a key building block for TNT's success. TNT uses global instruments on coaching, career development discussions, and talent reviews to ensure a vibrant pipeline of top professionals and inspiring leaders.

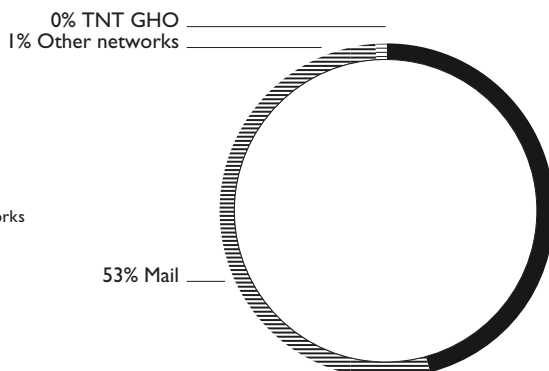
**TNT employees divided over countries  
2007 total**



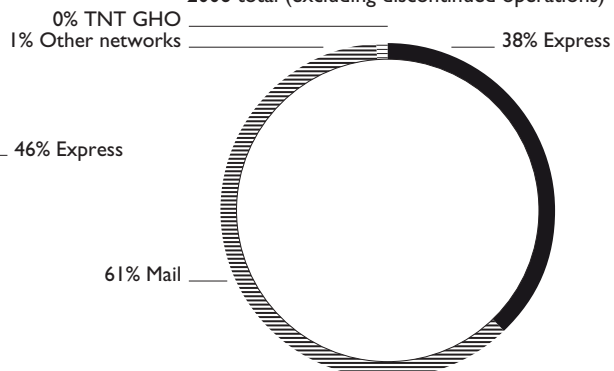
**2006 total (excluding discontinued operations)**



**TNT employees division Express / Mail  
2007 total**



**2006 total (excluding discontinued operations)**



TNT wants the profile of its leadership to be as diverse as its workforce, bearing in mind basics such as high integrity, business and delivery orientation. For this reason TNT has established graduate recruitment centres and developed impactful leadership development practices and programmes at every management level. Also, in close cooperation with business schools, TNT will continue to invest in keeping its management up-to-date in business know-how and leadership capabilities.

### Compensation and benefits

TNT aims to offer an attractive market conform remuneration package, enabling TNT to attract, retain and motivate key personnel. As the challenges of the company differ, TNT's compensation and benefits approach has a global standard recognising specific circumstances where necessary.

### Alignment people decisions with planned growth

A structured approach to employee planning is an essential part of the TNT Strategic Planning Process. In this way, TNT aims to align its people decisions with the business strategy. To be able to translate the future organisational profile into the necessary people numbers and characteristics of the future TNT workforce, an employee planning template is one of the global focus areas.

### Mobility

As mentioned, TNT Mail Netherlands has designed a large-scale efficiency project driven by decreasing mail volumes. To realise this programme, TNT Mail Netherlands aims to establish a salary package which is more in line with market practice, combined with a reduction of 6,500 employees.

The aim is to realise this reduction through regular employee turnover and voluntary mobility. TNT has put in place a series of initiatives to support employees in their search for a job outside of TNT. TNT Mobility is the organisation to which employees can turn for individual coaching, training and vacancies inside and outside the company. During 2007 more than 2,500 employees voluntarily left the company, over 50% of whom were assisted by TNT Mobility.

### Labour relations

TNT believes in employee dialogue. Trade unions and works councils therefore continue to be valuable partners. TNT's labour relations inside and outside Europe have always been strong, and as in 2006 TNT has had very few material work stoppages.

Wages and general working conditions in the Netherlands and the United Kingdom are the subject of centrally negotiated collective agreements. Within the limits established by these agreements, TNT's business units negotiate directly with unions and other labour organisations representing its employees. Collective labour agreements relating to remuneration typically have a term of one or two years. This year, TNT has an exception to this main rule as TNT extended the term of the present TNT collective labour agreement in the Netherlands to 1 April 2008.

### Employee engagement

The global engagement survey measures whether TNT is successful in increasing employment pride and motivation. In 2007, a large part of Mail Netherlands did not participate in this survey. The reorganisations under discussion within Mail Netherlands lead to uncertainty amongst employees as to what to expect in the coming period. Clarity on this situation going

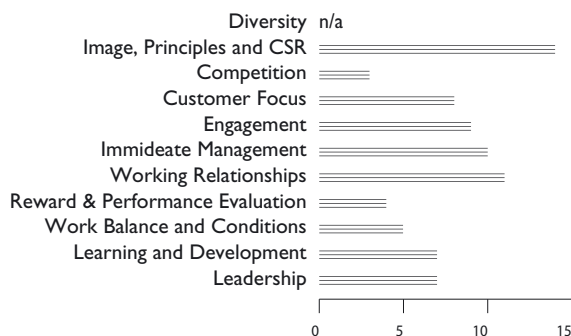
forward has to be the result of the consultations with the social partners in the first months of 2008. Mail Netherlands has therefore decided to postpone the engagement survey until such clarity is achieved. However, the Mail division still considers the engagement survey to be an important tool in the social policy and will continue to take full interest in the views of all employees, even if these reveal a negative trend. It is to be expected that the survey 2008 will again include the Mail Netherlands population. The 2006 results have been recalculated to ensure like-for-like comparison.

The company-wide engagement survey undertaken in 2007 shows again that TNT's engagement scores are clearly higher than the industry benchmark and that engagement within TNT is driven by Image, Principles and CSR, Leadership, and Working Relationships (see table below). The 2007 Global Engagement Survey results show an overall increase of engagement to a level of 76%.

Most important findings include:

- TNT's engagement scores are higher than in 2006,
- TNT's people experience TNT as a special place to work as it visibly and authentically engages with the world around, and
- people development and encouraging teamwork by the direct supervisor remain powerful drivers for engagement. Therefore, recruitment and promotion of the most competent people remain key.

### Benchmark TNT — TP ISR Global Logistics Companies Norm



### Health and safety

As a global transport operator, TNT is faced with a myriad of health and safety regulations in the countries in which it operates. TNT management is committed to improving safety by making it management's top priority and implementing best practices in safety management, processes, systems, tools and training.

TNT's guiding principles are to:

- provide injury-free, incident-free workplaces,
- foster a culture of prevention where TNT seeks to prevent all work-related disabilities and health problems,
- control and minimise risks associated with TNT's facilities, vehicles and aircraft as well as risks associated with its products and packaging,
- continuously evaluate and improve TNT's practices, processes and service offerings to make them safe and acceptable to employees, customers, and the public,
- report health and safety incidents resulting in fatalities and serious injuries to the Board of Management within defined time limits, and
- achieve certification with Occupational Health and Safety Standard (OHSAS 18001) in all operating units.

TNT's Board of Management is committed to meeting and, where possible, exceeding the minimum standards of health and safety and is also committed to maintaining a safe working environment. The Board of Management has provided adequate resources and has established measurable objectives and targets to maintain and continually improve TNT's health and safety performance.

Road safety is a crucial part of TNT's health and safety management systems, and the Board of Management is committed to minimising road related accidents and risks by implementing best practice tools and techniques into all TNT's

Year ended at 31 December

#### Health & Safety

	2007	2006	2005
Workplace fatalities	1	1	1
Blameworthy road traffic fatalities with a TNT employee involved	5	1	5
Non-Blameworthy road traffic fatalities with a TNT employee involved	2	2	2
Road traffic fatalities with a subcontractor involved	34	11	14

32 of the 42 reported fatalities in 2007 occurred in the newly acquired companies in China, India, and Brazil, where standards and legislation governing road safety are lower than those of TNT's established entities and locations. The Board of Management finds this unacceptable and is committed to ensuring that all efforts are made to minimise the risks to TNT's employees and subcontractors (and other road users) by ensuring that the fleet of vehicles is safe and well maintained and that TNT's drivers and subcontracted drivers are fit and qualified to operate the vehicles. The Board of Management also acknowledges that accidents do happen and ensures that when they do, they are fully investigated and any lessons learned are implemented immediately.

## Brand

TNT believes it is now a highly relevant, high esteem brand for its customers in the Netherlands. Outside the Netherlands and especially outside Europe, TNT, as many other brands in delivery services often regarded as low-end still faces insufficient differentiation. Therefore from 2008 onwards, TNT will better articulate what makes TNT unique, both internally as well as externally.

TNT has a strong corporate culture to leverage from, with employees proud to be part of TNT and strongly believing in the goals and objectives of the company. After the rebranding in 2006, the entire organisation has become remarkably orange both on the inside and the outside.

TNT positions its brand in a way that best describes its 'heart and soul': TNT is a global express and mail company that approaches its work with one simple attitude, an attitude of 'can-do'. This attitude makes TNT the partner of choice for customers who want items, be it a few or a million, moving from A to B reliably, rapidly and without concern. This attitude is however bigger than A to B. It matches TNT's customer experience focus and makes TNT a valuable partner for the world, for which it feels responsibility. This positioning will support TNT in entering new markets and attracting the customers and employees it wants.

Consistent application of TNT's brand architecture or hierarchy, consisting of a master brand supported by divisional, business or legal descriptors, enables TNT to deal successfully with divisions and business units operating in very different but still related markets.

activities and setting high but attainable standards for all TNT countries worldwide. The framework for achieving and maintaining these objectives is through the management approach of certifying all TNT's entities to the OHSAS 18001. However, during 2007 the sharp increase in reported fatalities as a result of road traffic accidents, particularly evident in the emerging markets in which TNT has newly acquired business, has raised serious concerns with the Board of Management.

The number of workplace and road traffic related fatalities is shown in the table below.

For all of TNT's recent acquisitions, a clear transition programme is in place. Dependent on the specific situation, TNT will either leave in place the existing local brand for the near future, co-brand or quickly fully rebrand to TNT.

## Social Responsibility (SR)

TNT's mission states among other things that TNT seeks to share responsibility for the world in which it operates. TNT benefits from globalisation and the increase in international flows of goods that is a result. As distances between the continents shrink, all inhabitants of this planet are becoming neighbours. This means the problems of the developing nations are also the problems of the industrialised part of the world, which creates a responsibility TNT feels as a company.

The Board of Management is actively involved in developing SR policies across the company, including setting SR targets for management and linking them to their incentive schemes.

TNT is convinced that any actions a company undertakes to help address a major problem in the world can be a source of pride for its employees, as well as having a positive influence on a company's reputation. These are vital factors for a company in a services industry, where success is a direct result of employees' engagement and customers' trust.

TNT is in ongoing dialogue with all stakeholders. Their views and demands influence the way TNT develops its business. In recent dialogues TNT has seen a shift in emphasis towards health and safety, the environment, responsible corporate citizenship and sustainability.

In 2007 TNT was externally recognised for its efforts in sustainability and SR: TNT achieved the leadership position in its super sector in the DJSI, with the highest score of any company in this Index.

### Implementing international standards

Implementing international standards is the basis of TNT's SR strategy and its activities in this field. Its strategy is clear: TNT improves its performance as a responsible employer through the implementation of a set of five standards and management systems: ISO 9001 (quality), ISO 14001 (environment), OHSAS 18001 (health & safety), SA 8000 (labour standards and personnel rights, only in non-OECD countries) and Investors in People (training and employee development).

**Certificates (% based on FTEs)**

	2007	2006	2005
OHSAS 18001	87%	82%	23%
Investor in People (based on headcount)	83%	79%	82%
SA 8000	98%	48%	5%
ISO 9001	91%	80%	77%
ISO 14001	88%	65%	52%

Newly acquired companies are excluded from the challenge of full certification for a three year period. For 2007, Hoau, Speedage and Mercúrio are excluded.

Implementing these systems allows TNT to work in a structured manner on continuously improving its performance in these areas: it provides TNT with good quality data and clear key performance indicators (KPIs), as well as evaluation and benchmarking processes. TNT nearly completed the implementation in 2007. In 2008 TNT will continue to integrate these KPIs into its management's incentive schemes.

There are still challenges: the companies TNT acquired in China, India and Brazil will have to work hard to be able to meet TNT's standards within three years after the acquisition date. Another challenge is TNT's subcontractors. They are involved in a substantial part of TNT's revenues, yet for many of them implementation of TNT's standards could be a burden because of the limited size of their operations or cost issues. However, TNT will stimulate them to start reporting on TNT's key KPIs in SR.

Improving the industry

TNT sees a clear interest in improving the sustainability performance of the transportation industry as a whole. To contribute to this, TNT actively participates in the Logistics & Transport Sustainability Group (LTSG) of the World Economic Forum. TNT uses the results of its stakeholder dialogues as input for its discussions with its competitors. TNT attempts to reach agreement on sustainability KPIs that all members of the LTSG will report on and on one approach towards subcontractors, so customers will be able to benchmark TNT's industry's sustainability performance.

Differentiating ourselves

TNT's SR strategy also aims to differentiate TNT through inspiring initiatives on responsible corporate citizenship.

The first of these initiatives is TNT's partnership with the United Nations' World Food Programme (WFP). TNT has been an active partner of WFP, the world's largest humanitarian aid agency, for five years now. During this time TNT has committed its knowledge, skills and resources to helping WFP. Over this period, TNT has invested €38 million in the partnership. In addition, fundraising by TNT's employees added €9 million to the partnership. An evaluation shows that the partnership has fulfilled its objectives to different degrees:

- improving logistics efficiency: results are mixed, but the implementation rigidity is improving and the recipe for achieving more impact is now better understood,
- saving and improving lives: flagship initiatives such as the volunteer programmes 'School Feeding' and 'Emergency Operations' have helped thousands and resulted in more than the symbolic target of one beneficiary per TNT employee,

- funding: the performance on raising cash funds is solid; joint results in terms of raising WFP's private sector fundraising capabilities are impressive, and
- reputation building: TNT's external reputation score and internal employee satisfaction levels were boosted as a result of the partnership.

More broadly stated, the partnership positively influenced management rigour at WFP and provided an additional sense of purpose to TNT. Based on the evaluation and constructive discussions with WFP, TNT has recently re-stated its commitment to WFP, thereby confirming TNT's decision to continue the partnership.

Planet Me, the second initiative and launched in January 2007, is a CO<sub>2</sub> reduction programme. Climate change may be the biggest challenge the world is facing today. Most scientists agree climate change is caused by the increased emission of greenhouse gases, mostly CO<sub>2</sub>. As transportation is responsible for 18% of total CO<sub>2</sub> emissions in the world, TNT feels that it has a special responsibility in this regard to pro-actively minimise the impact of its operations.

TNT's stakeholders are involved as well. TNT anticipates legislation that will enforce greener transportation. TNT also increasingly sees restrictions being created to stimulate clean inner city distribution, for instance in London, but also in Rotterdam and in other cities. Since TNT's services are part of their supply chain, customers demand that TNT increases the transparency of its CO<sub>2</sub> footprint (per customer, per parcel, per route) and again, that TNT improves its relative and absolute performance. This will over time become a qualifier for the licence to operate for both TNT and the industry.

Planet Me consists of three projects: Count Carbon, Code Orange and Choose Orange.

Within Count Carbon, TNT will install a consistent model and process to manage, measure, and report on CO<sub>2</sub> throughout TNT. TNT's operational commitment is called Code Orange. TNT is working hard to reduce CO<sub>2</sub> emissions in every segment of its operations. To achieve this TNT is in the process of formulating a set of practices. The third and most innovative part of TNT's initiative is the way in which it wants to involve its employees in TNT's CO<sub>2</sub> reduction efforts. TNT wants to strike a deal with its people: TNT will show them what TNT as a company is doing and then TNT wants to challenge them to take this approach at home as well. This approach TNT calls Choose Orange.

In 2007, TNT total CO<sub>2</sub> footprint including acquisitions and subcontractors is almost 2,500 kilotonnes. In the table hereafter we excluded the acquisitions and subcontractors emissions for comparability reasons.

Year ended at 31 December

<b>Environment</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
CO <sub>2</sub> emission / revenue (tonnes CO <sub>2</sub> / € 1,000)	0.17	0.14	0.12
CO <sub>2</sub> emission absolute (ktonnes)	1,019.2 <sup>1</sup>	825.6	715.2
Sustainable electricity (% of total electricity)	11.0%	9.8%	3.5%

<sup>1</sup> — Excluding Expresso Mercúrio S.A., Huayu Hengye Logistics Company Limited, ARC India Private Ltd. and excluding subcontractors

### Integrity

In January 2006, TNT's Board of Management launched the TNT Integrity Programme and senior management took on the responsibility for the roll-out of the Programme.

TNT's Integrity Programme consists of four parts: guidance, awareness and compliance, embedding, and monitoring.

Guidance is set out in the TNT Business Principles which have been formally adopted and approved by the Board of Management and Supervisory Board. The TNT Business Principles, together with other integrity-related group policies and procedures are published on TNT's corporate website. These group policies deal with topics such as compliance with laws and regulations, accurate and timely disclosure, transparency, equal opportunities, fair treatment, conflict of interest, corruption, fair competition, and social responsibility. Among TNT's integrity-related group policies and procedures are the TNT Group Policy on Whistleblowing and the TNT Group Policy on Disciplinary Actions. The latter policy makes clear that non-compliance with TNT's group policies will not be tolerated.

Awareness and compliance are enhanced by communication and web-based and interactive training. Interactive integrity workshops have been held for senior and higher management in all parts of the world. Senior managers, on the basis of the "train the trainer" principle, thereafter cascade this training and communication down into their organisations, thus fulfilling their responsibility for the roll-out of the Integrity Programme.

The TNT Business Principles and related group policies are being embedded in TNT's strategic and operational decision processes. See for more details chapter 6 under Controls and procedures.

The TNT Integrity Programme is monitored in several ways. See for more details chapter 6 under Controls and procedures.

TNT's score for its approach to Codes of Conduct and Compliance in the Dow Jones Sustainability Index was 100%. TNT is, of course, proud of this recognition, and will continue to devote its energies to the roll-out of its Integrity Programme in order to further enhance its strong ethical culture.

# Revenues and earnings group

## Group consolidated results

Year ended at 31 December

<b>Consolidated group results</b>	<b>2007</b>	<b>variance %</b>	<b>2006</b>
Total operating revenues	11,017	9.5	10,060
Other income	75	15.4	65
Total operating expenses	(9,900)	(11.9)	(8,849)
<b>Total operating income</b>	<b>1,192</b>	<b>(6.6)</b>	<b>1,276</b>
as % of total operating revenues	10.8		12.7
Net financial expense	(94)	100.0	(47)
Income taxes	(316)	20.0	(395)
Results from investments in associates	1	116.7	(6)
<b>Profit for the period from continuing operations</b>	<b>783</b>	<b>(5.4)</b>	<b>828</b>
Profit/(loss) from discontinued operations	206	231.2	(157)
<b>Profit for the period</b>	<b>989</b>	<b>47.4</b>	<b>671</b>
Attributable to:			
Minority interests	3	200.0	1
<b>Equity holders of the parent</b>	<b>986</b>	<b>47.2</b>	<b>670</b>
Earnings per ordinary share (in cents) <sup>1</sup>	257.4	61.6	159.3
Earnings per diluted ordinary share (in cents) <sup>2</sup>	256.1	62.0	158.1

(in millions, except percentages and per share data)

1 — In 2007 based on an average of 383,028,938 of outstanding ordinary shares (2006: 420,701,641). See note 32.

2 — In 2007 based on an average of 385,071,986 of outstanding ordinary shares (2006: 423,859,222). See note 32.

In 2007, TNT had total operating revenues of €11,017 million (2006: 10,060). TNT's Express division accounted for 59.5% (2006: 57.2%) of TNT's group operating revenues and 50.3% (2006: 43.9%) of TNT's group operating income. TNT's Mail division accounted for 38.4% (2006: 40.4%) of TNT's group operating revenues and 52.5% (2006: 59.6%) of TNT's group operating income.

Total operating revenues increased by 9.5% in 2007 compared to 2006. Operating income decreased by 6.6%, mainly due to restructuring costs of €110 million for the efficiency projects that TNT's Mail division intends to start in 2008 to standardise the collection, preparation, and delivery of mail as much as possible.

On 30 October 2006, TNT announced the decision to divest its freight management business. TNT's freight management business is therefore reported as discontinued operations/assets held for sale. On 16 November 2006, TNT signed a Sale and Purchase Agreement to sell its freight management business unit to the French logistics service provider Geodis SA. On 5 February 2007 the sale was completed. In the statement of income for 2007 a profit on discontinued operations of €206 million is reported which represents the book gain on the transaction. The result for the period for the discontinued freight management business from 1 January 2007 up to 5 February 2007 amounted to zero.

In 2006 the loss from discontinued operations was €157 million and related to the discontinued logistics and freight management businesses. The loss from discontinued operations relates to

both the result for the period and the post-tax result on the actual disposal of the asset held for sale.

### Key factors

Key factors that affect TNT's financial results include:

- the volumes of mail TNT delivers,
- the number of shipments transported through TNT's networks,
- the mix of services TNT provides to its customers,
- the prices TNT obtains for its services,
- the average number of working and delivery days in a year,
- the speed of TNT's network expansion,
- TNT's ability to manage TNT's capital expenditures,
- operating expenses,
- TNT's ability to match its operating expenses to shifting volume levels, and
- TNT's ability to integrate acquisitions.

TNT's Express and Mail businesses provide services to customers and account for revenues for those services on a daily basis. Results of operations are therefore influenced by the average number of working and delivery days in a year.

TNT uses total revenues, i.e. net sales plus other operating revenues, to assess the performance of its business. TNT believes that other operating revenues, which consist primarily of rental income from temporarily leased-out property and passenger/charter revenues, are a recurring element and TNT allocates them to its businesses when reviewing their performance.

TNT attributes revenues and expenses to its businesses based on the underlying nature of the transaction that gave rise to the revenue or expense and the business involved. TNT calls revenues and expenses that it does not allocate to businesses "non-allocated". These revenues or expenses occur at the group level, and TNT does not consider them part of the businesses operations. This method of allocating revenues and expenses is consistent with how TNT internally manages its businesses.

Year ended at 31 December

<b>Operating revenues by segment</b>	<b>2007</b>	<b>variance %</b>	<b>2006</b>
Express <sup>1</sup>	6,551	13.8	5,758
Mail	4,234	4.2	4,065
Other networks <sup>1</sup>	256	0.0	256
Non-allocated and inter-company	(24)	(26.3)	(19)
<b>Total operating revenues</b>	<b>11,017</b>	<b>9.5</b>	<b>10,060</b>

(in millions, except percentages)

<sup>1</sup> – Comparative figures have been adjusted to reflect the transfer of Innight from Express to Other networks in 2007.

Year ended at 31 December

<b>Other income by segment</b>	<b>2007</b>	<b>variance %</b>	<b>2006</b>
Express <sup>1</sup>	9	125.0	4
Mail	64	10.3	58
Other networks <sup>1</sup>	2	0.0	2
Non-allocated	0	0.0	1
<b>Total other income</b>	<b>75</b>	<b>15.4</b>	<b>65</b>

(in millions, except percentages)

<sup>1</sup> – Comparative figures have been adjusted to reflect the transfer of Innight from Express to Other networks in 2007.

Year ended at 31 December

<b>Operating income by segment</b>	<b>2007</b>	<b>variance %</b>	<b>2006<sup>1</sup></b>
Express	599	7.0	560
Mail	626	(17.7)	761
Other networks	11	57.1	7
Non-allocated	(44)	15.4	(52)
<b>Total operating income</b>	<b>1,192</b>	<b>(6.6)</b>	<b>1,276</b>

(in millions, except percentages)

<sup>1</sup> – Figures have been adjusted to reflect both the revised allocation of the non-allocated costs using actual incurred costs in 2007 as well as the transfer of Innight from Express to Other networks in 2007.

## Group operating revenues

Total operating revenues increased by €957 million (9.5%) to €11,017 million in 2007 compared to 2006. TNT's Express business contributed €793 million and TNT's Mail business contributed €169 million to this growth.

Organic growth, defined as the growth calculated against 2006 foreign exchange rates and excluding the effect from the first time consolidation of acquisitions and the deconsolidation of

disposals, was responsible for 6.0% of total group operating revenues growth. The consolidation effect from acquisitions and deconsolidation effect from disposals accounted for 3.9%. Unfavourable changes in foreign exchange rates negatively impacted the revenue growth by 0.4%.

TNT's Express business achieved 13.8% higher operating revenues compared to 2006. The improved performance is broadly based across the continents, but mainly due to

continued growth in TNT's international businesses as well as special services and further supported by acquisitions. Express operating income increased by 7.0%, primarily due to substantial volume growth, particularly in the international business across all customer segments, and effective cost control, including further network optimisation and continued yield improvements. The operating income growth included significant integration and start up costs for recent acquisitions in line with expectations.

In TNT's Mail business, operating revenues increased by 4.2% in 2007, mainly due to substantial volume growth in addressed European Mail Networks and partly offset by the continued volume decline in addressed Mail Netherlands. The latter volumes continued to decline due to competition and substitution. The volume decline impact on revenue and operating income in Mail Netherlands was mitigated by price effects due to the tariff increase as of 1 January 2007.

## Group operating expenses

Year ended at 31 December

<b>Operating expenses</b>	<b>2007</b>	<b>variance %</b>	<b>2006</b>
Cost of materials	423	3.4	409
Work contracted out and other external expenses	4,806	15.5	4,160
Salaries and social security contributions	3,608	6.6	3,384
Depreciation, amortisation and impairments	349	9.7	318
Other operating expenses	714	23.5	578
<b>Total operating expenses</b>	<b>9,900</b>	<b>11.9</b>	<b>8,849</b>

(in millions, except percentages)

Total operating expenses increased by €1,051 million (11.9%) to €9,900 million in 2007 compared to 2006. Overall, the organic growth in operating expenses was 7.5%. Included in the total operating expenses is an amount of €110 million which has been provided for the restructuring cost of the efficiency projects that TNT's Mail division intends to start in 2008 in order to standardise the collection, preparation and delivery of mail as much as possible. After coordinating with the trade unions and works councils, TNT has decided that the employees who are subject to these efficiency measures can make use of the provision of the collective mobility agreement. This social plan comprises a wide range of measures making it possible to carry out the planned reduction in the number of employees in a socially responsible manner.

In addition, included in the total operating expenses is an amount of €28 million, including an amount of €5 million for impairment of various assets, relating to the cost of downsizing and transferring the onerous UK Parcel contract underlying related operations of TNT's Mail division to Parcelnet Ltd.

The net increase due to acquisitions realised during 2006 (including JD Williams & Company Ltd, Trespertrans S.L. (TG+), Speedage Express Cargo Services) and realised in 2007 (including Expresso Mercúrio SA (Mercúrio) and Hoau Group of China (Hoau)) was 4.8%. Changes in foreign exchange rates had a positive (lowering) effect of 0.4%.

Total cost of materials increased by €14 million (3.4%) in 2007 compared to 2006. Organically, cost of materials increased by €7 million (1.7%) in 2007, mainly due to higher fuel costs in TNT's Express division. The net effect of acquisitions and disposals realised during 2006 and in 2007 was an increase of €9 million (2.2%).

Work contracted out and other external expenses relate to fees paid for subcontractors, external temporary staff, rent and leases. Total work contracted out and other external expenses increased by €646 million (15.5%) in 2007 compared to 2006.

The net effect of acquisitions and disposals realised during 2006 and in 2007 contributed €226 million (5.4%) in 2007 to the increase. The organic increase of €444 million (10.7%) was mainly related to higher linehaul, pick-up, and delivery costs in TNT's Express business to service the higher volumes and improve the quality of service, inclusive of the higher fuel costs from commercial linehaul and subcontractors. It is, furthermore, primarily related to the volume growth of European Mail Networks in TNT's Mail business. The increase was partly offset by adverse changes in foreign exchange rates of €25 million (0.6%).

Salaries, pensions and social security contributions increased by €224 million (6.6%) in 2007 compared to 2006. Acquisitions realised during 2006 and in 2007 contributed €101 million (3.0%) to the increase. Salaries, pensions and social security contributions increased organically by €131 million (3.9%) mainly as a result of restructuring costs of €110 million for the efficiency projects that TNT's Mail division intends to start in 2008 to standardise the collection, preparation, and delivery of mail as much as possible and acquisitions realised during 2006 and in 2007. The increase in salary costs due to wage increases in accordance with collective labour agreements are offset by lower pension expenses in 2007 and by a reduction of average full-time employee equivalents (FTEs) in the Mail division in connection with TNT's continuous actions to offset lower volumes with efficiency measures. The trend of replacing more expensive labour with less expensive labour to reduce operating costs in TNT's Mail division also continued in 2007. The increase was partly offset by adverse changes in foreign exchange rates of €8 million (0.2%).

Depreciation, amortisation and impairments increased by €31 million (9.7%) compared to 2006. The organic increase as a result of capital investments amounted to €10 million (3.1%), and include a €5 million impairment in TNT's UK Parcel operations. The net effect of acquisitions and disposals realised during 2007 and 2006 increased these costs by €22 million (6.9%), of which €9 million relates to amortisation on intangible assets of acquisitions done in 2007.

Other operating expenses included items such as marketing expenses, other restructuring costs, insurance costs and various other operating costs. Other operating expenses increased by €136 million (23.5%) in 2007 compared to 2006, mainly due to the acquisitions in TNT's Express division as well as the growth in TNT's European Mail Network business. Other operating expenses increased organically by €77 million (13.3%) in 2007, mainly due to the €23 million cost of downsizing and transferring the onerous UK Parcel contract underlying related operations of TNT's Mail division to Parcelnet Ltd. The net effect of acquisitions and disposals realised during 2007 and 2006 increased these costs by €63 million (10.9%).

## Group operating income

Total operating income for the group was €1,192 million in 2007, a decrease of 6.6% compared to 2006. TNT's Express business contributed €599 million to the total operating income, which is an increase of 7.0% compared to 2006. TNT's Express business is further described in chapter 3. TNT's Mail business operating income decreased by 17.7% to €626 million, on balance largely due to €110 million restructuring costs for Master Plans and is further described in chapter 4.

Operating revenues in TNT's business entity Other networks remained stable compared to 2006 and amounted to €256 million. Operating income increased with 57.1% from €7 million in 2006 to €11 million in 2007. This increase was mainly caused by various cost reduction programmes.

In 2007, non-allocated operating costs amounted to €44 million (2006: 52). Included in these costs is €13 million (2006: 14) for business initiatives, which mainly relates to investigations to optimise TNT's network strategy introduced in 2005 and costs relating to an initiative to further drive value "below the line". Cost made to support the World Food Programme (WFP) and Planet Me amounted to €10 million (2006: 8). Included in the cost for WFP are costs for knowledge transfer, hands on support, raising awareness and funds for the World Food Programme including cash donations. Planet Me is a TNT initiative to have an active contribution to reduce CO<sub>2</sub> emission to avoid further global warming. The other cost were €21 million (2006: 30), which represent a decrease of €9 million which mainly relates to lower costs for tax investigations.

Acquisitions to expand TNT's Express and European Mail Networks realised during 2006 and in 2007 had an adverse effect of €22 million (1.7%) on TNT's operating income in 2007. Foreign currency movements during the year had in total no effect on TNT's operating income.

## Group financial income and expenses

Year ended at 31 December

<b>Net financial (expense)/income</b>	<b>2007</b>	<b>variance %</b>	<b>2006</b>
Interest and similar income	97	(51.3)	199
Interest and similar expenses	(191)	22.4	(246)
<b>Net financial expense</b>	<b>(94)</b>	<b>(100.0)</b>	<b>(47)</b>

(in millions, except percentages)

Interest and similar income of €97 million (2006: 199) mainly relates to interest income on bank accounts, loans and deposits of €69 (2006: 109) million, of which €58 million (2006: 93) relates to a gross up of interest on cash pools (fully offset by an equal amount in interest expenses), interest income on funding TNT's discontinued business of €1 million (2006: 73), and interest income of €8 million (2006: 15) relating to outstanding hedges or fair value adjustments.

Interest and similar expense of €191 million (2006: 246) mainly relates to interest expenses on short term debt of €79 million (2006: 117), of which €58 million (2006: 93) relates to a gross up of interest on cash pools (fully offset by an equal amount in interest income), interest expense on long term debt of €75 million (2006: 52), interest on funding TNT's discontinued business of €0 million (2006: 21) and hedge income of €21 million (2006: 31) relating to outstanding hedges or fair value adjustments.

## Group income taxes

Year ended at 31 December

<b>Income taxes</b>	<b>2007</b>	<b>variance %</b>	<b>2006</b>
Current tax expense	269		396
Changes in deferred taxes	47		(1)
<b>Total income taxes</b>	<b>316</b>	<b>(20.0)</b>	<b>395</b>

(in millions, except percentages)

Group income taxes amounted to €316 million (2006: 395), a decrease of 20.0% compared to 2006.

Income taxes differ from the amount calculated by multiplying the Dutch statutory corporate income tax rate with the income before income taxes. In 2007, the effective income tax rate was 28.8% (2006: 32.3%), which is higher than the statutory corporate income tax rate of 25.5% in the Netherlands (2006: 29.6%). This difference is caused by several opposite effects. For further details, see note 23 of TNT's consolidated financial statements.

## Discontinued operations

In 2007, the gain from discontinued operations was €206 million and related to the discontinued freight management businesses. The gain from discontinued operations relates to both the result for the period and the post-tax result on the actual disposal of the asset held for sale.

## Group net income

In 2007, profit for the period attributable to the equity holders of the parent was €986 million, an increase of €296 million (47.2%) compared to 2006. This increase was mainly the result of an increase in the result from discontinued operations of €363 million offset by a decrease in operating income of €84 million mainly due to restructuring costs in the Netherlands in TNT's Mail division.

## Net assets and financial position group

	2007	variance %	2006
<b>BALANCE SHEETS</b>			
Non-current assets	4,823	12.8	4,277
Current assets	2,252	6.1	2,122
Assets held for sale	10	(97.6)	409
<b>Total assets</b>	<b>7,085</b>	4.1	<b>6,808</b>
Equity	1,951	(2.8)	2,008
Non-current liabilities	2,232	5.7	2,112
Current liabilities	2,902	14.2	2,542
Liabilities related to assets classified as held for sale			146
<b>Total liabilities and equity</b>	<b>7,085</b>	4.1	<b>6,808</b>
Net return on equity <sup>1</sup> (%)	50.5		33.4
Equity as % of total liabilities and equity	27.5		29.5
<b>CASH FLOW STATEMENTS CONTINUING OPERATIONS</b>			
Net cash from operating activities	643	(25.0)	857
Net cash used in investing activities	(8)	(100.7)	1,068
Net cash used in financing activities	(635)	70.5	(2,152)
<b>Changes in cash and cash equivalents</b>	<b>0</b>	100.0	<b>(227)</b>
<b>CASH FLOW STATEMENTS DISCONTINUED OPERATIONS</b>			
Net cash from operating activities	(19)	69.8	(63)
Net cash used in investing activities	4	113.3	(30)
Net cash used in financing activities	16	(55.6)	36
<b>Changes in cash and cash equivalents</b>	<b>1</b>	101.8	<b>(57)</b>

(in millions, except percentages)

1 — The profit attributable to the shareholders as a percentage of the total equity.

## Off-balance sheet items

TNT has no off-balance arrangements other than disclosed in note 29 to its consolidated financial statements.

Cash and cash equivalents (excluding discontinued operations) totalled €295 million at 31 December 2007 (€297 million 31 December 2006).

## Cash flow data

### Liquidity and capital resources

The company's capital resources include funds provided by TNT's operating activities and capital raised in the financial markets.

The following table provides a summary of cash flows from continuing operations:

Year ended at 31 December	2007	variance %	2006
Cash generated from operations	1,313	(1.9)	1,338
Interest paid	(178)	10.6	(199)
Income taxes paid	(492)	(74.5)	(282)
<b>Net cash from operating activities</b>	<b>643</b>	<b>(25.0)</b>	<b>857</b>
Net cash used for acquisitions and disposals	177	(85.9)	1,256
Net cash used for capital investments and disposals	(284)	9.3	(313)
Net cash used for other investing activities	99	(20.8)	125
<b>Net cash used in investing activities</b>	<b>(8)</b>	<b>(100.7)</b>	<b>1,068</b>
Net cash used for dividends and other changes in equity	(979)	50.5	(1,977)
Net cash from debt financing activities	344	296.6	(175)
<b>Net cash used in financing activities</b>	<b>(635)</b>	<b>70.5</b>	<b>(2,152)</b>
<b>Changes in cash and cash equivalents</b>	<b>0</b>		<b>(227)</b>

(in millions, except percentages)

### Net cash from operating activities

The net cash from operating activities decreased by €214 million from €857 million in 2006 to €643 million in 2007, which is mainly due to significantly higher tax payments in 2007.

Cash generated from operations decreased with €25 million due to a lower profit before tax adjusted for non-cash movements of €38 million partly offset by a decrease in working capital of €13 million. In 2007, the net working capital increased by €77 million (2006: 90) The increase in 2007 is mainly a result of organic growth and acquisitions within the Express and EMN business.

The total cash out flow for interest paid in 2007 is €178 million. In 2007 interest paid mainly includes interest on TNT's long term borrowings of €67 million, interest payments of €76 million relating to short term debt, interest paid on foreign currency hedges of €17 million and interest paid on taxes of €11 million.

The cash outflow of the total tax payments amount to €492 million (2006: 282), of which €166 million related to prior years.

### Net cash used in investing activities

The total net cash used in investing activities amounts to -€8 million (2006: 1,068).

The net cash used for acquisitions and disposals of €177 million mainly relates to the received cash proceeds of €486 million

following the sale of the freight management business and payments for acquisitions of group companies of €287 million for the most significant acquisitions of Mercúrio (€147) and Hoau (€114) in 2007. In 2006, the net cash used for acquisitions and disposal was largely impacted by the proceeds obtained from the logistics business of €1,335 million.

Net cash used for capital investments and disposals relates to net capital expenditures on property, plant and equipment of €272 million (2006: 277) and intangible assets of €97 million (2006: 103) and proceeds obtained from the sale of buildings and equipment in 2007 of €85 million (2006: 65). The net expenditures on property, plant and equipment relate mainly to investments in depots, fleet replacements and investments in TNT's network and exclude the purchase of a Boeing 747 of €110 million which is funded by means of a finance lease.

The net cash used for other investment activities mainly relates to interest (€85 million) and dividends received (€13 million).

### Net cash used in financing activities

In 2007, dividends of €298 million (2006: 282) were paid, being the final cash dividend over 2006 of €183 million and cash interim dividend for 2007 of €115 million. Together with the cash paid relating to share buy-back programmes of €710 million (2006: 1,747) and received cash payments for the exercise of employee stock options of €29 million (2006: 52), the total net cash used for dividends and other changes in equity amounted to €979 million (2006: 1,977).

The net cash from debt financing activities amounted to €344 million and mainly relates to the proceeds on long term borrowings following the newly issued 5.375% Bond 2017 of €645 million and newly acquired short term bank debt of €99 million off set by repayments on TNT's commercial paper programme of €287 million and short term bank debt of €45 million.

#### Detailed information on capital expenditures and proceeds

Year ended at 31 December	2007	variance %	2006
Property, plant and equipment	272	(1.8)	277
Other intangible assets	97	(5.8)	103
	<b>cash out</b>		
	<b>369</b>	(2.9)	<b>380</b>
Proceeds from sale of property, plant and equipment	85	30.8	65
Disposals of other intangible assets	0		2
	<b>cash in</b>		
	<b>85</b>	26.9	<b>67</b>
<b>Netted total</b>	<b>284</b>	(9.3)	<b>313</b>

(in millions)

#### Capital expenditures projection for 2008

The total projected 2008 capital expenditures on property, plant and equipment and other intangible assets for TNT's divisions is estimated to be €450 million, which is expected to be spent on similar types of property, plant and equipment and other intangible assets as in 2007. TNT believes that the net cash provided by its operating activities will be sufficient to fund the other capital expenditures.

#### Performance evaluation and outlook 2007

Business and financial performance over the year 2007 has been in line with the outlook as provided for the group. Taking into account the impact of the special item of €110 million provision for Master Plans in Mail, TNT shows an underlying performance on record levels in its operation, with profit from continuing operations increasing to €865 million.

The proposal to increase dividend per share over 2007 with 16.4% reflects the confidence of the Board of Management in the strengths of TNT's performance. The increase results from an increased pay-out to 36.7% (2006: 35.1%) of normalised net income and a lower amount of eligible shares due to share buy-back programmes realised. The total proposed dividend over 2007 of €316 million is an increase of 8.2% compared to 2006.

#### Outlook 2008

The outlook for 2008 is structured to enable specific insight in the development of TNT's established businesses and emerging platforms.

Express is expected to show a high single digit organic revenue growth in International and Domestic, with a low double digit operating margin. The Express Emerging Platforms are expected to deliver organic revenue growth in the high teens, with a low single digit operating margin.

Mail is expected to show a low single digit organic revenue increase overall, with an operating margin around 16.5%. Emerging Mail and Parcels (excluding EMN Germany), as part of Mail, is expected to achieve a low double digit organic revenue increase, with a high mid single digit operating margin.

So far, TNT sees no evidence of a major slowdown in its business, which primarily is focused on European markets. TNT is, however, aware of the risks arising from a possible recession in the United States. TNT is strongly positioned to respond as appropriate and is confident about its performance for the year 2008.

The overall Mail outlook includes expectations and assumptions on revenue development and operating margins for EMN Germany on an ongoing basis, which, due to the current legal and business environment, are more uncertain than usual.

The overall Mail margin outlook excludes possible further restructuring charges in the context of Master Plans in the Netherlands and decisions on the future of EMN Germany.

TNT expects non-allocated costs to stay at around €35 million for the year.

TNT's outlook is based on constant 2007 exchange rates.