

chapter 3 – the Express division

2007 –
Annual report

General

TNT's Express division provides on-demand door-to-door express delivery services for customers sending documents, parcels and freight. TNT offers regional, national and worldwide express delivery services, mainly for business-to-business customers. The Express services TNT provides and the prices TNT charges to customers are primarily classified by transit times, distances to be covered and sizes and weights of consignments. TNT offers a comprehensive range of

products to its customers, which can be divided into small and medium enterprises, major account and global customers. Each category of customers is managed by dedicated teams and processes. TNT builds strong relationships with its customers through regular personal calls and visits, as well as a wide range of communications media.

The principal Express facilities are as follows:

Location	Owned / Financial Lease	Principal Use	Site Area
Liège, Belgium	Owned ¹	International air hub	99,685 sq. metres
Wiesbaden, Germany	Owned	Sorting centre and road hub	65,500 sq. metres
Arnhem, the Netherlands	Owned	International road hub	146,722 sq. metres
Brussels, Belgium	Lease	Sorting centre and road hub	67,150 sq. metres

¹ – The land is on a long term operating lease.

The following aircraft are in use:

Type	Total number	Total capacity (kilos)
Owned	27	431,100
Leased	18	484,000
Chartered	2	27,700
Total	47	942,800

Strategy and actions

The ambition of TNT's Express division is to be the leader in day certain and time certain door-to-door transport for its business-to-business clients with the widest geographical coverage.

TNT is a global express player, whose strategic intent is to:

- strengthen its number one position in Europe in national and intra-European flows,
- build volumes from China to fuel its European network and establish an intra-China network,
- build the number one position in selected emerging markets like India, Brazil and China, and
- expand its position in special services: a range of flexible and value added solutions that are complimentary to its network services. These services are tailored to the customers' requirements and range from time critical and freight transportation to special handling and distribution services.

To achieve these goals, the objectives of TNT's Express division are to:

- achieve profitable revenue growth through volume acquisitions at the optimal price,
- maintain a balanced customer portfolio (large, medium, small and ad hoc customers),
- focus on product performance,
- improve cost effectiveness,
- ensure quality in all key areas,
- provide high-quality and cost-effective intra-European services through connecting its strong domestic businesses,
- secure outstanding levels of customer satisfaction,
- develop leading-edge support technologies that provide added value for customers,
- strengthen the TNT brand and increase top-of-mind awareness of the comprehensive range of reliable on-demand Express delivery services provided by the company, and
- recruit, develop and manage its employees towards the highest standard of customer care.

TNT's strategy Focus on Networks consists of two phases. In the first phase, completed end of 2007, TNT's Express division 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 integrate the newly acquired domestic platforms in China, India and Brazil.

Business performance

In 2007, TNT's Express business produced a strong performance driven by TNT's international businesses and supported by a balanced customer portfolio, growth in TNT's global accounts, improved network optimisation and careful cost management. Recent acquisitions performed in line with TNT's expectations. The strong results (excluding the planned start-up costs of TNT's recent acquisitions) show a continuation of previous years' results which have seen continuous improvement in operating margin.

Technology and business system solutions remain to be critical elements and enablers in achieving the business strategy. The global SAP back office roll-out was recognised with SAP presenting TNT with the prestigious quality award for best global roll-out in 2007.

Standardisation throughout TNT's global organisation continues with the development of common systems. Implementation of these systems commenced in 2007 with the first modules being delivered and implemented in several European countries. Further modules have been developed and implementation will begin in 2008.

In September 2007, TNT launched a new service portfolio to offer customers an extended range of standardised international and domestic services across the globe. Two new time-guaranteed services, "10:00 Express" and "12:00 Economy Express", were added. TNT now offers more morning deliveries than any of its competitors and has the opportunity to become known as the company to use for all morning deliveries. The "12:00 Economy Express" in particular is an industry first, providing customers with a service that is both economical and time guaranteed.

The new unified product portfolio gives customers the widest range of morning delivery services in the world and gives TNT significant competitive advantage. Together with its Express and Economy Express day-definite services and Special Services TNT can meet and exceed all of its customers' needs worldwide.

The focus on customer experience was launched at the beginning of 2007, and technology and business system solutions have been exploited to enhance the customers' experience and to capture customer intelligence data to establish further customer experience improvement initiatives. Technologies like Speech Self Service allow customers to make bookings at any time without the need to speak to a customer services agent. Post-call satisfaction can systematically gather data relating to the customers' satisfaction during their exchanges with TNT. Web-based self service products for tracking and service information continue to be a strong channel of self service, with TNT's web tracker exceeding one million hits for the first time in a single week during 2007.

With the roll-out of the latest technology in video conferencing, TNT has not only reduced air travel costs but has also made a positive contribution to reducing the environmental impact.

Express Europe

The Express Europe business provides regional, national and pan-European express services that deliver consignments from Europe to the rest of the world as well as time-sensitive door-to-door products. TNT's extensive integrated road and air networks have given TNT a leading position in the European market and are an important strategic asset with dense coverage in 34 European countries. TNT expanded its European network in 2007 and continued to introduce uniform best practice approaches throughout the organisation.

In Europe, TNT provides on-demand expedited door-to-door delivery services that involve carrying documents, parcels and freight for its European customers. The shipments are collected by a fleet of vehicles that make either scheduled stops or on-demand collections upon receipt of customer telephone or internet requests. Shipment and consignment details are sent to the nearest depot in TNT's network. Details of each shipment are entered into TNT's track-and-trace systems either through scanning, data entry or electronic data interchange methods. The customer can access the information through internet or proprietary customer interface technology. Each shipment is then sorted by destination and consolidated with other customers' consignments. Depending on its destination, each shipment is transported on a linehaul (i.e. air or road transport between TNT depots/hubs) to a domestic road hub, an international road hub or one of the airports from which TNT operates, generally within two hours of arrival at the depot.

TNT transports intra-European shipments from the collecting depot by road or on one of the aircraft owned or leased by TNT from an origin airport to TNT's main air Express sorting hub in Liège, Belgium. If transit times so permit, shipments that do not travel by air are carried by truck to one of TNT's 10 main European road hubs. TNT unloads and sorts the shipments and consolidates them with other consignments for each destination and then puts them on outbound linehails for movement to the delivery depot. TNT moves domestic consignments within major European countries from the collection to the delivery depot, either directly or via a domestic hub.

At the delivery depot TNT sorts the shipments and loads them on the appropriate delivery vehicle. Proof of delivery is entered into the Global Link system or other computer system that is updated at every point in the process. This enables TNT to notify the customer when the consignee has received the shipment. TNT's track-and-trace systems, including the Global Link system, enable TNT to offer an automated proof-of-delivery service and customers can access the information through internet or proprietary customer interface technology.

TNT's sales channels consist of field sales, major accounts, global accounts and postal alliances. Major accounts focus on national major accounts and TNT's global account managers maintain a portfolio of TNT's largest multinational accounts. TNT also enters into alliances with major postal operators which offer TNT's services to their customers.

TNT has a more extensive Express delivery road network in Europe than any of its competitors. Through its integrated road and air networks, TNT is able to offer a range of fast and reliable Express delivery services in most European countries. With respect to TNT's European network, TNT added its own airport connections to Bordeaux (France) and Larnaca (Cyprus) in January and March 2007 respectively. In October, TNT upgraded Gdansk (Poland) and Sofia (Bulgaria) from co-load operations to TNT own aircraft and moved from Nantes (France) to Rennes (France).

In 2004, TNT announced a €36 million investment plan for its Liège air hub, which is intended to improve transit times and increase the percentage of consignments delivered on time and in perfect condition. The project is progressing well with the new hub building being completed in November 2007. The total expenditure as at 31 December 2007 is €33 million. In 2007, TNT completed the extension at Duiven, the Netherlands, of the Integrated Direct Express Centre. This 5,000 square metre extension costing €7.9 million is to deal primarily with increased volumes from the increased China to Europe express flows.

In 2007, in Europe TNT continued to leverage off its fully integrated domestic and international networks including its best in class European road network and its highly dense European air network. This has enabled good volume growth particularly in the international businesses with higher growth in Northern and Eastern Europe than in Central/Southern Europe. Detailed internal analysis indicates that TNT has continued to gain market share in Europe.

In France, the partnership between TNT Express and Geopost, the holding company for the parcel and express subsidiaries of France's national service Groupe La Poste, was launched as planned in January 2007 following completion of key systems integration activities.

Express Rest of the World

The Express Rest of the World business provides door-to-door express delivery of documents, parcels and freight worldwide in all areas outside Europe and from these areas to Europe. TNT's worldwide coverage extends to more than 200 countries. TNT is also building its position in Asia and has further improved service levels between Asia and Europe.

Express Rest of the World operates in a way similar to that of TNT's Express Europe business line, but relies primarily on airlift by commercial passenger airlines for linehaul

transportation links. However, in many of the countries TNT's global Express services are augmented by domestic and regional express delivery services.

In China, 2007 has been a landmark year with several notable initiatives. In February, TNT started to fly its own 747 Extended Range Freighter between Shanghai and its European air hub in Liège. This now gives TNT a market leading value proposition for its customers in both China and Europe. In March, TNT completed the acquisition of Hoau, one of the country's largest and leading domestic road freight companies. TNT now boasts a solid market position in both the international and domestic markets and will build further on this platform to create market winning services for its customers. TNT now operates the largest network of any of its competitors in China with over 1250 depots in the country. These are served by three international gateways and 56 domestic hubs.

TNT China was awarded the coveted Investor in People Award, which demonstrates the effort and focus TNT puts into the development of its staff to ensure TNT's customers receive the high level of service they demand. Focus on people is key in the China market place, and TNT is proud of what it is achieving in this area as it will be the basis of its future performance.

In South-east Asia, double digit revenue growth has once again been achieved. In May 2007, the road network in South-east Asia was extended into Vietnam, and in December 2007 it was announced that it is planned to extend further into China in early 2008. The growth in Economy products as a result of the service offered through the network has been strong.

In North-east Asia, TNT continues to invest in service and coverage. In Japan, TNT has centralised its customer service centre in the new Tokyo head office. The service coverage in Japan was also extended during 2007, and TNT now directly serves 14 of the 23 wards of metropolitan Tokyo.

In India, the integration of the acquired Speedage business has progressed steadily. However, as expected significant investment in the service and infrastructure has been necessary in order to bring the operational performance closer to the expected levels. As a result, service performance of Speedage has steadily improved. When fully integrated, the combined TNT businesses in India will offer a market leading integrated domestic and international coverage of the country.

Australia performed well across all key areas of operations in 2007, with particularly strong revenue growth in international Express products. Revenue increases across the portfolio were driven by a combination of targeted new account acquisition, optimisation of pricing structures, and the successful renegotiation and retention of most expiring major customer contracts. Stable industrial relations and higher staff engagements and retention served as a platform, along with improved revenues and tight cost control, for achieving stronger profitability. Infrastructure improvements continued with commencement of the first of several capital city depot re-developments which will continue over the next three years.

In North America, TNT provides international Express services in 15 of the top metropolitan areas. Building on its own delivery network in the North-east business corridor, TNT continues to improve next-day delivery services to major business centres, including New York, Washington D.C., Chicago and Toronto.

In South America, TNT established a market leadership position through the acquisition of Expresso Mercúrio S.A. (Mercúrio) on 10 January 2007. The company has performed beyond expectations in its first year. The transformation process has been very successful with no loss of major customers, high revenue growth, and financial results ahead of plan. TNT is now the largest privately held domestic Express provider in Brazil, the continent's largest market. The acquisition is in line with TNT's strategic objective to become number one in selected emerging markets and provides the platform to develop an integrated South American road and air Express network. Mercúrio employs 6,500 people across 104 locations and offers a comprehensive nationwide Express service in Brazil. This complements TNT's well-established international Express business in the country.

In the express industry TNT sees that the majority of flows of documents and parcels remain within continental boundaries. Thus, TNT's strategy is to build operational excellence within regions, particularly within Europe and Asia. As TNT expands its position in Asia, TNT intends to also build leading connectivity between Europe and Asia.

Financial results

In 2007, TNT's Express division earned revenues of €6,551 million. The Express division accounted for 59.5% of TNT's group operating revenues and 50.3% of TNT's group operating income.

The following tables set out the financial performance of TNT's Express division for the past two years:

Year ended at 31 December

Express financial overview	2007	variance %	2006¹
Total operating revenues	6,551	13.8	5,758
as % of total operating revenues TNT	59.5		57.2
Other income	9	125.0	4
Total operating expenses	(5,961)	(14.6)	(5,202)
Total operating income	599	7.0	560
as % of express operating revenues	9.1		9.7

(in millions, except percentages)

¹ — 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.

Year ended at 31 December

Express operating revenues	2007	variance %	2006
Express Europe ¹	4,969	6.8	4,652
Express Rest of the World	1,582	43.0	1,106
Total operating revenues	6,551	13.8	5,758
as % of total operating revenues TNT	59.5		57.2

(in millions, except percentages)

¹ — Comparative figures have been adjusted to reflect the transfer of Innight from Express to Other networks in 2007.

Year ended at 31 December

Express operating expenses	2007	variance %	2006¹
Cost of materials	267	11.3	240
Work contracted out and other external expenses	3,252	16.4	2,794
Salaries and social security contributions	1,913	11.3	1,719
Depreciation, amortisation and impairments	209	19.4	175
Other operating expenses	320	16.8	274
Total operating expenses	5,961	14.6	5,202

(in millions, except percentages)

¹ — 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.

Year ended at 31 December

Express operating statistics

	2007	2006	2005
Number of consignments (in thousands)	228,199	198,171	179,275
Number of tons carried	7,390,779	4,500,683	3,520,109
Average of number of working days	252	251	253
Number of depots/hubs	2,331	1,195	882
Number of vehicles ¹	26,760	22,001	19,747
Number of aircraft ¹	47	44	43

¹ — A substantial number of the vehicles and aircraft are not owned by us but leased or subcontracted.

During 2007, TNT's Express division realised higher operating revenues and improved earnings due to a strong performance in TNT's international business attributable to TNT's attractive product offering, disciplined pricing and an efficient sales process. The company continued to invest and integrate its newly acquired domestic platforms which resulted in a lower operating margin in 2007.

TNT continued to grow its profit, which was achieved through the implementation of standard commercial policies, cost control, including further optimisation of its networks, while maintaining service levels and the ongoing review of TNT's revenue quality yield against cost inflation.

Express operating revenues

Total operating revenues of TNT's Express business for 2007 increased by €793 million (13.8%) compared to 2006. The organic growth in operating revenues of TNT's business was €451 million (7.9%). The acquisitions of Mercúrio and Hoau in 2007 and Speedage in India during 2006 had a positive effect of €376 million (6.5%) on operating revenues. Foreign exchange effects had a negative effect of €34 million (-0.6%), mainly due to the strengthening of the euro against many currencies and in particular the Chinese Renminbi, the British Pound and most of the Asian currencies.

The increase in operating revenues was primarily due to strong growth in European air and road volumes. The growth in these international (i.e. cross-border) flows continued to exceed the growth in domestic flows. Within the international flows, the Economy products grew faster than the Express ones encouraged by better service and transit times. All customer segments saw revenue increases.

Express Europe operating revenues for 2007 increased by €317 million (6.8%) compared to 2006. The organic growth in operating revenues was €325 million (7.0%). Most business units contributed to the increase in operating revenues. In particular, the Western European countries contributed to the majority of the growth in operating revenues. Foreign exchange fluctuations had a negative effect of €7 million (-0.2%).

Express Rest of the World operating revenues for 2007 increased by €476 million (43.0%) compared to 2006. This was achieved through the €126 million (11.4%) organic growth in operating revenues from operations, with fastest growth in Greater China and Middle East and from acquisition effects of €376 million (34.0%) from the purchase of Mercúrio in Brazil, Speedage in India and Hoau in China. Foreign exchange fluctuations had a negative effect of €24 million (-2.5%).

Express operating expenses

Operating expenses of TNT's Express business for 2007 increased by €759 million (14.6%) compared to 2006. The organic increase in operating expenses was €409 million (7.9%), while the effect of acquisitions increased operating expenses by €384 million (7.4%). Foreign exchange fluctuations decreased operating expenses by €34 million (-0.7%). The organic increase was driven mainly by the strong international volume growth, the expansion of TNT's business in China, Eastern Europe, and India, and the high costs of fuel for TNT's aircraft, linehaul and pick-up and delivery vehicles. Cost of materials increased by €27 million (11.3%) primarily due to the higher fuel costs incurred in all business units. Work contracted out and other external expenses increased by €408 million (16.4%). This included the costs of linehaul and pick-up and delivery, which have increased to service the higher volumes and to improve the service quality and also included the higher fuel costs from commercial linehaul and subcontractors. Salaries and social security contributions increased by €194 million (11.3%) due to the additional number of FTE's, including the acquisitions of Mercúrio and Hoau in 2007 and Speedage during 2006 as well as salary increases for existing employees. Depreciation, amortisation and impairments increased by €34 million (19.4%) due to the amortisation of intangibles for the acquisitions, the depreciation of the new Boeing 747's, as well as the expansions of TNT's European air and road network hubs and the development of the SAP back office system. Other operating expenses increased by €46 million (16.8%) due mainly to increased travel, consulting and advertising costs.

Express operating income

The Express business operating income for 2007 increased by €39 million (7.0%) compared to 2006. The improvement in operating income was primarily due to good volume growth, particularly in the international business across all customer segments and in Special services, and good cost control despite the increase in fuel price. The highest income growth was seen in the International based countries while the Domestic based business units, which are generally more developed markets, increased at a lower pace. The emerging platform income was below last year's, impacted by TNT's investments in acquisitions. The organic growth in operating income for 2007 was €47 million (8.4%) compared to 2006. The acquisition effects amounted to an €8 million (1.4%) investment and the foreign exchange impacts had a neutral effect on the income.

Overall operating income as a percentage of Express business operating revenues was 9.1% in 2007 compared to 9.7% in 2006 mainly due to the investments in TNT's acquisitions. Excluding these recent acquisitions the return on sales over 2007 was 9.8%.

Express capital expenditures and proceeds

Year ended at 31 December

Capital expenditures	2007	variance %	2006¹
Property, plant and equipment	197	(0.5)	198
Other intangible assets	69	9.5	63
	cash out		
	266	1.9	261
Proceeds from sale of property, plant and equipment	19	375.0	4
Disposals of other intangible assets			2
	cash in		
	19	216.7	6
Netted total	247		255

(in millions, except percentages)

¹ — Comparative figures have been adjusted to reflect the transfer of Innight from Express to Other networks in 2007.

The capital expenditures shown in the above table are excluding the new finance leases, as they do not lead to cash flows. The finance leases mainly consisted of the acquisition of the second Boeing 747-400 ERF (€110 million).

Capital expenditure on property, plant and equipment and other intangible assets by TNT's Express business totaled €266 million in 2007, which was an increase of 1.9% compared to 2006.

Some of the larger Express capital expenditures in 2007 included replacement of assets at the Hamburg depot (€13.8 million), the Australia fleet replacement (€6.6 million) and several investments in TNT's network (Liège hub expansion - €16.5 million, new TNT airways building - €6.5 million, one Boeing 747 engine - €7.1 million and an integrated direct Express centre - €6.4 million).

During 2007, capital expenditures on other intangible assets totaled €69 million and related primarily to the enhancements to TNT's international shared systems and development of the financial systems (back office) software (€46 million).