

# chapter 4 — the Mail division

2007 —  
Annual report

---

## General

TNT's Mail division provides both postal services and mail related data and document management services.

The division is organised around four business lines: Mail Netherlands, Cross-border Mail, European Mail Networks and Data and Document Management, the latter operating under the brand name Cendris.

Part of the services provided by Mail Netherlands and Cross-border Mail are of a mandatory nature. As a consequence, regulatory developments have an influence on TNT's business. For a more detailed description of the regulatory environment, see chapter 10.

## Strategy and actions

TNT's strategy Focus on Networks consists of two phases. In the first phase, completed end of 2007, TNT's Mail division prepared itself for full liberalisation of the Dutch mail market through price differentiation, the roll-out of an alternative economy network and the launch of new Master Plans. Outside the Netherlands, platforms were established to become the number one challenger to incumbent European mail operators. In the second phase of the Focus on Networks strategy, Mail Netherlands will further focus on a detailed plan and execution of Master Plans, alternative value drivers by strategic product development and the implementation and evaluation of the new postal act. Outside the Netherlands, the focus will be on optimising and growth of market positions, growth in profitability and look for expansion beyond the present scope. In Parcels TNT will focus on broadening its product portfolio, further developing the broker role, and looking for domestic opportunities on a per country basis.

Both in the Netherlands, where the challenge is to maintain the leading position, and in other countries, where TNT uses the opportunities to become the main challenger of the incumbent postal operators, the digitisation and stepwise liberalisation

of the mail markets are important drivers for TNT's Mail strategy. TNT's data and document management services are intrinsically designed to anticipate these changes in the mail industry. Over the years TNT has gained a leading market position in these services, primarily in the Netherlands.

In the mail industry it is TNT's ambition to be the leading provider of business and consumer related services for communication, transactions and delivery. TNT wants its Mail operations to be recognised as the industry benchmark for quality of service, efficiency and customer service, for producing the best returns in the industry, and for making optimal use of both new technologies and European postal market liberalisation.

TNT's Mail strategy is targeted at maintaining and taking the leading position in changing markets. This is driven by two key elements:

- In the Netherlands, TNT focuses on anticipating the volume decline due to substitution by new media and the development of competition. With its customer focus programmes, TNT will strengthen its customer centric approach through its sales channels. TNT meets changing customer demand through product development and price and service differentiation. This price/value strategy, together with the implementation of TNT's new cost flexibility measures targeted to save up to €300 million on an annual basis as of 2015, are designed to enable TNT to retain its margins within an acceptable range.
- Outside the Netherlands, TNT will continue to invest and expand in attractive markets along two tracks:
  - through an offensive approach, TNT continues to build an alternative postal company to the incumbent operator in worldwide selected countries and markets. TNT already offers addressed and unaddressed mail services in main European countries and is recognised as the challenger to the incumbent. TNT will continue to build its position in the most attractive countries to ensure future growth of its Mail business.
  - through postal alliances, TNT strives to strengthen its position by way of cooperation with other organisations and postal operators.

## Business performance

TNT's profitability in Mail was sustained in 2007 through its customer focus, its market segmentation and a set of cost restructuring measures that are being implemented with great rigour in its home market, the Netherlands.

The cost saving programme includes a restructuring of the marketing and sales channels and organisation, a restructuring of TNT's overhead, and a restructuring of its operations. Up until 2006, TNT achieved aggregate cost savings under the Master Plans announced in 2001 of €298 million.

In December 2006, TNT announced new cost saving initiatives to save €300 million on an annual basis. Together with the remaining savings out of the Master Plans 2001, TNT targets to save €370 million between 2007 and 2015. In 2007, TNT achieved €38 million in savings. At the end of 2007, a start of efficiency projects was announced for which a €110 million provision was established. All savings initiated together with new commercial initiatives will prepare the Dutch Mail activities

further for the changing market dynamics. TNT aims at limiting the volume decrease in its position to 3% to 4% per annum.

Business performance outside the Netherlands in 2007 was significantly influenced by successful strong revenue growth of an emerging nature, particularly in European Mail Networks. However this growth, focused at building new positions, also requires significant start up costs particularly in Germany and the United Kingdom. A disappointment in this respect was the failed build-up of a parcel network in the United Kingdom, for which TNT took a €28 million charge for an onerous contract, including an amount of €5 million for impairment of various assets. This came on top of the €20 million operating losses that negatively influenced 2007 operating result of the Mail activities. The contract underlying the related UK parcel operations of TNT's Mail division has been transferred to Parcelnet Ltd.

## Mail Netherlands

TNT's Mail Netherlands business line collects, sorts, transports and delivers postal items, including letters, addressed advertising mail and magazines ('direct mail'), printed matter, newspapers and parcels within the Netherlands.

The main focus of Mail Netherlands is on maintaining the position of market leader in a shrinking market that will possibly be fully liberalised in 2008. TNT's goal is to offer the best price/value proposition in the Dutch mail market, and as such to optimise its long term EBIT and stabilise its cash flow.

TNT's commercial initiatives are connected to the change of the communications patterns of its customers. Internet and new media are increasingly used, thus changing the character of mail. However, the strength of direct mail as a communications medium remains unchanged, in particular when sent to the right target group at the right moment. Technological developments enable TNT to develop products that help its customers to use the advantages of direct mail. Further, TNT has developed a budget alternative for addressed delivery through its subsidiary 'Netwerk VSP', that is offering a lower service level (once a week delivery) for lower prices.

Outside the direct mail environment, TNT also turns the threat of technological developments into an opportunity through the development of innovative services. Together with Microsoft, TNT brings electronic invoicing to a higher level. With TNT Billing Solutions TNT facilitates the billing processes between companies. TNT works together with internet shops like Marktplaats.nl, has launched a gift shop through its website, is part of the initiative Nationale Apotheek.nl and frequently updates its photo, postcard, personalised stamps and other services that are available through the TNT website. TNT believes that it has to respond to these developments in order to maintain its leading position to serve changing customer needs.

Despite these initiatives, competitive pressure will persist in the coming period and substitution of mail will continue. However, if no new commercial initiatives had been developed, this could have resulted in volume declines of up to 40% by 2015 compared to 2006.

It is TNT's ambition to limit volume decline over the period 2006-2015 to an average of between 3% and 4% per annum, although in the first one or two years after full liberalisation TNT expects slightly higher declines.

The earlier mentioned cost saving plans target the operational chain of collection, transport, sorting, preparation and delivery. The plans also include steps towards a more market conform wage structure and a renewed effort to optimise marketing and sales and overhead processes. In 2007, TNT discussed and refined these plans with employees, trade unions and works councils, a process that is still continuing into 2008. TNT expects the first savings from these new initiatives to materialise in 2008. In 2007, Master Plan savings were €38 million.

Included in Mail Netherlands are the pro rata consolidated revenues and results of TNT's 50% interest in Postkantoren B.V., a joint venture with Postbank N.V., a subsidiary of ING Group N.V. The core business of Postkantoren B.V. is the distribution of financial and communication services and products (including postal services) to consumers and small businesses throughout the Netherlands.

## Cross-border Mail / Spring Global Mail

TNT's Cross-border Mail business line offers a range of services to individual and business customers. These services include handling exported postal items in the Dutch market and all postal items imported to or passing through the Netherlands from foreign public and private postal operators.

Cross-border Mail services also include handling bulk mailings for a range of international customers, including publishers, mail-order companies, and financial services and direct mail companies. TNT conducts these activities through its 51% owned subsidiary G3 Worldwide Mail N.V. (Spring Global Mail), co-owned with Royal Mail Investments Limited and Singapore Post Limited. This company operates in three geographic regions: Europe, the Americas, and Asia Pacific and is based, amongst others, in Amsterdam, Toronto and Singapore. In addition to using its three shareholders' delivery networks, systems, expertise and products, Spring Global Mail uses delivery agreements with national and private postal operators.

Spring Global Mail's name and credibility in the marketplace are achieved by delivering service and local expertise through a global network. In addition to its cross-border business mail services, Spring Global Mail also provides a number of value added services with the objective of retaining and growing its customer base. The trading environment for Spring Global Mail continues to be a significant challenge and is heavily influenced by the slow pace of liberalisation in the marketplace and, in some countries, a trend towards re-monopolisation. Cross-border Mail saw its revenue declined by 1.3% in 2007.

## European Mail Networks

Through its European Mail Networks business line, TNT is building a position to offer its customers a full service concept for mail, based upon high quality of service and wide coverage in addressed and unaddressed delivery. In addition, TNT offers a portfolio of mail-related services to reinforce its distribution activities. TNT now has a presence in Austria, Belgium, the Czech Republic, Germany, Italy, the Netherlands, Slovakia and the United Kingdom.

In addressed delivery the main focus in 2007 continued to be on strengthening TNT's position in the key markets of Germany and the United Kingdom.

In Germany, TNT strengthened its position with the further expansion of the regional distribution networks to 24.4% coverage. The aim is to be active in all high density areas in Germany and thus secure a nationwide product offering by TNT's 71% subsidiary TNT Post AG & Co. KG. This subsidiary successfully gained new customers in 2007. Through partnerships with regional distribution companies of which TNT Post Regioservice is one, TNT furthermore achieved a national coverage for the distribution of letter mail of more than 90% of all households in Germany. TNT's PostCon Deutschland AG, the market leader in consolidation in Germany, was able to grow its customer base further.

On 21 January 2008, two subsidiaries of TNT Post Germany instituted preliminary legal proceedings with the Administrative Court (*Verwaltungsgericht*) in Berlin to obtain an injunctive relief (*einstweiligen Anordnung*) to suspend the generally binding minimum wage in the postal services sector as adopted by the Federal Ministry of Labour and Social Affairs on 28 December 2007. TNT has taken the position that this minimum wage is unconstitutional.

TNT Post is supporting trade union efforts towards achieving a minimum wage that reflects the cost of living and the competitive position of companies in the national and international markets. Since 1 January 2008, TNT Post has been subject to the collective labour agreement of the employers' association for new postal and delivery services (*Arbeitgeberverband Neue Brief- und Zustelldienste*).

The contended regulation passed by the German Federal Ministry of Labour and Social Affairs has set the minimum wage negotiated between the trade union ver.di and the employers' association for postal services. The measure, which has made the minimum wage generally binding for all companies in the postal and delivery services sector, has produced a conflict between two collective labour agreements. In view of fair competition in the postal market, the generally binding validity of the minimum wage agreement of the employers' association for postal services is unacceptable to TNT Post since it would seriously jeopardise the liberalisation of the German mail market and TNT's ability to build a sustainable profitable business.

By instituting legal proceedings TNT aims to secure legal certainty for its EMN German operations which employ in total around 14,000 employees and earned €233 million of revenue at an operating loss of €31 million in 2007. So far in total TNT has invested around €80 million in Germany as part of its strategy to become the number one challenger to incumbent European mail operators in selected countries.

In the United Kingdom, TNT has contracted with Royal Mail for downstream access which allows TNT to offer customers an alternative in the postal market. In 2007, TNT again gained many important contracts and strengthened its position further. At the same time TNT opened four regional offices with sorting facilities targeting the small and medium enterprises market that will allow TNT to offer customers a broader portfolio of services and, ultimately, an end-to-end solution. A significant business has been built up and market leadership in the access market is realised.

Last year, TNT launched the build-up of a parcels network in the United Kingdom. During 2007, it appeared that the business was performing considerably less promising than expected. As a

result and as previously mentioned, TNT decided to transfer and exit the current parcel business in the United Kingdom.

In unaddressed delivery TNT strengthened its position in 2007 in all markets where TNT is present, mainly through organic growth. In the Netherlands, Belgium, Italy, and Central and Eastern Europe, TNT is a significant player. In almost all countries, however, TNT is experiencing intense price competition (mostly by companies owned by other postal operators who use their dominant position and wish to enter this market). In all countries TNT has been successful in retaining its market share by retaining customers and volumes. TNT continuously invests in quality of services to differentiate itself from those competing on price. In 2007, EMN saw its revenue grow with 33.8% to €1,002 million and performed at ROS of low single digit (excluding UK parcels).

## Data and document management / Cendris

After the disposal of the mailroom, repro and capture activities in November 2006, Cendris acquired the remaining 49% of Cendris Customer Contact in March 2007. This enables Cendris to focus on a complete portfolio of direct communication, data and document management services. Cendris provides services on finding, retaining and developing customers and offers services for call centre activities, printing of statements and direct mail. Cendris' revenue in 2007 organically decreased by 0.5% to €154 million.

## Financial results

In 2007, TNT's Mail business earned revenues of €4,234 million, a 4.2% increase compared to 2006. Mail accounted for 38.4% of TNT's group operating revenues and 52.5% of TNT's group operating income.

In 2007, approximately 23.5% of TNT's Mail operating revenues and approximately 9.0% of the group's operating revenues (2006: 24.6% and 9.9%) were derived from reserved postal services in which TNT generally was not subject to competition.

In 2007, TNT experienced a volume decline of 4.4% compared to 2006. The underlying decline of volumes adjusted for a comparable number of working days per year was 4.1%. The total TNT Mail Netherlands addressed mail volumes have decreased an average 2.4% per annum since 2000. This is within the guidance TNT gave in 2001 and the indicated average decline between 2% and 3% up to 2010. In 2004, TNT updated this guidance with an average volume decline between 3% and 4% annually from 2004 up to 2012 onwards. The average decline since 2004 was around 3.9% per annum. The decline was due in part to substitution by electronic media and accelerated by competition.

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

Year ended at 31 December

<b>Mail financial overview</b>	<b>2007</b>	<b>variance %</b>	<b>2006</b>
Total operating revenues	4,234	4.2	4,065
as % of total operating revenues TNT	38.4		40.4
Other income	64	10.3	58
Total operating expenses	(3,672)	(9.2)	(3,362)
<b>Total operating income</b>	<b>626</b>	<b>(17.7)</b>	<b>761</b>
as % of mail operating revenues	14.8		18.7%

(in millions, except percentages)

Year ended at 31 December

<b>Mail operating revenues</b>	<b>2007</b>	<b>variance %</b>	<b>2006</b>
Mail Netherlands	2,551	(1.7)	2,596
European Mail Networks	1,002	33.8	749
Cross-border Mail	527	(1.3)	534
Data and Document Management	154	(17.2)	186
<b>Total operating revenues</b>	<b>4,234</b>	<b>4.2</b>	<b>4,065</b>
as % of total operating revenues TNT	38.4		40.4

(in millions, except percentages)

Year ended at 31 December

<b>Mail operating expenses</b>	<b>2007</b>	<b>variance %</b>	<b>2006</b>
Cost of materials	156	(4.9)	164
Work contracted out and other external expenses	1,394	15.9	1,203
Salaries and social security contributions	1,614	2.9	1,569
Depreciation, amortisation and impairments	135		135
Other operating expenses	373	28.2	291
<b>Total operating expenses</b>	<b>3,672</b>	<b>9.2</b>	<b>3,362</b>

(in millions, except percentages)

Year ended at 31 December

<b>Mail operating statistics</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
Addressed postal items delivered by Mail Netherlands <sup>1</sup> (millions)	4,701	4,918	5,139
per Netherlands delivery address (items)	608	644	679
per Mail Netherlands FTE <sup>2</sup> (thousands of items)	153	155	152
per Netherlands inhabitant (items)	287	301	315
per delivery day (millions)	15	16	17
total operating revenues per FTE <sup>2</sup> (thousands of €)	99	95	94
average percentage of national mail sorted automatically (%)	84	83	84
Postal volumes by Cross-border (thousands of kilogrammes)	88,782	88,237	81,334
Addressed postal items delivered by EMN (millions)	1,621	894	490

<sup>1</sup> — Excluding international mail items per delivery day (millions).

<sup>2</sup> — The FTE (full-time employee equivalent) definition is based on a 37-hour work week.

The operating revenues of the Mail business increased by 4.2% in 2007 (2006: 2.8%). In Mail Netherlands revenues declined by 1.7% (2006: 1.9%). On a comparable number of working days' basis, the addressed Mail Netherlands volume decline was 4.1% (2006: 4.0%). Revenues in European Mail Networks showed a 33.8% growth. Revenues in TNT's cross-border line of business declined by 1.3%. Data and Document Management revenues decreased by 17.2% of which 16.7% as result of net divesting.

Operating expenses were growing by 9.2% to €3,672 million. The growth was due to EMN growth and a charge of €110 million for restructuring costs.

Mainly due to the above mentioned increase in operating expenses, the operating income decreased by 17.7% in 2007.

## Mail operating revenues

In 2007, operating revenues from TNT's Mail business increased by €169 million (4.2%) compared to 2006. Organic operating revenues increased by €156 million (3.8%). Compared to last year, 2007 showed a €19 million (0.5%) positive acquisition effect, due to a number of acquisitions realised in 2006 (including PostCon Deutschland AG, CBS City Briefservice GmbH, MailXpress GmbH, Ridas Sicherheits- und Handelsgesellschaft m.b.H, Germany, TWM Italia Srl. and Turbopost GmbH, Giebiesse Italia Srl. and JD Williams) and disposals in 2006 (including Cendris Document Management B.V., ID Company Fashion B.V., and TNT's share in Mailprofs Employment B.V.) and a number of acquisitions realised during 2007 (including Regio ES, Blitzkurier Wesel, City Mail, Mailexpress Oldenburg, RSM Srl and remaining shares Cendris BSC Customer Contact B.V.) and disposals in 2007 (including Spring USA and Cendris Customer Contact Deutschland GmbH). Foreign exchange effects accounted for a decrease of €6 million (0.1%).

Mail Netherlands operating revenues in 2007 decreased by €45 million (1.7%) compared to 2006. The organic volume decline in addressed mail items was partly offset by a positive price-mix effect and other effects. The continued underlying decline in addressed postal item volumes in 2007 was primarily due to competition in the non-mandatory area, accompanied by reduced demand for direct mail as a result of cost saving programmes initiated by some of TNT's key customers due to the continued substitution by electronic media.

European Mail Networks operating revenues increased by 33.8% in 2007. The organic growth in operating revenues of TNT's EMN business was €189 million (25.2%). The acquisitions in 2007 and during 2006 had a positive effect of €67 million (8.9%) on operating revenues. Main contributors to this growth were the United Kingdom and Germany. The United Kingdom, Germany, Italy, and the Netherlands showed double digit growth. Foreign exchange effects had a negative effect of €3 million (-0.4%).

In Cross-border Mail competition remained fierce, with the key international postal operators continuing to compete on price. Cross-border Mail operating revenues in 2007 increased organically by €17 million (3.2%) compared to 2006. The main driving factors for this increase were growth in TNT's domestic export and parcels.

In a competitive market, Data and Document Management operating revenues decreased by €32 million (17.2%). This

decrease was mainly attributable to the sale of Cendris Document Management B.V. in 2006.

Other income increased to €64 million (2006: €58 million), mainly as a result of higher sales of real estate (€20 million), partly offset by lower gains on disposed companies.

## Mail operating expenses

TNT's Mail business operating expenses increased by €310 million (9.2%) in 2007 compared to 2006. The organic growth in operating expenses of TNT's Mail division was €280 million (8.3%). The acquisitions in 2007 and during 2006 had a positive effect of €36 million (1.1%) on operating revenues. Foreign exchange effects counted for a decline of €6 million (-0.2%).

Costs for work contracted out increased by €191 million, which is mainly attributable to the organic growth and acquisitions realised in European Mail Networks. In 2007, costs of salaries increased by €45 million, mainly as a result of €110 million restructuring charges in Mail Netherlands for efficiency projects to standardise the collection, preparation and delivery of mail. Higher costs of salaries due to organic growth and acquisitions by European Mail Networks were partly offset by a reduction of FTEs in Mail Netherlands in connection with the cost flexibility programme and lower pension costs compared to 2006.

Other operating expenses increased by €82 million compared to 2006, mainly due to the cost for downsizing and transferring the onerous contract and related UK Parcel operations of Mail to Parcelnet Ltd. for a total amount of €23 million, This also caused the depreciation to increase with €5 million.

## Mail operating income

In 2007 the Mail business operating income decreased by €135 million (17.7%) compared to 2006, on balance due to restructuring charges in Mail Netherlands and expansions in European Mail Networks.

In 2007, overall operating income of TNT's Mail division as a percentage of its operating revenues decreased to 14.8% or 17.4% if adjusted for €110 million restructuring provision compared to 18.7% in 2006.

## Mail capital expenditures and proceeds

Year ended at 31 December

<b>Capital expenditures</b>	<b>2007</b>	<b>variance %</b>	<b>2006</b>
Property, plant and equipment	73	(1.4)	74
Other intangible assets	26	(27.8)	36
	<b>cash out</b>		
	<b>99</b>	(10.0)	<b>110</b>
Proceeds from sale of property, plant and equipment	64	8.5	59
Disposals of other intangible assets	0		0
	<b>cash in</b>		
	<b>64</b>	8.5	<b>59</b>
<b>Netted total</b>	<b>35</b>		<b>51</b>

(in millions, except percentages)

Capital expenditure on property, plant and equipment and other intangible assets by TNT's Mail division totalled €99 million in 2007, which was a decrease of 10% compared to 2006. The main capital expenditures in 2007 related to machinery and equipment (€14 million), IT (€29 million) and housing (€18 million). The remaining €38 million of capital expenditure is related to various smaller projects. For instance, significant investments were made in sorting machines and sorting software in Europe (€7 million).