

chapter 7 – remuneration

2007 –
Annual report

After the introduction of the TNT remuneration committee, the first part of this chapter outlines the remuneration policy with the different compensation elements as approved by TNT's annual general meeting of shareholders on 20 April 2007. The second part reflects the actual remuneration in 2007, whereas the third part details the 2008 remuneration of the members of the Board of Management. In the subsequent paragraph elements of the remuneration history of the last three years are described. Finally, the remuneration of the members of the Supervisory Board is discussed.

The remuneration committee of the Supervisory Board is responsible for assessing and preparing the remuneration policy for the members of the Board of Management. The Supervisory Board approves the proposal and submits, in case of policy changes, the proposed remuneration policy to the general meeting of shareholders for adoption. In preparing the remuneration policy, the remuneration committee also takes into account the remuneration of the senior management reporting to the Board of Management. The remuneration committee prepares its proposal independently, after careful consideration and taking into account the advice of independent advisors. The remuneration policy is prepared in accordance with all relevant Dutch legal requirements, is compliant with the Dutch corporate governance code, and takes into account the recommendations of the Frijns Committee.

The remuneration committee has four members. In 2007 the remuneration committee members were Mr. J.M.T. Cochrane (member and chairman until 26 July 2007), Mr. R.W.H. Stomberg (chairman as of 26 July 2007), Mr. R. King, Mr. J.H.M. Hommen, and Mr. S. Levy. None of the members of the remuneration committee is a member of the management board of another Dutch listed company or a member of the TNT audit committee. During 2007, the remuneration committee met seven times.

The remuneration committee used professional internal and external advice. External advice was provided by independent external advisors, namely:

- Allen & Overy LLP provided legal advice on employment related matters,
- Towers Perrin advised on remuneration market practice and equity based compensation and provided the valuations used for long term incentives, and
- Wilfred Klaassen Holding B.V. provided advice relating to the change of pension arrangements of the Dutch members of the Board of Management.

These advisors do not advise the members of the Board of Management personally on their remuneration.

Current remuneration policy

The remuneration policy's objective is to attract, motivate and retain qualified members of the Board of Management of the highest calibre, with an international mindset and background essential to the successful leadership and effective management of a large global company. The members of the Board of Management are rewarded accordingly and the largest part of their remuneration is based on the performance of the company. The remuneration structure for the Board of Management is therefore designed to balance short term operational performance with the long term objectives of the company and value creation for its shareholders.

In order to consistently review the level and structures of the total remuneration, the remuneration elements of the members of the Board of Management are primarily benchmarked against a Dutch reference group and secondarily against a European peer group and TNT's direct competitors (Deutsche Post AG, Oesterreichische Post, FedEx and UPS). The Supervisory Board is authorised to make changes to the peer group to deal with the effects of significant corporate events pertaining to members of the peer group. Both the Dutch and European groups of companies for the year 2007 are listed in the tables below. The Dutch reference peer group includes a selected group of AEX companies. The European peer group includes listed companies which are selected according to criteria such as industrial sector, international focus and revenue size, working in a partly regulated environment and people-oriented. All comparisons are made on a euro basis and the benchmark comparison is made using the regression method.

2007 Dutch peer group AEX companies

Unilever; Ahold; Philips Electronics; Akzo Nobel; KPN; Heineken; DSM; Randstad; Reed Elsevier; Vedior; Corporate Express; Hagemeyer; Wolters Kluwer; ASML Holding; Numico; SBM offshore

2007 European peer group

Carrefour SA; Deutsche Post AG; Metro AG; Tesco PLC; BT Group PLC; Sainsbury PLC; Air France-KLM; Tui AG; Adecco SA; Deutsche Lufthansa; Delhaize SA; PPR SA; Scottish and Southern; British Airways Plc; Marks and Spencer Plc; Kuehne Nagel; SA AB; Securitas AB; G4S Plc; Belgacom SA; Swisscom AG; Bunzl Plc; Alitalia SPA; Firstgroup Plc; De Samensluttede A/S; Woolworths Group Plc; Geodis SA; Serco Group Plc; National Express Group Plc; Rentokil Initial Plc; Atlantia SPA; Oesterreichische Post AG

The compensation of the members of the Board of Management contains three elements:

- short term compensation, consisting of base salary and bonus opportunity,
- long term compensation, consisting of performance shares, and
- pension.

Short term compensation: base salary

Base salary for the members of the Board of Management is set at median level when compared to the peer group benchmark data. A check against the peer data is performed every two years.

Short term compensation: bonus

In accordance with the policy approved in 2007, the CEO receives an “at target” bonus opportunity equal to 80% of his base salary and 120% for “stretch” performance. The other members of the Board of Management receive an “at target” bonus opportunity equal to 70% of their base salary and 100% for “stretch” performance. At performance against minimum target levels, bonus pay-out equals 70% of the base salary for the CEO and 60% of the base salary for the other members of the Board of Management. For results below the minimum target, no bonus will be paid.

The bonus scheme for the members of the Board of Management rewards both financial performance and mission related non-financial performance. The actual achievements between the minimum target level and the stretch target level will lead to a pro-rated bonus. In calculating this pro-rata bonus, a sliding scale between the minimum bonus level and the stretch bonus level is used. In the determination of the bonus for non-financial performance, no stretch bonus level or sliding scale is used.

The Supervisory Board allocates the bonus based on the achievement of the targets of the Board of Management and determines the associated pay-out.

The Supervisory Board sets the targets for the bonus scheme at the beginning of each financial year. The following financial and non-financial targets could apply:

Financial targets:

- earnings,
- revenue growth,
- economic profit, and
- cash flow.

Depending on the tasks and responsibilities of each individual member of the Board of Management, the financial targets are related to group and/or division performance.

Mission related non-financial targets:

- general targets related to the implementation of TNT’s strategy,
- exceeding customers’ expectations: continued improvements in TNT’s relations with customers, which are measured through customer satisfaction surveys and by assessing the relationship with its customers in person,
- “instilling pride in our people”: continuous improvement in engaging TNT’s staff, which is measured through employee engagement surveys, and
- sharing responsibility for the world, implementing the agreed standards on responsible global corporate citizenship and realizing other measurable targets in relation to TNT’s CSR ambitions.

The Supervisory Board assigns specific projects and initiatives to each member of the Board of Management for which the individual member is personally responsible.

The achievement of financial targets accounts for 70% of the bonus and the non-financial targets for 30% of the bonus.

The realisation of each financial or non-financial target can independently result in bonus payments. TNT does not disclose the targets set, as this qualifies as commercially sensitive information.

Long term compensation: performance shares

In order to align the objectives of the Board of Management with the value-creation objectives of the shareholders, members of the Board of Management are awarded conditional rights on TNT shares under the TNT Performance Share Plan. These performance shares, due to their long term nature, are inherently and significantly more open to market uncertainties than short term compensation elements.

The value of the total of shares granted to the members of the Board of Management under the Performance Share Plan is benchmarked against market practice, using the peer group as

reference, resulting in the grant value of the performance shares. The number of shares to be granted is calculated by dividing the grant value by the share price on the day following the announcement of first quarter results multiplied by 1.5 due to the opportunity for stretch performance. This number of granted shares represents 150% of the "at target" base allocation.

The current Performance Share Plan vests after a three year period, and the actual number of shares that can vest varies between 0% and the above mentioned 150%. To determine the actual percentage, the performance plan vests against a performance schedule in which the Total Shareholder Return (TSR) of the company is compared to the total shareholder return of peer group companies. This TSR peer group of companies consists of all AEX companies and TNT's direct competitors. The TSR is defined for this purpose as the return to shareholders from investing in shares, in terms of both share price appreciation and dividends, assuming reinvestment of dividends. The benchmark companies used for the purpose of TSR all have different risk profiles. TSR results are weighted against a risk factor to reflect these differences in profiles.

During the three year vesting period, the TSR data and risk profiles are compiled and reported by an external data provider. After three years, the final performance of the company over the three years compared to the final performance of the peer group determines the number of shares to be vested.

The remuneration committee advises the Supervisory Board on the percentage of performance shares that vest: between 0% and 150% – vesting on the basis of a sliding performance scale using a performance zone of -20% and + 20% TSR performance. The performance schedule is designed in such a way that a TSR performance of the company at median level (half of the companies in the peer group deliver a higher TSR and half of the companies deliver a lower TSR) leads to a vesting of half of the maximum allocation (150%) of granted rights on shares.

Shares granted to the Board of Management via the Performance Share Plan are granted without financial consideration and must be retained for a period of at least five years after grant or until at least the end of employment, if this period is shorter. This is not necessary if it can be demonstrated that their sale is prompted by required tax payments with respect to these shares.

Pension

The pension policy for the Dutch members of the Board of Management was modified in 2007. As of 1 January 2007, the pension scheme applicable to the Dutch members of the Board of Management changed from a final pay scheme to a career average scheme. The main features of the career average scheme are:

- retirement age at 65,
- pensionable income is based on average annual base salary only,
- annual accrual rate for the old-age pension is 2.25%,
- offset for state pension at fiscal minimum,
- benefits are indexed during accrual, and
- no employee contribution.

Pension arrangements should be in line with local practice in the country of residence of the member of the Board of Management. The pension arrangements for all members of the Board of Management include entitlement to a pension in the event of illness or disability and a spouse's/dependant's pension on death.

Members of the Board of Management

Members of the Board of Management are appointed for a period of four years. On expiry of the four-year term, a member of the Board of Management may be reappointed for successive terms of four years each. Details on each member's appointment are set out below.

	Employed since	Term of employment	Board member since	Year of (re) appointment	Term of appointment
Peter Bakker	14 October 1991	Indefinite	1998	2004	Four years
Henk van Dalen	1 April 2006	Indefinite	2006	2006	Four years
Harry Koorstra	1 October 1991	Indefinite	2000	2005	Four years
Marie-Christine Lombard	15 December 1999	Indefinite	2004	2004	Four years

Termination of the contractual arrangements of the Dutch members of the Board of Management requires a notice period of six months.

The contractual severance payments for the Dutch members of the Board of Management are:

- severance payments other than related to a change in control are of one year base salary or a maximum of two years base salary in the first four-year term, if one year is considered to be unreasonable. Contracts entered into prior to 2004 remain unaltered.
- severance payments in case of change in control equal the sum of the last annual base salary and pension contribution plus the average bonus received over the last three years, multiplied by two.

For non-Dutch members of the Board of Management, the company follows local market practice for that part of the base salary earned in the country of residence.

For all members of the Board of Management, in case of change in control of the company, the Supervisory Board may in its discretion allow all or part of the allocations of performance shares and/or matching shares to vest on the date on which control of the company passes.

The company does not grant loans, including mortgage loans, to the members of the Board of Management.

Compensation in 2007

This part of chapter 7 describes the compensation in 2007 and pension arrangements for the members of the Board of Management as reflected in the financial statements.

TNT considers variable compensation to be an important part of the remuneration package for the members of the Board of Management. Therefore, a substantial part of the total compensation of the members of the Board of Management consists of variable compensation on performance. The 2007

ratio between fixed (base salary) and performance related variable income (short term incentive and long term incentive excluding compensation waived – see below) was for Peter Bakker 1 : 1.34, for Henk van Dalen 1 : 0.98, for Harry Koorstra 1 : 1.24 and for Marie-Christine Lombard 1 : 1.39. For detailed disclosure of the remuneration paid to individual members of the Board of Management, see note 19 of the consolidated financial statements.

The table below summarises the 2007 compensation elements of the members of the Board of Management.

Compensation Board of Management	Base salary 2007	Other periodic compensation 2007	Accrued short term incentive	Accrued long term incentive (excluding waiver)	Pension related costs	Waiver of granted shares 2007
Peter Bakker	900,000	119,858	770,876	438,235	125,883	358,617
Henk van Dalen	600,000	530,227	462,134	128,195	403,324	203,978
Harry Koorstra	600,000	107,503	519,891	221,197	117,865	203,978
Marie-Christine Lombard	600,000	471,840	511,327	323,099	276,000	203,978
Total	2,700,000	1,229,428	2,264,228	1,110,726	923,072	970,551

(in €)

The amounts included in the column accrued short term incentive and accrued long term incentive represent the IFRS cost in 2007 of non-vested entitlements relating to 2007 and previous years.

Waiver of part of compensation over 2007

To underline its understanding of the measures requested from employees in connection with further planned cost reductions at TNT Post Netherlands, the Board of Management in consultation with the Supervisory Board decided not to accept an increase of 5% of base salary as of 1 January 2007. As a result, base salary for the members of the Board of Management has not increased since 2004 and amounted to €900,000 for the CEO and €600,000 for the other members of the Board of Management.

Next to the above mentioned base salary, an increase in granted shares and bonus opportunity was part of the approved 2007 remuneration policy. In a letter dated 30 August 2007, the Board of Management, taking into account the context of the announced significant restructurings in the Mail division, announced its intention to also waive these increases in the 2007 remuneration package. The members of the Board of Management announced their intention to waive that part of their 2007 bonus opportunity and granted rights on shares that would exceed the received bonus over 2006 and granted rights on performance shares in 2006 (corrected for the loss of Bonus Matching Shares in 2007) and make these waived components available for the TNT mobility budget. Each of the members of the Board of Management has subsequently individually confirmed this decision in letters dated 12 December 2007. This decision reduces the 2007 level of compensation of the Board of Management members to a level comparable with the 2006 level of compensation. However, under IFRS 2 the waived portion of the granted performance shares qualifies as a modification that needs to be accounted for as an accelerated vesting. As a result, the amount which otherwise would have

been recognized for services received over the remaining of the vesting period is recognised immediately as cost. The factual effect of the waiver of a significant portion of the granted shares implies that the individual board members no longer will be able to benefit from such granted shares. Therefore these waived rights/accelerated vesting, although part of the 2007 cost as prescribed by IFRS, have no actual compensation value for each member of the Board of Management.

By this action a potential amount of €970,551 (IFRS costs of waived performance shares, the factual amount to be derived from the value of such shares as if such shares would have vested at the date of vesting in 2010) and an amount of €255,720 (waived 2007 bonus) will become available for the TNT mobility budget. The waiver of bonus and performance shares relates to the year 2007 only and will not structurally affect subsequent years.

Remuneration in 2008

Compared to 2007, no changes in the 2008 remuneration policy are proposed. The Supervisory Board has not modified the remuneration components in the policy that would lead to a change in the fixed to variable compensation ratio.

In its proposals for the 2008 remuneration, the remuneration committee decided to advise the Supervisory Board to apply caps for the short term and long term incentives as an important part of the 2008 remuneration package for the members of the Board of Management. This decision was taken in close consultation with the members of the Board of Management and underlines the understanding of the measures requested from employees in connection with further planned cost reductions in TNT Post Netherlands. These caps effectively keep the short and long term incentives at the 2006 level.

The structure of the long term and short term incentive schemes will be subject to a review by the Remuneration Committee in the course of 2008.

Within the policy, the following compensation decisions have been made:

Base salary 2008

The remuneration committee has agreed a 2% base salary increase, effective 1 January 2008. The 2% increase is calculated based on collective labour agreement developments in base salary for collective labour agreement employees in six major European countries in which TNT carries out business.

The base salary of the CEO is set at €918,000 (2007: €900,000) and the base salary for the other members of the Board of Management is set at €612,000 (2007: €600,000).

Short term incentive

The level of short term incentive is maintained at policy level, but the actual pay-out is capped at the pay-out level of fiscal year 2006 (paid out in 2007). The maximum bonus to be earned by the CEO is therefore €675,000 and the maximum bonus that can be earned by the other members of the Board of Management is €450,000.

Long term incentive

The grant level of long term incentive is maintained at policy level but the 2008 grant will be capped in two ways:

- the granted number of shares will not exceed the 2007 number of shares after waiver (CEO: 37,275 shares, other members of the Board of Management: 19,508 shares);
- in case of a change in control, the proceeds of the 2008 performance share grant will be capped at the level of the sum of:
 - the share price at the time of the announcement of the intention to make a public offer, and
 - 50% of the difference between the ultimate share price paid by the buyer and the price as calculated under the previous bullet.

Pension

The pension scheme remains unchanged.

Other

The Supervisory Board has introduced a “claw-back” clause in the situation that the financial information on which the pay-out of variable remuneration was based is determined to be incorrect.

The Supervisory Board has the discretionary power to decide on one-off payments to members of the Board in special circumstances. When applicable, such payments are always explained and disclosed.

Elucidation compensation package Board of Management 2006 – 2008

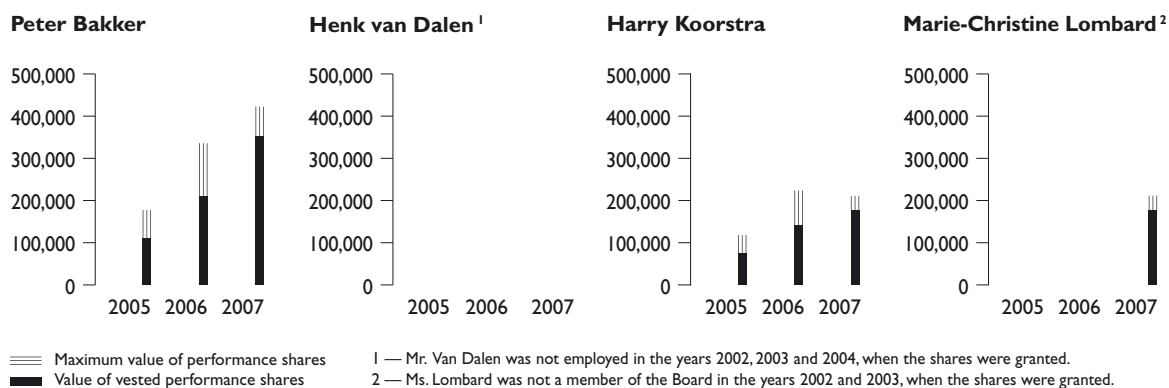
During 2007 the Board of Management, in consultation with the Supervisory Board, decided to cap the 2007 compensation package at the 2006 level. The mix of the compensation package, excluding the unchanged pension scheme, is illustrated in the table below and contains a base salary, a cash bonus entitlement, matching shares related to such cash bonus and a performance share grant. The base salary is paid and accounted for in the same year. The cash bonus is accrued in the year of entitlement and paid in the spring of the next year. The bonus matching shares, although accounted for under IFRS over the vesting period starting in the year of actual payment of the cash bonus, are calculated as 25% of the accrued gross bonus of the previous year divided by the share price. Performance shares under IFRS are accounted for the over the vesting period starting in the year of grant.

	2006/2007	2007/2008	2008/2009
CEO			
Base salary (in €)	900,000	900,000	918,000
Bonus (in €)	675,000	675,000 max. 675,000 (capped)	(capped)
Matching shares	5,213	0	0
Performance shares	32,062	37,275 (after waiver)	37,275 (capped)
Member of the Board			
Base salary (in €)	600,000	600,000	612,000
Bonus (in €)	450,000	450,000 max. 450,000 (capped)	(capped)
Matching shares	3,476	0	0
Performance shares	16,032	19,508 (after waiver)	19,508 (capped)

The table demonstrates the intended stability of the total compensation package over the period 2006 – 2008.

Performance shares

In order to improve the understanding on the factual outcome of the performance share component in the compensation in any year, TNT provides an explanation on this matter below. Performance shares are the shares granted under the TNT Performance Share Plan. Under this plan, rights on performance shares have a three year vesting period. The following graph, for illustrative purposes, shows the value of the performance shares that have vested in 2005, 2006 and 2007 under the performance schedule, based on the share price at the moment of vesting (however, these shares subsequently still need to be retained by the Board Members for another two years after vesting before they may be sold). Next to the vested value, the table reports the maximum value of the shares that could have vested on the same basis if all shares originally granted would have vested.



IFRS requires an entity to reflect in its profit and loss and financial position the effects of share based payment transactions, including transactions in which performance shares are granted to employees. IFRS requires the entity to measure the value of these grants by reference to the fair market value of the respective equity instrument, taking into account the terms and conditions upon which those equity instruments were granted. The Monte Carlo valuation technique is used to estimate the fair value of the performance shares at the date of grant of such shares. The Monte Carlo technique is consistent with generally accepted valuation methodologies for pricing financial instruments and incorporates all factors and assumptions that knowledgeable, willing market participants would consider in setting the price. In addition, for vesting conditions other than market conditions, for instance the employee remaining in the entity's employ for a specific period of time, statistical evidence is used to adjust the number of equity instruments included in the measurement of

the value. The amount included in the profit and loss is calculated by amortising the total value of the performance grant over the vesting period. In the public domain however, a performance share grant is often wrongfully calculated as full income at the moment of grant by multiplying the maximum number of shares times the share price on the date of grant. Due to the three year vesting period and the intrinsic uncertainty of the outcome of the performance schedule and the other conditions to be met, the vested value can and will be significantly different. This is also illustrated by the table below which includes the IFRS value of the performance shares granted in 2007, compared with the hypothetical value assuming vesting per 31 December 2007. At this date the pro forma number of shares vesting would then have been 52% of the base allocation. Both values differ significantly from calculations as often used in the public domain (please also refer to note 19 in chapter 8: Consolidated financial statements).

	maximum number of shares granted in 2007 (excluding waived portion)	value assumed by public domain	total value under IFRS	number of shares as if vested per 31 Dec 2007	value as if vested per 31 Dec 2007
Peter Bakker	37,275	1,203,237	533,226	12,922	365,047
Henk van Dalen	19,508	629,718	279,066	6,763	191,055
Harry Koorstra	19,508	629,718	279,066	6,763	191,055
Marie-Christine Lombard	19,508	629,718	279,066	6,763	191,055
Total	95,799	3,092,392	1,370,424	33,211	938,211

(in €, except percentages)

Remuneration members of the Supervisory Board

The remuneration of the members of the Supervisory Board is comprised of base compensation and variable compensation linked to attendance of the meetings of the committees of the Supervisory Board. The members of the Supervisory Board do not receive any compensation related to performance and/or equity and do not accrue any pension rights with the company. The members of the Supervisory Board do not receive any severance payment in the event of termination. TNT does not grant loans, including mortgage loans, to any member of the Supervisory Board. The remuneration of the Supervisory Board has not changed since 2006.

Supervisory Board		Base fee
	Chairman	60,000
	Member	45,000
Committees		Meeting fee
Audit & Remuneration	Chairman	2,500
	Member	1,500
Nomination & Public Affairs	Chairman	1,500
	Member	1,000

(in €)