

Sure we can

Annual report 2008



Cautionary note with regard to “forward-looking statements”

Some statements in this annual report are “forward-looking statements”. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. These forward-looking statements involve known and unknown risks, uncertainties and other factors that are outside of TNT’s control and impossible to predict and may cause actual results to differ materially from any future results expressed or implied. These forward-looking statements are based on current expectations, estimates, forecasts, analyses and projections about the industries in which TNT operates and TNT management’s beliefs and assumptions about future events.

You are cautioned not to put undue reliance on these forward-looking statements, which only speak as of the date of this annual report and are neither predictions nor guarantees of future events or circumstances. TNT does not undertake any obligation to release publicly any revisions to these forward-looking statements to reflect events or circumstances after the date of this annual report or to reflect the occurrence of unanticipated events, except as may be required under applicable securities laws.

Introduction and financial highlights

This is TNT’s annual report for the financial year ended 31 December 2008, prepared in accordance with Dutch regulations. TNT delisted its American Depositary Receipts from the New York Stock Exchange on 18 June 2007, and its reporting obligations with the United States Securities and Exchange Commission terminated on 16 September 2007. TNT is therefore no longer required to file its annual report on Form 20-F. However, where TNT thinks it is helpful, certain information is retained for comparative purposes. In this way TNT intends to provide its stakeholders with a clear overview of its financial year 2008.

Unless otherwise specified or the context so requires, “TNT”, the “company”, the “group”, “it” and “its” refer to TNT N.V. and all its group companies as defined in article 24b, book 2 of the Dutch Civil Code.

TNT is domiciled in the Netherlands, which is one of the Member States of the European Union (EU) that has adopted the euro as its currency. Accordingly, TNT has adopted the euro as its reporting currency. In this annual report the euro is also referred to as “€”.

As required by EU regulation, as of 2005 the consolidated financial statements of TNT N.V. have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

Selected financial data

The selected financial data below have been derived from the audited consolidated financial statements of TNT N.V. and the related notes included in chapter 6 of this annual report.

TNT has acquired a number of companies and businesses during the years, which limit the comparability of its year-on-year figures.

Selected financial data

Year ended and position at 31 December

	2008	2007	2006	2005	2004
Statements of income					
Total revenues	11,152	11,017	10,060	9,329	8,827
Other income	35	75	65	38	8
Salaries and social security contributions	(3,617)	(3,608)	(3,384)	(3,318)	(3,216)
Depreciation, amortisation and impairments	(399)	(349)	(318)	(303)	(296)
Other expenses	(6,189)	(5,943)	(5,147)	(4,598)	(4,213)
Total operating expenses	(10,205)	(9,900)	(8,849)	(8,219)	(7,725)
Total operating income	982	1,192	1,276	1,148	1,110
Profit before income taxes	802	1,099	1,223	1,146	1,092
Profit for the period from continuing operations	560	783	828	770	720
Profit/(loss) from discontinued operations	0	206	(157)	(109)	32
Profit attributable to the shareholders	556	986	670	659	752
Ratios					
Operating margin (%) ¹	8.8	10.8	12.7	12.3	12.6
Average number of outstanding shares (in millions)	363.6	383.0	420.7	454.4	473.4
Earnings per ordinary share (in cents) ²	152.9	257.4	159.3	145.0	158.9
Earnings from continuing operations per ordinary share (in cents)	152.9	203.6	196.6	169.0	152.1
Earnings from discontinued operations per ordinary share (in cents)	0.0	53.8	(37.3)	(24.0)	6.8
Average number of outstanding shares on diluted basis (in millions)	364.7	385.1	423.9	456.4	474.0
Earnings per diluted share (in cents) ²	152.5	256.1	158.1	144.4	158.7
Earnings from continuing operations per diluted share (in cents)	152.5	202.6	195.1	168.3	151.9
Earnings from discontinued operations per diluted share (in cents)	0.0	53.5	(37.0)	(23.9)	6.8
Dividend per share (in cents) ³	71.0	85.0	73.0	63.0	57.0
Dividend pay-out ratio (%) ^{3, 4}	46.4	33.0	45.8	43.4	35.9
Balance sheets					
Non-current assets	4,730	4,823	4,277	3,663	5,070
Current assets	2,430	2,252	2,122	2,355	3,159
Assets held for sale	25	10	409	2,378	0
Total assets	7,185	7,085	6,808	8,396	8,229
Equity	1,757	1,951	2,008	3,279	3,344
as % of total liabilities and equity	25	28	30	39	41
Non-current liabilities	2,756	2,232	2,112	1,608	2,221
Current liabilities	2,672	2,902	2,542	2,279	2,664
Liabilities related to assets classified as held for sale	0	0	146	1,230	0
Total liabilities and equity	7,185	7,085	6,808	8,396	8,229
Cash flow statements					
Net cash from operating activities	923	643	857	969	690
Net cash used in investing activities	(257)	(8)	1,068	(262)	(266)
Net cash used in financing activities	(458)	(635)	(2,152)	(768)	(298)
Changes in cash and cash equivalents from continuing operations	208	0	(227)	(61)	126
Net cash from operating activities	0	(19)	(63)	43	268
Net cash used in investing activities	0	4	(30)	(22)	(24)
Net cash used in financing activities	0	16	36	8	(202)
Changes in cash and cash equivalents from discontinued operations	0	1	(57)	29	42

(in millions, unless otherwise stated)

1 – Operating income as percentage of total revenues.

2 – Profit attributable to shareholders divided by the average number of (diluted) ordinary shares.

3 – Dividend per share for 2008 is calculated on the basis of the cash dividend of €34 cents per share and the proforma value of €37 cents for the proposed share dividend of one share for every forty shares to be paid out of distributable reserves and based on the volume weighted average share price of 11-13 February 2009 (€14.66).

4 – Dividend as percentage of earnings per share (EPS).

The information in this annual report, and in particular in chapters 2, 3, 4, 5, 7 and 10, should be read in conjunction with the consolidated financial statements that can be found in chapter 6.

The report of the Board of Management is included in chapters 2, 3, 4, 5, 7 and 10.

This annual report can also be viewed on TNT's corporate website: group.tnt.com. Any information on the website other than the contents of this annual report does not form part of TNT's annual report.

Investing in TNT's securities involves risk. Carefully consider the risks set out in chapter 13 of this annual report.

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TNT's Board of Management. From left to right: Harry Koorstra, Marie-Christine Lombard, Peter Bakker en Henk van Dalen.

FROM THE CEO

TNT Annual report 2008

sure *we can* 5

Navigating the perfect storm

Dear readers,

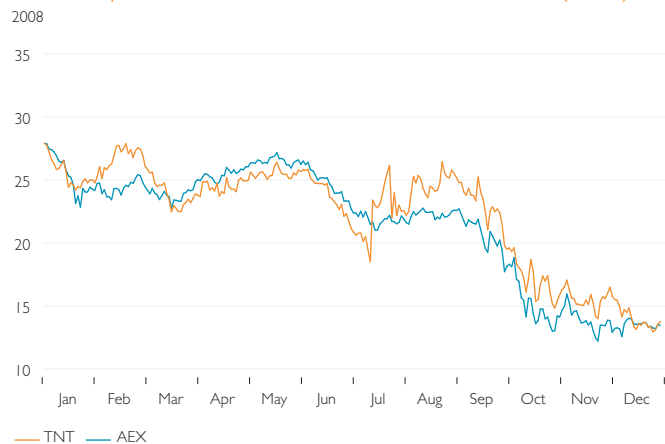
It is clear that all is not well with the world. We are in the midst of an unprecedented financial crisis combined with a harsh economic recession. And yet it is not just the economy that is in trouble. Of all the global issues the price of oil and measures required to prevent a climate crisis will most likely continue to impact our business.

Our report on 2008 contains two separate documents: in this annual report we report mainly on our business and financial performance. In our corporate responsibility report, published at the same time as our annual report, we provide information on many of the non-financial elements of our business, like our people, integrity, energy and climate performance.

Financial and operational performance

So how did TNT perform during a year in which "a perfect storm" hit globally affecting all sectors of business and most geographies? Stock exchanges across the world have gone through unprecedented declines and also the TNT share has depreciated by 51%, largely in line with the Euronext Amsterdam. The sudden decline in the economy and the speed of it has taken us all by surprise, leading to two profit outlook adjustments in October and December of 2008.

Relative performance to Euronext Amsterdam (AEX)



Source – Bloomberg Professional (own currency based)

Looking at our business performance in Express, the year started out in line with the trends from the last quarters of 2007. In June 2008, our Express air volumes started to decline and we witnessed further declines of volumes in September and from November onwards. An increasing number of our customers either lowered their output or decided to move their consignments out from our air network and into our road network for slower delivery at a lower cost, both trends adding up to a particularly negative impact on volumes in our air network although from November also our road volumes in Europe showed a clear decline. Network optimisation programmes have been implemented to cut costs to adjust for the volume declines, but given the speed and unprecedented levels of declines, significant pressure on profits in Express was unavoidable.

In Mail, the impact of the economy on the volume developments was much less visible. Mail volumes continued to decline in the Netherlands as a result of mainly substitution by electronic alternatives as well as ongoing growth in competitive networks, including our own VSP alternative network. We need to make the TNT Post activities in the Netherlands ready for full liberalisation. For this reason we continued discussions with the unions about a new collective labour agreement (CLA). For the first time since 1984 this led to limited work stoppages in several parts of the country. Both parties agreed to adopt a new one-year CLA, which will expire on 1 April 2009. Talks on a new production CLA commenced in the latter part of 2008 and will likely bring about a new CLA in the first quarter of 2009.

The liberalisation of the European mail market further requires our continuous attention. The situation surrounding the unfairly high minimum postal wage in Germany continues to be unsatisfactory and together with the unfair VAT rules provide real hindrance to the successful development of postal competition in Germany. In the Netherlands the government concluded not all conditions were met for a full opening of the postal market per end of the year. Political pressure to open the Dutch market in 2009 remains high.

In December, TNT expressed its interest to explore a strategic partnership with Royal Mail. Our interest was triggered by the publication of the Hooper Commission report, which recommends a strategic partnership with a private sector company and sets out a number of critical requirements for a sustainable future for Royal Mail. We believe that a strategic partnership with Royal Mail could make a lot of sense for both our companies.

Our brand and the TNT employees' can-do mentality has been captured in a new strap line: "sure we can". Internal workshops are being held to explain its meaning in the daily work of employees with customers and we are updating the orange livery of our vehicles and aircraft.

New corporate responsibility strategy

It is clear that in the current economic environment we will need to more than ever manage our financial performance. And yet it is our view, that in the current age a company cannot be led anymore just focusing on its financial performance alone. In order to perform well, to attract and motivate the people in our workforce and retain our licence to operate we need to broaden our focus on all stakeholders of the company.

For this reason, we have reviewed and updated our corporate responsibility (CR) strategy in 2008. Corporate responsibility combines sustainability, which focuses on the environment, and corporate social responsibility, which deals with our people, our customers, our investors and society as a whole. The TNT CR strategy underlines our firm resolution to continue to strive for responsible leadership.

Looking ahead to 2009

More than any other year in the first decennium of TNT's existence 2009 will be a challenging year: TNT will focus its efforts around "six C's".

The first C stands for **Customers**. We need to keep in very close touch with our customers in this economic downturn, monitor their problems and needs and try to assist them in every way we can, by coming up with proposals and innovative solutions that will allow them to use our services in the most cost efficient manner possible. This way we can weather the storm together.

The second C stands for **Cost**. The challenge is to effectively manage costs to offset the volume decreases in Express and Mail. This challenge will be biggest for Express, as this division will most probably continue to face volume declines in its networks. Express will have to consider its entire cost structure and not rule out any cost saving measure, including decommissioning part of its air fleet. In 2009 structural cost savings of €90-125 million are to be achieved, mostly to come from further network optimisation in networks and centralisation of customer services. In addition, Express is targeting to implement further variable cost saving measures up to an amount of about €200 million of savings in 2009 to cope with expected volume declines.

In Mail cost cutting has been on the agenda for some fifteen years now. As a consequence of the impact of electronic media on the demand for mail services, TNT anticipates that the mail volume decline could rise to around 6% annually in the period to 2012. This necessitates additional cost management programmes on top of the existing Master Plans that were announced in 2006 and aim to realise €395 million of annualised cost savings by 2015. TNT has started work on a complete redesign of its Dutch mail network - called Master Plan III - that aims to deliver a further €200 million annual savings in the future.

The third C stands for **Cash**. In 2009 we will have to focus on careful cash management. The economic crisis means that cash is a scarce resource, which needs to be treated with prudence. At the end of 2005 - as part of our Focus on Networks strategy - we have begun to optimise our capital structure. Over the last three years more than €3.2 billion has been returned to our shareholders. We defined an optimal capital structure for TNT at an investment grade BBB+ credit rating, which in the mean time we have now achieved. The aim of our cash flow management is to maintain our current strong financial position. Especially in the uncertain and declining economic environments in which we now operate a prudent approach to all our stakeholders is essential.

The fourth C stands for **Care**. As a people company we aim to create a workplace where a diverse set of people are engaged, rewarded competitively, work in a safe place, are treated equally, can speak up freely and will be responsible and accountable. However, due to the economic downturn and the changing environment in the mail market we will have to shrink some parts of our operations. We will do our best to ensure any remuneration adjustments or job losses will be dealt with in a socially responsible manner. In this context we have also found it appropriate to adjust top management remuneration to a significantly lower overall level. **Care** also captures all our voluntary contributions and activities, like our partnership with WFP. These

are what makes us a special company, a company that people like to work for and are proud of. We will remain committed to this fundamental part of our company's values.

The fifth C stands for **Climate**. The economic downturn notwithstanding TNT must continue its quest to reduce its CO₂ footprint. Later this year the leaders of the world will gather in Copenhagen to decide on future regulation to combat the climate change globally. We need to prepare our business model for long term rising oil prices and the possible introduction of carbon pricing, as well as test new technologies that can clean up our operations.

The sixth and final C stands for **Confidence**. When we look at the operating environment the world is in, glance over the challenges set out above it could be easy to become disheartened by them. Easy, but wrong. It is my firm conviction that we can overcome all these challenges. At TNT we are not believers in doom; at TNT we are can-do people.

At the end of this letter I would like to thank a number of people. Firstly I would like to thank Mr Jan Hommen, who has guided us as chairman of the Supervisory Board for the past four years and who has now given over to our new chairman, Mr Piet Klaver.

To all our people, and in particular the members of our works councils and other employee representative bodies, I would like to say thank you for all your energy and commitment to TNT. Times are not easy, but together we can surmount the obstacles and come out stronger. Sure we can!

Wishing you all the best, on behalf of my colleagues in the Board of Management,



Peter Bakker, CEO

Hoofddorp, the Netherlands
16 February 2009