

THE EXPRESS DIVISION

 Annual report 2008

sure we can 32

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 are primarily classified by transit times, distances to be covered and sizes and weights of consignments.

TNT Express' customers are small and medium enterprises, major accounts and global customers. Each category of customers is managed by dedicated teams

The principal Express facilities are as follows:

Principal facilities of Express

Location	Owned / Financial lease	Principal use	Site area
Liège, Belgium	Owned ¹	International air hub	103,709 sq. metres
Wiesbaden, Germany	Owned	Sorting centre and road hub	65,500 sq. metres
Arnhem, the Netherlands	Owned	International road hub	148,000 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 were in use at the end of 2008:

Specification of aircraft in use

Type	Total number	Total capacity in kilos
Owned	29	654,800
Leased	10	142,000
Chartered	7	102,000
Total	46	898,800

Included in the 29 owned aircraft are nine aircraft that will be decommissioned.

Strategy and actions

TNT's Express division aims to be the leader in day-certain and time-certain, door-to-door delivery, focusing on business-to-business customers, with the widest (value-creating) geographical coverage.

TNT is a global express player; whose strategy is to 'Focus on Networks' by:

- strengthening its number one position in Europe in national and intra-European flows,
- building the number one position in selected emerging markets like India, South-east Asia, China and South America,
- providing a continuum of delivery products and services, which also interconnects with the Mail division, and
- expanding its position in special services (a range of flexible and value-added solutions that are complimentary to its network services).

More specifically, TNT aims to achieve its strategy by:

- maintaining a balanced customer portfolio (large, medium, small and ad hoc customers),

and processes. TNT builds strong relationships with its customers through regular personal calls and visits, as well as a wide range of communications media.

TNT has extensive integrated road and air networks in Europe, with dense coverage in 35 European countries. This gives TNT a leading position in the European market. TNT's worldwide coverage extends to more than 200 countries. In 2008, TNT continued to build its positions in emerging markets while enhancing connectivity between those markets and Europe.

- focusing on service quality,
- strengthening the TNT brand and increasing top-of-mind awareness of the comprehensive range of its reliable on-demand express delivery services,
- providing high-quality and cost-effective intra-European services through connecting its strong domestic and international businesses,
- further tuning the balance between network capacity and short and medium term business development needs,
- achieving a step-change in cost control and network optimisation,
- creating medium term profitable revenue growth through bolt-on acquisitions,
- continuing to deliver outstanding levels of customer satisfaction,
- developing leading-edge support technologies that provide added-value for customers, and
- recruiting, developing and managing its employees towards the highest standard of customer care.

In 2008, TNT's Express business furthered its Focus on Networks strategy with an emphasis on network optimisation, cost control and continued transformation of its new domestic platforms in China, India and Brazil.

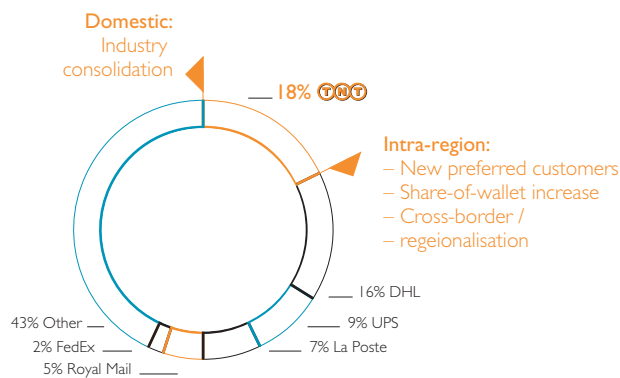
Based on information and analysis of competitors across several market segments in various countries during five years, TNT's core domestic and intra-European market is calculated as having a size of €21 billion (based on TNT's narrow definition, which measures the business-to-business express market, domestic and intra-Europe only, and is based on 2007 data). As customers

increasingly look for a more varied express product and service offering, TNT has explored opportunities for expanding its addressable market. TNT now estimates the addressable market value at €35 billion. Some of this increase stems from the potential for enhancing TNT's Economy products with many of the service attributes that customers have come to expect, such as track-and-trace, door-to-door delivery and industry-leading customer service support. More generally, by using its already existing sales platform and networks, TNT can attack a larger market by selling added-value solutions, leveraging from an already comprehensive product portfolio.

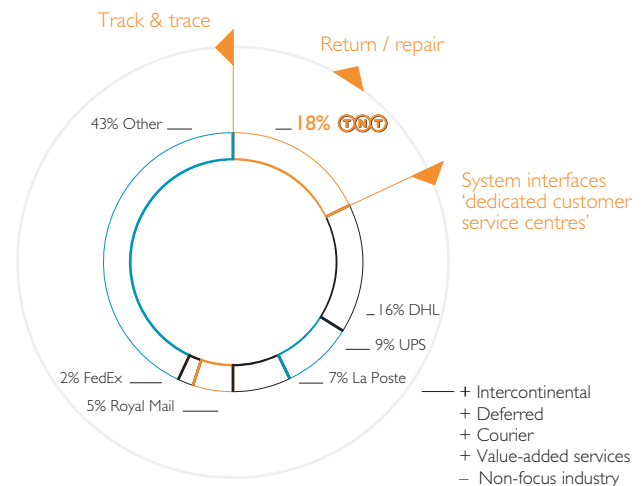
B2B Express market: expanded market potential

B2B Express market, Domestic and Intra-Europe

2007: 100% = € 21 billion



2007: 100% = € 35 billion



Business performance

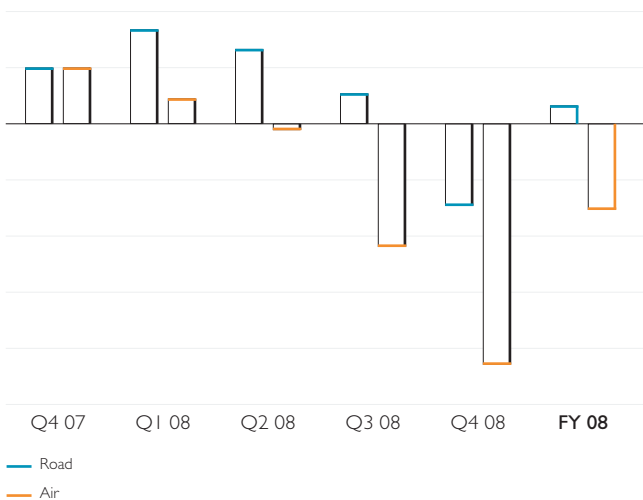
In 2008, TNT's Express business achieved revenue growth of €102 million (1.6%) and an operating margin of 5.7%. The underlying organic revenue growth, adjusted for a fuel surcharge of €183 million, was -1.2%. The economic downturn, particularly in Europe, led to significant pressure on the business largely because of lower trading volumes from existing customers. As a result, operating income was adversely affected by sharply lower volumes in premium Express products (air), which could not be compensated by cost reductions in the network.

The volume development in TNT Express reflected these developments and indicates three step-downs in the economic activity in the last six months of 2008 in Europe (see chart on next page). In weeks 25 and 26, for the first time

a sharp decline in volumes (in comparison with the previous year) in the air express segment in Europe was noticeable. In the month of September that decline accelerated to a level of around 10%. And in the last two trading months of 2008, the economy seemed to soften even further, leading to a decline of air volumes of close to 20%. Until the third quarter, the volumes in the international economy road networks in Europe continued to grow, but as of November also there the growth turned sharply negative. This negative development forced TNT to revise its 2008 outlook for Express twice. Operating income reduced to €376 million from €599 million in the prior year. In 2008, costs relating to provisions and impairments were €70 million in order to continue to align the business to lower volumes going forward.

Air and Road volumes

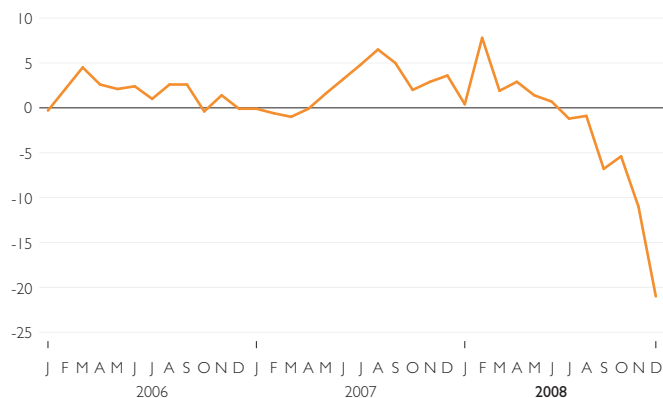
% change year-on-year, rebased to Q4 07=100



This experience with sharp volume declines was not TNT's alone; the air freight sector reported the same negative trend (see chart). With this sectorwide trend in mind, TNT believes that volume developments in 2009 will remain negative compared to 2008, particularly in premium (air) products.

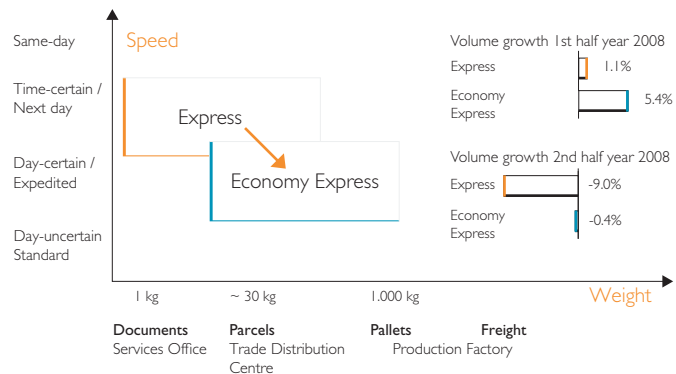
European trend in air freight market

year-on-year % growth in tonne kilometres



Source – Bloomberg Professional

Move from Express to Economy Express in 2008



Down-trading in Express in 2008

Combined with the downturn in trading volumes, TNT continued to see a further shift from its International (premium) Express products to Economy Express products in 2008, a structural change that appeared more pronounced in 2008 as customers sought to control costs. In 2008, Express product volume decreased by 4.0% while Economy Express product volume increased by 2.5%.

Network optimisation and cost savings

The network optimisation plan announced in late 2007 aimed to improve integration of the air and road networks to gain cost savings while maintaining service levels. This plan is even more relevant in a recessionary climate, in which network cost reductions and operational efficiency are key to addressing declining trading conditions.

The significant worsening of trading volumes through the second half of 2008 prompted an amplification of these cost-control and efficiency initiatives. On 4 December 2008, TNT detailed structural cost savings. For 2009/2010, the previously targeted €100-125 million structural cost savings were increased to €170-210 million (of which €90-125 million are to be achieved in 2009), to be achieved mainly through further network optimisation in road networks and centralisation of customer services. In addition, Express will be ready to implement further volume-dependent contingencies up to an amount of €120 million savings in 2009.

Technology and business system solutions continue to be critical elements and enablers in achieving the business strategy. Standardisation throughout TNT's global organisation continues with the development of common systems. In March 2008, TNT launched its e-invoicing solution offering secured electronic invoices in over 30 countries, including most European countries, Australia, Singapore, China (Hong Kong), South Africa, Kuwait, and the United Arab Emirates. With increasing e-invoicing uptake, reduction in administration costs can be achieved.

Standardisation throughout the global organisation of TNT Express continues with the development and implementation of common systems for international and domestic processes. There was accelerated progress in 2008, resulting in 136 depots now using the new Operations Data Entry System. In October

2008, the Road Operational Control System was successfully implemented overnight in 31 European countries.

Beyond helping to achieve needed cost savings, TNT's continued focus on technology innovation provides a key differentiator when integrating its express services with customers' systems.

International and domestic

Economic activities in Europe hardly expanded in 2008 compared to 2007. The European express market grew slower than GDP, mainly because the industry is one of the first to notice a drop in volume demand. Competition in the fragmented European express market intensified further in 2008, with further market consolidation in East European markets. In the mature Western European markets, the focus has been on improving efficiency, improving customer service, and expanding coverage and service levels. Parcel operators have continued to edge into the express market, and initiatives such as expansion of parcel shops, drop-off points and parcel stations have illustrated the perceived increased importance of the business-to-consumer market and lower-cost business-to-business parcel deliveries.

The economic downturn negatively impacted trading volume, particularly in premium air services in Europe. In 2008, the large European countries (the United Kingdom, France, Germany and Italy) as well as the Benelux saw moderate organic revenue growth, albeit at a lower pace than last year. Cost control measures were implemented, with a focus on lowering overhead costs and achieving tighter operational planning.

As part of the network optimisation plan, ten airport connections in Europe were closed in 2008, leading to net annualised cost savings of €20 million of which €5 million was realised in 2008.

Outside Europe, Australia continues to perform well through organic revenue and volume growth. The domestic express market of Australia is the largest market in the Pacific where TNT holds a strong position.

The cost reduction measures within the amplified network optimisation plan are complemented by TNT's aim to improve continuously operational efficiency by strengthening its air and road networks. TNT has a more extensive express delivery road network in Europe than any of its competitors. In 2008, TNT continued to build on its extensive road network by connecting its European road network to Ukraine's largest overnight network. The new route will strengthen network connectivity to and from Europe's fastest growing economies in the east.

Emerging platforms

In 2008, TNT's emerging platforms in China, India, South-east Asia, Middle East, Russia, Turkey and South America continued to achieve double-digit revenue growth and margins slightly below outlook target. Towards the end of 2008, the impact of negative global economic activity became also visible in the emerging platforms.

South-east Asia, China

Economic conditions continued to be relatively favourable in 2008 due to sound fundamentals and growing domestic demand. Nevertheless, economies with high international exposure were increasingly impacted by slowing

demand in Europe and the Americas. China and India were driving economic growth in the region. Other markets such as Vietnam and the rest of South-east Asia continued to attract investment and are estimated to accelerate growth and demand for express transportation. The segmentation lines in the Asian international air transportation market are becoming faint as the border between air express and air freight is converging.

In April 2008, TNT announced its plan to invest €100 million over five years to strengthen its network coverage, connectivity and infrastructure to capture freight opportunities between South-east Asia, Europe and China. This is in line with TNT's strategy to build a leading position in these regions and to provide innovative freight solutions for the growing healthcare, high-tech, and equipment and machinery sectors.

During 2008, TNT enhanced the operation of its Boeing 747-400 freighter. The freighter now travels between Singapore, Shanghai and Europe three times a week, which enhanced operating efficiency and, more importantly, offered new solutions to TNT's customers in all three markets.

2008 also saw TNT's unique and market-leading Asia Road Network (ARN) expanded into China. The pioneering international road services now offered by the TNT ARN provide customers with unique transportation solutions that allow a secure and day-definite service that is cheaper than airfreight and faster than sea.

Additionally, TNT added eight new branches to its international Express network in China. This enables TNT to develop further its network and expand the international express services in China's fast growing economic regions.

India

The express sector benefited from India's further integration into the global economy and development of the domestic market. It also emerged as a competitive express market with a trend of market consolidation through strategic acquisitions.

In August 2008, TNT successfully integrated Speedage Express Cargo Services (Speedage) into its global Express network. Speedage, a domestic road express company, was acquired by TNT in September 2006. The integration will further strengthen TNT's strategy to become the market leader in India, using an integrated air and road network and operating under a single brand.

South America

In South America, there was relatively good economic growth in Brazil, albeit at a slower pace than in previous years, due to the other currencies' depreciation and the slowdown in the US economy. Argentina was somewhat less impacted, as a relatively large share of its exports went to Asia.

During 2008, TNT continued its progress towards integration of Expresso Mercúrio S.A. (Mercúrio), a domestic road express company acquired by TNT in January 2007. In May 2008, Mercúrio was rebranded as TNT Mercúrio. Combining the two well established names aims to strengthen TNT's leadership position in Brazil as a service provider of both domestic and international freight services. TNT will invest in new vehicles, depots and infrastructure as well as a state of the art call centre in Brazil. TNT is also looking into strengthening its air connectivity between Brazil and Europe and road connectivity to the other South American countries.

Financial results

In 2008, TNT's Express division earned revenues of €6,653 million. The Express division accounted for 59.7% of TNT's group operating revenues and 38.3% of TNT's group operating income.

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

Express financial overview

Year ended at 31 December

	2008	variance %	2007
Total operating revenues	6,653	1.6	6,551
as % of total operating revenues TNT	59.7		59.5
Other income	7	(22.2)	9
Total operating expenses	(6,284)	(5.4)	(5,961)
Total operating income	376	(37.2)	599
as % of express operating revenues	5.7		9.1

(in millions, except percentages)

Express operating revenues

Year ended at 31 December

	2008	variance %	2007
International & Domestic	5,438	(0.2)	5,448
Express Emerging Platforms ¹	1,215	10.2	1,103
Total operating revenues	6,653	1.6	6,551
as % of total operating revenues TNT	59.7		59.5

(in millions, except percentages)

¹ – Apax, India, China, LAM, MEA, Russia and Turkey.

Express operating expenses

Year ended at 31 December

	2008	variance %	2007
Cost of materials	325	21.7	267
Work contracted out and other external expenses	3,330	2.4	3,252
Salaries and social security contributions	1,996	4.3	1,913
Depreciation, amortisation and impairments	261	24.9	209
Other operating expenses	372	16.3	320
Total operating expenses	6,284	5.4	5,961

(in millions, except percentages)

Express operating statistics

Year ended at 31 December

	2008	2007
Number of consignments (in thousands)	230,431	228,199
Number of tons carried	7,451,803	7,390,779
Average of number of working days	254	252
Number of depots/hubs	2,376	2,331
Number of vehicles ¹	26,610	26,760
Number of aircraft ¹	46	47

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

During 2008, TNT's Express division realised modest growth in operating revenues due to strong performance in the first half of 2008 through volume growth in both domestic and international products. This was offset by negative growth in the second half of the year due to the economic downturn especially in Europe. Compared to last year operating income was lower by 37.2% impacted by lower capacity utilisation of the networks due to lower volumes and inflationary pressures due to the peak in fuel prices during July. After adjusting for the restructuring provision and impairments operating income was 25.5% lower than last year.

Express operating revenues

Total operating revenues of TNT's Express business for 2008 increased by €102 million (1.6%) compared to 2007. The organic growth in operating revenues was €327 million (5.1%), partly caused by the fuel surcharge which increased by €183 million compared to 2007. The remaining increase in operating revenue was achieved mainly from solid growth in the first half of 2008 and good growth in emerging markets which, unlike Europe, were not as significantly impacted by the global economic downturn. The economic downturn in the second half of 2008 saw revenue decline, particularly in Western, Central and Southern Europe. Eastern Europe, Australia, Asia and South America have been relatively resilient to the economic downturn. Foreign exchange effects had a negative effect of €241 million (3.7%), mainly due to the strengthening of the euro against most currencies but predominantly the British pound. The effect of acquisitions amounted to €16 million.

International and domestic

International and domestic business showed an overall revenue decline of €10 million (0.2%). Revenue grew organically by €201 million (3.7%) which was offset by a negative foreign exchange effect of €211 million (3.9%), mainly due to the strengthening of the euro versus the British pound.

Emerging platforms

Emerging platforms achieved overall revenue growth of €112 million (10.2%), with an organic growth of 13.0% offset by negative foreign exchange effect of 2.8%. Emerging platforms have not been significantly impacted by the economic downturn with good growth in Middle East, China and South America.

Express operating expenses

Operating expenses of TNT's Express business for 2008 increased by €323 million (5.4%) compared to 2007.

The increase in cost of materials by €58 million (21.6%) was due to higher fuel costs in 2008. Work contracted out increased by €78 million (2.4%) mainly due to inflationary increases (partly due to higher fuel costs for sub-contractors) offset by the volume related decreases in the second half of 2008, together with the start of TNT's cost optimisation programmes. Salaries and wages increased by €83 million (4.3%) due to inflation as well as redundancy costs of €28 million mainly from redundancy plans in the European countries. The increase in depreciation and amortisation by €52 million (24.9%) was mainly due to aircraft impairment costs (€37 million) for the A300 and B146 as part of the air network restructuring plan. Other operating expenses increased by €53 million (16.4%) mainly due to higher bad debt provisions and vehicle expenses and €5 million for other restructuring costs.

Express operating income

The Express business operating income for 2008 decreased by €223 million (37.2%) compared to 2007 or by €153 million (25.5%) after excluding restructuring costs and impairments.

The decline in operating income was primarily due to the economic downturn which has reduced volumes. This has impacted predominantly TNT's European businesses. TNT's emerging platforms business has not been significantly impacted by the economic downturn with good results in South-east Asia, Middle East and South America.

Operating income as a percentage of revenue (ROS) was 5.7% in 2008 compared to 9.1% in 2007 due to the lower volumes and margin pressure caused by the inflationary pressures as well as the restructuring costs and impairments.

Express capital expenditures and proceeds

Capital expenditures

Year ended at 31 December

	2008	variance %	2007
Property, plant and equipment	197		197
Other intangible assets	50	(27.5)	69
	cash out 247	(7.1)	266
Proceeds from sale of property, plant and equipment	10	(47.4)	19
Disposals of other intangible assets	0		0
	cash in 10	(47.4)	19
Netted total	237		247

(in millions, except percentages)

The capital expenditures shown in the table above are excluding the new finance leases, as they do not lead to cash flows.

Capital expenditure on property, plant and equipment and other intangible assets by TNT's Express business totalled €247 million in 2008, which was a decrease of 7.1% compared to 2007 due to lower IT developments.

Some of the larger Express capital expenditures in 2008 included Oslo depot (€12.3 million), Bratislava depot (€6.9 million), UK fleet replacement (€26.9 million), Australia fleet replacement (€5.3 million), Mercúrio fleet replacement (€9 million) and Liège hub expansion (€5.1 million).

During 2008, capital expenditures on other intangible assets totalled €50 million and related primarily to the enhancements to TNT's Global IT Systems.