

THE MAIL DIVISION

General

TNT's Mail division provides mail, mail related, and parcel services to its customers. Its mature business, which has its origins mainly in TNT's home market the Netherlands, is organised in the business line Mail Netherlands. This business line is responsible for mail services in the Netherlands, including the provision of the universal service. Related are the data and electronic communication activities, operating under the brand name Cendris, and the cross-border mail services provided through the joint venture Spring Global Mail.

TNT's emerging mail activities include TNT's mail services outside the Netherlands. TNT Post, through its business line European Mail Networks, is active in the Netherlands and seven other countries, where it is a main challenger of the incumbent postal operator. These activities include both addressed and unaddressed mail.

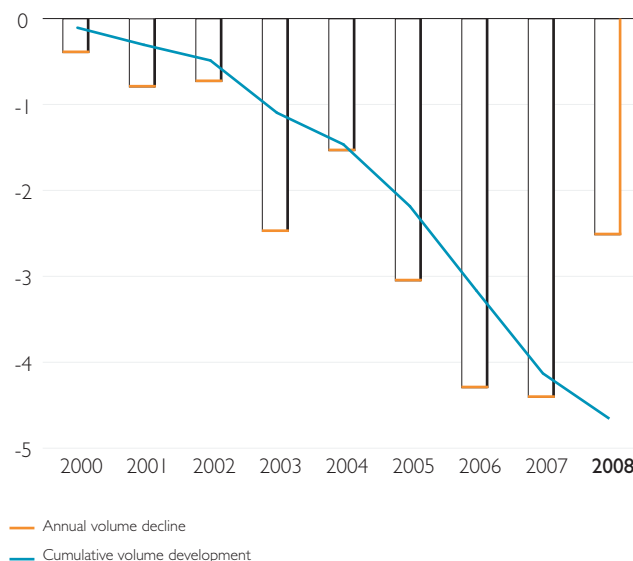
TNT's Mail division provides standard parcel services in the Netherlands and Belgium through TNT Post PakketSERVICE for both domestic and cross-border parcel distribution.

Strategy and actions

In Mail, TNT's strategic intent in phase I of the Focus on Networks strategy was twofold: to prepare for the full transition to a liberalised market in the Netherlands and to capture growth opportunities outside the Netherlands and in the parcel business. In phase II, started in December 2007, TNT commenced the implementation of these plans.

Overview volume development and compensating strategic initiatives

TNT Mail annual and cumulative volume decline in %



2000 – 2007

Volume decline 3%-4% on average (with slightly higher expected decline in the first two years of full liberalisation)

Measures covering impact

Revenue extension:
European Mail Networks
Cost management:
Master plans I + II

+

2008 onwards

Preparation for further volume decline in the range of around 6% in the period to 2012 due to changes in behaviour of senders and receivers of mail

Measures covering impact

Revenue extension:
Growth initiatives
Cost management:
Master plan III

Mail Netherlands and related business

In the Netherlands, TNT is facing increasing substitution by new media (digitisation) and competitive pressure.

The main challenge for the mail market as a whole is the changing role of traditional mail in the communication between consumers and between businesses and their customers. Increasing usage of electronic communication results in a significant decline of mail volumes. These volumes are particularly affected by the loss of large customers that increasingly move to electronic communication in dealing with their clients. For example, large banks are seeking to replace paper statements by electronic statements providing for more cost efficiency and convenience for their customers. In 2008, traditional large mail senders such as telecommunication companies, energy providers, and banks

actively stimulated their customers to use electronic channels rather than mail. The high penetration level of fast internet, exceeding 90% in the Netherlands, catalyses that effect. Communication patterns have significantly changed since this penetration reached such a high level. This is most clearly illustrated by the fact that in 2008 TNT saw a considerable decline of single item mail.

Changing communication patterns influence the demand of business customers for mail services. The 'traditional' 6 days a week next day delivery of TNT is no longer required for the demand in large segments of the market. Therefore, competitors and TNT's subsidiary Network VSP offer less frequent delivery for addressed mail, one or two times a week, at lower prices. Network VSP now has a market position amongst TNT's main competitors, Sandd and

SelektMail. TNT estimates that its competitors collectively have a market share of around 13%.

Competitors may currently distribute direct mail regardless of weight and letters over 50 grammes. This constitutes about 50% of the market. Once the mail market is fully liberalised, TNT expects that competition will also target the segment of letters below 50 grammes.

As a consequence of the impact of electronic media on the demand for mail services, TNT anticipates that the mail volumes decline, which was in the range of between 3% and 4% on average between 2000 and 2008, will be around 6% in the period to 2012. This necessitates additional cost management and restructuring programmes that will further impact the employees at TNT Post in the Netherlands on top of the existing Master Plans that were announced in 2006. In addition to the implementation of these plans, TNT is working on a complete redesign of its Mail network. Timing and content of this redesign will largely depend on the outcome of the negotiations of the collective labour agreement for production workers of TNT and of a collective labour agreement for the sector, and on the regulatory framework. The target is that this redesign, currently called Master Plan III, will start in 2011 and will lead to €200 million annual savings as of 2017. This comes on top of the €395 million that is included in the existing plans of which € 86 million was realised in 2007/2008 and €194 million is planned for 2009-2012.

The plans, both the existing and those in preparation, will enable TNT to deal with the combined impact of the transition of the mail market and economic effects.

Emerging mail markets

Since the start of European Mail Networks, its activities have expanded from mainly unaddressed in the Benelux countries to addressed mail in Germany, the United Kingdom and Italy. TNT intends to increase its focus on addressed mail

delivery in these larger countries. Furthermore, TNT will take into account the market opportunities for value-added services to support mail, like the Formula Certa service with track-and-trace on individual mail items in Italy. In addition, TNT recognises that regulation has an impact on its business opportunities, for instance in Germany and in the United Kingdom. In Germany, value added tax (VAT) regulation and regulatory discussions on minimum wage remain uncertain despite the ruling of the *Oberverwaltungsgericht* of 18 December 2008 (see below under Business performance - emerging mail markets). Nevertheless, TNT will continue to prepare for further growth in this country. In the United Kingdom, TNT provides services through down stream access. Although regulatory uncertainty makes it difficult to estimate its viability, pilots are currently being held with end-to-end delivery services. In December 2008, TNT expressed its interest in exploring a strategic partnership with Royal Mail. These explorations are in line with TNT's ambition to develop a substantial position in the UK mail market. See for more information chapter 3.

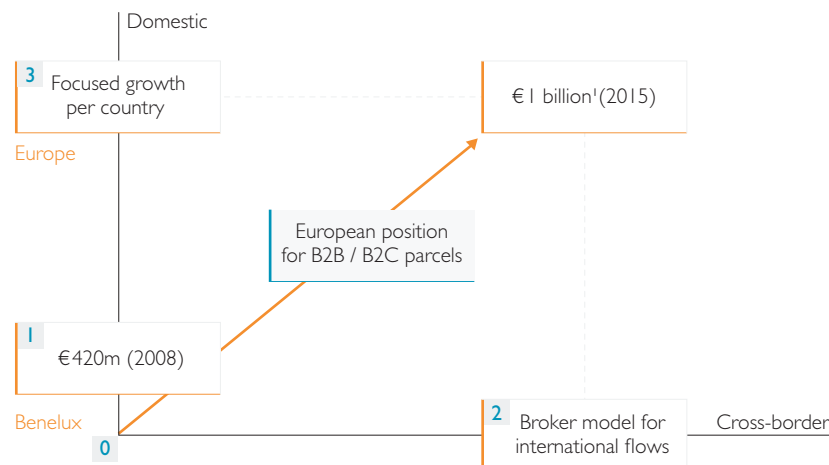
Parcels

In parcels, volumes are growing among other things as a consequence of the growth of e-shopping. As an important player in to-consumer delivery in the Netherlands, TNT Post Pakketservice benefits from this growth and finds itself well positioned to extend its portfolio. Next to the traditional home and office delivery, TNT Post Pakketservice is developing cargo and pallet distribution and is expanding in Belgium and in cross-border services. Further, retail distribution offers new opportunities for TNT Post Pakketservice.

As part of its growth initiatives, TNT will strengthen its position in the parcel market through a combination of e-fulfilment services, special mail and parcel services, and shop and media logistics. Furthermore, using its international contracts and services TNT Post Pakketservice will strengthen its position as a broker for international parcel distribution. This broad range of services will be provided through integrated networks where possible and specialised networks where necessary.

Ambition level for TNT Post Parcels

Growth strategy in two dimensions



I – excluding e-fulfilment and at margin 10% - 12%

- 0 Optimise costs efficiencies with letter mail
– Regulated as USO provider
- 1 As logistics provider, for instance transport for letter mail
- 2 Build and strengthen Benelux position: create an unbeatable position with a broad service portfolio
- 3 Develop and grow broker model as driver for international expansion; focus on suitable acquisition opportunities

Growth initiatives: e-commerce

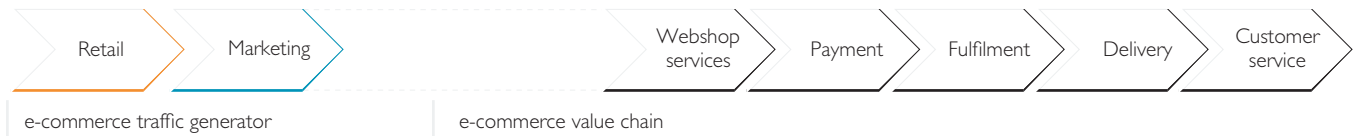
TNT Post is developing a range of new initiatives that leverage on its skills and brand position. Electronic media are not just a threat to TNT. On the contrary, they offer opportunities as well. TNT has identified two growth initiatives that are currently being developed. One initiative was highlighted above under Parcels, the other involves e-commerce.

TNT has built experience in many links of the e-commerce value chain. Much of this experience was gained through TNT's position in the mail market, e.g. in delivery and retail via websites such as www.tntpost.nl. With Cendris, TNT is well established in data and document management and call centres. Together, Cendris and TNT Post have experience in both online and offline marketing.

Furthermore, in the area of fulfilment TNT is well positioned with the Cendris subsidiary Euromail.

Currently, TNT integrates these links in the chain to provide customers the TNT Post services from its website www.tntpost.nl. This includes ordering stamps, but also services like a photo service, gift shop, ordering magazines and pharmacy services of Nationale-Apotheek.nl, in which TNT Post participates. This portfolio and experience form a solid stepping stone to offering an integrated solution for web-based businesses. TNT will develop a position as an online retailer for end-customers, and as a service provider and integrator for e-commerce businesses. This will be realised through a buy-and-build strategy: TNT will further develop its own experience where possible, and acquire additional capabilities where necessary.

TNT Post positions itself both as online retailer and e-commerce service provider



TNT as online retailer



<http://www.bruna.nl>

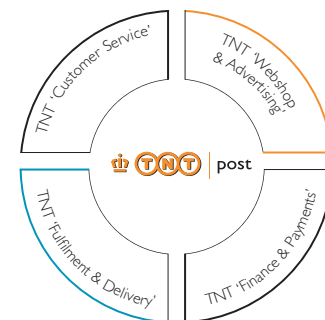
<http://www.portal.nl>

- Experienced shop manager
- Multi-channel marketing
- Customer intelligence

TNT as service provider and integrator



- Convenience
- Integration
- Knowledge
- Safety



Business performance

Mail Netherlands and related business

In 2008, TNT Post took further steps in the Netherlands to implement the Master Plans, and reached agreement with the works council on the way forward. Equally important, significant progress was made in the restructuring of the labour costs, and the commercial approach was tuned further to the changing competitive situation.

The Master Plans consist of commercial initiatives to maintain volume on the one hand, and cost initiatives to save €395 million of annual costs between 2007 and 2015 on the other. Commercial initiatives are concentrated in the customer focus programme that is currently rolled-out throughout Mail Netherlands. This programme aims to strengthen the customer centric approach of the organisation. Moreover, TNT will continue to differentiate its price and service strategy based on market demands by using its economy services and next-week services that are partly provided by Netwerk VSP.

The cost initiatives consist of efficiency measures and a restructuring of the labour costs. During 2008, TNT Post made a start with new working routines at its delivery and collection offices, leading to more standardisation. In autumn 2008, agreement was reached with the works council on the way forward with the upcoming efficiency projects. Also, TNT made progress reducing overhead costs.

TNT decided to restructure the traditional post offices for which TNT Post cooperated with Postbank in a joint venture. The traditional post offices had become an outlet channel that did no longer meet the needs of TNT's and ING's customers. New retail outlets, located in shops, are being established to service TNT's customers better, at lower costs.

These cost initiatives mentioned above aim at total cost savings on a structural basis of €45 million per 2013 compared to the level of 2007, of which €8 million was realised by the end of 2008.

Of the €395 million savings target of the Master Plans, TNT aims to realise €125 million through the restructuring of labour costs. It proved to be a lengthy process to reach agreement with the labour unions on a new collective labour agreement and for the first time in 25 years TNT faced some local strikes of its postal workers. The collective labour agreement that was concluded in spring 2008 includes a salary increase of 3% as of 1 April 2008, and another 0.5% conditional on agreement of separate collective labour agreements for target groups with a different labour benchmark.

To TNT, the essential part of this new collective labour agreement is the acceptance by the labour unions that a fundamental step needs to be taken to come to more market oriented labour conditions for production workers. This involves the conclusion of a separate collective labour agreement for production workers as of April 2009, with the aim to reach a substantially lower salary level for these production workers. This should result in labour conditions more in line with the level common in production environments in the Netherlands. The discussions also involve accompanying transition arrangements for production workers.

TNT is of the opinion that a binding collective labour agreement for the postal sector as a whole is a condition for fair competition, and the Dutch government indeed made comparable working conditions a requirement for full liberalisation of the Dutch postal market. More details on the regulatory situation in the mail market can be found in chapter 11.

The volume decline that Mail Netherlands faced in 2008 was 2.7%, corrected for workday effects. This is slightly better than the expected range of 3% to 4% volume decline. The introduction of an economy product delivered through TNT Post and a next week service delivered through Netwerk VSP contributed to retaining volumes in the market. The customer focus strategy proved to be effective as well: notwithstanding losing mail volumes to competitors, TNT won back volumes in the same range.

TNT does not restrict its activities to reactively dealing with the decline of volumes. Technological developments are used in developing new, innovative services. TNT has developed TNT Billing Solutions for electronic billing. TNT Post has taken a share in the online pharmacy Nationale-Apotheek.nl, and offers through its website various web-based services such as photo services, postcards and personalised stamps. A successful initiative in 2008 was Try Now, which invites customers to order samples of new products via sms or internet. This enables manufacturers to directly communicate with their customers

and makes them less dependent on retail outlets. In the autumn of 2008, TNT extended its online gift shop to an online shopping mall. With developments like this, TNT maintains a leading position to serve changing customer needs.

The cross-border mail activities of TNT are provided through a 51% share in G3 Worldwide Mail N.V. (Spring Global Mail), with Royal Mail Investments Limited and Singapore Post Limited being the other partners. This joint venture provides cross-border mail services in Europe, Canada and the Asian Pacific area. It uses the services of its three shareholders, and furthermore has its own contracts with local delivery agents.

Cross-border mail volumes are strongly influenced by electronic communication. The speed and cost advantage of electronic media are the main reasons for stronger volume declines. At the same time, the slow pace of liberalisation influences the business model of Spring Global Mail. As a consequence, cross-border mail revenues were stagnant. Spring Global Mail is currently broadening its activities to parcels.

Emerging mail markets

In addressed mail delivery the focus was on the major countries Germany, the United Kingdom and Italy.

Business performance was influenced by regulatory discussions in Germany on a minimum wage generally binding for all companies in the postal and delivery services sector, and the VAT exemption Deutsche Post enjoys. At the same time TNT focused on a healthy underlying performance of the organisation.

TNT challenged the German government regarding the minimum wage, as it considered this minimum wage unconstitutional. In its judgement of 7 March 2008, the administrative court in first instance (*Verwaltungsgericht*) held that the minimum wage ordinance of 28 December 2007, which introduces minimum wages of up to €9.80 for the postal sector in Germany, is invalid. The German government filed an appeal against that decision with the administrative court in second instance (*Oberverwaltungsgericht*).

On 18 December 2008, the *Oberverwaltungsgericht* confirmed the decision of the court in first instance. However, the court also ruled that TNT's claim, being one of three claimants, was not admissible and referred TNT's claim to the labour courts. It is likely that TNT will file an appeal against the inadmissibility of its claim, because the decision of the court on TNT's inadmissibility is not in line with recent jurisprudence as to claims of this nature.

The German government filed a further appeal (*Revision*) against the decision to the Federal Administrative Court (*Bundesverwaltungsgericht*) in Leipzig. The *Bundesverwaltungsgericht* will only review whether the second instance judgement contains legal defects but will not investigate further the underlying facts. There is no statutory time frame for the appeal proceedings.

In September 2008, the German government finally proposed a new VAT arrangement for the mail industry, which should enter into force as of 1 January 2010. TNT regrets that the arrangement still seems to accommodate Deutsche Post in maintaining its VAT advantage. Therefore, TNT has asked the German government to improve the arrangement on certain aspects.

Despite these developments, and although the uncertainty affects both customers and employees, TNT managed to extend its position in the German addressed mail market. In 2008, the activities grew total revenue to €248

million (2007: 227). Pending the outcome of regulatory discussions, it is still the intention of TNT to continue to grow its activities in Germany.

In the United Kingdom, the down stream access business has grown, and TNT started pilots with end-to-end delivery in the Liverpool area. At this moment regulation is however still a hurdle to a further roll-out.

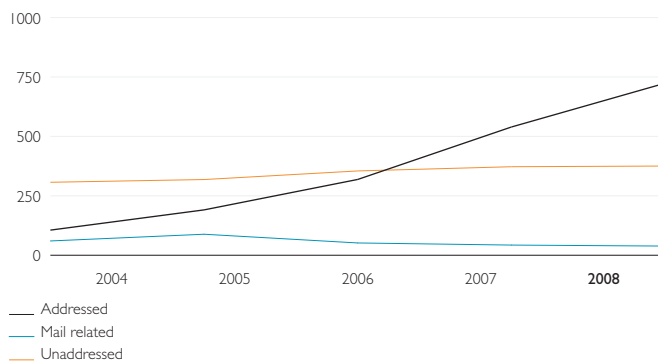
Furthermore, TNT launched its new service TNT-IT, a hybrid mail solution to develop further its services to small and medium enterprises in particular. Customers can send their letters to TNT directly from their computer, where printing and further handling is taken care of. This service, in addition to the existing down stream access services, has caused a solid growth of the UK activities.

In Italy, the service Formula Certa continues to grow rapidly whilst TNT Post Italy continues to provide services to Poste Italiane. With this service, TNT offers a track-and-trace service on regular mail. This service is currently offered in around 25% of Italy. It is the intention to extend this over the coming years.

In 2008, TNT experienced that unaddressed mail services suffered more than addressed mail from the economic downturn. As a consequence, the performance of unaddressed delivery was less than expected, though the market position of TNT compared to competitors has not deteriorated. Unaddressed mail, however, is still of value to TNT in most countries.

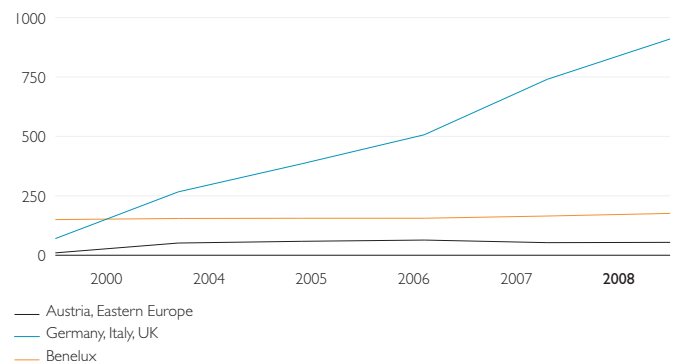
Revenue development EMN: increasing focus on addressed mail and larger countries

Product development EMN 2004-2008



- Addressed mail revenues have almost quadrupled over the last three years
 - notwithstanding the absence of a level playing field that affects profitability
- EMN will continue to focus increasingly on addressed mail

Country development EMN 2004-2008



- From a predominantly Benelux company back in 2000 Germany, UK and Italy now comprise 80% of the revenues of EMN
- EMN will continue to focus its growth on the main mail markets in Europe

Parcels

The standard parcel business is developing rapidly, strongly driven by the growth of web shopping, TNT's broadening business-to-business portfolio, such as payment and IT services and supporting services for web shops, and the growth of cross-border parcel volumes.

As a consequence of this rapid growth, the boundaries of the operational capacity are within sight. Therefore, TNT decided to open a fourth parcel sorting centre in 2009, and to review its entire operational structure for parcels as of 2012. Furthermore, TNT is improving its IT system in order to provide the most developed IT services in the industry to its customers.

TNT is in the process of broadening its parcels portfolio. During 2008, TNT developed cargo services with the integration of the earlier acquired AAA-Logistics. Further, the first steps were taken in the area of shop logistics with the signing of a contract with Aldipress.

Financial results

In 2008, TNT's Mail business earned revenues of €4,245 million, a 0.3% increase compared to 2007. Mail accounted for 38.1% of TNT's group operating revenues and 64.5% of TNT's group operating income.

In 2008, approximately 22% of TNT's Mail operating revenues and approximately 8% of the group's operating revenues (2007: 23% and 9%) were derived from reserved postal services in which TNT generally was not subject to competition.

In 2008, TNT experienced a volume decline of 2.4% per annum compared to 2007. The underlying decline of volumes adjusted for a comparable number of working days per year was 2.7% per annum. This is slightly better than the guidance TNT gave in 2004 of an average volume decline between 3% and 4% annually from 2004 up to 2012 onwards. The average decline since 2004 is around 3.5% per annum. The decline in 2008 was due in part to substitution by electronic media and accelerated by competition, offset by various one off mailings.

Mail financial overview

Year ended at 31 December

	2008	variance %	2007
Total operating revenues	4,245	0.3	4,234
as % of total operating revenues TNT	38.1		38.4
Other income	26	(59.4)	64
Total operating expenses	(3,638)	0.9	(3,672)
Total operating income	633	1.1	626
as % of mail operating revenues	14.9		14.8

(in millions, except percentages)

Mail operating revenues

Year ended at 31 December

	2008	variance %	2007
Mail Netherlands and related business	2,751	(3.9)	2,862
Emerging Mail & Parcels	1,494	8.9	1,372
Total operating revenues	4,245	0.3	4,234
as % of total operating revenues TNT	38.1		38.4
of which Emerging Mail & Parcels (excluding Germany)	1,246	8.8	1,145

(in millions, except percentages)

Mail operating expenses

Year ended at 31 December

	2008	variance %	2007
Cost of materials	158	1.3	156
Work contracted out and other external expenses	1,473	5.7	1,394
Salaries and social security contributions	1,532	(5.1)	1,614
Depreciation, amortisation and impairments	131	(3.0)	135
Other operating expenses	344	(7.8)	373
Total operating expenses	3,638	(0.9)	3,672

(in millions, except percentages)

Mail operating statistics¹

Year ended at 31 December

	2008	2007
Addressed postal items delivered by Mail Netherlands (millions)	4,693	4,807
per Netherlands delivery address (items)	601	622
per Netherlands inhabitant (items)	285	294
per Mail Netherlands FTE ² (thousands of items)	162	160
operating revenues per FTE ² (thousands of €)	100	99
average percentage of national mail sorted automatically (%)	83	84
per delivery day (millions)	15.3	15.7

1 – Comparative statistics have been adjusted to reflect the changed business lines.

2 – The FTE (full time employee equivalent) definition is based on a 37-hour work week.

Mail operating revenues

In 2008, operating revenues from TNT's Mail business increased by €11 million (0.3%) compared to 2007. Organic operating revenues increased by €105 million (2.5%). Compared to last year, 2008 showed a €26 million (0.6%) negative acquisition and disposal effect, mainly due to disposals in 2008 (including UK Parcels). Foreign exchange effects (mainly the British pound against the euro) accounted for a decrease of €68 million (1.6%).

Mail Netherlands and related business operating revenues in 2008 decreased by €106 million (3.9%) compared to 2007. The organic volume decline in addressed mail items was accompanied by a negative price-mix effect and other effects.

The continued underlying decline in addressed postal item volumes in 2008 was primarily due to autonomous decline in single items and reduced demand for bulk mail as a result of cost saving programmes initiated by some of TNT's key customers as well as to the continued substitution by electronic media.

Emerging Mail and Parcels operating revenues increased by 8.9% in 2008. The organic growth in operating revenues of TNT's Emerging Mail and Parcels business was €207 million (15.1%). The acquisitions and disposals in 2008 and during 2007 had a negative effect of €21 million (1.5%) on operating revenues. Foreign exchange effects had a negative effect of €64 million (4.7%). Main contributors to the operating revenues growth were the United Kingdom, Germany, Belgium, Italy and Parcels Netherlands, which showed double digit growth.

Other income decreased to €26 million (2007: 64), mainly as a result of €28 million of lower sales of real estate in 2008 and gains on disposed companies in 2007.

Mail operating expenses

TNT's Mail business operating expenses decreased by €34 million (0.9%) in 2008 compared to 2007. The organic growth in operating expenses of TNT's Mail division was €110 million (3.0%). The disposals in 2008 and during 2007 had a lowering effect of €76 million (2.1%) on operating expenses. Foreign exchange effects accounted for a decline of €67 million (1.8%).

Costs for work contracted out increased by €79 million, which is mainly attributable to the organic growth realised in Emerging Mail and Parcels. In 2008, costs of salaries decreased by €82 million, mainly as a result of lower restructuring charges in Mail Netherlands.

Higher costs of salaries due to a new collective labour agreement in Mail Netherlands and organic growth by Emerging Mail and Parcels were offset by a reduction of FTEs in Mail Netherlands in connection with the cost flexibility programme and €24 million lower pension costs compared to 2007. Included in costs of salaries is an amount of €67 million following the agreed social plan for the restructuring of the joint venture Postkantoren B.V.

Other operating expenses decreased by €29 million compared to 2007, 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 in 2007. Included in the other operating expenses are the other restructuring costs relating to joint venture Postkantoren B.V. of €15 million.

Mail operating income

In 2008 the Mail business operating income increased by €7 million (1.1%) compared to 2007, on balance due to lower restructuring charges, the expansions in Emerging Mail and Parcels, the revenue and cost development in Mail Netherlands and related business and lower book gains on sale of real estate.

In 2008, overall operating income of TNT's Mail division as a percentage of its operating revenues increased to 14.9% (2007 14.8%). Adjusted for restructuring costs and impairments of €7 million (€89 million in 2008, €138 million in 2007) operating income decreased to 16.8% (2007: 17.4%).

Mail capital expenditures and proceeds

Capital expenditures

Year ended at 31 December

	2008	variance %	2007
Property, plant and equipment	69	(5.5)	73
Other intangible assets	23	(11.5)	26
	cash out 92	(7.1)	99
Proceeds from sale of property, plant and equipment	31	(51.6)	64
Disposals of other intangible assets	0		0
	cash in 31	(51.6)	64
Netted total	61		35

(in millions, except percentages)

Capital expenditure on property, plant and equipment and other intangible assets by TNT's Mail division totalled €92 million in 2008, which was a decrease of 7.1% compared to 2007. The main capital expenditures in 2008 related to machinery and equipment (€22 million), IT (€23 million) and housing (€32

million). The remaining €16 million of capital expenditure is related to various smaller projects. Significant investments were made in sorting machines and software in Europe (€21 million).