

REMUNERATION

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REMUNERATION

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 and third parts reflect the remuneration of the members of the Board of Management in 2008 and 2009 respectively. Finally, the remuneration of the members of the Supervisory Board is described.

Remuneration committee

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 Corporate Governance Code Monitoring Committee.

The remuneration committee has four members. In 2008 the remuneration committee members were Mr R.W.H. Stomberg (chairman and member until 11 April 2008), Mr S. Levy (chairman as of 11 April 2008), Mr R. King, Mr J.H.M. Hommen, and Mr P.C. Klaver (member as of 11 April 2008). During 2008, the remuneration committee met five times. In 2008, none of the members of the remuneration committee was a member of the management board of another Dutch listed company or a member of the TNT audit committee.

The remuneration committee used professional internal and external advice. 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 for 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 benchmarked against a Dutch reference group. All comparisons are made on a euro basis.

2008 Dutch peer group (AEX companies)

Unilever; Ahold; Philips Electronics; Akzo Nobel; KPN; Heineken; DSM; Randstad; Reed Elsevier; Wolters Kluwer; ASML Holding; SBM offshore; USG people

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. As a reference for annual increases a weighted average of collective labour agreement increases in TNT's key business areas is taken.

Short term compensation: bonus

In accordance with the policy, 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.

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 can 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 divisional 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 corporate citizenship and realising other measurable targets in relation to TNT's CR ambitions.

The realisation of each financial or non-financial target can independently result in bonus payments. In 2008, 30% of the bonus opportunity at target level related to non-financial targets.

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. The grant is based on a value of 80% of base salary for the CEO and 65% of base salary for the other members of the Board of Management. This grant value is translated into the 150% maximum number of shares that are granted and can vest. This maximum number of shares is based on the IFRS value per share as calculated on the basis of the average day-end share price of TNT shares in the month of January of the year of the grant.

These performance shares, due to their long term nature, are inherently and significantly more open to market uncertainties than short term compensation elements. 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 Share 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 that ranges between -20% and +20% TSR performance in comparison to the TSR peer group.

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.

% difference company performance versus customised index	% of base allocation of performance shares that vest
≥ + 20%	150.0%
+ 10%	112.5%
+ 7%	100.0%
0%	75.0%
- 10%	37.5%
≤ - 20%	0.0%

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. This number of granted shares represents 150% of the "at target" base allocation, which was capped at a level of 37,275 shares for the CEO and 19,508 shares for the other members of the Board of Management in 2008.

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 being at least two years after vesting 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 scheme applicable to the Dutch members of the Board of Management is 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.

Appointment details

	Employed since	Term of employment	Board member since	Year of (re)appointment	Term of appointment
Peter Bakker	October 1991	Indefinite	1998	2008	Four years
Henk van Dalen	April 2006	Indefinite	2006	2006	Four years
Harry Koorstra	October 1991	Indefinite	2000	2005	Four years
Marie-Christine Lombard	December 1999	Indefinite	2004	2008	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 members of the Board of Management are summarised as follows:

- As policy, severance payments other than related to a change of control are 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. For members of the Board of Management who are not residents of the Netherlands, the company follows local market practice for that part of the base salary earned in the country of residence. The employment contract of TNT's CFO, effective since 1 April 2006, states that the severance payments other than related to a change of control will amount to twenty-four months base salary during the first four year term as a member of the Board of Management.

During further terms as a member of the Board of Management, the severance payments are of twelve months salary.

- Severance payments in case of a change of 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. No distinction is made between resident or non-resident members of the Board of Management.

For all members of the Board of Management, in case of a change of 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.

Remuneration in 2008

TNT considers variable compensation to be an important part of the remuneration package of the members of the Board of Management.

The table below summarises the 2008 compensation elements of the members of the Board of Management as they have to be calculated under IFRS in the annual accounts. For detailed disclosure on the remuneration of individual members of the Board of Management, see note 18 of the consolidated financial statements of TNT N.V.

The amounts included in the columns accrued for short term incentive and accrued for long term incentive represent the IFRS cost in 2008 of non-vested entitlements relating to 2008 and previous years.

The CEO and the other members of the Board of Management will invest part of their net 2008 bonus pay-out in TNT shares.

The compensation in cash received over the year 2008 consists of base salary in the year and cash bonus over the year and paid in the year thereafter. In an historical perspective this factual cash compensation has developed as follows:

Compensation Board of Management

	Base salary 2008	Other periodic paid compensation 2008	Accrued for short term incentive	Accrued long term incentive	Pension related costs
Peter Bakker	918,000	159,998	684,268	485,125	86,083
Henk van Dalen	612,000	525,459	361,052	212,617	254,816
Harry Koorstra	612,000	142,302	506,124	248,304	84,315
Marie-Christine Lombard	612,000	501,958	259,906	353,173	281,520
Total	2,754,000	1,329,717	1,811,350	1,299,219	706,734

(in €)

Cash Compensation package Board of Management

		2004	2005	2006	2007	2008
Peter Bakker	Base salary	900,000	900,000	900,000	900,000	918,000
	Bonus	675,000	498,140	675,000	675,000 (capped)	587,795
Henk van Dalen	Base salary			450,000	600,000	612,000
	Bonus			378,000 ¹	450,000 (capped)	336,784
Harry Koorstra	Base salary	600,000	600,000	600,000	600,000	612,000
	Bonus	450,000	364,465	450,000	450,000 (capped)	439,722
Marie-Christine Lombard	Base salary	500,000	600,000	600,000	600,000	612,000
	Bonus	375,000	514,465	450,000	450,000 (capped)	195,840

(in €)

¹ – Pro rata for months employed in 2006

Long term compensation: performance shares

Performance shares (in number of shares)

		2004	2005	2006	2007	2008
Peter Bakker	Granted shares	10,846	46,550	32,062	37,275 (capped)	37,275 (capped)
	of which vested 3 years thereafter	10,846	29,094			
Henk van Dalen	Granted shares			16,032	19,508 (capped)	19,508 (capped)
	of which vested 3 years thereafter					
Harry Koorstra	Granted shares	5,423	23,275	16,032	19,508 (capped)	19,508 (capped)
	of which vested 3 years thereafter	5,423	14,547			
Marie-Christine Lombard	Granted shares	5,423	23,275	36,032	19,508 (capped)	19,508 (capped)
	of which vested 3 years thereafter	5,423	14,547			

Explanation on long term compensation

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 be significantly different. This is illustrated by the table below which includes the IFRS value of the performance shares granted in 2008, compared with the hypothetical value assuming vesting per 31 December 2008. At this date the pro forma number of shares vesting would then have been 29.5% of the base allocation. Both values differ significantly from calculations as often used in the public domain (please also refer to note 18 of the consolidated financial statements of TNT N.V).

Comparison value of granted shares between IFRS and the public domain

	maximum number of shares granted in 2008	value assumed by public domain at grant date	total value under IFRS	number of shares as if vested per 31 Dec 2008	value as if vested per 31 Dec 2008
CEO	37,275	930,011	407,043	7,331	100,875
Member of the Board of Management	19,508	486,725	213,027	3,837	52,797

(in €, except number of shares)

Remuneration in 2009

Given the severe economic environment, the related public debate on top management remuneration and the sacrifices that all stakeholders will be asked to make during this economic crisis period, the Supervisory Board has extensively discussed the Board of Management remuneration for 2009.

Notwithstanding the 2007 approved remuneration policy the remuneration committee has advised the Supervisory Board the following measures for 2009:

- no salary increase shall be made effective as regards the base salary. Therefore the base salary of the CEO remains set at €918,000, and for the other members of the Board of Management it remains set at €612,000.
- a cap on short term incentive is to be implemented. For the CEO the cap is set at €460,000 and for the other members of the Board of Management it is set at €325,000.
- a cap on long term incentive is to be implemented. The cap for the CEO is set at a grant value of €460,000 and for the other members of the Board of Management it is set at a grant value of €325,000.

The Supervisory Board has approved this recommendation. The Board of Management concurs with this decision. For 2009 this means the CEO's remuneration is between 25% (at target) and 35% (at stretch) below the 2007 approved policy levels. For the other members of the Board of Management total remuneration is decreased by between 15% (at target) and 24% (at stretch) compared to the 2007 approved policy levels.

Compared to the 2008 level the total of base salary and short term compensation bonus opportunity decreases by €215,000 for the CEO and by €125,000 for the other members of the Board of Management.

During the course of 2009 the Supervisory Board will work on a new policy that is simpler, aimed at the long term interest of all stakeholders and benchmarked towards market developments in TNT's peer and reference group.

Other

The Supervisory Board introduced a "claw-back" clause, effective as of 2008, in the situation that the financial information on which the pay-out of variable remuneration was based is determined to be incorrect.

In case of a change of control, the proceeds of the 2009 performance share grant will be capped at the level of the sum of:

- the average of the closing prices of the TNT N.V. share according to the Official Price List for a period of five trading days prior to the date of the time the first announcement to make a public offer was made, and
- 50% of the difference between the ultimate share price paid by the buyer and the price as calculated under the previous bullet.

The Supervisory Board has the discretionary authority to decide on one-off payments to members of the Board of Management in special circumstances. Such payments are always explained and disclosed.

The Supervisory Board has the discretionary authority to adjust the value of variable pay components originally awarded if the outcome proves to be unfair as a result of exceptional circumstances during the performance period.

Remuneration members of the Supervisory Board

The remuneration of the members of the Supervisory Board comprises 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.

Remuneration of Supervisory Board

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

(in €)

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