

## Risk environment and response 2008/2009

TNT's Focus on Networks strategy has positioned the group as a market leading – road based – Express networks operator in Europe and key emerging markets globally, as well as a leader in the postal industry. The implementation of TNT's business and financial strategies is not without risk. The Board of Management however believes that these strategies contain manageable execution risks as they are based on TNT's core strengths. As described in chapter 7, TNT's comprehensive risk management and internal control, integrity and compliance framework has been designed to identify and prioritise principal key risks and to develop mitigating actions and has as its foundation the Committee of Sponsoring Organisations of the Treadway Commission (COSO) Enterprise Risk Management – Integrated Framework (2004).

During 2008 the global economy entered into a severe recessionary phase, accompanied by significant uncertainty in financial markets, deepening in Europe particularly in the second half of the year.

This sharp change in the economic environment has had a substantial impact on the results of the Express division. Volumes, overall and in particular in the premium express market in Europe, decreased and are well below levels over 2007. TNT assumes continuing pressure on Express volumes in 2009.

Although TNT Mail is considerably less sensitive to economic cycles, it is preparing its operations for higher levels of volume decline, largely resulting from expected increased substitution in the Dutch mail market. Although within the recent decision of the Dutch government not to fully liberalise the mail market on 1 January 2009, the need for balanced postal sector labour conditions and a European level playing field is consistently reflected, a government decision to liberalise the postal market in the Netherlands during 2009 is still possible. Such decision might put further pressure on TNT's mail volumes and competitive position.

TNT is adapting and aligning its strategic short and medium term focus areas to strengthen the company through the recessionary phase in the global economy, whilst remaining alert to new growth opportunities provided by its strong platforms.

The short term severe economic downturn requires the Express business to protect revenue and margin levels. TNT Express has implemented and is preparing a full range of measures to reduce costs significantly in all areas of operations, including air and road platforms on a response to expected sharply declining volumes.

The Mail business has prepared and is preparing its operations for a volume decline from around 4% in 2008 to around 6% over the years to come as a result of higher levels of substitution and competition. As already disclosed in chapter 5 of this annual report, Master Plans II and III will continue to adapt the organisation and cost structure in 2009-2010 and the years thereafter.

TNT's financial standing as per ultimo 2008 is solid and based on a balanced and long term secured funding position. TNT will continue to focus on sustaining its good financial standing going forward by, amongst others, strict business performance and cash flow management, which will include targeted reductions in working capital and capital expenditures. In addition, real estate will continue to be sold, provided market conditions enable this to be realised close to normal market values. TNT maintains its policy to retain a BBB+ credit rating.

On 4 December 2008, TNT announced targeted structural cost savings totalling €270-330 million in the period 2009-2010. As part of this total, TNT Express targets total structural savings of €170-210 million to be realised in full in 2010, of which €90-125 million are to be achieved in 2009. In addition, TNT Express will be ready to implement further volume dependent contingencies up to an amount of €120 million savings in 2009.

TNT Mail will continue in 2009 the implementation of its current Master Plans and start a new Master Plan. The targeted savings are €60-70 million in 2009 plus a further €40-50 million in 2010. These savings could be enhanced as a result of the full impact of a successful finalisation of the current collective labour agreement negotiations that aim to establish salary costs for its operations that are more in line with standard market practices. A new Master Plan III will be launched for the period from 2011 onwards, which aims at achieving €200 million in recurring cost savings amongst others based on making flexible delivery models and structures and a higher level of part time labour.

TNT indicates a level of provisions for these cost optimisation initiatives in the period 2008-2010 of €125-200 million and possible impairments up to €150 million. The indicated range of provisions excludes the possible impact of successful collective labour agreement negotiations, which will result in savings related to labour costs being achieved at an earlier stage.

These cost savings and financial targets are subject to revision if the macroeconomic and business situations change during 2009 beyond developments currently assumed.

## Principal key risks

Whilst continuous emphasis has been placed on the identification of risks at all levels of the organisation and the development of mitigating actions, the constant changes in the environment in 2008 have made it challenging to keep abreast of the rapidly evolving situation. During 2008, the risk profile within TNT changed significantly with many previously reported inherent risks becoming specific within a very short period of time. TNT management has reviewed the risk profile regularly throughout the year and will continue to do so during 2009.

Understanding risks is a vital element of TNT's management decision making processes. However it is not a means to an end but a process to support management. No matter how good a risk management and control system may be, it cannot be assumed to be exhaustive nor can it provide certainty that it will prevent negative developments in TNT's business and business environment from occurring. It is important to note that new risks could be identified that are not known currently and that any of the following known risks could have a material adverse effect on TNT's financial position, results of operations, liquidity and the actual outcome of matters referred to in the forward-looking statements contained in this annual report.

## Specific key risks in 2009

The Board of Management has reviewed TNT's risk profile and confirms that the following specific key risks require focused and decisive management attention in the short term.

**Sharp volume declines and shifts in customer preferences from premium to economy products in TNT Express which are amongst others directly related to the declining macroeconomic situation can lead to the need to further rationalise TNT's Express operations and the air and road networks.**

Although the Express division has a significant proportion of its operational costs outsourced there remains a risk that continued sharp volume declines and shifts in customer preferences as a result of the macroeconomic downturn would require TNT to materially rationalise its air and road networks and product offering to keep abreast of falling revenues and increasing costs. In particular the shift from premium international express next-day product to international economy day-certain products might significantly change the profit mix as well as the cost mix. Where the premium product has a relatively small part of total volumes with a relatively large share in total revenue a sharp volume decrease would only give limited short term opportunities to cost adaptation in the fixed air and road network. If premium products would decline sharply with other volumes only slightly increasing this would already result in very limited cost adaptation in the networks. In this context TNT is implementing large structural and variable cost savings programmes to protect margin and profit levels. If the speed of implementation of these cost savings is slower than planned or if TNT Express cannot keep up with the speed of the declining GDP and resulting drops in volume, then this would significantly influence Express profits and profitability.

**The loss of key customers/suppliers due to insolvency/bankruptcy in a worsening macroeconomic environment or significant further decline in volumes could have a significant impact on TNT's cash flows and operational capabilities.**

TNT's larger customers in both Express and Mail could be affected by the worsening macroeconomic situation to the extent that they have to file for bankruptcy. This would have an effect on TNT's operational planning and could negatively impact the volume on which TNT's cost savings are based. This could also result in bad debts which would have to be written off. TNT's business model in both divisions is also dependant upon the extensive use of subcontractors and other key suppliers. Bankruptcy of key subcontractors and other suppliers could result in operational disruption and TNT's ability to offer its full range of delivery solutions.

**The further liberalisation of the Dutch and EU postal markets could adversely affect TNT's revenues and profitability.**

The process of liberalisation of the postal market within the Netherlands, which began in the late 1980's, is continuing. Pursuant to the EU Postal Directive, as of 1 January 2006 the restriction that reserved the provision of letters up to 100 grammes exclusively to TNT (the reserved postal services) was reduced to 50 grammes. On 13 April 2006 the Dutch government decided to fully liberalise the postal market in the Netherlands in 2008 on the condition that there is a "level playing field" with the British and German postal markets. The Dutch government also agreed upon the proposal for a new Dutch Postal Act. The proposal for a new Dutch Postal Act followed the vision of the Dutch Minister of Economic Affairs on the postal market in the Netherlands, which was published in 2004. As discussed in greater detail in chapter 11 of this annual report, this new Dutch Postal Act addresses a number of issues that are directly relevant to TNT's business, including price controls and the scope of the mandatory

postal services. On 5 June 2007 the Dutch Second Chamber of Parliament adopted the new Postal Act. The Postal Act will have to be approved by the Dutch First Chamber of Parliament before it enters into force. The enactment date is dependent on the condition of a level playing field in real terms at the postal markets of Germany and the United Kingdom, as well as on acceptable employment conditions at the new postal operators in the Netherlands. From December 2007, the Dutch junior Minister of Economic Affairs made use three times of the so-called "emergency-brake procedure" when liberalisation was postponed, lately as of 1 January 2009. The Minister based his decisions on two arguments. Firstly, the lack of clarity about the level playing field in Germany and secondly, the ongoing discussion in the Netherlands on labour conditions. The new Dutch Postal Act may adversely affect TNT's business, revenues and profitability. For example, a possible expanded role for OPTA, the Supervisory Authority for Post and Telecommunications in the Netherlands, in controlling TNT's price determination for downstream access for competitors might have an adverse effect on TNT's competitive position.

On 20 February 2008 the EU published a new Postal Directive 2008/6/EC to amend Directive 97/67/EC as amended by Directive 2002/39/EC. This latest Directive confirms liberalisation as of January 2011. Derogation is given to 11 Member States to open up their market as of January 2013. The reserved area as a financing mechanism for mandatory postal services is abolished, while allowing for a wide variety of other methods, such as tendering, public funds and compensation funds. The new Directive also leaves the Member States the discretionary powers to decide upon the scope of the mandatory postal services. The new EU Postal Directive may adversely affect TNT's European Mail Networks business. For example, if the new EU Postal Directive provides for insufficient guarantees, Member States can abuse national Universal Service Obligation regulation to protect their national operators. TNT's Mail business could therefore be adversely affected by transposition and implementation of the EU Postal Directive into national postal legislation as well as by non-postal national legislation that might in practice affect the emergence of competition in the postal market. An example of this is the introduction of an artificially high minimum wage in the German postal sector that could effectively function as a barrier to competition.

**A downturn in the capital markets and/or a decline in interest rates may increase the discounted present value of TNT's defined benefit pension fund liabilities, which in turn could require significant additional funding by TNT.**

TNT's main Dutch "defined benefit pension fund" has total assets of over €3.8 billion, some of which are funded by investments held in equities with a view to benefiting from capital appreciation. The value of these securities may be volatile and a downturn in the capital markets could significantly reduce the value of these assets. In addition a decline in interest rate may increase the net present value of TNT's pension liabilities. Should the coverage ratio of assets divided by liabilities fall below the minimum funding requirements prescribed by De Nederlandsche Bank (DNB), TNT will be required to increase contributions to the funds. If the assets were to lose a substantial amount of their value or if, as a result of a decline in interest rates, TNT's liabilities would substantially increase, or both, TNT might be required to make large additional payments into the funds, which could adversely affect liquidity over a number of years.

As a result, TNT's main pension fund was around €500 million below the minimum funding requirements on 31 December 2008. The pension fund will have to submit a recovery plan to DNB before 1 April 2009. This recovery plan needs to outline measures on how the pension fund will restore minimum funding requirements within the three-year time frame as currently prescribed

by Dutch pension law. In addition, such a plan will have to outline how the coverage ratio will reach the required level of around 120% within a timeframe of 15 years, subject to the risks involved in the pension fund's asset portfolio.

Such a plan is the responsibility of the pension fund, which still has to decide upon its course of action. Since the employer's position and the outcome of current collective labour agreement negotiations are unknown as yet, the exact financial impact for TNT is still uncertain. However, the required additional employer cash contribution to the pension fund may have a material cash impact on TNT. This is estimated at around €140 million in 2009 in addition to the usual annual employer contribution of around €100 million.

**Measures taken to reduce costs, including employee redundancies, may not achieve the results intended and could adversely affect TNT's employee relations, reputation, revenues and profitability.**

The cost saving targets and initiatives in TNT's press release of 4 December 2008 are based on assumptions and expectations which may not be valid if the economic environment worsens. It may therefore be necessary for TNT to restructure, redesign or integrate as necessary, various aspects of the company's operations in an effort to achieve additional cost savings, flexibility and other efficiencies. In addition, restructuring of operations and other cost reducing measures may not achieve the results intended and may invoke restructuring and other costs and changes to TNT that adversely affect revenues and profitability. The TNT Post Master Plans may require forced employee lay-offs which may damage TNT's employee relations and reputation in the employment market. If TNT is not able to reach agreement with trade unions on these Master Plans, profitability could suffer due to delays in or not reaching planned savings.

**A downgrade in TNT's credit rating may increase TNT's financing costs and harm TNT's ability to finance its operations and acquisitions, which could negatively affect revenues and profitability.**

Developments and trends in the world economy can have a material adverse effect on TNT's financial condition and/or results of operations and cash flows which in turn may result in a downgrade of the credit ratings. A downgrade in TNT's credit rating may negatively affect the company's ability to obtain funds from financial institutions, retail investors and banks. It may also increase TNT's financing costs by increased interest rates on outstanding debt that includes a step-up in interest rates in case of a rating downgrade or may negatively affect the interest rates at which TNT is able to re-finance existing debt or incur new debt. On 29 August 2007, S&P lowered its corporate credit ratings on TNT to "BBB+" long-term/"A2" short-term with stable outlook from "A-" long-term/"A-2" short-term with a negative outlook (such ratings having been issued by S&P on 10 March 2006). On 26 November 2008 Moody's changed the "stable" outlook on the "A3" rating of the issuer rating and senior unsecured debt ratings of TNT N.V. to "negative". This "A3" rating with "stable" outlook was issued on 27 March 2006. On that same date also the Commercial Paper rating of TNT Finance B.V., a 100% owned and guaranteed finance subsidiary of TNT, changed from Prime-1 to Prime-2 and has been stable since.

## Additional specific and inherent key risks

In addition to the specific key risks requiring focus and attention in 2009, TNT also has other risks which require ongoing monitoring and management. These additional risks are described below and have been classified by the risk categories as defined by COSO – ERM and the categories also recommended by the Corporate Governance Code Monitoring Committee. The risks are further classified into specific risks and inherent risks facing TNT. Specific risks are risks that the Board of Management believes could negatively impact TNT's short to medium term objectives, whilst inherent risks are those risks that are constantly present in the business environment, but which are considered sufficiently material to require disclosure and management. The sequence that these risks are presented in no way reflects any order of importance, chance or materiality. The Board of Management believes that this approach is comprehensive and prudent given the shift seen over 2008 with many inherent risks, particularly business and finance risks which have a direct correlation with macroeconomic factors, becoming specific.

### Strategic risks

#### Specific strategic risks

**Minimum wage legislation in Germany for the postal sector could adversely affect TNT's ability to grow its Mail business outside the Netherlands.**

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 mandatory €9.80 minimum wage 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.

In view of fair competition in the postal market, the generally binding validity of the minimum wage agreement of the employers' association for postal services is unacceptable to TNT since it would seriously jeopardise the liberalisation of the German mail market and TNT's ability to build a sustainable profitable business. Similar barriers in national mail markets elsewhere could severely hamper TNT's successful implementation of its strategy in the European mail market.

**The acquisition and integration of acquired businesses involves significant challenges and costs and may not be successful, which could adversely affect TNT's revenues and profitability.**

TNT has entered into and will from time to time continue to enter into (significant) acquisitions because growth through acquisitions remains a key element of TNT's Focus on Networks strategy.

TNT's acquisition plans are supported by multi-year cash flow and profit projections identifying value creation opportunities based on sustainable profitable growth. The plans are carefully developed using the best possible analysis and judgement. The acquisition plans are discussed, where appropriate, with the Supervisory Board in detail prior to approval. These plans, however, are inherently uncertain and provide execution and market risks which might have been overlooked or incorrectly forecasted.

The integration of acquired businesses creates a requirement for change in both the acquired businesses and the TNT organisation, which leads to uncertainty. The integration of the companies TNT has acquired normally results in significant challenges and change related costs. The uncertainty and culture differences, as well as the demands on management and resources to achieve the integration of the newly acquired businesses result in a risk that the integration is not, or is only partly successful and TNT's growth strategy may be delayed, or not be successfully achieved.

If an existing, or future integration effort is delayed, or is not successful, TNT may incur additional costs. The value of the investment in the acquired company may decrease significantly and have an adverse effect on TNT's revenues and profitability.

**Changes in market conditions and/or relationships with TNT's joint venture partners may require TNT to revise its strategies, which could adversely affect TNT's profitability.**

Changes in market conditions may lead TNT to revise the strategies in which joint ventures were concluded. Revised strategies may lead TNT to demerge these businesses or end these joint ventures. The resulting employment reduction or other significant restructuring costs could impact TNT's profitability.

### Inherent strategic risks

**The increasing substitution of alternatives for TNT's Mail delivery services could reduce the revenues and profitability of TNT's Mail business and adversely affect TNT's revenues and profitability.**

TNT's Mail business is an integral part of TNT's total business and during 2008 represented 38.1% of TNT's group operating revenues and 55.1% of TNT's group EBITDA. TNT's postal Mail business delivers information such as letters and bank statements as well as printed matter such as direct mail and periodicals. Technologies such as e-mail and internet (e.g. electronic banking) can be used to send or make available such information faster and, in many cases, at a lower price than traditional mail services. Due to increased substitution, among other factors, traditional mail volumes in the Netherlands have decreased in recent years, and TNT expects this downward trend in mail volumes to continue or even deepen in the coming years. An increase in the use of these substitute technologies would likely result in a further decrease in the use of TNT's traditional mail services. If substitution continues on a large scale, it could adversely affect the volumes, revenues and profitability of TNT's Mail business and the company as a whole.

## Operational risks

### Specific operational risks

**TNT depends on a number of infrastructure facilities for which the group has limited or no comparable back-up facilities, so if operations were disrupted at one or more of these facilities, TNT's revenues and profitability and business operations would suffer.**

A portion of TNT's infrastructure is concentrated in single locations for which there are limited or no comparable back-up facilities or very expensive fall-back scenarios in the event of a disruption of operations. An example of this is the TNT European Express air hub in Liège, Belgium. The operation of the TNT facilities involves many risks, including power failures, the breakdown, failure or substandard performance of equipment, the possibility of work stoppages or civil unrest, natural disasters, catastrophic incidents such as airplane crashes, fires and explosions, and normal hazards associated with operating a complex infrastructure. If there was to be a significant interruption of operations at one or more of the company's key facilities and operations could not be transferred or only at very high costs to other locations, TNT might not meet the needs of its customers, and business and operating results would be adversely affected.

**Incidents resulting from the transport of hazardous materials and confidential consignments or a major incident involving TNT's sorting centres, warehousing facilities, air or road fleet may adversely affect the group's revenues, profitability, reputation and share price.**

TNT transports hazardous materials for a number of customers in the automotive, biomedical and chemical industries. The hazardous consignments include airbags, batteries, paint, blood samples, medical substances, dry ice, and chemicals. As part of TNT's Mail services, the company may also transport hazardous or dangerous goods without having been notified about the nature of the goods transported. TNT faces a number of risks by transporting these materials, such as personal injury or loss of life, severe damage to and destruction of property and equipment, and environmental damage. Incidents involving these materials could result from a variety of causes including sabotage, terrorism, accidents or the improper packaging or handling of the materials.

In addition, TNT transports confidential and sensitive consignments on behalf of some of its customers. TNT does not always know the confidential and sensitive nature of these consignments and customers may choose to enter consignments into TNT's network without registering the consignment with the result that they cannot be tracked and traced.

If a significant incident occurred involving the company's handling of dangerous and hazardous materials or if confidential consignments got misplaced or lost, TNT's operations could be disrupted and the company could be subject to a wide range of additional measures or restrictions imposed on the company by local or governmental authorities as well as potentially large civil and criminal liabilities. This could negatively affect the group's revenues and profitability. A significant incident, particularly a well-publicised incident involving potential or actual harm to members of the public, could also damage TNT's reputation.

As an owner and operator of a large air and road fleet, TNT is involved in activities which expose the company to liability in the case of a major air or road incident, not only for employees, facilities and third party property, but also for the general public. An incident involving the company's aircraft or vehicles could cause significant loss of life and property and could adversely affect TNT's revenues, profitability, reputation and share price.

**TNT may not accurately forecast future infrastructure requirements, which could result in excess or insufficient capacity and negatively affect TNT's revenues and profitability.**

In order to maintain market position and future growth, TNT must make on-going investments in infrastructure such as aircraft, trucks, and depots. Infrastructure investments are based on forecasts of future capacity requirements. It may be difficult to forecast accurately for future requirements, since they are based on a large number of factors, including factors beyond the direct control of TNT management and in particular the changing macroeconomic conditions and changes in governmental regulation. As a consequence, there may be a mismatch between investment and actual requirements. If TNT underestimates the group's future capacity requirements, it will not be able to meet the needs of customers and could lose business, market share, revenues and profits. If TNT overestimates future needs, or if major contracts are cancelled by customers, it may experience costly excess capacity and this could adversely affect profitability.

### Inherent operational risks

**Strikes, work stoppages and work-slowdown by TNT's employees and the terms of new collective labour agreements could negatively affect TNT's revenues and profitability.**

The success of TNT's business also depends upon avoiding strikes, work stoppages and work slow-down by TNT's employees. Industrial action by large trade unions or even relatively small, but key groups of TNT's employees, such as airline pilots, could seriously disrupt TNT's operations. Industrial action may occur for reasons unrelated to TNT's collective labour agreements with a particular trade union or group of employees. For example, TNT's employees may refuse crossing picket lines established by other trade unions of other companies. The collective labour agreement, affecting approximately 57,000 employees in the Netherlands, is subject to a renewal in April 2009. If TNT is not able to renew this agreement or other key agreements with its employees, and a strike, work stoppage or work slow-down occurs, TNT's revenues and profitability could be adversely affected.

TNT's business may be negatively affected by the terms of collective labour agreements that TNT concludes with its employees. These terms could include increases in compensation and employee benefits, and less flexible work processes and conditions than those of TNT's competitors, and limitations on future work force reductions and other factors that make TNT's workforce less mobile. TNT's profitability could suffer if TNT is not able to conclude collective labour agreements on satisfactory terms with its employees.

**Increased security and anti-terrorism requirements could impose substantial additional costs on TNT, especially at TNT Express.**

As a result of increased concerns about global terrorism and aviation security, governments and airline operators around the world are adopting or are considering adopting stricter security requirements that will increase operating costs for businesses, including those in the transportation industry. For example, of recent years the EU has increased the security requirements for air cargo, which has many implications on customs clearance processes. In addition, many aviation regulators around the world are proposing mandatory use of x-ray screening equipment. It is not possible to fully determine the effect that these new rules or changed policies will have on TNT's cost structure or its operating results. It is possible that these rules or other future security requirements for air cargo carriers could impose material costs on TNT.

**TNT faces risks related to health epidemics and other outbreaks of contagious diseases, including pandemic influenza, avian influenza and SARS.**

TNT's business could be adversely affected by the effects of avian influenza, SARS or another epidemic or outbreak. Since 2005 the World Health Organisation and other health monitoring bodies have reported outbreaks of a highly pathogenic avian influenza, caused by the H5N1 virus, in certain regions of Asia and Europe and there have been reports on the occurrences of avian influenza in various parts of China, Indonesia, Thailand and other South-east Asian countries, including some confirmed human cases. An outbreak of avian influenza in the human population could result in a widespread health crisis that could adversely affect the economies and financial markets of many countries. Additionally, any recurrence of SARS, a highly contagious form of atypical pneumonia, similar to the occurrence in 2003 which affected China, Hong Kong, Taiwan, Singapore, Vietnam and certain other South-east Asian countries, would also have similar adverse effects. These outbreaks of contagious diseases and other adverse public health developments would have a material adverse effect on TNT's business operations. These could include TNT's ability to ship consignments or otherwise make deliveries of products originating in affected countries, as well as temporary closure of TNT offices or other facilities. Such closures or travel or shipment restrictions would severely disrupt TNT's business operations and adversely affect its financial condition and results of operations. TNT has implemented measures to develop written preventive procedures and contingency plans to mitigate any future outbreak of avian influenza, SARS or any other epidemic, but the impact of any outbreak is difficult to gauge and these plans may not be fully effective.

**TNT's operations and earnings are subject to risks related to the impact of climate change.**

TNT believes that concern about climate change will lead to government action and/or regulation that will require the company to further manage emissions from its ground and air fleet. As such, there is a risk to future operations and a compliance risk for existing facilities and TNT's fleet, if the company is not able to demonstrate adequate emissions management. Realisation of these risks could have an adverse impact on operational performance and TNT's financial position.

## Legal and regulatory risks

### Specific legal and regulatory risks

**TNT is exposed to various global and local legal and regulatory risks that may have a material adverse effect on the results of operations and TNT's revenues and profitability.**

TNT operates around the globe and provides a worldwide service with facilities in many countries, which means that the company is confronted with complex legal and regulatory requirements in many jurisdictions. These include tariffs, trade barriers and requirements relating to withholding taxes on remittances and other payments. In many of the jurisdictions in which the company operates, in particular emerging markets such as China, India, Brazil and Russia, aspects of the developing legal system (including the ability to enforce contracts, an independent and experienced judiciary, and similar factors) create an uncertain environment for investment and business activity. These risks and complexities will increase in the pursuit of the Focus on Networks strategy to expand operations to new markets. TNT's overall success as a global business depends, in part, on its ability to succeed in different economic, social, political and legal conditions. TNT may not succeed in developing and implementing policies and

strategies that are effective in the locations where TNT's business is conducted. Failure to do so may have a material adverse effect on business operations and on TNT's revenues and profitability.

### Inherent legal and regulatory risks

#### **Unfavourable decisions of competition authorities concerning joint ventures, acquisitions or divestments could restrict TNT's growth, strategic progress, profitability and ability to compete in the market for TNT's services.**

As a part of TNT's Focus on Networks strategy, from time to time TNT seeks alliances with or acquires shares in companies that complement the company's strategy, or TNT seeks to divest part of its business. Any approval of a joint venture, an acquisition or a divestment of shares or a business by competition authorities may contain certain restrictions or conditions with respect to the intended transaction.

TNT may not be able to implement a transaction as contemplated in compliance with any restrictions or conditions imposed by the Directorate General of Competition of the European Commission or national competition authorities, and these restrictions or conditions may negatively affect TNT's revenues and profitability. If TNT is unable to implement a foreseen transaction under the restrictions or conditions applicable, or if the intended transaction is prohibited, the company may be unable to develop alternative approaches. This would have an adverse effect on TNT's ability to execute its strategy or focus on the company's core business.

#### **Compliance with regulations and the securing of effective flight slot times may result in significant changes to the company's operations and could limit TNT's flexibility in operating its business and negatively affect costs and profitability.**

TNT is subject to a wide variety of complex and stringent aviation, transportation, environment, employment and other laws and regulations in the Netherlands, the EU and the other jurisdictions where it operates. Existing regulations are subject to constant revision and new regulations are constantly being adopted. The interpretation and enforcement of such laws and regulations vary and could limit TNT's ability to provide its services in certain markets. It is uncertain whether existing laws and regulations or future regulatory, judicial and legislative changes will have a material adverse effect on TNT, whether national or international regulators, competition authorities or third parties will raise material issues with regard to the company's compliance or non-compliance with applicable laws and regulations, or whether other regulatory activities will have a material adverse effect on its business, revenues and profitability.

In the TNT Express businesses, the division operates various types of aircraft throughout Europe and between Europe and Asia. As a result, TNT is required to comply with a wide variety of international and national laws and regulations. In some of the markets in which the company operates, regulations have been adopted (or proposed) which impose night-time take-off and landing restrictions, aircraft capacity limitations and similar measures in order to address the concerns of local constituencies.

In addition, as the provider of time sensitive delivery services, the TNT Express business needs to secure adequate and effective flight time slots from airport coordination (or other local) authorities in all the countries and airports TNT operates into and out from. The timing or limited availability of these slots could have an impact on the efficient operations of the TNT Express time sensitive air and road networks and could result in penalties for failing to meet the

company's on-time delivery service commitments or increased costs for the case where TNT would be obligated to purchase slots from third parties to maintain its service levels.

TNT relies on night-time operations at the air Express hub in Liège, Belgium, for a substantial part of its international Express business. A curtailment of night-time take-offs and landings at any of TNT's key facilities, such as Liège, would likely harm the division's business. Some governments have imposed stringent new security measures on air carriers that could result in additional operating costs. TNT's failure to comply with these measures or the costs of complying with existing or future government regulation, could negatively affect revenues and profitability. In addition, existing or future regulation on transport of goods may negatively affect TNT's ability to perform services to meet customer needs or may increase the costs of providing these services.

#### **The legal concept of limited liability for loss or damage of goods carried by TNT is increasingly being challenged and this may result in increased exposure to claims.**

TNT transports goods under the conditions of the international conventions in respect of the carriage of goods by air (the Warsaw Convention) and by road (the Convention on the Contract for the International Carriage of Goods by Road). These conventions contain provisions that limit TNT's liability in the event that TNT loses or damages shipments belonging to its customers. In the past this principle was generally accepted as normal business practice, but in recent years courts and regulators, in an increasing number of jurisdictions, are more sympathetic to allegations of "gross negligence" or "lack of due care", thereby setting aside the principles of limited liability. This trend exposes TNT to more and increased loss and damage claims. TNT has covered this additional exposure by its insurance arrangements. However, if this trend continues it could definitely result in significantly higher insurance costs and thus in increased financial exposure and adversely affect TNT's profitability.

#### **Determination that subcontractors were to be considered TNT employees would affect TNT's current business model, causing operating expenses to rise and net income to suffer.**

In various jurisdictions, TNT uses subcontractors to perform aspects of the group's business, such as picking-up and delivering parcels, as is common practice in the transportation industry. In certain jurisdictions, the authorities have brought criminal and/or civil actions alleging that subcontractors or their employees engaged by TNT are to be regarded as TNT's own unregistered employees. If these allegations were upheld by a court, TNT would incur, in addition to criminal sanctions, costs such as social security contributions, wage taxes and overtime payments in respect of such employees. Subcontractors could also bring civil actions seeking the reclassification of subcontractor relationships in employment contracts. If these actions were successful, operating expenses would rise and net income would suffer.

#### **Employee and even (sub)contractor and supplier misconduct could result in financial losses, the loss of clients and fines or other sanctions by the governments of the countries in which TNT does business.**

Despite its Integrity Programme, TNT may be unable to prevent its employees from engaging in misconduct, fraud or other improper activities that could adversely affect TNT's business and reputation. Misconduct could include the failure to comply with applicable laws or the TNT Business Principles, or a breach of confidentiality. The precautions taken by TNT to prevent and detect this activity may not be effective. Investigations of suspected fraudulent activity could expose TNT to additional sanctions if an investigation is ineffective or

hampered by local legal restrictions. As a result of employee misconduct, TNT could incur fines and penalties imposed by governments in the countries in which it does business. Any such fines or penalties could lead to adjustments to the financial statements and resulting liabilities which could reduce profitability. In addition, negative publicity in relation to employee misconduct could negatively affect TNT's reputation, harm its ability to recruit employees and managers and reduce revenues.

The same risks apply with regard to misconduct by TNT's (sub)contractors and suppliers. In recent years court and regulators have increasingly held companies liable for acts of their independent (sub)contractors and suppliers. In view of this trend TNT has amongst others communicated the TNT Business Principles to its (sub)contractors and suppliers and is providing training to enhance compliance. However, such communication and training activities and their effectiveness may be impeded or made impossible by the fact that in certain jurisdictions authorities have started actions against TNT alleging that subcontractors or their employees engaged by TNT are to be regarded as TNT's own unregistered employees.

**TNT's strategic objectives could be subject to political debate and adverse outcome.**

Political decision making could have an adverse influence on TNT's ability to achieve its Focus on Networks strategy and carry out its operations effectively. Postal regulation is often subject to fierce political debate. For instance, the liberalisation of the Dutch postal market seems to go hand in hand with an increase in regulatory and supervisory controls for the national postal operator, TNT Post. Although the general regulatory trend in Europe is towards liberalisation of the postal sector, experiences in Germany and the United Kingdom also show that the political support for de facto liberalisation is tempered by concerns over labour conditions and the sustainability of the Universal Postal Service. In emerging markets like China and India, modernisations of postal regulatory frameworks have a tendency to lead to stricter policies towards mail and express services.

## Financial risks

### Specific financial risks

**Intensifying competition may put downward pressure on prices and could have an adverse effect on TNT's revenues and profitability.**

TNT competes with many companies and services on a local, regional, European and international level. TNT's competitors include the incumbent postal operators of other nations in Europe, Asia, Australia and the United States, motor carriers, express companies, logistics service providers, freight forwarders, air couriers and others. TNT expects competition to intensify in the future in all of its core business areas. Targeted, aggressive actions by competitors may negatively impact TNT's prices. In the Netherlands, TNT's present market share in the mail business results from being the former government operated monopoly. TNT expects its market share to erode due to serious competition and, in the longer term, the continuing liberalisation of the Dutch mail regulatory regime. In Europe, TNT continues to face strong competition in both its Mail and Express businesses. TNT's strategy focuses on a differentiated product and price approach and the quality of services related to price rather than on price discounts. Nevertheless, increased competition may force prices for TNT's services down and thus cause TNT's revenues and profitability to decrease.

The trends towards liberalisation of European postal markets may also result in further consolidation within the mail and express businesses as competitors seek to expand into newly opened geographic markets and former state postal monopolies enter into acquisitions or alliances in order to expand the range and geographic coverage of their services. Consolidation within TNT's businesses may result in increased competition and, as a consequence, adversely affect TNT's business, revenues and profitability.

**TNT is exposed to currency and interest rate fluctuations that could have an adverse effect on the company's results and financial condition as well as on the comparability of TNT's financial statements.**

Part of TNT's total revenues and operating expenses as well as assets and liabilities are denominated in currencies other than the euro. The main sensitivities on revenues can be derived from geographical segmentation as provided in the additional notes to the financial statements.

For the year 2008, for example, around 29% of revenues and around 23% of asset book value is held in countries outside of euro zone Europe. As TNT expands its international operations, it can be expected that an even greater portion of its revenues, costs, assets and liabilities will be denominated in non-euro currencies. The exchange rates between these currencies and the euro may fluctuate substantially. As a result, currency fluctuations could have a material adverse effect on TNT's results and financial condition in any given reporting period and may affect the comparability of TNT's financial statements from period to period.

Management has set up a Group Policy to require all group companies to manage their foreign exchange risk against the functional currency. Group companies are required to hedge material balance sheet exposures via the use of Foreign Exchange (FX) derivatives with the Group Treasury department, whereby a financing company operated by the Group Treasury department, as 'in-house bank' trades these FX derivatives back-to-back with external banks.

Currency exposures can be evaluated at revenue, earnings and balance sheet level. On balance, the most important exposures are in US dollar and British pound.

TNT's revenue in the US and in the United Kingdom is €24 million and €1,445 million respectively. If the euro, on average over the year 2008, had weakened/strengthened 10% against the US dollar compared to the average FX rate for the year, then the 2008 US revenues, with all other variables held constant, would have been approximately €0-5 million lower/higher. Similarly, if the euro on average would have weakened/strengthened 10% against the British pound with all other variables held constant, the revenue would have been approximately €130-160 million lower/higher.

At an earnings level TNT was a net payer of both the US dollar and the British pound. If the euro, on average over the year 2008, had weakened/strengthened 10% against the US dollar compared to the average FX rate for the year, then the 2008 profit before income tax, with all other variables held constant, would have been approximately €15-20 million lower/higher. Similarly, if the euro on average would have weakened/strengthened 10% against the British pound with all other variables held constant, the profit before income tax would have been approximately €0-5 million lower/higher.

In terms of a revaluation of foreign currency assets and liabilities as at 31 December 2008, if as at 31 December 2008, the euro had weakened/strengthened 10%

against the US dollar with all other variables held constant, the profit before income tax would have been €1 million higher/lower. If at 31 December 2008, the euro had weakened/strengthened 10% against the British pound with all other variables held constant, the profit before income tax would have been €0-5 million higher/lower.

Currently no net investment hedges are outstanding. However, significant acquisitions and local debt is usually funded in the currency of the underlying assets. These form a natural hedge against foreign currency cash flow and earnings risks.

Part of TNT's borrowings and leases are against floating interest rates. These floating interest rates may fluctuate substantially and could have a material adverse effect on TNT's results and financial condition in any given reporting period.

TNT's Group Policy is to limit the worst case interest cost over a seven year period as a percentage of EBITDA with a statistical 95.0% level of confidence. As at 31 December 2008, if interest rates on debt and deposits had been 1% lower/higher with other variables held constant, the profit before income tax would have been €2 million lower/higher on an annualised basis. Due to the outstanding interest rate swaps, equity would be lower/higher by €11 million had interest rates been 1% lower/higher.

Although TNT generally enters into hedging arrangements and other contracts in order to attempt to reduce the company's exposure to currency and interest fluctuations, these measures may be inadequate or may subject TNT to increased operating or financing costs. See also notes 29 and 30 to the consolidated financial statements of TNT N.V.

**A decline in the value of the euro could reduce the value of any investment in TNT and any dividends received.**

Since its introduction on 1 January 1999, the value of the euro relative to the US dollar has fluctuated widely. Fluctuations in the exchange rate between the US dollar and the euro will affect the US dollar equivalent of the euro price of TNT's euro-denominated shares, TNT's non-listed American Depositary Receipts (ADRs) and the US dollar value of any cash dividends. If the value of the euro relative to the US dollar declines, the market price of TNT's ADRs is likely to be adversely affected. Any decline in the value of the euro would also adversely affect the US dollar amounts received by shareholders on the conversion of any cash dividends paid in euro on TNT's ADRs.

In more general terms, if an investor has a functional currency that is other than Euro, its investment expressed in its own functional currency is similarly exposed to a decline of the euro against that other currency. Please refer to note 30 of the financial statements

**Changes in markets, useful lives of assets and TNT's business plans have resulted and may in the future result in substantial impairments of the carrying value of assets, thereby reducing net income.**

Regular review of the carrying value of assets (including intangible, tangible and financial fixed assets) may in the future require TNT to recognise additional impairment charges. Amongst others, events in the markets where TNT conducts its businesses, including current trading, macroeconomical developments, significant declines in stock prices, market capitalisations and credit ratings of market participants, as well as TNT's ongoing review and refinement of its business plans, are elements included in these regular reviews. In addition, TNT recognises increased depreciation and amortisation charges if it is determined that the useful lives of TNT's fixed assets are shorter than originally expected.

**Inherent financial risks**

**The multinational nature of TNT's business could expose the company to uncertainty in effective tax planning and regulatory reviews and audits.**

Multinational groups of the size of TNT are exposed to varying degrees of uncertainty related to tax planning and regulatory reviews and audits. TNT accounts for its income taxes on the basis of its own internal analyses, supported by external advice. TNT continually monitors its global tax position, and whenever uncertainties arise, TNT assesses the potential consequences and either accrues the liability or discloses a contingent liability in its financial statements, depending on the strength of the company's position and the resulting risk of loss.

**With regard to the key risks as mentioned and other risks TNT's insurance policy is based on the conservative approach of retaining frequency losses (self insured) and transferring "catastrophe exposures" to the insurance market.**


As frequency losses (such as cargo and vehicle claims) are of an operational and customer service nature, TNT believes that self insurance is the best method to motivate operational units to address the underlying causes of these losses. TNT's total self insured frequency claims are structured via an in-house captive insurance company and capped on an annual basis via reinsurance. During 2008, TNT's total annual retention cap on these losses was €5 million.

TNT's "catastrophe exposures" are insured in the traditional insurance markets. These include aviation, property and business interruption, general liability, fraud, and director and officers' liability insurance. TNT has a strict policy to transfer risks only to insurers with a rating of A- or higher, and this is monitored on an ongoing basis.

Attention is being given to adjust TNT's insurance protection to the ever changing legal and regulatory environment in which it operates, and all insurance policies are therefore tailor-made to TNT's unique requirements. In addition, current insurance arrangements also need to support strategic developments and the changing risk profile of the company.



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