CHAPTER 1 OVERVIEW 2012 AND STRATEGY

I. LETTER TO STAKEHOLDERS

Dear Stakeholders,

At the beginning of 2012, we announced our *'Building on Strengths'* strategy. The strategy carved out a path for success, with Europe at the core. It also included some clear choices aimed at limiting TNT Express' exposure to emerging domestic markets and fixed air assets.

Full execution of our strategy was impacted by the offer from UPS. The Supervisory and Executive Boards unanimously supported the merger, which would have brought substantial benefits. This assessment was shared by our stakeholders, who gave us clear support. A large number of competition authorities also gave their approval. Unfortunately, the European Commission formally prohibited the merger on 30 January 2013, and we were ultimately unable to complete the transaction.

Though disappointing, the prohibition decision did not unbalance us. We have a resilient market position, which we continued to expand in 2012. We grew our customer portfolio, with customer appreciation scores higher than ever. This was not only based on excellent operational performance but also on the strength of our customer proposition: a wide range of integrated services, flexibility, reliability, expertise, worldwide presence and control and visibility over the customer's supply chain. We also have committed employees. Employee engagement improved, with record high 83% participation in our engagement survey and a higher overall engagement score.

We made progress in the execution of our strategy. For example, we successfully reduced intercontinental air capacity exposure through blocked-space agreements. We also gained ground on our cost reduction programmes, achieving indirect cost savings of €50 million and implementing nearly two-thirds of the €100 million 2012 to 2013 fixed cost savings programme.

Our financial performance, however, did not meet expectations. Difficult macroeconomic conditions in Europe, coupled with continued pressure on yield, as a result of continuing price pressure and the switch to lower-priced Economy products, had a negative impact. These effects were only partially mitigated by cost reductions. And while the losses in our Brazilian operations were reduced, we did not realise the level of improvements we had aimed for. Our Asia Pacific segment showed very good progress and generated a positive return on an adjusted basis, despite lower Asia-Europe demand.

We now have a clear challenge for the company: improve our financial performance. The full Management Board, with the support of our Supervisory Board, is developing a specific improvement programme, with the existing strategy as the starting point. We are in the process of reviewing initiatives that will accelerate growth in those segments in which we have a differentiating position and that will significantly increase our cost competitiveness. We will present a detailed improvement plan on 25 March 2013.

We are confident of success, based on our strong market positions and the enormous positive momentum that exists within the company.

In closing, I wish to thank our employees for their steadfast pursuit of customer excellence over the past year.

Kind regards,

Bernard Bot

Chief Executive Officer (ad interim)

II. REPORT OF THE EXECUTIVE BOARD

- Revenue growth: 1.1%
- Adjusted revenue decline: 1.7%
- Reported loss for the period attributable to the equity holders of the parent: €83 million
- Total dividend: €0.03 per share
- Net cash: €139 million
- Reported operating income: €89 million
- Adjusted operating income: €188 million
- Net cash from operating activities: €271 million

FINANCIAL HIGHLIGHTS

Financial highlights	Reported			Adjusted (non-GAAP)		
Year ended at 31 December	2012	variance %	2011	2012	variance %	2011
Total revenues	7,327	1.1	7,246	7,126	(1.7)	7,246
Other income	(11)	(257.1)	7			
Operating income	89		(105)	188	(16.4)	225
as % of total operating revenues	1.2		(1.4)	2.6		3.1
Net financial expense	(34)	24.4	(45)			
Income taxes	(128)	(28.0)	(100)			
Results from investments in associates	(8)	63.6	(22)			
Profit/(loss) for the period	(81)		(272)			
Attributable to:						
Non-controlling interests	2		(2)			
Equity holders of the parent	(83)		(270)			
Cash generated from operations	383	6.7	359			
Net cash from operating activities	271	41.9	191			
Net cash used in investing activities	(84)	46.8	(158)			
Net debt/(cash)	(139)		7			

(in € millions, except percentages)

SUBDUED PERFORMANCE IN EUROPE & MEA, IMPROVED PROFITABILITY IN ASIA PACIFIC AND AMERICAS

In 2012, TNT Express experienced a decline in adjusted revenues and adjusted operating income.

In Europe & MEA, revenues remained flat, despite healthy volume growth, as a result of price pressure and negative product mix effects. The decline in yield was only partially offset by cost savings, resulting in lower adjusted results.

In Asia Pacific, revenue declined due to lower Asia-Europe demand, targeted restructuring of large international accounts, reductions in China Domestic (Hoau) 'Less than Truck Load' (LTL) volumes and the exit of the domestic businesses in India (India Domestic). However, yield improvements in our domestic activities and solid cost containment secured a strong improvement in adjusted operating income.

In Brazil, the adjusted revenue increase was the net result of a modest decline in volumes and solid yield improvements. Though the targeted improvements were not realised, adjusted operating income improved.

Control of investments and working capital ensured a positive cash flow before financing and dividends. At the end of 2012, net cash improved to €139 million in comparison to net debt of €7 million at the end of 2011. With available cash and cash equivalents of €401 million and an undrawn facility of €570 million, TNT Express' financial position is sound, as reflected in its BBB+ 'Stable' and Baa2 'Negative' credit ratings.

TNT Express proposes to compensate the loss out of the distributable part of the shareholders' equity and to pay a pro-forma dividend relating to the full year 2012 adjusted results of €0.03 per share, out of the distributable part of the shareholders' equity. The dividend is to be received in stock or in cash. The proposed dividend represents a payout of 39% of normalised net income ('profit attributable to equity holders of the parent' adjusted for significant one-off and exceptional items) over the full year 2012.

UPS OFFER

On 19 March 2012, United Parcel Service, Inc. (UPS) and TNT Express reached an agreement on a recommended all-cash offer by UPS of €9.50 per ordinary share for TNT Express. The Executive Board and Supervisory Board of TNT Express unanimously supported the offer, believing the merger was feasible and beneficial to all stakeholders. In the process of obtaining approval from the European Commission (EC), the EC identified competitive concerns. UPS, in cooperation with TNT Express, offered remedies to overcome these concerns. The EC did not consider these remedies to be sufficient, resulting in its decision to prohibit the merger on 30 January 2013. Anticipating this decision, UPS informed TNT Express it would no longer pursue the transaction and confirmed payment of the agreed €200 million termination fee to TNT Express. Consequently, on 14 January 2013, TNT Express announced that it would focus on the execution of its stand-alone strategy. TNT Express received payment of the termination fee on 13 February 2013.

REVIEW OVER THE FINANCIAL YEAR ENDED 31 DECEMBER 2012

The following analyses provide more detail on TNT Express' financial results and should be read in conjunction with the rest of the annual report.

Total operating revenues

In 2012, total reported operating revenues increased by €81 million to €7,327 million. The net impact of foreign exchange differences was €201 million positive. Adjusted revenues declined by 1.7% to €7,126 million.

Volumes (consignments, kilogrammes)

Average consignments per day

Year ended at 31 December	2012	variance %	2011
Europe & MEA	766	5.7	725
Asia Pacific	167	(8.2)	182
Brazil	36	(2.7)	37
Other Americas	18	5.9	17

(in thousands, except percentages)

Average kilogrammes per day

Year ended at 31 December	2012	variance %	2011
Europe & MEA	14,843	1.2	14,661
Asia Pacific	10,720	(19.9)	13,391
Brazil	2,213	(0.4)	2,223
Other Americas	974	(8.6)	1,066

(in thousands, except percentages)

In a weak economic environment, average consignments and average kilogrammes per day in Europe & MEA increased by 5.7% and 1.2%, respectively. This resilient volume growth reflects TNT Express' strong market position in Europe. Consignment growth exceeded kilogramme growth due to a general decrease in the weight of shipments and higher growth in the lower weight B2C (business-to-consumer) customer segment. In Asia Pacific, the decline in average consignments and average kilogrammes per day was the result of a changed business mix in China Domestic, targeted reductions in Chinese international key account volumes and the exit of India Domestic. In Brazil, volumes moderately declined.

Other income/(loss)

Other income/(loss) in 2012 included a fair value adjustment of €-17 million (2011: 0) relating to two Boeing 747 freighters held for disposal, net proceeds from the sale of property, plant and equipment for a net amount of €2 million (2011: 2) and other miscellaneous income of €4 million (2011: 5).

Operating expenses

Total operating expenses decreased by €131 million to €7,227 million (2011: 7,358).

Operating expenses

Year ended at 31 December	2012	variance %	2011
Cost of materials	480	(0.4)	482
Work contracted out and other external expenses	3,880	1.9	3,809
Salaries and social security contributions	2,302	2.9	2,238
Other operating expenses	274	(18.2)	335
Operating expenses excluding depreciation, amortisation and impairments	6,936	1.0	6,864
Depreciation, amortisation and impairments	291		494
Total operating expenses	7,227	(1.8)	7,358

(in € millions, except percentages)

Cost of materials

Cost of materials was largely in line with 2011, with moderately higher fuel expenses offset by cost savings.

Work contracted out and other external expenses

Work contracted out and other external expenses include fees paid for subcontractors, external temporary staff, rent and leases. These costs increased by €71 million (1.9%) compared to 2011 as a result of higher volumes and higher subcontractor prices.

Salaries and social security contributions

Salaries and social security contributions increased by €64 million to €2,302 million (2.9%) in 2012 compared to 2011. The increase in salary costs was largely due to annual salary inflation. Average FTEs decreased from 78,155 in 2011 to 69,814 in 2012, due to the outsourcing of certain activities in China, the closure of the domestic air network in India and restructuring in Brazil.

In 2012, salary costs included €6 million in restructuring-related charges in Brazil. In 2011, these costs included €14 million from the accelerated vesting related to the unwinding of the TNT N.V. equity schemes allocated to TNT Express employees prior to the demerger.

In 2012, pension cost (€61 million) was higher than 2011 (€39 million), mainly due to a €16 million 2011 settlement gain on pensions as a result of the demerger.

Other operating expenses

Other operating expenses consist of government legal fees, marketing, consulting, shared service costs and auditors' fees and decreased by €61 million (18.2%) in 2012 compared to 2011, due to on-going cost control on external spend.

Total operating expenses excluding depreciation, amortisation and impairments, increased by €72 million (1.0%) to €6,936 million (2011: 6,864). Year-on-year total operating expense per consignment decreased by 1.2%, while total operating expense per kilogramme increased by 10.6%.

Total depreciation, amortisation and impairment costs

Total depreciation, amortisation and impairment costs decreased by €203 million (41%) due to lower impairment charges. In 2012, impairments were taken on assets held for disposal in China Domestic (€75 million) and a liquidated domestic entity in India (€19 million). In 2011, impairments were taken on goodwill and customer relationship in Brazil (€224 million), aircraft in Europe & MEA and Asia Pacific (€45 million) and software in Non-allocated (€16 million).

Adjusted operating income for the financial years ended 31 December 2012 and 2011

Total reported operating income was €89 million in 2012. TNT Express calculates an adjusted operating income by adjusting for business one-offs, miscellaneous one-offs and foreign exchange differences. These are prepared by management to analyse the results excluding non-recurring items for a deeper understanding of the business performance. The presentation and disclosure of the adjusted operating income is not in conformity with IFRS and is unaudited.

The adjusted operating income should not be considered in isolation or as a substitute for analysis of TNT Express' operating results, including its consolidated income statement and consolidated statement of cash flow, as reported under IFRS.

The table below sets out the unaudited adjusted operating income per segment for the financial years ended 31 December 2012 and 2011.

Adjusted operating income

Year ended at 31 December	Reported 2012	Business one offs	UPS offer-related	Adjusted 2012	Foreign exchange	Adjusted 2012 (at constant rates)	Adjusted 2011	Business one offs	Demerger related	Reported 2011
Europe & MEA	289			289	(11)	278	380	15	9	356
Asia Pacific	(93)	111		18	(7)	11	(31)	43	2	(76)
Brazil	(73)	7		(66)	(6)	(72)	(96)	236		(332)
Other Americas	(22)			(22)	1	(21)	(27)		1	(28)
Other Networks	14			14		14	20			20
Non-allocated	(26)	1	6	(19)	(3)	(22)	(21)	28	(4)	(45)
Operating income	89	119	6	214	(26)	188	225	322	8	(105)

(in € millions)

Significant factors in TNT Express' 2012 performance included both business and UPS offer-related one-offs, while in 2011 they included both business and demerger related one-offs, which are discussed below.

In 2012, business one-offs included:
- In Asia Pacific, goodwill impairment charges of €75 million in China Domestic and €19 million in India Domestic and a fair value adjustment of €17 million related to two Boeing 747 freighters.
- In Brazil, an impairment charge of €1 million and restructuring-related costs of €6 million.
- In Non-allocated, a software impairment charge of €1 million.

In 2012, UPS offer-related one-offs of €6 million were recorded in Non-allocated.

In 2011, business one-offs included:
- In Europe & MEA, aircraft impairment of €6 million and restructuring-related charges of €9 million.
- In Asia Pacific, aircraft impairment of €39 million and a €4 million restructuring-related charge.
- In Brazil, impairment of €224 million, predominantly related to goodwill and customer relationships as well as a restructuring-related charge of €12 million.
- In Non-allocated, non-recurring restructuring-related charges of €28 million related mostly to redundancy payments of €12 million and software impairment of €16 million.

In 2011, demerger-related one-offs included:
- Share-based payment costs linked to the accelerated unwinding of TNT N.V. equity schemes of €14 million.

– A one-off settlement gain of €16 million, as a result of the separate execution agreements for the Dutch pension schemes.

Net financial expense

Year ended at 31 December	2012	variance %	2011
Interest and similar income	16	(23.8)	21
Interest and similar expenses	(50)	24.2	(66)
Net financial expense	(34)	24.4	(45)

(in € millions, except percentages)

Net financial expense decreased by €11 million, mainly due to a €5 million decline in fair value hedges and net foreign exchange losses, and €7 million lower interest on foreign currency hedges. The decrease in interest on foreign currency hedges was caused by lower interest rate differentials between currencies in foreign exchange forward contracts, mainly in EUR/USD.

Income taxes

Year ended at 31 December	2012	variance %	2011
Current tax expense/(income)	92	(14.8)	108
Deferred tax expense/(income)	36	550.0	(8)
Total income taxes	128	28.0	100

(in € millions, except percentages)

Total income taxes amounted to €128 million (2011: 100) or 272.3% (2011: -58.1%) of the profit before tax of €47 million (2011: -172). The current tax expense was €92 million (2011: 108). The difference between the total income taxes in the income statement and the current tax expense is due to temporary differences. These temporary differences are recognised as deferred tax assets or deferred tax liabilities (refer to chapter 5 for more information). The increase in total income tax expense is mainly due to derecognition of previously recognised deferred taxes.

The effective income tax rate differs significantly from the average statutory income tax rate of the countries in which TNT Express operates, mainly a result of non-deductible impairments, the derecognition of previously recognised deferred tax assets and current year losses for which no deferred tax assets could be recognised due to uncertainty regarding the recoverability of such assets.

Results from investments in associates

At 31 December 2012, investments in associates were €10 million (2011: 20), mainly related to investments made by Logispring Investment Fund Holding B.V. (whose sole activity is to invest in start-up companies) and TNT Europe Finance B.V. The portfolio of start-up companies was allocated to TNT Express as part of the demerger of TNT N.V. The loss in results from investments in associates was due to a fair value adjustment of €8 million following deteriorated prospects for the larger investments. No investments in new portfolio companies have been made since 2008.

Condensed consolidated cash flow statement

Year ended at 31 December	2012	variance %	2011
Cash generated from operations	383	6.7	359
Interest paid	(46)	20.7	(58)
Income taxes paid	(66)	40.0	(110)
Net cash from operating activities	271	41.9	191
Net cash from other investing activities	38	81.0	21
Net cash from acquisitions and disposals	2		3
Net cash used in capital investments and disposals	(124)	31.9	(182)
Net cash used in investing activities	(84)	46.8	(158)
Net cash used in dividends and other changes in equity	(2)		(23)
Net cash used in debt financing activities	(34)		(566)
Net cash used in financing activities	(36)		(589)
Changes in cash and cash equivalents	151		(556)

(in € millions, except percentages)

Net cash from operating activities

In 2012, cash generated from operations increased by €24 million to €383 million. Net cash from operating activities increased by €80 million to €271 million, mainly due to positive effects of active working capital management.

Trade working capital, calculated as trade accounts receivable minus trade accounts payable as a percentage of revenue, improved from 9.4% in 2011, to 8.0% in 2012.

Net cash used in investing activities

Net cash used in investing activities decreased to €84 million. The €58 million year-on-year decrease of net cash used in capital investments and disposals partly reflects €34 million demerger-related real estate transfers from PostNL N.V. (PostNL) in 2011. There were no acquisitions in 2012.

Capital expenditure on intangible assets and property, plant and equipment

Net capital expenditure

Year ended at 31 December	2012	variance %	2011
Property, plant and equipment	121	(19.9)	151
Intangible assets	24	(36.8)	38
Cash out	145	(23.3)	189
Proceeds from sale of property, plant and equipment	21	200.0	7
Disposals of intangible assets	0	0.0	0
Cash in	21	200.0	7
Netted total	124	(31.9)	182

(in € millions, except percentages)

Net capital expenditure by segment

Year ended at 31 December	2012	variance %	2011
Europe & MEA	60	(25.0)	80
Asia Pacific	26	(18.8)	32
Brazil	5	(16.7)	6
Other Americas	5	0.0	5
Other Networks	11		12
Non-allocated	17	(63.8)	47
Total net capex	124	(31.9)	182

(in € millions, except percentages)

Capital expenditure on intangible assets and property, plant and equipment totalled €145 million (2011: 189). The capital expenditure in 2011 included €34 million demerger-related real estate transfers from PostNL. Net capital expenditure amounted to 1.7% of reported revenues (2011: 2.5%).

Capital expenditure on property, plant and equipment mainly relate to hub and depot buildings, vehicles, IT equipment and depot equipment. The capital expenditures on intangible assets mainly relate to software licence and software development costs.

Proceeds from sale of property, plant and equipment

Proceeds from the sale of property, plant and equipment in 2012 amounted to €21 million (2011: 7), of which €5 million was related to the sale of three aircraft. The remaining proceeds relate to the sale of vehicles and other depot equipments.

Net cash used in financing activities

In 2012, net cash used in financing activities of €36 million, mostly pertained to the total net repayments on long-term borrowings, local bank debt, short-term borrowings and repayments of finance leases.

In 2011, net cash used in financing activities of €589 million, mostly related to the pre-demerger settlements of intercompany balances between PostNL and TNT Express of €526 million.

Net cash

On 31 December 2012, net cash was €139 million. Control of investments and working capital was an important contributor to this year-end position. The net debt position as per 1 January 2012 was €7 million.

Borrowings

On 16 March 2011, TNT Finance B.V., a fully-owned subsidiary of TNT Express, entered into a five-year €570 million syndicated revolving credit facility with its relationship banks. The facility includes a €285 million credit line that allows for instant financing of redemptions under a commercial paper programme. The facility bears interest at the applicable interbank rate plus a margin depending on TNT Express' credit rating. The facility does not contain financial covenants and cannot be accelerated in case of a rating downgrade, but does contain a change of control clause and other common market practice clauses.

On 6 December 2006, TNT Airways N.V./S.A., an indirectly wholly-owned subsidiary of TNT Express, entered into agreements with respect to the lease of two Boeing 747 freighters, which are guaranteed by TNT Express. The outstanding debts at 31 December 2012 under these finance leases with maturities of December 2016 and May 2017 were US$104 million and US$109 million, respectively.

The annual amortisation included in the lease term is in total around US$14 million per year. The leases bear interest at the six-month interbank dollar-rate plus a credit charge, which depends on TNT Express' credit rating. The finance leases do not include financial covenants and cannot be accelerated in case of a rating downgrade, but do contain a change of control clause and other common market practice clauses. The floating interest payments in the lease are fixed via interest rate swaps for the remaining life of the leases.

Dividend proposal

The Executive Board of TNT Express has decided, with the approval of the Supervisory Board, to propose to compensate the loss out of the distributable part of the shareholders' equity and to pay a pro-forma dividend out of the distributable part of the shareholders' equity. The proposed dividend is €0.03 per share. As no interim dividend was paid over 2012, the proposed dividend relates to the full year 2012 and represents a payout of 39% of normalised net income, in line with TNT Express' stated dividend guidelines. The dividend is payable, at the shareholder's election, either wholly in ordinary shares or wholly in cash. The election period is from 12 April 2013 to 2 May 2013, inclusive.

To the extent that the dividend is paid in shares, it will be paid free of withholding tax and it will be sourced from the additional paid-in capital that is recognised for Dutch dividend withholding tax purposes. The cash dividend will be paid out of the remaining additional paid-in capital. The ratio of the value of the stock dividend to that of the cash dividend will be determined on 2 May 2013, after the close of trading on Euronext Amsterdam, based on the volume-weighted average price ('VWAP') of all TNT Express shares traded on Euronext Amsterdam over a three trading day period from 29 April 2013 to 2 May 2013, inclusive. The value of the stock dividend, based on this VWAP, will, subject to rounding, be targeted at but not lower than 3% above the cash dividend. There will be no trading in the stock dividend rights.

The ex-dividend date will be 12 April 2013, the record date 16 April 2013 and the dividend will be payable as from 7 May 2013.

III. EXECUTIVE BOARD COMPLIANCE STATEMENT

The 2012 Annual Report of TNT Express N.V. has been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and additional Dutch disclosure requirements for annual reports.

The Executive Board is responsible for the establishment and adequate functioning of internal controls at TNT Express. Consequently, the Executive Board has implemented a wide range of complementary processes and procedures designed to provide control over the company's operations. TNT Express has embedded the Committee of Sponsoring Organisations of the Treadway Commission (COSO) Enterprise Risk Management (ERM) – Integrated Framework (2004) as the foundation of its risk management, internal control, integrity and compliance framework. Built upon this framework are policies and key controls that direct business and reporting processes. A dedicated organisation supports the development and implementation of these policies and controls. These processes and procedures facilitate the discharge of statutory and fiduciary obligations.

The Supervisory Board, its Audit Committee and other designated committees perform an oversight role. TNT Express' internal audit, risk management, internal control and integrity functions together with the external auditors support the Executive Board and the Supervisory Board in monitoring the effectiveness and efficiency of the risk management, internal control, integrity and compliance framework.

DIRECTORS' RESPONSIBILITY STATEMENT UNDER DUTCH CORPORATE GOVERNANCE CODE

The Executive Board confirms that, in addition to adequately functioning internal controls, it is responsible for TNT Express' risk management, integrity and compliance systems and has reviewed the operational effectiveness of all these systems for the year ended 31 December 2012. The outcome of this review and analysis has been shared with the Audit Committee and the Supervisory Board and has been discussed with TNT Express' external auditors.

The TNT Express' risk management, internal control, integrity and compliance framework is aimed at providing a reasonable level of assurance over the identification and management of those significant risks facing TNT Express and ensuring that the Executive Board meets its operational and financial objectives in compliance with applicable laws and regulations. For a detailed description of the risk management, internal control over finance reporting and other compliance processes reference is made to chapter 4.

The Executive Board believes to the best of its knowledge based on the outcome of TNT Express' specific approach to risk management, internal control, integrity and compliance, that TNT Express' risk management and internal control over financial reporting have worked effectively over the year ended 31 December 2012 and provide a reasonable assurance that the financial reporting is free from material inaccuracies or misstatements.

The above does not imply that TNT Express can provide certainty as to the realisation of business and financial strategic objectives, nor can TNT Express' approach to internal control over financial reporting be expected to prevent or detect all misstatements, errors, fraud or violation of law or regulations.

In view of the above, the Executive Board believes that it is in compliance with best practice provisions II.1.4 and II.1.5 of the Dutch Corporate Governance Code.

DIRECTORS' RESPONSIBILITY STATEMENT UNDER DUTCH FINANCIAL MARKETS SUPERVISION ACT

The Executive Board confirms to the best of its knowledge that:

- The 2012 financial statements for the year ended 31 December 2012 give a true and fair view of the assets, liabilities, financial position and profit and loss of TNT Express and its consolidated companies.
- The additional management information disclosed in the 2012 Annual Report gives a true and fair view of TNT Express and its related companies as at 31 December 2012 and the state of affairs during the financial year to which the report relates.
- The 2012 Annual Report describes the principal risks facing TNT Express. These are described in detail in chapter 4.

Hoofddorp, 18 February 2013

Bernard Bot – Chief Executive Officer (ad interim)
Jeroen Seyger – Chief Financial Officer (ad interim)

IV. STRATEGY: BUILDING ON STRENGTHS

CONTEXT

TNT Express is a global provider of express and related services. Over time, TNT Express' has developed its network and footprint in response to customer demand. From a strong base in Western Europe, TNT Express established a strong presence in Eastern Europe, the Middle East and Africa, mainly though organic growth. Outside Europe & MEA, TNT Express developed regional and intercontinental networks and acquired domestic operations (among others, Hoau in China and TNT Mercúrio, Expresso Araçatuba and LIT Cargo in South America) to tap the potential of these markets.

In 2011, TNT Express became an independent company following its demerger from PostNL (previously TNT N.V.). In February 2012, TNT Express presented its stand-alone strategy *'Building on Strengths'.*

On 19 March 2012, UPS and TNT Express jointly announced that they had reached agreement on the main terms and conditions of an offer by UPS for TNT Express. Following a protracted merger approval process with the European Commission (EC), the Merger Protocol was terminated after the EC prohibited the merger on 30 January 2013.

Throughout the intended merger completion process, TNT Express continued to execute its strategy and to deliver on its mission *'to connect businesses, markets and people in a sustainable way, through a global team of empowered people*' with a vision *'to be the most admired delivery company'.*

Details of TNT Express' *'Building on Strengths'* strategy and the progress made in 2012 are provided below.

STRATEGIC AGENDA

TNT Express' strategic agenda is to:
- focus on Europe;
- connect Europe with the rest of the world;
- implement structural efficiencies;
- reduce exposure to domestic activities in emerging markets;
- maximise free cash flow; and
- embed corporate responsibility in all activities.

Customers are and will remain at the heart of TNT Express' strategy. The company's services, networks and geographic footprint will continue to evolve with customer supply chain demands.

Realisation of TNT Express' strategy is not possible without engaged staff. Employees are the differentiators in our service to customers. TNT Express is therefore committed to develop and nurture talent to continue to deliver the unique 'TNT' customer experience.

Focus on Europe

Europe is the 'home' market and stronghold for TNT Express. Within the B2B (business-to-business) domestic and intra-European express market segment (estimated size €21 billion in 2011), TNT Express is a market leader with a market share of 17%[1].

TNT Express built its leadership position on a unique product and service offering and best-in-class networks and infrastructure. Differentiating elements include:
- A broad product portfolio ranging from time-critical/same-day deliveries through heavy freight shipments to various value-added services.
- A service-oriented organisation with knowledgeable and experienced staff that delivers excellent service and builds long-term customer relationships.
- Two centrally coordinated and integrated linehaul networks: the air network (connecting 65 destinations through a fleet of 45 aircraft) and the road network (connecting 40 European countries through 20 international road hubs). These complementary European networks enable customers to switch from air to road and vice versa.
- A dense depot infrastructure and related extensive last-mile-delivery capability, which enables truly next-day delivery throughout Europe.
- A unique outsourcing and subcontracting approach that makes it possible for TNT Express to lower costs and react quickly to changing circumstances.

[1] Based on TNT Express' Competitor Model, incorporating various external sources.

The following are examples of some of the initiatives rolled out in 2012 by TNT Express to strengthen its market position:

Next-day-by-road solutions

With its dense domestic and intra-European air and road networks, TNT Express can seamlessly operate across geographical borders to serve Europe as one market. In 2012, TNT Express introduced new next-day-by-road linehauls. The next-day-by-road cross-border linehauls currently connect 23 countries on a daily basis with 52 unique next-day border crossings. The growth in cross-border volumes enables TNT Express to increase its market share by road in both intra-European express as well as intra-European economy. This allows the company to refocus its air network on longest-distance and highest-value shipments. In line with this development, new rate cards were introduced that are based on zones that cover multiple countries (rather than distinguishing between domestic and international flows).

Value-added solutions for core verticals

TNT Express offers innovative value-added solutions to key customers in its core verticals, complementing its network activities. These solutions are industry-specific and include time-critical deliveries, dedicated air and road freight services and value-added activities. New value-added solutions, such as City Logistics, PharmaSafe and Service Logistics were rolled out in 2012.

- *City Logistics* delivers 'zero-emission' last-mile solutions for city centres in an innovative and collaborative effort of vehicle manufacturers, customers, city authorities and TNT Express.
- *PharmaSafe* is a specialised temperature-controlled supply chain service for the reliable transport of large quantities of pharmaceutical products, such as vaccines and insulin.
- *Service Logistics* is a set of solutions to support logistical activities linked to the servicing of a sold product, including the provision of service parts and return solutions.

Small and Medium Enterprise (SME) customers

TNT Express has historically been strong in the so-called territory sales channel targeted at SMEs. These customers' have broadly distributed geographic demand (domestic, intra-Europe and intercontinental) with relatively greater focus on express and parcel products. TNT Express attracts and retains SMEs by delivering consistently high service levels and an integrated marketing and sales customer contact strategy, resulting in higher than average margins. In 2012, marketing initiatives targeted at this segment generated a significant number of new customers.

Connect Europe with the rest of the world

TNT Express' objective is to reduce its exposure to fixed intercontinental capacity, while enhancing its global service coverage through partnerships with leading airlines. This was achieved in 2012, as TNT Express entered into cooperation agreements with multiple leading airlines covering predominantly TNT Express' routes to and from Asia Pacific and North and South America.

In April, Emirates SkyCargo placed its airline code and used space on TNT Airways' Boeing 777 freighter flights on the New York-Liège and Hong Kong-Dubai-Liège routes. In December, TNT Express entered into blocked-space agreements with other providers and expanded its air cargo sales activities.

Given the intended merger with UPS, marketing of TNT Airways' Boeing 747 freighters was suspended. This is being reviewed as part of the 2013 strategy update.

Implement structural cost efficiencies

In 2012, TNT Express completed its targeted €50 million indirect cost reduction programme. Savings were realised in head office costs and in the costs of administrative and support activities in the rest of the company. In addition, TNT Express launched a programme to reduce fixed costs by €150 million by the end of 2013. Following the announcement of the merger with UPS, the timing of certain long-term projects was temporarily adjusted, reducing the savings target to around €100 million by the end of 2013, consisting mainly of savings in local operations and infrastructure. Nearly two-thirds of the overall targeted savings have been realised from this programme in 2012.

European Air Network optimisation

TNT Express' air network configuration was adjusted to capture savings with minimum impact on service levels.

Non-core and non-customer facing processes

TNT Express identified a number of non-core and non-customer facing processes in operations, administration and ICS (Information Communication Services) that could be further optimised. In 2012, several ICS projects were implemented including a number of telecommunication initiatives. Implementation of other projects was suspended in light of the merger with UPS.

Central and regional overhead costs
Overhead costs were further reduced by reorganising central and regional staff and discontinuing non-critical activities.

Local operations and infrastructure
In 2012, significant savings were realised in the areas of road linehaul, pick-up and delivery and other operations.

Further cost saving measures have been identified and are planned for roll-out in 2013.

Reduce exposure to domestic activities in emerging markets

In line with its strategy to focus on Europe, TNT Express seeks to reduce its financial exposure to domestic activities in emerging markets.

Over the year, TNT Express' China Domestic business further consolidated its position as a leader in the domestic day-definite segment. At the end of the year, day-definite represented 35.6% of Hoau's turnover (2011: 28.4%). During 2012, TNT Express started to explore divestment opportunities for its domestic activities in China (Hoau). The outcome of this divestment process will be known in the first quarter of 2013.

In India, TNT Express discontinued its domestic air activities, following the sale of its domestic road activities to a logistics subsidiary of India Equity Partners (IEP) in December 2011.

In Brazil, TNT Express is one of the larger domestic express companies. Revenues increased year-on-year through higher prices, and service quality and operational performance were at target levels. While adjusted operating losses declined, the turnaround proved to be more challenging than had been expected and improvement targets were not realised. Additional yield and cost reduction actions were implemented in the course of the year.

The exploration of partnership options for the Brazilian domestic activities was suspended following the announcement of the merger with UPS, based on the interest of UPS in retaining these businesses.

Maximise free cash flow

TNT Express' approach to capital allocation and cash and risk management is in line with its overall strategy and focuses on value creation. To this effect, TNT Express' financial management has the following objectives:

- *Prioritising investments*: A rigorous review process is in place to maintain capital expenditure at around 2% to 3% of turnover, with higher outlays linked to major strategic investments.
- *Controlling working capital*: Cash and liquidity are centrally managed (centralised funding and surplus cash concentration) and supported by working capital initiatives to ensure that trade working capital remains around 10% of turnover.
- *Managing market and operational risks:* Exposure to market risks (interest, currency and commodity risks) is hedged through a combination of primary and derivative financial instruments (swaps, forward transactions and cross currency swaps) and contractual terms (fuel surcharge). Operational risks are covered through business continuity planning and a comprehensive insurance policy, which includes a mix of self insurance, reinsurance and direct external insurance.
- *Optimising the cost of capital while preserving the company's financial stability and flexibility*: Internal and external funding is structured to optimise the cost of capital, within long-term sustainable targets. The strength of our capital structure is also relevant to our customers as we provide them with a long-term strategic service. TNT Express has set an investment grade target rating of BBB+/Baa1. Liquidity is ensured through the availability of at least €400 million to €500 million in undrawn committed facilities.

Value creation at TNT Express is supported by its risk management systems. The scope of the risk management systems includes:

- internal control and compliance;
- financial risk management and risk insurance structures; and
- an aligned legal and funding structure.

An essential outcome of TNT Express' strategy is to meet shareholders' expectations. Accordingly, TNT Express stand-alone strategy aims to meet shareholders' return requirements in the long term through growth in the value of the company and in the short term through dividends and ad-hoc, tax-exempt share repurchases or other returns of excess cash.

TNT Express' intention is to pay a dividend that develops in line with operational performance. TNT Express intends to pay a dividend of around 40% of normalised net income, and aims to pay interim and final dividends in cash and/or stock. Furthermore, cash and/or stock may be offered as part of an optional dividend.

Embed corporate responsibility in all activities

TNT Express' corporate responsibility (CR) strategy is integrated in the overall business strategy that strives to fully embed CR within all activities. To achieve optimal buy-in and involvement, TNT Express implemented a CR governance structure (as described in chapter 4), with the responsibility for the development and execution of the CR strategy delegated to each region and operating unit.

The CR strategy provides a global framework for all TNT Express' operating units, with guidelines on the development of environmental and social programmes that deliver value for customers, local communities, the environment and TNT Express. The strategic dimensions and related objectives are:

- **Social:** To enhance the safety and well-being of employees worldwide. TNT Express' ambition is to meet and exceed, where possible, all health and safety obligations. This is supported by workplace, road safety and general health and safety best practice processes, and training programmes involving employees and partners.
- **Environment:** To reduce the consumption of energy and other natural resources, for instance, through the delivery of 'zero-emission' supply chain solutions to customers.
- **Business:** To engage with customers to understand their needs and share best practices. TNT Express also encourages subcontractors and suppliers to adopt TNT Express' approach to CR.

TNT Express is convinced that collaboration is crucial to deliver shared value through these objectives. This includes cross-functional collaboration within TNT Express, as well as collaboration with customers, partners and other key stakeholders to ensure that TNT Express' values are delivered through win-win partnerships.

TNT Express' CR performance is measured on a continuous basis according to internationally recognised standards.

Refer to chapter 3 for information pertaining to the development of TNT Express' CR strategy.

2013 PRELIMINARY GUIDANCE

- Challenging trading conditions foreseen in 2013 with related continued negative development of operating results in Europe & MEA
- Asia Pacific and Other Americas to perform in line with prior year
- Other Networks profitability affected by the discontinuation of a major Fashion contract
- Brazil expected to reduce losses