

## CHAPTER 1 OVERVIEW 2013 AND STRATEGY

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## I. LETTER TO STAKEHOLDERS

Dear Stakeholders,

It is my pleasure as new CEO of TNT Express to present the 2013 results. Back in January 2013, the termination of the intended merger with UPS reset TNT Express to pursue its standalone strategy. Against a challenging economic background, we launched *Deliver!*, our company-wide improvement programme. The programme had four priorities: reshape our portfolio; focus on distinctive service propositions; execute better; and invest in infrastructure and IT.

*Deliver!* has already produced results. We succeeded in achieving considerable indirect cost savings and improvements in our local operations. We updated our before 12:00 pm premium delivery coverage in more than 900 European locations and announced the expansion of our intercontinental express freight capabilities in 10 additional countries outside of Europe. We also sold the Hoau domestic business in China. *Deliver!* is gaining momentum and will contribute to our performance.

While 2013 saw a slight improvement of our road safety and environmental performance, we refined our corporate responsibility strategy, and adopted plans and targets to achieve further improvement in these areas.

Trading conditions in the express delivery market remained demanding and TNT Express' business performance was under pressure. Within the Europe Main and Pacific segments, the challenging economic climate adversely impacted our results. However, our business strengthened in Europe Other & Americas and AMEA, and the Brazil Domestic turnaround gained pace. Overall, adjusted operating income decreased from €264 million to €230 million, which is not satisfactory.

Against this backdrop, we have reassessed the company's strengths and weaknesses and identified the main business opportunities and challenges. From this, we have drawn a number of important conclusions.

First: TNT Express needs to have an absolute focus on the business areas in Europe in which it has a distinctive position and can generate profitable growth. This means accelerating investments in our European road network, which is already unique. It also means focusing on our already large SME customer segment and developing our position in those industries that best match our operations: industrial, automotive, high-tech and healthcare.

Second: Our service performance and productivity need to improve. While our service to customers is certainly competitive, our processes are not sufficiently optimised end-to-end. We aim to realise the 'perfect transaction' to benefit even better service levels and lower costs. Productivity can also be improved, in a large part through better use of technology.

Third: Our current organisational structure is not aligned to the distinct requirements of our domestic and international businesses. We will therefore 'organise to win' by introducing a new organisation structure that separates the main domestic activities from the integrated international express activities in Europe and Asia, Middle East & Africa.

Initiatives to address these challenges have been launched under the banner of a multi-year strategy, *Outlook*, which will integrate *Deliver!*. *Outlook* will be further developed in the coming period. We are confident *Outlook* will fully support the realisation of financial and other stakeholder objectives.

We are committed to securing an even more solid position for our company. I would like to thank our customers for their ongoing confidence in our services and all TNT Express employees for their support in achieving this ambition and their continued hard work.

Kind regards,



Tex Gunning

Chief Executive Officer of TNT Express N.V.

## II. REPORT OF THE EXECUTIVE BOARD

- ◆ Revenue decline: 4.7%
- ◆ Adjusted revenue decline: 1.9%
- ◆ Reported loss for the period attributable to the equity holders of the parent: €(122) million
- ◆ Total dividend: €0.046 per share
- ◆ Net cash: €472 million
- ◆ Reported operating income: €48 million
- ◆ Adjusted operating income: €230 million
- ◆ Net cash from operating activities<sup>1</sup>: €397 million

### FINANCIAL HIGHLIGHTS<sup>2</sup>

Financial highlights	Reported			Adjusted (non-GAAP)		
	2013	variance %	2012	2013	variance %	2012
Total revenues	6,693	(4.7)	7,023	6,890	(1.9)	7,023
Other income	208		(12)			
Operating income	48		158	230	(12.9)	264
as % of total operating revenues	0.7	(68.1)	2.2	3.3		3.8
Net financial expense	(24)	20.0	(30)			
Income taxes	(134)	(30.1)	(103)			
Results from investments in associates	17		(8)			
Profit for the period from continuing operations	(93)		17			
Profit from discontinued operations	(29)	71.3	(101)			
Profit/(loss) for the period	(122)		(84)			
Attributable to:						
Non-controlling interests	0		2			
Equity holders of the parent	(122)		(86)			
Cash generated from operations <sup>1</sup>	514	15.2	446			
Net cash from operating activities <sup>1</sup>	397	10.6	359			
Net cash used in investing activities <sup>1</sup>	(40)	50.6	(81)			
Net debt/(cash)	(472)		(139)			

<sup>1</sup> Related to continuing operations.  
(in € millions, except percentages)

### CONTINUED PRESSURE ON PROFITABILITY IN EUROPE MAIN & PACIFIC, IMPROVED PROFITABILITY IN EUROPE OTHER & AMERICAS AND AMEA

In 2013, TNT Express experienced a 4.7% decrease in the Group's reported revenues and a €110 million decline in reported operating income. The decrease in reported revenue is significantly influenced by negative foreign exchange movements of €197 million (-2.8%). The negative impact of foreign exchange on the reported operating income was €18 million. In addition, reported operating income absorbed net one-off losses of €164 million (2012: 106).

After adjustment of one-offs and foreign exchange differences, adjusted revenue declined by 1.9%, while adjusted operating income declined by €34 million compared to 2012.

In Europe Main, the demanding trading environment already experienced in 2012, continued to affect TNT Express' results, with particular pressure in Italy. Despite positive volume growth, adjusted revenue declined, as a result of price pressure and lower weight per consignment.

Europe Other & Americas benefited from a better trading environment than Europe Main, and consequently adjusted revenues increased. Growth in the customer segments targeted by the company was healthy and yield management was successful. This, combined with strong cost control, led to improved adjusted operating income.

In Pacific, adjusted revenues declined as a result of economic slowdown, especially in the commodities sector. While consignment growth was positive (6.8% more average consignments per day), weight per

<sup>1</sup> Related to continuing operations.

<sup>2</sup> Adjusted revenue and adjusted operating income are calculated as revenue and operating income after adjusting for one-offs and foreign exchange differences and are prepared by management to analyse the results, excluding non-recurring items for a better understanding of the business performance. The presentation and disclosure of adjusted revenue and adjusted operating income do not conform to IFRS.

consignment dropped significantly, negatively affecting revenues and profitability. Results were also affected by high wage and other cost inflation.

In Asia, Middle East and Africa, adjusted revenues declined as a result of weaker export volumes from China to Europe and lower export volumes to Europe from large accounts. Revenues were also lower because of actions taken to rationalise the customer and business portfolio and the sale of China Domestic as of 1 November 2013. Cost management, however, supported profitability, and operating results in nearly all units were ahead of 2012.

In Brazil Domestic, the turnaround continued apace, with a considerable reduction in losses.

Continued focus on working capital and relatively low levels of investments, coupled with one-off benefits (the UPS termination fee, proceeds from the sale of China Domestic and Logispring's divestments of shares in Apriso and Datatrac) ensured a positive cash flow before financing and dividends. At the end of 2013, net cash improved to €472 million (2012: 139). With available cash and cash equivalents of €700 million and an undrawn committed facility of €570 million, TNT Express' financial position is sound, as reflected in its credit ratings of BBB+ (Stable) by S&P and Baa2 (Negative) by Moody's.

TNT Express proposes to compensate the loss out of the distributable part of the shareholders' equity and to pay a pro forma final dividend relating to the full year 2013 adjusted results of €0.024 per share, out of the distributable part of the shareholders' equity, to be received in stock or cash. The €0.022 per share interim dividend, together with the proposed final dividend, (€0.046 per share in total), represents a 2013 payout of 40% of normalised net income.

## 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. In the process of obtaining approval from the European Commission, the intended merger was prohibited by the European Commission on 30 January 2013 due to competition concerns. Following the termination, UPS paid a €200 million termination fee to TNT Express.

## DELIVER!

On 25 March 2013, TNT Express launched the *Deliver!* improvement programme.

*Deliver!* was built around four priorities:

- Reshape TNT Express' portfolio
- Focus on TNT Express' distinctive service proposition
- Execute better
- Invest in infrastructure and IT

Collectively, the latest *Deliver!* forecast is for €240 million annual improvements by 2015. The programme is supported by capital expenditure of €175 million and restructuring costs of €200 million. Implementation of the programme will require transition one-offs of around €50 million.

During 2013, the first important milestones for overhead and operational improvement projects were achieved, resulting in €35 million of savings by year-end. *Deliver!* led to roughly 1,500 redundancies in 2013, which is regretful but unavoidable. In total, over 4,000 positions are expected to be affected by 2015.

## China Domestic

In line with the priorities of the *Deliver!* improvement programme, on 28 March 2013 TNT Express announced the sale of its domestic road operations in China (Hoau) to private equity funds under the management of CITIC PE. Consequently, on 1 November 2013 TNT Express announced the completion of the sale. Subject to finalisation of the completion accounts, the transaction result will be around nil and the proceeds around €80 million. In 2013, €61 million was received.

## Brazil Domestic

On 30 January 2014, TNT Express announced that it had terminated discussions with potential bidders for the disposal of Brazil Domestic, as it was unable to realise a transaction on acceptable terms. As of 2014, Brazil Domestic will no longer be reported as a discontinued operation. The activities will be managed as a separate business unit within TNT Express.

## REVIEW OVER THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

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 2013, total reported operating revenues decreased by €330 million to €6,693 million. Most currencies in countries in which TNT Express operates outside the eurozone weakened against the euro. The net impact of foreign exchange differences was €197 million negative. The negative foreign exchange impact affected all segments and was most significant in Pacific.

Adjusted revenues declined by 1.9% to €6,890 million. Adjusted revenues in Europe Main declined by 2.7% to €3,301 million as a result of significant price pressure, shedding of loss-making customers in Italy and the discontinuation of a major fashion contract in the United Kingdom. In Europe Other & Americas, adjusted revenues increased by 3.3% to €1,216 million, mainly due to improved yields. As a result of price pressure and significantly lower weight per consignment, adjusted revenues in Pacific declined by 0.4% to €724 million. In AMEA, adjusted revenue declined by 7.0% to €1,108 million, mainly due to lower export volumes from China to Europe and the sale of China Domestic.

### Other income/(loss)

Other income in 2013 included the receipt of the UPS termination fee of €200 million, €4 million relating to the settlement of a claim, the reversal of the 2012 fair value adjustment related to two Boeing 747 freighters of €17 million (2012: -17) and miscellaneous items of €2 million, partly offset by a fair value adjustment of €15 million (2012: 0) relating to China Domestic.

### Operating expenses

Total reported operating expenses remained stable at €6,853 million (2012: 6,853). When adjusted for one-offs (€370 million) and foreign exchange differences (€-180 million), the adjusted operating expenses were €6,663 million. Adjusted operating expenses decreased €101 million compared to 2012 (€6,764 million).

Operating expenses			
Year ended at 31 December	2013	variance %	2012
Cost of materials	419	(4.8)	440
Work contracted out and other external expenses	3,597	(3.3)	3,719
Salaries and social security contributions	2,174	(0.2)	2,178
Other operating expenses	230	(2.1)	235
Operating expenses excluding depreciation, amortisation and impairments	6,420	(2.3)	6,572
Depreciation, amortisation and impairments	433		281
<b>Total operating expenses</b>	<b>6,853</b>		<b>6,853</b>

(in € millions, except percentages)

### Cost of materials

Cost of materials decreased by €21 million mainly due to lower fuel expenses, changes in the business portfolio (China and India Domestic) and a positive impact from foreign exchange differences.

### 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 decreased by €122 million (3.3%) compared to 2012. Favourable foreign exchange differences of €94 million and changes in the business portfolio contributed to the decline. More significantly, cost saving initiatives compensated for inflation and the cost of handling increased volumes.

### Salaries and social security contributions

Salaries and social security contributions decreased by €4 million to €2,174 million (0.2%) in 2013 compared to 2012. The increase in salary costs from annual salary inflation, pension and restructuring costs was more than offset by the reduction in headcount from restructuring activities, favourable foreign exchange differences and changes in the business portfolio. Average FTEs decreased from 61,358 in 2012 to 58,225 in 2013.

In 2013, salary costs included €90 million in restructuring costs related to the *Deliver!* improvement programme. Pension costs in 2013 of €68 million were higher than in 2012 (€65 million), mainly due to a lower discount rate of 3.9% (2012: 4.9%), leading to higher obligations.

### Other operating expenses

Other operating expenses consisted of government legal fees, marketing, consulting, shared service costs and auditors' fees. Other operating expenses decreased by €5 million (2.1%) in 2013 compared to 2012, due to ongoing cost control on external spend.

Total operating expenses excluding depreciation, amortisation and impairments, decreased by €152 million (2.3%) to €6,420 million (2012: 6,572).

### Total depreciation, amortisation and impairment costs

Total depreciation, amortisation and impairment costs increased by €152 million (54.1%) due to €163 million higher impairment charges. This was partly offset by the reversal of the impairment taken in 2011 of €39 million related to the two Boeing 747 freighters, following the decision to reclassify the freighters to property, plant and equipment.

In 2012, impairments were taken on assets held for disposal in China Domestic (€75 million) and a liquidated domestic entity in India (€19 million). Refer to chapter 5 for more information.

### Boeing 747 freighters

The Boeing 747 freighter market is in an unprecedented imbalance of supply and demand. At the end of the year, after careful consideration of market data and potential disposal opportunities, management decided to retain the aircraft. Consequently, the two Boeing 747 freighters have been reclassified from assets held for disposal at 31 December 2013 to property, plant and equipment.

The previous impairment and fair value adjustments of €94 million were reversed and depreciation was restored. In 2013, a depreciation charge of €12 million was recorded, while a catch-up depreciation charge of €12 million was recorded in 2012. Refer to chapter 5 for more information.

### Adjusted operating income for the financial years ended 31 December 2013 and 2012

Total reported operating income was €48 million in 2013. TNT Express calculates an adjusted operating income by adjusting for one-offs and foreign exchange differences. These figures were prepared by management to analyse the results excluding non-recurring items for a better 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 following table sets out the unaudited adjusted operating income per segment for the financial years ended 31 December 2013 and 2012.

Adjusted operating income								
Year ended at 31 December	Reported 2013	One-offs	Adjusted 2013	Foreign exchange	Adjusted 2013 (at constant rates)	Adjusted 2012	One-offs	Reported 2012
Europe Main	(169)	314	145	5	150	202	(2)	204
Europe Other & Americas	61	2	63	6	69	50	(2)	52
Pacific	4	6	10	2	12	28		28
AMEA	47	(30)	17	5	22	(4)	103	(107)
Unallocated	105	(128)	(23)		(23)	(12)	7	(19)
<b>Operating income</b>	<b>48</b>	<b>164</b>	<b>212</b>	<b>18</b>	<b>230</b>	<b>264</b>	<b>106</b>	<b>158</b>

(in € millions)

Significant contributors to TNT Express' 2013 and 2012 performance include miscellaneous one-offs, which are discussed below.

The adjusted 2013 figures include €12 million depreciation related to the Boeing 747 freighters, which have been reclassified from assets held for disposal to property, plant and equipment.

In 2013, one-offs per reportable segment included:

#### Europe Main: €314 million

- €238 million goodwill impairment (Benelux: €2 million; France: €159 million; and the United Kingdom: €77 million)
- €73 million restructuring costs (Benelux: €15 million; Germany: €35 million; Italy: €20 million; and the United Kingdom: €3 million)

- €2 million catch-up depreciation of the two Boeing 747 freighters
- €1 million property, plant and equipment impairment

**Europe Other & Americas:** €2 million

- €4 million claim settlement
- €4 million restructuring costs
- €2 million catch-up depreciation of the two Boeing 747 freighters

**Pacific:** €6 million related to restructuring within the Australian business unit

**AMEA:** €-30 million

- €15 million value adjustment for China Domestic classified as asset held for disposal
- €3 million restructuring costs
- €-56 million reversal of impairments and fair value adjustments of the two Boeing 747 freighters
- €8 million catch-up depreciation of the two Boeing 747 freighters

**Unallocated:** €-128 million

- €-200 million UPS termination fee
- €9 million restructuring costs
- €58 million goodwill impairment in Other Networks
- €5 million UPS offer-related costs

The adjusted 2012 figures have been restated and include €12 million depreciation related to the Boeing 747 freighters, which have been reclassified from assets held for disposal to property, plant and equipment.

In 2012, one-offs per reportable segment included:

**Europe Main:** €-2 million catch-up depreciation of the two Boeing 747 freighters.

**Europe Other & Americas:** €-2 million catch-up depreciation of the two Boeing 747 freighters.

**AMEA:** €103 million

- €94 million goodwill impairment (€75 million in China Domestic and €19 million in India Domestic)
- €17 million fair value adjustment related to the two Boeing 747 freighters
- €-8 million catch-up depreciation of the two Boeing 747 freighters

**Unallocated:** €7 million

- €1 million software impairment charge
- €6 million UPS offer-related costs

**Net financial expense**

Year ended at 31 December	2013	variance %	2012
Interest and similar income	12	(20.0)	15
Interest and similar expenses	(36)	20.0	(45)
<b>Net financial expense</b>	<b>(24)</b>	20.0	<b>(30)</b>

(in € millions, except percentages)

Net financial expense results mainly from long-term borrowings (primarily financial leases) and net interest expenses on foreign currency hedges. The expenses are only partially offset by interest income on cash positions. While centralised cash on deposits are significant, they only generated a marginal interest due to the current low interest rates in the market.

Net financial expense decreased by €6 million, mainly due to a €1 million decline in fair value hedges and net foreign exchange losses, and €4 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 and increased usage of natural hedge positions within the TNT Express Group.

### Income taxes

Year ended at 31 December	2013	variance %	2012
Current tax expense/(income)	129	89.7	68
Deferred tax expense/(income)	5	(85.7)	35
<b>Total income taxes</b>	<b>134</b>	<b>30.1</b>	<b>103</b>

(in € millions, except percentages)

In 2013, the tax expense amounted to €134 million (2012: 103) on income before taxes of €41 million (2012: 120), and resulted in an effective tax rate of 326.8% (2012: 85.8%).

The current tax expense was €129 million compared to €68 million in 2012, and includes €50 million in taxes on the UPS termination fee. 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.

### Results from investments in associates

At 31 December 2013, investments in associates were valued at €1 million (2012: 10), 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.

In July 2013, Logispring sold its 14.3% equity interest in Apriso. The cash proceeds to TNT Express were €25 million and the book value amounted to €9 million. The profit of €16 million was recorded as a result from investments in associates. In 2013, the investment in Datatrac was sold for an amount of €2 million. The book value amounted to nil. The profit of €2 million was recorded as a result from investments in associates. In 2012, the disposal of €2 million related to the unwinding and divestment of Logispring investments.

### Condensed consolidated cash flow statement

Year ended at 31 December	2013	variance %	2012
<b>Cash flows from continuing operations</b>			
Cash generated from operations	514	15.2	446
Interest paid	(35)	14.6	(41)
Income taxes paid	(82)	(78.3)	(46)
<b>Net cash from/(used in) operating activities</b>	<b>397</b>	<b>10.6</b>	<b>359</b>
Net cash from other investing activities	(3)		37
Net cash from acquisitions and disposals	88		2
Net cash used in capital investments and disposals	(125)	(4.2)	(120)
<b>Net cash from/(used in) investing activities</b>	<b>(40)</b>	<b>50.6</b>	<b>(81)</b>
Net cash used in dividends and other changes in equity	(43)	57.0	(100)
Net cash used in debt financing activities	(10)	61.5	(26)
<b>Net cash from/(used in) financing activities</b>	<b>(53)</b>	<b>57.9</b>	<b>(126)</b>
<b>Change in cash from continuing operations</b>	<b>304</b>		<b>152</b>
<b>Cash flows from discontinued operations</b>			
Net cash from/(used in) operating activities	(28)	68.2	(88)
Net cash from/(used in) investing activities	5		(3)
Net cash from/(used in) financing activities	23	(74.4)	90
<b>Change in cash from discontinued operations</b>	<b>0</b>		<b>(1)</b>
<b>Changes in cash and cash equivalents</b>	<b>304</b>		<b>151</b>

(in € millions, except percentages)

### Net cash from operating activities

In 2013, cash generated from operations increased by €68 million to €514 million. Net cash from operating activities increased by €38 million to €397 million, mainly due to the receipt of the UPS termination fee of €200 million offset by a decrease in adjusted operating income of €34 million, higher income taxes paid of €36 million, a deterioration in cash flow from working capital of €-52 million and miscellaneous items of €40 million.

Trade working capital, calculated as trade accounts receivable minus trade accounts payable as a percentage of revenue, improved from 7.9% in 2012 (restated) to 7.5% in 2013.

### Net cash used in investing activities

Net cash used in investing activities decreased to €40 million. Investments were relatively low in both 2012 and 2013 as major projects were put on hold in light of the intended merger with UPS. A significant



part of the investments initiated after the termination of the merger discussions will only materialise in 2014. Furthermore, the investments were offset by the proceeds from the sale of China Domestic previously classified as held for disposal (€61 million) and the proceeds from Logispring's divestments of shares in Apriso and Datatrac (€27 million).

### Capital expenditure on intangible assets and property, plant and equipment

<b>Net capital expenditure</b>			
Year ended at 31 December	2013	variance %	2012
Property, plant and equipment	105	(9.5)	116
Intangible assets	25	8.7	23
<b>Cash out</b>	<b>130</b>	<b>(6.5)</b>	<b>139</b>
Proceeds from sale of property, plant and equipment	5	(73.7)	19
Disposals of intangible assets	0	0.0	0
<b>Cash in</b>	<b>5</b>	<b>(73.7)</b>	<b>19</b>
<b>Total net capital expenditure</b>	<b>125</b>	<b>4.2</b>	<b>120</b>

(in € millions, except percentages)

Capital expenditure on intangible assets and property, plant and equipment totalled €130 million (2012: 139). Capital expenditure on property, plant and equipment mainly related to vehicles, IT equipment and depot equipment. The capital expenditures on intangible assets mainly related to software licence and software development costs.

<b>Net capital expenditure by segment</b>			
Year ended at 31 December	2013	variance %	2012
Europe Main	51	13.3	45
Europe Other & Americas	13	0.0	13
Pacific	10	42.9	7
AMEA	(1)	(104.8)	21
Unallocated	52	52.9	34
<b>Total net capital expenditure</b>	<b>125</b>	<b>4.2</b>	<b>120</b>

(in € millions, except percentages)

Net capital expenditure amounted to 1.9% of reported revenues (2012: 1.7%).

### Proceeds from sale of property, plant and equipment

Proceeds from the sale of property, plant and equipment in 2013 amounted to €5 million (2012: 19), which is mainly related to the sale of vehicles and depot equipment.

### Net cash used in financing activities

In 2013, net cash used in financing activities of €53 million, decreased by €73 million compared with 2012. This is mainly due to a decrease in financing discontinued operations, partly offset by the payment of a final 2012 dividend and an interim 2013 dividend.

In 2012, net cash used in financing activities of €126 million, mostly pertained to the total net repayments on long-term borrowings, local bank debt, short-term borrowings, repayments of finance leases and discontinued operations.

### Net cash

On 31 December 2013, net cash was €472 million. Limited cash used in investing activities, receipt of the UPS termination fee, disposal of China Domestic, Logispring's sale of its investment in Apriso and continued focus on working capital contributed to this year-end position. The net cash position as per 1 January 2013 was €139 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 for the lease of two Boeing 747 freighters, which are guaranteed by TNT

Express. The outstanding debts at 31 December 2013 under these finance leases with maturities of December 2016 and May 2017 were US\$97 million and US\$102 million, respectively.

The annual amortisation included in the lease term is 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.

### Cash flow - Brazil Domestic

Cash flows - Brazil Domestic		
Year ended at 31 December	2013	2012
Net cash from/(used in) operating activities	(28)	(88)
Net cash from/(used in) investing activities	5	(3)
Net cash from/(used in) financing activities	23	90
<b>Total changes in cash</b>	<b>0</b>	<b>(1)</b>

(in € millions)

In Brazil Domestic, net cash used in operating activities of €-28 million was a significant improvement compared with 2012 (€-88 million), as the turnaround materialised.

### 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 final dividend is €0.024 per share. The €0.022 per share interim dividend together with the proposed final dividend, (€0.046 per share in total), represents a payout of 40% of normalised net income ('profit attributable to equity holders of the parent' adjusted for significant one-off and exceptional items) over the full year 2013, in line with the dividend guidelines. The final dividend is payable, at the shareholder's election, either wholly in ordinary shares or wholly in cash. The election period is from 11 April 2014 to 5 May 2014, inclusive.

To the extent that the final 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 5 May 2014, 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 30 April 2014 to 5 May 2014, 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 11 April 2014, the record date 15 April 2014 and the dividend will be payable as of 12 May 2014.

### III. EXECUTIVE BOARD COMPLIANCE STATEMENT

The 2013 annual report of TNT Express N.V. has been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, and additional Dutch disclosure requirements for annual reports.

The Executive Board is responsible for establishing and maintaining adequate internal control over TNT Express' financial reporting. 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. TNT Express' policies and key controls that direct business and reporting processes are built upon this framework. 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, the 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 2013. 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.

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. Refer to chapter 4 for a detailed description of the risk management, internal control over finance reporting and other compliance processes.

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 2013 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 2013 financial statements for the year ended 31 December 2013 give a true and fair view of the assets, liabilities, financial position and profit and loss of TNT Express N.V. and its consolidated companies;
- the additional management information disclosed in the 2013 annual report gives a true and fair view of TNT Express N.V. and its related companies at 31 December 2013 and the state of affairs during the financial year to which the report relates; and
- the 2013 annual report describes the main risks facing TNT Express N.V. These are described in detail in chapter 4.

Hoofddorp, 18 February 2014

Tex Gunning

Chief Executive Officer

Bernard Bot

Chief Financial Officer

## IV. STRATEGY

### CONTEXT

TNT Express is a global provider of express and related transportation services<sup>3</sup>. Over time, the company has developed its road, air and local networks to match expanding customer needs. TNT Express holds key positions across Europe, the Middle East and Asia Pacific – all inter-connected by regional and intercontinental networks.

In 2011, TNT Express became an independent company following its demerger from TNT N.V., currently PostNL N.V. On 19 March 2012, UPS and TNT Express jointly announced 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 EC announced its prohibition of the merger on 30 January 2013.

In March 2013, TNT Express initiated a company-wide improvement programme, *Deliver!*. The programme aimed to secure TNT Express' performance as a standalone company and comprised four priorities: reshape the company's portfolio; focus on distinctive service propositions; execute better; and invest in infrastructure and IT. Considerable progress has been achieved. In 2013, €35 million of the targeted €240 million improvements have been realised.

### OUTLOOK

While implementing *Deliver!*, TNT Express has further analysed the company's strengths, weaknesses and market opportunities. This process was led by the new CEO, Mr Gunning, and was overseen by the Supervisory Board.

The result is *Outlook*, which will integrate with the priorities of *Deliver!*. *Outlook* targets substantial improvements in performance to meet TNT Express' stakeholders' needs:

- Competitive products and services, delivered perfectly at competitive prices for *customers*
- A secure and meaningful future for *employees*
- Improving results and solid return on investment for *shareholders*

*Outlook* builds on TNT Express' strengths, particularly the European road network and the company's large base of small and medium-sized enterprise (SME) customers. At the same time, *Outlook* acknowledges improvement potential in many areas and the need for a clearer line of sight on the distinct domestic and international businesses.

*Outlook* has three priorities:

#### – Focus on profitable growth

*Outlook* will sharpen the focus on TNT Express' truly competitive services and on those customers for whom the company can provide the greatest value. This will be done by expanding the European road network to move more by road, by increasing the contribution from four priority industries (industrial, automotive, high-tech and healthcare) and by serving more SMEs even better. Separate attention will be given to the profitability of TNT Express' domestic operations in France, Italy, the United Kingdom, Brazil and the Pacific, with the implementation of specific strategies tailored to each individual domestic market.

#### – Invest in performance

Realising the 'Perfect Transaction' is at the core of the company's drive to improve end-to-end processes and to realise a step-change in service and reliability. The aim is to be the 'fastest and most reliable' and to provide an easy, hassle-free customer experience. Increased service reliability will also reduce avoidable costs. Alongside the 'Perfect Transaction', the company will optimise operational efficiency and productivity through process improvements and investments in automation and infrastructure. Transforming the IT function and expanding the scope of global business service centres will help drive productivity. A disciplined revenue management function will be developed, to optimise pricing and capacity use. Finally, regarding corporate responsibility, priority will be given to staff and subcontractor health and safety, with the accelerated roll-out of recognised industry best practices.

<sup>3</sup> Refer to chapter 2 for TNT Express' business profile.

– **Organise to win**

The company will adjust its organisation in the second half of 2014, subject to applicable consultation procedures with employee representative bodies. One management team will lead the integrated international express activities across Europe ('International Europe'). The other international activities will be managed by a separate leadership team, International Asia, Middle East and Africa ('International AMEA'). The domestic businesses in France, Italy, the United Kingdom and the entities in Brazil, Chile and Pacific will be managed within a separate cluster, 'Domestics'. The new structure will facilitate greater focus and accountability. In addition to these organisational changes, the company will work to strengthen the performance and leadership culture of management and staff.

Implementation plans supporting *Outlook* will require further development over the coming period and will be presented in the second half of 2014. This will allow development of specific customer, employee and financial targets:

- Realise leading customer 'Orange Experience Score'
- Secure strong employee engagement
- Continuously improve the financial performance of the company

## FINANCIAL STRATEGY

TNT Express' financial strategy targets optimal and sustainable performance of the following aspects:

- Asset efficiency
- Capital structure
- Dividend policy
- Risk management

### Asset efficiency

TNT Express secures asset efficiency through stringent investment and working capital policies. A rigorous process is in place to maintain capital expenditure at around 2% to 3% of turnover, with higher outlays linked to major investments. Cash and liquidity are centrally managed (centralised funding and surplus cash concentration) and supported by working capital initiatives to ensure that trade working capital is minimised.

### Capital structure

TNT Express aims to optimise 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 TNT Express' capital structure is also relevant to customers who rely on a long-term strategic service. TNT Express has set an investment grade target rating of BBB+ by S&P and Baa1 by Moody's. These credit ratings account for off-balance sheet liabilities, not just net debt, to give a more representative view of the company's level of leverage. The company is currently rated BBB+ (Stable) by S&P and Baa2 (Negative) by Moody's. Liquidity is ensured through the availability of at least €400 million to €500 million in undrawn committed facilities.

### Dividend policy

TNT Express aims to meet shareholders' return requirements in the short term through dividends and ad hoc, through tax-exempt share repurchases or other returns of excess cash. TNT Express' intention is to pay a dividend that develops in line with the development of its operational performance. TNT Express intends to pay a dividend of around 40% of normalised net income. Normalised net income is defined as profit attributable to equity holders of the parent adjusted for significant one-offs and exceptional items. TNT Express aims to pay interim and final dividends annually in cash and/or in stock. Furthermore, cash and/or stock may be offered as part of an optional dividend.

### Risk management

TNT Express is exposed to market risks (interest, currency and commodity risks), which are partly 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.

TNT Express operates integrated risk management systems of which the scope includes:

- internal control and compliance (refer to chapter 4);
- financial risk management and risk insurance structures (refer to chapter 5); and
- an aligned legal and funding structure.

## CORPORATE RESPONSIBILITY STRATEGY

Corporate responsibility (CR) is an integral part of TNT Express' business strategy and is embedded in its business and operational activities. Given TNT Express' business and operational profile, health and safety and the environment are given priority on TNT Express' strategic CR agenda. Stakeholder dialogue is used to help develop and improve the CR strategy and activities. Where possible, collaboration with customers and other parts of the supply chain is pursued to increase the impact. TNT Express is encouraging the continuous development and engagement of its people through various programmes and actions. Refer to chapter 3 for more information on TNT Express' CR framework, KPIs and targets.

### 2014 GUIDANCE

- Trading conditions remain volatile and uncertain; risk of continued negative foreign exchange impact
- Assuming an improving external environment:
  - Combined Europe Main and Europe Other & Americas operating results to show positive development
  - Combined Asia, Middle East & Africa and Pacific results expected to be stable
  - Brazil Domestic to continue to improve - as of the first quarter of 2014, Brazil Domestic will no longer be reported as a discontinued operation
  - Unallocated around €(25) million
- Business as usual, capital expenditure (excluding *Deliver!* investments) up to around 3% of revenues.

### Other

- As of 1 January 2014, application of IFRS 11, '*Joint Arrangements*' (equity method instead of proportionate consolidation). If applied in 2013, reported net sales and operating income would be €86 million and €7 million lower, respectively. Profit attributable to shareholders constant.
- Impact *Outlook* in the second half of 2014 - reporting segments to change with related alignment of guidance.

### 2015 AMBITIONS

- Assuming normal economic conditions in Europe, ambition for Europe Main and Europe Other & Americas combined to achieve an adjusted operating income margin of around 8% and sales growth of around 2% per year (CAGR).
- All other reportable segments to contribute increasingly to profitability.
- Other indicators:
  - €240 million annual improvements from *Deliver!* by the year 2015, to be integrated in *Outlook*
  - Unallocated around €(25) million
  - Effective tax rate (ETR) around 30%
  - Capital expenditure of around 2% to 3% of revenues (excluding additional strategic investments)
  - Trade working capital of around 8% of revenues