CHAPTER 1 OVERVIEW 2014 AND STRATEGY

I. LETTER TO STAKEHOLDERS

Dear Stakeholders,

In the first half of 2014, TNT announced its *Outlook* strategy and appointed a new management team comprising of experienced industry leaders and corporate turnaround professionals with a clear brief to create a sustainable future for the company in the next three to five years.

The *Outlook* strategy is built around three strategic pillars: focus on profitable growth; invest in operational excellence; and organise to win; and it builds on TNT's strengths – namely our European Road Network and European Air Network with excellent connections to the rest of the world, a large base of loyal customers and TNT's people who are always willing to go the 'Extra Mile'.

The *Outlook* strategy acknowledges that small and medium-sized enterprise (SME) customers are an important part of the global economy and are particularly interested in TNT's product/ service proposition as it provides a one-stop solution to their customer service needs. TNT is in a unique position to provide combined parcel and pallet deliveries, express and economy express services as well as domestic and international services to the B2B markets. TNT has what it takes to be an integral part of an SMEs *own* customer's service proposition.

TNT also excels in serving industry specific needs of large global customers in the industrial, automotive, high-tech and healthcare industries. Specialised Industry Service Propositions (ISP) address very specific needs that are of great value to the supply chains of these customer groups. TNT is particularly proud of its 24/7 Global Control Towers that are fully dedicated to the express needs of our large global customers.

To realise profitable and sustainable growth, *Outlook* recognises the need to invest in operational excellence to deliver a reliable service at competitive cost. Comprehensive service, productivity and efficiency plans have been developed and are in full execution mode. Strengthening of TNT's European Road Network and European Air Network delivering both express as well as economy express services to more destinations is a key priority. A total overhaul of our IT support systems is underway and investments in depot and hub automation should deliver higher levels of productivity, lower cost and improve service. We are convinced that our European Road Network and European Air Network with excellent connections to the rest of the world are of great value to our customers and that further investments will only enhance our unique position.

The 3rd pillar of our *Outlook* strategy is 'organise to win'. Our multi-local international express organisation in Europe has been integrated into one European express organisation with one Profit and Loss account. This will enable improved service to our international customers and unified performance management. Since our domestic businesses face different competitive dynamics and are currently underperforming, we have created a focused business group supported by a global leadership team of turnaround and transformation experts to oversee this part of the business. Moreover, TNT will create a customer-centric organisation in all its operating units supported by Global Business Services (GBS), Global Networks and Operations (GNO) and a Global Strategic Accounts Organisation (GSO). The new organisation will help us to create focus on better serving our customers, whilst realising global competencies and efficiencies in our support functions.

To accelerate change and to increase our capacity to compete, a complete overhaul of our top leadership has been implemented. Industry experts with over 600 years of experience have been carefully selected to bring outside-in expertise into TNT. The top leadership teams have also been strengthened with functional and corporate transformation expertise.

Outlook also addresses our CR agenda. The reduction of TNT's environmental footprint will continue to be a priority. We have stepped up our efforts to create a safe and healthy working environment for all our employees and subcontractors.

Though execution of *Outlook* is in full swing, it should be noted that there are no quick fixes. We are re-building the company investing in our people, processes, IT support systems and institutional competencies, whilst we are facing stiff competition in adverse trading conditions, particularly in Western Europe. These investments take time and are all pre-conditions for gaining back market share.

In 2014, we made significant progress in service-quality measured by on-time performance. The results of TNT's customer experience survey (Orange Experience Score) were the highest since many years. The launch of new services to Hanover and Venice, the coverage expansion of our premium 12:00 pm express product in Germany, and the reduction of road transit times to Turkey and Southern Europe are all tangible examples of service improvements in our core European network, with more to follow.

In 2014, we had to take significant restructuring provisions and one-off charges. These charges testify to the scale of the transformation that needs to happen and to the determination of the new management team to do whatever it takes to bring TNT back to its old glory. In 2014, we did not yet realise quality revenue growth and profitability. We are still in a stage of improving the quality of our revenue base and winning back customers that were lost over the last few years.

But with service-quality improving in our unique European Road Network and European Air Network and the benefits of newly recruited leadership, we should be able to reverse any negative trends and achieve profitable growth.

Outlook is supported by a four-year investment programme (2014 to 2017) to realise superior service at competitive cost. We are investing in our highly competitive European Road Network, expanding destinations and modernising our hubs and depots. A major overhaul in our air-hub in Liege should be finalised in 2016 and will benefit our service capability in and out of Europe. At the end of 2014, we contracted three global IT service providers to help simplify and transform our IT infrastructure. Capital expenditure for the full year 2014 was €190 million.

The *Outlook* strategy was launched in 2014. The strategy is clear and builds on TNT's core strengths. Our confidence to realise the full benefits of *Outlook* in the next three to five years is based on the orange spirit of TNT's people, the loyalty of TNT's customers and our unique European Road Network and European Air Network. The newly appointed management teams are competent and experienced turnaround leaders and are committed to go the 'Extra Mile' to create value for all our stakeholders.

We thank you for your confidence now and in the future.

T. Gunning

Tex Gunning

Chief Executive Officer

II. REPORT OF THE EXECUTIVE BOARD

- Revenue decline: 3.2%
- Reported operating loss: €(86) million
- Reported loss for the period: €(190) million
- Total dividend: €0.08 per share
- Adjusted operating income: €209 million
- Net cash from operating activities: €106 million
- Net cash: €449 million

FINANCIAL HIGHLIGHTS[1,2]

Financial highlights	Reported			Adjusted (non-GAAP)		
Year ended at 31 December	2014	variance %	2013	2014	variance %	2013
Total revenues	6,680	(3.2)	6,904			
Other income	17		208			
Operating income/(loss)	(86)		9	209	20.1	174
Net financial expense	(24)	(9.1)	(22)			
Income taxes	(87)	33.6	(131)			
Results from investments in associates and joint ventures	7		22			
Profit/(loss) for the period	(190)		(122)			
Attributable to:						
Non-controlling interests	5		0			
Equity holders of the parent	(195)		(122)			
Cash generated from operations	246	(48.1)	474			
Net cash from operating activities	106	(70.6)	360			
Net cash used in investing activities	(117)		(26)			
Net debt/(cash)	(449)		(469)			

(in € millions, except percentages)

2014 PERFORMANCE HIGHLIGHTS

2014 was a challenging year. TNT is in the midst of a significant transformation process, with high restructuring costs and other one-off charges, which has thus affected profitability. However, the investments made this year have already benefited TNT's customers as service-quality increased, evidenced by a higher customer satisfaction score.

Overall, revenues decreased by 3.2% to €6,680 million, though adjusted operating income increased by 20.1% to €209 million. In International Europe, the results were affected by the restructuring of the operating units in France and the United Kingdom, as well as continued pressure on prices, coupled with investments in future growth. International AMEA performed significantly better than last year. The segment more than doubled its adjusted operating income to €51 million. The Domestics segment experienced further improvements, notably in the performance of the domestic businesses in Italy, Brazil and Chile, despite continued negative mix effects in the United Kingdom, France, Australia and New Zealand.

At the end of 2014, net cash decreased by 4.3% to €449 million (2013: 469). With available cash and cash equivalents of €652 million and an undrawn committed facility of €600 million, TNT's financial position is sound, as reflected in its credit ratings of BBB+ (Stable) by S&P and Baa2 (Negative) by Moody's.

During 2014, as part of *Deliver!*, €115 million of savings were achieved by year-end, and approximately 1,450 FTE reductions occurred, which was regretful but unavoidable.

REVIEW OVER THE FINANCIAL YEAR ENDED 31 DECEMBER 2014

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

[1]Adjusted operating income is calculated as operating income after adjusting for one-offs and is prepared by management to analyse the results, excluding non-recurring items for a better understanding of the business performance. The calculation of adjusted operating income has been updated to reflect respective foreign exchange rates. The presentation and disclosure of adjusted operating income does not conform to IFRS.
[2]For comparative purposes, 2013 numbers have been restated to reflect the impact of changes in accounting policies and discontinued operations.

Total operating revenues

In 2014, overall revenues declined by 3.2% due to a mix of factors: the sale of China Domestic in November 2013 and TNT Fashion Group B.V. (TNT Fashion) in May 2014 (4.1%); and negative foreign exchange movements (0.9%). Most currencies in countries in which TNT operates outside the eurozone weakened against the euro. At a comparable scope and constant foreign exchange rates, revenue increased by 1.8%, primarily as a result of growth in International Europe and International AMEA.

Revenues in International Europe increased by 0.8% to €2,743 million, reflecting lower revenues in a number of large markets, offset by growing revenues from SMEs and improved revenue growth in parts of Europe. In International AMEA, revenues decreased by 14.6% to €906 million, due to the sale of China Domestic. In Domestics, revenues decreased by 0.7% to €2,547 million, due to negative foreign exchange movements, the rationalisation of loss-making customers in Italy and pressure on prices.

Other income/(loss)

Other income in 2014 included the profit on the sale of TNT Fashion of €7 million, €2 million related to other assets held for disposal and miscellaneous items of €8 million.

Operating expenses

Total reported operating expenses decreased to €6,783 million (2013: 7,103). When adjusted for one-offs (€302 million), the adjusted operating expenses were €6,481 million (2013: 6,737).

Operating expenses

Year ended at 31 December	2014	variance %	2013
Cost of materials	407	(8.3)	444
Work contracted out and other external expenses	3,623	(2.7)	3,724
Salaries and social security contributions	2,126	(5.9)	2,259
Other operating expenses	417	72.3	242
Operating expenses excluding depreciation, amortisation and impairments	6,573	(14)	6,669
Depreciation, amortisation and impairments	210		434
Total operating expenses	6,783		7,103

(in € millions, except percentages)

Cost of materials

Cost of materials decreased by €37 million mainly due to lower fuel expenses and changes in the business portfolio.

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 €101 million (2.7%) compared to 2013, due to the sale of China Domestic in 2013 and the sale of TNT Fashion in 2014, in addition to cost saving initiatives, which compensated for inflation and the cost of handling increased volumes.

Salaries and social security contributions

Salaries and social security contributions decreased by €133 million to €2,126 million (5.9%) in 2014 compared to 2013. 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, and changes in the business portfolio. Average FTEs decreased from 60,384 in 2013 to 57,485 in 2014.

In 2014, salary costs included €159 million in restructuring costs related to *Outlook*. Pension costs in 2014 of €50 million were lower than in 2013 (€70 million), mainly due to the sobering of the Dutch pension plans as a result of new regulations.

Other operating expenses

Other operating expenses consisted of government legal fees, marketing, consulting, shared-service costs and auditors' fees. Other operating expenses increased by €175 million in 2014 compared to 2013, due to an increase in consulting fees related to the transformation of TNT, as well as marketing costs incurred relating to the re-launch of TNT.

Total operating expenses excluding depreciation, amortisation and impairments, decreased by €96 million (1.4%) to €6,573 million (2013: 6,669).

Total depreciation, amortisation and impairment costs

Total depreciation, amortisation and impairment costs decreased by €224 million due to €259 million less impairment charges.

In 2013, the impairment of intangibles was related to goodwill impairment of €296 million. Refer to chapter 5 for more information.

Adjusted operating income for the financial years ended 31 December 2014 and 2013

In 2014, total reported operating loss was €86 million. TNT calculates an adjusted operating income by adjusting for one-offs. 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's operating results, including its 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 2014 and 2013.

Adjusted operating income

Year ended at 31 December	Reported 2014	One-offs	Adjusted 2014	Adjusted 2013	One-offs	Reported 2013
International Europe	30	88	118	120	60	60
International AMEA	50	1	51	24	(30)	54
Domestics	(8)	74	66	51	263	(212)
Unallocated	(158)	132	(26)	(21)	(128)	107
Operating income/(loss)	(86)	295	209	174	165	9

(in € millions)

Significant contributors to TNT's 2014 and 2013 performance include miscellaneous one-offs, which are discussed below.

In 2014, one-offs included amongst others:
- In International Europe: restructuring costs of €56 million and goodwill impairment of €32 million in CGU Spain.
- In Domestics: restructuring costs of €65 million and impairment and depreciation of €9 million in Brazil.
- In Unallocated: €50 million implementation costs related to *Deliver!,* €50 million provision related to the French competition case, restructuring costs of €37 million, profit related to the sale of TNT Fashion of €-7 million, and software impairment of €2 million.

The adjusted 2013 figures have been restated, due to the change in reportable segments, and changes in accounting policies relating to joint ventures and PIS/COFINS (refer to chapter 2 for more information).

In 2013, one-offs included amongst others:
- In International Europe: restructuring costs of €58 million, goodwill impairment of €2 million in CGU Benelux, €4 million catch-up depreciation of the two Boeing 747 freighters, and €-4 million related to a claim settlement.
- In International AMEA: reversal of impairments and fair value adjustments of the two Boeing 747 freighters of €-56 million, fair value adjustment for China Domestic classified as asset held for disposal of €15 million, €8 million catch-up depreciation of the two Boeing 747 freighters, and restructuring costs of €3 million.
- In Domestics: goodwill impairment of €236 million and restructuring costs of €26 million.
- In Unallocated: €-200 million UPS termination fee, goodwill impairment of €58 million in the former CGU Other Networks, restructuring costs of €9 million, and UPS offer-related costs of €5 million.

Net financial expense			
Year ended at 31 December	2014	variance %	2013
Interest and similar income	12	(14.3)	14
Interest and similar expenses	(36)		(36)
Net financial expense	(24)	(9.1)	(22)
(in € millions, except percentages)			

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

Net financial expense increased by €2 million, mainly due to €2 million lower interest income on foreign currency hedges.

Income taxes			
Year ended at 31 December	2014	variance %	2013
Current tax expense/(income)	50	(60.3)	126
Deferred tax expense/(income)	37		5
Total income taxes	87	(33.6)	131
(in € millions, except percentages)			

In 2014, the tax expense amounted to €87 million (2013: 131) on income before taxes of €-103 million (2013: 9), and resulted in an effective tax rate of -84.5% (2013: 1,455.6%).

The current tax expense was €50 million compared to €126 million in 2013. The difference between the total income taxes in the income statement and the current tax expense is due to movements in deferred tax assets and deferred tax liabilities. Refer to chapter 5 for more information.

Results from investments in associates and joint ventures

At 31 December 2014, investments in associates and joint ventures were valued at €17 million (2013: 16).

Condensed consolidated cash flow statement			
Year ended at 31 December	2014	variance %	2013
Cash generated from operations	246	(48.1)	474
Interest paid	(31)	11.4	(35)
Income taxes received/(paid)	(109)	(38.0)	(79)
Net cash from/(used in) operating activities	106	(70.6)	360
Net cash from other investing activities	19		7
Net cash from acquisitions and disposals	38	(56.8)	88
Net cash used in capital investments and disposals	(174)	(43.8)	(121)
Net cash from/(used in) investing activities	(117)		(26)
Net cash used in dividends and other changes in equity	(21)	(16.7)	(18)
Net cash used in debt financing activities	(12)	0	(12)
Net cash from/(used in) financing activities	(33)	(10.0)	(30)
Changes in cash and cash equivalents	(44)		304
(in € millions, except percentages)			

Net cash from operating activities

In 2014, cash generated from operations decreased by €228 million to €246 million. Net cash from operating activities decreased by €254 million to €106 million.

Trade working capital, calculated as trade accounts receivable minus trade accounts payable as a percentage of revenue, increased from 7.2% in 2013 (restated) to 7.4% in 2014.

Net cash used in investing activities

Net cash used in investing activities increased to €117 million.

Capital expenditure on property, plant and equipment and intangible assets

Net capital expenditure

Year ended at 31 December	2014	variance %	2013
Property, plant and equipment	147	36	108
Intangible assets	43	72	25
Cash out	190	43	133
Proceeds from sale of property, plant and equipment	14	17	12
Disposals of intangible assets	2		0
Cash in	16	33	12
Total net capital expenditure	174	44	121

(in € millions, except percentages)

Capital expenditure on property, plant and equipment and intangible assets (excluding finance leases) totalled €190 million (2013: 133). Capital expenditure on property, plant and equipment is mainly related to construction-related activities at a number of depots, and investments in vehicles, IT equipment and depot equipment. The capital expenditure on intangible assets is mainly related to purchased software and software development projects.

Net capital expenditure by segment

Year ended at 31 December	2014	variance %	2013
International Europe	20	(20)	25
International AMEA	15		(1)
Domestics	65	44	45
Unallocated	74	42	52
Total net capital expenditure	174	44	121

(in € millions, except percentages)

Net capital expenditure amounted to 2.6% of reported revenues (2013: 1.8%).

Proceeds from sale of property, plant and equipment

Proceeds from the sale of property, plant and equipment in 2014 amounted to €14 million (2013: 12), which was mainly related to the sale of vehicles and depot equipment.

Net cash used in financing activities

In 2014, net cash used in financing activities of €33 million, increased by €3 million compared with 2013. This was mainly due to net proceeds from long-term borrowings, repayments of finance leases and dividend payments.

In 2013, net cash used in financing activities of €30 million, mostly pertained to the total net repayments on long-term borrowings, local bank debt, short-term borrowings, repayments of finance leases, discontinued operations and dividend payments.

Net cash

On 31 December 2014, net cash was €449 million. Cash used in investment activities, the sale of TNT Fashion, and the continued focus on working capital contributed to this year-end position. The net cash position as per 1 January 2014 was €469 million.

Borrowings

In November 2014, TNT successfully entered into a €600 million multi-currency revolving credit facility. This facility has replaced the former €570 million multi-currency revolving credit facility, which was originally due for re-financing in 2016. The new facility secures access to committed future financing capacity for a period of five years plus two one-year extension options at reduced financing costs and updated terms and conditions. The facility can be used for general funding purposes and includes a €300 million liquidity back-up for TNT's euro commercial paper programme.

The facility bears interest at the applicable interbank rate plus a margin depending on TNT's 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, entered into agreements for the lease of two Boeing 747 freighters, which are guaranteed by TNT. The outstanding debts at 31 December 2014 under these finance leases with maturities of December 2016 and May 2017 were US$89 million and US$95 million, respectively.

The annual amortisation included in the lease term is approximately US$15 million per year. The leases bear interest at the six-month interbank dollar-rate plus a credit charge, which depends on TNT's 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 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 €0.031 per share. The €0.049 per share interim dividend together with the proposed final dividend, (€0.08 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 2014, 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 10 April 2015 to 6 May 2015, 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 6 May 2015, after the close of trading on Euronext Amsterdam, based on the volume-weighted average price ('VWAP') of all TNT shares traded on Euronext Amsterdam over a four trading day period from 30 April 2015 to 6 May 2015, 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 10 April 2015, the record date is 14 April 2015 and the dividend will be payable as of 13 May 2015.

III. EXECUTIVE BOARD COMPLIANCE STATEMENT

The 2014 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's 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 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's 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's internal audit, risk management, internal control and integrity functions, together with the findings from TNT's independent 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's risk management, integrity and compliance systems, and has reviewed the operational effectiveness of all these systems for the year ended 31 December 2014. The outcome of this review and analysis has been shared with the Audit Committee and the Supervisory Board and has been discussed with TNT's external auditors.

TNT's 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, 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's specific approach to risk management, internal control, integrity and compliance, that TNT's risk management and internal control over financial reporting have worked effectively over the year ended 31 December 2014 and provide a reasonable assurance that the financial reporting is free from material inaccuracies or misstatements.

The above does not imply that TNT can provide certainty as to the realisation of business and financial strategic objectives, nor can TNT's 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 2014 financial statements for the year ended 31 December 2014 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 2014 annual report gives a true and fair view of TNT Express N.V. and its related companies at 31 December 2014 and the state of affairs during the financial year to which the report relates; and
- the 2014 annual report describes the main risks facing TNT Express N.V. These are described in detail in chapter 4.

Hoofddorp, 17 February 2015

Tex Gunning	Maarten de Vries
Chief Executive Officer	Chief Financial Officer

IV. STRATEGY

TNT is in a unique position to provide combined parcel and pallet deliveries, express and economy express services to the business-to-business (B2B) markets. TNT's customers range from multinationals to small and medium-sized enterprises (SME). TNT excels in serving the industry-specific needs of large global customers in the industrial, automotive, high-tech and healthcare industries. TNT's specialised Industry Service Propositions (ISP) address specific requirements and are of great value to the supply chains of these customers. SMEs are an important part of the global economy and are particularly interested in TNT's product/service proposition, as it provides a one-stop solution to their customer service needs.

In February 2014, TNT introduced the *Outlook* strategy, a comprehensive turnaround and transformation programme. A new management team, comprising of experienced industry leaders and corporate turnaround professionals was appointed, with a clear mandate to create a sustainable future for the company in the next three to five years.

OUTLOOK

The *Outlook* strategy builds on TNT's strengths, particularly its European Road Network and European Air Network with excellent connections to the rest of the world, its large base of loyal customers and its people who are always willing to go the 'Extra Mile'.

Outlook targets substantial improvements in performance to meet TNT's stakeholders' needs:
- Competitive products and services, delivered perfectly at competitive prices for customers
- A secure and meaningful future for employees
- Improving results and a solid return on investment for shareholders

To realise these objectives, *Outlook* has three priorities: focus on profitable growth; invest in operational excellence; and organise to win.

- Focus on profitable growth
  To realise profitable growth, TNT focuses on the services and priority industries, where it can truly be competitive and deliver the most value. Comprehensive service, productivity and efficiency plans have been developed and are in full execution mode. Strengthening the European Road Network to 'move more by road' and deliver both express as well as economy express services to even more destinations is a key priority. In addition, particular attention is given to improving profitability in TNT's domestic operations in France, Italy, the United Kingdom, Brazil, Australia and New Zealand.

- Invest in operational excellence
  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 is working to 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 usage. Finally, regarding corporate responsibility, priority will be given to employees and subcontractor health and safety, with the accelerated roll-out of recognised industry best practices.

- Organise to win
  TNT has integrated its multi-local international express organisation in Europe into one European express organisation with one Profit and Loss account. This will enable improved service to international customers and unified performance management. TNT will create a customer-centric organisation in all its operating units supported by Global Business Services (GBS), Global Networks and Operations (GNO) and a Global Strategic Accounts Organisation (GSO). This new organisation will allow TNT to focus on improving service to its customers, whilst realising global competencies and efficiencies in support functions.

The transformation of TNT will be based upon the Orange spirit of its people, the loyalty of its customers and the unique European network with good connections to the rest of the world. The building blocks have been put in place in 2014. Comprehensive productivity and efficiency plans have been developed and are in full execution mode. 2015 will be a year of transition and TNT expects to achieve year-on-year improvements from 2016 onwards. The full benefits of *Outlook* will be unlocked in the coming three to five years with the ambition to double TNT's adjusted operating income margin percentage per segment by 2018/19.

FINANCIAL STRATEGY

TNT's financial strategy targets optimal and sustainable performance of the following aspects:
- Asset efficiency
- Capital structure
- Dividend policy
- Risk management

Asset efficiency

TNT secures asset efficiency through stringent investment and working capital policies. A rigorous process is in place to maintain capital expenditure at approximately 3% to 5% of turnover, during the 2015 to 2017 period, 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 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's capital structure is also relevant to customers who rely on a long-term strategic service. TNT 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 a €600 million committed facility of which it is intended to use a maximum amount of €200 million for operational purposes.

Dividend policy

TNT 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's intention is to pay a dividend that develops in line with the development of its operational performance. TNT 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 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 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 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's business strategy and is embedded in its business and operational activities.

As part of its strategic agenda, TNT aims to create value for customers by:
- ensuring a healthy and safe working environment for employees, subcontractors and business partners to guarantee the delivery of improved quality of service;
- minimising environmental impact on the supply chain of the customer and of TNT's activities in the world; and
- continuous development and engagement of employees to ensure that customers are dealing with knowledgeable and dedicated employees.

2015 GUIDANCE

- For 2015, TNT expects the continuation of adverse trading conditions, particularly in Western Europe.
- TNT expects 2015 to be a challenging year of transition marked by the progressive ramp-up of new and upgraded facilities and other transformation projects, such as the outsourcing of IT.
- TNT anticipates restructuring charges between €10 million and €15 million in the first quarter of 2015.

ASSUMPTIONS UNDERLYING THE EXECUTION OF *OUTLOOK*

- Revenue growth at a minimum in line with GDP growth from 2016 onwards.
- The plans assume no major adverse economic developments going forward.

OUTLOOK AGENDA AND GUIDANCE FOR THE PERIOD 2018 - 2019

- The adjusted operating income margin percentage guidance per segment for 2018/19:
  - International Europe: 8% to 10%
  - International AMEA: 8% to 10%
  - Domestics: 4% to 5%
  - Unallocated: approximately -0.5 % (of Group revenue)

- €800 million to €900 million of capital expenditure investments during the period 2015 to 2017.
- €250 million of cost reductions to be realised by 2018 (versus baseline 2014), achieving a net cost reduction of €125 million by 2018.
- €250 million to €300 million planned restructuring charges for 2015 to 2017.
- Manage a positive net cash position.
- Maintain current dividend policy: TNT aims to pay a dividend of around 40% of normalised net income.