

V. RISK MANAGEMENT

Doing business inherently involves taking risks. By managing these risks, TNT strives to secure a sustainable performance. Therefore, TNT operates a risk management framework that allows management to tolerate risks in a controlled manner, which is an essential element of its corporate governance and strategy development.

The Executive Board, supported by senior management and dedicated risk management employees, is responsible for identifying, prioritising and mitigating risks and for the establishment and maintenance of a robust risk management system.

RISK MANAGEMENT FRAMEWORK

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 framework. Through the company’s risk management framework and control systems (as described in section III), the Executive Board aims to provide reasonable assurance that strategic and business objectives can be achieved. The Executive Board reviews the risk management framework and the company’s main risks on a regular basis. For those risks deemed to be material, comprehensive mitigating action plans are developed and reviewed on a quarterly basis to ensure that these are relevant and sufficient. At least annually, the Executive Board discusses its risk management framework and company risks with the Audit Committee and the Supervisory Board as well as with the external auditor.

Risk appetite

The Executive Board formalised the risk appetite of TNT using the COSO-ERM risk categories and determined that the risk appetite varies between zero and moderate depending on the risk category:

Risk appetite table

Risk category	Category description	Risk appetite
Strategic risk	Risk relating to prospective earnings and capital arising from strategic changes in the business environment and from adverse strategic business decisions.	Moderate
Operational risk	Risk relating to current operational and financial performance and capital arising from inadequate or failed internal processes, people and systems or external events.	Low - moderate
Financial risk	Risk relating to financial loss due to the financial structure, cash flows and financial instruments of the business (including capital structure, insurance and fiscal structure) which may impair its ability to provide an adequate return.	Low
Compliance risk	Risk of non-compliance with relevant laws and regulations (including health and safety), internal policies and procedures.	Zero - low tolerance

Throughout 2014, the company reviewed its risk profile on a regular basis. As input, the Executive Board used the outcome of all risk assessments, representing input from members of the Management Board, all functional areas, entities and key strategic projects.

Risk factors

This section describes the main risks facing the execution of TNT’s strategy as outlined in section IV of chapter 1. Risks have been classified by the COSO-ERM risk categories and divided into specific and inherent risks. Specific risks are risks that the Executive Board believes could negatively impact short-term to medium-term objectives. Inherent risks are risks that are constantly present in the business environment and are considered sufficiently material to require disclosure and management.

Summary of main risks

	Specific risks	Inherent risks
Strategic risks	<ul style="list-style-type: none"> – Risks related to execution of strategy, restructuring or other change management programmes – Risks related to closure or disposal of certain businesses – Adverse operational impact of a takeover bid 	<ul style="list-style-type: none"> – Deterioration of economic conditions – Changing customer preferences or shipping patterns – Intensifying competition in the CEP market
Operational risks	<ul style="list-style-type: none"> – Inaccurate forecasting of infrastructure requirements – Loss of or unavailability of suitable key suppliers or subcontractors – Failures in key infrastructures and networks – Potential impact of accidents and Incidents – Change in shareholder base of TNT or in the domicile of TNT Airways 	<ul style="list-style-type: none"> – Increase in security requirements – Volatility in fuel prices and energy costs
Financial risks	<ul style="list-style-type: none"> – Inadequate insurance coverage 	<ul style="list-style-type: none"> – Volatility in the financial market
Compliance risks		<ul style="list-style-type: none"> – Negative exposure from (changes in) regulatory, political and other environments – Non-compliance with company policies, and/or external laws and regulations – Negative outcome of various claims and lawsuits

TNT assesses risks according to their impact, net of the related mitigating actions. The resulting impact could comprise a material direct or indirect adverse effect on TNT's business, operations, volumes, financial condition and performance, reputation and/or other interests.

The risks listed are not exhaustive, and additional risks and uncertainties not presently known to TNT or that it currently deems immaterial, may also have or develop a material adverse effect on its business, operations, financial condition or performance, or other interests. Similarly, the mitigating actions mentioned are not exhaustive, may be ineffective and may be adjusted from time to time, and their inclusion in this section does not create any legal obligation for the company. The sequence in which these risks and mitigating actions are presented in no way reflects any order of importance, chance or materiality.

Strategic risks

Risk description

Mitigating action

Risks associated with the execution of strategy, restructuring or other change management programmes

Identified risks:

- Reduced benefits due to design failures or inaccurate estimates of revenue benefits and/or cost savings
- Reduced investments compared to plan, impacting the overall (revenue) benefits and/or cost savings
- Negative staff or supplier reactions (including strikes and work stoppages)
- Management distraction due to organisational and other changes
- Failure to retain and attract key employees
- Inadequate IT capacity and capability
- Deficiencies in the control environment

- Involving senior management and qualified personnel in all major projects
- Closely monitoring restructuring programmes by a dedicated programme office that tracks progress and plans resources which enables timely adjustments
- Proactively involving employee representative bodies at an early stage
- Developing employee engagement, investing in professional learning and development programmes
- Utilising structured succession planning and developing future leaders
- Increasing investments in IT and diversification of the IT supply base (including development of alternative providers)

Risks associated with closure or disposal of certain businesses

Identified risks:

- Unexpected costs (including impairment of intangible or tangible assets), liabilities and cash outflows
- Business disruption
- Loss of key relationships
- Loss of management and staff in affected businesses
- Inability to sell business held for sale

- Carefully analysing, planning and executing closure or divestment proposals
- Monitoring execution by senior management
- Maintaining ongoing communication with key customers and suppliers
- Maintaining transparent and frequent communication with management and staff
- Paying continued attention to business performance during the disposal process

Adverse operational impact from a delay in, or non-pursuit of, the intended acquisition of TNT by FedEx Corporation as a result of the offer conditions not being satisfied or waived

Identified risks:

- Loss of customers, supplier contracts, business opportunities and employees
- Management distraction

- Establishing comprehensive corporate communication procedures to handle the bid
- Providing adequate and timely information to internal and external stakeholders
- Establishing continuous communication to employees ensuring management focus remains on day-to-day operations

Deterioration of the economy, either globally or in specific geographies

Identified risks:

- High volatility and/or prolonged downturns in regions in which TNT operates, causing decline in demand for express volumes and/or significant changes in product mix
- Customers' or suppliers' solvency problems

- Closely monitoring all market developments
- Implementing profit improvement programmes and other cost reducing initiatives
- Further expanding TNT's flexible cost base
- Diversifying suppliers and subcontractors
- Actively monitoring customers' and suppliers' solvency
- Striving for a solid capital structure reflected in a long-term credit rating target of BBB+ by S&P and Baa1 by Moody's

Strategic risks (continued)

Risk description	Mitigating action
<p>Changing customer preferences or shipping patterns Identified risks:</p> <ul style="list-style-type: none"> – Further shift in volumes, for example from express to economy express or from B2B to B2C services – Inability to realise the targeted customer mix – Loss of customers if service offering no longer matches their demands – Inadequate cover of changing trade lanes 	<ul style="list-style-type: none"> – Monitoring trends and shipping patterns – Maintaining close contact with customers – Flexibility to adjust network and local operations to meet new service requirements – Operating a company-wide service delivery improvement programme – Enhancing the company's economy express service offering – Building a selective service offering for B2C – Developing and maintaining access to third-party suppliers with complementary capabilities
<p>Intensifying competition in the CEP market may put downward pressure on volumes and prices Identified risk:</p> <ul style="list-style-type: none"> – Targeted actions by global or low-cost competitors 	<ul style="list-style-type: none"> – Monitoring markets and competitors – Implementing cost reductions to increase competitiveness – Introducing innovative pricing standards – Focusing on yield improvement activities

Operational risks

Risk description	Mitigating action
<p>Inaccurate forecasting of infrastructure requirements, such as road and air hubs, aircraft, vehicles, depots and IT Identified risks:</p> <ul style="list-style-type: none"> – Cost of excess capacity – Opportunity costs of capacity constraints (growth constraints, operational disruptions, inability to meet contractual commitments, contingencies) – Inadequate airport slots, air traffic control slots, and operating flexibility 	<ul style="list-style-type: none"> – Forecasting volumes for short, medium and long term – Developing alternative uses for capacity – Maintaining consistent, cross-functional budgeting and forecasting cycles – Sourcing from multiple suppliers locally and globally – Working with subcontractors and other third-party suppliers that have the ability to adjust their capacity in the short term – Executing network planning as core competency, with designated managers on a global and regional level
<p>Loss of or the unavailability of key suppliers and subcontractors could impact TNT's ability to deliver Identified risks:</p> <ul style="list-style-type: none"> – Dependency on a key supplier or subcontractor who turns insolvent or bankrupt – Asymmetric negotiations with a key supplier due to dependency 	<ul style="list-style-type: none"> – Sourcing from multiple suppliers – Implementing contingency plans to enable seamless transfer to alternative suppliers – Screening and monitoring suppliers closely – Utilising longer-term contractual arrangements where appropriate
<p>TNT's services are time-critical. Network and IT disruptions in key infrastructure facilities may lead to its inability to deliver according to customer expectations and contractual obligations Identified risks:</p> <ul style="list-style-type: none"> – Disruption or breakdown of concentrated (hub) infrastructure facilities, owned or third party – Disruption in subcontractor operations – Failure of IT infrastructure and applications 	<ul style="list-style-type: none"> – Actively monitoring and identifying potentially disruptive events – Investing in preventive measures – Implementing business continuity plans – Maintaining a global and local crisis response organisation including back-up facilities and networks

Operational risks (continued)

Risk description	Mitigating action
<p>Accidents and incidents resulting in fatalities, injuries or damages could negatively impact TNT</p> <p>Identified risks:</p> <ul style="list-style-type: none"> – Road traffic accidents – Aircraft accidents – Incidents from the transport of (hazardous) materials – Loss of consignments 	<ul style="list-style-type: none"> – Investing in fleet, systems, procedures and training relating to health and safety – Complying with external and internal health and safety rules and policies – Reporting and analysing all accidents and incidents; ensuring continuous improvement – Executing a company-wide health and safety improvement programme and promoting a safety culture
<p>A terrorist attack or increased security requirements could negatively affect TNT</p> <p>Identified risks:</p> <ul style="list-style-type: none"> – Staff or third-party injuries or fatalities due to terrorist attack – Costs or operating restrictions due to additional or changing rules and regulations for the transportation industry – Criminal acts against TNT which puts staff, property or customer consignments at risk 	<ul style="list-style-type: none"> – Strictly adhering to security policies, processes, procedures and systems (including supporting training, monitoring and auditing) – Investing in security personnel and equipment – Maintaining a continuous dialogue with authorities and participating in industry associations on changes in security rules – Adding a security surcharge to mitigate cost impact
<p>Volatility in the price of fuel, energy or CO₂ emission rights may adversely affect TNT</p> <p>Identified risk:</p> <ul style="list-style-type: none"> – Large dependency on air and road transportation can result in a potentially significant impact 	<ul style="list-style-type: none"> – Implementing company-wide fuel and energy efficiency measures – Ensuring application of fuel surcharges to mitigate cost impact
<p>Change in the shareholder base of TNT Express or in the domicile of TNT Airways could adversely impact TNT</p> <p>Identified risk:</p> <ul style="list-style-type: none"> – Ability to secure and maintain traffic rights in certain countries and the use of airports, which could in turn affect revenue and profitability 	<ul style="list-style-type: none"> – Establishing a professional divestiture process to satisfy EU ownership requirements – Involving senior management and qualified personnel throughout divestiture process

Financial risks

Risk description	Mitigating action
<p>Inadequate insurance coverage</p> <p>Identified risk:</p> <ul style="list-style-type: none"> – Size and scope of insurance policy is inadequate to meet nature or size of damage claims 	<ul style="list-style-type: none"> – Utilising an in-house captive insurance company for additional coverage – Insuring 'catastrophe exposures' externally – Retaining several external insurers with a rating of A or higher

Financial risks (continued)

Risk description	Mitigating action
<p>Volatility and unfavourable movements of the financial markets may have a negative impact on TNT's ability to fund and cost of funding</p> <p>Identified risks:</p> <ul style="list-style-type: none"> – Fluctuations in exchange rates and interest rates – Downgrade of TNT's credit ratings – Break-up of or change of eurozone and its currency 	<ul style="list-style-type: none"> – Monitoring of capital investments in context of capital structure – Maintaining hedging arrangements to limit intragroup and external financial currency and interest exposures. Operational foreign currency cash flow exposures are mostly not hedged – Maintaining headroom under committed longer-term revolving credit facilities – Striving for a solid capital structure reflected in a long-term credit rating target of BBB+ by S&P and Baa1 by Moody's – Refer to note 29 in chapter 5

Compliance risks

Risk description	Mitigating action
<p>TNT's global presence exposes it to a variety of regulatory, political and other environments which may affect its business and operations</p> <p>Identified risks:</p> <ul style="list-style-type: none"> – Changes in regulatory requirements, practices and procedures, in areas such as transportation, trade, anti-trust, labour, data protection, business licensing, foreign ownership, health and safety, taxes, limited liability for loss, export controls, sanctions, customs and security – Unfavourable policies and regulations related to environment and climate change – Restrictions on the use of vehicles during parts of the day or week – Underdeveloped judiciary and legal infrastructure in specific emerging markets 	<ul style="list-style-type: none"> – Monitoring and adapting to relevant (changes in) rules and regulations – Maintaining a dialogue with authorities and participating in industry associations – Implementing a company-wide compliance system, including training and reporting procedures
<p>Non-compliance with internal policies and/or external laws and regulations by employees, subcontractors or third-party suppliers could result in financial losses, loss of customers, sanctions or reputational damage</p> <p>Identified risks:</p> <ul style="list-style-type: none"> – Unwanted involvement in anti-competitive actions – Non-compliance with applicable social security or fiscal regulations – Classification of subcontractors or their employees as employees of TNT 	<ul style="list-style-type: none"> – Maintaining company-wide business principles, control frameworks, compliance policies, guidelines and integrity programmes including representations and training, audits and complaints procedures – Communicating and implementing business principles and related guidelines towards subcontractors and third-party suppliers – Maintaining a global whistleblower procedure

Compliance risks (continued)

Risk description	Mitigating action
<p>The nature of its business exposes TNT to the potential for claims and litigations in a wide variety of areas</p> <p>Identified risks:</p> <ul style="list-style-type: none"> – Claims from/litigations by partners or third parties in relation to partnerships or potential partnerships, acquisitions or divestments – Customers claiming contractual obligations have not been met – Claims from public authorities and other third parties in relation to TNT's local operations – TNT may be held liable for PostNL obligations outstanding at the date of the demerger of TNT N.V. in 2011 	<ul style="list-style-type: none"> – Maintaining company-wide business principles, legal and other control frameworks, compliance policies, guidelines and integrity programmes including representations and training, audits and complaints procedures – Reporting quarterly material contracts and claims and litigations – Centrally involving senior management in claim and litigation resolution