

## CHAPTER 2 BUSINESS PERFORMANCE

I. GENERAL MARKET AND BUSINESS PROFILE	13
II. OVERVIEW	14
III. INTERNATIONAL EUROPE	16
IV. INTERNATIONAL AMEA	16
V. DOMESTICS	17
VI. UNALLOCATED	18

## I. GENERAL MARKET AND BUSINESS PROFILE

### MARKET OVERVIEW

TNT operates in the Courier, Express and Parcel (CEP) market and collects, transports and delivers documents, parcels and palletised freight on a day-definite or time-definite basis. Its services are primarily classified by the speed, distance, weight and size of consignments. Whereas the majority of its shipments are between businesses (B2B), TNT also offers business-to-consumer (B2C) services to select key customers.

Within the CEP market, TNT provides Express and Economy Express services. The Express services are day-definite and delivered next-day or fastest-by-air for distances for which next-day is not possible. The Economy Express services are also day-definite and are delivered fastest-by-road, except for intercontinental deliveries which depend on air. For both Express and Economy Express services TNT has time-definite options for customers requiring delivery before a certain time (e.g. 12:00 pm). TNT also provides specialised or extremely urgent deliveries which include products such as same-day, value-added and non-standard freight services. Geographically, TNT differentiates between domestic, intra-regional and intercontinental shipments. It also differentiates between parcels and freight, with a cut-off point at 30 kilogrammes per consignment.

There are two types of express players: global integrators – so called due to their worldwide integrated networks and door-to-door delivery capability – and local/regional express operators. Four global integrators – DHL Express, FedEx, UPS and TNT – have the largest share of the intra-regional and intercontinental segments. Local/regional operators are often well positioned in their respective domestic or regional markets. As for the European economy parcels market, which is mainly domestic, larger competitors are DPD, a subsidiary of France's La Poste's GeoPost, and General Logistics Systems, a Royal Mail-owned parcel delivery group.

Competition in the express market focuses on network coverage, speed, reliability, quality of customer service and price. New entrants into the express market may come from the parcel and freight sectors, where companies might improve their range of services by including day-definite products.

### MARKET DYNAMICS

The CEP market, in particular the express business, is highly cyclical. An important development over the last two decades has been the emergence of end-to-end global supply chains, which is strengthening the relationship between express delivery and trade flows. Due to the close relationship between trade flows and economic development, a strong correlation exists between the development of the express delivery industry and real GDP (Gross Domestic Product) development. The growth of the global economy was uneven in 2015.

Other key factors that affect TNT's performance are:

- Demand for Express and Economy Express
- Customer mix
- E-commerce
- Base price and surcharges
- Wage and input-cost inflation
- Fuel prices
- Operational efficiency and productivity
- Foreign currency volatility

### BUSINESS PROFILE

Originally founded in 1946 and headquartered in Hoofddorp, the Netherlands, TNT employs over 56,000 people worldwide. With own operations in 61 countries, TNT picks up and delivers documents, parcels and palletised freight through its operations, subcontractors and agents which are connected by road and air networks. The road networks are operated in Europe, the Middle East, Asia, Australia and South America. TNT's unique European Road Network connects more than 40 countries through 19 road hubs and over 540 depots. Its international air network has a central air hub in Liège, Belgium, and a fleet of 56 aircraft connecting 78 airports globally. In addition, TNT utilises acquired capacity on commercial airlines to destinations worldwide, allowing for service to more than 200 countries.

TNT's customers range from multinationals to small enterprises and are concentrated in the industrial, automotive, high-tech and healthcare industries. SMEs are an important part of TNT's customer base. These customers have broadly distributed geographic (domestic, intra-Europe and intercontinental)

service demand. TNT's sector-specific value propositions and products, born from meeting the needs of larger customers, are also marketed to SMEs alongside more standardised products.

With more than two-thirds of its revenues generated in Europe, TNT has a robust position in the domestic and intra-European express market.

## EXTERNAL RECOGNITION

In 2015, TNT received a number of awards, including the following:

- TNT Brazil received the '2014 Pinnacle Award' from Delphi Automotive Plc., during the Global Supplier Conference & Pinnacle Awards event in April, held in Shanghai, China. The award recognised TNT Brazil for its contribution to Delphi Automotive Plc.'s excellence culture and commitment to quality, value and cost performance.
- Two TNT drivers were named as the winner and runner-up in the prestigious 2015 Scania Driver Competition held in Bangkok, Thailand in June. TNT, like Scania recognises that drivers are the single most important asset for promoting safety, protecting the environment and maximising the efficiency of the transport business.
- For the fourth consecutive year, TNT Germany received the 'Audit Berufundfamilie' certificate in June, for its family-oriented employee policy.
- TNT Airways won the 'Air Cargo Carrier of the Year Award' at the Global Freight Awards 2015, co-hosted by Lloyds Loading List in November. The award recognised TNT Airways for its high performance, drive for innovation, customer centricity and demonstrable expertise.

## II. OVERVIEW

In 2014, as part of *Outlook*, and its *Organise to Win* initiative, TNT announced that the management structure would be updated to create focused and accountable units. This led to a change in operating units and subsequently reportable segments changed to: International Europe, International AMEA, Domestic and Unallocated, effective 1 October 2014.

- The International Europe reportable segment is centrally led with integrated responsibility across Europe.
- The International AMEA reportable segment is managed separately but operates in close co-operation with International Europe.
- The Domestic reportable segment includes the domestic operations in France, Italy and the United Kingdom, as well as Brazil, Chile, Argentina, Australia and New Zealand. The domestic entity creates a dedicated focus on domestic operations, whilst keeping the synergies with the international activities.
- The Unallocated reportable segment consists of Other Networks (TNT Innight), Central Networks (European Road Network and European Air Network), IT and the TNT Head Office.

## SEGMENT OVERVIEW

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 presentation and disclosure of adjusted operating income does not conform to IFRS.

The following table presents revenue and (adjusted) operating income per reportable segment for the financial years ended 31 December 2015 and 2014.

Revenue and operating income by segment, reported and adjusted

	Reported			One-offs	Adjusted (non-GAAP)		
	2015	variance %	2014		2015	variance %	2014
<b>Revenues</b>							
International Europe	2,864	4.4	2,743				
International AMEA	1,002	10.6	906				
Domestics	2,581	1.3	2,547				
Unallocated	477	(3.8)	496				
Elimination	(10)	16.7	(12)				
<b>Total</b>	<b>6,914</b>	<b>3.5</b>	<b>6,680</b>				
<b>Operating income (€m)</b>							
International Europe <sup>1</sup>	69		30	33	102	(13.6)	118
International AMEA <sup>2</sup>	64	28.0	50	6	70	37.3	51
Domestics <sup>3</sup>	(14)	(75.0)	(8)	37	23	(65.2)	66
Unallocated <sup>4</sup>	(81)	48.7	(158)	37	(44)	(69.2)	(26)
<b>Total</b>	<b>38</b>		<b>(86)</b>	<b>113</b>	<b>151</b>	<b>(27.8)</b>	<b>209</b>
<b>Operating income margin (%)</b>							
International Europe	2.4		1.1		3.6		4.3
International AMEA	6.4		5.5		7.0		5.6
Domestics	(0.5)		(0.3)		0.9		2.6
<b>Total</b>	<b>0.5</b>		<b>(1.3)</b>		<b>2.2</b>		<b>3.1</b>

Notes: Non-GAAP adjustments

<sup>1</sup>FY15: €22m restructuring and related charges, €8m PP&E impairment, €1m softw are impairment and €2m FedEx related cost.

<sup>1</sup>FY14: €56m restructuring and related charges and €32m goodwill impairment.

<sup>2</sup>FY15: €3m restructuring and related charges, €2m claims and €1m FedEx related cost.

<sup>2</sup>FY14: €1m restructuring and related charges.

<sup>3</sup>FY15: €34m restructuring and related charges, €2m fair value adjustment of the fleet in Brazil, €(1)m profit on sale of TNT Business Solutions Ltd. and €2m FedEx related cost.

<sup>3</sup>FY14: €65m restructuring and related charges and €9m impairment and depreciation of Brazil.

<sup>4</sup>FY15: €3m restructuring and related charges, €8m French competition case, €1m softw are impairment, €1m PP&E impairment and €24m FedEx related cost.

<sup>4</sup>FY14: €37m restructuring and related charges, €50m implementation cost, €2m softw are impairment, €50m provision related to the French competition case and €(7)m profit on sale of TNT Fashion Group B.V.

(In € millions, except percentages)

In 2015, overall revenues increased by 3.5%. Underlying revenue growth, at a comparable scope and constant foreign exchange rates, adjusted for the negative impact of lower fuel surcharges was 3.4%, reflecting higher revenues from SMEs, particularly in the International Europe segment. TNT returned to revenue growth despite economic volatility in some of its markets notably, Brazil and China.

TNT recorded an operating income of €38 million in 2015 compared to an operating loss of €86 million in 2014. Operating income included net one-off charges of €113 million, which mainly consists of restructuring and related charges of €62 million, and impairments of €11 million, of which €9 million is related to property, plant and equipment.

At the end of 2015, an additional €8 million was recognised due to the decision by the French Competition Authority to fine TNT €58 million related to alleged anti-competitive behaviour in the French parcels delivery sector.

TNT's adjusted operating income was €151 million, compared with €209 million in 2014. Operating results were affected by price pressures, *Outlook*-related transition and project costs (€45 million), and costs to enhance service capabilities. Lower margins were experienced most notably, in France and Australia.

Commentary on the performance in each of TNT's reportable segments is provided below.

### III. INTERNATIONAL EUROPE

#### GENERAL

The International Europe segment comprises of all TNT operations in Europe with the exception of the domestic businesses in France, Italy and the United Kingdom. These operations provide TNT with a strong position in the European international express market. The segment also includes TNT's operations in North America and Israel.

#### 2015 PERFORMANCE

International Europe			
Year ended at 31 December	2015	variance %	2014
Revenues	2,864	4.4	2,743
Comparable revenue growth (%) <sup>1</sup>	3.7		1.5
Operating income/(loss)	69		30
One-offs	33	(62.5)	88
Adjusted operating income/(loss)	102	(13.6)	118
Adjusted operating income margin (%)	3.6		4.3
Average consignments per day ('000)	249	4.2	239
Revenue per consignment (€) <sup>1</sup>	44.7	(0.7)	45.0
Average kilogrammes per day ('000)	8,691	6.2	8,184
Revenue per kilogramme (€) <sup>1</sup>	1.28	(2.3)	1.31

<sup>1</sup>Based on reported revenues @ constant foreign exchange rate.  
(in € millions, except percentages)

International Europe's revenues increased by 4.4% or 3.7% at constant foreign exchange rates. Growth accelerated across the quarters in 2015, with particularly strong growth in the SME customer segment. Revenue per consignment declined by 0.7%, as a result of price pressure and the significant decline in fuel prices, partly compensated by an increased average consignment weight.

Adjusted operating income was impacted by increased dollar-denominated air network costs, investments in road and air network connections, as well as *Outlook*-related transition and project costs.

While many operating units experienced healthy profit developments, the performance of the segment was negatively impacted by the revenue developments in certain parts of Western Europe.

Investments made in the European Road Network and the European Air Network to drive growth and productivity, positively impacted International Europe's service coverage and capacity. Service levels improved significantly in 2015, as evidenced by the results of customer satisfaction surveys.

### IV. INTERNATIONAL AMEA

#### GENERAL

The International AMEA segment constitutes the businesses in Asia, the Middle East and Africa with fully owned subsidiaries in 21 countries. It operates express services within the AMEA region and provides intercontinental services mainly to and from Europe and the United States. Its dedicated intercontinental air fleet serves Shanghai, Hong Kong, Singapore and Dubai. In Asia, it operates domestic and international regional road networks connecting more than 126 cities and provides an attractive alternative to air and sea transport.

## 2015 PERFORMANCE

### International AMEA

Year ended at 31 December	2015	variance %	2014
Revenues	1,002	10.6	906
Comparable revenue growth (%) <sup>1</sup>	(2.8)		(13.5)
Operating income/(loss)	64	28.0	50
One-offs	6		1
Adjusted operating income/(loss)	70	37.3	51
Adjusted operating income margin (%)	7.0		5.6
Average consignments per day ('000)	56	(6.7)	60
Revenue per consignment (€) <sup>1</sup>	61.2	4.1	58.8
Average kilogrammes per day ('000)	1,257	7.7	1,167
Revenue per kilogramme (€) <sup>1</sup>	2.74	(10.2)	3.05

<sup>1</sup>Based on reported revenues @avg14 rates.  
(in € millions, except percentages)

In 2015, International AMEA experienced revenue growth of 10.6% driven by the strengthening of local currencies against the euro. At constant foreign exchange rates, revenue growth within the segment was dampened, negatively impacted by the dilution of fuel surcharge revenue and a slowdown in the Chinese economy, where exports declined year-on-year, particularly to Europe.

Average kilogrammes shipped per day increased year-on-year by 7.7%, while average consignments shipped per day decreased by 6.7%. This was a reflection of the increase in average weight per shipment, due to the growth in the demand for Economy Express products, which was at a faster rate than for the lighter Express products. Revenue decrease in China and Hong Kong was partly offset by growth in India, Middle East and Africa.

Adjusted operating income margin improved to 7.0% in 2015 from 5.6% in 2014. This was the result of growth in higher margin import products and the SME customer segment, which are key *Outlook* strategic focus areas for International AMEA. Contributing to the improvement were the indirect cost reduction actions, which included the consolidation of activities and de-layering of management. Indirect costs remained well controlled despite high levels of salary inflation in many markets, which often run at multiples of local CPI indices.

## V. DOMESTICS

### GENERAL

The Domestics segment comprises of the domestic businesses in France, Italy and the United Kingdom, as well as Brazil, Chile, Argentina, Australia and New Zealand. These businesses provide TNT with a strong position in the domestic express markets in the respective countries.

### 2015 PERFORMANCE

#### Domestics

Year ended at 31 December	2015	variance %	2014
Revenues	2,581	13	2,547
Comparable revenue growth (%) <sup>1</sup>	0.4		0.4
Operating income/(loss)	(14)	(75.0)	(8)
One-offs	37	(50.0)	74
Adjusted operating income/(loss)	23	(65.2)	66
Adjusted operating income margin (%)	0.9		2.6
Average consignments per day ('000)	654	3.2	634
Revenue per consignment (€) <sup>1</sup>	15.3	(3.2)	15.8
Average kilogrammes per day ('000)	13,154	(14)	13,343
Revenue per kilogramme (€) <sup>1</sup>	0.76	13	0.75

<sup>1</sup>Based on reported revenues @avg14 rates.  
(in € millions, except percentages)

Revenues for the segment increased by 1.3%, of which 0.9% was due to favourable currency effects. Revenues in the SME customer segment improved year-on-year in all markets.

Revenue per consignment declined due to the general price pressure in the European domestic markets, coupled with a material change in customer mix in Brazil, driven by declining markets in key verticals.

Growth in a number of European domestic markets was offset by declines in Australia and Brazil. Adjusted operating income decreased, due to lower sales in Australia and Brazil, lower yields most notably in France and Australia, and *Outlook*-related transition and project costs. Performance in France was negatively affected by competitive pressures and higher B2C delivery costs, while the performance in Australia was weaker due to competitive pressures, compounded by the drop in commodity markets and the ongoing cost of modernising the company's Australian infrastructure. The lower revenues in Brazil could not be fully offset by structural cost saving actions, in response to the economic environment, and resulted in a decline in performance.

Service levels continued to improve, with a retained focus on compliance, further investments (equipment, fleet and infrastructure), and the roll-out of various operational excellence programmes, such as Perfect Depot and Perfect PUD.

## VI. UNALLOCATED

### GENERAL

The Unallocated segment consists of Other Networks (TNT Innight), Central Networks (European Road Network and European Air Network), IT and the TNT Head Office.

Revenues in the Unallocated segment are mainly generated by TNT Innight, and the air cargo sales made by Central Networks to optimise air capacity utilisation.

The Unallocated segment costs are shown net of recovery charges allocated to individual geographic and business segments. The segment also includes specific one-offs and expenses.

### 2015 PERFORMANCE

Unallocated			
Year ended at 31 December	2015	variance %	2014
Other Networks	261	(14.4)	305
Non-allocated	206	15.1	179
<b>Total reported revenues</b>	<b>467</b>	<b>(3.5)</b>	<b>484</b>
Other Networks	(2)	87.5	(16)
Non-allocated	(79)	44.4	(142)
<b>Total reported operating income/(loss)</b>	<b>(81)</b>	<b>48.7</b>	<b>(158)</b>
Software impairment	1		2
PP&E impairment	1		
Restructuring and related charges	3		37
Implementation cost			50
FedEx related cost	24		
Profit on the sale of TNT Fashion Group B.V.			(7)
French competition case	8		50
<b>Adjusted operating income/(loss)</b>	<b>(44)</b>	<b>(69.2)</b>	<b>(26)</b>

(in € millions, except percentages)

On 15 December 2015, TNT announced that it had been ordered to pay a €58 million fine in relation to alleged anti-competitive behaviour in the French parcel delivery sector by the French Competition Authority. The case relates to activities that took place before 2010. TNT has co-operated with the investigation since it started. During the third quarter of 2014, TNT entered into a settlement agreement with the French Competition Authority and booked a provision of €50 million in relation to this matter. At the end of 2015, an additional liability of €8 million was recorded.