

CHAPTER 2 BUSINESS PERFORMANCE

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I. GENERAL MARKET AND BUSINESS CHARACTERISTICS

TNT Express operates in what is commonly referred to as the Courier, Express and Parcel (CEP) market. TNT Express picks up, transports and delivers documents, parcels and freight on a time-certain or day-definite basis. Its services are primarily classified by speed, distances, weights and sizes of consignments. While the majority of TNT Express' shipments are between businesses (B2B), it also offers B2C services to select key customers.

TNT Express, headquartered in Hoofddorp, the Netherlands, has a worldwide presence and offers domestic, regional and intercontinental delivery. The company has own operations in 61 countries and can deliver to more than 200 countries through own operations, subcontractors and agents.

TNT Express' customers range from multinationals to small enterprises, and are concentrated in the technology, automotive, industrial, healthcare and lifestyle (fashion) industries.

Services are delivered through a combination of physical infrastructures such as depots, aircraft and vehicles and electronic infrastructures such as track-and-trace systems. TNT Express operates interconnected international air and road networks. The air network consists of a central air hub in Liège, Belgium, and a fleet of 51 aircraft. The road networks are operated in Europe, the Middle East, Asia, Australia and South America.

The CEP market and more specifically, the express business, is cyclical and highly sensitive to fluctuations of trade flows. Due to the close relationship between trade flows and economic development, a strong correlation exists between the development of the industry and GDP development. The declining trend experienced in the global economy growth during 2011 continued in 2012, with an estimated global real GDP² growth of around 1.8% compared to 2.5% in 2011.

Other key factors that affect TNT Express' performance are:

- Growth in demand for express ('time-certain, next-day') and economy ('fastest-by-road day-certain') services
- Customer mix
- Base price and surcharge development
- Wage and input-cost inflation
- Fuel prices
- Operational efficiency and productivity

² Real GDP information source: EIU (Economist Intelligence Unit); global GDP calculated based on weighted average revenue based on TNT Express' presence.

II. OVERVIEW

Set out in the tables below are the unaudited adjusted revenue and adjusted operating income per segment for the financial years ended 31 December 2012 and 2011. Compared to 2011, the Americas segment has been split into Brazil and Other Americas to reflect the amended organisational structure. Adjusted revenue and operating income are calculated as revenue and operating income after the adjustment for business one-offs, miscellaneous one-offs, and foreign exchange differences and are prepared by management to analyse the results excluding non-recurring items for a deeper understanding of the business performance. Presentation and disclosure of adjusted revenue and adjusted operating income are not in conformity with IFRS and are unaudited.

The overall adjusted revenue decline of 1.7% in 2012 was the result of limited growth in Europe & MEA (0.2%), lower demand for Asia-Europe transport coupled with targeted reductions in Asia Pacific (-10.0%), improved yield in Brazil (6.5%) and higher revenues in Other Americas (2.5%).

Compared to 2011, adjusted operating income declined, principally because of €102 million lower results in Europe & MEA. Performance improved in Asia Pacific (€42 million) and losses in Brazil were reduced (€24 million).

Revenue and operating income by segment, reported and adjusted

	Reported			Adjusted (non-GAAP)					
	2012	variance %	2011	Foreign exchange	Demerger related	Business one-offs	2012	variance %	2011
Revenues									
Europe & MEA	4,605	1.8	4,525	(73)			4,532	0.2	4,525
Asia Pacific	1,755	(2.3)	1,797	(137)			1,618	(10.0)	1,797
Brazil	304	(1.6)	309	25			329	6.5	309
Other Americas	172	8.9	158	(10)			162	2.5	158
Other networks	498	7.6	463	(6)			492	6.3	463
Non-allocated	(7)		(6)	0			(7)		(6)
Total	7,327	1.1	7,246	(201)			7,126	(1.7)	7,246
Operating income									
Europe & MEA	289	(18.8)	356	(11)			278	(26.8)	380
Asia Pacific ¹	(93)	(22.4)	(76)	(7)		111	11		(31)
Brazil ²	(73)	78.0	(332)	(6)		7	(72)	25.0	(96)
Other Americas	(22)	21.4	(28)	1			(21)	22.2	(27)
Other networks	14	(30.0)	20				14	(30.0)	20
Non-allocated ³	(26)		(45)	(3)		7	(22)		(21)
Total	89		(105)	(26)		125	188	(16.4)	225
Operating income margin (%)									
Europe & MEA	6.3		7.9				6.1		8.4
Asia Pacific	(5.3)		(4.2)				0.7		(1.7)
Brazil	(24.0)		(107.4)				(21.9)		(31.1)
Other Americas	(12.8)		(17.7)				(13.0)		(17.1)
Other networks	2.8		4.3				2.8		4.3
Non-allocated									
Total	1.2		(1.4)				2.6		3.1

Notes: non-GAAP adjustments

¹ 2012: 17 aircraft impairment, 94 goodwill impairment.

² 2012: 1 impairment, 6 restructuring.

³ 2012: 6 UPS offer-related, 1 software impairment.

(in € millions, except percentages)

III. EUROPE & MEA

GENERAL

TNT Express is a market leader in the domestic and intra-European express market with a market share of 17%. TNT Express generates more than half of its revenues in Europe, of which the majority is in international services. This is complemented by a strong domestic footprint, particularly in the United Kingdom, France and Italy.

TNT Express operates a unique combination of European air and road networks, connecting strong domestic platforms. The European Air Network connects 65 airports through a fleet of 45 aircraft, while

³ Based on TNT Express' Competitor Model, incorporating various external sources.

the European Road Network connects 40 countries through 20 road hubs. TNT Express' infrastructure offers customers a wide range of services and superior delivery performance, even in less densely populated regions of Europe.

In the Middle East, TNT Express operates a regional road network connecting seven countries and three hubs as well as air-based services. In Africa, TNT Express has own operations in four countries and serves the rest of the continent through partnerships and agents.

2012 PERFORMANCE

In 2012, economic growth was highest in Norway and Turkey. Germany experienced positive growth, while growth in France was almost flat. Economic growth in Belgium, Greece, Italy, Luxembourg, the Netherlands, Portugal, Spain and the United Kingdom declined, with particularly large declines in the Southern European countries.

Europe & MEA overview

Year ended at 31 December	2012	variance %	2011
Adjusted revenues	4,532	0.2	4,525
Adjusted operating income	278	(26.8)	380
Average consignments per day ('000)	766	5.7	725
Revenue per consignment (€) ¹	23.1	(4.9)	24.3
Average kilogrammes per day ('000)	14,843	1.2	14,661
Revenue per kilogramme (€) ¹	1.19	(0.8)	1.20

¹ Based on reported revenues @avg11 rates.
(in € millions, except percentages)

Adjusted revenues increased by 0.2% despite a challenging economic environment. Benelux, Eastern Europe, France and the Middle East showed the strongest volume growth. Average consignments per day and average kilogrammes per day, grew by 5.7% and 1.2% respectively, reflecting TNT Express' strong position in Europe. Weight per consignment declined as a result of lower market trading activity and an increase in B2C volumes. Volumes in all product categories increased, with the highest growth in International Economy. As a result of the change in product mix, air network volumes decreased while road network volumes increased.

Revenue per consignment (RPC) and revenue per kilogramme (RPK) decreased by 4.9% and 0.8% respectively, as a result of on-going price pressure and product and customer mix effects. These declines had a significant impact on the development of the segment's operating income.

During the year, yield improvement measures were taken in all European countries. A range of marketing and sales initiatives, including targeted marketing campaigns and internal sales competitions, were implemented. A differentiated pricing approach, launched in 2011, was deployed throughout TNT Express, to support the acquisition, development and retention of SMEs. This approach has proven successful and contributed to overall improved performance by generating a higher level of new customers at attractive margins.

Service quality (measured by on-time delivery) was in line with 2011, at 95% for the year.

To counter cost inflation and lower yields, TNT Express implemented various efficiency and productivity initiatives. These initiatives targeted savings through subcontractor and linehaul productivity improvements, supplier tariff optimisation, lower procurement costs and application of 'lean' methodology to operational processes.

In April 2012, TNT Express was awarded the 2012 Franz Edelman Award for its Global Optimisation (GO) programme, which uses advanced operations research to optimise TNT Express' transport network. The awarded GO programme covers multiple aspects of TNT Express' operations including location planning, optimal truck routing, fleet management and staff scheduling.

During 2012, the available capacity in European Air Network was lowered by 9% through the sale of three British Aerospace 146 freighters and the reduction of leased third-party aircraft. This capacity reduction follows lower air volumes. Volumes in the European Road Network increased. The road network continued to perform strongly, both in terms of unit costs and operational service quality.

Higher volumes and cost control did not offset the significant negative impact of lower RPC and RPK on operating income.

IV. ASIA PACIFIC

GENERAL

TNT Express operates domestic and international express services within Asia Pacific and between Asia Pacific and Europe. TNT Express' dedicated intercontinental air fleet serves Chongqing, Shanghai, Hong Kong and Singapore. TNT Express also operates domestic and regional road networks in Asia. Its Asian Road Network connects more than 126 cities, thereby providing an attractive alternative to air and sea transportation. Within Asia Pacific, TNT Express has own subsidiaries in 16 countries, with its main operations in China and Australia.

In China, TNT Express operates one of the largest privately-owned, domestic, road transportation networks, Hoau, which connects more than 1,500 hubs and depots across the country. Hoau offers LTL and a unique day-definite road delivery service. As a result of TNT Express' revised focus, presented in its '*Building on Strengths*' strategy, a divestment process for Hoau was initiated. All related assets are currently classified as assets held for disposal.

In India, TNT Express sold its domestic road business at the end of 2011. As of 17 November 2012, TNT Express also discontinued its Indian domestic air operations, in line with a shift in focus to international services. TNT Express continues to offer inbound and outbound services in India, via its globally interconnected networks. It also continues to provide customer-specific specialised services, particularly to healthcare and logistics service customers.

TNT Express is a leader in the Australian express market and offers service to domestic and international destinations with both time-definite and day-definite services.

2012 PERFORMANCE

Economic growth within Asia Pacific remained relatively robust. China's economic growth grew at a slower rate, in part due to lower exports to the United States and Europe.

Asia Pacific overview

Year ended at 31 December	2012	variance %	2011
Adjusted revenues	1,618	(10.0)	1,797
Adjusted operating income	11		(31)
Average consignments per day ('000)	167	(8.2)	182
Revenue per consignment (€) ¹	37.9	(1.6)	38.5
Average kilogrammes per day ('000)	10,720	(19.9)	13,391
Revenue per kilogramme (€) ¹	0.59	13.5	0.52

¹ Based on reported revenues @avg11 rates.
(in € millions, except percentages)

Adjusted revenues declined 10% as a consequence of lower volumes.

Lower volumes were driven by reduced Asia-Europe demand and targeted customer and service optimisation initiatives. Key account volumes from China to Europe fell through a combination of lower demand and actions taken to improve revenue quality. Domestic volumes in India significantly declined following the discontinuation of the domestic road and air businesses. Domestic volumes in China fell, with higher-volume LTL services substituted by higher-priced day-definite services. The latter impact is especially significant as China Domestic accounts for approximately 65% of all kilogrammes transported in Asia Pacific. Day-definite grew by more than 40% year-on-year and represented at year-end over 35% of revenues (2011: 30%), well on track to realise the projected 40% of revenues in 2013.

During 2012, TNT Express operated four freighters to and from Asia: two Boeing 747 freighters serving Chongqing, Shanghai and Singapore; and two Boeing 777 freighters serving Hong Kong. To limit exposure to volatile and weaker Asia demand, TNT Express entered into code-share and blocked-space agreements, which resulted in lower costs for Asia Pacific. Revenue related to these air cargo sales is recognised in the Europe & MEA segment.

Revenue quality improved as a result of the optimisation of the business portfolio. RPC declined by 1.6%, while RPK increased by 13.5%. The lower RPC is due to the changed business mix.

Adjusted operating income improved year-on-year by €42 million because of a significant reduction in losses in China, the exit of India Domestic and strong performances in Southeast Asia and Australia.

Despite lower revenues in TNT Express' China International business, adjusted operating income improved due to improved utilisation of available air capacity and cost reductions.

V. BRAZIL

GENERAL

TNT Express has established a key position in the domestic express market in Brazil, through the acquisitions of TNT Mercúrio and Expresso Araçatuba. Its network covers 140 locations around the country. TNT Express' high quality service offering is supported by hub automation and the application of leading track-and-trace technology.

2012 PERFORMANCE

Brazil overview

Year ended at 31 December	2012	variance %	2011
Adjusted revenues	329	6.5	309
Adjusted operating income	(72)	25.0	(96)
Average consignments per day ('000)	36	(2.7)	37
Revenue per consignment (€) ¹	35.5	10.2	32.2
Average kilogrammes per day ('000)	2,213	(0.4)	2,223
Revenue per kilogramme (€) ¹	0.58	7.4	0.54

¹ Based on reported revenues @avg11 rates.
(in € millions, except percentages)

In 2012, adjusted revenue grew by 6.5%, despite lower volumes, as a result of yield management. Several cost reduction measures were successfully implemented but were partly offset by significant regulated labour cost increases. Operating losses reduced year-on-year, but turnaround targets were not achieved.

VI. OTHER AMERICAS

GENERAL

The Other Americas segment consists of South America (including Chile and the international operations in Brazil) and North America.

TNT Express has a key position in the domestic express market in Chile, achieved by the acquisition of LIT Cargo. South America is connected via the South American Road Network.

TNT Express' operations in North America provide full service capabilities to its customers. TNT Express operates a dedicated service to and from Europe via New York, by the use of one of its Boeing 777 freighters. A portion of the capacity of the Boeing 777 freighter was made available to third parties, mostly under code-share and blocked-space agreements. TNT Express' four gateways (New York, Los Angeles, Chicago and Miami) feed a nationwide parcel distribution network that relies upon a combination of own operations, regional partners and commercial airlines. Through this configuration, TNT Express is able to provide next-day before 3:00pm delivery service to many key metropolitan areas across the United States.

2012 PERFORMANCE

Other Americas overview

Year ended at 31 December	2012	variance %	2011
Adjusted revenues	162	2.5	158
Adjusted operating income	(21)	22.2	(27)
Average consignments per day ('000)	18	5.9	17
Revenue per consignment (€) ¹	35.6	(4.6)	37.3
Average kilogrammes per day ('000)	974	(8.6)	1,066
Revenue per kilogramme (€) ¹	0.65	12.1	0.58

¹ Based on reported revenues @avg11 rates.
(in € millions, except percentages)

Adjusted operating income improved by €6 million, mostly due to stronger performance in Chile and North America and reduced regional overhead costs.

VII. OTHER NETWORKS

GENERAL

Other Networks includes TNT Fashion and TNT Innight businesses. TNT Fashion provides supply chain solutions for the fashion industry and fashion retailers. These solutions comprise collection, warehousing and delivery of hanging and boxed clothing. TNT Innight provides overnight distribution services within Europe. Shipments are collected at the end of the working day and are delivered overnight before 7:00am the next day. Customers span the technology, automotive, healthcare and telecommunications industries.

2012 PERFORMANCE

Other Networks overview

Year ended at 31 December	2012	variance %	2011
Reported revenues	498	7.6	463
Adjusted operating income	14	(30.0)	20

(in € millions, except percentages)

TNT Fashion's revenue and adjusted operating income increased primarily due to the growth of a major US fashion customer.

The resultant decline in Other Networks' adjusted operating income was wholly related to TNT Innight. TNT Innight was impacted by the general decline in the automotive industry, particularly in the transportation of spare parts. The relatively mild winter experienced in the first quarter of 2012 in Central Europe also resulted in a reduction in the demand for spare parts compared to the two preceding years.

VIII. NON-ALLOCATED

GENERAL

Non-allocated covers mainly the overhead expenses of activities related to TNT Express' head office and ICS. These costs are shown net of recovery charges allocated to individual geographic and business segments. Non-allocated also comprises specific one-off corporate expenses such as UPS offer-related costs and project costs.

2012 PERFORMANCE

Non-allocated overview

Year ended at 31 December	2012	variance %	2011
Reported revenues	(7)	(17)	(6)
Reported operating income	(26)	42	(45)
Demerger costs			10
Restructuring-related charges	1	(96)	28
UPS offer-related	6		
Pensions			(14)
Adjusted operating income	(19)	10	(21)

(in € millions, except percentages)

In 2012, adjusted non-allocated net costs at 2012 exchange rates amounted to €19 million, excluding €6 million UPS offer-related costs and write-offs of €1 million. Adjusted non-allocated costs were lower than in 2011, as a result of continued cost control and lower project costs.