

Chapter 2 Market overview, trends, strategy and outlook

Express is part of the global transportation and distribution industry and is dedicated to providing delivery solutions to its customers.

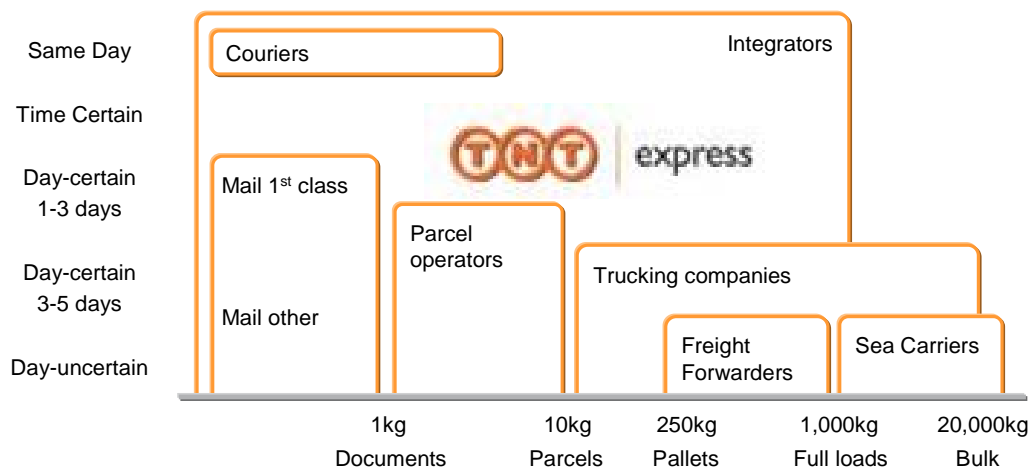
MARKET OVERVIEW

General

Express operates in what is commonly referred to as the CEP market (Courier-Express-Parcels), which is usually segmented along two dimensions: speed or time-certainty, and weight. Within the first dimension, customers have different requirements in terms of speed and guarantees for their consignments, ranging from same-day and time-definite to day-uncertain deliveries. Within the second dimension the weight, shapes and sizes of consignments differ. They range from small and light goods (e.g. documents), to large and heavy goods.

These varied requirements use different delivery networks and are served by different operators (see graphic below). These range from expeditious and time-sensitive (air and road) express networks operated by integrators to less expedited sea carriers. Freight forwarders operate networks that are partially 'virtual', using block space on other operators' planes, ships and (to a lesser extent) trucks, and their own depots and sites in harbours and at airports. Couriers focus on same-day and (intercontinental) next-day deliveries with a focus on light weights.

Express is a so-called 'integrator', covering most of the market segments, excluding mail services and transport of bulk goods (see graphic below). The other global integrators are UPS, FedEx and DHL.



Parcel operators are often related to postal incumbents and include TNT Post Pakketservice (Mail), GLS (Royal Mail) and GeoPost/DPD (La Poste). In recent years, these players have developed partner-based European networks and upgraded their offerings to day-definite products. Local/regional LTL (Less than Truck Load)/freight players including Schenker (Deutsche Bahn), DHL Global Forwarding/Freight (Deutsche Post), DSV, Dachser and Geodis (SNCF) are also upgrading their services and building up their European networks, though to a lesser extent. This is in line with the general industry trend of blurring boundaries between services.

Geographic markets¹

In **Europe & MEA** (Middle East and Africa), the European CEP market had an estimated total size of €56 billion in 2009. Express is traditionally mainly active in a more 'narrow' segment of the market encompassing time-certain, next-day and fastest by air or road day-certain delivery for business-to-business (B2B) consignments, transported through a scheduled network with door-to-door track-and-trace of individual items /consignments.

¹ Source market sizes and shares in this section: Competitor Model (internal Express database built on various external sources), Based on the latest available data, data for 2010 not yet available

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The thus defined domestic and intra-European 'B2B Express' market is estimated at approximately €19 billion in revenues in 2009. In this segment, Express has a market share of 17%, followed by DHL (15%), UPS (9%) and La Poste (8%).

Customers are increasingly seeking a more varied express product and service offering. Express is expanding to a larger addressable market, which includes the parcel market not normally classified as express (standard parcels), business-to-consumers (B2C) and intercontinental shipments. Express estimated the size of this addressable market in Europe at around €38 billion in 2009.

In Europe, Express operates a broad road network connecting all 38 European countries through 16 road hubs daily, with an additional leg to Morocco. Express' European Air Network connects 65 destinations through a fleet of 50 aircraft, including four Boeing 747 freighters. In 2010, TNT Airways managed to obtain traffic rights for flights to Moscow. The Moscow connection allows for an integrated service with superior cut-off times, which is especially attractive to the life sciences sector.

In addition to its international operations, Express is one of the main players in the domestic express services market, particularly in the United Kingdom, France, and Italy. The announced intention to take a 50% stake in the French B2C standard parcels company, Adrexo Colis, will further benefit Express' domestic position.

In the Middle East, Express operates an intra-regional road network in addition to its air-based services. In Africa, Express has fully owned operations in a few key countries and serves most of the continent through partnerships and agents. Given Africa's fast growing population and demand for transportation services, as well as strong growth in trade and capital flows with China and India, Express plans to continue to strengthen and expand its domestic position and increase its international and intercontinental connectivity.

The express market in the **Asia-Pacific** region was estimated at €9 billion in 2009 (excluding Japan) and is expected to grow rapidly in the coming years.

In China, Express has an advantageous position through:

- providing unmatched reliability and service for a wide range of customers, including multinationals requiring pan-China delivery solutions,
- a wide delivery network covering the whole of China,
- a select and targeted product offering catering for parcels and freight in both day-definite and day-uncertain deliveries, and
- strong service capabilities, including over 1,500 depots, five international gateways and backed by four Boeing 747 freighters.

Hoau (China) is one of the main players in the Chinese domestic market and operates the largest private road transportation network, with more than 1,500 hubs and depots across China. Hoau continues to roll out its day-certain road delivery service, which grew significantly compared with 2009.

The international express activities in Asia-Pacific offer a broad choice of services throughout this large and diverse region. In the high-tech sector, Express has an eminent position in express transportation from Asia-Pacific to Europe. Express now flies freighters daily between the regions, providing customers with secure and reliable services. In terms of overall intercontinental flows out of Asia-Pacific, Express ranks fourth with 12% behind DHL (31%), FedEx (25%) and UPS (16%).

Express also has a beneficial position in intra-regional road express services in Asia. The TNT Asia Road Network (ARN) connects over 125 cities and provides world-class operational performance and security that allows the ARN to provide an alternative to air and sea services.

In India, Express has established a solid domestic base and grew its domestic and international business by more than 20% in 2010. In India, Express currently operates a network that spans 200 key locations with seven major hubs.

In the Pacific, Express has retained its robust position in its country of origin, Australia, where it is the second largest player in the B2B express market with 19% market share. The express market in Australia is predominantly domestic, accounting for almost 90% of the more than €2 billion Australian B2B express market in 2009.

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The **Americas** encompass the mature market of North America and the high-growth South American markets. The South American markets, estimated at €3 billion in 2009, offer ample opportunity for consolidation and growth. Express has established a first mover position in the domestic express business in the largest emerging economies of this fast-growing continent, through the acquisition of Mercurio and Expresso Araçatuba in Brazil (respectively in 2007 and 2009) and LIT Cargo in Chile (2009). Leveraging the presence it also has in Brazil, Argentina, and Chile, Express operates a first-to-market intra-regional road network connecting these markets.

Express is a significant express player on the South American continent with 186 depots and approximately 3,000 vehicles, 10,000 employees and 14 million consignments transported in South America in 2009.

The North American market is dominated by UPS and FedEx. For more than 25 years, Express USA has successfully managed a parcel distribution network using commercial airlines and third-party agents. Express' North American presence provides full service capabilities to its clients on other continents. Currently, Express operates a daily dedicated flight from its express hub in Liège, Belgium to New York. In 2009, Express entered into a partnership with Con-way Freight for the delivery of heavy freight. Con-way Freight is also linked to Express' European air and road networks. The partnership offers cost-effective and high-quality express freight services between Europe and the United States.

MARKET TRENDS

Express has identified four key market trends that will impact its activities:

Blurring boundaries between the various segments of the transportation industry

Service providers are increasingly expanding the range of services they offer, for example, operators who previously provided services without guaranteed delivery time or date are upgrading their service levels.

Increasing importance and accelerated growth of emerging markets

The growth of international trade and globalisation of supply chains continues. Emerging markets have an increasing importance in global trade flows and have rapidly developing domestic markets.

Growing importance of e-commerce and the resulting growth in the business-to-consumer (B2C) market

The ongoing digitisation of the economy impacts the mode of sales of express services to ad hoc and small customers, and the increase in online sales and home deliveries has led to strong growth in B2C parcels (online shopping and online retail).

Increasing awareness and interest in sustainable business practices

Stakeholder-sustainability demands are increasingly shaping the market and therefore business success. In line with this, carbon emissions and employee health and safety are key responsibilities for Express.

EXPRESS BUSINESS STRATEGY

Customers are the core of the Express strategy. The Express network and footprint has evolved with customer needs to optimise supply chains. As such, Express developed a strong and agile express platform in Europe for time-definite and day-definite delivery services in Parcels and Freight. When its customers started moving production to low-cost countries, Express expanded its intercontinental networks accordingly. With growing demand in the emerging economies of Asia and South America, Express has established high-quality local networks. This has resulted in a global, interconnected system of local networks giving customers the broadest market coverage. Express will continue to keep customers at the core of its strategy by providing solutions to deliver their business in the optimal way.

Express' strategy is twofold:

- to strengthen existing business with a focus on service quality and cost efficiency in its operation and expansion of its connected strong networks, and
- to unlock value from the identified market trends, translated into growth opportunities centred on Parcels, Freight, Value-added services and Emerging platforms.

Express is well positioned to strengthen its existing business and to capture these growth opportunities due to its unique capabilities, knowledge and experience through:

- its ability to connect local networks in a global system,

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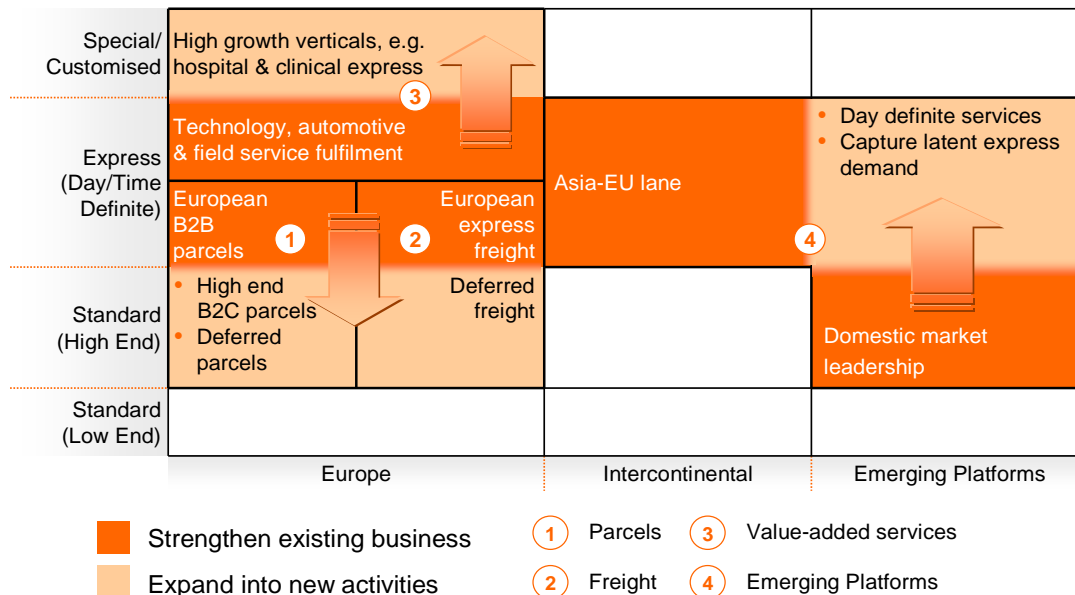
- owned air connectivity to provide dedicated capacity and reliability,
- dense road networks to provide cost efficient solutions,
- first mover advantage in key emerging markets,
- a service-oriented culture and strong local management, and
- a focus on process excellence and value-added services.

As customers are increasingly asking Express for clean transport solutions and related transparent information, in response, Express aims to lead the industry in the development of clean transport measures in both its existing and growth activities.

By 2015, Express intends to have grown substantially, profitably and responsibly to become a global company focused on a broad range of day-definite delivery services, generating between €10 billion and €11 billion in revenue.

Express growth strategy

Express' growth strategy rests on four pillars: Parcels, Freight, Value-added services and Emerging platforms (see graphic below).



Parcels

The growth of e-commerce and customer demand offers opportunities for Express. In the B2C market, Express has successfully launched a high-end parcel service to capitalise on the growing e-commerce/home delivery market. The service offers a comprehensive solution including text messaging or email notification to customers and the opportunity for receivers to arrange for delivery to their preferred location. This service has led to a reduction in 'not at home' deliveries from 20% to 10%. Building on this achievement, the aim is to grow further in this segment both domestically and internationally. Express has a small but growing share of around 5% in the European high-end express B2C segment.

Express is also targeting expansion in the standard parcels B2C segment. The announced partnership with Adrexo Colis is a first step in this expansion, with potential for duplication in other European markets.

In the B2B parcels market, one of the key growth opportunities for Express is in cross-border parcels. Cross-border parcels offer an opportunity to gain a larger share of customers looking for a tailored, lower cost parcels solution. Through dedicated direct connections for large customers, Express will be able to reduce handling and transport costs.

Freight

Within the freight segment, Express plans to continue to expand its already significant position in the day and/or time-definite express freight transportation segment in Europe. To complement this offer and strengthen ties with

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existing large customers, Express is expanding to non-express services by offering a high-end road freight service. This will allow Express to manage the entire flow of customers. Although only representing a small share of the total non-express freight market estimated at €85 billion, the absolute potential of the high-end road freight segment is significant. Express will target the European-wide flows of large customers that deliver scheduled, palletised and consolidated industrial freight. Services are planned to be provided in an asset-light set up, using existing (linehaul) capacity in current Express networks (for example, empty backhaul, existing subcontracting pool) and by leveraging on internal capabilities such as back-office and procurement. The road freight demand of Express' current top 25 customers is estimated at around €1.2 billion, which is confirmation of the potential of this proposition.

Value-added services

Express differentiates itself by combining express and value-added services (VAS), developed to meet the needs of customers in specific vertical markets. Express brings strong customer focus and sector-specific knowledge to these markets. Price competitiveness is achieved by complementing existing networks with special delivery or last-mile networks where needed.

Priority industries include high-tech, healthcare, industrial, automotive, and life style. Express' services focus on outbound flows and the rapidly growing after-sales market. Currently, Express already transports more than 100 million mobile phones, laptops, tablets and smart phones for its global high-tech customers, often directly from original equipment manufacturers (OEMs) in China to warehouses, distribution centres and end-customers in Europe via its European network. In healthcare, Express is expanding its position in clinical trials shipments (two million items handled) and hospital delivery solutions. Leveraging the existing 500 forward-stock locations and leading positions in key countries in the Innight segment will allow further growth in high-tech, healthcare, automotive and industrial verticals.

Emerging platforms

Express continues to build on an advantageous position in emerging markets, with a specific focus on China, South America and India, where it operates dense local and regional networks. These emerging market positions also support Express' intercontinental air connections to Europe.

The Express network in China is evolving along with its customers as was aptly demonstrated by Express' response to the move in 2010 of high-tech production facilities from southern China to the west of the country. TNT Airways was able to secure landing rights in the western city of Chongqing for its aircraft and in doing so established a competitive advantage by being the first express player to fly into this important area and to serve what is set to be a major centre for the high-tech manufacturing industry in China in the coming years. Similarly, Express' domestic day-certain road delivery service plays into the needs of key multinational accounts as well as local customers' growing demand for reliable intra-China deliveries. Hoau's day-certain network aims to connect 1,100 depots in China (out of a total of 1,500) by mid-2011.

In India, the integration of the domestic road and express company Speedage into Express' existing Indian operations supports the ambition to create a leading position in India. Through strengthening its road network and increasing the delivery quality in its domestic service offering, Express aims to seize the opportunity of strong growth in domestic demand. A new potential driver of growth in the Indian market is the anticipated change in GST/VAT regulation. It is expected that this change will provide a boost to investment and economic growth and will give customers the ability to drastically re-engineer their supply chain and footprint requirements, thereby creating opportunities, especially in domestic value-added services. With regard to international flows, Express plans to increase penetration and expand its market position on Europe and Asia routes.

In the past four years, Express has established a leadership position in the attractive, fast-growing South American emerging markets. Express plans to expand these activities in the coming years in line with the growing and changing needs of its customers. Express aims to continue its significant industry innovation in South America. Automated hubs and sophisticated labelling systems are being implemented in all the major depots and hubs, which will improve operational performance (processing time reduced by five hours) and provide customers with nationwide enhanced tracking and invoicing information, which will be unique in South America.

EXPRESS 2011 OUTLOOK

For 2011, TNT assumes a mostly stable economic environment. To counter inflationary cost pressures (including fuel) and possible mix effects, Express will focus on structural costs and cash alongside yield improvements which continue to be a priority. For the full year, Express targets underlying revenue of between €7.3 billion to €7.5

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billion and underlying operating income of between €400 million to €420 million (operating income including the allocation of €20 million of TNT central costs). After separation, Express' dividend guideline will include a payout of around 40% of normalized net income.

The 2011 additional financial indicators:

- Effective tax rate: around 35% (longer term 31 – 33%)
- Cash capex: around €300 million
- Net financial expense: around €35 million

The above excludes extra one-off costs directly related to the separation of around €35 million.

EXPRESS 2015 OUTLOOK

By 2015, Express intends to have grown substantially, profitably and responsibly to become a company focused on a broad range of day-definite delivery services, generating between €10 billion and €11 billion revenue.

Express aims to realise its strategic objectives primarily through organic growth complemented by selected acquisitions and strategic partnerships, while maintaining a solid BBB+ investment grade credit rating.

Express financial targets are presented below:

Key financial indicators 2010 – 2015

(in € millions)		Revenues	Operating income	EBIT after allocation TNT NV central costs
2010	Actual	7,053	180	225
2011	Target	7,300 - 7,500	420 - 440	400 - 420
2015	Target	10,000 - 11,000	900 - 1,000	

The 2015 additional financial indicators:

- Effective tax rate: around 31% to 33%
- Cash capex: 2.5% to 3.5% of revenues maintenance, 1.0% to 2.0% points higher for extension in specific years
- Working capital target: approximately 10% of revenues
- Capital structure target: BBB+
- Net interest payments: approximately €25 to €35 million per year (relating to financial leases, local debts and foreign exchange currency hedges)
- Dividend policy target: 40% of normalised net income

The above excludes extra one-off costs directly related to the separation currently estimated at around €35 million.

Note: Express does not express any expectation or make any statement as to the likelihood the 2011-2015 targets will be met. A number of important factors could cause the actual results to differ materially as a result of risks and uncertainties facing Express and its subsidiaries.

FINANCIAL STRATEGY

Express' financial strategy is based on three pillars:

- secure business performance by driving revenue, margin growth and tax efficiency,
- secure asset efficiency through continued stringent investment and working capital management and continued attention to cash flow, and
- maintain a strong and efficient capital structure, defined by a long-term investment grade credit rating targeted at BBB+/Baa1 in order to ensure the lowest cost of capital while being able to support Express' 2015 plans.

Express' capital structure is based on and managed along the following components:

- an investment grade credit rating targeted at BBB+/Baa1,
- availability of at least €400 million to €500 million of undrawn committed facilities,

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- cash pooling systems facilitating optimised cash requirements for the Express group by enabling centralised funding and surplus cash concentration at group level, and
- a tax optimal internal and external funding focused at optimising the cost of capital for the Express group, within long term sustainable boundaries.

Express has set target credit ratings of BBB+ for Standard & Poor's Ratings Services (S&P) and Baa1 for Moody's Investors Services (Moody's). These credit ratings result from an evaluation and analysis of many different factors. Express will monitor the development of the key credit ratios that are used by rating agents and which may vary from time to time.

Express aims to meet shareholders' return requirements long term through growth in the value of the company, and short term through dividends and, incidentally, through tax exempt share repurchases or other returns from excess cash.

Following its dividend guidelines, it is Express' intention to pay a dividend that develops substantially in line with the development of its operational performance. Express intends in principle 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-off and exceptional items.

Express aims to pay interim and final dividends annually in cash and/or in stock. Furthermore, stock may be offered as part of an optional dividend.

The Express Reserves and Dividend Guidelines will be made available on TNT's corporate website group.tnt.com.

Express will operate a comprehensive insurance policy covering its operational risk profile as appropriate, using a mix of self insurance, reinsurance, and direct external insurance.

Upon issuance of Express Listco N.V. ordinary shares, which is still subject to shareholder approval, shareholders of TNT N.V. will receive one ordinary share in Express Listco N.V. for each one ordinary TNT N.V. share they hold. As TNT N.V. will keep 29.9% of the ordinary shares in Express Listco N.V., the total number of ordinary shares in Express Listco N.V. to be issued will be a factor $1 / 70.1\%$ or 1.4265 times higher than the ordinary shares issued in TNT N.V. at close of the last trading day before issuance of the Express Listco N.V. ordinary shares.

Risk management, internal control, integrity and compliance

While part of TNT N.V., Express adopted TNT's risk management, internal control, integrity and compliance framework and will continue to adhere to these frameworks to ensure that the legal and regulatory compliance objectives are achieved and that decision making is facilitated and supported by transparent and accurate information. Independent external and internal monitoring and other oversight functions will continue to provide a second and third line of defence and assurance in addition to that provided by the line functions. Express considers the risk management, internal control, integrity and compliance frameworks fundamental to the successful day-to-day management of its activities and vital in ensuring that the strategy is executed in a controlled, disciplined and compliant manner.

TNT's Business Principles will continue to be applicable to all employees worldwide and to all controlled companies and joint ventures worldwide. To the fullest extent possible, Express requires its business associates to observe these Business Principles. These Business Principles are aligned with the UN Global Compact (since 2002) and the Partnering Against Corruption Initiative principles (since 2008). The Business Principles and related policies are being further embedded in Express' strategic and operational decision processes.