

02

Information on the company



Afternoon rain, Shanghai

Group business description

TPG N.V. is a company with limited liability and was incorporated under the laws of the Netherlands on 29 December 1997. We changed our name from TNT Post Group N.V. in August 2001. Our registered address is Neptunusstraat 41-63, 2132 JA Hoofddorp, the Netherlands. Our telephone number is +31 20 500 6000. We were formed in connection with the consummation of a demerger transaction pursuant to which our former parent company, Koninklijke PTT Nederland NV (KPN), demerged its mail, express and logistics divisions. Although the demerger became effective on 28 June 1998, its arrangements were effectively retroactive to 1 January 1998.

Our group is composed of three segments: our mail division, our express division and our logistics division. TPG N.V. is a holding company and sets the agenda for the group and these three divisions. We provide a wide range of mail, express and logistics services worldwide. These services involve the collection, storage, sorting, transport and distribution of a wide variety of items for our customers within specific time-frames, and related data and documentation management services.

Although TPG N.V. has existed as an independent company only since 1998, our history in the mail, express and logistics businesses goes back over a much longer period of time. The roots of our mail division stretch back more than 200 years and are firmly embedded within the operations of Royal TPG Post B.V. Our express business has been meeting the need for time-sensitive door-to-door delivery services for half a century, and the logistics division was a pioneer in the emerging logistics market during the mid 1980s.

We have evolved from being the public postal company in the Netherlands into an international group providing mail, express and logistics services. As a result, we have broadened the range of our activities from mainly postal operations in the Netherlands to include world-wide express and logistics services. Our express and logistics divisions are not subject to regulations (such as price cap mechanisms) imposed on the mail division by the Dutch Postal Act and the postal regulations of other national jurisdictions. Other than for reserved postal services, which our mail division has the exclusive right to provide under the Dutch Postal Act, our mail division, as well as, our express and logistics divisions are subject to competition.

The State of the Netherlands is our largest shareholder. The State holds a special share that gives it the right to approve certain fundamental decisions with respect to us. The State also owns approximately 18.6% of our outstanding ordinary shares as of the date of this annual report. The State has indicated its intention to further reduce its shareholding to approximately 10% of our ordinary shares. See chapter 12, note 26.

MISSION & STRATEGY

Mission

Our mission is to exceed customers' expectations in the transfer of their goods and documents around the world.

Our mission is to deliver value to our customers by providing the most reliable and efficient solutions in distribution and logistics.

Our mission is to lead the industry by:

- instilling pride among our people,
- creating value for our shareholders, and
- sharing responsibility for the world in which we live.

Objectives and strategy

Our strategy is based on the following five elements:

- Our business is to deliver the products of our customers, and our portfolio of businesses is derived from that.
- Our individual businesses have strong strategies underpinned by value-based management.
- We exploit the strength of our portfolio of businesses through co-operation between the businesses in approaching customers and sharing resources. We believe the combination of our businesses will accelerate our growth through new customers, geographies, new alliances and possibly new (combinations of) services.
- We intend to develop new home markets and other growth opportunities to solidify our position and to offer exciting career opportunities to many of our talented employees. These opportunities include China and other emerging markets, freight management and postal consolidation.
- Our brand reputation and employee pride and satisfaction are the two most important assets we manage.

In January 2004, we discussed our company-wide values during our annual senior management meeting. The discussion resulted in the adoption of these standards that represent our commitments:

- aim to always satisfy our customers,
- challenge and improve all we do,
- be passionate about our people,
- act as a team,
- be honest, always,
- measure success through sustainable profit, and
- work for the world.

At the start of 2004, we have announced the implementation of a new group strategy and mission statement intended to result in a different approach in the way we conduct our business, the TNT-I programme.

Our TNT-I programme aims at maximising the group's revenue and cost synergies and commenced in 2004 with the mobilisation of five cross-divisional implementation teams for human resources, shared services, key account management, services and procurement. Important achievements include key account management pilot studies and a first phase of reviews of procurements of purchasing reviews.

In addition, during 2004 three specific areas of expected growth have been confirmed: China, postal consolidation and freight management.

ACCELERATE GROWTH IN CHINA

China's economy has grown into the sixth largest in the world today (source: Global Insight WMM 2Q 2004). Its logistics market is already the world's third largest, and its express market is estimated to become the sixth largest by 2010 (source: McKinsey). With China's direct mail items per capita measuring

only a tenth of Europe's top-tier markets, we estimate that the opportunities in the Chinese direct mail market are significant. We have taken concerted actions to move our business in China forward. We have started to establish an integrated management team with the goal of setting up a single mail, express and logistics company in China. We have incorporated a wholly owned international holding company, TNT (China) Holding co. Ltd., to give us better access to the market. Through this integrated company, we aim to realise cost efficiencies and align our strategies for China across divisions.

We have expanded our express network in China of TNT-owned branches from 12 to 25 in the first half of this year. Our automotive logistics joint venture, Anji-TNT, renewed its automotive logistics contract with Shanghai Volkswagen for inbound, finished vehicle distribution and aftermarket services. We believe that we are the only third party logistics company in China to cover the complete automotive supply chain as a result of the renewal of this contract with Shanghai Volkswagen. In terms of local partnerships, we have expanded our cooperation with China Post to the mail business where our mail team has been working as their network efficiency consultants.

For our business to continue expanding in China, we recognise the critical importance of building local talent. Working in partnership with the prestigious Shanghai Jiaotong University, we opened the TNT China University in November 2004 with the goal of training and imparting professional and business skills to our employees.

BUILD ON THE LEADERSHIP POSITION OF TPG POST IN THE POSTAL INDUSTRY

We have continued to pursue a leading position in the European mail market. We strive to be the leading pan-European postal company as national markets open up for competition. As a result of further liberalisation we also explore value-creating opportunities when stakes in postal operators that are currently in the hands of national governments are divested. Our current involvement in the sale process of a 25% stake in Denmark Post since December 2004, is an example of this.

EXPAND BUSINESS PORTFOLIO TO INCLUDE FREIGHT MANAGEMENT

We have reiterated our stated ambition in growing into freight management which, in 2004, resulted in the acquisition of the Swedish freight management company Wilson Logistics Holding AB. See page 42. The need for freight management capabilities is driven by customer demand and the desire to achieve a better balance in our portfolio of businesses.

REBRANDING

To highlight the increasing internationalisation of our company, we have decided to submit a proposal to the annual general meeting that is expected to take place on 7 April 2005 to change the statutory name of our company to TNT N.V., see chapter 14. After the name change, we will operate globally under the brand TNT for all our activities from 2006. Operating under one brand will increase the recognition of our group worldwide and allow for more efficient communication on the services we provide. It will also symbolise the cohesion between the three divisions within our company: mail, express and logistics.

In the Netherlands, we currently offer our postal services mainly under the brand TPG Post. We have been granted the right to affix the designation "Royal" to our subsidiary TNT Post B.V. after the name change. We presently offer postal services in eight European countries, partly under the name TNT. The name change in the company will be accompanied by a change of colour to orange for the entire group.

Seasonality

Our domestic mail business is seasonal in that it is affected by public and local holiday patterns and especially by the distribution of Christmas greeting cards and presents during December.

The express business is seasonal in that it is affected by public and local holiday patterns and adverse weather conditions.

Our logistics business is seasonal in that it is affected by the seasonal slowdown of the target sector we focus on, the automotive sector. Typically the second quarter of the year (April through June) is the best quarter of the year.

Our newly acquired freight management business shows a pattern that the second half of the financial year is consistently better than the first half and in particular the last quarter (October through December) is the best quarter of the year. The reasons are mainly that:

- the average number of working days in the first half of the year is lower in the second half year, and
- one of our targeted industries is textile (from Asia into Europe) and in winter the clothes are heavier than in summer, which increases the average weight we forward.

MARKET TRENDS

We believe that globalisation is a trend driving the world economy. We believe that globalisation will continue but it will affect our divisions in different ways. In the mail industry, operators are still organised on largely national lines. However, with our European Mail Networks and other international ambitions, we seek to establish a leading international position in mail.

In the express industry, we see that the majority of flows of documents and parcels remain within national or continental boundaries. Thus, our strategy is to build operational excellence within regions, particularly Europe and Asia.

In logistics, our customers are increasingly global, with either global supply chains or global operating standards, so we seek to match these trends with our own capabilities and geographic coverage. Freight management is already a global business, for example in the conveyance of goods manufactured in China, and other parts of the Far East, to the major consumer markets of Europe and North America.

OUR COMMITMENT TO COMMUNITY

We strive to improve the social and environmental impact of our business on communities around the world. We aspire to help people realise their potential and to meet the needs of the current generation, without producing a poorer world for future generations. To meet these aspirations, we subscribe to the United Nations Global Compact, which embraces, supports and enacts a range of values in the areas of human rights, labour standards and the environment that we can influence. See chapter 9.

Since 2003, we have been actively involved in the World Economic Forum's logistics and transport sector corporate citizenship initiative.

Corporate Philanthropy

We have established a strategic partnership with the United Nations World Food Programme (WFP), in which we share logistical resources and know-how in the fight against hunger. This partnership is more fully described in chapter 9.

In June, thousands of TNT and WFP personnel, with their friends and families, participated in "Walk the World", a sponsored walk encompassing over 70 countries.

Environment

We are committed to protecting the environment. This includes promoting the reduction of emissions through efficient route planning, the use of cleaner alternative fuels, and replacement road vehicles and aircraft by cleaner versions. In 2004, we increased the coverage of ISO 14001 certified environmental management systems in the group and introduced the Dow Jones corporate sustainability assessment. We report our progress in our annual corporate sustainability report.

Governance

We are committed to good corporate governance, including early compliance with almost all aspects of the Dutch Corporate Governance Code. We have fully embraced the spirit of corporate governance reform, rather than merely meeting minimum compliance standards. We have introduced procedures and policies covering "whistle-blowing", auditor independence and Sarbanes-Oxley compliance, under the supervision of our audit committee.

Reputation

At all times, we seek to maintain transparency. This was recognised in 2004 by TPG winning the prestigious Henri Sijthoff prize for the best annual report in the Netherlands and for the best corporate website, issued by the Netherlands' leading financial newspaper.

Group financial review

	As of and for the year ended at 31 December			
	2004		2003	2002 ¹
	US\$	€	€	€
Divisional operating revenues ²				
Mail	5,280	3,900	3,915	4,005
Express	6,357	4,696	4,251	4,175
Logistics	5,525	4,081	3,735	3,610
Total	17,162	12,677	11,901	11,790
Non-allocated	32	24	17	35
Intercompany eliminations	(89)	(66)	(52)	(43)
Total operating revenues³	17,105	12,635	11,866	11,782
Depreciation, amortisation and impairments	722	533	711	490
Total operating income	1,589	1,174	767	1,058
As % of total operating revenues	9.3	9.3	6.5	9.0
Net income	903	667	300	599
Capital expenditure on property, plant and equipment	393	290	287	398
Average total capital ⁴	10,964	8,099	8,091	8,360
Return on average total capital (%) ⁵	14.5	14.5	9.5	12.7

(in millions, except percentages)

1. Figures for 2002 have been restated to reflect the transfer of Innight services from express to logistics, effective 1 January 2003.

2. For net sales by geographic area see note 15 to our consolidated financial statements.

3. Includes net sales and other operating revenues. See notes 15 and 16 to our consolidated financial statements.

4. Average of the total assets at year end and the prior year end.

5. Calculated as total operating income as a percentage of average total capital.

In 2004, we had total operating revenues of €12,635 million. Our mail division accounted for 30.9% our operating revenues, 71.0% of our operating income and 62.2% of our earnings from operations (operating income excluding goodwill amortisation and impairment and non-allocated operating income/expense – see “Earnings from operations” on this page). Our express division accounted for 37.2% of our operating revenues, 27.4% of our operating income and 26.8% of our earnings from operations. Our logistics division accounted for 32.3% of our operating revenues, 7.7% of our operating income and 11.0% of our earnings from operations.

The information in the chapters “Information on the company”, “The mail division”, “The express division”, “The logistics division” and “Other financial information on the company” should be read together with our consolidated financial statements.

Key factors that affect our results of operations include:

- the volumes of mail we deliver,
- the number of shipments transported through our networks,
- the mix of services we provide to our customers,
- the prices we obtain for our services; the average number of working days in a year,
- our ability to manage our capital expenditures and operating expenses, and
- our ability to match our operating expenses to shifting volume levels.

Our mail and express divisions provide services to customers and account for revenue for those services on a daily basis; results of operations are therefore influenced by the average number of working days in a year.

We use total operating revenues, i.e. net sales plus other operating revenues, to assess the performance of our divisions. We believe that other operating revenues are a recurring element and allocate them to divisions when we review their performance. See note 16 to our consolidated financial statements for a description of other operating revenues.

We attribute revenues and expenses to our divisions based on the underlying nature of the transaction that gave rise to the revenue or expense and the division involved. We call revenues and expenses that we do not allocate to divisions “non-allocated”. These revenues or expenses occur at the group level or we do not consider them part of the division’s operations. This method of allocating revenues and expenses is consistent with how we internally manage our businesses.

The results for 2002 of our express and logistics divisions have been retroactively adjusted for consistency to reflect the transfer of our Innight business from express to logistics in January 2003. Operating revenues of our mail lines of business have been retroactively adjusted to reflect a more accurate elimination of intra-division transactions.

EARNINGS FROM OPERATIONS

This annual report contains a non-GAAP financial measure, within the meaning of applicable Securities and Exchange Commission rules, that we believe is useful for investors. This

financial measure is earnings from operations, which is used by our management as a supplemental measure to evaluate the performance of our businesses. We believe that when viewed with our GAAP results and the accompanying reconciliations, it provides a more complete understanding of factors and trends affecting our businesses than the GAAP results alone. We understand that investors and analysts regularly rely on non-GAAP financial measures such as earnings from operations to provide a financial measure by which to compare a company’s assessment of its operating performance against that of other companies in the same industry. This non-GAAP financial measure is not prepared in accordance with generally accepted accounting principles and may be different from non-GAAP financial measures used by other companies. Non-GAAP financial measures should not be considered as a substitute for, or superior to, measures of financial performance prepared in accordance with GAAP.

We define earnings from operations as operating income excluding the amortisation and impairment of goodwill. Thus, earnings from operations is most directly comparable to the GAAP measure operating income. Reconciliations of this non-GAAP financial measure to the GAAP financial measure of operating income are found in the “Operating income” tables throughout this annual report.

RESULTS OF OPERATIONS

Consolidated group results

	Year ended at 31 December					
	2004		% VARIANCE	2003	% VARIANCE	2002
	US\$	€		€		€
Total operating revenues	17,105	12,635	6.5	11,866	0.7	11,782
Total operating expenses	(15,516)	(11,461)	(3.3)	(11,099)	(3.5)	(10,724)
Total operating income	1,589	1,174	53.1	767	(27.5)	1,058
As % of total operating revenues	9.3	9.3		6.5		9.0
Net financial expense	(104)	(77)	16.3	(92)	14.8	(108)
Income taxes	(579)	(428)	(16.3)	(368)	(7.9)	(341)
Results from investments in affiliated companies	(4)	(3)	50.0	(6)	(20.0)	(5)
Minority interests	1	1	200.0	(1)	80.0	(5)
Net income	903	667	122.3	300	(49.9)	599
Net income per diluted ordinary share (in eurocents) ¹	190.5	140.7	123.0	63.1	(50.0)	126.1

(in millions, except percentages and per share data)

1. In 2004 based on an average of 473,980,133 diluted ordinary shares (2003: 475,356,130; 2002: 475,022,482; 2001: 475,084,174; and 2000: 477,146,660).

Operating revenue by division

	Year ended at 31 December					
	2004		% VARIANCE	2003	% VARIANCE	2002 ¹
	US\$	€		€		€
Mail	5,280	3,900	(0.4)	3,915	(2.2)	4,005
Express	6,357	4,696	10.5	4,251	1.8	4,175
Logistics	5,525	4,081	9.3	3,735	3.5	3,610
Non-allocated	32	24	41.2	17	(51.4)	35
Intercompany eliminations	(89)	(66)	(26.9)	(52)	(20.9)	(43)
Total operating revenues	17,105	12,635	6.5	11,866	0.7	11,782

(in millions, except percentages)

1. Figures for 2002 have been restated to reflect the transfer of Innight services from express to logistics.

Operating income

	Year ended at 31 December					
	2004		% VARIANCE	2003	% VARIANCE	2002 ¹
	US\$	€		€		€
Earnings from operations by division:						
Mail	1,171	865	5.5	820	2.0	804
Express	505	373	35.1	276	12.2	246
Logistics	207	153	537.5	24	(84.7)	157
Total earnings from operations	1,883	1,391	24.2	1,120	(7.2)	1,207
Amortisation and impairment of goodwill	(198)	(146)	56.3	(334)	(116.9)	(154)
Non-allocated operating income / (expense)	(96)	(71)	(273.7)	(19)	(480.0)	5
Total operating income	1,589	1,174	53.1	767	(27.5)	1,058

(in millions, except percentages)

1. Figures for 2002 have been restated to reflect the transfer of Innight services from express to logistics.

Total operating revenues increased by 6.5% in 2004 compared to 2003. Operating income increased by 53.1%, mainly due to:

- productivity improvements and cost control in our mail division,
- growth in our express division,
- a successful recovery of the profitability of our logistics division,
- the 2003 goodwill impairment of €183 million in our logistics and mail divisions,
- asset impairments of €10 million in 2003, and
- €67 million of costs associated with the Transformation through Standardisation programme in our logistics division in 2003.

The mail division's operating revenues declined by 0.4% in 2004 mainly due to a decrease in addressed Mail Netherlands volumes (-1.5%). On a comparable number of working days basis, this volume decline amounted to -3.2%. These volumes continued to decline as a result of growing competition, substitution and customers suspending their mailings. Our mail division focused on quality and margin to defend its market position. The mail division's operating income increased by 8.7%, primarily due to cost control in Mail Netherlands, a favourable net result of €25 million after the unwinding of our contract with an insurance company for future wage guarantees and various social measures, which are discussed in detail in chapter 3 – "The mail division", and a goodwill impairment of €20 million in 2003. Earnings from operations increased by 5.5%.

Our express division achieved 10.5% higher operating revenues compared to 2003 due to a strong performance in their international businesses and an increased number of working days, despite mixed economic conditions especially in their key national markets. Through offering the right products, competitive pricing and having an efficient sales process our express division was able to show this performance. Express operating income increased by 44.4%, primarily due to continued focus on the division's standard commercial policies and achieving further operating efficiencies. These further operating efficiencies were achieved by continuing to share best operating practices throughout their business and investing in operations and information systems aimed at further improving the service quality. Earnings from operations increased by 35.1%.

During 2004 our logistics division delivered a €346 million (9.3%) increase in operating revenues compared to 2003, of which €258 million arose as a result of the inclusion of the results of newly-acquired businesses (net of disposals), primarily the Wilson freight management business. The logistics division generated operating income of €90 million. This represents a €293 million improvement over the prior year. After adjusting the 2003 comparative figures to reflect the additional charges in 2003 of €163 million of costs for goodwill impairments, €10 million of costs for asset impairments and €69 million of various costs associated with the Transformation through Standardisation programme, logistics operating income improved by €51 million in 2004, with earnings from operations increasing €50 million, including a net acquisition impact of €10 million.

Cash generation for the group remained strong with higher cash flow from operations partly offset by cash used for the acquisition of Wilson and the repurchase of our shares owned by the State.

Group operating revenues

2004

Total operating revenues increased by €769 million (6.5%) to €12,635 million compared to 2003. This amount resulted mainly from an increase of €445 million related to our express division and an increase of €346 million related to our logistics division, of which €258 million was attributable to newly-acquired businesses (primarily Wilson). Revenue development in our mail division remained flat. Included in the non-allocated operating revenue was €16 million of revenues from our subsidiary Global Collect B.V., a payment provider.

Organic growth, defined as the growth calculated against last year's foreign exchange rates and excluding the effect from the first-time consolidation of acquisitions and the deconsolidation of disposals, was responsible for 5% of total operating revenue growth, and acquisitions accounted for 2.1%, but this growth was partly offset by a 0.6% decrease attributable to changes in foreign exchange rates. The effect of changes in foreign exchange rates was mainly due to the appreciation of the euro against the US dollar, the Australian dollar, the Canadian dollar and the UK pound.

2003

Total operating revenues increased by €84 million (0.7%) to €11,866 million compared to 2002. This amount resulted from a decrease of €90 million related to our mail division, an increase of €76 million related to our express division, an increase of €125 million related to our logistics division, and the remaining was attributable to a decrease in non-allocated items and inter company eliminations of €27 million. Included in the non-allocated operating revenue was €13 million of revenues from Global Collect.

Overall, the distribution of operating revenues remained in line with our strategy of spreading our operating revenues equally over our three divisions. Organic growth, was responsible for 3.8% of total operating revenue growth, and acquisitions accounted for 0.7%, but this growth was partly offset by a 3.8% decrease attributable to changes in foreign exchange rates. The effect of changes in foreign exchange rates was mainly due to the appreciation of the euro against the US dollar, the Australian dollar, the Canadian dollar and the UK pound.

Group operating expenses

	Year ended at 31 December					
	2004		% VARIANCE	2003	% VARIANCE	2002
	US\$	€		€		€
Cost of materials	812	600	9.9	546	(1.4)	554
Work contracted out and other external expenses	7,124	5,262	7.0	4,920	2.3	4,810
Salaries and social security contributions	5,828	4,305	3.4	4,163	3.4	4,027
Depreciation, amortisation and impairments	722	533	(25.0)	711	45.1	490
Other operating expenses	1,030	761	0.3	759	(10.0)	843
Total operating expenses	15,516	11,461	3.3	11,099	3.5	10,724

(in millions, except percentages)

2004

Total operating expenses increased by €362 million (3.3%) to €11,461 million compared to 2003. Overall, the organic growth in operating expenses was 1.6%, the increase due to acquisitions effective in 2003 (including DocVision B.V., Blitzpunkt GmbH, Werbeagentur Fischer GmbH, Full Service Srl. and Archive and Data Storage Ltd.) and in 2004 (including Wilson, Koc Group Turkey (remaining shares), Overtrans Srl. (remaining shares), Höfingier Haushaltswerbung GmbH (remaining shares), Prime Vision B.V., Seducom B.V. and our joint venture with Essent N.V., Cendris BSC Customer Contact) was 2.2%, and changes in foreign exchange rates had a positive effect of 0.6%. Our gross margin, defined as the total operating income as a percentage of operating revenues, increased from 6.5% in 2003 to 9.3% in 2004. The 2003 percentage was suppressed by the goodwill impairments and asset impairments in 2003.

Total cost of materials increased by €54 million (9.9%) compared to 2003. Organically, cost of materials increased by €68 million (12.5%), mainly due to higher fuel costs incurred in our express division (€23 million) and higher costs in our logistics division (€42 million). The organic cost increase was partly offset by the effect of disposals in 2004 (primarily DFDS Transport Logistics joint venture and Denis Bodden N.V./SA) by €13 million (-2.4%).

Work contracted out and other external expenses related to fees paid for sub-contractors, consultants, rent and leases. Total work contracted out and other external expenses increased by €342 million (7.0%) for 2004 compared to 2003. Acquisitions and disposals in 2003 and 2004 contributed €213 million (4.3%) to the increase. €169 million of the increase (3.5%) was primarily revenue related and reflected organic growth, especially in our express division. Changes in foreign exchange rates offset these cost increases by €40 million (-0.8%).

Salaries and social security contributions increased by €142 million (3.4%) compared to 2003. Acquisitions and disposals in 2003 and 2004 contributed €15 million (0.4%) to the increase. Excluding the favourable net result of €25 million, regarding the settlement for future wage guarantees and various social measures (as described in chapter 3 – “The mail division”), salary costs increased organically by €164 million (3.9%), and reflected the 0.8% increase in our average number of full-time employee

equivalents, wage increases for employees and higher social security contributions. The trend of replacing more expensive labour with less expensive labour in order to reduce operating costs in our mail division continued in 2004. Changes in foreign exchange rates offset these cost increases by €12 million (-0.3%).

Depreciation, amortisation and impairments decreased by €178 million (-25.0%) compared to 2003. If adjusted for the effect of goodwill and asset impairments of €193 million made in 2003 and €11 million in 2004, there was an organic increase of €4 million. Acquisitions in 2003 and 2004 further increased the costs by €3 million (0.4%). Changes in foreign exchange rates decreased these costs by €3 million (-0.4%).

Other operating expenses included items such as marketing expenses, restructuring costs, bad debt expenses, insurance costs, and various other operating costs. Other operating expenses increased by €2 million (0.3%) compared to 2003. Acquisitions in 2003 and 2004 contributed €28 million (3.7%) to the increase. Organically, other operating expenses decreased €19 million (-2.5%) mainly due to the cost programmes in our mail and logistics divisions. Changes in foreign exchange rates further offset the cost increases by €7 million (-0.9%).

2003

Total operating expenses increased by €375 million (3.5%) to €11,099 million compared to 2002. Overall, the organic growth in operating expenses was 6.5%, the increase due to acquisitions effective in 2002 (including Cerilly Invest SA, Bleckmann Group B.V., Société des Transports Nicolas Frères SA and our 50% joint venture with DSV A/S, TNT DFDS Transport Logistics) and in 2003 (including DocVision, Blitzpunkt GmbH, Fischer, Full Service and Archive and Data Storage) was 0.9%, and changes in foreign exchange rates had a negative effect of 3.9%. Our gross margin, defined as the total operating income as a percentage of operating revenues, declined from 9.0% in 2002 to 6.5% in 2003, primarily due to the goodwill impairments and asset impairments mentioned below.

Total cost of materials decreased by €8 million (-1.4%) compared to 2002. Acquisitions effective in 2002 and in 2003 increased total cost of materials by €24 million (4.3%). Organically, cost of materials decreased by €16 million (-2.8%) primarily as a result

from the focus on cost control in our mail division. Changes in foreign exchange rates further decreased these costs by €16 million (-2.9%).

Total work contracted out and other external expenses increased by €110 million (2.3%) for 2003 compared to 2002. Acquisitions in 2002 and 2003 contributed €38 million (0.8%) to the increase. €287 million of the increase (6%) was primarily revenue related and reflected organic growth, especially in our express and logistics divisions. Changes in foreign exchange rates offset these cost increases by €215 million (-4.5%).

Salaries and social security contributions increased by €136 million (3.4%) compared to 2002. Acquisitions in 2002 and 2003 contributed €23 million (0.6%) to the increase. An increase of €258 million (6.4%) was primarily revenue related and reflected the 6.9% organic increase in our average number of full-time employee equivalents and wage increases for employees, furthermore €37 million higher pension costs attributed to the increase. In our mail division, we experienced trend of replacing more expensive labour with less expensive labour in order to reduce operating costs. Changes in foreign exchange rates offset these cost increases by €145 million (-3.6%).

Depreciation, amortisation and impairments increased by €221 million (45.1%) compared to 2002. This increase was primarily due to the €183 million of goodwill impairments and €10 million of asset impairments made in the third quarter of 2003. The goodwill impairments were made in respect of our France (€76 million), Italy non-automotive (€48 million), Germany (€24

million) and Nordics (€15 million) businesses in our logistics division and our UK data and document management business (€20 million) in our mail division. An additional increase of €28 million was due to an increase in depreciation charges as a result of additional investments in property, plant and equipment and other intangibles. Changes in foreign exchange rates offset these cost increases by €22 million (-4.5%).

Other operating expenses included items such as marketing expenses, restructuring costs, bad debt expenses, insurance costs, and various other operating costs. Other operating expenses decreased by €84 million (-10.0%) compared to 2002. This decrease was due primarily to the €69 million (-8.2%) reduction in organic costs that resulted from continued focus on cost reductions during the current economic downturn. Other operating expenses attributable to acquisitions in 2002 and 2003 were €6 million (0.7%). Changes in foreign exchange rates contributed €21 million (-2.5%) to the other operating expense reduction.

Included in various components of the above-mentioned cost analysis was a total of €69 million in costs incurred related to the standardisation of our logistics division's procurement, transportation and warehouse processes as part of its Transformation through Standardisation programme described in further detail in the logistics division discussion in chapter 5 – "The logistics division". Of this amount €9 million was included in expenses for work contracted out, €20 million in salaries and €40 million in other expenses.

Group operating income

	Year ended at 31 December					
	2004		%	2003	%	2002
	US\$	€	VARIANCE	€	VARIANCE	€
Mail	1,127	833	8.7	766	(1.0)	774
Express	436	322	44.4	223	16.1	192
Logistics	122	90	144.3	(203)	(333.3)	87
Non-allocated operating income / (loss)	(96)	(71)	(273.7)	(19)	(480.0)	5
Total operating income	1,589	1,174	53.1	767	(27.5)	1,058

(in millions, except percentages)

1. Figures for 2002 have been restated to reflect the transfer of Innight services from express to logistics.

2004

Total operating income for the group was €1,174 million, an increase of 53.1%. The operating income of all three divisions grew in comparison to the previous year. The mail operating income amounted to €833 million and is further described in chapter 3 – "The mail division". Express contributed €322 million to the group operating income and is further described in chapter 4 – "The express division". Logistics turned its 2003 negative contribution to the group operating income into a positive €90 million contribution. The logistics operating income is further described in chapter 5 – "The logistics division".

In 2004, non-allocated operating income amounted to a loss of €71 million. Included in this was €38 million for business initiatives, €20 million of which was used to build a corporate structure in China to support the business development in this region. During 2004 we opened a new head office in Shanghai, incorporated TNT (China) Holdings Co. Ltd., set up a new data centre and launched TNT China University. The average number of full time equivalents employed for this initiative was 139 at year-end 2004. The remaining €18 million for business initiatives was used for several other strategic projects, including the TNT-I initiative (see also chapter 2), the aim of building alliances with other organisations and postal operators and a cost efficiency

project for lean warehousing. Costs made to support the World Food Programme (see also chapter 9 - Code of Business Principles & corporate social responsibility) were €9 million, including our contribution to relieve the victims of the tsunami disaster in Asia. The other costs were €24 million, which is an increase of €15 million or €6 million if corrected for the €9 million release of an insurance provision in 2003. This increase was mainly due to strengthening the group head office functions as a result of remedial actions, and higher costs for advisors following our audit committee investigations.

Acquisitions effective in 2003 and 2004 had a positive €8 million effect on our operating income. Foreign currency movements during the year had a €2 million negative impact on our operating income.

Group financial income and expenses

	Year ended at 31 December					
	2004		% VARIANCE	2003	% VARIANCE	2002
	US\$	€		€		€
Interest and similar income	50	37	105.6	18	(10.0)	20
Interest and similar expenses	(154)	(114)	(3.6)	(110)	14.1	(128)
Net financial expense	(104)	(77)	16.3	(92)	14.8	(108)

(in millions, except percentages)

2004

Net financial expense was €77 million in 2004, an improvement of €15 million (16.3%) compared to €92 million in 2003.

Interest and similar income in 2004 increased by €19 million (105.6%) compared to 2003, primarily due to a favourable €11 million result on realisation of mark-to-market positions following the unwinding of interest rate hedges and higher average cash balances.

Interest and similar expenses in 2004 were €4 million (3.6%) higher than in 2003. Interest and similar expenses were favourably impacted through a reduction in average gross debt which was offset by one-off interest charges incurred on taxes (€6 million). The interest and similar expense was adversely affected by interest rate movements (€3 million), particularly as UK interest rates increased, and higher expenses as a result of foreign exchange losses (€3 million). The interest charge benefited from the strengthening euro exchange rate in relation to the US dollar (€2 million).

2003

In 2003, non-allocated operating income amounted to a loss of €19 million. This included costs for business initiatives of €5 million, our costs of €5 million related to our charity initiative in connection with the United Nation's World Food Programme and other cost of €9 million. Included in other cost was a release of an insurance provision of €9 million.

Acquisitions effective in 2002 and 2003 had a negative effect on our operating income in the amount of €14 million. Foreign currency movements during 2003 had a negative €29 million effect on our operating income.

2003

Net financial expense was €92 million in 2003, an improvement of €16 million (14.8%) compared to €108 million in 2002.

Interest and similar income in 2003 decreased by €2 million (-10.0%) compared to 2002, primarily due to lower rates earned on cash balances.

Interest and similar expense in 2003 improved by €18 million (14.1%) compared to 2002. This improvement was primarily a result of a lower average net debt, which, at €1,202 million was €330 million lower than 2002. While the expense was adversely affected by interest rate movements, particularly as Canadian rates increased and euro rates fell, the interest charge benefited from the strengthening euro, particularly in relation to US dollar, Canadian dollar and UK pound denominated borrowings. Net financial expense in 2003 also benefited from two US\$100 million interest rate swaps with banks, one entered into on 7 January 2003 and the other on 23 January 2003. Under the terms of these arrangements, we will receive fixed interest rates and pay variable interest rates until 5 December 2008.

Group income taxes

	Year ended at 31 December					
	2004		%	2003	%	2002
	US\$	€	VARIANCE	€	VARIANCE	€
Current tax expense	470	347	84.6	188	(47.3)	357
Changes in deferred taxes	110	81	(55.0)	180	1,225.0	(16)
Total income taxes	580	428	16.3	368	7.9	341

(in millions, except percentages)

2004

Group income taxes amounted to €428 million, an increase of 16.3% compared to 2003. Our effective tax rate for 2004 was 39.0% compared to 54.5% for 2003. This decline in effective tax rate was predominantly the result of the impact of the non-tax deductible goodwill impairments in the third quarter of 2003 (9.9%) and the effect in 2003 of the €59 million charge taken in connection with liabilities to the UK Inland Revenue, as described below.

The total accumulated losses that were available for carry forward at 31 December 2004 amounted to €793 million. With these losses carried forward, future tax benefits of €260 million could be recognised. Tax deductible losses give rise to deferred tax assets at the statutory rate in the relevant country. Deferred tax assets are recognised if it is more likely than not that they can be offset against taxes payable in future years. As a result we recorded deferred tax assets of €98 million at the end of 2004. We established valuation allowances and have therefore effectively not recognised €162 million of the potential future tax benefits. This is mainly due to the uncertainty regarding the realisation of such benefits, for example as a result of the expiry of tax losses carried forward and legislative changes.

2003

Group income taxes amounted to €368 million, an increase of 7.9% compared to 2002. Our effective tax rate for 2003 was 54.5% compared to 35.9% for 2002, primarily due to the impact of non-tax-deductible goodwill impairments made in the third quarter of 2003 for our mail and logistics divisions and the effect of a €59 million charge taken in connection with liabilities to the UK Inland Revenue, following investigations conducted by our audit committee. The investigations conducted by our audit committee related to representations made to the UK Inland Revenue and to our auditors PricewaterhouseCoopers, with respect to certain UK tax matters originally arising in the late 1990s relating to one of our UK subsidiaries. In addition to this investigation, our audit committee, with the assistance of independent tax advisors, conducted a review of other UK tax matters that arose from the same period. This was partly offset by a favourable European ruling on the tax deductibility of interest expense in respect of our foreign subsidiaries.

The total accumulated losses that were available for carry forward at 31 December 2003 amounted to €750 million. With these losses carried forward, future tax benefits of €248 million could be recognised. Tax deductible losses give rise to deferred tax assets at the statutory rate in the relevant country. Deferred tax assets are recognised if it is more likely than not that they

can be offset against taxes payable in future years. As a result we recorded deferred tax assets of €110 million at the end of 2003. We established valuation allowances and therefore effectively did not recognise €138 million of the potential future tax benefits. This was mainly due to the uncertainty regarding the realisation of such benefits, for example as a result of the expiry of tax losses carried forward and legislative changes.

Group net income

2004

In 2004 net income was €667 million, an increase of €367 million (122%) compared to 2003. This increase was mainly the result of an increase in operating income of €407 million (53%), driven by the operational performance of the divisions combined with the negative impact in 2003 of goodwill and asset impairments, and the costs associated with our Transformation through Standardisation restructuring programme, as described in chapter 5 – “The logistics division”. A reduction of net financial expenses of €15 million, predominantly reflecting a favourable result of unwinding of interest hedges, also contributed to the growth in net income. Income taxes increased by €60 million compared to 2003, which was the combined effect of the higher profit before tax and a decreased effective tax rate. The effective tax rate in 2003 was impacted by the €59 million charge taken in connection with liabilities to the UK Inland Revenue in 2003 and non-deductible goodwill impairments. The loss from investments in affiliated companies reduced with €3 million compared to last year, and net income attributable to minority shareholdings contributed €1 million.

2003

Net income decreased by €299 million (-49.9%) to €300 million compared to 2002. This decrease was primarily the result of the decrease in operating income of €291 million (-27.5%), due to €233 million of after-tax goodwill and asset impairments, and the costs associated with our Transformation through Standardisation programme, an increase in group income taxes (€27 million) and a decrease in net financial expense (€16 million). The lower net financial expense was mainly due to lower average debt and a higher proportion of variable interest rate debt compared to 2002. Income attributable to our minority shareholders decreased by €4 million.