

05

The logistics division



Angel of the North, Gateshead

Logistics business description

With operations in 39 countries, our logistics division provides services focused on supply chain management. We work to ensure that — across the functions of procurement, manufacturing and distribution — the right goods, in the right quantities and condition are available at the right place and time. One key aspect of this is reducing the time it takes to bring goods from suppliers to their customer by using the latest technology to increase our customers' visibility to their goods in the supply chain.

Through a combination of targeted acquisitions and organic growth, we have built a truly global logistics business with significant operations in Europe, North and South America, Asia and Australia. Our acquisition strategy has focused on achieving critical mass in selected geographies and six industry sectors: automotive inbound, automotive outbound (spare parts and finished vehicles), tyres, high-tech electronics, publishing and media and fast-moving consumer goods. With a few exceptions in certain sectors, we believe we have achieved critical mass in terms of market presence and customer base in every market we serve. We are continuing to develop our sector expertise in tandem with initiatives to manage key accounts.

We are broadening our global service offering through the addition of freight management services, comprising primarily air and sea freight transportation. This expansion is to be achieved through a series of strategic acquisitions, the first of which, the purchase of the Sweden-based Wilson, took place in 2004.

In general, freight management operators do not own assets to provide these transportation services and must acquire cargo space from airline and shipping firms. Combining cargo from a number of customers allows freight management operators to secure favourable rates from airlines and shipping companies, while at the same time matching the customer cargo with the shipping routes that yield the lowest price. In the past, where we were asked to provide these services by our existing customers we subcontracted these services to external parties. We expect that the addition of our freight management capability and expertise will enable us to offer our knowledge, skills and value added activities to a larger potential customer base while at the same time offering existing customers a fuller service offering. This is particularly relevant for the automotive and high-tech electronics sectors.

We provide logistics services mainly under the TNT brand and, where appropriate, we still subcontract specific services, such as air, rail or basic truck transportation. Control over and responsibility for the subcontracted services is ensured through our information technology — particularly through our Matrix™ technology discussed below — and management infrastructure.

Our service offering depends upon and is tailored to the customer's needs. We have developed specialised knowledge and skills, and provide a range of value-added activities such as:

- specialised distribution services,
- value-added warehousing,
- air, sea and ground freight management,
- inventory control,
- order picking and information systems management to control production and parts supply,
- data and documentation management services,
- sub-assembly and installation upon delivery,
- repair servicing and returns,
- sequencing and kitting,
- systems integration,
- stock management,
- global materials management, and
- supply chain management consulting.

LOGISTICS STRATEGY

Our ambition is to be the recognised world-wide leader in targeted industry sectors by designing, implementing and operating complex supply chain solutions and exploiting information technology to achieve integration and visibility throughout the process. Our objectives are to achieve operational excellence, global coverage and leadership in the industry sectors we target.

Throughout 2004 we made significant progress in addressing a number of the operational difficulties that negatively impacted our business performance in 2003, despite the continued sluggish economic conditions in some of our industry sectors that impacted both 2003 and 2004. Our long-term logistics strategy encompasses the following:

- Standardise key processes that are intended to bring immediate and significant improvements to the profitability of the division.
- Serve specific target industry chains, including inbound automotive and outbound spare parts, tyres, consumer electronics and high-tech, media and publishing and fast-moving consumer goods/retail.
- Achieve “network innovator” status, which means that we aim at being an industry innovator in selected sectors. We aim to do this through:
 - the creation of superior value for customers through new and additional services supported by our innovative Matrix™ technology,
 - further expanding our global presence, and
 - decreasing our costs by overseeing the total supply chain, capitalising on economies of scale and optimising the utilisation of assets and networks.
- Expand our areas of operation in response to what our key customers consider to be important to the growth of their business.
- The establishment of global freight management capability, providing both our existing and future customers with a more complete supply chain solution.

In 2004, our logistics division earned revenues of €4,081 million. Logistics accounted for 32.3% of our operating revenue, 7.7% of our operating income and 11.0% of our earnings from operations.

Logistics operating revenues

	Year ended at 31 December			
	2004		2003	2002 ¹
	US\$	€	€	€
Total operating revenues	5,525	4,081	3,735	3,610

(in millions)

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

The following table sets forth total operating revenues for our logistics division for each of the years in the three-year period ended 31 December 2004.

LOGISTICS DIVISION OVERVIEW

In 2004, our logistics division made significant progress in addressing the operational difficulties that troubled the business in 2003, ultimately demonstrated by a much-improved operating income. In addition, a more stringent financial control environment was achieved through both structural change and a focus on key processes. Much of the credit for delivering this operational improvement goes to our Transformation through Standardisation (TtS) programme initiated in July 2003. The standard operating and business development practices that make up this programme delivered improvement in each of the following areas:

- procurement,
- transportation and distribution,
- warehousing,
- information technology, and
- contract portfolio rationalisation.

The principles of the TtS programme are now embedded in our everyday operations and we believe they provide a strong basis for profitable growth and increased financial control.

Despite this substantial progress, revenue growth was partially stifled by a relatively stagnant economic environment and was negatively impacted in 2004 by the results of a thorough review of our contract portfolio. Contracts that failed to meet our profitability guidelines under the TtS programme were faced with termination, expiration or renegotiations of the terms and conditions. Of the underperforming business units identified in the previous year, only the performance of the French operations is still a cause of concern to us. In France, we are faced with a deteriorating trading environment due to our high cost base and particularly due to the increase of low-cost competition in the transportation area.

We consider the establishment of global freight management capabilities as a critical step in providing both our existing and future customers with a more complete supply chain solution. The additional ocean and air freight capabilities offered by a freight management operation complement the transportation and warehousing services and solutions that are the core of our existing contract logistics business.

In August 2004, the division took its first step in establishing freight management capabilities through the acquisition of Wilson, a global freight management business with a global reach and a significant presence in the Nordic region. This acquisition is expected to deliver benefits to our logistics and express divisions in the form of cross-selling opportunities and operational cost and overhead reductions. A dedicated integration team is in place to deliver the synergy potential, which we hope will generate additional operational profit by 2008 in the following areas:

- Accelerated revenue growth through cross selling of logistics, express and freight management products and services.
- Operational cost reductions through the combination of the air freight and land transport procurement functions of our express, logistics and freight management activities.
- Overhead and other cost reductions through combining facilities, buildings and associated costs and combining general procurement.

Market trends

COMPETITION

The logistics industry continues to be fragmented in a competitive market. Global industry leaders are competing not only with each other but also with small local specialists. Investment bank ING estimates the size of the global contract logistics market at €657 billion. The outsourced portion of this is estimated at around 22% or €145 billion. The logistics market is still very fragmented with the top 7 contract logistics providers are estimated to control less than 11% market share in 2003 (source: ING, November 2004). There is anecdotal evidence that the large providers continue to win market share from the hundreds of smaller logistics companies that comprise the balance of the market. This trend is likely to continue as more shippers seek out the comprehensive logistics capabilities of the market leaders (source: Bear Stearns, September 2004).

As the logistics industry develops, we believe a two-tier provider trend is emerging. First-tier agents, known as lead logistics providers, are able to offer the broadest range of services, including the traditionally outsourced, second-tier functions: warehousing, transportation and freight management.

Delivering services either through their own capabilities or by subcontracting in part to second-tier providers focused on warehousing, transportation and freight management, lead logistics providers serve as a single point of contact for the customer. Customers for whom we are a lead logistics provider include FIAT SpA and BMW North America. As the complexity and scope of logistics assignments grows, we believe securing this role will be increasingly dependent on a provider's information technology capabilities and geographic reach. The main technology that we use to provide lead logistics services is called Matrix™. It offers an integrated technological solution spanning the entire supply chain. During 2004, one of the key priorities within the logistics division was to further develop the functionality of Matrix™ and to implement it in operations around the world, including operations in Brazil, Thailand, Italy, Belgium, the Netherlands, Luxembourg, the UK and Australia.

CUSTOMER TRENDS

Originally, the main reason customers outsourced their logistics operations was to control and reduce costs. Today the expectations are higher. A third party logistics provider must be able to offer more efficient solutions for an ever-larger portion of the supply chain. More than before, a logistics company's success depends on its capacity to deliver integrated, end-to-end solutions with significant financial and operational improvements and the ability to increase the final customers' satisfaction levels.

Information technology has become increasingly crucial for the logistics sector as it supports most of the supply chain processes. Technology such as radio frequency identification (RFID) has the potential to significantly change the logistics processes. RFID technology is used to track assets throughout the supply chain. In this case, a transponder (also called a tag) containing a unique identifier and specific product information is attached to a container or a pallet. This tag can be tracked at any point of the supply chain by communicating with readers. This technology is also being tested by market participants to track individual shipments.

This technology is widely expected to improve efficiency across the entire supply chain and enhance visibility and tracking. This translates into better responsiveness in the supply chain. Our logistics division, together with the mail and express divisions, is currently testing the viability and benefits of RFID in a number of pilots that cover various activities and operations within the supply chain. For example, one such pilot involves a major United States-based auto manufacturer for whom we are responsible for ensuring that the parts needed to assemble cars arrive punctually at the assembly line. RFID tags are used to ensure that shipments

are not placed in the wrong trucks. These tags will automatically detect if a mistake is being made, in which case flashing red lights will stop the handlers and instruct them where the items should be loaded. As a next step, we expect this system to be implemented at the auto manufacturer's suppliers to improve shipment accuracy and speed up delivery times.

Logistics companies are driven by their clients in terms of service offering and geographic expansion. Given its rapid development, the Chinese market is a key focus area. The domestic Chinese transport and logistics market is estimated to grow at an annual rate of 25% between 2003 and 2007 (source: Transport Intelligence, China Logistics Report 2004). Logistics industry investment in China has continued to expand, helped by a positive change in the rules governing corporate activity in that market. The migration of manufacturing infrastructure to China, the expected gradual rise in consumption and the relative lack of outsourced logistics activities in China make the market particularly attractive. Additionally, logistics costs as a percentage of total costs are relatively high in China. Some estimates put logistics costs as a proportion of finished product value at about 20%, more than double that in more developed markets. This makes the need for high quality supply chain solutions that reduce costs only greater.

Global logistics players have started reinforcing their presence in China. We believe we are well positioned to thrive in this growth market as we have built up a market-leading position in the automotive market through our joint venture with the logistics division of China's leading automotive company, Shanghai Automotive Industry Corporation. During 2004, our presence in China has been strengthened through significant management reinforcement as part of the TPG strategy to make China one of the key growth areas for the coming years.

As logistics providers become more experienced, we believe more manufacturers will decide to outsource their logistics activities. According to an estimate by HSBC analysts 30% of logistics in Europe is outsourced (source: HSBC, 11 May 2004). In North America this percentage was only 15% and in Asia 10%. The percentage of outsourced logistics is expected rise over the coming years as more and more companies turn to logistics providers to perform part of their supply chain activities. Analysts at ING Bank estimate that "on a global level, the percentage of outsourced logistics will rise from 23% to 27% in 2010. This trend, combined with the overall growth of logistics economies as the world economy expands leads to expected market growth rates of around 8% for the coming years" (source: ING Bank, November 2004).

Logistics financial review

Logistics operating revenues

	Year ended at 31 December					
	2004		% VARIANCE	2003	% VARIANCE	2002 ¹
	US\$	€		€		€
Total operating revenues	5,525	4,081	9.3	3,735	3.5	3,610

(in millions, except percentages)

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

Logistics operating expenses

	Year ended at 31 December					
	2004		% VARIANCE	2003	% VARIANCE	2002 ¹
	US\$	€		€		€
Cost of materials	351	259	13.1	229	5.5	217
Work contracted out and other external expenses	2,885	2,131	9.3	1,950	6.6	1,830
Salaries and social security contributions	1,630	1,204	4.0	1,158	15.9	999
Depreciation, amortisation and impairments	214	158	(52.8)	335	110.7	159
Other operating expenses	323	239	(10.2)	266	(16.4)	318
Total operating expenses	5,403	3,991	1.3	3,938	11.8	3,523

(in millions, except percentages)

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

Logistics operating income

	Year ended at 31 December					
	2004		% VARIANCE	2003	% VARIANCE	2002 ¹
	US\$	€		€		€
Earnings from operations	207	153	537.5	24	(84.7)	157
% of logistics operating revenues	3.7%	3.7%		0.6%		4.3%
Amortisation and impairment of goodwill	(85)	(63)	72.2	(227)	(224.3)	(70)
Total operating income	122	90	144.3	(203)	(333.3)	87

(in millions, except percentages)

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

Logistics operating revenues per industry

	Year ended at 31 December						
	2004		% OF TOTAL	2003	% OF TOTAL	2002 ¹	% OF TOTAL
	€	€		€		€	
Automotive	1,455	35.8	1,428	38.2	1,379	38.2	
Fast moving consumer goods	642	15.7	635	17.0	655	18.1	
Hi-tech and electronics	503	12.3	499	13.4	445	12.3	
Publishing and media	250	6.1	229	6.1	238	6.6	
Tyres	177	4.3	221	5.9	219	6.1	
Freight management (Wilson)	279	6.8					
Other	775	19.0	723	19.4	674	18.7	
Total	4,081	100.0	3,735	100.0	3,610	100.0	

(in millions, except percentages)

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

Logistics operating revenues per geographic region

	Year ended at 31 December					
	2004	% OF TOTAL	2003	% OF TOTAL	2002 ¹	% OF TOTAL
	€		€		€	
Europe	2,994	73.4	2,794	74.8	2,644	73.2
North America	634	15.5	630	16.9	704	19.5
Rest of the World	453	11.1	311	8.3	262	7.3
Total operating revenues	4,081	100.0	3,735	100.0	3,610	100.0
Number of countries of operation	39	-	36	-	36	-

(in millions, except percentages)

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

Logistics statistics

	Year ended at 31 December		
	2004	2003	2002 ¹
Number of warehouses	655	471	415
Number of square metres (in thousands)	7,098	6,607	6,186
Joint ventures			
Number of warehouses	44	69	70
Number of square metres (in thousands)	1,359	969	968

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

During 2004 our logistics division delivered a €346 million 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, primarily Wilson. 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, operating income improved by €51 million with earnings from operations increasing €50 million, including a net acquisition impact of €10 million.

The revenue growth in the logistics division has been somewhat limited by both internal and external factors. The contract rationalisation initiative within the Transformation through Standardisation programme has enforced a stricter view as to the acceptable earnings contribution of both prospective and existing contracts, leading to the termination of and addition of fewer lower margin contracts. The principal external factor restricting our logistics growth is the business and trading environment within the French logistics market. We are assessing a number of strategic and operational options in this connection.

We believe that the Transformation through Standardisation programme, implemented in 2003, has delivered a significant contribution to the improvement in our operating income, through the development, sharing and application of best practice processes across our operational sites. Further evidence of

the positive impact of this programme can be seen from the improvement in the earnings from operations as a percentage of operating revenues. This measure improved from 0.6% (2.8% excluding asset impairment and Transformation though Standardisation costs) in 2003 to 3.7% in 2004 (3.8% when excluding the impact of the freight management business).

Logistics operating revenues*2004*

Our logistics operating revenues for 2004 increased by €346 million (9.3%) compared to 2003. Organic operating revenues increased by €136 million (3.7%) in 2004, compared to 2003. This increase was primarily due to the commencement of new contracts in Europe (mostly in Italy, Germany, and the United Kingdom), North America, and Rest of the World (mostly in Asia and South America) that generally offset the adverse impact of contract terminations in those countries. In total, the net effect of acquisitions and disposals of group companies and joint ventures accounted for €258 million (6.9%) of the logistics operating revenue growth during 2004. Foreign exchange effects decreased logistics operating revenues in 2004 by €48 million (-1.3%) compared to 2003, mainly due to the appreciation of the euro against other currencies, especially those in the United States, China and the rest of Asia.

Operating revenues in Europe grew by €200 million (7.2%) in 2004, compared to 2003. This included a positive net acquisition effect of €120 million (4.3%), mostly explained by the acquisition of Wilson in the European region, with the remaining impact reflecting the net revenue impact of the acquisition of the

remaining 50% of our Turkish joint venture and the revenues lost through the disposal of our TNT-DFDS Transport Logistics joint venture. Organic operating revenues in Europe in 2004 grew by €66 million (2.4%) compared to 2003. New European contract wins included Ford Motor Company and Volkswagen AG in Germany, Proctor and Gamble in Italy and B&Q Plc in the UK. In France, operating revenues continued to decline in 2004 due to a combination of contract terminations and the non-renewal of existing business due to the uncompetitive pricing structure of the market. The effect of changes in foreign exchange rates increased Europe's operating revenues in 2004 by €14 million (0.5%) compared to 2003.

Operating revenues in North America increased by €4 million (0.6%) in 2004, compared to 2003. Included in this amount was a net acquisition impact of €39 million (6.2%) relating to Wilson's business in the North American region. Organic operating revenues in North America in 2004 grew by €13 million (2.0%) compared to 2003, due to increased volumes on existing contracts and new contract wins, including American Honda Motor Company Ltd., Norfolk Southern Rail and AAI Ford. The effect of changes in exchange rates decreased North America's operating revenue in 2004 by €48 million (-7.6%) compared to 2003.

Operating revenues in Rest of the World grew by €142 million (45.7%) in 2004, compared to 2003. Included in this amount was a net acquisition impact of €99 million (31.8%) relating to the acquisition of Wilson in the Rest of the World region. Organic operating revenues in Rest of the World in 2004 grew by €57 million (18.4%) compared to 2003. This increase was due to new contract wins in Asia, as well as further growth of our TNT Anji joint venture in China. The effect of changes in exchange rates decreased operating revenues in 2004 by €14 million (-4.5%) compared to 2003, mainly as a result of the increase in the euro relative to various Asian currencies.

In addition, we have remained focussed on our existing contract base and improved contract retention rates (the rate at which contracts due for renewal in any given period are successfully renewed, defined as annualised revenue of contracts renewed divided by the annualised revenue of contracts due for renewal) to approximately 75% in 2004. In this competitive environment, contracts have inevitably exited the portfolio as we seek to clean the portfolio and customers seek price reductions elsewhere. Examples of contract terminations include Tulip Computers Holding in the UK, Migros in Turkey and General Motors Corp. in North America.

2003

Our logistics operating revenues for 2003 increased by €125 million (3.5%) compared to 2002. Organic operating revenues increased by €297 million (8.3%) in 2003, compared to 2002. This increase was primarily due to the commencement of new contracts in Europe (mostly in Italy, Germany, and the United Kingdom), North America, and Rest of the World (mostly in Asia and South America) that generally offset the adverse impact of contract terminations in those countries. In total, the net effect of acquisitions and disposals of group companies and joint ventures accounted for €59 million (1.6%) of the logistics operating revenue growth during 2003. Foreign exchange effects decreased logistics operating revenues in 2003 by €231 million

(-6.4%) compared to 2002, mainly due to the appreciation of the euro against other currencies, especially in the United States, South America, United Kingdom and Asia.

Operating revenues in Europe grew by €150 million (5.7%) in 2003, compared to 2002. Organic operating revenues in Europe in 2003 grew by €148 million (5.6%) compared to 2002. New European contract wins included Pirelli & C SpA and Volkswagen in Germany, Telecom Italia SpA in Italy and KPN in the Netherlands. The commencement of a new FIAT contract in May also contributed to operating revenue growth in Europe. In France, operating revenues declined in 2003 due to contract terminations. The full year impact of prior year acquisitions of Transports Nicolas and our TNT-DFDS Transport Logistics joint venture provided a €74 million (2.8%) increase in operating revenues in 2003. The effect of changes in foreign exchange rates decreased Europe's operating revenues in 2003 by €72 million (-2.7%) compared to 2002.

Operating revenues in North America declined by €74 million (-10.5%) in 2003, compared to 2002. Organic operating revenues in North America in 2003 grew by €50 million (7.1%) compared to 2002. New North American contract wins included NACCO Industries Inc., Mitsubishi North America and Interline Brands Inc.. The prior year's gain on the termination of an automotive contract and related joint venture resulted in a negative acquisition effect of €15 million (-2.1%) on operating revenue in 2003. The effect of changes in exchange rates decreased North America's operating revenue in 2003 by €109 million (-15.5%) compared to 2002.

Operating revenues in Rest of the World grew by €49 million (18.7%) in 2003, compared to 2002. Organic operating revenues in Rest of the World in 2003 grew by €99 million (37.8%) compared to 2002. This increase was due to new contract wins in Asia, including contracts with Isuzu Motors America Inc. and Philips India, as well as further growth of our TNT Anji joint venture in China. The effect of changes in exchange rates decreased operating revenues in 2003 by €50 million (-19.1%) compared to 2002, mainly as a result of the increase in the euro relative to various Asian currencies.

By maintaining a focus on our strategic growth objectives, continually improving our business development processes and leveraging our knowledge globally, we improved our business development efficiency (the rate at which we convert new business opportunities to operational contracts, defined as the annualised revenue of new operational contracts divided by annualised revenue of potential contracts in a given period) from 20% to 22%.

In addition, we remained focussed on our existing contract base and held contract retention rates at approximately 70% in 2003. In this competitive environment, contracts inevitably exited the portfolio as we sought to clean the portfolio and customers sought price reductions elsewhere. Examples of contract terminations included Ikea and Land Rover in the UK, Delphi in Spain and Goodyear Tire & Rubber Co. in North America.

Logistics operating income

2004

The logistics division's operating income in 2004 increased by €293 million (144.3%) compared to 2003, resulting in an operating income of €90 million. Amortisation of goodwill in 2004 decreased by €164 million (72.2%) compared to 2003. This decrease in amortisation was primarily due to the €163 million goodwill impairment charge recorded in the third quarter of 2003 and the resulting decrease in amortisation charge for the remainder of 2003 and 2004. No such impairments were recorded in 2004.

The logistics division's earnings from operations in 2004 increased by €129 million (537.5%) compared to 2003. The increase in operating income consisted of an organic increase of €122 million (508.3%), a favourable net effect from acquisitions and disposals of group companies and joint ventures of €10 million (41.7%) and an unfavourable impact of foreign exchange movements of €3 million (-12.5%).

The organic earnings improvement of 537.5% reflected the negative impact on 2003 earnings from operations of asset impairment charges and costs associated with the Transformation through Standardisation programme, totalling €79 million. Excluding these costs, the organic improvement would have been 41.7%.

The improvement in organic earnings from operations was most significant in our Benelux, Italy and Germany businesses. The improvement in the Benelux business was attributable to a strong sector focus on high volume businesses. Italy and Germany reversed their loss-making position reported in 2003 through contract rationalisation and improved cost control.

In France, the combination of lack of profitable new business in a market with excess capacity and a high fixed cost base has led to a continuation of the disappointing earnings results reported in 2003. Management is assessing a number of options in relation to this business in light of the operational and financial performance levels we expect from all our business units.

Operating expenses increased by €53 million, mainly driven by the acquisition impact of Wilson (€269 million), offset by the impairment expense taken in 2003 in France, Germany, Nordics, Spain and Italy, totalling €173 million. Other significant impacts included the sale of DFDS (-€26 million) and the full integration of our joint venture in Turkey (€6 million) together with a negative foreign exchange effect of €47 million.

The organic increase of the cost of materials €42 million (18.3%) was driven by business growth particularly in UK, Italy and South America.

Higher expenses for work contracted out were related to the first-time inclusion of Wilson. In organic terms the decrease was €18 million (0.9%). This decrease was achieved by reduced use of agency labour and subcontractors primarily in France, South East Asia, Italy and the UK.

Salaries including social and pension contributions grew organically by 3.5% (€40 million) which was partially a result of business growth in Central and Eastern Europe and the UK,

partially offset by rationalisation measures in France due to a reduction of business activity there.

Amortisation, depreciation and impairments significantly decreased in 2004 compared to 2003 due to the aforementioned goodwill and asset impairments in 2003.

Other operating expenses decreased organically by €36 million (13.5%) due to overhead and cost reductions, lower insurance premiums and the release of excess provisions.

Foreign exchange rate effects decreased operating earnings by €3 million (-12.5%) and arose mainly from the appreciation of the euro against other currencies, especially in the United States, China and the rest of Asia. The net effect of acquisitions and disposals accounted for an increase of €10 million (41.7%) in earnings from operations in 2004, due primarily to the net effect of the acquisition of Wilson business, the acquisition of the additional 50% of TNT Lojistik ve Dagitim Hizmetleri A.S. in Turkey and the disposal of our TNT-DFDS Transport Logistics joint venture in 2004.

Overall earnings from operations as a percentage of logistics operating revenues in 2004 increased to 3.7% from 0.6% in 2003 and to 3.8% excluding the impact of the acquisition of Wilson.

2003

The logistics division's operating income in 2003 decreased by €290 million (-333.3%) compared to 2002, resulting in an operating loss of €203 million. Amortisation of goodwill in 2003 increased by €157 million (224.3%) compared to 2002. This increase was primarily due to the €163 million goodwill impairment charge recorded in the third quarter and was partly offset by the resulting decrease in amortisation charge for the remainder of 2003. The impairments were made in respect of our France, Italy, Germany and Nordics businesses.

The logistics division's earnings from operations in 2003 decreased by €133 million (-84.7%) compared to 2002. The decrease in operating income consisted of an organic decrease of €101 million (-64.3%), unfavourable impact of foreign exchange movements of €15 million (-9.6%) and an unfavourable net effect from acquisitions and disposals of group companies and joint ventures of €17 million (-10.8%). The majority of the decrease in organic earnings from operations was attributable to:

Asset impairments in France and Spain totalling €10 million.

Costs associated with the Transformation through Standardisation programme of €69 million. These costs were broken down as follows:

- Restructuring - €34 million
This included expenses for redundancy payments and social plans executed in 2003 of €16 million including the cost for replacement of management and consultancy costs to set up the Transformation through Standardisation programme as well as additions to our restructuring provisions of €18 million at year end. During the year 903 employees were made redundant due to these restructurings.

- Refinements of estimates - €16 million
Refinements of estimates of accruals and supplier rebates.
- Contract rationalisation - €6 million
Costs associated with contract terminations in 2003 as part of the application of the division's commercial practice rules.
- Warehousing - €11 million
This related to the upgrading of leased buildings to contract requirements, in particular for the closure of our Peschiera, Pandino and Pomezia warehouses in Italy and our Trappes warehouse in France. Of this amount €3 million was spent in 2003.
- Legal - €2 million
This related to claims and legal disputes.

A total of €48 million of the deterioration in underlying business was attributed to France, Italy, Germany and Spain. The decline in earnings in these countries was due to operational difficulties on various contracts and increased fuel and staff costs that could not be fully transferred to the customer in France and Italy. Despite the positive revenue growth in Germany, earnings deteriorated due to declining volumes in our Innight business, which has a relatively high fixed-cost base coupled with a delay in the restructuring of our Innight operations. Deterioration in Spain's earnings was predominantly due to the loss of a major contract in 2002, which accounted for 67% of Spain's earnings in 2002.

The adverse impact from France, Italy, Germany and Spain was partly offset by increases in organic earnings from operations totalling €26 million in the United Kingdom, North America, Benelux and China due to significant new contract wins and strong cost control.

Foreign exchange rate effects decreased logistics' earnings from operations in 2003 by €15 million (-9.6%) and arose mainly from the appreciation of the euro against other currencies, especially in the United States, South America, United Kingdom and Asia. The net effect of acquisitions and disposals accounted for a decrease of €17 million (-10.8%) in earnings from operations in 2003, due primarily to the effect of a €15 million gain on the termination of an automotive contract and related joint venture in 2002.

Overall earnings from operations as a percentage of logistics operating revenues in 2003 decreased to 0.6% from 4.3% in 2002. The Transformation through Standardisation initiatives were aimed at reversing this trend.