



## Other financial information on the company



Shanghai skyline

## Financial condition

	Year ended at 31 December					
	2004		%	2003	%	2002 <sup>1</sup>
	US\$	€	VARIANCE	€	VARIANCE	€
Fixed assets	6,881	5,083	0.5	5,057	(9.3)	5,573
Current assets	4,331	3,199	11.9	2,858	6.1	2,693
<b>Total assets</b>	<b>11,212</b>	<b>8,282</b>	<b>4.6</b>	<b>7,915</b>	<b>(4.2)</b>	<b>8,266</b>
Group equity	3,769	2,784	(6.8)	2,986	0.2	2,979
Deferred tax liabilities	295	218	52.4	143	7.5	133
Provisions for pension liabilities	1,178	870	67.0	521	(29.8)	742
Other provisions	202	149	(2.6)	153	(5.0)	161
Long-term liabilities	2,228	1,646	(0.9)	1,661	-	1,661
Current liabilities	3,540	2,615	6.7	2,451	(5.4)	2,590
<b>Total liabilities and group equity</b>	<b>11,212</b>	<b>8,282</b>	<b>4.6</b>	<b>7,915</b>	<b>(4.2)</b>	<b>8,266</b>
Return on assets <sup>2</sup>	14.2%	14.2%		9.7%		12.8%
Return on average total capital <sup>3</sup>	14.5%	14.5%		9.5%		12.7%
Net return on equity <sup>4</sup>	24.0%	24.0%		10.0%		20.1%
Gearing at year end <sup>5</sup>	23.6%	23.6%		26.4%		32.0%
Interest cover <sup>6</sup>	15.2	15.2		8.3		9.8
Net cash provided by operating activities	1,354	1,000	6.7	937	(9.2)	1,032
Net cash used in investing activities	(458)	(338)	9.4	(373)	28.0	(518)
Net cash used by financing activities	(677)	(500)	(14.7)	(436)	27.1	(598)
<b>Changes in cash and cash equivalents <sup>7</sup></b>	<b>219</b>	<b>162</b>	<b>26.6</b>	<b>128</b>	<b>252.4</b>	<b>(84)</b>
Cash conversion efficiency <sup>8</sup>	7.9%	7.9%		7.9%		8.8%

(in millions, except percentages)

1. As of 1 January 2003 dividends proposed, but not yet declared, are to be presented as a component of equity instead of as a liability.

The 2002 balances have been adjusted for comparison purposes.

2. The total operating income as a percentage of the total assets.

3. The total operating income as a percentage of the average total capital, the latter being the averaged sum of the total assets of two consecutive years.

4. Net income as a percentage of total group equity.

5. The net debt as a percentage of the sum of total group equity plus net debt.

6. The total operating income divided by net financial (expenses)/income.

7. Excluding exchange rate differences on cash items and the cash and cash equivalents from acquisitions and disposals of group companies.

8. Net cash provided by operating activities as a percentage of total operating revenues.

## Cash flow data

Cash and cash equivalents totalled €633 million at 31 December 2004, compared to €470 million at 31 December 2003. The following table provides a summary of cash flows for the years ended 31 December 2004, 2003 and 2002:

	Year ended at 31 December					
	2004		%	2003	%	2002
	US\$	€	VARIANCE	€	VARIANCE	€
<b>Net cash provided by operating activities</b>	<b>1,354</b>	<b>1,000</b>	6.7	937	(9.2)	1,032
<b>Net cash used in investing activities</b>						
Net cash used for acquisitions and disposals	(309)	(228)	(240.3)	(67)	46.4	(125)
Net cash used for capital investments and disposals	(420)	(310)	(0.6)	(308)	24.7	(409)
Net cash used for other investing activities	271	200	9,900.0	2	(87.5)	16
<b>Net cash used by financing activities</b>						
Net cash used for dividends and other changes in shareholders' equity	(521)	(385)	(88.7)	(204)	(10.9)	(184)
Net cash from debt financing activities	(156)	(115)	50.4	(232)	44.0	(414)
<b>Changes in cash and cash equivalents <sup>1</sup></b>	<b>219</b>	<b>162</b>	26.6	128	252.4	(84)

(in millions, except percentages)

1. Excluding exchange rate differences on cash items and the cash and cash equivalents from acquisitions and disposals of group companies.

### NET CASH PROVIDED BY OPERATING ACTIVITIES

2004

Net cash provided by operating activities was €1,000 million, which is 7% above last year (€937 million). Net income contributed €667 million or €1,200 million if corrected for the non-cash impact of depreciation, amortisation and impairments, an increase of €189 million or 19% to last year (€1,011 million).

The change in deferred taxes of €82 million was a non-cash item that was primarily attributable to tax deductible pension payments in 2004 and utilisation of tax losses carried forward, partly offset by an adjustment to our net deferred tax position, due to the decrease of the Dutch statutory tax rate from 34.5% in 2004 to 31.5%, 30.5% and 30.0% in respectively 2005, 2006 and 2007 and beyond. This resulted into a reduction of our current income tax payable position included in working capital.

The negative non-cash impact of €3 million from other provisions was primarily the result of releases and withdrawals, which were partly offset by additions.

The changes in pension liabilities of €309 million reflects the total non-cash cost for the defined benefit pension schemes of €41 million, the non-cash costs related to the Personal Seniors Arrangement of €87 million (see also chapter 3 – “The mail division”) and total cash payments of €437 million. Cash contributions to various pension funds, the majority of which for our Dutch employees who fall under our collective labour agreement, totalled €200 million, of these payments €91 million was contributed as prescribed by the minimum funding requirements of the DNB. Our cash payments for pensions, which fall under transitional plan of our Dutch collective labour agreement and are directly paid by TPG (see note 9 to our financial statements), amounted to €95 million. The remaining

cash contribution of €142 million related to the Personal Seniors Arrangement.

Working capital decreased by €30 million in 2004 versus an increase of €26 million in 2003. Most of the decrease in 2004 related to the trade receivable position that moved favourably by €77 million. The net income tax receivable position of €32 million reflected total income tax payments in 2004 of €396 million compared to €288 million in 2003. Net interest paid in 2004 amounted to €64 million compared to €84 million in 2003. Trade payables decreased the cash flow by €66 million and compared unfavourable with a decrease of €19 million in 2003. In 2004 both debtor days and creditor days decreased. The decrease in debtor days contributed to the decrease in working capital, whereas the decrease in creditor days slightly increased working capital. Other current assets moved unfavourably by €11 million caused by an increase of prepayments and accrued income.

2003

Net cash provided by operating activities was €937 million, which was 9% below 2002. Net income contributed €300 million, or €1,011 million if corrected for the non-cash impact of depreciation, amortisation and impairments, a decrease of €78 million (7.2%).

The change in deferred taxes of €180 million was a non-cash item primarily attributable to increased tax deductible pension payments in 2003 and utilisation of tax losses carry forward, both resulting in a reduction of our current income tax payable position included in working capital.

The changes in pension liabilities of €221 million reflected the total non-cash cost for the defined benefit pension schemes of €43 million and our total cash contributions of €185 million to various pension funds, the majority of which for our Dutch employees that fell under our collective labour agreement, plus our cash payment of €79 million for pensions that fell under the transitional plan of our Dutch collective labour agreement and that are directly paid by TPG. In total these payments were €131 million higher than in 2002, in particular due to additional contributions totalling €100 million as prescribed in the minimum funding requirements by the Independent Supervisory Authority for Pensions and Insurance.

Working capital increased by €26 million in 2003 versus a decrease of €84 million in 2002. Most of the increase in 2003 related to the accounts receivable position that moved unfavourably by €37 million caused by other accounts receivables for €41 million, partly offset by trade receivables that improved by €4 million (€94 million in 2002). The income tax payable position of €181 million included in current liabilities reflected total income tax payments in 2003 of €288 million compared to €276 million in 2002. Interest paid in the year amounted to €84 million. Trade payables decreased the current liabilities by €19 million and compared unfavourably with an improvement of €55 million in 2002. The improvements to our accounts receivable and trade payable position in 2002 were realised via considerable improvements of the debtor and creditor days in all our divisions; in 2003 these debtor and creditor days were maintained at the 2002 level.

Other current assets moved unfavourably by €10 million (€74 million in 2002) caused by an increase of prepayments and accrued income.

#### NET CASH USED IN INVESTING ACTIVITIES Net cash used for acquisitions and disposals

2004

In 2004 the total payments for acquisitions of group and affiliated

companies amounted to €228 million, which was primarily attributable to the acquisition of Wilson (€190 million) in the logistics division. The payments of €190 million included the total acquisition price of €183 million and transaction costs of €7 million. We also made several smaller acquisitions in our mail division for an amount of €14 million, including the remaining shares of Höfinger and the establishment of the JV Cendris BSC Customer Contact and in our express division for an amount of €2 million. In our logistics division, the other acquisitions included Ventana and the remaining 60% shares of Overtrans in Italy and the remaining 50% of the shares of TNT Lojistik ve Dagitim Hizmetleri A.S. in Turkey for a total amount of €11 million. The funds we used for acquisitions of affiliated companies amounted to €11 million, primarily related to additional capital contributions to our affiliate Logispring of €10 million.

During 2004, we also disposed of some interests in group and affiliated companies with a rounded net book value of zero, the largest of which was TNT-DFDS Transport Logistics.

2003

In 2003 we acquired several group and affiliated companies at a total costs of €75 million. In addition to several smaller acquisitions, our largest acquisitions in 2003 took place in mail (€34 million) including Blitzpunkt GmbH (€7 million), Olaf Jepsen (€9 million for remaining 49%) and DocVision (€9 million). Logistics acquired for an amount of €21 million, mainly related to deferred considerations for Schrader, Barlatier S.A. and Mendy Developpement SAS (€14 million). Express acquired for an amount of €4 million, related to the acquisition of Archive and Data Storage. The funds we used for the acquisitions of affiliated companies (€16 million) are related primarily to capital contributions made to our affiliate Logispring (€13 million).

During 2003, we also disposed of some interests in group and affiliated companies with a net book value of €8 million, of which the largest was Geldnet Holding B.V.

#### NET CASH USED FOR CAPITAL INVESTMENTS AND DISPOSALS

Capital expenditures on property, plant and equipment and other intangibles

	Year ended at 31 December			
	2004		2003	2002
	US\$	€	€	€
<b>Investments</b>				
Property, plant and equipment	393	290	287	398
Other intangible assets	91	67	67	74
Subtotal	484	357	354	472
<b>Disposals</b>				
Property, plant and equipment	44	32	40	53
Other intangible assets	20	15	6	10
Subtotal	64	47	46	63
<b>Total</b>	<b>420</b>	<b>310</b>	308	409

(in millions)

Our capital expenditure on property, plant and equipment and other intangible assets by division for the three years 2002-2004 was as follows:

	Year ended at 31 December			
	2004		2003	2002 <sup>1</sup>
	US\$	€	€	€
Mail	133	98	107	130
Express	231	171	160	178
Logistics	111	82	83	164
Non-allocated	9	6	4	
<b>Total</b>	<b>484</b>	<b>357</b>	<b>354</b>	<b>472</b>

(in millions)

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

In 2004, capital expenditures on property, plant and equipment amounted to €290 million. Of this amount €75 million related to mail, €140 million to express, €69 million to logistics and €6 million to corporate. The capital expenditures on intangible assets of €67 million mainly related to software (€63 million) and the remainder related to prepayments on intangible assets (€4 million).

In mail, the major capital expenditures related mostly to sorting equipment and information technology, needed among other reasons to support the introduction of sequence sorting. In express, capital expenditures included investments in depots, hubs and warehouses, and replacements and operational equipment including automated sorting systems. In logistics the majority of capital expenditures related to warehouses and equipment (e.g. forklifts, racking systems, trailers and trucks) dedicated to the operation of contracts and offices.

Disposals of property plant and equipment in 2004 totalled €32 million in 2004 related to the sale of buildings at Belgische Distributie Dienst (€5 million) and Postkantoren (€2 million) in the mail division and at TNT Express Properties in Germany (€3 million) in the express division and to various smaller disposals of property plant and equipment throughout the company. The disposal of intangible assets of €15 million is a combination of disposed goodwill for €13 million, mainly related to TNT-DFDS Transport Logistics and software for €2 million.

In 2004, non-cash investing activities totalled €11 million, related to additional finance leases.

#### MAIL

##### 2004

Capital expenditure on property, plant and equipment and other intangible assets by our mail division totalled €98 million in 2004, which was a decrease of 8.4% compared to 2003 (€107 million). This decrease reflected large 2003 spending within European Mail Networks on seal machines (VSP) and a decrease in housing expenditures within Real Estate compared to the previous year.

The main capital expenditures in 2004 related to machinery (€22 million), software (€19 million), hardware (€12 million) and housing (€11 million). The remaining €34 million of capital expenditure related to various smaller projects, most of which

were individually less than €1 million and included building refurbishments mainly in the Netherlands, replacement of IT equipment and various other capital expenditures.

Significant investments were made in the sorting process, with a total amount of €23 million invested in sequence sorting machines and sequence sorting software and €6 million invested in tray cart unloaders.

##### 2003

Capital expenditure on property, plant and equipment and other intangible assets by our mail division totalled €107 million in 2003, a 17.7% decrease compared to 2002. This primarily resulted from the postponement of regularly scheduled refurbishment of our Netherlands distribution sites and delay in a few large projects, such as the tray cart unloader and Spring software. The postponement of refurbishment of distribution sites will continue until the impact of the installation of new sorting equipment within these sites can be fully assessed. The main capital expenditures in 2003 related to software (€25 million), hardware (€6 million), housing (€21 million), and machinery (€23 million) of which €9 million was invested in sequence sorting machines. The remaining €32 million of capital expenditures were individually less than €1 million and include small building refurbishments, replacement of IT equipment, and various maintenance-related capital expenditures.

#### EXPRESS

##### 2004

Capital expenditure on property plant and equipment and other intangible assets by our express division totalled €171 million in 2004, which was an increase of 6.9% compared to 2003 (€160 million). The capital expenditure related to depots, hubs and warehouses (€76 million), depot equipment used in operations, including fleet expansions and replacements (€23 million), and information technology, communication and other operational equipment, including automated sorting systems (€41 million). Of the total €140 million capital expenditure on property, plant and equipment, €126 million, or 90%, was spent in Europe.

During 2004, capital expenditures on other intangible assets totalled €31 million (2003: €36 million) and related primarily to the development of financial systems (e-back office) software and further enhancements to our international shared systems.

Some of the larger express capital expenditures in 2004 included the investments for warehouse and IT related to our pan-government archiving contract in the UK (€10 million), a new head office for France in Lyon (€10 million), the replacement of trailers and tractor units in the UK (€7 million), depots in Stockholm (€6 million), Birmingham (€3 million) and Enfield (€3 million) and the first investments in the expansion of the Air hub in Liège (€4 million).

#### 2003

Capital expenditure on property plant and equipment and other intangible assets by our express division totalled €160 million in 2003, which was 10.1% below the level of 2002. Some of the larger capital expenditures in 2003 related to depots, hubs and warehouses (€55 million), depot equipment used in operations including fleet expansions and replacements (€30 million), information technology, communication and other operational equipment including automated sorting systems (€39 million). Of the total €124 million express capital expenditure on property, plant and equipment, €84 million (68%) was spent in Europe.

During 2003, capital expenditures on other intangible assets totalled €36 million and relates primarily to the development of financial systems (e-back office) software and further enhancements to our international shared systems.

#### LOGISTICS

##### 2004

Capital expenditure on property, plant and equipment and other intangible assets by our logistics division totalled €82 million in 2004, which is comparable to the capital expenditures in 2003 (€83 million). The majority of the expenditures in property, plant and equipment related to new business acquired and to other equipment dedicated to operate logistics contracts throughout the world.

The largest capital expenditures on property plant and equipment and other intangibles in the logistics division were concentrated in the United Kingdom (€18 million), followed by Central and Eastern Europe (€12 million), North America (€10 million), Italy (€13 million), Asia (€5 million) and South America (€4 million).

The €18 million invested in the United Kingdom was mainly spent on warehouses and equipment. In Central and Eastern Europe, €6 million was invested in warehouses and equipment to service the DaimlerChrysler contract in Germany. In the remainder of continental Europe, €33 million was invested in warehouses, new depots and automated warehouse racking, information technology and systems security engineering. In Italy, €13m was invested in warehouse equipment, information technology and systems security engineering. In Australia, €5 million was invested in warehouses and equipment for new and existing contracts, and in North America €10 million was spent on warehouses, information technology and equipment for renewals and new contracts. In Asia, €5 million was invested in warehouses and information technology. An amount of €4 million was spent on warehouses and equipment for new and existing contracts in South America.

During 2004, capital expenditures on other intangible assets totalled €13 million, primarily attributable to the acquisition and implementation of a JD Edwards system and warehouse

management software in the United Kingdom and Italy Automotive & South America.

#### 2003

Capital expenditure on property, plant and equipment and other intangible assets by our logistics division totalled €83 million in 2003, a 49.4% decrease compared to 2002 due primarily to delays in the implementation of new business contracts. The majority of the expenditures in property, plant and equipment related to new business acquired and to other equipment dedicated to operate logistics contracts throughout the world. In the United Kingdom, €15 million was invested in warehouses and equipment. In continental Europe, €38 million was invested in warehouses, new depots and automated warehouse racking. €2 million was invested in warehouses and equipment for new and existing contracts in South America. In Australia, €7 million was invested in warehouses and equipment for new contracts, and in North America €11 million was invested in warehouses and information technology equipment for new contracts. In Asia €4 million was invested in warehouses and information technology.

During 2003, capital expenditures on other intangible assets totalled €6 million, due primarily to the continued development of financial systems (e-back office) software for the entire division.

#### Net cash used for other investing activities

##### 2004

The net cash generated by other investing activities totalled €200 million, which was an increase of €198 million compared to 2003. €160 million was attributable to the settlement of a USD 435 million cross currency interest rate swap, which provided a hedge against USD denominated assets. The remaining €40 million, partly adjustments of non-cash movements in the net cash provided by operating activities, was the result of the combined effect of a decrease in long-term prepayments and accrued income (€25 million), changes relating to affiliated companies (€8 million), changes in other securities (€1 million) and the effect of minority interests (€6 million).

#### NET CASH USED BY FINANCING ACTIVITIES

##### Net cash used for dividends and other changes in shareholder's equity

##### 2004

A final cash dividend for 2003 amounting to €142 million and a cash interim dividend for 2004 of €95 million were paid in 2004.

In 2004, €151 million was paid as consideration for the repurchase of 7.6 million shares from the State of the Netherlands. An amount of €3 million was received as a result of the exercise of options and share grants.

##### 2003

A final cash dividend for 2002 amounting to €119 million and a cash interim dividend for 2003 of €85 million were paid in 2003.

The proposed final dividend for 2003 of €0.30 per share resulted in an aggregate €142 million payment made in April 2004.

### Net cash from debt financing activities

2004

Movements in long-term liabilities resulted in a cash outflow of €48 million. The acquired long-term liabilities totalling €52 million included €11 million of finance leases, a €5 million increase in local bank loans and €36 million in non-interest bearing liabilities. A total of €100 million in repayments of long-term liabilities related, amongst others, to the repayment of Wilson bank loans (€53 million), scheduled repayments on aircraft leases and other leases (€15 million), other loans (€3 million), €1 million due to foreign currency movement and movements in non-interest-bearing liabilities of €20 million.

Changes in short-term financing for 2004 resulted in a cash outflow of €67 million, compared to an outflow of €219 million in 2003. Short-term financing decreased due to the repayment of short-term debt at our Italian logistics business (€19 million), repayment of loans existing within the Wilson group (€20 million) and various other repayments of loans within our express and mail divisions.

In 2004, non-cash financing activities totalled €11 million and related to additional finance leases.

2003

New long-term liabilities, net of repayments, resulted in a cash outflow of €13 million. The acquired long-term liabilities totalling €70 million included €20 million of finance leases, €20 million increase in local bank loans, and €30 million in non-interest bearing liabilities. A total of €83 million in repayments of long-term liabilities related to scheduled repayments on aircraft leases and other leases (€13 million), a bilateral facility (€13 million), other loans (€19 million), €13 million due to foreign currency movement and movements in non-interest-bearing liabilities of €25 million.

Changes in short-term financing resulted in a cash outflow of €219 million. Short-term financing decreased by €72 million due to the scheduled repayment of State Loans, €119 million due to repayment of local Italian short-term facilities and €28 million of other net repayments.

In 2003, non-cash financing activities totalled €26 million, related to additional finance leases.

### LIQUIDITY AND CAPITAL RESOURCES

The group's capital resources include funds provided by our operating activities and capital raised in the financial markets. As regards the former, the group generates strong cash flows from operating activities (€1,000 million in 2004, €937 million in 2003 and €1,032 million in 2002). As with any global organisation, these operating cash flows are affected by economic and business trends. The majority of our cash flows are derived from our mail division, particularly from operations in the Netherlands. Amongst other factors, the impact of electronic substitution on mail volumes, postal regulations in the Netherlands and the pace of postal liberalisation in Europe continue to affect those cash flows, although it is not possible to predict what the long-term cash flow effects will be.

Although cash requirements for capital expenditure do fluctuate from year to year, depending on the extent of strategic capital

projects, they have been well covered by operating cash flows and show an improving trend for the most recent three financial years. Specifically, the ratio of operating cash flows to net capital expenditure was 3.2 times in 2004, 3.0 times in 2003 and 2.5 times in 2002. This ratio is calculated as follows: net cash provided by operating activities divided by the sum of capital expenditure on other intangible assets, disposals of other intangible assets, capital expenditure on property, plant and equipment and disposals of property, plant and equipment, all as stated in the consolidated cash flow statements. We expect operating cash flows to continue to cover our capital expenditure requirements in the foreseeable future. We believe our working capital is sufficient for our present requirements.

For any acquisitions that exceed the group's immediate cash resources the group would seek to raise capital in the financial markets by means of bank borrowings and private or publicly traded debt. For very substantial transactions, we would also consider issuing equity in order to protect our credit rating position. Given the strength of our financial position, credit ratings, and bank relationships, we do not foresee an inability to access a wide range of capital markets including equity, public debt, private debt and bank borrowing. We monitor and manage key financial ratios that are consistent with a strong credit rating. There are no aspects of our current capital structure that we believe would trigger a material increase in the cost of our debt or access to capital markets.

We do not have any material undisclosed off-balance sheet financial arrangements.

We have €600 million of undrawn committed credit maturing in 2008 to provide for unforeseen cash requirements. We are negotiating to extend this back-up facility and increase its size to €1 billion. We expect that this new facility will mature in 2012. We also have outstanding €1 billion of 5.125% notes due 2008.

In 2004 we updated the documentation and increased the limit of our Euro commercial paper programme from €500 million to €1 billion. This programme was established by us in 1999 and has not been used in recent years as our expenditures have been funded largely by our operating cash flow and Eurobond.

For details on the interest rates charged on our most important long-term loans as well as the maturity of our long-term loans and commitments see notes 11 and 14 to our consolidated financial statements.

We do not hold or issue financial instruments for trading purposes nor do we allow our subsidiaries to do so. For details on our use of financial derivatives for hedging purposes, see note 14 to our consolidated financial statements.

### Cash and net debt

At 31 December 2004, our net debt position was €858 million (2003: €1,073 million). This consisted of €51 million of short-term debt (2003: €69 million) and €1,440 million (2003: €1,474 million) of long-term debt, offset by €633 million of cash and cash equivalents (2003: €470 million).

At 31 December 2004, short-term debt consisted of €8 million of bank loans bearing variable interest rates, €23 million of

current portion of long-term finance leases and €20 million of numerous other liabilities at fixed and variable rates.

At 31 December 2004, long-term debt consisted of a €1 billion Eurobond with a coupon of 5.125% issued in December 2001, a €186 million 5-year plus one day syndicated facility bearing an interest rate of 3-month Canadian LIBOR plus a margin of 0.325% signed in May 2001, a bilateral loan agreement amounting to €129 million which has been revised from an amortising loan maturing in year 2020 with fixed interest rate of 5.85% into a bullet loan maturing in 2006 with a fixed interest of 2.54%, €86 million of finance lease obligations and €39 million of other long-term liabilities at fixed and variable rates.

At 31 December 2004, our total cash position amounted to €633 million, an increase of €163 million compared to year-end 2003. Included in the €633 million of total cash was €171 million of restricted cash (2003: €167 million) held mainly by consolidated joint ventures and insurance captives. The cash held in consolidated joint ventures is considered to be restricted by virtue of the fact that we require the agreement of our joint venture partners before we are able to access this cash. Our total cash position was primarily denominated in euro.

### Credit facilities

At 31 December 2004, committed facilities with domestic and international banks amounted to €786 million, of which €600 million remained undrawn. The undrawn committed facilities consisted of a €600 million revolving, syndicated facility signed in October 2003, which supports our euro commercial paper programme. In addition, at 31 December 2004, we had €474 million of uncommitted facilities, of which €438 million remained undrawn.

At 31 December 2004, our long-term credit ratings are A (stable outlook) by Standard & Poor's and A1 (stable outlook) by Moody's. On 11 June 2004 Standard & Poor's removed the negative watch on our credit rating, which was originally attached on 2 February 2003.

### Cash obligations

At 31 December 2004, our gross interest bearing borrowings, including finance lease obligations, totalled €1,491 million (2003: €1,543 million), of which 84% (2003: 82%) was at fixed rates of interest and €1,440 million (2003: €1,474 million) represented long-term debt. We had operating lease commitments of €1,675 million (2003: €1,679 million) and guarantees outstanding to third parties totalling €350 million (2003: €263 million).

The following tables show the maturity of these amounts:

	Amounts of payments due by period				
	TOTAL OBLIGATIONS	LESS THAN 1 YEAR	1 TO 3 YEARS	4 TO 5 YEARS	AFTER 5 YEARS
Total gross borrowings, excluding leases	1,391	37	331	1,006	17
Financial leases	100	14	29	26	31
Rent and operating lease commitments	1,675	393	587	337	358
<b>Total contractual cash obligations</b>	<b>3,166</b>	<b>444</b>	<b>947</b>	<b>1,369</b>	<b>406</b>

(in € millions)

### Guarantees

Total financial guarantees at 31 December 2004 were €350 million (2003: €263 million) of which €164 million (2003: €94 million) amounted to corporate guarantees. Furthermore, banks and other financial institutions have issued guarantees to cover obligations of group companies up to an amount of €127 million (2003: €90 million). These guarantees were issued in

connection with our obligations under lease contracts, customs duty deferment and local credit lines. The obligations under the guarantees issued by banks and other financial institutions have been secured by our company or by our subsidiaries. The amount covered hereby is not included in the amount stated below for corporate guarantees.

	Amounts of commitment expiration by period				
	TOTAL COMMITMENTS	LESS THAN 1 YEAR	1 TO 3 YEARS	4 TO 5 YEARS	OVER 5 YEARS
Guarantees	350	65	92	18	175

(in € millions)

## CONTINGENCIES

Our total operating lease commitments at the end of the year were €1,675 million (2003:€1,679 million), of which real estate accounted for €1,459 million (2003:€1,436 million), transport equipment for €165 million (2003:€199 million) and computer equipment and other equipment for €51 million (2003:€44 million).

The total commitments as at 31 December 2004 relating to capital expenditure were €33 million (2003:€58 million).

At 31 December 2004 we had unconditional purchase commitments of €84 million (2003:€100 million), which were primarily related to various service and maintenance contracts. Furthermore, at 31 December 2004, we had an unconditional commitment to repurchase 13.1 million ordinary shares for the State of the Netherlands. These shares were delivered on 5 January 2005, for which a total purchase price was paid amounting to €259 million. See note 26 to our consolidated financial statements.

A review of our tax position of certain of our subsidiaries relating to prior years has identified a limited number of items where our interpretation of relevant tax laws and regulations may be open to challenge. If these items were successfully challenged, it could result in a total liability between 0 and €400 million. Following a detailed review of the issues involved and legal advice from outside tax counsel, we currently believe that we have no liability in this regard.

In February and March 2004, our audit committee, on behalf of our Supervisory Board, conducted an independent investigation regarding representations made to the UK Inland Revenue and to our external 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. The investigations conducted by our audit committee, with the assistance of independent legal counsel, concluded that not all relevant details in connection with these tax matters were adequately disclosed to the UK Inland Revenue and PricewaterhouseCoopers.

In August 2004, we submitted a report to the UK Inland Revenue in relation to these UK tax issues pursuant to a procedure under UK law designed to ensure full disclosure of all relevant information to the UK Inland Revenue. We will be providing an addendum to our original report with additional information, and are continuing discussions with the UK Inland Revenue in connection with their related comprehensive investigation. The outcome of the UK Inland Revenue's investigation is not certain, and we do not expect these matters with the UK Inland Revenue will be resolved before 2006.

The UK Inland Revenue could assess further taxes, penalties and interest that would exceed the amounts we have accrued in our financial statements.

For a further description of these contingencies see note 14 to our consolidated financial statements.

## CAPITAL EXPENDITURES PROJECTION FOR 2005

The total projected 2005 capital expenditures on property, plant and equipment and other intangible assets for our divisions is estimated to be €583 million, which is expected to be spent on similar types of property, plant and equipment and other intangible assets as in 2004. We believe that the net cash provided by our operating activities will be sufficient to fund these expenditures.

## RELATED PARTY TRANSACTIONS AND BALANCES

Our group companies have trading relationships with a number of our partially consolidated joint ventures as well as with unconsolidated companies in which we only hold minority stakes. In some cases there are contractual arrangements in place under which our group companies source supplies from us. During 2004, sales made by our group companies to our joint ventures amounted to €125 million, compared to €136 million in 2003. Purchases from our joint ventures for 2004 amounted to €24 million, compared to €24 million in 2003. The net amounts due from joint venture entities as at 31 December 2004 totalled €49 million, compared to €35 million in 2003.

Loans receivable from affiliated companies are disclosed in notes 3 and 5 to our consolidated financial statements. As of 31 December 2004, no material amounts were payable by TPG to affiliated companies. We believe that all transactions with joint ventures and affiliated companies are conducted in the ordinary course of business and under normal arm's length commercial terms and conditions.

For further disclosure of the related party transactions and balances we refer to below and note 27 to our consolidated financial statements. For information on our relationship with the State of the Netherlands please see chapter 14 – "Additional information" and note 26 to our consolidated financial statements.

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our reported financial condition and results of operations are sensitive to accounting policies, assumptions and estimates that underlie the preparation of our financial statements. The profile of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered, together with reviewing our financial statements and the discussion in this item.

The four critical accounting policies that we believe are either the most judgmental, or involve the selection or application of alternative accounting policies, and are material to our financial statements, are those relating to business combinations and impairment of intangible assets and goodwill, accounting for pensions, income taxes and restructuring costs. We also have to estimate the deferred revenues from stamps sold but not yet used by our customers. We have discussed the development and selection of these critical accounting policies and estimates with our independent auditors. In addition, our financial statements contain a summary of our significant accounting policies.

Our financial statements are prepared in accordance with generally accepted accounting principles in the Netherlands (Dutch GAAP), which differ in certain respects from generally accepted accounting principles in the United States (US GAAP). In the case that our Dutch GAAP compliant accounting policies do not correspond with the required US GAAP accounting treatment, and this is estimated to have a significant effect on our consolidated net income and shareholders' equity, we have highlighted these differences in the discussion below.

#### Business combinations and impairment of intangible assets and goodwill

Accounting policies for business combinations and impairment of goodwill and other tangible and intangible assets differ between Dutch GAAP and US GAAP.

Under both Dutch and US GAAP, all of our business combinations are accounted for as purchases. The cost of an acquired company is assigned to the tangible and intangible assets purchased and the liabilities assumed on the basis of their fair values at the date of acquisition. The determination of fair values of assets and liabilities acquired requires us to make estimates and use valuation techniques when market value is not readily available. Under US GAAP, we have identified certain intangible assets that were not separately identified under Dutch GAAP.

	Revised expected useful life		
	5 YEARS	10 YEARS	20 YEARS
Revised annual amortisation charge	203	102	51

(in € millions)

The above sensitivity analysis has been provided only for goodwill amortised over 40 years because a revision of the useful life of this particular goodwill would have the most significant impact on our financial statements. As this amortisation charge is not tax deductible, the above additional charges would impact net income directly. Charges associated with goodwill amortised over a period of up to 20 years would be similarly affected by determinations about the estimate of its useful life.

Under Dutch GAAP, goodwill is assessed for impairment if changes in circumstances indicate that an impairment may have occurred or on an annual basis if the estimated useful lives of the goodwill exceeds 20 years. Under US GAAP, we evaluate our goodwill for impairment at least annually and more frequently if specific events indicate that an impairment in value may have occurred.

Our goodwill impairment tests include judgements regarding when to perform a test, and assumptions regarding the level of testing, future cash flow and discount rates.

Judgement is required to determine whether there has been a change in circumstances such that goodwill may be impaired. If we do not identify changes in circumstances on a timely basis, the timing or amount of impairment losses, may be impacted. The level we identify for impairment testing and the criteria we use to determine which groups should be aggregated also require judgement. Higher or lower testing level could affect whether

Any excess of purchase price over the fair value of the tangible and intangible assets acquired is allocated to goodwill.

For Dutch GAAP, goodwill is amortised on a straight-line basis over its estimated useful life. For US GAAP, goodwill is no longer amortised but reviewed for possible impairment.

In the event that the useful life of goodwill that we amortise is determined to be less than management's original estimate, we will be subject to an increased amortisation charge our statement of income. If this were to happen with respect to our goodwill amortised over a 40-year period, this would result in an increase from the current annual charge of €31 million to the following:

an impairment is recorded, and the amount of the impairment loss. Changes in our business activities or structure may result in changes to the level of testing in future periods. Additionally, the level of testing for Dutch GAAP can be lower than the level of testing for US GAAP, which adds another layer of complexity.

To determine whether goodwill is impaired, we use valuation techniques that involve estimating cash flows for future periods and discounting these cash flows to determine fair values. We have to make estimates regarding expected revenues and costs as well as capital expenditures. Due to the inherent nature of estimates, our actual experienced revenues, costs and capital expenditures in the past have varied, in some cases materially, from our expectations. The use of different assumptions for our cash flow estimates could affect the amount of any impairment losses recognised. We also use significant judgement to determine the discount rate.

Under US GAAP, there is a two-step impairment test. In the first step, we are required to make estimates regarding the fair values of assets and liabilities, including unrecorded intangible assets in determining whether a goodwill impairment exists. The second test, compares this fair value with the carrying amount of the reporting unit's goodwill in determining the amount of the impairment charge. We use valuation techniques to determine some of the fair values, which involve the same judgements mentioned above regarding cash flows and discount rates.

Under both Dutch and US GAAP, we review our tangible and intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable (a "triggering event"). The review for recoverability requires us to estimate the future cash flows expected to result from the use of the asset and its eventual disposition. The determination of whether a triggering event has occurred as well as the development of the assumptions used to estimate future cash flows and determine fair value, requires the use of judgement, as mentioned above.

## Accounting for pensions

We operate a number of pension plans around the world. Most of our non-Dutch pension plans are defined contribution plans. For our non-Dutch employees we also operate a limited number of defined benefit plans. The liabilities for these employees are separately covered by private insurers and foreign pension funds.

Two retirement plans are applicable to most Dutch employees. These two plans are the most significant pension plans of TPG: a pension plan and a conditional early retirement arrangement.

As required by Dutch law the plan is carried out by a separate legal entity and is managed by an independent board that falls under the supervision of the Nederlandsche Bank (DNB) into which the Independent Supervisory Authority for Pensions and Insurance has merged.

The pension fund runs an actively managed investment portfolio. The pension funds uses asset and liability management studies that generate future scenarios to determine its optimal asset mix. During 2004, the dynamic weight of equity investments increased to 44.9%, the dynamic weight of fixed interest investments decreased to 46.5%, and the weight of real estate investments (including international) went down to 8.6%.

	Actual asset mix at 31 December 2004	Actual asset mix at 31 December 2003
Equities	44.9%	43.6%
Fixed interest	46.5%	46.9%
Real estate	8.6%	9.4%
Cash		0.1%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

(in € millions)

The assets of our major plan cover approximately 93% of our total pension assets and the liabilities described in the section above cover approximately 95% of our total pension liabilities. The return on plan assets totalled 8.8% in 2004 (2003: 9.1%).

### Historical returns

	2004	10-year average	12-year average
Equities	10.6%	10.5%	10.8%
Fixed interest	7.7%	8.0%	7.8%
Real estate	6.8%	9.8%	10.0%

## Pension developments

Various changes will be made to pension laws in the Netherlands in the coming years. They include a new Pensions Act, a modified regime for annuities, alterations to state incapacity benefits and introduction of a financial means test. The Board of Trustees of the pension fund will amend the pension regulations accordingly, as and when necessary.

The future of the Dutch transitional plan is currently under discussion due to a change in the Dutch tax regime. The current tax benefits for this plan might be abolished as from 1 January 2006. Starting 2006 a charge of 26% could be applicable on premiums paid by the employer. As from 2011 this charge would be 52%.

## Pension cost

Inherent in the valuation of our pensions and the determination of our pension cost are key assumptions which include: employee turnover, mortality and retirement ages, discount rates, expected long-term returns on plan assets and future wage increases which are usually updated on an annual basis at the beginning of each fiscal year. Actual circumstances may vary from these assumptions giving rise to a different pension liability, which would be reflected as an additional profit or expense in our statement of income.

Changes in the related net periodic pension cost may occur in the future due to changes in the assumptions.

In 2004, our net periodic pension cost was €128 million (€43 million in 2003). This included termination benefit costs of €57 million and a pro rata part of the unrecognised settlement losses of €30 million.

Total cash contributions in 2004 amounted to €437 million (€264 million in 2003) and are expected to amount approximate €296 million in 2005. Cash contributions to various pension funds, the majority of which were for our Dutch employees who fall under our collective labour agreement, totalled €200 million. Of these payments €91 million was contributed as prescribed by the minimum funding requirements of the DNB. Our cash payments for pensions, which fall under the transitional plan of our Dutch collective labour agreement and are directly paid by TPG (see note 9 to our consolidated financial statements), amounted to €95 million. The remaining cash contribution of €142 million related to the Personal Seniors Arrangement.

Our accumulated benefit obligation in connection with our pension plans exceeds the fair value of the plan assets as per 31 December 2004. As a result, SFAS 87 requires us to account for an additional minimum liability amounting to €654 million. The reason for the increase in the accumulated benefit obligation compared to plan assets is mainly caused by the fact that the interest rate decreased from 5.5% in 2003 to 4.75% in 2004 (impact approximately €560 million) and an adjustment in estimated employee turnover within the mail division (impact approximately €260 million). Under SFAS 87, this increase can not be offset by the increase in our plan assets in 2004.

Full application of SFAS 87 requires us to recognise an additional minimum liability representing a net loss that under SFAS 87 is not yet to be recognised as net periodic pension cost, but to be reported as a separate component (that is a reduction) of equity.

We have deducted an amount of €454 million from our equity (net of tax). The accrued pension costs have increased with the minimum liability of €654 million and we accounted for a deferred tax asset amounting to €200 million. No intangible assets have been recognised. Please note that after the

#### Changes in assumptions

	%-CHANGE IN ASSUMPTIONS	CHANGE IN NET PERIODIC COSTS <sup>1</sup>
<b>Net periodic pension costs</b>		(41)
Discount rate	+ 0.5%	19
Expected return on assets	+ 0.5%	17
Rate of compensation increase	+ 0.5%	(16)
Rate of benefit increase	+ 0.5%	(48)
<b>Net periodic pension costs</b>		(41)
Discount rate	(0.5)%	(46)
Expected return on assets	(0.5)%	(17)
Rate of compensation increase	(0.5)%	15
Rate of benefit increase	(0.5)%	26

(in € millions, except percentages)

1. Excluding one-off termination benefit costs and settlement losses in 2004.

For further discussion see note 9 to our consolidated financial statements.

#### INCOME TAXES

We currently have significant deferred tax assets resulting from net operating loss carry forwards and deductible temporary differences, which will reduce taxable income in future periods. A valuation allowance is required when it is more likely than not that all or a portion of a deferred tax asset will not be realised. We assess the likelihood that our deferred tax assets will be realised from future taxable income, and, to the extent we believe that recovery is not likely, we establish a valuation allowance. We consider future taxable income projections, historical results and ongoing tax planning strategies in assessing the recoverability of deferred tax assets. However, adjustments could be required in the future if we determine that the amount to be realised is less or greater than the amount we have recorded. Such adjustments, if any, may have a material impact on our results of operations.

In valuing our deferred tax assets, we provided valuation allowances on future tax benefits of €162 million, €138 million, and €145 million at the end of 2004, 2003, and 2002, respectively.

For further discussion of income taxes see note 21 to our consolidated financial statements.

#### RESTRUCTURING

We periodically record restructuring charges resulting from restructuring operations, including consolidations and/or relocations of operations, changes in our strategic plan, or managerial responses to declines in demand, increasing costs or other market factors. Restructuring provisions reflect many

conversion to IFRS (effectively as from 1 January 2004) this direct equity movement no longer exists since the minimum liability is no requirement under IAS 19.

The table below shows the sensitivity of the net periodic pension cost to deviations in assumptions.

estimates, including those pertaining to separation costs, consolidation of excess facilities, contract settlements and tangible asset impairments. Actual experience has been and may continue to be different from these estimates. As of 31 December 2004 and 2003, restructuring provisions were €33 million and €42 million, respectively.

For a further discussion see note 10 to our consolidated financial statements.

#### Reconciliation of Dutch GAAP to US GAAP

Our financial statements are prepared in accordance with generally accepted accounting principles in the Netherlands (Dutch GAAP), which differ in certain respects from generally accepted accounting principles in the United States (US GAAP). In the case that our Dutch GAAP accounting policies do not correspond with the required US GAAP accounting treatment, and this is estimated to have a significant effect on our consolidated net income and shareholders' equity, we have highlighted these differences in the reconciliation of our Dutch GAAP net income and shareholders' equity to those under US GAAP, as presented in note 29 to our financial statements.

Net income determined in accordance with US GAAP was €714 million in 2004 (2003: €332 million and 2002: €717 million), which was €47 million higher than net income determined in accordance with Dutch GAAP (2003: €32 million higher and 2002: €118 million lower). In 2004 the effect of not amortising goodwill under US GAAP (€146 million) was largely offset by the unwinding of an insurance contract in the mail division

with a remaining balance of €130 million at the moment of the termination of the contract. In addition, US GAAP net income was impacted in 2004 by amortisation of other long-lived intangible assets, the realisation of gains on real estate sales (recognised under Dutch GAAP in prior years) and a positive tax effect on the reconciling items.

Our shareholders' equity determined in accordance with US GAAP was €2,622 million at 31 December 2004 (€3,146 million at 31 December 2003), which was €143 million lower (€177

million higher at 31 December 2003) than shareholders' equity determined in accordance with Dutch GAAP. The lower equity under US GAAP was mainly caused by a direct equity movement that only impact our figures under US GAAP: Our repurchase of shares (€259 million), the tranche of 5 January 2005, which qualifies under US GAAP as financial liability rather than equity.

The following table indicates our 2004 operating income determined in accordance with Dutch GAAP, compared to that determined in accordance with US GAAP:

#### Operating income

	Year ended at 31 December					
	DUTCH GAAP			US GAAP		
	2004		% OF TOTAL	2004		% OF TOTAL
	US\$	€		US\$	€	
Mail	1,127	833	70.9	1,011	747	62.8
Express	436	322	27.4	506	374	31.4
Logistics	122	90	7.7	192	142	11.9
Non-allocated	(96)	(71)	(6.0)	(99)	(73)	(6.1)
<b>Total</b>	<b>1,589</b>	<b>1,174</b>	100.0	<b>1,611</b>	<b>1,190</b>	100.0

(in € millions, except percentages)

In 2004 the Dutch GAAP operating income in the mail division was higher than under US GAAP. This was caused by the fact that the reversal of the goodwill amortisation was more than offset by the unwind of an insurance contract. The agreement with an insurance company related to settling future wage guarantees that was entered into in 2001, was terminated in December 2004 following an unfavourable court decision with regard to the timing of the deductibility of the consideration for tax purposes.

As per 23 December 2004 there is no reconciling item anymore. Within express and logistics the difference between Dutch

GAAP and US GAAP operating income was primarily the result of reversing Dutch GAAP goodwill amortisation, amortisation of other long-lived intangible assets recognised under US GAAP, revaluing our financial derivatives for US GAAP purposes and expensing long-term contract incentives that are considered prepaid expenses under Dutch GAAP.

The following table indicates our 2003 operating income determined in accordance with Dutch GAAP, compared to that determined in accordance with US GAAP:

#### Operating income

	Year ended at 31 December			
	DUTCH GAAP		US GAAP	
	2003	% OF TOTAL	2003	% OF TOTAL
	Mail	766	99.9	800
Express	223	29.1	277	37.5
Logistics	(203)	(26.5)	(320)	(43.4)
Non-allocated	(19)	(2.5)	(19)	(2.6)
<b>Total</b>	<b>767</b>	100.0	<b>738</b>	100.0

(in € millions, except percentages)

The difference in 2003 between Dutch GAAP and US GAAP operating income on a divisional basis was primarily the result of reversing Dutch GAAP goodwill amortisation and impairments and recognising US GAAP goodwill impairments, revaluing our financial derivatives for US GAAP purposes, adjusting for timing

differences related to settling future wage guarantees, deferring gains on certain real estate sales and expensing long-term contract incentives that are considered prepaid expenses under Dutch GAAP.

The following table indicates our 2002 operating income determined in accordance with Dutch GAAP, compared to that determined in accordance with US GAAP:

#### Operating income

	Year ended at 31 December			
	DUTCH GAAP		US GAAP	
	2002	% OF TOTAL	2002	% OF TOTAL
Mail	774	73.2	760	65.6
Express <sup>1</sup>	192	18.1	246	21.2
Logistics <sup>1</sup>	87	8.2	148	12.8
Non-allocated	5	0.5	5	0.4
<b>Total</b>	<b>1,058</b>	<b>100.0</b>	<b>1,159</b>	<b>100.0</b>

(in € millions, except percentages)

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

The difference in 2002 between Dutch GAAP and US GAAP operating income on a divisional basis was primarily the result of reversing goodwill amortisation, revaluing our financial derivatives for US GAAP purposes, adjusting for timing differences related to settling future wage guarantees, deferring gains on certain real estate sales and expensing long-term contract incentives that are considered prepaid expenses under Dutch GAAP.

#### Transition to International Financial Reporting Standards

Most of the changes in Dutch guidelines for Annual Reporting relate to the further alignment between Dutch GAAP and IFRS.

TPG currently prepares its financial statements under Dutch GAAP. As from 2005 onwards we have to report our consolidated financial information in accordance with International Financial Reporting Standards (IFRS). This change applies to all financial reporting for accounting periods beginning on or after 1 January 2005 and, consequently, our first IFRS results will be our interim results for Q1 2005. The financial statements for the year ending 31 December 2005 will include comparative amounts that have been restated for 2004 to comply with IFRS standards that will be in force at the end of 2005.

We expect to have a pro forma IFRS restated 2004 balance sheet and profit and loss account presented on 27 April 2005, before our Q1 2005 results.

During 2004 we have further investigated the key differences between Dutch GAAP and IFRS and have revised our accounting manual to be able to consistently apply IFRS within the group. We also finalised the review of our reporting routines and internal control processes in order to be able to compile the data required for IFRS based reporting. The main changes in our accounting policies affecting our accounting principles relating to the determination of our equity and our results relate to Goodwill Amortisation (IFRS 3), Employee Benefits (IAS 19) and Share Based Payment (IFRS 2). IAS 32/39 relating to financial instruments will only be applied as per 1 January 2005.

#### Recent US GAAP accounting pronouncements

In December 2004, the FASB issued a revised version of SFAS 123 (Share based payments). This statement focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees". This Statement applies to all awards granted after 15 June 2005 and has therefore no impact on the 2004 Financial Statements.

In December 2003, the FASB issued a revised FASB Interpretation No. 46 ("FIN 46"), "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51." FIN 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 must be adopted no later than the end of the first interim or annual reporting period ending after 15 March 2004. The adoption of this standard has no material impact on our financial statements.

In December 2003, the FASB issued a revised version of SFAS 132. It does not change the measurement or recognition of those plans required by FASB Statements No. 87, Employers' Accounting for Pensions, No. 88, Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits, and No. 106, Employers' Accounting for Postretirement Benefits Other Than Pensions. This Statement only retains the disclosure requirements contained in FASB Statement No. 132, Employers' Disclosures about Pensions and Other Postretirement Benefits, which it replaces. It requires additional disclosures to those in the original Statement 132 about the assets, obligations, cash flows, and net periodic benefit cost of defined benefit pension plans and other defined benefit postretirement plans. Since the other post retirement plans and our pension plans are incorporated in one pension plan it can't be separated and therefore this requirement is not applicable for TPG.

## QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risk from changes in foreign currency exchange rates, interest rates and commodity prices. All of these market risks arise in the normal course of business. In order to manage the risk arising from these exposures, we may utilise a variety of foreign exchange, interest rate and commodity forward contracts, options and swaps.

The following analyses provide quantitative information regarding our exposure to foreign currency exchange risk, interest rate risk and commodity price risk. There are certain limitations inherent in the analyses presented, primarily due to the assumption that exchange rates change in a parallel fashion and that interest rates change instantaneously. In addition, the analyses are unable to reflect the complex market reactions that normally would arise from the market shifts assumed.

For a discussion of our accounting policies for derivative instruments and further disclosures, see chapter 12 – “Financial statements and other information”.

We use derivative financial instruments solely for the purpose of hedging underlying exposures. We enter into contracts related to derivative financial instruments for periods commensurate with our underlying exposures and do not take positions independent of these exposures. None of these financial instruments are leveraged or used for trading purposes or to take speculative positions.

### FOREIGN CURRENCY RISK

We operate on an international basis generating revenues and expenses in a large number of currencies, resulting in exposures due to the risk of changes in foreign currency exchange rates relative to the euro, our functional and reporting currency. Our treasury department matches and manages the intra group and certain external financial exposures. In order to reduce the exposures, hedges are applied to our netted positions per currency.

Hedging of foreign currency cash flows includes transactional hedging of firm commitments and anticipated cash flows. We use an internal clearing system to allocate the group operational expenses and management charges to our companies. The balances arising from the clearing system are included in the intercompany account balance with our companies. Additionally, this account is used to provide cash management and internal funding. The net exposures on these accounts, predominantly denominated in the local currency of each of our companies are hedged.

The main currencies of our external hedges are the Australian dollar, British pound and United States dollar.

Significant acquisitions are usually funded in the currency of the underlying assets.

On 5 December 2001, we entered into a USD-EUR cross currency interest rate swap that provided a USD 435 million short position to hedge an inter-company loan of USD 256 million and US dollar net investments for the remainder. On 13 December 2004 this transaction was replaced by a USD 256

million USD-EUR floating/floating interest rate swap as a hedge on an inter-company loan. The market value of this instrument at 31 December 2004 was €5 million. On the portion accounted for as a net investment hedge, hedge effectiveness was tested on a quarterly basis and was fully effective. Realised gains on the net investment hedge have been recorded in the cumulative translation adjustment account within equity.

Apart from currency contracts described in this section and the next section, no other foreign exchange related instruments were outstanding as of 31 December 2004.

As of 31 December 2004 and 2003, the net fair values of our foreign currency hedging instruments were approximately €15 million and €141 million, respectively. The potential loss in fair value for these instruments from an adverse 10% change in quoted foreign currency exchange rates would have been approximately €69 million and €87 million for 2004 and 2003, respectively. At 31 December 2004, a hypothetical uniform 10% strengthening in the value of the euro relative to the currencies in which our transactions were denominated would have resulted, net of hedging settlements, in a decrease in external revenues of approximately €396 million for the year ending 31 December 2004. The comparable amount in the prior year was €367 million. This calculation assumes that each exchange rate would change in the same direction relative to the euro.

### INTEREST RATE RISK

We incur debt to support business operations, including capital expenditures and working capital requirements. We may use instruments such as interest rate swaps and forward rate agreements to alter the interest rate profile of this debt.

In December 2004, we unwound USD 200 million of outstanding interest rate swaps on which we were receiving fixed interest and paying floating interest and also unwound a USD 435 million cross currency fixed/fixed interest rate swap which created a short position against the euro and that was hedging USD assets. This resulted in a net profit of €11 million accounted for as interest and similar income.

In December 2004, we entered into €300 million of interest rate swaps whereby we receive fixed interest and pay floating interest. These interest rate swaps act as a hedge against the fair value interest rate risk of our 5.125% December 2008 Eurobond. The market value of these instruments amounted to negative €1 million as of 31 December 2004.

Our debt instruments, including debt associated with capital leases that bear interest at fixed rates of interest are exposed to fluctuations in fair value resulting from changes in market interest rates. The potential decrease in fair value resulting from a hypothetical 10% shift in interest rates would have been approximately €11 million and €20 million for 2004 and 2003, respectively.

This analysis assumes a parallel shift in each currency's yield curve of interest rates.

See notes 11, 12 and 13 to our consolidated financial statements for more information about our outstanding debt.

#### **COMMODITY RISK**

We lease and own a fleet of vehicles and aircraft to facilitate domestic and international delivery of post, parcel and logistics activities. We are exposed to the risk of an increase in the prices of refined fuels, principally jet and diesel gasoline, that are used in the transportation of the goods we carry. We may enter into derivative financial instruments to hedge our expected consumption.

Although we are of the opinion that increases in price risks should be able to be passed on to our customers, we may use a combination of options, swaps and futures contracts to provide some protection against rising fuel and energy prices.

At 31 December 2004, we had no outstanding fuel contracts but may enter into such contracts in the future.

#### **CREDIT RISK**

Credit risk represents the loss that we would incur if counterparties with whom we enter into operational and financial transactions were unable to fulfil the terms of the agreements. We attempt to minimise our risk exposures on financial transactions discussed above by limiting our counterparties to (large) banks and financial institutions that meet established credit guidelines and by limiting our exposure to any counterparty. We continually monitor the credit standing of operational and financial counterparties and re-assess such exposures.