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# INFORMATION

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# COMPANY

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## GROUP BUSINESS DESCRIPTION

### GENERAL

TNT N.V. is a public limited liability company and was incorporated under the laws of the Netherlands on 29 December 1997. We changed our name from TNT Post Group N.V. to TPG N.V. on 6 August 2001 and from TPG N.V. to TNT N.V. on 11 April 2005. Our registered office's address is Neptunusstraat 41-63, 2132 JA Hoofddorp, the Netherlands. Our telephone number is +31 20 500 6000. We are a holding company. We were formed in connection with the consummation of a demerger transaction pursuant to which our former parent company, Koninklijke PTT Nederland N.V. (KPN), demerged its mail, express and logistics divisions. Although the demerger became effective on 28 June 1998, its arrangements were effective retroactive to 1 January 1998.

We provide a wide range of mail, express, freight management and logistics services worldwide, although we are discontinuing most of our logistics business. Our services involve the collection, storage, sorting, transport and distribution of a wide variety of items for our customers within specific time-frames, and related data and document management services.

Although TNT N.V. has existed as an independent company only since 1998, our history goes back over a much longer period of time. The roots of our mail division stretch back more than 200 years and are firmly embedded within the operations of Royal TPG Post B.V. Our express business has been meeting the need for time-sensitive door-to-door delivery services for 60 years.

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

We are subject to the Enabling Act, as last amended by act of 1 November 2001. Pursuant to the Enabling Act in connection with the Dutch Postal Act, we have been granted the Postal Concession, which is performed by our subsidiary Royal TPG Post B.V. See chapters 3 and 13. Pursuant to the Enabling Act we are furthermore subject to the full large company regime. See for more details chapter 7.

The State of the Netherlands is our largest shareholder, owning approximately 10% of our outstanding ordinary shares. The State of the Netherlands furthermore has always held

and holds a special share that gives it the right to approve certain decisions that lead to fundamental changes in our group structure.

We are currently listed on the Amsterdam, New York, London and Frankfurt stock exchanges. On 20 February 2006 we announced our intention to delist from the London and Frankfurt stock exchanges in the first half of 2006, as the costs and requirements for these listings are not justified by the low trading volume in our shares at both stock exchanges.

### MISSION AND STRATEGY

Our mission is to exceed customers' expectations in the transfer of their goods and documents around the world. We seek to deliver value to our customers by providing the most reliable and efficient solutions in distribution and network management. We seek to lead the industry by:

- instilling pride in our people,
- creating value for our shareholders, and
- sharing responsibility for our world.

In December 2005, we announced a refined strategy to focus on what we do best: providing delivery services by expertly managing transportation networks for providing delivery services. This refined strategy is focussed and decisive; we believe it contains manageable execution risks and is based on our core strength. The objective is to achieve profitable growth. Three key elements guide the way forward:

- focus on our core capability: providing delivery services by expertly managing a portfolio of networks, in particular delivery networks, in mail (both in the Netherlands and a number of other core European markets), express, and network logistics in Europe and Asia, where we believe our competitive advantage can be sustained and enhanced, and shareholder value can be created. We aim to accelerate growth in the networks organically as well as through selected acquisitions. In addition to our home market in Europe, further growth is targeted from Asia via development of a cross-border road network in South-east Asia and expansion of domestic road networks in China and India. In the future, we intend to expand the strategy by developing a European standard parcels service offering,
- exit most of our logistics activities, as these do not fit with our core capability of managing networks. Logistics characteristics are quite different from the network businesses of express and mail. Contract logistics is a business that demands high project management skills for each contract, rather than for the business as a whole. Solutions are generally unique to each customer. Over the last few years, margins in the contract logistics industry have continued to decline. Creating a sustainable competitive cost advantage is not easy. Given that TNT has not yet been able to reach the break-even point relative to the cost of capital, we intend to exit the largest part of the logistics division (non-network logistics, accounting for €3.6 billion of revenues in 2005). We plan to retain

the network logistics businesses, consisting of freight management and innight services, and to integrate them into the express division, and

- our strong and predictable cash flow from the network strategy should allow us to optimise our capital structure whilst maintaining sufficient headroom for future growth opportunities. The long term capital strategy is to maintain our investment grade credit rating. As a result we are executing an open-market €1 billion share buy back programme (amounting to approximately 42.6 million shares) announced and started on 6 December 2005 and, subject to unforeseen events, we have the intention to use the cash proceeds from the sale of our discontinued logistics operations to make further share repurchases, pay dividends or invest in compelling value creating opportunities.

Based on our refined strategy we will now manage our business through two divisions: mail and express, with the express division including both our express and our freight management businesses. The parts of our former logistics division that we intend to exit are reported as discontinued operations/assets held for sale. Optimisation of our organisation will be considered during 2006.

## REBRANDING

To highlight the increasing internationalisation of our company, we changed the statutory name of our company to TNT N.V. On 7 April 2005, our annual general meeting of shareholders approved this change, and the name change came into effect on 11 April 2005. We intend to operate globally under the TNT brand for all our activities in the course of 2006. Operating under one brand increases the recognition of our group worldwide and allows for more efficient communication on the services we provide.

In the Netherlands, we currently offer our postal services mainly under the brand TPG Post. We recently started changing this to TNT Post. Royal TPG Post B.V. will officially change its name to Royal TNT Post B.V. in the autumn of 2006. We have been granted the right to affix the designation "Royal" to our subsidiary TNT Post B.V. after the name change. We presently offer postal services in eight European countries, partly under the name TNT. Starting in 2006, all our international postal activities will be rebranded to TNT. The change of our name is being accompanied by a change of colour to orange for the remainder of the group.

## SEASONALITY

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

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

Our freight management business shows a pattern whereby the second half of the financial year is consistently better than the first half, and in particular the last quarter (October through December) is the best quarter of the year.

## MARKET TRENDS

We believe that globalisation is one of the major trends driving the world economy. We believe that globalisation will continue, but it will affect our divisions in different ways.

In the mail industry, operators are still organised on largely national lines. However, with European Mail Networks and other international ambitions, we seek to establish a leading international position in mail. Consolidation in this industry has not yet happened, however with the entry of private equity into the industry in 2005, future changes in the landscape are possible.

In the express industry, we see that the majority of flows of documents and parcels remain within continental boundaries. Thus, our strategy is to build operational excellence within regions, particularly within Europe and Asia. As we expand our position in Asia we intend to also build leading connectivity between Europe and Asia.

In the freight management industry, we have observed that the flow of goods continues to grow in all regions, including China and emerging markets. Thus, our strategy is to continue to expand our global network in all regions, particularly Asia.

## OUR COMMITMENT TO COMMUNITY

### Governance

We are committed to good corporate governance. We have embraced the spirit of corporate governance reform, which resulted in our ranking as the company with the best compliance with the Dutch corporate governance code according to the Dutch Investor's Association (VEB) on 9 December 2005. We have procedures and policies covering whistleblowing, auditor independence and U.S. Sarbanes-Oxley Act of 2002 (the Sarbanes-Oxley Act) compliance, under the supervision of our audit committee. See chapter 7.

### Social and environmental impact

We strive to improve the social and environmental impact of our business on communities around the world. We aspire to help people realise their potential and to meet the needs of the current generation, without producing a poorer world for future generations. See chapter 8.

### Corporate philanthropy

We have established a strategic partnership with the United Nations World Food Programme (WFP), in which we share resources and know-how in the fight against hunger. This partnership is described in more detail in chapter 8.

### Environment

We are committed to protecting the environment. This includes promoting the reduction of emissions through efficient

route planning, the use of cleaner alternative fuels and the replacement of road vehicles and aircraft by cleaner versions. In 2005, we again increased the coverage of ISO 14001 certified environmental management systems and entered the Dow Jones Sustainability Index as leader of the industrial transportation industry. We report our progress in our annual corporate social responsibility report, which, although not part of this report, can be viewed on our website, group.tnt.com.

### Reputation

We seek to maintain transparency. This was recognised in 2004 by TNT winning the prestigious Henri Sijthoff prize for

the best annual report in the Netherlands. We also won the award for the best corporate website, issued by the Dutch leading financial newspaper in 2004. Our 2004 annual report furthermore ranked 9th in the yearly global annual report ranking as prepared by e.com and was voted one of the best edited and designed Dutch annual reports by the Graphic Culture Foundation. According to webranking 2005, published by the Financial Times, the TNT website ranked as best corporate website in Europe in 2005. Furthermore, we ranked first in our sector for investor relations in the 2005 Thomson Extel pan-European survey.

## GROUP FINANCIAL REVIEW

As at and for the year ended at 31 December

|  | 2005          |               | 2004 <sup>1</sup> |
|--|---------------|---------------|-------------------|
|  | US\$          | €             | €                 |
| <b>Segmental operating revenues <sup>2</sup></b>     |               |               |                   |
| Mail   | 4,718         | 3,984         | 3,892             |
| Express  | 6,317         | 5,334         | 4,923             |
| Freight management                                   | 934           | 789           | 279               |
| Non-allocated and inter-company                      | (2)           | (2)           | 12                |
| <b>Total operating revenues <sup>3</sup></b>         | <b>11,967</b> | <b>10,105</b> | <b>9,106</b>      |
| Depreciation, amortisation and impairments           | 379           | 320           | 303               |
| Total operating income                               | 1,372         | 1,159         | 1,116             |
| as % of total operating revenues                     | 11.5          | 11.5          | 12.3              |
| Profit/(loss) from discontinued operations           | (131)         | (111)         | 31                |
| Profit attributable to the shareholders              | 780           | 659           | 752               |
| Capital expenditure on property, plant and equipment | 276           | 233           | 225               |

(in millions, except percentages)

<sup>1</sup> Comparative figures have been adjusted to reflect the transfer of innight services from our discontinued logistics business to express in 2005.

<sup>2</sup> For net sales by geographic area see note 33 to our consolidated financial statements.

<sup>3</sup> Includes net sales and other operating revenues. See note 16 and 17 to our consolidated financial statements.

In 2004 we prepared our consolidated financial statements in accordance with Dutch GAAP. As of 2005 all European listed companies are required to prepare their consolidated financial statements in accordance with IFRS as adopted by the European Union. For TNT, there are no differences between the IFRS as adopted by the European Union and the IFRS as issued by the International Accounting Standards Board. As a result our 2005 consolidated financial statements have been prepared in accordance with IFRS and the comparative 2004 data has been adjusted. A detailed explanation of the transition to IFRS and the impact on our financial data is given in chapter 12.

Since we are a non-US company that is a first time adopter of IFRS, the SEC has permitted us to present one year of comparative data instead of the normally required two years of comparative data.

In 2005, we had total operating revenues of €10,105 million. Our mail division accounted for 39.4% of our group operating revenues and 67.0% of our group operating income. Our express division consists of two segments: express and freight management. The express business accounted for 52.8% of our group operating revenues and 40.9% of our group operating income and the freight management business accounted for 7.8% of our group operating revenues and 0.9% of our group operating income.

The information in chapters 2, 3, 4, 5 and 11 should be read in combination with our consolidated financial statements which can be found in chapter 12.

Key factors that affect our results of operations include:

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

Our mail and express businesses provide services to customers and account for revenues for those services on a daily basis.

Results of operations are therefore influenced by the average number of working days in a year.

We use total revenues, i.e. net sales plus other operating revenues, to assess the performance of our business. We believe that other operating revenues, which consist primarily of rental income from temporarily leased-out property, are a recurring element and we allocate them to our businesses when reviewing their performance.

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

## RESULTS OF OPERATIONS

Year ended at 31 December

| Consolidated group results                                  | 2005         |              | variance<br>% | 2004         |
|---|--------------|--------------|---------------|--------------|
|   | US\$         | €            |               | €            |
| Total operating revenues                                    | 11,967       | 10,105       | 11.0          | 9,106        |
| Other income  | 45           | 38           | 375.0         | 8            |
| Total operating expenses                                    | (10,640)     | (8,984)      | (12.3)        | (7,998)      |
| <b>Total operating income</b>                               | <b>1,372</b> | <b>1,159</b> | 3.9           | <b>1,116</b> |
| as % of total operating revenues                            | 11.5         | 11.5         |               | 12.3         |
| Net financial expense                                       | (7)          | (6)          | 66.7          | (18)         |
| Income taxes  | (450)        | (379)        | (1.1)         | (375)        |
| <b>Results from investments in associates</b>               | <b>(2)</b>   | <b>(2)</b>   |               | <b>(2)</b>   |
| <b>Profit for the period from continuing operations</b>     | <b>913</b>   | <b>772</b>   | 7.1           | <b>721</b>   |
| Profit/(loss) from discontinued operations                  | (131)        | (111)        |               | 31           |
| <b>Profit for the period</b>                                | <b>782</b>   | <b>661</b>   | (12.1)        | <b>752</b>   |
| Attributable to:  |              |              |               |              |
| Minority interests  | 2            | 2            |               | 0            |
| <b>Shareholders</b>   | <b>780</b>   | <b>659</b>   | (12.4)        | <b>752</b>   |
| Earnings per ordinary share (in cents) <sup>1</sup>         | 171.7        | 145.0        | (8.7)         | 158.9        |
| Earnings per diluted ordinary share (in cents) <sup>2</sup> | 170.9        | 144.4        | (9.0)         | 158.7        |

(in millions, except percentages and per share figures)

<sup>1</sup> In 2005 based on an average of 454,367,662 of outstanding ordinary shares (2004: 473,387,568). See note 29.

<sup>2</sup> In 2005 based on an average of 456,360,619 of outstanding diluted ordinary shares (2004: 473,980,149). See note 29.

Year ended at 31 December

| Operating revenues by segment   | 2005          |               | variance<br>% | 2004 <sup>1</sup> |
|---------------------------------|---------------|---------------|---------------|-------------------|
|                                 | US\$          | €             |               | €                 |
| Mail                            | 4,718         | 3,984         | 2.4           | 3,892             |
| Express                         | 6,317         | 5,334         | 8.3           | 4,923             |
| Freight management              | 934           | 789           | 182.8         | 279               |
| Non-allocated and inter-company | (2)           | (2)           | (116.7)       | 12                |
| <b>Total operating revenues</b> | <b>11,967</b> | <b>10,105</b> | 11.0          | <b>9,106</b>      |

(in millions, except percentages)

<sup>1</sup> Comparative figures have been adjusted to reflect the transfer of inight services from our discontinued logistics business to express in 2005.

Year ended at 31 December

| Other income by segment   | 2005      |           | variance<br>% | 2004 <sup>1</sup><br>€ |
|---------------------------|-----------|-----------|---------------|------------------------|
|                           | US\$      | €         |               |                        |
| Mail                      | 31        | 26        | 225.0         | 8                      |
| Express                   |           |           |               |                        |
| Freight management        |           |           |               |                        |
| Non-allocated             | 14        | 12        |               |                        |
| <b>Total other income</b> | <b>45</b> | <b>38</b> | 375.0         | <b>8</b>               |

(in millions, except percentages)

<sup>1</sup> Comparative figures have been adjusted to reflect the transfer of innight services from our discontinued logistics business to express in 2005.

Year ended at 31 December

| Operating income by segment   | 2005         |              | variance<br>% | 2004 <sup>1</sup><br>€ |
|-------------------------------|--------------|--------------|---------------|------------------------|
|                               | US\$         | €            |               |                        |
| Mail                          | 920          | 777          | (3.6)         | 806                    |
| Express                       | 561          | 474          | 26.4          | 375                    |
| Freight management            | 13           | 11           | 8.3           | 6                      |
| Non-allocated                 | (122)        | (103)        | (45.1)        | (71)                   |
| <b>Total operating income</b> | <b>1,372</b> | <b>1,159</b> | 3.9           | <b>1,116</b>           |

(in millions, except percentages)

<sup>1</sup> Comparative figures have been adjusted to reflect the transfer of innight services from our discontinued logistics business to express in 2005.

## GROUP OVERVIEW

Total operating revenues increased by 11.0% in 2005 compared to 2004. Operating income increased by 3.9%, mainly due to an increase in our express business.

In our mail business, operating revenues increased by 2.4% in 2005, mainly due to substantial addressed volume growth in European Mail Networks, partly offset by the continued decrease in addressed Mail Netherlands volumes (-3.1%). These volumes continued to decline resulting from competition and substitution. Our mail business in the Netherlands is focused on service quality and margin to defend its market position. Operating income of our mail business decreased by 3.6%. This decrease is mainly due to a structural cost increase in salaries and social security contributions in Mail Netherlands, partly offset by continued progress in improving productivity and cost control in Mail Netherlands and expansion of European Mail Networks.

Our express business achieved 8.3% higher operating revenues compared to 2004, mainly due to continued growth in its international businesses. Express operating income increased by 26.4%, primarily due to good volume growth, particularly in the international business across all customer segments, good cost control, including increased utilisation of the European networks, and continued yield improvements.

The operating revenues and operating income of our freight management business for 2005 regard the full year and are therefore not comparable to 2004, which only includes the financial results realised after the date of the acquisition of

the freight management business in August 2004. Our freight management operating revenues grew in all regions. Growth in air and ocean volumes contributed positively to operating revenues.

## GROUP OPERATING REVENUES

Total operating revenues increased by €999 million (11.0%) to €10,105 million compared to 2004. Our mail business contributed an increase of €92 million, our express business €411 million and our freight management business €510 million, to this growth.

Organic growth, defined as the growth calculated against 2004 foreign exchange rates and excluding the effect from the first time consolidation of acquisitions and the deconsolidation of disposals, was responsible for 4.7% of total group operating revenues growth, acquisitions accounted for 5.9%, and 0.4% was attributable to favourable changes in foreign exchange rates.

## GROUP OPERATING EXPENSES

Year ended at 31 December

| Operating expenses                              | 2005          |              | variance<br>% | 2004<br>€    |
|---|---------------|--------------|---------------|--------------|
|   | US\$          | €            |               |              |
| Cost of materials                               | 483           | 408          | 19.3          | 342          |
| Work contracted out and other external expenses | 4,970         | 4,196        | 18.0          | 3,557        |
| Salaries and social security contributions      | 4,042         | 3,413        | 5.1           | 3,248        |
| Depreciation, amortisation and impairments      | 379           | 320          | 5.6           | 303          |
| Other operating expenses                        | 766           | 647          | 18.1          | 548          |
| <b>Total operating expenses</b>                 | <b>10,640</b> | <b>8,984</b> | <b>12.3</b>   | <b>7,998</b> |

(in millions, except percentages)

Total operating expenses increased by €986 million (12.3%) to €8,984 million compared to 2004. Overall, the organic growth in operating expenses was 5.3%, the increase due to acquisitions effective in 2004 (including Wilson, Prime Vision B.V., Seducom B.V. and our joint venture with Essent N.V., named Cendris BSC Customer Contact B.V.) and in 2005 (including Euro Mail B.V., Door-to-Door d.o.o., Asinus d.o.o. and assets of Rheinkurier GmbH) was 6.6%. Changes in foreign exchange rates had a positive effect of 0.4%. Our gross margin, defined as total operating income as a percentage of total operating revenues, decreased from 12.3% in 2004 to 11.5% in 2005.

Total cost of materials increased by €66 million (19.3%) compared to 2004. Organically, cost of materials increased by €65 million (19.0%), mainly due to higher fuel costs in our express division. Acquisitions effective in 2004 and 2005 contributed €1 million (0.3%) to the increase.

Work contracted out and other external expenses relate to fees paid for subcontractors, external temporary staff, rent and leases. Total work contracted out and other external expenses increased by €639 million (18.0%) compared to 2004. Acquisitions effective in 2004 and 2005 contributed €409 million (11.5%) to the increase. The organic increase of €209 million (5.9%) was mainly related to growth of European Mail Networks in our mail business and higher linehaul, pick-up, and delivery costs in our express business. Changes in foreign exchange rates contributed €21 million (0.6%) to the increase.

Salaries and social security contributions increased by €165 million (5.1%) compared to 2004. Acquisitions effective in 2004 and 2005 contributed €67 million (2.1%) to the increase. Salaries and social security contributions increased organically by €88 million (2.7%), mainly due to higher pension costs. Furthermore, during 2004 there was a positive effect from the settlement for future wage guarantees which resulted in a €134 million refund from an insurance company. In addition, the increase was caused by a 5% increase in average full-time employee equivalents (FTEs) as a result of organic growth in our express business, partly offset by lower costs due to a decline in FTEs in our mail business in connection

with our cost flexibility programme. The trend of replacing more expensive labour with less expensive labour to reduce operating costs in our mail division continued in 2005. Changes in foreign exchange rates added €10 million (0.3%) to these cost increases.

Depreciation, amortisation and impairments increased by €17 million (5.6%) compared to 2004. Acquisitions effective in 2004 and 2005 increased these costs by €19 million (6.3%) and changes in foreign exchange rates contributed €1 million (0.3%) to the increase. The cost increases were offset by an organic decrease of €3 million (-1.0%).

Other operating expenses included items such as marketing expenses, restructuring costs, insurance costs and various other operating costs. Other operating expenses increased by €99 million (18.1%) compared to 2004. Acquisitions effective in 2004 and 2005 contributed €33 million (6.0%) to the increase. Other operating expenses increased organically by €65 million (11.9%), mainly due to increased consultants costs, and costs in connection with our ongoing tax investigations. Changes in foreign exchange rates added €1 million (0.2%) to the cost increase.

### GROUP OPERATING INCOME

Total operating income for the group was €1,159 million, an increase of 3.9% compared to 2004. Our mail business operating income decreased by 3.6% to €777 million and is further described in chapter 3. Our express business contributed €474 million to the total operating income, which is an increase of 26.4%. Operating income of our freight management segment was €11 million. Our express and freight management businesses are further described in chapter 4.

In 2005, non-allocated operating loss amounted to €103 million. Included in these costs is €61 million for business initiatives, of which €33 million was used to further develop our operations in China. During 2005 we strengthened our China corporate headoffice and started our domestic parcel express business. The remaining €28 million of business initiatives was used for several other strategic projects

(building alliances with other organisations and postal operators, the TNT-I project, rebranding costs of non-TNT branded organisations into the TNT brand and a cost efficiency project for lean warehousing). Costs made to support the United Nations World Food Programme (WFP) were €9 million; including costs for knowledge transfer, hands-on support, raising awareness and funds for the WFP and cash donations. The other costs were €45 million, representing an increase of €21 million compared to 2004. This increase mainly related to costs made for tax investigations, which amounted to €23 million compared to €13 million in 2004

and to costs for the uninsured part of the damage caused by major fires in three warehouses, one in the United States, one in Spain and one in the United Kingdom, and employer liability in the United Kingdom. These costs were partly offset by the gain on the sale of Global Collect B.V. (€12 million).

Acquisitions effective in 2004 and 2005 had a positive effect of €9 million (0.8%) on our operating income in 2005. Foreign currency movements during the year had a positive effect of €5 million (0.4%) on our operating income.

## GROUP FINANCIAL INCOME AND EXPENSES

Year ended at 31 December

| Net financial (expense)/income | 2005       |            | variance<br>% | 2004<br>€   |
|--------------------------------|------------|------------|---------------|-------------|
|                                | US\$       | €          |               |             |
| Interest and similar income    | 136        | 115        | 16.2          | 99          |
| Interest and similar expenses  | (143)      | (121)      | (3.4)         | (117)       |
| <b>Net financial expense</b>   | <b>(7)</b> | <b>(6)</b> | 66.7          | <b>(18)</b> |

(in millions, except percentages)

### Interest and similar income: 115 million (2004: 99)

Interest and similar income in 2005 of €115 million (2004: 99) mainly relates to interest income on funding our discontinued logistics business of €72 million (2004: 66) and the interest of €21 million relating to an income tax refund. The interest income in 2004 also relates to a one-off gain of €11 million on the unwind of a US dollars 435 million swap.

### Interest and similar expenses: 121 million (2004: 117)

In 2005 interest and similar expenses of €121 million mainly relates to interest expense on funding from our discontinued logistics business of €21 million (2004: 18), interest expense on long term borrowings of €54 million (2004: 61), and expenses on our outstanding hedge transactions of €23 million (2004: 9).

## GROUP INCOME TAXES

Year ended at 31 December

| Income taxes              | 2005       |            | variance<br>% | 2004<br>€  |
|---------------------------|------------|------------|---------------|------------|
|                           | US\$       | €          |               |            |
| Current tax expense       | 401        | 338        | (2.0)         | 345        |
| Changes in deferred taxes | 49         | 41         | 36.7          | 30         |
| <b>Total income taxes</b> | <b>450</b> | <b>379</b> | 1.1           | <b>375</b> |

(in millions, except percentages)

Group income taxes amounted to €379 million, an increase of 1.1% compared to 2004. Our effective tax rate for 2005 was 32.9% compared to 34.2% for 2004. The effective tax rate was positively influenced by the decrease in statutory income tax rate in the Netherlands from 34.5% in 2004 to 31.5% in 2005.

The total accumulated losses that were available to carry forward at 31 December 2005 amounted to €662 million (2004: 627). With these losses carried forward, future tax benefits of €211 million (2004: 202) could be recognised.

Tax deductible losses give rise to deferred tax assets at the statutory rate in the relevant country. We recognise deferred tax assets if it is probable that they will be realised in the foreseeable future. The probability of the realisation is impacted by uncertainties regarding the utilisation of such benefits, for example as a result of the expiry of tax losses carried forward and legislative changes. As a result we have not recognised €140 million (2004: 123) of the potential future tax benefits and have recorded net deferred tax assets of €71 million at the end of 2005 (2004: 79).

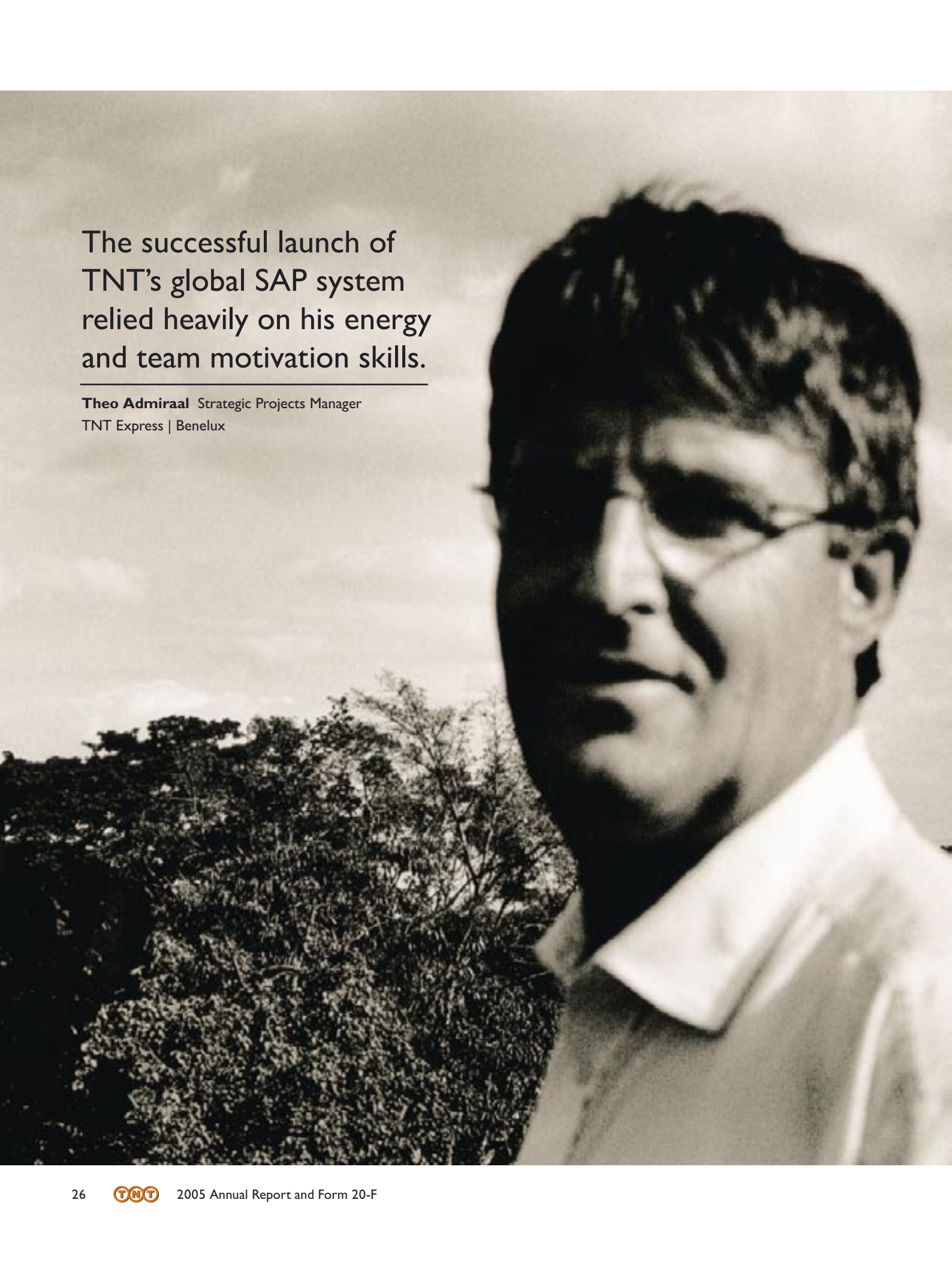
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### **DISCONTINUED OPERATIONS**

In 2005, the loss from discontinued operations was €111 million. Included in this was the pre-tax result of the sale transaction of the French logistics activities amounting to €102 million. Losses relating to our operations in France, including restructuring expenses, amounted to €52 million. The operating income for the remainder of our discontinued logistics business amounted to €136 million, offset by €63 million of net financial expense and €30 million of income tax expense. The discontinued operations are further described in chapter 5.

### **GROUP NET INCOME**

In 2005, profit for the period attributable to shareholders was €659 million, a decrease of €93 million (12.4%) compared to 2004. This decrease was mainly the result of an increase in loss from discontinued operations of €142 million and €4 million higher income taxes. The decrease in profit for the period was partly offset by an increase in operating income of €43 million, mainly driven by our express business, and a reduction of net financial expenses of €12 million.



The successful launch of  
TNT's global SAP system  
relied heavily on his energy  
and team motivation skills.

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**Theo Admiraal** Strategic Projects Manager  
TNT Express | Benelux