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## ORANGE ON THE INSIDE

The employees depicted in this annual report have, through their individual actions and team efforts, made an extraordinary contribution to TNT's success as a company. They have exhibited all the best aspects of our company's personality in the course of making their contribution. We call this "orange on the inside". To TNT, orange is more than a colour. It is an idea, a feeling, an attitude and a way of doing things. The employees in this annual report and their colleagues around the world are "orange on the inside".

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## PRESENTATION OF INFORMATION AND EXCHANGE RATES

Unless otherwise specified or the context requires otherwise, “us”, “we”, “our”, “TNT” and the “company” refer to TNT N.V. and all its group companies as defined in article 24b, part I, book 2 of the Dutch Civil Code.

References to “dollars”, “US dollars” and “\$” are to United States dollars. References to “euro” and “€” are to the currency introduced at the start of the second stage of the Economic and Monetary Union pursuant to the Treaty establishing the European Economic Community as amended by the Treaty on the European Union. Our financial statements are reported in euro.

In 2004 we prepared our consolidated financial statements in accordance with accounting principles generally accepted in the Netherlands (Dutch GAAP). As of 2005, all European listed companies are required to prepare their consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. As a result our 2005 consolidated financial statements have been prepared in accordance with IFRS, and the comparative 2004 data has been adjusted to IFRS. For TNT, there are no differences between the IFRS as adopted by the EU and the IFRS as issued by the International Accounting Standards Board. A detailed explanation of the transition to IFRS and the impact on our financial numbers is given in chapter 12. For a description of the differences between IFRS and US GAAP that affect the reconciliation of our IFRS net income and shareholders’ equity to those under US GAAP, see note 34 to our consolidated financial statements.

US dollar amounts presented are unaudited and have been translated solely for your convenience from euro into US dollars at an exchange rate of \$1.1842 per €1.00, the noon buying rate in the City of New York on 30 December 2005 for cable transfers as certified by the Federal Reserve Bank of New York. We do not represent that the US dollar amounts presented in the US dollar convenience translations or any amounts translated from euro into any other currency could have been converted from euro at the rates indicated. Historical exchange rate information can be found in chapter 15, page 212.

## SELECTED FINANCIAL DATA

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

The selected consolidated financial income statements data for the year ended 31 December 2005 and 2004 and the selected consolidated financial balance sheets data as at 31 December 2005 and 2004 have been derived from our audited consolidated financial statements and the related notes included in chapter 12 of this report. The selected consolidated financial data in accordance with US GAAP for 2005 has been derived from our audited consolidated financial statements. Prior year’s US GAAP selected consolidated financial data have not been adjusted to reflect the impact of our discontinued logistic business, other than the disposal of our French logistics business.

We have acquired a number of companies and businesses during the years, that are included in the following financial data, which limits the comparability of our year-on-year figures.

Selected financial data	2005		2004
	US\$	€	€
<b>INCOME STATEMENT</b>			
<b>Total revenues</b>	<b>11,967</b>	<b>10,105</b>	<b>9,106</b>
<b>Other income</b>	<b>45</b>	<b>38</b>	<b>8</b>
Salaries and social security contributions	(4,042)	(3,413)	(3,248)
Depreciation, amortisation and impairments	(379)	(320)	(303)
Other expenses	(6,219)	(5,251)	(4,447)
<b>Total operating expenses</b>	<b>(10,640)</b>	<b>(8,984)</b>	<b>(7,998)</b>
<b>Total operating income</b>	<b>1,372</b>	<b>1,159</b>	<b>1,116</b>
Profit before income taxes	1,363	1,151	1,096
Profit for the period from continuing operations	913	772	721
Profit/(loss) from discontinued operations	(131)	(111)	31
Profit attributable to the shareholders	780	659	752
<b>RATIOS</b>			
Operating margin (%) <sup>1</sup>	11.5	11.5	12.3
Average number of outstanding shares (in millions)	454.4	454.4	473.4
Earnings per ordinary share (in cents) <sup>2</sup>	171.7	145.0	158.9
Earnings from continuing operations per ordinary share (in cents) <sup>2</sup>	200.9	169.5	152.3
Earnings from discontinued operations per ordinary share (in cents) <sup>2</sup>	(28.8)	(24.5)	6.6
Average number of outstanding shares on diluted basis (in millions)	456.4	456.4	474.0
Earnings per diluted share (in cents) <sup>2</sup>	171.7	144.4	158.7
Earnings from continuing operations per diluted share (in cents) <sup>2</sup>	200.1	168.7	152.1
Earnings from discontinued operations per diluted share (in cents) <sup>2</sup>	(28.7)	(24.3)	6.6
Dividend per share (in cents) <sup>3</sup>	74.6	63.0	57.0
Dividend pay-out ratio (%) <sup>4</sup>	43.4	43.4	35.9
<b>BALANCE SHEET</b>			
Non-current assets	4,338	3,663	5,070
Current assets	2,789	2,355	3,159
Assets held for sale	2,816	2,378	
<b>Total assets</b>	<b>9,943</b>	<b>8,396</b>	<b>8,229</b>
Equity	3,883	3,279	3,344
as % of total liabilities and equity	39.1	39.1	40.6
Non-current liabilities	1,904	1,608	2,221
Current liabilities	2,699	2,279	2,664
Liabilities related to assets classified as held for sale	1,457	1,230	
<b>Total liabilities and equity</b>	<b>9,943</b>	<b>8,396</b>	<b>8,229</b>
<b>CASH FLOW STATEMENT CONTINUED OPERATIONS</b>			
Net cash from operating activities	1,165	984	708
Net cash used in investing activities	(314)	(265)	(268)
Net cash used in financing activities	(922)	(779)	(284)
<b>Changes in cash and cash equivalents</b>	<b>(71)</b>	<b>(60)</b>	<b>156</b>
<b>CASH FLOW STATEMENT DISCONTINUED OPERATIONS</b>			
Net cash from operating activities	33	28	250
Net cash used in investing activities	(22)	(19)	(22)
Net cash used in financing activities	22	19	(216)
<b>Changes in cash and cash equivalents</b>	<b>33</b>	<b>28</b>	<b>12</b>

(in millions, unless otherwise stated)

<sup>1</sup> Operating income as percentage of the total revenues.<sup>2</sup> Profit attributable to the shareholders divided by the average number of (diluted) ordinary shares.<sup>3</sup> For 2005 on a proposed basis.<sup>4</sup> Dividend as percentage of earnings per share (EPS).

Selected financial data US GAAP	2005		2004 <sup>1</sup>	2003 <sup>1</sup>	2002 <sup>1</sup>	2001 <sup>1</sup>
	US\$	€	€	€	€	€
Total revenues	15,798	13,341	12,328	11,492	11,364	10,790
Total operating income	1,503	1,269	1,215	866	1,165	926
Profit before income taxes	1,414	1,194	1,135	861	1,059	835
Profit for the period from continuing operations	931	786	739	464	729	476
Profit/(loss) from discontinued operations	(180)	(152)	(25)	(132)	(12)	8
Profit attributable to the shareholders	749	632	714	332	717	484
Profit attributable to minority interest	2	2				
Earnings per outstanding ordinary share (in cents)	164.8	139.1	151.9 <sup>2</sup>	69.9	150.9	101.9
Earnings per outstanding diluted ordinary share (in cents)	164.1	138.5	151.7 <sup>2</sup>	69.8	150.9	101.9
Non-current assets	5,997	5,064	5,006	5,261	5,797	5,521
Current assets	3,948	3,334	3,160	2,858	2,693	2,867
Assets held for sale	14	12				
<b>Total assets</b>	<b>9,959</b>	<b>8,410</b>	<b>8,166</b>	<b>8,119</b>	<b>8,490</b>	<b>8,388</b>
Equity	3,285	2,774	2,641	3,163	3,128	2,653
as % of total liabilities and equity	33.0	33.0	32.3	39.0	36.8	31.6
Non-current liabilities	2,837	2,396	2,602	2,482	2,772	2,855
Current liabilities	3,837	3,240	2,923	2,474	2,590	2,880
Liabilities related to assets classified as held for sale						
<b>Total liabilities and equity</b>	<b>9,959</b>	<b>8,410</b>	<b>8,166</b>	<b>8,119</b>	<b>8,490</b>	<b>8,388</b>

(in millions, unless otherwise stated)

<sup>1</sup> Prior years have been adjusted to reflect the logistics French business that qualifies as discontinued operations under US GAAP.<sup>2</sup> Number of shares used in calculation differ from number of shares used to calculate earnings per share under IFRS. The second tranche of shares repurchased from the State of the Netherlands were accounted for in 2004 under US GAAP and in 2005 under IFRS.



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This annual report constitutes TNT N.V.'s annual report for 2005 in accordance with Dutch regulations. It also forms the basis of our annual report on Form 20-F for the year ended 31 December 2005 for the SEC.

The report of the Board of Management is included in chapter 2 up to and including chapter 5 and chapter 11.

This annual report has been sent in hard copy form to shareholders who have requested to receive a copy and can be viewed on our website: [group.tnt.com](http://group.tnt.com). The information on our website, however, does not form part of this annual report.

TNT N.V. is a public limited liability company incorporated under the laws of the Netherlands currently listed on the Amsterdam, New York, London and Frankfurt stock exchanges.

Investing in our securities involves risk. Carefully consider the risk factors set out in chapter 10 of this annual report.

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**TO GUIDE YOUR READING OF THIS DOCUMENT, PLEASE FIND BELOW A SUMMARY OF EACH CHAPTER'S CONTENTS.**

**CHAPTER 1** contains the CEO letter to our shareholders and all other readers reviewing 2005 and looking forward to 2006.

**CHAPTER 2** discusses high-level information on our company, giving the reader a quick inside look into our strategy and the group operating and financial review and prospects.

**CHAPTERS 3 AND 4** discuss in more detail our mail and express divisions, respectively. Each chapter contains a business overview, the division's strategy, an operational overview and a financial overview. Chapter 3 on mail also gives a short summary of the regulatory environment in which our mail business operates. More comprehensive information on this regulatory environment can be found in chapter 13.

**CHAPTER 5** discusses our discontinued logistics business.

**CHAPTER 6** contains the report of our Supervisory Board.

**CHAPTER 7** discusses corporate governance. This chapter gives an overview of our procedures and the checks and balances that govern the way we manage our company.

**CHAPTER 8** deals with our Business Principles, as well as our social responsibility policy and humanitarian efforts.

**CHAPTER 9** contains our remuneration report. It comprises our remuneration policy and the detailed compensation plan for our Board of Management and Supervisory Board.

**CHAPTER 10** cautions against undue reliance on forward-looking statements and presents an overview of risk factors concerning our company and its business.

**CHAPTER 11** discusses certain financial information for the company, in particular with regard to cash flow, liquidity, capital resources and critical accounting policies.

**CHAPTER 12** contains our financial statements in accordance with IFRS and requirements as prescribed by the SEC, information as required by article 392, part 9, book 2 of the Dutch Civil Code and other financial information.

**CHAPTER 13** discusses in detail the regulatory environment in which our mail business operates.

**CHAPTER 14** contains additional information, including a description of our relationship with the State of the Netherlands and the rights attached to our shares.

**CHAPTER 15** discusses other information of interest to our shareholders, including with respect to the performance of our shares.

**CHAPTER 16** contains a cross reference table specifying where the various items required by Form 20-F can be found in this document.

## Board of Management

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From left to right: Jan Haars, Dave Kulik, Peter Bakker, Harry Koorstra and Marie-Christine Lombard.



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# FROM

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# THE CEO

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## STRATEGY REFINEMENT:

- FOCUS ON NETWORKS,
- SALE OF LOGISTICS, AND
- €1 BILLION SHARE BUY BACK PROGRAMME.

## DEAR SHAREHOLDERS,

Last year - 2005 - was an important year for TNT. Following a strategic review that started end 2004, we decided to focus on what we do better than anyone else: expertly managing transportation networks for providing delivery services. This focus on networks is founded on three fundamental pillars:

- a network-based business is attractive intrinsically because greater volume leads to lower costs and service enhancement for our customers,
- we - at TNT - have a superior network performance based on strong management capabilities, one of the best network infrastructures in Europe and an intense focus on customer service, and
- we - at TNT - will be in the position to leverage our portfolio of mail and express networks to take advantage of the increasing numbers of customers who are using multiple products.

We believe that this focus will result in faster growth and a higher yield for our shareholders. The refined strategy we announced in December 2005 means we move forward as a mail and express company, with company-owned operations in 60 countries around the world and activities in more than 200 countries. It also means we will exit the logistics business. As the first mail company to roll out mail networks abroad and the first express operator to establish an integrated road and air network in Europe, we have established a firm track record of being first movers in setting up delivery networks. Our networks provide unrivalled service quality to our customers, and have provided industry-leading profit margins for our shareholders. Our focus strategy will make us build on that track record to strive to become the first pan-European mail company. After becoming the number one express company in Europe, in the next few years we will focus on achieving the same in key emerging markets, like Brazil, Russia, India and China.

In our mission statement, we mention four main groups of stakeholders: customers, employees, shareholders and the world. We structure our annual review by looking at what we were able to do for these groups.

### OUR CUSTOMERS

As for any company, TNT's success lies first and foremost in the satisfaction of our clients. That is why we started our first global customer satisfaction survey in 2005, involving a random sample of customers from each of our operations. The results of this satisfaction survey show that 89% of our customers were satisfied. At the same time, the average number of our loyal, active weekly trading customers increased by more than

100,000. The bulk of this increase was in express, where we continue to make customer care a key selling point. In a move from a customer-focused to a customer-centric approach, TNT Express focuses on delighting its customers, because this will lead to doing more business with current customers as well as being more often recommended by them to other potential customers.

Our TNT mail networks in the United Kingdom and Germany gained important new customers as well. We achieved high revenue growth in these areas in 2005, for the second year more than compensating for a drop in domestic mail volume in the Netherlands. Customers are clearly appreciating an alternative to the national mail operator services in these countries. TNT Mail now has operations and is growing in five other European countries, positioning us effectively on the road towards our strategic objective of becoming the first pan-European mail company.

In 2005, we started a rebranding process, bringing our entire company under the banner of the TNT brand. As our mail division's activities continue to expand in Europe, this single brand will generate marketing synergies as well as an unequivocal face towards our clients.

We remain committed to increasing the value and service options we offer our customers. Last year we expanded our express road networks in Eastern Europe, the Middle East and China, while launching a new road network in South-east Asia. We are also preparing to add two Boeing 747s in 2006 and 2007 to our air fleet, which will connect our European and Chinese networks.

Our new focus on network management has led us to the planned sale of our contract logistics activities before the end of 2006, excluding our freight management and innight operations, which remain with TNT. In conformity with the new IFRS accounting standards we have adopted for this annual report, this decision means that we report on our non-network logistics as "discontinued operations". We will do everything we can to prevent the sale from having negative consequences for our customers. We will continue to serve them well, and we are sure that they will benefit from working with a company with logistics as its core business once the sale is completed, which we expect to take place before the end of 2006.

### OUR EMPLOYEES

The title of this year's annual report is *Orange on the inside*. We have researched the unique characteristics of the TNT brand, talking to customers, suppliers and employees, and we found a personality grouped around the qualities of *can-do, in-touch and ordinary people*. The employees portrayed in this annual report have all in some way demonstrated these characteristics and all have a story that tells how they, like thousands of their colleagues around the world, live the TNT brand personally. It flows through their veins. In short, they are truly "*orange on the inside*".

The satisfaction of our customers is achieved through the dedication of our employees, by their willingness and ability to go the extra mile and to do whatever is necessary to exceed our customers' expectations. We consider this so important that we have tied the engagement of our employees into our senior management's remuneration scheme. We will be starting a global engagement study in 2006.

In all likelihood, this year will also be the year in which we say farewell to 37,000 logistics colleagues. We owe them sincere thanks, as they have helped to make this company what it is. For myself and on behalf of all their TNT mail and express colleagues, I would like to express our profound appreciation for their contribution and wish them all the best in the future.

### OUR SHAREHOLDERS

Last year was also eventful from our shareholders' point of view. In January, we completed the repurchase of 13.1 million ordinary shares from the State of the Netherlands. The subsequent sale in July of another 43.4 million shares by the State reduced its shareholding in TNT to approximately 10%.

In the summer, it became clear that the performance of our French logistics business had again deteriorated. We announced the intended sale of all our non-contract logistics activities in France at the time of the publication of our half-year results. This sale was recently completed. More than 95% of the employees involved have retained their jobs with that business following the sale.

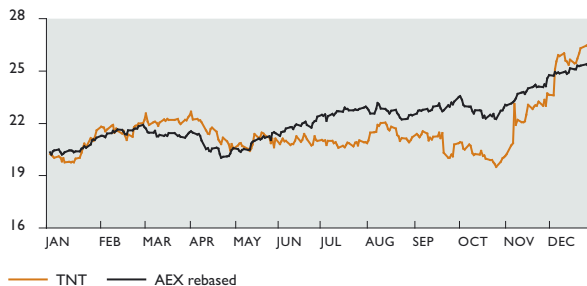
In September, our Supervisory Board audit committee took the lead in our tax investigations analyses. All investigations placed an enormous burden on our company, its management and our Supervisory Board. We are pleased that the integrity investigations are concluded and that the integrity of present and past members of our Board of Management and current senior staff, reporting to the Board of Management, is not in doubt.

In this annual report, we provide clear disclosure of the risks to which our company could be exposed as a result of a range of tax matters. Currently we have concluded that no liability exists beyond what we had already accrued for. Also no assessment by any tax authority related to the matter under the investigation has been received. A contingent liability of between €150 and €550 million has been disclosed as part of our financial statements. It has taken a great deal of time to analyse these issues and their complexity prevented us from estimating their potential impact as soon as we would have liked.

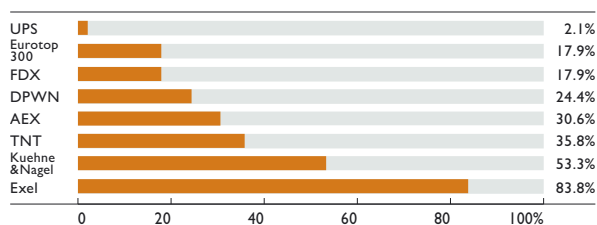
We publicised our refined focus strategy in December. I have already discussed the operational consequences of this refined strategy, but the €1 billion share buy back programme we announced at the same time is likely to be of special interest to our shareholders. We will continue to look for the best capital structure and our aim is to offer attractive returns to our shareholders. The refined strategy was well received by

the financial market, as demonstrated by the 36% increase in our share price at year-end. This means that over the course of 2005, TNT's total shareholder return was up 35.8% from the previous year, well over the AEX average.

**Our relative performance to the Euronext Amsterdam (AEX) at closing prices during 2005 (AEX index rebased to our company).**



**Total shareholder returns in 2005**



Source: Bloomberg Professional (own currency based)

On 12 December 2005 Exel was taken over by Deutsche Post World Net.

In 2006, we will focus on becoming fully Sarbanes-Oxley 404 compliant. While implementing this set of strict governance rules is far from routine, it will enable us to document and prove our governance is in order.

### OUR WORLD

You will have noticed our firm conviction that we do not exist just to generate profits and benefit our customers, our employees and our shareholders. We also wish to operate responsibly in the world in which we live. When we reviewed the results of our stakeholder dialogues we held in cooperation with the World Economic Forum, it was clear that one of the key concerns regarding TNT lies in the impact our activities have on the environment. This has led us to launch a new initiative, Driving Clean, through which we intend to reduce the harmful emissions of our vehicles. We are currently investigating the possibility of retrofitting our current fleet with soot filters, while in the future we intend to only purchase vehicles that conform with Euro 5, years before this environmental standard becomes a legal requirement in 2009.

In September, our efforts in social responsibility led to TNT's entering the Dow Jones Sustainability Index. We were proud to see that in our first year in this index, which lists the best performing sustainability oriented companies in each industry, we were ranked as industry leader. This is a fine basis

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and offers encouragement for further improving our social responsibility performance. We are also proud to publish our second social responsibility report on the same day as our annual report.

We completed a third successful year with our partnership with the United Nation World Food Programme (WFP). Our experience with disaster logistics, developed over the years through our work with WFP, enabled us to react quickly when the tsunami struck Asia end 2004 and continuing well into 2005. Our first people were on-scene in the worst-hit area Banda Aceh within a matter of days. In the end, we were involved in relief operations in 10 disaster-struck countries. We were also able to offer assistance in the aftermath of the earthquake in Pakistan.

### LOOKING FORWARD

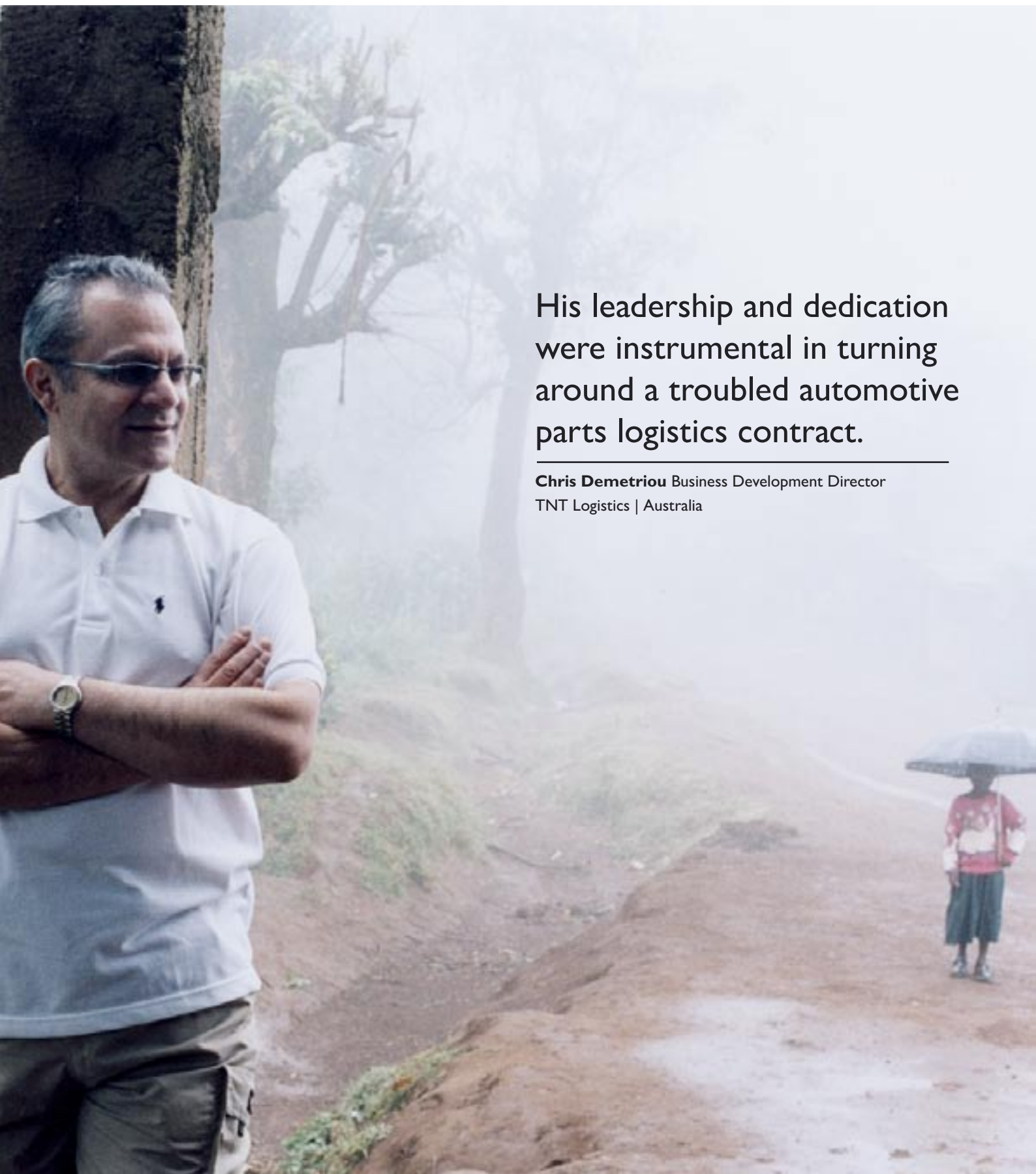
As we go forward as a mail and express company, our focus will be to leverage our skills in managing delivery networks. In December 2005, we revised TNT Mail's (European Mail Network) long term growth target to €1.7 billion at a 10% margin by 2012, and our mid term growth expectation for TNT Express to 10 to 15% annually. We will do everything we can to meet these goals together with optimising our capital structure.

On behalf of the Board of Management, I would like to thank all our stakeholders, customers, employees and shareholders for their ongoing support.

Kind regards,



Peter Bakker,  
CEO



His leadership and dedication were instrumental in turning around a troubled automotive parts logistics contract.

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**Chris Demetriou** Business Development Director  
TNT Logistics | Australia