
THE MAIL

DIVISION

MAIL DIVISION DESCRIPTION

GENERAL

Our mail division provides services for collecting, sorting, transporting and distributing domestic and international mail, including letters, printed matter and parcels, as well as for distributing addressed direct mail and unaddressed mail (i.e. the item of correspondence does not carry an individual address). We also provide a range of data and document management services, including direct marketing and interactive services and services for managing physical and electronic information flows.

Our substantial and lengthy experience in the mail industry has helped us become one of the world's leading postal operators. It also helps us anticipate and respond to our changing market. In addition to providing a world-class mail service, we continue combining our expertise with technology to develop new mail related data and document management services that meet specific consumer and business needs.

Our mail business in the Netherlands is highly regulated. See chapter 13 for more detail. The Dutch Postal Act requires us to provide the mandatory postal services in the Netherlands and grants us the exclusive right to provide some of these services (referred to as reserved postal services). Mandatory postal services are subject to price regulation. In the Netherlands our traditional mail services are declining in volume due to the saturation of the Dutch domestic mail market, growing competition and the substitution by customers of other methods of delivering information. In other countries we may be able to grow our mail services, although substitution is a relevant factor that negatively influences the total size of all domestic mail markets. At the moment our potential growth in other countries is also negatively affected by various barriers, including regulatory, to entry.

Due to our strong position in the Dutch market, mail activities have provided us with a stable source of revenue and income. Dutch and EU regulations prohibit us from using the revenues from reserved postal services to cross-subsidise other activities.

Our mail division is organised in four business lines: Mail Netherlands, Cross-border Mail, European Mail Networks and Data and Document Management, the latter of which we operate under the brand name Cendris.

MAIL STRATEGY

Our ambition is to become the leading provider of business and consumer services for communication, transactions and delivery. We want our mail operations to be recognised as the industry benchmark for quality of service, efficiency and customer service, for producing the best returns in the industry, and for making optimal use of both new technologies and European postal market liberalisation.

Our mail strategy is based on two key elements:

- In Mail Netherlands, focus is on our customers and on the efficiency of our network. We implement our customer centric approach through our sales channels, product development and new business. The price/value strategy together with the implementation of our cost flexibility measures will enable us to retain our current margins. In addition, we continue to offer high service quality and new services to customers that bring cost savings to their production chains.
- Internationally, we continue to expand in attractive markets along two tracks:
 - through an offensive approach we aim to build an alternative postal company to the incumbent operator. Our European Mail Networks business line offers addressed, unaddressed and segmented distribution solutions for letters and direct mail, brochures, leaflets and samples with an excellent price/quality ratio, and
 - through postal alliances we strive to strengthen our position through cooperation with other organisations and postal operators.

These two key elements are supported by the following activities:

- our 51% owned subsidiary G3 Worldwide Mail N.V. (Spring), owned together with Royal Mail Investments Limited, a UK company, and Singapore Post Limited, that offers cross-border mail services on a global scale,
- our national and international parcel activities in the Netherlands and in Belgium that could be expanded in the coming years into more geographic areas, and
- our mail related data, print and document management services, such as direct and interactive marketing services and services for managing physical and electronic information flows.

In 2005 it became clear that our conditional offer for a minority stake in the incumbent national postal operator of Denmark was not accepted. In 2005 we investigated the feasibility of a similar offer to acquire a minority stake in the national postal operator of Belgium, but we decided not to make an offer.

As part of our cooperation with China Post we advised on the optimisation of the China Post transport, sorting and delivery operational structure. We have started to collect data in Shanghai and have built a direct mail company to capitalise on what we expect will be the strong development of the Chinese direct mail market.

In 2005, our mail business earned revenues of €3,984 million, a 2.4% increase compared to 2004. Mail accounted for 39.4% of our group operating revenues and 67.0% of our group operating income.

The following table sets forth operating revenues for each of the four business lines of our mail business, for the past two years:

Year ended at 31 December

Mail operating revenues and other income	2005		2004
	US\$	€	€
Mail Netherlands	3,135	2,647	2,652
Cross-border Mail	610	515	551
European Mail Networks ¹	707	597	484
Data and Document Management ¹	266	225	205
Total operating revenues	4,718	3,984	3,892
as % of total operating revenues TNT		39.4	42.7
Other income	31	26	8

(in millions, except percentages)

¹ Figures for 2004 have been adjusted to reflect the impact of the transfer of Dimar Sro from Data and Document Management to European Mail Networks per 1 January 2005.

MAIL DIVISION OVERVIEW

Mail Netherlands

Our Mail Netherlands business line collects, sorts, transports and delivers postal items, including letters, direct mail, printed matter and parcels within the Netherlands.

Mandatory postal services provided in the Netherlands form part of Mail Netherlands. Our subsidiary Royal TPG Post B.V. (TPG Post) performs these mandatory postal services.

We are required to provide mandatory postal services. The domestic mandatory postal services mainly consist of the conveyance against payment of standard single rates of letters and printed matter, including registered mail, with a maximum individual weight of two kilogrammes and postal parcels with a maximum individual weight of 10 kilogrammes. See chapter 13 for more information.

The provision of certain mandatory postal services is reserved exclusively to us. These domestic reserved postal services include the conveyance of letters weighing up to 50 grammes (100 grammes prior to 1 January 2006) within the Netherlands, the placing of letter boxes alongside or on public roads and the issuance of postal stamps bearing the likeness of the monarch and/or the word "Nederland". The exclusive right does not extend to the conveyance of letters by a business to its customers. Although presently not a widespread practice, large businesses may establish their own alternative distribution systems. This could adversely affect our mail division's revenue.

Certain services are not included in the mandatory services and we are not required to provide these, including the delivery of bulk printed matter such as advertising, magazines and newspapers, the delivery of bulk letters with a weight above 50 grammes and unaddressed mail items. See chapter 13 for more information.

As of 1 January 2006 the weight limit of 100 grammes was reduced to 50 grammes both for reserved postal services and for the mandatory postal services for bulk mail. We believe the impact will not be significant to us.

The full liberalisation of the Dutch market will take place under certain conditions, mainly dependent on developments in the United Kingdom and Germany, see chapter 13. Full liberalisation is not expected before April 2007.

Tariffs for mandatory postal services are required to be transparent, non-discriminatory and uniform. We may, however, grant volume discounts and negotiate specific prices and conditions with high volume users.

In 2005, approximately 28.2% of our mail operating revenue and approximately 11.1% of the group's operating revenues (2004: 28.3% and 12.2%) were derived from reserved postal services in which we generally were not subject to competition. Notwithstanding that other companies are legally precluded by the Postal Concession granted to us by the State of the Netherlands from providing conveyance of items of correspondence that fall under reserved postal services, a small number of these are carried by other providers. We are mindful of this practice, but the effect on volumes is immaterial.

In 2005, through our Mail Netherlands business line, we delivered on average approximately 17 million addressed postal items per day, six days a week, to approximately 7.6 million households and businesses, and collected, sorted and delivered approximately 5.1 billion addressed items of mail (excluding inbound international items).

The actual volume decline was 3.1% in 2005 compared to 2004. The underlying decline of volumes adjusted for a comparable number of working days per year was 2.0%. There has been an average annual decline of 1.8% since 2000.

The decline was due in part to substitution of electronic media (see chapter 10), accelerated by competition. We expect a further decline in addressed mail over the next few years due to the increasing use of electronic mail, electronic bill presentment, reduced frequency of bank statements, competition and other factors.

Except for those services falling within reserved postal services, we face competition in the market in all areas of our mail division. Depending on the type of service, this competition arises from three primary sources:

- dedicated companies specialising in a particular type of postal service,
- specialised distribution units of large Dutch companies, and
- local or regional companies providing a range of postal services in a given geographic area.

In the Netherlands our two main competitors, Sandd B.V. and Selekt Mail Nederland (the latter is owned by Deutsche Post World Net and Dutch publisher Koninklijke Wegener N.V.), in the addressed mail market have both built their own nationwide delivery capability based on a delivery frequency of twice a week. These two main competitors claim to have delivered around 450 million addressed postal items together in 2005, which was around 8% of the total volume of the addressed mail market. We expect that these competitors will continue to grow. Customers choose our services because of our high price/value ratio based on the high effectiveness of the post as a communication medium and our ability to reduce the total chain costs for our customers.

Due to the efficiency of our operations and customer orientation, we do not believe liberalisation in the Netherlands will significantly undermine our position in our traditional home market. However, adjusting to reduced mail volumes will require a continuous and perhaps increased effort to realise cost flexibility.

The marketing approach for Mail Netherlands varies for different market segments. This differentiated approach enables us to increase customer satisfaction together with effectiveness and efficiency improvements. It ranges from physical outlets (post offices) and mass media for consumers and small and medium enterprises, and call centres for larger business to personal selling for key accounts. Internet and new media are increasingly used for all segments. The use of direct mail remains key in all our marketing and sales activities.

Our domestic mail system is presently organised around 11 main sorting centres. Six of these sorting centres are mechanically automated centres developed in recent years and are dedicated to letters and printed matter, three are dedicated to parcels, one to registered mail and one to international mail. At the moment a review of this system is being carried out as part of our cost flexibility programme.

The domestic mail process begins with the deposit of mail by customers at post boxes, post offices and other designated deposit points and the pick-up of mail from customers.

Through a fleet of approximately 4,160 vehicles either owned or leased by us, mail is collected and transported to one of the main sorting centres. After sorting, mail is transported to the main sorting centre in the region of its ultimate destination, where the mail is sorted to the level of an individual round of a mailman, and then it is delivered to one of our approximately 484 mail distribution depots. At the depots, the mail is arranged according to street and house number and door-to-door delivery is then effected by one of our approximately 43,475 deliverers.

In the last few years we have replaced manually arranging the mail according to street and house number with sorting machines ("sequence sorting machines") for small letter mail items, in accordance with our cost flexibility programme. The project started in 2003. The last of the 286 sequence sorting machines was rolled out in October 2005, and the project was finished in November 2005, as planned.

The domestic mail service we provide in our home market in the Netherlands consistently ranks among the most efficient and competitively priced in Europe. Our customers enjoyed a nearly 97% next-day delivery of letters at an overall price that, when corrected for inflation, has actually decreased by nearly 20% since the privatisation of our business in 1989. This is the direct result of our price/value strategy and well above the 95% next-day delivery of letters that is legally required.

Our direct mail business comprises all activities involving distribution within domestic borders of addressed advertising mail and magazines (referred to in the industry as "direct mail"). The vast majority of the delivery of direct mail is not a reserved postal service and is therefore subject to competition. Initially, direct mail was predominantly used by mail-order companies, banks and insurance companies, but recently it is increasingly being used by a wide variety of companies, regardless of size. Prior to 2002, we achieved growth in direct mail volumes due to economic growth in general, our innovative marketing approach and developments in the communications market. Beginning in 2002 and continuing in 2003 and 2004, a decline in direct marketing expenditures, due to slow economic growth and competition with other communications media in the advertising market, negatively affected our direct mail volumes. In 2005 we saw a slight recovery in the addressed direct mail market. We believe that better targeted direct mailings, which have a more limited circulation, may impede future growth in direct mail volumes.

We have maintained our profitability because of our customer focus and a set of cost restructuring measures that are being implemented with great rigour. Through our customer focus we are able to illustrate the effectiveness of post as a communications medium, realise optimal total chain costs for our customers, develop new innovative services and realise high service quality standards. The ability to offer data and

document management services is also a competitive factor. In 2001, we formulated our cost flexibility programme with works council discussions and initial pilots aiming at €320 million of savings on an annualised basis by 2012, compared to our cost levels in 2001. In 2004, we updated this cost flexibility programme with an overhead master plan, and we now expect to achieve annualised cost savings by 2012 of approximately €370 million. In 2005, we achieved aggregate cost savings of €234 million, which was €89 million more than we realised in 2004. The cost saving programme includes a restructuring of the marketing and sales channels and organisation, a restructuring of our overhead and a restructuring of our operations.

The restructuring of the marketing and sales channels includes the optimisation of call centres, the retail network (post offices and service points) and the marketing and sales organisation. The restructuring of our overhead includes the optimisation of staff and support functions. We expect that we will be able to make these changes while maintaining our service and quality levels. The restructuring of operations includes:

- the introduction of mechanically automated sequence sorting of small mail letter items,
- the implementation of a differentiated collective labour agreement for mail deliverers and other postal employees,
- the realisation of further optimised sorting processes,
- a restructuring of the mail depot structure,
- the separation of parcels from other mail delivery activities, and
- a restructuring of operational management structure, back office and support functions.

This redesign of our mail production chain has a particular emphasis on refining our distribution activities and distribution points throughout the Netherlands, such as the installation of the sequence sorting machines.

In 2003, we also introduced the position of mail deliverer: part-time mail deliverer positions that provide the same quality for customers at lower cost and with greater flexibility for the individual and the company. The new mail deliverer positions are particularly attractive to individuals who want to work limited hours but still have the security of a permanent position and pension. At the end of 2005, a total of approximately 7,100 new employees have joined TPG Post as part-time deliverers, and the number continues to grow. Through natural attrition, up to a total of 9,000 full-time equivalent mailman positions is expected to be replaced by part-time mail deliverer positions by the year 2012. By then an additional 5,000 mailman positions will become redundant. We believe that the cost flexibility programme will help us maintain the high quality of service our customers have come to expect, while also maintaining our margins. In 2004 a plan (as part of our existing master plans) was announced to redesign the management structure of the operational activities of our collection, sorting, transport and distribution. This new structure became effective on 1 January 2006.

Included in Mail Netherlands are the results of our 50% interest in Postkantoren B.V., a joint venture with Postbank N.V., a subsidiary of ING Group N.V. Postkantoren B.V. operates a network of approximately 2,100 outlets for the services of one or both partners. This network of outlets, partly self owned and partly in franchise, helps to fulfil our mandatory service obligation to provide a minimum number and regional density of postal outlets, as well as certain other services. Due to the growing use of cash dispensers and the internet for banking and postal services, we are restructuring our outlets: replacing self owned outlets by franchise outlets (usually a shop within a shop). At the end of 2005, the joint venture operated about 285 self owned outlets and about 515 franchise outlets, both offering a full assortment of postal products. Further, Postkantoren B.V. operated over 102 TPG Post Service Points with a full assortment of postal products and about 1,200 TPG Post Service Points, which offer the most important postal products. The core business of Postkantoren B.V. is the distribution of financial and communication services and products (including postal services) to consumers and small businesses throughout the Netherlands. We use the post offices as an outlet for the collection of letters and parcels, the sale of stamps, the delivery of letters and parcels in the event that home delivery is not successful and express post. On behalf of Postbank N.V., Postkantoren B.V.'s self owned and franchise outlets offer counter banking and insurance.

In addition, TPG Post itself operates a network of about 230 TPG Post Business Points, which provide postal services to small and medium enterprises. For the benefit of consumers TPG Post uses more than 1,000 retailers as stamp resellers, which means that we offered the Dutch market a total of more than 3,330 distribution points in 2005.

Mail Netherlands also engages in activities related to philately and produces, issues and distributes Dutch stamps. Mail Netherlands includes real estate business related to our mail process. Other activities of Mail Netherlands are renting out postal boxes, pick-up services for businesses, postal box office/home delivery services, change of address services, mail safekeeping services and postal re-routing services. Also included in this line are loyalty services and advisory services related to direct mail. Some of the innovative services that are offered in Mail Netherlands include "de Digitale Brievenbus" (digital letterbox), a completely digital mail service for large mailers. We launched "de Digitale Brievenbus" in cooperation with the major Dutch retail banks in January 2006. Mail Netherlands also offers digital secure and hybrid mail services.

For various reasons (wrong address, addressee moved, etc.), sometimes mail items distributed by our competitors have to be returned to the sender. In most cases these mail items are found in our post boxes, but still have to be returned by us even though we did not receive the postage paid at collection. After an intensive testing period we entered into an agreement with our most important competitors, Sandd B.V. and Selekt Mail Nederland in November 2005, on the

terms and conditions under which these mail items, although distributed by competitors, are returned to their senders. Other competitors can conclude an agreement with us on the same terms and conditions.

Cross-border Mail

Our Cross-border Mail business line offers a range of services to individual and business customers. These services include handling exported postal items in the Dutch market and all postal items imported to or passing through the Netherlands from foreign public and private postal operators.

We provide two distinct cross-border mail services. The first of these is a mandatory postal service. For international inbound and outbound mail, based on the Dutch Postal Act and in accordance with the rules of the Universal Postal Union (UPU), mandatory postal services comprise conveyance against payment of both postal items at standard single rates and of bulk mail items at separately agreed rates with a maximum individual weight of two kilogrammes. International inbound and outbound postal parcels with a maximum individual weight of 20 kilogrammes are also included. We offer this service through a combination of our Mail Netherlands network and foreign public and private postal operators. For the international transport of mail, we make use of a wide variety of air carriers and, within Europe, a subcontracted truck network. The provision of certain mandatory cross-border postal services is reserved exclusively to us. These cross-border inbound reserved postal services involve the conveyance of letters weighing up to 50 grammes (100 grammes prior to 1 January 2006) within the Netherlands.

The UPU is a specialised agency within the United Nations framework. It is responsible for the regulation of cross-border postal services. Practically all nations are members of the UPU. The common rules applicable to cross-border postal services are laid down in the UPU Convention and its regulations. In the Convention, the UPU established an international system for mutual payments for the delivery of cross-border letter mail, known as the terminal dues system. The purpose is to compensate the destination country's public postal operator for delivering international letter post. A different compensation scheme with similar purposes exists for parcel mail.

Most European postal operators view the UPU target terminal dues system as inadequate for these purposes. As a consequence a significant majority of them are party to the separate, multilateral "REIMS II" agreement where terminal dues are related to a higher percentage of domestic tariffs, and to a certain extent to service quality as well. We did not enter into the REIMS II agreement because we felt it did not contain a strong incentive/penalty system that would guarantee improvement of the quality of service. Instead, we concluded commercially oriented bilateral agreements with most of the European postal operators.

Most of the 10 countries who joined the EU on 1 May 2004 have entered into a REIMS East Agreement with the REIMS II parties. This agreement allows the new EU public postal operators to use a transitional period to get accustomed to terminal dues that are based on domestic tariffs. We decided to become a member of the REIMS East agreement as of 1 January 2005. In this way we avoid lengthy bilateral negotiations and create considerable goodwill that will support our position in future terminal dues negotiations. The financial effects of this decision are limited due to low volumes exchanged between Royal TPG Post B.V. and postal operators of the accession countries.

In international postal services, other than reserved postal services, we face competition from other public postal operators and from a wide variety of private, internationally operating companies. Competition for these services is based primarily on price and quality of service.

Cross-border Mail services also include handling bulk mailings for a range of international customers, including publishers, mail-order companies, and financial service and direct mail companies. We conduct these activities through our 51% owned subsidiary Spring, owned together with Royal Mail Investments Limited and Singapore Post Limited. In addition to using its three shareholders' delivery networks, systems, expertise and products, Spring uses delivery agreements with national and private postal operators.

The bulk mailing section of the cross-border mail services market is highly competitive. Impending deregulation has prompted national and private postal operators to lower prices for business mail in order to compete and to enter foreign markets to position themselves for growth. Consolidation is resulting in fewer providers in the market. In most countries, the primary competitor is the traditional incumbent postal operator, but increasingly we see international postal operators such as Deutsche Post, Swiss Post International, De Post (Belgium) and La Poste (France) extending their operations. The only true global competitor is Deutsche Post, trading as DHL Global Mail, against which Spring competes through a consultative and solutions based approach to mail.

Spring's name and credibility in the marketplace is achieved by delivering service and local expertise through a global network. Its key customers are publishers, corporates and direct marketeers. In addition to its cross-border business mail services, Spring also provides a number of value added services with the objective of retaining and growing its customer base. The business operates in the following three geographic regions: Europe, the Americas and Asia Pacific and is based in Amsterdam, New York and Singapore.

The trading environment for Spring continues to be a significant challenge and is heavily influenced by the slow pace of liberalisation in the marketplace; in some countries there is a trend towards remonopolisation. Additionally, the increase in regulation governing the use of Extraterritorial Offices of

Exchange and the impact of the REIMS agreements continues to limit the ability of Spring and other postal operators (not being incumbents) to compete on an equal basis. Despite these obstacles, Spring has continued to hold its market position and to generate a positive return.

European Mail Networks

Through our European Mail Networks business line, we are building a position to offer our customers a full service concept for mail, based upon high quality of service and wide coverage in addressed and unaddressed delivery. In addition, we offer a portfolio of mail-related services to reinforce our distribution activities. We have a presence now in Austria, Belgium, the Czech Republic, Germany, Italy, the Netherlands, Slovakia and the United Kingdom.

In 2005 the main focus was on expanding addressed activities in the key markets of Germany and the United Kingdom.

In Germany, one of the key mail markets in Europe, we expanded our regional distribution networks to strengthen our position in nationwide addressed delivery. We will not build a nationwide network, but we will focus on high density areas, either through greenfield operations under the brand name TNT Post Regioservice (Hamburg, Düsseldorf and Frankfurt) or via acquisitions (assets of Rheinkurier GmbH, Köln). The aim is to be active in all key areas in Germany with our own regional distribution. With this we can secure the nationwide product offering of our 71% subsidiary EP Europost AG & CO KG., which, successfully gained new customers and more than doubled revenues in 2005. The geographical coverage for the distribution of letter mail is close to 90% of Germany. This has been achieved by EP Europost through partnerships with regional distribution companies, of which TNT Post Regioservice is one.

Being the second largest mail market in Europe, the United Kingdom is a key market for us. In the United Kingdom we have contracted with Royal Mail for downstream access which allows us to offer customers an alternative in the postal market. This arrangement was highly successful in 2005, as we gained many important contracts. At the same time we are setting up sorting facilities to be able to offer customers a broader portfolio of services. Our ultimate goal is to provide customers with an end-to-end solution. We intend to start pilots for that in pre-selected areas. The cooperation with the Express Dairies milkmen in the United Kingdom was terminated in the fourth quarter due to lower than expected coverage of this particular network. When entering in the UK mail market the brand name TNT gave us a first mover advantage by reducing the time to market significantly.

In unaddressed delivery we strengthened our position in 2005 in all markets, mainly through organic growth. In the Netherlands, Belgium and Central and Eastern Europe we are a significant player in unaddressed delivery. In almost all countries, however, we are experiencing fierce pressure on prices due to heavy competition (mostly by companies owned

by other postal operators who use their dominant position and want to get into this market). Our goal is to retain our market share by retaining the customers and volumes. We invest in quality of services to differentiate ourselves from those competing on price. We completed some small acquisitions in Germany, where we acquired the assets of Peter Robl GmbH (Robl) and Reklam und Zeitungsvertrieb GmbH (Szunyog) and 100% of the shares of DWM Direktwerbung und Marketing GmbH (Reischl), an unaddressed mail company in Munich. These acquisitions further strengthened our position in the German unaddressed mail market.

In Italy, we were successful in growing our mail related business and we bought the remaining 20% in Cerilly, a letter shop with printing and fulfilment operations.

Data and Document Management

The services provided by our Data and Document Management business line cover two main areas: direct marketing and document handling. In direct marketing, we offer direct and interactive marketing solutions such as data capture, database management, data mining and target systems for distribution. Our document handling services include distributed printing, mailroom management and workflow efficiency services.

After branding our Data and Document Management business line in 2003 as "Cendris", we started in 2004 to restructure the different parts of Cendris into one company. The execution of these plans was finalised by the end of 2005. The goal of this restructuring was to enable Cendris to improve its market position in the data and document market and to optimise its internal processes.

In July 2005, Cendris acquired the Dutch print and mailing house Euro Mail B.V. Euro Mail specialises in mailing activities (enveloping, addressing, sorting and distribution), print services, fulfilment and other direct mail activities. Euro Mail primarily serves small, locally operating businesses from 10 locations in the Netherlands. The specific knowledge and experience of Euro Mail in the small and medium enterprises segment adds to the capabilities of Cendris and TPG Post. The acquisition placed TPG Post and Cendris in a better position to develop and sell new product-market combinations for the small and medium enterprises segment.

The market for data and document management services continues to show price pressure and strong competition in all segments of the business portfolio (data, print, mailroom, scanning and call centres). The main objectives of management are focus on cost reduction and new business.

In August 2005, we sold our interest in The Postal Preference Service Limited, which was established in 2000 by Royal Mail, TPG Post and other minority shareholders to provide direct marketing services in the United Kingdom.

MARKET TRENDS

In the European postal markets a volume decline is clearly noticeable, due to the increasing importance of the digital world around us, and reflects a strong underlying trend. We do not believe that the postal market has yet absorbed all effects of the digitalisation of information flows. Large parts of the bulk transaction mail volumes will most likely be substituted by electronic ways of communication. We recognise, however, that to a large extent the substitution process will be driven by the attitude of consumers and businesses towards electronic mail. Understandably this attitude varies with the content of the messages and the function of mail.

Together, the penetration level of direct mail in the advertising market, the growth of the economy, the relative position of direct mail in relation to other advertising media and the maturity of the unaddressed mail market will determine whether in any individual national market we will still see an increase in direct mail items per capita in the coming years. For mature mail markets such as the market in the Netherlands we believe the direct mail market is saturated and we do not expect much growth in the direct mail market in the coming years.

The European liberalisation of the postal market is taking shape. Liberalisation and the creation of a level playing field, i.e. the possibility to compete on equal terms in the respective member states, will, however, be closely linked to each other. We expect that this will drive not only liberalisation in the Netherlands, but also the expected European liberalisation agenda after 2009. In the next few years we expect to see the emergence and continued growth of national alternative postal companies in several European countries. Their success will to a large extent depend on the regulatory conditions,

irrespective of whether the market is fully liberalised. In the Netherlands the full liberalisation of the postal market will depend on the actual liberalisation in the United Kingdom and Germany.

Closely related to this liberalisation process will be the definition of universal service. We expect an intense discussion both at national and European levels on how the content of the universal service is to be shaped in the future. The VAT exemption for universal services granted to the universal service provider, which now leads to substantial market distortion in most member states, needs close attention in this regard. Other forms of non-regulation based market distortion of full competition needs monitoring as well. Increased competition resulting from liberalisation will create additional pressure on national postal operators.

Over 50% of the Dutch mail market is accessible to competition. This is well ahead of most other European mail markets. In the liberalised part of the Dutch mail market, we believe there is no market distortion. This can be illustrated through the unique presence of two competitors that each have full nationwide coverage for end-to-end mail delivery with a growing market share.

Most European postal operators were turned into corporations over the past ten years. Many governments are now considering privatisation of their national postal operator. In the process of privatisation we notice an active interest by private equity houses in addition to industry players such as TNT. This may result in a fundamental change in the European postal landscape and might trigger a consolidation process that will limit the number of independent postal players.

MAIL FINANCIAL REVIEW

Year ended at 31 December

Mail operating revenues and other income	2005		variance %	2004
	US\$	€		€
Mail Netherlands	3,135	2,647	(0.2)	2,652
Cross-border Mail	610	515	(6.5)	551
European Mail Networks ¹	707	597	23.3	484
Data and Document Management ¹	266	225	9.8	205
Total operating revenues	4,718	3,984	2.4	3,892
as % of total operating revenues TNT		39.4		42.7
Other income	31	26	225.0	8

(in millions, except percentages)

¹ Figures for 2004 have been adjusted to reflect the impact of the transfer of Dimar Sro from Data and Document Management to European Mail Networks per 1 January 2005.

Year ended at 31 December

Mail operating expenses	2005		variance %	2004 €
	US\$	€		
Cost of materials	218	184		184
Work contracted out and other external expenses	1,227	1,036	9.9	943
Salaries and social security contributions	1,916	1,618	2.7	1,576
Depreciation, amortisation and impairments	152	128	(1.5)	130
Other operating expenses	316	267	2.3	261
Total operating expenses	3,829	3,233	4.5	3,094

(in millions, except percentages)

Year ended at 31 December

Mail operating income	2005		variance %	2004 €
	US\$	€		
Operating income	920	777	(3.6)	806
as % of mail operating revenues		19.5%		20.7%

(in millions, except percentages)

Year ended at 31 December

Mail productivity statistics

	2005	2004	2003	2002
Addressed postal items delivered by Mail Netherlands ¹ (millions)	5,139	5,302	5,384	5,521
per Netherlands delivery address (items)	679	707	724	747
per Mail Netherlands FTE ² (thousands of items)	152	161	156	151
per Netherlands inhabitant (items)	315	325	331	341
per delivery day (millions)	17	17	18	18
total operating revenues per FTE ² (thousands of €)	94	95	89	92
average percentage of national mail sorted automatically (%)	84	82	82	80
Postal volumes by cross-border (thousands of kilogrammes)	81,334	90,239	94,467	90,691
Addressed postal items delivered by EMN (millions)	490	259		

¹ Excluding international mail items per delivery day (millions).² The FTE (full-time employee equivalent) definition is based on a 37-hour work week.

The operating revenues of the mail business increased by 2.4% in 2005. In Mail Netherlands addressed mail volumes decreased by 3.1%, and revenues declined by 0.2%. On a comparable number of working days basis, the addressed Mail Netherlands volume decline was 2.0%. Revenues in our cross-border line of business declined 6.5%. Revenues in European Mail Networks showed a 23.3% growth. Data and Document Management revenues increased by 9.8%.

2005 showed a slight improvement in the economic environment in the Netherlands. Customers continued their search for cost savings in the distribution area. Addressed Mail Netherlands volumes continued to decline as a result of growing competition, substitution and customers suspending their mailings. Our mail division focused on quality and margin to defend its market position. At the European level we expanded in the addressed mail segment through our start-ups in the United Kingdom and Germany.

Operating income decreased by 3.6% in 2005. This decrease was mainly due to a structural cost increase in salaries including social and pension contributions in Mail Netherlands, partly offset by continued progress in improving productivity and cost control in Mail Netherlands and expansion of our European Mail Networks.

MAIL OPERATING REVENUES

In 2005, operating revenues from our mail business increased by €92 million (2.4%) compared to 2004. Organic operating revenues increased by €71 million (1.8%). Compared to last year, 2005 showed a €18 million (0.5%) positive acquisition effect, due to a number of acquisitions effective in 2004 (including Prime Vision, Seducom and our joint venture with Essent N.V., named Cendris BSC Customer Contact B.V.), the disposal of Denis Bodden N.V., and acquisitions effective in 2005 (including Reischl, Robl, Euro Mail B.V., Szunyog and Rheinkurier GmbH). Foreign exchange effects accounted for an increase of €3 million (0.1%).

Mail Netherlands operating revenues in 2005 decreased by €5 million (-0.2%) compared to 2004. The organic volume decline in addressed mail items was partly offset by a positive price-mix effect and other effects.

The continued underlying decline in addressed postal item volumes in 2005 (-2.0%) was primarily due to competition in the non-mandatory area, accompanied by reduced demand for direct mail as a result of cost saving programmes initiated by some of our key customers due to the continued substitution of electronic media. We expect these trends to continue, although Mail Netherlands benefited from extra volumes of mail resulting from changes in the health insurance and early retirement legislation in the Netherlands in the second half of 2005. The underlying volume decline was accompanied by a lower average number of working days in 2005, which had a 1.1% downward volume effect.

During 2005 competition remained fierce, with the key international postal operators continuing to compete on price. Cross-border Mail operating revenues in 2005 decreased organically by €38 million (-6.9%) compared to 2004. The main driving factors for this decline were international competition, our policy to reduce and terminate unprofitable contracts of volume in our Spring business and the renewed sales agency agreement with Royal Mail Group in the middle of 2004, which resulted in a lower fee. Foreign exchange effects caused a 0.4% increase in operating revenues, primarily related to the fluctuation of the euro against the US dollar, GB pound and the Singapore dollar.

Other income increased due to the sale of mail related real estate.

European Mail Networks operating revenues increased by 23.3% in 2005. All countries except Belgium, where our business is still negatively affected by competition, contributed to this growth. The United Kingdom, Germany, Italy and Central Europe showed double digit growth.

In the United Kingdom our start-up business was successful and established a lead position in the UK downstream access market. In Germany we succeeded in strengthening our position despite strong competition from Deutsche Post and the initiative of a group of German publishers to cooperate in mail distribution. Our German start-up in addressed mail, EP Europost, more than doubled its revenue. It succeeded in closing contracts with important customers. Furthermore, TNT Post Regioservice GmbH doubled its revenue by creating its own networks in key strategic areas. Focus has been on securing the position by enlarging our own distribution networks in other major cities, strengthening the relationships with partner distribution networks and building up a position in the consolidation market. In Italy mail addressed, unaddressed and mail related activities showed double digit growth.

In a competitive market, Data and Document Management operating revenues increased by €20 million (9.8%).

This increase was mainly attributable to the full year contribution of the joint venture started in 2004 with Essent N.V., named Cendris BSC Customer Contact B.V., and the acquisition of Euro Mail B.V. in 2005.

MAIL OPERATING EXPENSES

Our operating expenses increased by €139 million (4.5%) in 2005 compared to 2004. Organic growth in European Mail Networks and acquisitions caused an increase in work contracted out, partly offset by volume decreases in the business lines Mail Netherlands and Cross-border Mail. In 2004 costs of salaries benefited from a €9 million net positive one-off effect from a settlement of future wage guarantees and various social measures including social and pension contributions. The lack of this one-off effect in 2005, a €18 million increase due to the unwinding of a contract regarding liability for future wage guarantees in 2004, €80 million higher pension costs and €10 million restructuring costs in 2005 caused an increase in salary costs, which could only partly be offset by savings (amongst others reflected in the decline in average full-time employee equivalents from 44,483 in 2004 to 42,482 in 2005) in connection with our cost flexibility programme.

MAIL OPERATING INCOME

The mail business operating income in 2005 decreased by €29 million (-3.6%) compared to 2004, mainly caused by Mail Netherlands. The €29 million decline however, was affected by a net positive one-off effect of €9 million in 2004, as described above, and €10 million restructuring costs in 2005. Adjusted for these one-off effects, operating income decreased €10 million organically.

The decline in operating income was caused by increased pension costs (€80 million) due to changes in key assumptions used, such as discount rate and attrition rates, and a €18 million salary cost increase, due to the unwinding of the contract regarding a liability for future wage guarantees, both at the end of 2004. This decline was partly offset by our continued progress in improving productivity and cost control, mainly driven by our cost flexibility programme, which delivered additional savings of approximately €89 million in 2005, adding up to €234 million in estimated aggregated savings from the start of the programme in 2002.

The results from acquisitions and disposals made in 2004 and 2005 were approximately neutral to the overall change in operating income.

In 2005, overall operating income of our mail division as a percentage of its operating revenues decreased to 19.5% compared to 20.7% in 2004.