
THE

DISCONTINUED

LOGISTICS

OPERATIONS

DISCONTINUED LOGISTICS BUSINESS DESCRIPTION

GENERAL

In July 2005, we announced our intention to dispose of our French transportation activities and French contract logistics business. The combination of a lack of profitable new business in a market with excess capacity, competition from low cost Eastern European based transport providers and a high fixed cost base, which has led to a continuation of disappointing earnings, resulted in the decision during 2005 to sell those activities. For more information see the paragraph "Sale of French logistics activities" below.

On 6 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. One of the main elements of our refined strategy was the decision to exit globally from our non-network related logistics activities. We will retain our freight management and innight activities as we consider that they fit with our network strategy. These businesses have been accounted for in our express division.

As a result of the decision to exit our non-network related logistics activities, we have accounted for our non-network related logistics business in this annual report as discontinued operations/assets held for sale. The decision to sell the majority of the logistics business, announced on 6 December 2005, has not to date had a significant impact on the ongoing operational strategy for this business, or the commitment to meeting the business's existing and future customers' demands for high quality logistics solutions. Some contract renewals have been postponed until the customers ascertain the new owner of the discontinued logistics business.

DISCONTINUED LOGISTICS BUSINESS OVERVIEW

With operations in 28 countries, the discontinued logistics business provides services focused on supply chain management. It works to ensure that across the functions of procurement, manufacturing and distribution the right goods, in the right quantities and condition are available at the right place and time. One key aspect of this is reducing the time it takes to bring goods from suppliers to their customer by using the latest technology to increase our customers' visibility of their goods in the supply chain.

The discontinued logistics business operates in Europe, North and South America, Asia and Australia. Our strategy has focused on achieving critical mass in selected geographies and five industry sectors: automotive, tyres, high-tech electronics, publishing and media, and fast-moving consumer goods. With a few exceptions in certain sectors, we believe we have achieved critical mass in terms of market presence and customer base in every market it serves.

The service offering depends upon and is tailored to each customer's needs. It has developed specialised knowledge and skills, and provides a range of value-added activities such as:

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

The logistics business is affected by the seasonal slowdown of one of the larger target sectors on which it focuses, the automotive sector. Typically this slowdown takes place in the third quarter of the year, when many of the automotive manufacturing plants close for summer holidays and in the fourth quarter, when plants close for Christmas and New Year.

As the complexity and scope of logistics assignments grow, we believe securing this role will be increasingly dependent on a provider's information technology capabilities and geographic reach. The main technology that the business uses to provide lead logistics services is called Matrix™. It offers an integrated suite of technologies that enables us to manage complex domestic and global supply chains and we continued to invest in this technology throughout 2005.

MARKET TRENDS AND SALE PROCESS

Although the logistics market is still regarded as fragmented, mergers and acquisition activity in the logistics industry continued in 2005, involving some of the biggest players in the market. This has reinforced the trend towards a two-tiered industry. At the top-tier, global or regional industry market leaders provide the full spectrum of supply chain solutions across geographies. They often act as lead logistics providers, subcontracting parts of the supply chain activities, for example transportation, to specialist players but serve as a single point of contact for the customer. The smaller specialist logistics providers form the second tier, often as a subcontractor for the market leaders.

DISCONTINUED LOGISTICS FINANCIAL REVIEW

In 2005, the discontinued logistics business earned revenues of €3,556 million. The following table sets forth an income statement for the discontinued logistics business for the last two years. The discontinued logistics business excludes the results from the previously reported freight management

Year ended at 31 December

Discontinued logistics	2005		variance %	2004
	US\$	€		€
Total operating revenues	4,211	3,556	(0.7)	3,581
Other income	(116)	(98)		
Cost of materials	(295)	(249)	(3.5)	(258)
Work contracted out and other external expenses	(2,111)	(1,783)	1.1	(1,764)
Salaries and social security contributions	(1,320)	(1,115)	(0.7)	(1,123)
Depreciation, amortisation and impairments	(103)	(87)	(3.3)	(90)
Other operating expenses	(285)	(241)	13.1	(213)
Total operating expenses	(4,114)	(3,475)	0.8	(3,448)
Total operating income	(19)	(17)	(112.8)	133
Net financial (expense)/income	(75)	(63)	5.0	(60)
Results from investments in associates	0	0		(1)
Income tax	(37)	(31)	(29.5)	(44)
Profit/(loss) for the period	(131)	(111)		28
Attributable to:				
Minority interests	0	0		(3)
Shareholders	(131)	(111)	(458.1)	31

(in millions, except percentages)

Discontinued logistics statistics

At 31 December

	2005	2004	2003
Number of warehouses (including joint ventures)	594	572	419
Number of square metres (including joint ventures)	8,107	6,799	6,508
Joint ventures			
Number of warehouses	44	44	69
Number of square metres	1,360	1,359	969

(square metres in thousands)

and innight activities, now reported in the express division. The prior period has been restated to be presented on a comparable basis, reflecting the above transfer. For further information, including a condensed balance sheet, please refer to note 8 of our consolidated financial statements.

During 2005, the discontinued logistics operations showed a €25 million decrease in operating revenues compared to 2004. This was mainly a result of the deteriorating performance of our French operations, contract terminations, mainly in the United Kingdom, and lower volumes in automotive contracts. However, this was partially offset by strong revenue growth in North America, Australia, and Asia. Of the decline in operating income of €150 million, €154 million relates to our French logistics activities and their subsequent disposal, partly offset by an increase in operating income from the remainder of our discontinued logistics business.

SALE OF FRENCH LOGISTICS ACTIVITIES

During 2005 we sold most of our French transportation activities and French contract logistics operations. The sale of the majority of those activities was effected in two transactions, both closed in the fourth quarter of 2005, with

further transactions being closed in the first quarter of 2006. The business sold in 2005 constituted approximately 90% of our French logistics business unit. The total pre-tax loss of the sale transactions of the French logistics activities was €102 million and this has been included in other income in the income statement. The remainder of the business has since been sold. Operating losses of the disposed business amounted to €52 million in 2005 and included €18 million of restructuring charges mainly relating to reorganisation and redundancy costs and €3 million of asset impairments.

Contingent assets

As a result of the sale and the consequent liquidation of the remaining relevant entities of our French business, we expect to realise a tax credit of approximately €90 million. This potential benefit has not been reflected in our accounts.

DISCONTINUED LOGISTICS OPERATING REVENUES

Year ended at 31 December

Operating revenues per industry	2005		%	2004	%
	US\$	€			
Automotive	1,644	1,388	39.0	1,362	38.0
FMCG	722	610	17.2	642	17.9
High-tech electronics	499	421	11.8	443	12.4
Publishing & media	291	246	6.9	250	7.0
Tyres	219	185	5.2	177	4.9
Other	836	706	19.9	707	19.8
Total	4,211	3,556	100.0	3,581	100.0

(in millions, except percentages)

Year ended at 31 December

Operating revenues per geographic region	2005		%	2004	%
	US\$	€			
Europe	2,924	2,469	69.4	2,631	73.5
North America	782	660	18.6	595	16.6
Rest of the World	505	427	12.0	355	9.9
Total operating revenues	4,211	3,556	100.0	3,581	100.0

(in millions, except percentages)

Number of countries of operation	28	28
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The operating revenues for our discontinued logistics activities decreased in 2005 by €25 million (0.7%) compared to 2004. Organic operating revenues decreased by €69 million (1.9%) in 2005 compared to 2004. This decrease was primarily due to contract terminations in Europe, mostly in the United Kingdom and due to the sale of most of our French operations in the fourth quarter of 2005.

The European region also saw lower volumes in the Benelux region and in Italian automotive contracts. This unfavourable effect was partly offset by commencement of new contracts in the United States and the Rest of the World (mostly in Australia and Asia). Foreign exchange effects increased logistics operating revenues in 2005 by €42 million (1.2%) compared to 2004, mainly due to the depreciation of the euro against other currencies, especially those in South America, the United States and Australia.

DISCONTINUED LOGISTICS OPERATING EXPENSES

Operating expenses increased by €27 million (0.8%) to €3,480 million in 2005.

The decrease in cost of materials was due to the disposal of the Nordic business sold in 2004 and reduced costs in line with revenue reductions.

Expenses for work contracted out increased by €19 million (1.1%) which was related to the increase in operational activity in the Australia and North America region (totalling

€61 million) and the full year consolidation impact of Turkey (€10 million) offset by a reduction in temporary labour costs in the United Kingdom and Italy (totalling €49 million) and other smaller increases.

Salaries, including social and pension contributions decreased by 0.7% (€8 million), which was a result of headcount reductions in China, Benelux and Central Europe and partially offset by costs associated with rationalisation measures in France due to a reduction of business activity and business growth in United States and Australia.

Other operating expenses increased by €28 million (13%) of which the most significant increase was related to increased provisions, a tariff dispute in our Italian operations and associated legal costs (€10 million). The majority of the remaining increase related to increased costs in the Central and Eastern Europe region (€8 million) and Italy (€6 million).

DISCONTINUED LOGISTICS OPERATING INCOME AND PROFIT FOR THE PERIOD

In 2005 discontinued operations resulted in a loss for the period before minority interest of €111 million, a decrease of €139 million compared to 2004. This loss was mainly the result of the loss on the sale of our French business (€102 million), deteriorating results in France, contract terminations in the United Kingdom, and increased operating expenses of €32 million (including €18 million of restructuring costs and €3 million of asset impairment charges in France).

Net financial expenses increased by €3 million (5.0%), representing interest on funding from TNT facilities and the movement on fair value of financial instruments. Income taxes decreased by €13 million (29.5%) primarily as a result of tax credits relating to our discontinued French operations.

DISCONTINUED LOGISTICS CASH FLOW

The following table sets forth a condensed cash flow statement for the discontinued logistics business for the past two years. The prior period has been adjusted to be presented on a comparable basis.

Cash flow statement	Year ended at 31 December	
	2005	2004
Net cash from operating activities	28	250
Net cash used in investing activities	(19)	(22)
Net cash used in financing activities	19	(216)
Change in cash	28	12
Cash at the beginning of the period	71	60
Exchange rate differences	5	(1)
Change in cash	28	12
Cash at the end of the period	104	71

(in € millions)

Net cash from operating activities

Net cash from operating activities was €222 million lower compared to 2004, primarily due to the loss on the disposal of the majority of our French operations and associated costs (€102 million) combined with €45 million of lower operating income. Net working capital also declined €48 million, mainly as a result of deterioration in accounts payable in some of the larger business units and a further net deterioration of €24 million in other areas.

Net cash used in investing activities

The reduction in cash used in investing activities was due to €16 million lower spend on the acquisition and disposal of group companies compared to 2004, partially offset by an increase in capital expenditure on property, plant and equipment of €12 million. The additional capital expenditure was primarily due to the development of a warehouse for an existing customer in Germany (€8 million), with the remainder being attributed to expenditure to support the business' growth in North America and Australia.

Net cash used in financing activities

Debt financing activities resulted in a net cash inflow of €19 million. This was mainly a result of financing proceeds of €55 million consisting mainly of proceeds from inter-company funding of €52 million and a €3 million income from finance leases. Total repayments of €12 million resulted from scheduled repayments on finance leases of €12 million. In 2004 long term liabilities also decreased due to a decrease in

amounts payable to other TNT companies of €241 million and a repayment of a long term bank loan of €5 million.

Liquidity and capital resources

At 31 December 2005 TNT provided funding for the total amount of €1,136 million. The amount consisted of current account facilities in various currencies of €1,076 million and loans of €60 million. TNT intends, until the business has been disposed of, to continue to provide sufficient funding to allow the discontinued logistics business to maintain its existing level of operations.

Additional funding sources for the discontinued logistics business consists of a €222 million Canadian dollar denominated syndicated facility, signed in May 2001, at a rate of interest of three-month Canadian LIBOR plus a margin of 0.325%. At 31 December 2005, the average rate of interest on this facility was 3.11%. This facility is reported under other current liabilities.

Future investing activities, such as capital expenditure additions, will continue to be assessed according to TNT's existing approval procedures, with consideration being given to the possible impact that such expenditures may have on the requirements of potential buyer(s) of the business.

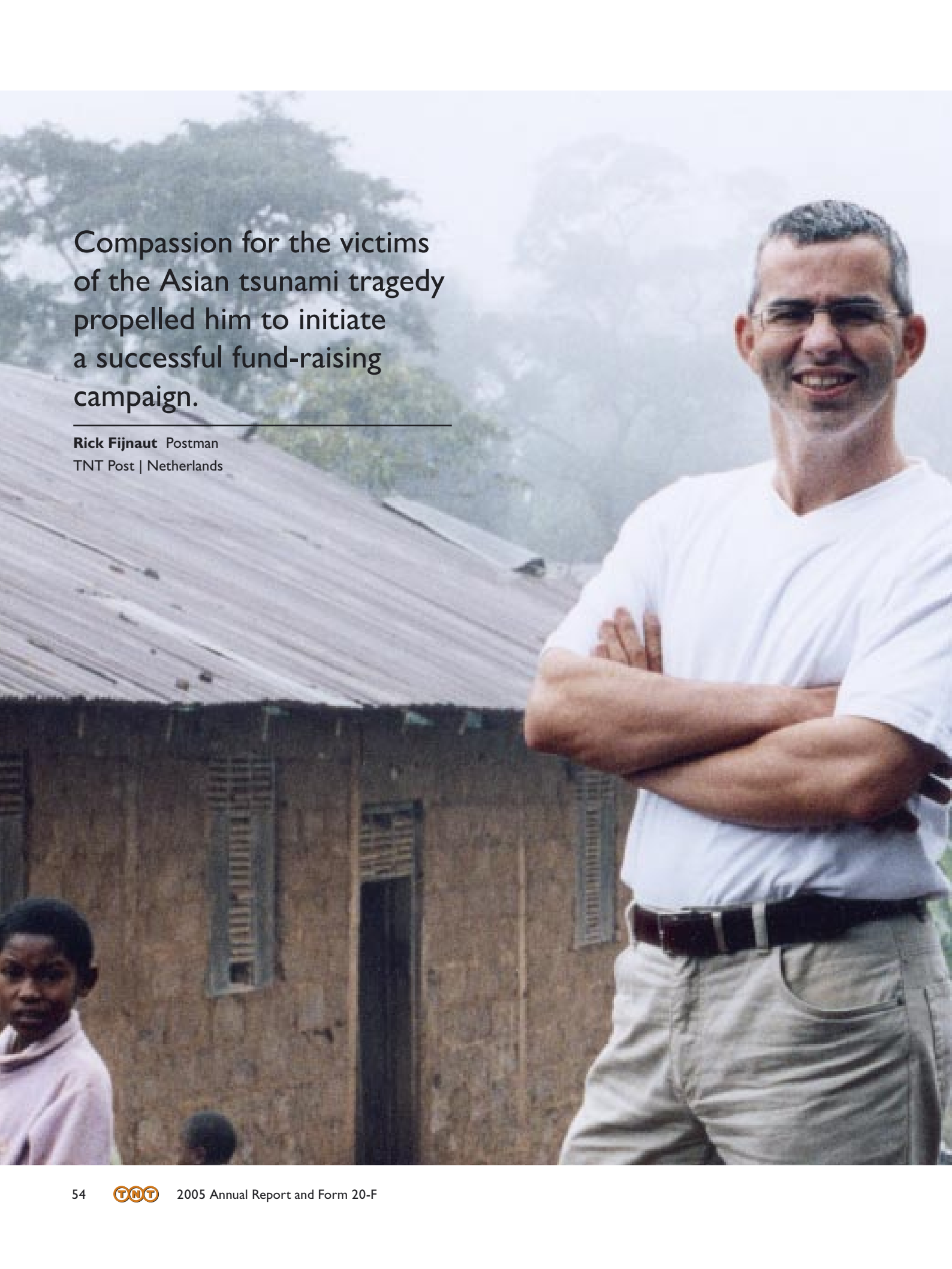
Commitments, contingencies and guarantees

As at 31 December 2005, commitments, contingencies and guarantees pertaining to our discontinued logistics business amount to €701 million. Of this total, €161 million were of a short term nature.

Rent and operating lease commitments amount to €580 million, of which €123 million are short term in nature.

Total financial guarantees at 31 December 2005 were €114 million, of which €35 million is short term in nature. Guarantees amounting to €65 million were issued by TNT Logistics Holdings B.V. Guarantees amounting to €23 million mainly issued by banks and other financial institutions and secured by TNT N.V. or by TNT Logistics Holdings B.V. relate to business obligations under lease contracts, custom duty deferment and local credit lines. The €26 million of the guarantees as at 31 December 2005 relates to bank guarantees issued locally by companies within the operations of the discontinued logistics business.

Commitments relating to capital expenditures amount to €7 million over the next two years and relate to additional warehousing to support new business and improvements to existing warehousing premises. €3 million is short term in nature.



Compassion for the victims of the Asian tsunami tragedy propelled him to initiate a successful fund-raising campaign.

Rick Fijnaut Postman
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