
OTHER FINANCIAL INFORMATION ON THE COMPANY

This chapter provides some other financial information on the company, in addition to the information set out in chapter 12, in particular with regard to cash flow, liquidity, capital resources and critical accounting policies.

Until 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 numbers have been adjusted. A detailed explanation of the transition to IFRS and the impact on our financial numbers is given in chapter 12.

On 6 December 2005, we announced a strategy to focus on providing delivery services by expertly managing networks, in particular transportation, resulting in the decision to dispose of our non-network related logistics activities. Accordingly our logistics business is reported as discontinued operations/assets held for sale. In our balance sheet as at 31 December 2005 we have grouped together all assets and liabilities relating to our discontinued logistics business. As prescribed by IFRS 5, *Non current assets held for sale and discontinued operations*, our 31 December 2004 balance sheet has not been adjusted. In our statement of income for 2005, we have presented the net result of our discontinued logistics business on a separate line. Our 2004 statement of income has been adjusted for comparable purposes. Our 2005 and 2004 cash flow statements include cash flows and cash balances of our continuing operations.

FINANCIAL CONDITION

Year ended at 31 December

	2005		variance %	2004
	US\$	€		€
BALANCE SHEET				
Non-current assets	4,338	3,663	(27.8)	5,070
Current assets	2,789	2,355	(25.5)	3,159
Assets held for sale	2,816	2,378		
Total assets	9,943	8,396	2.0	8,229
Equity	3,883	3,279	(1.9)	3,344
Non-current liabilities	1,904	1,608	(27.6)	2,221
Current liabilities	2,699	2,279	(14.5)	2,664
Liabilities related to assets classified as held for sale	1,457	1,230		
Total liabilities and equity	9,943	8,396	2.0	8,229
Net return on equity ¹ (%)	20.1	20.1		22.5
Equity as % of total liabilities and equity	39.1	39.1		40.6
CASH FLOW CONTINUING OPERATIONS				
Net cash from operating activities	1,165	984	39.0	708
Net cash used in investing activities	(314)	(265)	1.1	(268)
Net cash used in financing activities	(922)	(779)	(174.3)	(284)
Changes in cash and cash equivalents	(71)	(60)	(138.5)	156

(in millions, except percentages)

¹ The profit attributable to the shareholders as a percentage of the total equity.

CASH FLOW DATA

Cash and cash equivalents totalled €559 million at 31 December 2005, compared to €633 million at 31 December 2004. Of the cash and cash equivalents of €633 million as at 31 December 2004, €71 million related to our discontinued logistics business. The following table provides a summary of cash flows from continuing operations for the past two years:

Year ended at 31 December

Cash flow data	2005		variance %	2004 €
	US\$	€		
Net cash from operating activities	1,165	984	39.0	708
NET CASH USED IN INVESTING ACTIVITIES				
Net cash used for acquisitions and disposals	(60)	(51)	75.2	(206)
Net cash used for capital investments and disposals	(319)	(269)	(3.1)	(261)
Net cash used for other investing activities	65	55	(72.4)	199
NET CASH USED IN FINANCING ACTIVITIES				
Net cash used for dividends and other changes in equity	(858)	(725)	(88.3)	(385)
Net cash from debt financing activities	(64)	(54)	(153.5)	101
Changes in cash and cash equivalents	(71)	(60)	(138.5)	156

(in millions, except percentages)

NET CASH FROM OPERATING ACTIVITIES

2005

In 2005 net cash provided by operating activities was €984 million, which is an increase of 39% compared to 2004 (€708 million). Profit before income taxes contributed €1,151 million, or €1,471 million if adjusted for the non-cash impact of depreciation, amortisation and impairments, an increase of €72 million or 5% compared to 2004 (€1,399 million).

The changes in pension liabilities of €123 million reflect the total non-cash charges for the defined benefit pension schemes of €141 million, offset by our total cash contributions of €166 million to various pension funds, the majority of which for our Dutch employees, who fall under our collective labour agreement, plus our cash contributions of €98 million for pensions, which fall under the transitional plan of our Dutch collective labour agreement and which are directly paid by TNT (see note 10 to our consolidated financial statements). In total the cash contributions are €168 million lower than last year, mainly due to contributions of €142 million related to the Personal Senior Arrangement in 2004 and due to €32 million lower contributions as prescribed by the minimum funding requirements of De Nederlandsche Bank (DNB), which amounted to €59 million in 2005.

The non-cash impact of €52 million from other provisions included provisions related to employee benefits mainly in express, provisions taken for the uninsured part of the damage caused by major fires in three different warehouses in the United States, Spain and the United Kingdom, increased provisions for employer liability in the United Kingdom and reorganisation provisions, mainly in mail.

Working capital increased by €180 million in 2005, compared to a decrease of €21 million in 2004. Most of the increase of the accounts receivable position related to an increase of trade receivables that moved unfavourably by €165 million due to a combination of additional revenue and increased debtor days. Trade payables negatively impacted the cash flow by €77 million as a result of a decrease of creditor days compared to last year. Other current liabilities moved favourably by €66 million, including higher accruals for subcontractors and claims.

Interest and similar expenses amounted to €121 million, including non-cash hedge results of €21 million. The cash outflow for interest paid totalled €84 million. Income taxes paid was €130 million. The net amount of income taxes paid included €162 million repayments by the Dutch tax authority of taxes over previous years after it was concluded that preliminary payments were too high and due to a decrease of the Dutch statutory tax rate from 34.5% in 2004 to 31.5% in 2005.

2004

In 2004, net cash provided by operating activities was €708 million. Profit before income taxes contributed €1,096 million, or €1,399 million if adjusted for the non-cash impact of depreciation, amortisation and impairments.

The changes in pension liabilities of €254 million reflect the total non-cash charges for the defined benefit pension schemes of €91 million, the non-cash costs related to the Personal Senior Arrangement of €87 million and total cash payments of €432 million. Cash contributions to various pension funds, the majority of which are for our Dutch employees who fall under our collective labour agreement, and the pension plan payments, which fall under the transitional plan, totalled €290 million, of which €91 million was contributed as prescribed by the minimum funding requirements of DNB. The remaining cash contribution of €142 million related to the Personal Senior Arrangement.

The non-cash impact of €13 million from other provisions was primarily the result of additions, which were partly offset by releases and withdrawals.

Working capital decreased by €21 million in 2004. The favourable movements of inventory, other current assets, trade payables and other current liabilities were partly offset by an increase of accounts receivable, due to an increase of trade receivables of €77 million.

The cash outflow for interest paid totalled €87 million and income taxes paid was €404 million.

NET CASH USED IN INVESTING ACTIVITIES

Net cash used for acquisitions and disposals

2005

In 2005, the total payments for acquisitions of group companies amounted to €36 million and no cash was acquired as part of the total acquisitions. Most acquisitions took place in our mail division (€30 million), the largest being Euro Mail B.V. (€18 million), the remaining shares in Circular Distributors (€6 million) and Rheinkurier GmbH (€3 million). Express acquired for a total amount of €6 million, mainly related to Door-to-Door d.o.o. and Asinus d.o.o. and the remaining share of our business in Israel. During 2005 all proceeds or payments related to acquisitions were in cash. The investments in associated companies primarily related to additional capital contributions in one of our associates and amounted to €13 million.

During 2005, we disposed our interest in Global Collect B.V. for a negative amount of €5 million, which consists of the total consideration received of €4 million and €9 million cash that was divested with the disposal. During 2005 all proceeds or payments related to disposals were in cash. The disposal of associated companies related to disposal of Postal Preference

Service Limited in the mail segment and Mistral Air in the express segment.

2004

In 2004, we acquired group and associated companies for a total amount of €196 million, which consisted of total amounts paid of €206 million and €10 million cash acquired. The payments were primarily attributable to the acquisition of Wilson (€190 million). We also made several smaller acquisitions in our mail division for an amount of €14 million, including the remaining shares of Höfing GmbH and the establishment of the joint venture Cendris BSC Customer Contact B.V., and in our express division for an amount of €2 million. During 2004 all proceeds or payments related to acquisitions were in cash. The investments in associated companies of €11 million primarily related to additional capital contributions in one of our associates of €10 million.

During 2004, we also disposed of interests in two small group companies for which €1 million cash was received and included the divestment of €1 million of cash. During 2004 all proceeds or payments related to disposals were in cash.

Net cash used for capital investments and disposals

CAPITAL EXPENDITURES AND PROCEEDS

Year ended at 31 December

Capital expenditures and proceeds on property, plant and equipment and other intangibles	2005		2004
	US\$	€	€
Investments			
Property, plant and equipment	276	233	225
Other intangible assets	95	80	59
Subtotal	371	313	284
Proceeds from sale of property, plant and equipment	51	43	21
Disposals of other intangible assets	1	1	2
Subtotal	52	44	23
Total	319	269	261

(in millions)

Our capital expenditure on property, plant and equipment and other intangible assets by segment for the years 2004 and 2005 was as follows:

Year ended at 31 December

	2005		2004
	US\$	€	€
Mail	121	102	98
Express	230	194	172
Freight management	3	3	8
Non-allocated	17	14	6
Total	371	313	284

(in millions)

In 2005, capital expenditures on property, plant and equipment amounted to €233 million (2004: 225). Of this amount, €80 million (2004: 75) related to mail, €143 million (2004: 144) to the express business and to our freight management business and €10 million (2004: 6) to non-allocated. The capital expenditures on intangible assets of €80 million (2004: 59), mostly related to software. In 2005 and 2004, capital expenditures were funded primarily by cash generated from operations.

Proceeds from the sale of property, plant and equipment in 2005 totalled €43 million (2004: 21), which mainly related to several buildings of TNT Real Estate B.V. and TNT Real Estate Development B.V. (€23 million) and buildings and equipment of the joint venture Postkantoren B.V. (€7 million) in the mail division and equipment in our express operations in the United Kingdom (€4 million).

MAIL

2005

Capital expenditure on property, plant and equipment and other intangible assets by our mail division totalled €102 million in 2005, which was an increase of 4% compared to 2004. The main capital expenditures in 2005 related to machinery (€24 million), software (€19 million), hardware (€9 million), and housing (€17 million). The remaining €33 million of capital expenditure related to various smaller projects. Most of these were less than €1 million individually and included building refurbishments mainly in the Netherlands, renewal of IT equipment and software, operational equipment, and various other capital expenditures.

Significant investments were made in the sorting and distribution process, with a total amount of €19 million invested in sequence sorting machines and sequence sorting software and €10 million invested in housing following the restructuring of operations in the Netherlands.

2004

Capital expenditure on property, plant and equipment and other intangible assets by our mail division totalled €98 million in 2004. The main capital expenditures in 2004 related to machinery (€22 million), software (€19 million), hardware (€12 million) and housing (€11 million). The remaining €34 million of capital expenditure related to various smaller projects, most of these were individually less than €1 million and included building refurbishments mainly in the Netherlands, replacement of IT equipment, and various other capital expenditures.

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

EXPRESS

2005

Capital expenditure on property, plant and equipment and other intangible assets by our express business totalled €194 million in 2005, which was an increase of 13% compared to 2004.

During 2005, capital expenditures on other intangible assets totalled €54 million and related primarily to the development of financial systems (e-back office) software (€22 million), and further enhancements to our international shared systems.

Some of the larger express capital expenditures in 2005 included fleet replacements in the United Kingdom (€12 million) and Australia (€5 million), the expansion of the air hub in Liège (€10 million) and the road hub in Duiven (€7 million), depots in Stockholm (€5 million) and Preston (€4 million) and the remaining investments in the new headoffice for France in Lyon (€3 million).

2004

Capital expenditure on property, plant and equipment and other intangible assets by our express business totalled €172 million in 2004. The capital expenditure related to depots, hubs and warehouses, depot equipment used in operations, including fleet expansions and replacements, and information technology, communication and other operational equipment, including automated sorting systems.

During 2004, capital expenditures on other intangible assets totalled €29 million and related primarily to the development of financial systems (e-back office), software, and further enhancements to our international shared systems.

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

FREIGHT MANAGEMENT

Capital expenditures on property, plant and equipment and other intangible assets by our freight management operations amounted to €3 million (2004: 8).

Net cash used for other investing activities

2005

The net cash generated by other investing activities included €18 million mainly attributable to settling net balances relating to our disposal of Global Collect B.V. Interest and similar income amounted to €115 million of which €72 million was related to non-cash interest from our discontinued logistics business. The cash inflow for interest received totalled €40 million. No dividends were received during 2005.

2004

The net cash generated by other investing activities included €164 million, of which €160 million was attributable to the settlement of a \$435 million cross currency interest rate swap, which provided a hedge against US dollar denominated assets. In 2004 interest received amounted to €33 million and no dividends were received.

NET CASH USED IN FINANCING ACTIVITIES

Net cash used for dividends and other changes in shareholders' equity

2005

A final cash dividend for 2004, amounting to €168 million or €0.37 per ordinary share and a cash interim dividend for 2005 of €100 million or €0.22 per ordinary share were paid in 2005. The proposed final dividend for 2005 is estimated to result in an aggregate €172 million payment to be made in the second quarter of 2006.

In 2005, a cash outflow of €259 million was included as consideration for the repurchase of 13.1 million shares from the State of the Netherlands. These shares were delivered by the State of the Netherlands as a result of a purchase agreement signed in September 2004. Under our share buy back programme announced on 6 December 2005 we purchased 9,020,000 of our ordinary shares for an amount of €231 million. As at 31 December 2005, we paid €214 million relating to 8,372,000 shares with the remainder of the amount being paid in January 2006.

An amount of €16 million was received as a result of the exercise of options and share grants.

In 2005 the net cash flow used in financing our discontinued logistics business amounted to €28 million.

2004

A final cash dividend for 2003, amounting to €142 million, and a cash interim dividend for 2004 of €95 million were paid in 2004. The final dividend for 2004 of €0.37 per share resulted in an aggregate €168 million payment made in April 2005.

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

In 2004 the net cash flow provided by financing our discontinued logistics business amounted to €211 million.

Net cash from debt financing activities

2005

Movements in long term borrowings resulted in a net cash inflow of €29 million. The total proceeds from long term borrowing of €35 million consist mainly of a €14 million additional issuance of the 3.875% 2015 Eurobond, a €13 million increase in bank loans, and a €7 million income from finance leases. A total of €6 million of repayments to long term borrowings related, amongst others, to a €4 million

scheduled payment on aircraft leases and other leases, and to a €2 million repayment of bank loans.

Movements in short term liabilities resulted in a net cash outflow of €55 million. The total repayments to short term borrowings mainly related to repayments on aircraft leases and other leases of €47 million and to a cash outflow of €20 million regarding hedge transactions, partly offset by a cash inflow relating to short term liabilities of €14 million.

2004

Movements in long term borrowings resulted in a net cash outflow of €62 million. The acquired long term liabilities of €16 million include €11 million of finance leases and €5 million of interest bearing liabilities. A total of €78 million in repayments of long term liabilities related, amongst others, to scheduled repayments on aircraft leases and other leases of €9 million, the repayment of Wilson (now called TNT Freight Management) bank loans (€53 million) and to various other movements in non-interest bearing liabilities.

Changes in short term financing for 2004 resulted in a cash outflow of €48 million, mainly relating to the repayment of loans of €20 million existing within the Wilson group, a cash outflow of €8 million regarding hedge transactions and various other repayments of loans within our express and mail divisions.

LIQUIDITY AND CAPITAL RESOURCES

The company's capital resources include funds provided by our operating activities and capital raised in the financial markets. As regards the former, the company generates strong cash flows from operating activities (€984 million in 2005, €708 million in 2004). As with any global organisation, these operating cash flows are affected by economic and business trends. The majority of our cash flows are derived from our mail division, particularly from operations in the Netherlands. Amongst other factors, the impact of electronic substitution on mail volumes, postal regulations in the Netherlands and the pace of postal liberalisation in Europe continue to affect those cash flows, although it is not possible to predict what the long term cash flow effects will be.

Although cash requirements for capital expenditure fluctuate from year to year, depending on the extent of strategic capital projects, they have been well covered by operating cash flows and showed an improving trend for the most recent three financial years. Specifically, the ratio of operating cash flows to net capital expenditure was 3.7 in 2005 and 2.7 in 2004. This ratio is calculated as follows: net cash provided by operating activities divided by the sum of capital expenditure on other intangible assets, disposals of other intangible assets, capital expenditure on property, plant and equipment and disposals of property, plant and equipment, all as stated in our consolidated cash flow statements. We expect operating cash flows to

continue to cover our capital expenditure requirements in the foreseeable future. We believe our working capital is sufficient for our present requirements.

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

For details on the interest rates charged on our more significant long term loans as well as the maturity of our long term loans and commitments, see notes 13 and 28 to our consolidated financial statements.

We do not hold or issue financial instruments for trading purposes, nor do we allow our subsidiaries to do so. For details on our use of financial derivatives for hedging purposes, see notes 3 and 14 to our consolidated financial statements.

Off-balance sheet items

Other than guarantees and other similar arrangements that could be considered off-balance sheet and that are disclosed in this annual report, we have no off-balance arrangements.

CASH AND NET DEBT

At 31 December 2005, our total cash position amounted to €559 million. Despite cash paid of €473 million relating to our share buy backs during the year, our cash as at 31 December 2005 was only €74 million lower than compared to year end 2004. Included in the €559 million of total cash was €140 million of restricted cash (2004: 171) held mainly by joint ventures and insurance captives. The cash held in joint ventures is considered to be restricted by virtue of the fact that we require the agreement of our joint venture partners before we are able to access this cash. Our total cash position was primarily denominated in euro.

At 31 December 2005, our net debt position was €725 million (2004: 858). This consisted of €213 million of short term debt (2004: 51) and €1,071 million (2004: 1,440) of long term debt, offset by €559 million of cash and cash equivalents (2004: 633).

At 31 December 2005, short term borrowings consisted of €65 million (2004: 36) of bank debt bearing variable interest rates, and €148 million (2004: 15) of numerous other liabilities at fixed and variable rates, including a €129 million bilateral loan agreement maturing in 2006 with a fixed interest of 2.54%.

At 31 December 2005, long term debt consisted of a combination of two Eurobonds of €1,009 million (2004: 1,000), finance lease agreements of €24 million (2004: 86), €31 million of other long term liabilities at fixed and variable interest rates (2004: 354) and €7 million of interest rate swaps.

On 5 December 2001, TNT N.V. issued a €1 billion Eurobond with an original maturity of seven years. The bond has a coupon of 5.125% and began paying interest annually in arrears on 5 December 2002.

In May 2005, €354 million of the €1 billion 5.125% Eurobond 2008 was exchanged for €386 million of a new 10-year 3.875% Eurobond 2015. At the time of the exchange, the 2015 bond was increased with an additional €14 million to an outstanding total amount of €400 million.

The total €1,046 million (2004: 1,000) of Eurobonds will be measured at amortised cost. The book value of the nominal €1,046 million of Eurobonds amounted to €1,009 million (2004: 1,000) as at 31 December 2005.

We have a total €500 million (2004: 300) of interest rate swaps outstanding on which we receive fixed interest and pay floating interest. The market value of these instruments amounted to negative €2 million as at December 2005 (negative €1 million as at 31 December 2004).

In December 2005, we entered into €500 million of forward starting interest rate swaps on which we receive floating interest and pay fixed interest. These flows of interest exchanges under the forward starting interest rate swaps will start in December 2008. Due to the June 2005 exchange for the new 3.875% 2015 Eurobond we have decided to unwind €400 million of outstanding forward starting interest rate swaps for which we paid the market value of €12 million. The market value of this long term €100 million outstanding forward starting interest rate swap amounted to €5 million as at 31 December 2005 (€0 million as at 31 December 2004).

CREDIT FACILITIES

We have successfully negotiated to extend and increase our Multicurrency Revolving Credit Facility of €600 million maturing in 2008 to €1 billion maturing in 2012. The €1 billion facility will be used for general funding purposes and serves as a back-up facility for our Euro Commercial Paper Programme.

At 31 December 2005, our long term credit ratings were A (on CreditWatch with negative implications) by Standard & Poor's and A2 (under review for further possible downgrade) by Moody's.

CASH OBLIGATIONS

At 31 December 2005, our gross interest bearing borrowings, including finance lease obligations, totalled €1,284 million (2004: 1,491), of which 94% (2004: 84%) was at fixed rates of interest and €1,071 million (2004: 1,440) represented long term debt. We had operating lease commitments of €1,251 million (2004: 1,675).

The following table show the maturity of these amounts:

Amounts of payments due by period	Total	Less than 1 year	1 to 3 years	4 to 5 years	After 5 years
Total borrowings	1,284	213	655	10	406
Rent and operating lease commitments	1,251	229	392	245	385
Total contractual cash obligations	2,535	442	1,047	255	791

(in € millions)

GUARANTEES

Amounts of commitments expiration by period	Total	Less than 1 year	1 to 3 years	4 to 5 years	After 5 years
Guarantees	267	11	71	10	175

(in € millions)

Total financial guarantees at 31 December 2005 were €267 million (2004: 350) of which €99 million (2004: 164) amounted to corporate guarantees. These guarantees were mainly issued in connection with our obligations under lease contracts, custom duty deferment and local credit lines. The increase of corporate guarantees to banks was mainly due to local credit lines.

Furthermore, banks and other financial institutions have issued guarantees to cover obligations of group companies up to an amount of €147 million (2004: 127). These guarantees were mainly issued in connection with our obligations under lease contracts, customs duty deferment and local credit lines. The obligations under the guarantees issued by banks and other financial institutions have been secured by TNT N.V. or by its subsidiaries. The €21 million (2004: 59) of remaining guarantees in 2005 relates to bank guarantees issued locally by group companies.

CONTINGENCIES

OPERATING LEASE COMMITMENTS

Our total operating lease commitments at the end of the year were €1,251 million (2004: 1,675). The total commitments as at 31 December 2005 relating to capital expenditure were €16 million (2004: 33).

SHARE BUY BACK

On 6 December 2005, we announced to return capital to our shareholders by repurchasing ordinary shares. This share buy back programme started on 6 December 2005 and is expected to end 6 April 2006 unless prior to such date: (a) the aggregate value of shares acquired would exceed €1 billion; (b) 10% of the outstanding ordinary shares have been

repurchased, including any ordinary shares already held by the company; or (c) if a cash or exchange offer with respect to our shares is publicly launched through the publication of an offer document.

As at 31 December 2005, we repurchased 9,020,000 of our ordinary shares for a total amount of €231 million. Note 40 includes a table summarising our repurchases during December 2006. Under this repurchase programme we anticipate purchasing additional shares with a value of €769 million. It is our intention to cancel the repurchased ordinary shares and we intend to request for such cancellation to be approved by our shareholders.

UNCONDITIONAL PURCHASE COMMITMENTS

At 31 December 2005 we had unconditional purchase commitments of €100 million (2004: 84), which were primarily related to various service and maintenance contracts.

INCOME TAXES

In 2005, TNT continued to investigate and analyse its global tax position. As a result we currently estimate the realistic range to reflect our total contingent liability in this regard is between €150 million and €550 million.

In early 2004, our audit committee, on behalf of our Supervisory Board, conducted an independent investigation regarding representations made to the UK tax authorities and to our independent auditors, PricewaterhouseCoopers, with respect to certain UK tax matters originally arising in the late 1990s relating to one of our UK subsidiaries. The 2004 investigation, concluded that not all relevant details in connection with these tax matters were adequately disclosed

to the UK tax authorities and PricewaterhouseCoopers. In addition to this investigation, in 2004 our audit committee, with the assistance of external legal and tax advisors, conducted a review of other UK tax matters that arose from the same period. In August 2004, we submitted a report to the UK tax authorities pursuant to a procedure under UK law designed to ensure full disclosure of all relevant information to the UK tax authorities. In the first quarter of 2005, we reached a settlement with the UK tax authorities in relation to those matters without any further negative impact on our tax position in 2005.

As previously disclosed, since August 2004, we have been preparing an addendum to our original report to the UK tax authorities that will cover UK tax matters that were not the subject of the original investigation. We are in continuing discussions with the UK tax authorities in this connection, and we do not expect that these matters will be resolved with the UK tax authorities before the end of 2006.

In late 2005 and early 2006 our audit committee conducted an independent investigation with respect to whether illegal acts occurred in connection with certain past tax matters. Although the investigation concluded that such acts had occurred, we have determined that no provision or contingent liability is required as a result of this investigation.

We have also analysed and continue to analyse the tax positions of some of our subsidiaries with respect to other countries.

Our investigations and analyses, which are ongoing, concern, among other things, the substance and implementation of tax structures set up in connection with the acquisition, in December 1996 (prior to our formation in 1998), by our former parent company of the Australian company TNT Limited through a UK subsidiary, and the integration and structuring of those and related businesses after our demerger in 1998. Some of these structures, which were set up in consultation with outside advisors, have been, or might be, challenged by various tax authorities.

An item that will be addressed in the addendum to our report to the UK tax authorities concerns whether some of our subsidiaries might have been resident in the United Kingdom prior to the acquisition of TNT Limited in December 1996 and, if so, whether tax on capital gains would have been due when the tax residency of those subsidiaries later may have moved to another European country. We are still investigating the residency of the relevant subsidiaries, but even if they were UK resident, we believe that the imposition of such a tax on capital gains would be impermissibly discriminatory under EU law.

The addendum will also deal among other things, with certain transfer pricing issues in respect of which on 9 February 2005 we made a payment on account to the UK tax authorities of €22 million. We charged this payment against a tax accrual that we recorded in 2004 in connection with this issue.

As part of a pilot publicly announced to the Dutch parliament to which the Dutch Ministry of Finance and the Confederation of Netherlands Industry and Employers (VNO-NCW) are committed, we recently signed a compliance covenant with the Dutch tax authorities to self-assess and transparently discuss our past, present and future tax issues with the Dutch tax authorities. The Dutch tax authorities have agreed, in turn, to take a clear position on such issues swiftly. An example of what we expect to discuss is the group-wide finance structure we have applied in the past and the structure we intend to apply in the future.

From the extensive review to date of our global tax position, on the basis of the facts and circumstances as currently known and advice received from external advisors, we currently believe that it is unlikely that we will incur an additional liability beyond what we have accrued to date, and thus we have not made any further provision in connection with these matters in our financial statements for 2005. To date no assessments relating to the items under investigation or analysis have been raised, and it is difficult to assess if and when, and if so, for what amount, any particular assessment might be raised. Our interpretation of past facts and circumstances and relevant tax laws and regulations may be open to challenge. However, our positions have been and are supported by strong external specialist advice, both contemporaneous and present, on the basis of which we have reached our estimates.

Although we currently believe that it is unlikely that we will incur an additional liability beyond what we have accrued to date, we estimate that the realistic range to reflect our total contingent liability in this regard, including potential penalties and interest, is between €150 million and €550 million. This estimate incorporates our current assessment of the matters underlying the contingent liability disclosure in our audited financial statements for 2004. This estimate is based on a probability-weighted assessment of our estimated total theoretical liability. It has been tested against possible settlement negotiation scenarios. Altogether this estimate represents 25-30% of the non-probability weighted estimated theoretical maximum liability - in the highly unrealistic scenario where all of our tax positions under investigation or analysis were successfully challenged, we and all relevant tax authorities were unable to reach any settlement whatsoever, and all of our positions were rejected by all relevant courts. We believe this is highly unlikely.

Our estimate of the realistic range of the total contingent liability of €150-€550 million involves a series of complex judgments about past and future events and relies on estimates and assumptions. Although we believe that the estimates and assumptions supporting our assessments are reasonable and are supported by external advice, our ultimate liability in connection with these matters will depend upon the assessments raised, the result of any negotiations with the relevant tax authorities and the outcome of any related litigation.

OTHER

We are involved in several legal proceedings relating to the normal conduct of our business. We do not expect any liability arising from any of these legal proceedings to have a material effect on our results of operations, liquidity, capital resources or financial position. We believe we have provided for all probable liabilities deriving from the normal course of business.

Equity reconciliation as per

	1 January 2004	31 December 2004
Total equity under Dutch GAAP	2,986	2,784
Minority interests	(17)	(19)
Equity under Dutch GAAP	2,969	2,765
Discounting provisions	1	
Goodwill amortisation		135
Intangible assets		(6)
Other employee benefits	(35)	(34)
Employee benefits pensions	47	11
Minimum pension liability		454
Other	(1)	
Equity under IFRS	2,981	3,325
Minority interests	17	19
Total equity under IFRS	2,998	3,344

(in € millions)

Reconciliation profit for the period attributable to the shareholders

	Full year 2004
Profit attributable to the shareholders under Dutch GAAP	667
Goodwill amortisation	135
Intangible assets	(6)
Share based compensation	(6)
Other employee benefits	(3)
Employee benefits pensions	(38)
Other	3
Profit attributable to the shareholders under IFRS	752

(in € millions)

For a further description of these contingencies see note 28 to our consolidated financial statements and note 43 of the financial statements of TNT N.V.

CAPITAL EXPENDITURES PROJECTION FOR 2006

The total projected 2006 capital expenditures on property, plant and equipment and other intangible assets for our divisions is estimated to be €400 million, which is expected to be spent on similar types of property, plant and equipment and other intangible assets as in 2005. We believe that the net cash provided by our operating activities will be sufficient to fund these expenditures.

RELATED PARTY TRANSACTIONS AND BALANCES

Our group companies have trading relationships with a number of our partially consolidated joint ventures as well as with unconsolidated companies in which we only hold minority stakes. In some cases there are contractual arrangements in place under which our group companies source supplies from such undertakings, or such undertakings source supplies from our group companies. During 2005, sales made by our group companies to our joint ventures amounted to €42 million, compared to €24 million in 2004. Purchases from our joint ventures for 2005 amounted to €131 million, compared to €125 million in 2004. The net amounts due from joint venture entities as at 31 December 2005 totalled €49 million, compared to €49 million in 2004.

Loans receivable from associated companies are disclosed in notes 3 and 5 to our consolidated financial statements. As at 31 December 2005, no material amounts were payable by TNT to associated companies. We believe that all transactions with joint ventures and associated companies are conducted in the ordinary course of business and under normal arm's length commercial terms and conditions.

For further disclosure of the related party transactions and balances we refer to note 32 to our consolidated financial statements. For information on our relationship with the State of the Netherlands see chapter 14 and note 32 to our consolidated financial statements.

TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

The conversion from Dutch GAAP to IFRS is explained in detail in chapter 12, Note "Transition to International Financial Reporting Standards as adopted by the EU".

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

We make estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are described below. We have discussed the development and selection of these critical accounting policies and estimates with our independent auditors. In addition, our financial statements contain a summary of our significant accounting policies.

BUSINESS COMBINATIONS AND IMPAIRMENT OF GOODWILL AND OTHER LONG LIVED INTANGIBLE ASSETS

Under IFRS all of our business combinations are accounted for as purchases. The cost of an acquired company is assigned to the tangible and intangible assets purchased and the liabilities assumed on the basis of their fair values at the date of acquisition. The determination of fair values of assets and liabilities acquired requires us to make estimates and use valuation techniques when market value is not readily available. Any excess of purchase price over the fair value of the tangible and intangible assets acquired is allocated to goodwill.

Under IFRS we evaluate our goodwill for impairment at least annually and more frequently if specific events indicate that impairment in value may have occurred. Our goodwill impairment tests include judgements regarding assumptions relating to the level of testing, future cash flow and discount rates.

The level we identify for impairment testing and the criteria we use to determine which groups should be aggregated also require judgement. A difference in testing levels could affect whether an impairment is recorded and the extent of impairment loss. Changes in our business activities or structure may result in changes to the level of testing in future periods. Additionally, the level of testing for IFRS may be lower than the level of testing for US GAAP, which adds another layer of complexity.

To determine whether goodwill is impaired, we use valuation techniques that involve estimating cash flows for future periods and discounting these cash flows to determine value in use.

We have to make estimates regarding expected revenues and costs as well as capital expenditures. Due to the inherent nature of estimates, our actual experienced revenues, costs and capital expenditures in the past have varied, in some cases materially, from our expectations. The use of different assumptions for our cash flow estimates could affect the amount of any impairment losses recognised. We also use significant judgement to determine the discount rate.

Under US GAAP, there is a two-step impairment test. In the first step, we are required to make estimates regarding the fair values of reporting units (assets and liabilities, including recorded and unrecorded intangible assets) in determining whether goodwill impairment might exist. To the extent the first step indicates a possible impairment of goodwill, the second test is performed and consists of comparing the fair values with the carrying amount of the reporting unit's goodwill in determining the amount of the impairment charge. We use valuation techniques to determine some of the fair values, which involve the same judgements as mentioned above regarding cash flows and discount rates.

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

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is valued at historical cost using a component approach, less depreciation or at the recoverable amount whenever impairment has taken place. Depreciation is calculated using the straight-line method based on the estimated useful life, taking into account any residual value. The assets' residual values and useful lives are based on our best estimates, and adjusted if appropriate, at each balance sheet date.

IMPAIRMENT OF RECEIVABLES

The risk of uncollectibility of accounts receivable is primarily estimated based on prior experience with and the past due status of doubtful debtors, while large accounts are assessed individually based on factors that include ability to pay, bankruptcy and payment history. In addition, debtors in certain countries are subject to a higher collectibility risk, which is taken into account when assessing the overall risk of uncollectibility. Should the outcome differ from the assumptions and estimates, revisions to the estimated valuation allowances would be required.

POST-EMPLOYMENT BENEFITS

First time adoption of International Financial Reporting Standards

As permitted under IFRS 1, at the date of transition to IFRS we have elected to recognise all cumulative actuarial gains and losses and the unrecognised prior year service costs for all our defined benefit pension plans. For US GAAP purposes the actuarial gains and losses continue to be recognised under the corridor approach while unrecognised prior year service costs are recognised during the future service periods of the active employees. This has resulted in a difference in the pension expense and pension liability between IFRS and US GAAP.

Under IFRS, we have accounted for certain defined benefit obligations in Italy by using the actuarial present value of the vested benefits to which an employee is currently entitled, but based on the employee's expected date of separation or retirement. For US GAAP purposes, we have accounted for these obligations using the nominal value of the vested benefits to which the employee is entitled to if an employee separates immediately. This option is permitted under Emerging Issues Task Force (EITF) No. 88-1, *Determination of Vested Benefit Obligation for Defined Benefit Plan*.

Pension cost

Inherent to the valuation of our pension liabilities and the determination of our pension cost are key assumptions, which include employee turnover, mortality and retirement ages, discount rates, expected long term returns on plan assets, and future wage increases, which are usually updated on an annual basis at the beginning of each financial year. Actual circumstances may vary from these assumptions, giving rise to a different pension liability, which would be reflected as an additional profit or expense in our statement of income. Included in note 10 in chapter 12 is a table that indicates the change in employer pension expense with a 0.5% change in certain key assumptions.

In 2005, our employer pension expense was €141 million (2004: 185). Total cash contributions in 2005 amounted to €264 million (2004: 437) and are expected to amount to approximately €222 million in 2006. Cash contributions to the various pension funds totalled €166 million. Of these payments €59 million was contributed as prescribed by the minimum funding requirements of the DNB. Our cash payments for pensions, which fall under the transitional plan for early retirement in the Netherlands and are directly paid by us (see note 10 to our consolidated financial statements), amounted to €98 million.

RESTRUCTURING

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

tangible asset impairments. Actual experience has been and may continue to be different from these estimates. As at 31 December 2005 and 2004, restructuring provisions were €43 million and €49 million, respectively.

ACCRUED CURRENT LIABILITIES

We also have to estimate the deferred revenues from stamps sold but not yet used by our customers. We use a seasonal model based on historical figures in order to account for the seasonal effects in sales to our customers (for example sales for Christmas greetings in November and December).

INCOME TAXES

We currently have significant deferred tax assets resulting from net operating loss carry forwards and deductible temporary differences, which will reduce taxable income in future periods. We recognise deferred tax assets to the extent that it is probable that future taxable profits will allow the deferred tax asset to be recovered. This is based on estimates of taxable income by jurisdiction in which we operate and the period over which deferred tax assets are recoverable. In the event that actual results differ from these estimates in future periods, and depending on the tax strategies that we may be able to implement, changes to the recognition of deferred tax assets could be required, which could impact our financial position and net income.

ACCOUNTING FOR DISCONTINUED OPERATIONS

Accounting for discontinued operations requires the use of significant assumptions and estimates, such as the assumptions used in the fair value calculations as well as the estimated costs to sell. We have evaluated the assets held for sale of our discontinued logistics operations as a disposal group in performing our impairment analysis.

CONTINGENT LIABILITIES

Legal proceedings and tax issues covering a range of matters are pending in various jurisdictions against us. Due to the uncertainty inherent in such matters, it is often difficult to predict the final outcome. The cases and claims against us often raise difficult and complex factual and legal issues which are subject to many uncertainties and complexities, including but not limited to the facts and circumstances of each particular case and claim, the jurisdiction and the differences in applicable law. In the normal course of business, we consult with legal counsel and certain other experts on matters related to litigation and taxes.

We accrue a liability when it is determined that an adverse outcome is probable and the amount of the loss can be reasonably estimated. In the event an adverse outcome is possible or an estimate is not determinable, the matter is disclosed.

RECONCILIATION OF IFRS TO US GAAP

Our financial statements are prepared in accordance with IFRS, which differ in certain respects from US GAAP. In the case that our IFRS accounting policies do not correspond with the required US GAAP accounting treatment and this is estimated to have a significant effect on our consolidated net income and shareholders' equity, we have highlighted these differences in the reconciliation of our IFRS net income and shareholders' equity to those under US GAAP, as presented in note 34 to our consolidated financial statements.

Net income determined in accordance with US GAAP was €632 million in 2005 (2004: 714), which was €27 million lower than net income determined in accordance with IFRS in 2005 compared to €38 million lower in 2004. This difference mainly relates to employee benefits. As permitted under IFRS 1, *First-time Adoption of International Financial Reporting Standards*, at the date of transition to IFRS we have elected to recognise all cumulative actuarial gains and losses and the unrecognised prior year service costs for all our defined benefit pension plans. For US GAAP purposes the actuarial gains and losses and unrecognised prior year service costs continue to be recognised under the corridor approach. This has resulted in a difference in the pension expense and pension liability between IFRS and US GAAP.

The main differences in our 2004 net income relate to the unwinding of an insurance contract in the mail division with a remaining balance of €130 million at the moment of the termination of the contract, which was offset by lower pension costs under US GAAP, the realisation of gains on real estate sales and a positive tax effect on the reconciling items.

Our shareholders' equity determined in accordance with US GAAP was €2,757 million at 31 December 2005 (2004: 2,622), which was €505 million lower at 31 December 2005 and €703 million lower at 31 December 2004 than shareholders' equity determined in accordance with IFRS. The lower equity under US GAAP was mainly caused by a direct equity movement related to a minimum pension liability of €587 million at 31 December 2005 (2004: 454), net of taxes. This was partly offset by differences relating to goodwill and employee benefits.

Under US GAAP we are required to record a minimum pension liability in the event the accumulated benefit obligation (ABO) exceeds the fair value of the pension plan assets with a corresponding reduction in shareholders' equity net of deferred taxes. Under IFRS such a minimum pension liability is not required.

As at 31 December 2005 and 2004, the ABO amounted to €5,194 million and €4,643 million, respectively. The increase in the ABO was mainly due to a decrease in interest rates from 4.8% in 2004 to 4.3% in 2005 (impact approximately €440

million). As at 31 December 2005 and 2004 the ABO for certain of our pension plans in the Netherlands, in Germany, and in the United States exceeded the plan assets, we were required to record a minimum pension liability of €843 million.

As at 31 December 2004 our repurchase of shares, relating to the second tranche of our September 2004 share repurchase plan, amounting to €259 million qualified under US GAAP as financial liability rather than equity.

As a result of our December 2005 announcement to focus on our core competency of providing delivery services, we have presented assets and liabilities of our discontinued logistics business as long lived assets to be disposed of by sale and have presented our profit (loss) for the period from our discontinued logistics business as profit (loss) from discontinued operations. As required under IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, we have not depreciated or amortised, since 6 December 2005, our assets held for sale.

IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, requires us to classify non-current assets or a disposal group as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the assets or disposal group should meet the following criteria:

- the asset or disposal group must be available for immediate sale in its present condition,
- the sale must be highly probable, which requires appropriate level of management be committed to a plan to sell the assets or disposal group,
- an active programme to locate a buyer and complete the plan must have been initiated,
- the asset or disposal group must be actively marketed for sale at a price that is reasonable in relation to its current fair value,
- the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification and actions required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

We have met all the criteria as required under IFRS 5. Our Board of Management is committed to a plan to sell the assets and as defined in the Dutch Civil Code, it can legally represent the company even in the event the general meeting of shareholders may not grant approval to certain resolutions. Furthermore, the Dutch Civil Code states that when a Board of Management commits a company in legally valid matters, the company is bound towards a third party. The logistics business is available for immediate sale in its present condition and we believe the sale of the business is highly probable.

The position of the SEC is that in the event shareholder approval is required, management is not considered having authority. Accordingly, under US GAAP the criteria

“management having the authority to approve the action, commits to a plan to sell the asset” is not met. The French logistics business meets all criteria and has been presented as discontinued operations and the remainder of the logistics business has presented as part of continuing operations.

Depreciation and amortisation from 6 December 2005 to 31 December 2005 for our discontinued logistics business other

than the French activities that we sold during 2005 amounted to €8 million and is included as a reconciling item between IFRS and US GAAP.

The following table indicates our 2005 operating income determined in accordance with IFRS, compared to that determined in accordance with US GAAP:

Year ended at 31 December

Operating income	IFRS			US GAAP		
	2005		% of total	2005		% of total
	US\$	€		US\$	€	
Mail	920	777	67.0	904	763	60.1
Express	561	474	40.9	562	475	37.4
Freight management	13	11	0.9	13	11	0.9
Logistics				148	125	9.9
Non-allocated	(122)	(103)	(8.8)	(124)	(105)	(8.3)
Total	1,372	1,159	100.0	1,503	1,269	100.0

(in millions, except percentages)

In 2005 the IFRS operating income in the mail division was higher by €14 million as compared with the operating income under US GAAP. Certain employee benefit expenses related to payments expected to be made to certain employees on reaching a specific number of years of service. As permitted under IFRS 1, *First-time Adoption of International Financial Reporting Standards*, at the date of transition to IFRS, we recorded a liability with a corresponding adjustment to shareholders' equity as at that date. For US GAAP purposes,

we have included the amount in the income statement resulting in a difference in the profit for the period between IFRS and US GAAP. This was partly offset by higher pension expenses under IFRS.

Operating income in our express and freight management businesses have no material differences between IFRS and US GAAP.

Year ended at 31 December

Operating income	IFRS		US GAAP	
	2004	% of total	2004	% of total
Mail	806	72.2	747	61.4
Express	375	33.6	380	31.3
Freight management	6	0.5	6	0.5
Logistics			155	12.8
Non-allocated	(71)	(6.3)	(73)	(6.0)
Total	1,116	100.0	1,215	100.0

(in € millions, except percentages)

In 2004 the IFRS operating income in the mail division was higher than under US GAAP. This was caused by the unwinding of an insurance contract. The agreement with an insurance company related to settling future wage guarantees that was entered in 2001, was terminated in December 2004 following an unfavourable court decision with regard to the timing of the deductibility of the consideration for tax purposes. This higher result under IFRS was partly offset by higher pension charges. Within express the difference between IFRS and US GAAP operating income was primarily the result of amortisation of other long lived intangible assets recognised under US GAAP

prior to 1 January 2004 and higher pension expenses and expenses relating to share based payments under IFRS. Freight management operating income has no material differences between IFRS and US GAAP.

RECENT US GAAP ACCOUNTING PRONOUNCEMENTS

The Financial Accounting Standards Board in the United States (FASB) has issued certain Statements of Financial Accounting Standards (SFAS), each of which, when adopted, could affect our consolidated financial statements for US GAAP reporting.

In December 2004, the FASB issued a revised version of SFAS 123, *Share-based payments, Revised 2004* (SFAS 123(R)). The SEC has issued Staff Accounting Bulletin No. 107, relating to the adoption of SFAS 123(R). SFAS 123(R) requires us to measure all employee share based compensation awards using a fair value method, estimate award forfeitures, and record such expense in our consolidated statements of income. This statement supersedes APB Opinion No. 25, *Accounting for Stock issued to Employees*. The provisions of this statement were effective 1 January 2006. As permitted by FASB Statement No. 148, *Accounting for Stock-Based Compensation – Transition and Disclosure*, we have elected, effective 1 January 2005, to measure our share based payments using a fair value method under SFAS 123 using the transition provisions of SFAS 148. Accordingly, we do not expect the adoption of SFAS 123(R) to have a material impact on our financial statements. The Emerging Issues Task Force (EITF) issued EITF 05-6, *Determining the Amortization Period for Leasehold Improvements Purchased after Lease Inception or Acquired in a Business Combination*. This pronouncement requires that leasehold improvements acquired in a business combination or purchased subsequent to the inception of the lease should be amortised over the lesser of the useful life of the asset or the lease term that includes reasonably assured lease renewals as determined on the date of acquisition of the leasehold improvement. We are required to adopt this pronouncement effective 1 January 2006 and do not expect the adoption the EITF 05-6 to have a material impact on our financial statements.

of these financial instruments are leveraged or used for trading purposes or to take speculative positions. For more information see our note on “Financial Risk Management” in chapter 12.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our activities expose us to a variety of financial risks, such as market risks (including foreign currency exchange risk, interest rate risk and commodity price risk), credit risk, liquidity risk and cash flow risk. All of these risks arise in the normal course of business. In order to manage the risk arising from these exposures, we utilise a variety of foreign exchange, interest rate and commodity forward contracts, options and swaps to hedge certain exposures.

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