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# FROM THE CEO

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## DELIVERING ON OUR PROMISES

# DEAR COLLEAGUES, FELLOW SHAREHOLDERS, CUSTOMERS AND OTHER READERS,

It is great when a plan comes together, and that's exactly what happened for TNT in 2006. This annual report presents TNT's first year since we announced our Focus on Networks strategy.

We believe you will agree, after reading this annual report, that 2006 was indeed a successful year for TNT. Not just because of our strong operational results, the successful ways some of the hard choices of 2005 were executed, or the imaginative new ways our people found to improve our business, but because all these things happened AND we laid the basis for continued success. In other words strategy in action: delivering results and at the same time building new platforms for growth.

## FOCUS ON NETWORKS

With our newly focused strategy differentiating us in the market, we're pleased to report that the operating results in our mail and express networks were strong. The margins in both Mail and Express remained at best-in-industry levels. Overall, TNT's revenues grew by 7.8% compared to 2005, while operating income was up 11.1%. Our profit from continuing operations, which best reflects our business going forward, was up 7.5% in 2006.

In Express, revenue growth was well above 10%, and the margin approached 10% for the first time. Capacity at our air and road hubs in Liège and Duiven was expanded, and service quality was excellent throughout our European network despite occasional volume peaks caused by the kilo and consignment growth. We made significant progress in standardising our IT systems and key processes throughout our operations. In 2006, we added a Boeing 737 and a Boeing 747-400 ERF to our air fleet. Three more Boeing 737s and an additional Boeing 747-400ERF will follow in 2007. The Boeing 747-400ERFs will fly five times a week between our Liège hub and Shanghai, strengthening our Europe-to-China connection.

As part of our "Focus on Networks" strategy, we made important investments that increase our network coverage in selected markets. Simply put, TNT is acquiring domestic (road-based) network coverage in key growth markets around the world. We aim to upgrade service levels in these networks, standardise the processes and build connections with our express operations around the world. As part of this strategy, we acquired new growth platforms in 2006: TG+ in Spain and Speedage in India. We signed an equity transfer agreement with Hoau in China, and we expect to complete this transaction in early 2007. On 10 January 2007, we announced the acquisition of Brazilian express operator Mercúrio, establishing a leadership position in the domestic express market in South America. Integrating these large operations into the TNT express organisation will require our full attention in 2007.

In Mail, discussions around the liberalisation of the European market are playing out at two levels. We are awaiting the final decision from The Hague about the postal law in the Netherlands. Key outstanding questions concern the timing for fully opening the mail market, 1 January 2008 or later?, and the requirements of the Universal Service Obligation (USO). We continue to lobby for a level playing field, which would mean opening the United Kingdom's and Germany's mail markets at the same time the Dutch market opens. In Brussels we've seen the European Commission's first proposal to open all European postal markets on 1 January 2009. Discussions in the European Parliament will continue in 2007.

In the Dutch market, where 55% of the volume is already open to competition, we have experienced competition as well as pressure from ongoing substitution. Our Dutch mail volumes declined by some 4% in 2006, in line with our expectations and cost-saving measures. The key priority for our mail business remains continuing to maintain the best possible service quality for our customers while making costs more flexible inside this leading mail delivery network.

In December 2006, we announced a series of new initiatives in the Master Plans for Mail in the Netherlands. In the coming years we expect to implement the next wave of measures aimed at realising additional cost savings of €300 million annually, as well as new commercial initiatives to counter-attack competition. These initiatives will make it possible to protect the future cash flow of Mail Netherlands despite ongoing volume declines of between 3% and 4% annually. In early 2007, we will give due attention to discussing these plans with our employees through their Works Councils and trade unions.

Outside the Netherlands, our mail activities saw revenue expansion of more than 25%. Our European Mail Networks are active in eight European countries. Our main push for growth is aimed at developing true competitive offerings in the United Kingdom and Germany. In the United Kingdom, where network access is part of the regulatory regime, TNT Post won significant mail contracts, more than any other market entrant. Transitioning to our own end-to-end delivery network, which we believe is the only sustainable way to compete, requires formidable efforts in 2007. In Germany we have focused mainly on expanding our household coverage by setting up our own networks. Germany is a difficult market; conditions there do not even resemble a level playing field. Expansion in the market will continue to be expensive until mail volumes catch up with the delivery capacity we must put in place to offer German customers a competitive alternative. Given the size of the market and our progress to date, however, we remain highly committed to developing this opportunity.

As part of European Mail Networks expansion, we acquired PostCon in Germany and JD Williams in the United Kingdom, and various other smaller mail companies, including Italy.

## SALE OF NON-CORE BUSINESSES

During 2006 we were able to deliver on our promise to focus on what we do best: managing delivery networks. Two businesses were disposed of, reducing our workforce by approximately 35,500 employees and our revenues by some

€3.7 billion. We believe we found good new owners for each of the businesses and good deals were made. We thank the various Works Councils for their involvement, advice and support during these often complex and sensitive projects.

In November 2006, we concluded the sale of our logistics business. After an intense sales process that involved many interested parties, we decided to sell TNT Logistics to Apollo Management L.P. for €1,480 million on a cash and debt free basis. Even though we had some difficult discussions on the deal and recorded a book loss of nearly €100 million, we're convinced that the sale was a better decision than continuing to try to improve returns from this complex business. We received proceeds of €1,335 million, of which €15.5 million was received in the form of a 5% equity stake in the new company. On behalf of all of us in the Board of Management and our Supervisory Board, I thank Dave Kulik and all his colleagues, who left TNT to remain with the now CEVA Logistics.

On 16 November, we signed an agreement to sell our freight management business to French logistics service provider Geodis SA. We owned this good business for just over two years and came to the conclusion to sell it for a number of reasons: the logic of keeping it in our portfolio had decreased with our exit of logistics, and the fit with our remaining network businesses was not strong enough to pass on the excellent opportunity to exit. The transaction with Geodis was completed on 5 February 2007. The total net proceeds are approximately €450 million and the resulting book gain around €190 million. The result of the transaction will be accounted for in the first quarter of 2007.

Finally, we have made good progress in resolving our past tax matters. All relevant issues have been investigated and in several jurisdictions we have already reached agreements with those authorities. In the United Kingdom the tax authorities will issue initial assessments before they and we can effectively continue to seek an agreed solution. The amounts raised in such initial assessments could exceed our previous disclosed and unchanged estimated realistic total contingent liability range of €100-€250 million. However we believe, supported by strong external specialist advice, that it is unlikely that any of these past tax matters will lead to an additional liability beyond what has been accrued to date.

**INSTILLING PRIDE IN OUR PEOPLE**

At TNT, we passionately believe that it is our people who make the difference. We describe our belief in one sentence: *ordinary people doing extraordinary things by working together*. We have a large workforce. Their efforts to produce the best service quality every day, to listen to our customers and meet their needs are what make our business grow and succeed. Developing our talent and motivating all our staff is among TNT's most important strategic priorities.

For this reason, every year we measure the engagement levels of our people, and improving these engagement scores is part of the annual compensation incentives for our key managers. Employee engagement scores are published in our Social Responsibility report. Increasing employee engagement isn't

always easy; engaging people in regions where our business is growing is easier than doing so in changing or shrinking areas like our Dutch mail activities.

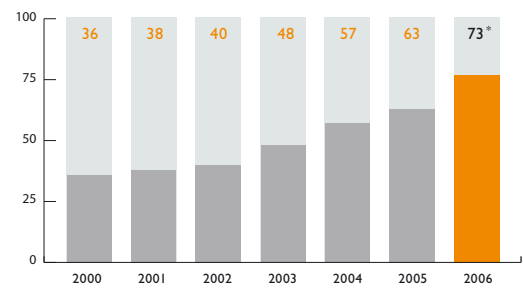
Instilling pride in our people is an important metaphor for working to continuously improve motivation among all our employees. The Board of Management is grateful to all the women and men who worked for TNT in 2006, and we congratulate them on their success. Through the acquisitions in Spain, China, India, Brasil, Germany and the United Kingdom, we added some 25,000 new people to our TNT family. We welcome all of you.

**CREATING VALUE FOR OUR SHAREHOLDERS**

As part of our December 2005 strategy announcement, we promised to optimise our capital structure to reflect our reduced risk profile after exiting the logistics business. In 2006, we completed the first €1 billion share buy-back programme. We followed with another €1 billion share buy-back from the proceeds of the sale of our non-network logistics business, which completed on 23 January 2007. As part of the second buy-back, we also bought a substantial portion of the shares held by the Dutch government which had decided to sell all of its remaining shares in TNT, after having transferred its special share in the company to us for free.

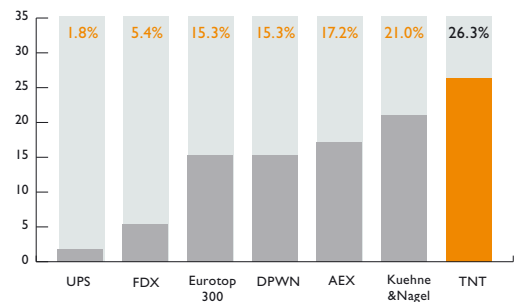
Since January 2005, TNT has distributed about €2.7 billion to its shareholders, through share buy-back programmes and through dividends, which have increased considerably in the past years.

Dividend per ordinary share.



\* Estimate based on outstanding number of ordinary shares per 26 February 2007.

TNT's share price increased by 23.4% in 2006. In terms of total shareholder return TNT outperformed its peers and the AEX as shown below.



Source: Bloomberg Professional (own currency based).

For the first time, this annual report contains a report about our internal control over financial reporting, according to the US Sarbanes-Oxley Act standards. We are proud to present this report. Before we were able to do this, our people around the globe put in enormous amounts of work to standardise, improve, document and control our business processes.

The medium-term targets associated with our “Focus on Network” strategy are clear:

- For Express between 2007 and 2012: expand our leading position in Europe; build leading positions in emerging markets (particularly China, India and Brasil) and Special Services; grow revenues between 10-15% annually and maintain an operating income margin at around 10%.
- For Mail between 2007 and 2012: actively maintain our strong Dutch mail position amid liberalisation; expand European Mail Networks revenues by an average of approximately 18% annually, with a margin increasing to 10% in 2012.
- For TNT as a whole between 2007 and 2012: optimise our capital structure, while maintaining an investment-grade credit rating; find ways to reduce the effective tax rate and increase free cash flow.

## SHARING RESPONSIBILITY FOR THE WORLD IN WHICH WE OPERATE

Social responsibility is an integral part of the way we do business at TNT. When we talk with our stakeholders, it's clear that reducing our impact on the environment is one of their main concerns. In 2006, we undertook our Driving Clean project, which aims to achieve a sustainable and significant reduction of our vehicle emissions. We'll make our existing fleet cleaner by retrofitting trucks and vans with soot filters. We have started buying new vehicles that meet the highest environmental standards possible, and we are investigating all new technologies, both in terms of zero-emission vehicles and alternative fuels. In 2007, we'll launch new initiatives aimed at reducing our operations' impact on the global climate.

Our partnership with the World Food Programme (WFP) continued in 2006. Our specialists helped WFP enhance its capabilities by implementing fleet management systems and providing training and expertise in supply chain management. We also assisted WFP in responding to emergency situations in Indonesia, Lebanon, Pakistan and Togo. In May 2006, our employees helped raise awareness for world hunger when more than 750,000 TNT and WFP personnel, families and friends participated in the third Walk the World event, a global sponsored walk encompassing more than 100 countries.

## IN CLOSING

All this made 2006 a successful year for TNT. We have many people to thank for their contributions to this success: our customers, our employees, our subcontractors and other business partners, our shareholders, our Supervisory Board members and every other stakeholder who has taken time to help make our company a better one.

With the group in good shape we look forward to the opportunities and challenges of 2007 with enthusiasm. We consider it our business to deliver yours.



Peter Bakker,  
CEO