





“Post is my family and  
my family is Post.”

## **THEO LAP**

TNT Post Nederland, Postman+, WFP Game Guide  
53 years old, married, 4 sons

## TNT POST NEDERLAND

Theo is calm. Very calm. He says it's the result of his job. After 32 years at TNT Post, he claims that each morning he gets up to go to work he is heading off to his hobby. That's an enviable situation to be in. There's probably plenty to talk about at family reunions too, as three of his sons and his daughter-in-law work or have worked at Post. But Theo does more than deliver letters. He is the Drachten representative for BIC (barcode management of letterboxes and clients) and the regional manager for the company vehicles' on-board computers. Add his volunteering as a Game Guide for the World Food Programme and it's no wonder he doesn't know where the time has gone since he started in 1974. If it was up to him, he'd be at Post for another 30 years.

"It seems like yesterday when I started. I had an interview at Post after leaving school. It looked good: a steady income, the security of being a civil servant and the chance to earn 200 guilders more than with any other company. I'm so glad I went with my gut feeling. I'm still here and I have loved every minute of it so far. Of course many things are different to when I started – the change from PTT into TPG and now TNT; the introduction of the sorting machines; and now open postal markets and the associated competition. But although the company has changed, my colleagues are all pretty much the same. Post people are Post people. Full stop. You either have it in you or you don't. You have to be reliable, friendly and, above all, you have to be sociable. We're the neighbourhood social workers! Someone could make a good penny or two by using a postman's local knowledge!"

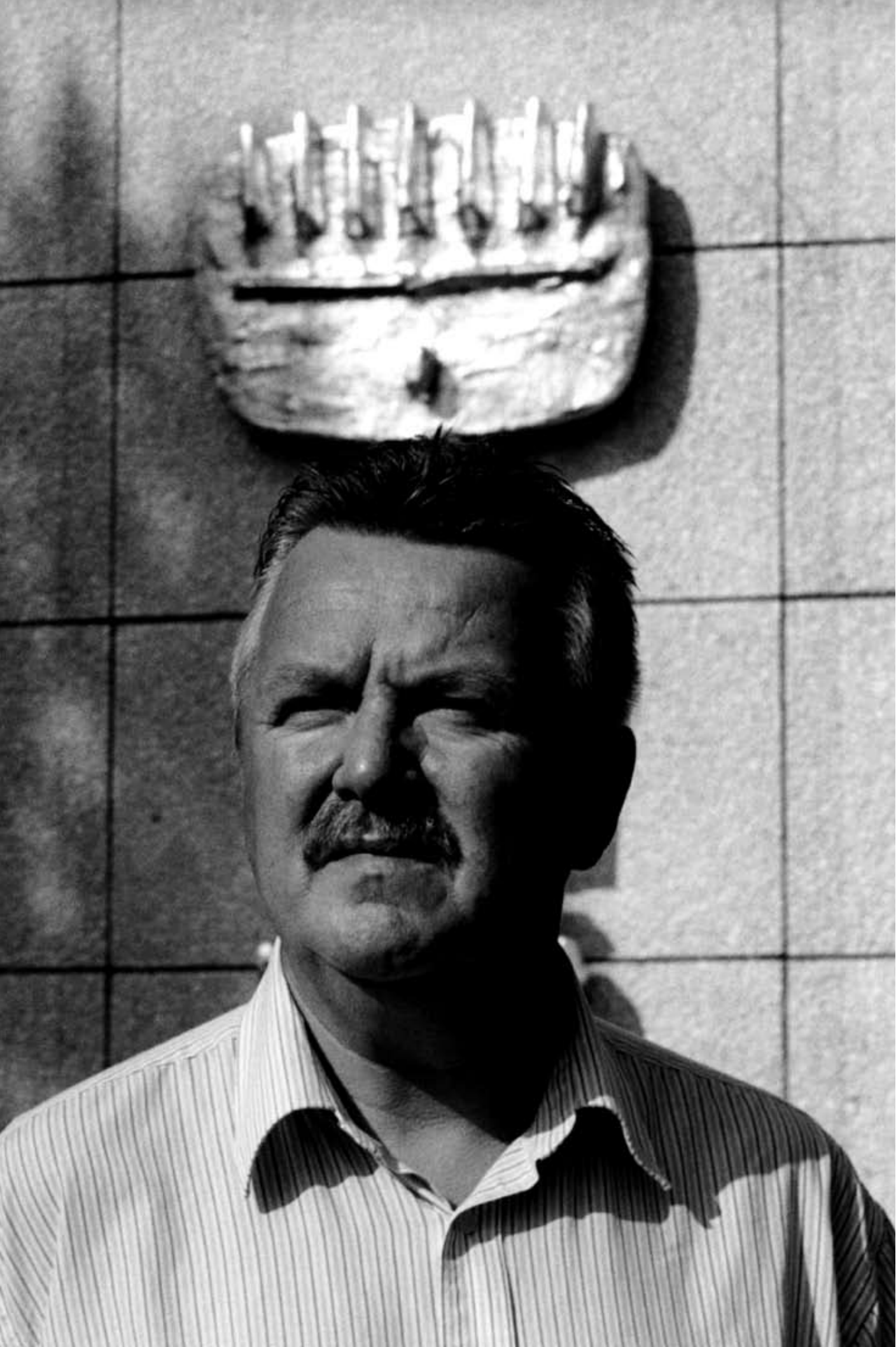
"One of my favourite activities at Post is being a Game Guide. I was trained in Leeuwarden and now visit about 70 schools each year where I talk to the 8 to 12 year olds. We play the WFP game and discuss the differences between here in the Netherlands and places where the children are not as fortunate as we are. I've spoken to hundreds of children and hope I've made a difference to them. Even if they now think just a little more about what they have and feel a bond, a connection with the children who have less, I would be delighted. Maybe I'm helping someone indirectly that way."

"You know, people ask me sometimes how long I still have to work. I look them in the eye and say: "As long as they'll let me!"

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# THE MAIL DIVISION

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## BUSINESS DESCRIPTION

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

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

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

### Mail Netherlands

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

Mandatory postal services provided in the Netherlands form part of Mail Netherlands. Our subsidiary Royal TNT Post B.V. (TNT Post) performs these mandatory postal services. Our operations are subject to significant domestic and European regulations which are described in detail in chapter 13.

Under the Dutch Postal Act we are required to provide mandatory postal services. The domestic mandatory postal services mainly consist of the conveyance against payment of standard single rates of letters and printed matter, including registered mail, with a maximum individual weight of two kilogrammes and postal parcels with a maximum individual weight of 10 kilogrammes. In addition, the provision of certain mandatory postal services is reserved exclusively to us. These reserved postal services include the conveyance of letters weighing up to 50 grammes (100 grammes prior to 1 January 2006) within the Netherlands. The exclusive right does not extend to the conveyance of letters by a business to its own customers.

Certain services are not included in the mandatory services that we are required to provide, including the delivery of bulk printed matter such as advertising, magazines and newspapers, the delivery of bulk letters with a weight above 50 grammes and unaddressed mail items. See chapter 13 for more information. Tariffs for mandatory postal services are required to be transparent, non-discriminatory and uniform. We may, however, grant volume discounts and negotiate specific prices and conditions with high volume users.

The marketing approach for Mail Netherlands varies for different market segments. This differentiated approach enables us to increase customer satisfaction together with effectiveness

and efficiency improvements. It ranges from physical outlets (post offices) and mass media for consumers and small and medium enterprises, and call centres for larger businesses to personal selling for key accounts. Internet and new media are increasingly used for all segments. The use of direct mail remains key in all our marketing and sales activities. Such an approach is key in our product portfolio and price strategy as well. To serve the different and continuously changing customer needs, we have developed a broader range of products such as our Economy service, and in addition we have started to set up a new network within our subsidiary "Netwerk VSP" for addressed mail, offering a lower service for lower prices.

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

Our direct mail business comprises all activities involving distribution within domestic borders of addressed advertising mail and magazines (referred to in the industry as "direct mail"). The vast majority of the delivery of direct mail is not a reserved postal service and is therefore subject to competition. Initially, direct mail was predominantly used by mail-order companies, banks and insurance companies, but recently it is increasingly being used by a wide variety of companies, regardless of size. Prior to 2002, we achieved growth in direct mail volumes due to economic growth in general, our innovative marketing approach and developments in the communications market. Beginning in 2002 and continuing in 2003 and 2004, a decline in direct marketing expenditures, due to slow economic growth and competition with other communications media in the advertising market, negatively affected our direct mail volumes. In 2005 we saw a slight recovery in the addressed direct mail market followed by a stabilisation of market volumes in 2006. We believe that better targeted direct mailings, which have a more limited circulation, may impede future growth in direct mail volumes.

Our domestic mail system is organised around 11 main sorting centres, six of which are mechanically automated centres developed in recent years and are dedicated to letters and printed matter, three are dedicated to parcels, one to registered mail and one to international mail. In 2006 we announced the closure of the sorting centre for international mail by the second quarter of 2007. Our international mail activities will be integrated in the remaining system of sorting centres. At the moment a review of this system is being carried out as part of our cost flexibility programme.

The domestic mail process begins with the deposit of mail by customers at post boxes, post offices and other designated deposit points and the pick-up of mail from customers. Through a fleet of approximately 4,070 vehicles either owned or leased by us, mail is collected and transported to one of the main sorting centres. After sorting, mail is transported to the main sorting centre in the region of its ultimate destination, where the mail is sorted to the level of an individual round of a mailman, and then it is delivered to one of our 465 mail distribution depots. From here the mail is arranged according

to street and house number and door-to-door delivery is then effected by one of our approximately 39,900 deliverers.

Included in Mail Netherlands are the results of our 50% interest in Postkantoren B.V., a joint venture with Postbank N.V., a subsidiary of ING Group N.V. The core business of Postkantoren B.V. is the distribution of financial and communication services and products (including postal services) to consumers and small businesses throughout the Netherlands. Postkantoren B.V. operates a network of approximately 2,100 outlets for the services of one or both partners. This network of outlets, partly self owned and partly in franchise, helps to fulfil our mandatory service obligation to provide a minimum number and regional density of postal outlets, as well as certain other services. Due to the growing use of cash dispensers and the internet for banking and postal services, we are restructuring our outlets: replacing self owned outlets by franchise outlets (usually a shop within a shop). At the end of 2006, the joint venture operated about 270 self-owned outlets and about 1,830 franchise outlets, both offering a full assortment of postal products. We use all 2,100 outlets for the collection of letters and parcels, the sale of stamps, and the delivery of letters and parcels in the event that home delivery is not successful and express post. Banking and insurance products of Postbank are available in approximately 800 outlets.

In addition, TNT Post itself operates a network of about 230 Business Points, which provide postal services to small and medium sized enterprises. For the benefit of consumers, TNT Post uses more than 6,000 retailers as stamp resellers, which means that we offered the Dutch market a total of more than 8,000 distribution points in 2006.

Mail Netherlands also engages in activities related to philately and designs, produces, issues and distributes Dutch stamps. Mail Netherlands includes real estate business related to our mail process. Other activities of Mail Netherlands are renting out postal boxes, pick-up services for businesses, postal box office/home delivery services, change of address services, mail safekeeping services and postal re-routing services. Also included in this line are loyalty services and advisory services related to direct mail. Mail Netherlands also offers digital secure and hybrid mail services. Some of the innovative services that are offered in Mail Netherlands include Notabox, a completely digital consumer orientated mail service for large mailers. We launched Notabox in cooperation with the major Dutch retail banks in January 2006. Other examples of new launches in 2006 are Scanpost, a new service including scanning, classification and electronic delivery of inbound business mail into the business processes of customers, the "Nationale-Apotheek.nl", which supplies medicine directly to the homes of consumers developed in cooperation with various healthcare partners, and "TNT Post Fotoservice", an internet service for printing and delivering photos and calendars.

### European Mail Networks

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

the United Kingdom and in 2006 the main focus continued to be on expanding addressed activities in the key markets of Germany and the United Kingdom.

### Cross-border Mail

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

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

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

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

Spring's name and credibility in the marketplace is achieved by delivering service and local expertise through a global network. Its key customers are publishers, corporates and direct marketers. In addition to its cross-border business mail services, Spring also provides a number of value added services with the objective of retaining and growing its customer base. The business operates in three geographic regions: Europe, the Americas and Asia Pacific and is based in Amsterdam, New York and Singapore. The trading environment for Spring continues to be a significant challenge and is heavily influenced by the slow pace of liberalisation in the marketplace; in some countries there is a trend towards remonopolisation.

### Data and Document Management

The services provided by our Data and Document Management business line, Cendris, consist of a complete portfolio of special solutions for direct communication, data and document management. Cendris provides services on finding and retaining customers and offers services for call centre activities, printing of statements and direct mail.

Cendris Customer Information is the product portfolio within Cendris for data activities. Cendris Customer Information is an advisor and specialist in consumer and business information, database management, data analysis and marketing consultancy allowing Cendris to support its customers in their pursuit of loyal and profitable customers. Cendris Customer Information managed to increase its revenue in 2006, despite price pressure in the market.

The Print & Fulfilment portfolio offers services for printing, digital presentation and fulfilment of transaction mail and direct mail. The key benefits for customers are cost reduction and control. We were successful in growing our business by contracting a number of major customers in the energy, telecommunications and insurance sectors. The Dutch print and mailing house, Euro Mail B.V., acquired in 2005, operated successfully in 2006. New activities were started in print

management, a broker activity for purchasing of printed matter and job handling. The scope of this activity is the entire print supply chain in which this broker function has clear unique selling points and delivers strong customer benefits. In 2006 this newly established business contributed positively to Cendris' results.

Cendris Customer Contact offers call centre services for inbound and outbound communication by telephone, e-mail and fax. These services increase the response to customers' marketing campaigns or optimise outsourcing service operations. Our call centre activities, incorporated in 2004 in a joint venture with Essent, are experiencing fierce pressure on prices due to heavy competition. Our goal is to remain market leader by investing in a more efficient operation.

### Facilities

In the Netherlands our mail division uses 476 of TNT's total of 1,707 buildings as sorting centres and distribution depots. We believe that these buildings are significantly utilised and provide sufficient capacity for 2007's business forecast. None of our properties is subject to any encumbrance.

The principal mail facilities are as follows:

Location	Owned/rented	Principal Use	Site Area
Amsterdam-Schiphol, the Netherlands	Rented	Sorting centre (international mail)	13,125 sq, metres
Amsterdam, the Netherlands	Owned	Sorting centre (letters)	48,970 sq, metres
's Hertogenbosch, the Netherlands	Owned	Sorting centre (letters)	49,460 sq, metres
The Hague, the Netherlands	Owned	Sorting centre (letters)	48,110 sq, metres
Nieuwegein, the Netherlands	Owned	Sorting centre (letters)	57,530 sq, metres
Rotterdam, the Netherlands	Owned	Sorting centre (letters)	40,240 sq, metres
Zwolle, the Netherlands	Owned	Sorting centre (letters)	56,560 sq, metres
Amsterdam, the Netherlands	Owned	Sorting centre (parcels)	31,460 sq, metres
Dordrecht, the Netherlands	Owned	Sorting centre (parcels)	28,250 sq, metres
Zwolle, the Netherlands	Owned	Sorting centre (parcels)	32,210 sq, metres
Arnhem, the Netherlands	Owned	Sorting centre (registered mail)	48,920 sq, metres

## STRATEGY AND ACTIONS

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

Our mail strategy is based on two key elements:

- In our domestic mail operations in the Netherlands, we focus on our customers and on the efficiency of our network. We implement our customer centric approach through our sales channels, product development and new business. The price/value strategy together with the implementation of our cost flexibility measures are designed

to enable us to retain our margins within a stable band. In addition, we continue to offer high service quality and new services to customers that bring cost savings to their production chains.

- Internationally, we continue to expand in attractive markets along two tracks:
  - through an offensive approach we aim to build an alternative postal company to the incumbent operator in world-wide selected countries and markets. Our European Mail Networks business line offers addressed, unaddressed and segmented distribution solutions for letters and direct mail, brochures, leaflets and samples with an excellent price/quality ratio, and
  - through postal alliances we strive to strengthen our position by way of cooperation with other organisations and postal operators.

These two key elements are supported by the following activities:

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

## BUSINESS CONTEXT

We do not believe that the postal market has yet absorbed all effects of the digitalisation of information flows. Large parts of the bulk transaction mail volumes will most likely be substituted by electronic ways of communication in the future. We recognise, however, that to a large extent the substitution process will be driven by the attitude of consumers and businesses towards electronic mail. Understandably, this attitude varies with the content of the messages and the function of mail.

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

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

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

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

In August 2006, the major Dutch banks, a few health insurers and some other large companies, each responsible for sending high volumes of mail, pooled their interests and set up the "Vereniging Grootgebruikers Postdiensten (VGP)", an organisation to represent their mutual interests in the addressed mail market. The VGP claims to represent approximately 14% of the addressed mail market in the Netherlands. This could adversely affect our mail division's revenue.

Most European postal operators were turned into corporations starting in 1989. Many governments are now considering privatisation of their national postal operator. In the process of privatisation there is an active interest by private equity as well as several industry players. This may result in a fundamental change in the European postal landscape and might trigger a consolidation process that will limit the number of independent postal players.

Our domestic mail business is seasonal in the sense that it is affected by public and local holiday patterns. The third quarter is traditionally our weakest quarter due to the summer holiday season in the Netherlands and the revenue in the month of December is positively impacted by the distribution of Christmas greeting cards and presents.

### Mail Netherlands

Our mail business in the Netherlands is highly regulated, the details of which are presented in chapter 13. The current Dutch Postal Act requires us to provide the mandatory postal services in the Netherlands at regulated prices and grants us the exclusive right to provide some of these services (referred to as reserved postal services). Despite declining volumes in the Netherlands, due to the saturation of the Dutch domestic mail market, growing competition and substitution by customers of other methods of delivering information, mail activities have provided us with a stable source of revenue and income. Dutch and EU regulations prohibit us from using the revenues from reserved postal services to cross-subsidise other activities.

In the Netherlands our two main competitors in the addressed mail market, Sandd B.V. and Selekt Mail Nederland (the latter is owned by Deutsche Post World Net and Dutch publisher Koninklijke Wegener N.V.), have both built their own nationwide delivery capability based on a delivery frequency of twice a week. These two main competitors claim to have delivered around 650 million addressed postal items together in 2006. We estimate that their joint market share was around 10% of the total volume of the Dutch addressed mail market. We expect that these competitors will continue to grow.

Customers choose our services because of our high price/value ratio based on the high effectiveness of mail as a communication medium and our ability to reduce the total chain costs for our customers.

Due to the efficiency of our operations and customer orientation, we believe that in spite of liberalisation, we will retain our leadership position in our traditional home market. Adjusting to reduced mail volumes and facilitating initiatives to limit volume decline, however, will require a continuous and increased effort to realise cost flexibility. As an indication of our strong position, the automotive, charitable, home shopping and government branches are examples where we regained business from competition in 2006.

Full liberalisation of the Dutch market will take place under certain conditions, mainly dependent on developments in the United Kingdom and Germany. Full liberalisation, however, is not expected before January 2008.

The Dutch parliament is expected to further debate the proposed new Postal Act during the course of 2007, including the future size of the new Dutch Universal Service Obligation. The Dutch government has proposed to limit the Universal Service Obligation in the Netherlands to single piece items and cross border mail when full liberalisation of the Dutch postal market takes place.

### European Mail Networks

In other countries we are growing our mail services, although substitution is a relevant factor that negatively influences the total size of most West European mail markets. At the moment our potential growth in other countries is also negatively affected by various barriers to entry, including fiscal (VAT) and regulatory.

### Cross-border Mail

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

Most European postal operators view the UPU target terminal dues system as inadequate for these purposes. As a consequence a significant majority of them are party to the separate, multilateral "REIMS II" agreement where terminal dues are related to a higher percentage of domestic tariffs, and to a certain extent to service quality as well. We have not entered into the REIMS II agreement because we feel it does not contain a strong incentive/penalty system that would guarantee improvement of the quality of service. Instead, we have concluded commercially oriented bilateral agreements with most of the European postal operators. The REIMS II parties plus TNT and Royal Mail have entered into negotiations with a view to concluding a market oriented "REIMS III" agreement. These negotiations are very complicated and have not been finalised. TNT Post is currently negotiating bilateral agreements for 2007.

Most of the 10 countries that joined the EU on 1 May 2004 have entered into a "REIMS East" agreement with the REIMS II parties. This agreement allows the new EU public postal

operators to use a transitional period to get accustomed to terminal dues that are based on domestic tariffs. We decided to become a member of the REIMS East agreement as of 1 January 2005. In this way we avoid lengthy bilateral negotiations and create considerable goodwill that will support our position in future terminal dues negotiations. The financial effects of this decision are limited due to low volumes exchanged between Royal TNT Post B.V. and postal operators of the accession countries.

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

## BUSINESS PERFORMANCE

We have maintained our profitability because of our customer focus and a set of cost restructuring measures that are being implemented with great rigour. Through our customer focus we are able to illustrate the effectiveness of mail as a communications medium, realise optimal total chain costs for our customers, develop new innovative services and realise high service quality standards. The ability to offer data and document management services is also a competitive factor. In 2001, we formulated our cost flexibility programme with works council discussions and initial pilots aiming at €320 million of savings on an annualised basis by 2012, compared to our cost levels in 2001. In 2004, we updated this cost flexibility programme with an overhead Master Plan, and we now expect this programme to achieve annualised cost savings by 2012 of approximately €370 million. In 2006, we achieved aggregate cost savings of €298 million, which was €64 million more than in 2005. We are ahead of the implementation schedule last communicated in December 2004. The cost saving programme includes a restructuring of the marketing and sales channels and organisation, a restructuring of our overhead and a restructuring of our operations.

### Mail Netherlands

In the Netherlands we have announced new initiatives to:

- limit volume pressure through further product and price differentiation and investments to maintain and generate new volumes, and
- reduce costs further through initiatives that we expect to generate €300 million in additional annual savings on top of the already existing cost flexibility measures (under the so called Master Plans).

The coming period will bring a continuation of competitive pressure. Without new commercial initiatives, we could see a volume decline of up to 40% by 2015. In December 2006 we announced new initiatives to be added to the existing cost flexibility programme. These plans include an intensified market response combined with additional cost reductions and an increase in cost flexibility. The intensified market response will bring further product and price differentiation and investments to maintain and generate (new) volumes. It is our ambition to limit volume decline over the period 2006-2015 to an average of between 3% and 4% per annum, although in the first one or two years after full liberalisation we expect slightly higher declines.

The cost measures include a renewed effort to increase efficiency (e.g. process redesign) and steps towards market conforming labour conditions. We intend to stimulate voluntary attrition supported by social measures to realise these plans. On top of the existing €370 million cost flexibility programme savings, of which €298 were by the end of 2006, the new initiatives are expected to bring an additional €300 million of savings, to be implemented up to 2015. The newly announced plans will contain cost savings throughout the operational chain of collection, transport, sorting, preparation and delivery. The plans also include steps towards a more market conforming wage structure and a renewed effort to optimise marketing and sales and overhead processes.

We will discuss and refine the plans with employees, unions and works councils and detail the plans for implementation. We expect first savings from these new initiatives to materialise in 2008. In the course of 2007 we intend to announce more details related to the new initiatives.

### European Mail Networks

In Germany, one of the key mail markets in Europe, we accelerated the expansion of our regional distribution networks to strengthen our position in nationwide addressed delivery. We have decided not to build a nationwide network, but will focus on high density areas, either through greenfield operations under the brand name TNT Post Regioservice or via acquisitions. The aim is to be active in all key areas in Germany with our own regional distribution. In 2006 we established a coverage through own networks of close to 20%. With this we can secure the nationwide product offering of our 71% subsidiary TNT Post AG & Co. KG, which successfully gained new customers and almost doubled revenues in 2006. The national coverage for the distribution of letter mail is more than 90% of all households in Germany. This has been achieved by us through partnerships with regional distribution companies, of which TNT Post Regioservice is one. In 2006 we acquired PostCon Deutschland AG, the market leader in consolidation in Germany. Through this acquisition we were able to grow our customer base and to bring volume into our own networks.

The United Kingdom is the second largest market in Europe and is therefore a key market for us. In the United Kingdom we have contracted with Royal Mail for downstream access which allows us to offer customers an alternative in the postal market. This arrangement was successful in 2006, as we gained many important contracts. At the same time we are setting up sorting facilities to be able to offer customers a broader portfolio of services. Our ultimate goal is to provide customers with an end-to-end solution. We made the first steps towards this in 2006.

In the fourth quarter of 2006 we also launched a parcel service in the UK. The acquisition of the JD Williams courier network provides an entry for TNT Post UK to business to consumer and consumer to consumer parcel and delivery markets, providing 80% household coverage in the United Kingdom. The JD Williams courier network employs 194 employees supported by a network of over 2,200 self employed couriers. This acquisition is a significant gain for our end-to-end strategy, but does require operational fine-tuning in 2007.

In unaddressed delivery we strengthened our position in 2006 in all markets where we are present, mainly through organic

growth. In the Netherlands, Belgium and Central and Eastern Europe we are a significant player in unaddressed delivery. In almost all countries, however, we are experiencing intense price competition (mostly by companies owned by other postal operators who use their dominant position and wish to enter this market). Our goal is to retain our market share by retaining customers and volumes. We invest in quality of services to differentiate ourselves from those competing on price.

In 2006, we acquired three unaddressed mail companies in Italy. These acquisitions strengthened our position and are next steps towards consolidating the market.

In China we have created a direct mail company to allow us to capitalise on what we expect will be the strong development of the Chinese direct mail market.

### Data and Document Management

As a result of TNT's refined focus strategy, we have decided to focus on Data, Print & Fulfilment and Customer Contact. The mail, repro and capture activities, therefore, were no longer part of our core strategy, and we sold Cendris Document Management B.V. to the Spanish company Service Point Solutions S.A. in the fourth quarter of 2006, and also sold the activities of Cendris Deutschland GmbH.

## FINANCIAL RESULTS

In 2006, our mail business earned revenues of €4,065 million, a 2.8% increase compared to 2005. Mail accounted for 40.4% of our group operating revenues and 59.6% of our group operating income.

In 2006, approximately 24.6% of our mail operating revenues and approximately 9.9% of the group's operating revenues (2005: 28.2% and 11.1%) were derived from reserved postal services in which we generally were not subject to competition. Notwithstanding that other companies are legally precluded by the Postal Concession granted to us by the State of the Netherlands from providing conveyance of items of correspondence that fall under reserved postal services, a small number of these are carried by other providers. We are aware of this practice, but the effect on volumes is immaterial.

In 2006 we experienced a volume decline of 4.3% per annum compared to 2005. The underlying decline of volumes adjusted for a comparable number of working days per year was 4.0% per annum. The total TNT Mail Netherlands addressed mail volumes have decreased an average 2.2% per annum since 2000. This is within the guidance we gave in 2001 and the indicated average decline between 2% and 3% up to 2010. In 2004 we updated this guidance with an average volume decline between 3% and 4% annually from 2004 up to 2012 onwards. The average decline over 2005 and 2006 has been around 3.7% per annum.

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

The following tables sets out the financial performance of our mail division for the past three years:

Year ended at 31 December

MAIL FINANCIAL OVERVIEW	2006	2006	variance %	2005 <sup>1</sup>	variance %	2004 <sup>1</sup>
	US\$	€		€		€
Total operating revenues	5,365	4,065	2.8	3,955	2.7	3,852
as % of total operating revenues TNT		40.4		42.4		43.6
Other income	77	58	123.1	26	225.0	8
Total operating expenses	(4,438)	(3,362)	(4.9)	(3,206)	(4.9)	(3,057)
<b>Total operating income</b>	<b>1,004</b>	<b>761</b>	(1.8)	<b>775</b>	(3.5)	<b>803</b>
as % of mail operating revenues		18.7%		19.6%		20.8%

(in millions, except percentages)

<sup>1</sup> Figures have been adjusted to reflect the transfer of Cendris UK from mail to express in 2006.

Year ended at 31 December

MAIL OPERATING REVENUES	2006	2006	variance %	2005 <sup>1</sup>	variance %	2004 <sup>1</sup>
	US\$	€		€		€
Mail Netherlands	3,427	2,596	(1.9)	2,647	(0.2)	2,652
European Mail Networks	988	749	25.5	597	23.3	484
Cross-border Mail	705	534	3.7	515	(6.5)	551
Data and Document Management	245	186	(5.1)	196	18.8	165
<b>Total operating revenues</b>	<b>5,365</b>	<b>4,065</b>	2.8	<b>3,955</b>	2.7	<b>3,852</b>
as % of total operating revenues TNT		40.4		42.4		43.6

(in millions, except percentages)

<sup>1</sup> Figures have been adjusted to reflect the transfer of Cendris UK from mail to express in 2006.

Year ended at 31 December

MAIL OPERATING EXPENSES	2006	2006	variance %	2005 <sup>1</sup>	variance %	2004 <sup>1</sup>
	US\$	€		€		€
Cost of materials	216	164	(8.9)	180	0.6	179
Work contracted out and other external expenses	1,588	1,203	16.2	1,035	9.9	942
Salaries, pensions and social security contributions	2,071	1,569	(2.3)	1,606	2.9	1,560
Depreciation, amortisation and impairments	178	135	5.5	128		128
Other operating expenses	385	291	13.2	257	3.6	248
<b>Total operating expenses</b>	<b>4,438</b>	<b>3,362</b>	4.9	<b>3,206</b>	4.9	<b>3,057</b>

(in millions, except percentages)

<sup>1</sup> Figures have been adjusted to reflect the transfer of Cendris UK from mail to express in 2006.

Year ended at 31 December

MAIL OPERATING STATISTICS	2006	2005	2004	2003	2002
Addressed postal items delivered by Mail Netherlands <sup>1</sup> (millions)	4,918	5,139	5,302	5,384	5,521
per Netherlands delivery address (items)	644	679	707	724	747
per Mail Netherlands FTE <sup>2</sup> (thousands of items)	155	152	161	156	151
per Netherlands inhabitant (items)	301	315	325	331	341
per delivery day (millions)	16	17	17	18	18
total operating revenues per FTE <sup>2</sup> (thousands of €)	95	94	95	89	92
average percentage of national mail sorted automatically (%)	83	84	82	82	80
Postal volumes by Cross-border (thousands of kilogrammes)	88,237	81,334	90,239	94,467	90,691
Addressed postal items delivered by EMN (millions)	894	490	259		

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

The operating revenues of the mail business increased by 2.8% in 2006. In Mail Netherlands addressed mail volumes decreased by 4.3%, and revenues declined by 1.9%. On a comparable number of working days' basis, the addressed Mail Netherlands volume decline was 4.0%. Revenues in our cross-border line of business increased by 3.7%. Revenues in European Mail Networks showed a 25.5% growth. Data and Document Management revenues decreased by 5.1%.

Addressed Mail Netherlands volumes continued to decline as a result of growing competition, substitution and customers suspending their mailings. Our mail division focused on quality and margins to defend its market position. At the European level we expanded in the addressed mail segment through our start-ups and acquisitions in the United Kingdom and Germany.

Operating income decreased by 1.8% in 2006. This decrease was mainly due to the expansion of our European Mail Networks and, in Mail Netherlands, structural cost increases, partly offset by continued progress in improving productivity and cost control.

## MAIL OPERATING REVENUES

### 2006/2005

In 2006, operating revenues from our mail business increased by €110 million (2.8%) compared to 2005. Organic operating revenues increased by €63 million (1.6%). Compared to last year, 2006 showed a €46 million (1.2%) positive acquisition effect, due to a number of acquisitions realised in 2005 (including Reischl, Robl, Euro Mail B.V., Szunyog and Rheinkurier GmbH), acquisitions realised during 2006 (including PostCon Deutschland AG, CBS City Briefservice GmbH, MailXpress GmbH, Ridas Sicherheits- und Handelsgesellschaft m.b.H, Germany, TWM Italia Srl. and Turbopost GmbH, Giebisse Italia Srl. and JD Williams) and disposals in 2006 (including Cendris Document Management B.V., ID Company Fashion B.V., and our share in Mailprofs Employment B.V.). Foreign exchange effects accounted for an increase of €1 million (0.0%).

Mail Netherlands operating revenues in 2006 decreased by €51 million (1.9%) compared to 2005. The organic volume decline in addressed mail items was partly offset by a positive price-mix effect and other effects.

The continued underlying decline in addressed postal item volumes in 2006 (4.0%) was primarily due to competition in the non-mandatory area, accompanied by reduced demand for direct mail as a result of cost saving programmes initiated by some of our key customers due to the continued substitution by electronic media. We expect these trends to continue, although Mail Netherlands benefited from extra volumes of mail resulting from changes in the health insurance system in the Netherlands. The underlying volume decline was accompanied by a lower average number of working days in 2006 compared to 2005, which had a 0.3% downward volume effect.

In Cross-border Mail competition remained fierce, with the key international postal operators continuing to compete on price. Cross-border Mail operating revenues in 2006 increased organically by €19 million (3.7%) compared to 2005. The main driving factors for this increase were growth in our domestic export and parcels.

Other income increased by €32 million to €58 million, mainly as a result of higher book gains on disposed companies (€22 million) and the higher sale of real estate (€12 million).

European Mail Networks operating revenues increased by 25.5% in 2006. All countries contributed to this growth. The United Kingdom, Germany, Italy and Central Europe showed double digit growth.

In the United Kingdom we continued to broaden our customer portfolio and showed strong growth in the downstream access services with Royal Mail. Complementary to this service, we started end to end initiatives in the cities of Manchester, Glasgow and Bristol. Furthermore we started our new parcel service through the acquired JD Williams courier network as

from the third quarter of 2006. In Germany we succeeded in strengthening our position via greenfield start-ups in key cities and multiple acquisitions across the country. We managed to increase the last mile coverage by our own network to 20% of the German households. Including our partners, TNT Post AG & Co. KG (formerly EP Europost) has now reached over 90% coverage. Despite strong competition from Deutsche Post and the founding of PIN Group, a consortium of the most important German publishers, TNT Post AG & Co. KG almost doubled its revenues. In the third quarter we started our own sorting facilities and acquired the leading mail consolidator PostCon. In Italy we expanded our unaddressed network via the acquisition of TWM Italia Srl., Giebisse Italia Srl. and TG Distribuzioni Srl.

In a competitive market, Data and Document Management operating revenues decreased by €10 million (5.1%). This decrease was mainly attributable to the business line Cendris Document Management including the disposal effect of Cendris Document Management B.V. and Cendris Deutschland GmbH.

### 2005/2004

In 2005, operating revenues from our mail business increased by €103 million (2.7%) compared to 2004. Organic operating revenues increased by €82 million (2.1%). Compared to last year, 2005 showed a €18 million (0.5%) positive acquisition effect, due to a number of acquisitions effective in 2004 (including Prime Vision, Seducom and our joint venture with Essent N.V., named Cendris BSC Customer Contact B.V.), the disposal of Denis Bodden N.V., and acquisitions effective in 2005 (including Reischl, Robl, Euro Mail B.V., Szunyog and Rheinkurier GmbH). Foreign exchange effects accounted for an increase of €3 million (0.1%).

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

The continued underlying decline in addressed postal item volumes in 2005 (2.0%) was primarily due to competition in the non-mandatory area, accompanied by reduced demand for direct mail as a result of cost saving programmes initiated by some of our key customers due to the continued substitution of electronic media. We expect these trends to continue, although Mail Netherlands benefited from extra volumes of mail resulting from changes in the health insurance and early retirement legislation in the Netherlands in the second half of 2005. The underlying volume decline was accompanied by a lower average number of working days in 2005 compared to 2004, which had a 1.1% downward volume effect.

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

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

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

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

In a competitive market, Data and Document Management operating revenues increased by €31 million (18.8%). This increase was mainly attributable to the full year contribution of the joint venture started in 2004 with Essent N.V., named Cendris BSC Customer Contact B.V., and the acquisition of Euro Mail B.V. in 2005.

## MAIL OPERATING EXPENSES

### 2006/2005

Our operating expenses increased by €156 million (4.9%) in 2006 compared to 2005.

Costs for work contracted out increased by €168 million, which is attributable to the organic growth and acquisitions realised in European Mail Networks. The decrease in cost of materials of €16 million compared to 2005 is mainly explained by the disposal of our 100% shareholding in Cendris Document Management B.V. In 2006 costs of salaries decreased by €37 million, mainly as a result of a reduction of FTEs in our mail division in connection with our cost flexibility programme and €50 million lower pension costs compared to 2005. These effects are partly offset by higher costs of salaries due to organic growth and acquisitions by our European Mail Networks, and €27 million restructuring costs in Mail Netherlands compared to €10 million restructuring costs in 2005.

Other operating expenses increased by €34 million compared to 2005, mainly due to the expansion costs in European Mail Networks, a VAT settlement with the Dutch tax authorities and the new TNT Post house style clothing and rebranding of TPG Post to TNT Post, partially offset by an €18 million release in respect of a lower estimate of the accrual for stamps sold but not yet used.

### 2005/2004

Our operating expenses increased by €149 million (4.9%) in 2005 compared to 2004. Organic growth in European Mail Networks and acquisitions caused an increase in work

contracted out, partly offset by volume decreases in the business lines Mail Netherlands and Cross-border Mail. In 2004 costs of salaries benefited from a €9 million net positive one-off effect from a settlement of future wage guarantees and various social measures including social and pension contributions. The lack of this one-off effect in 2005, a €18 million increase due to the unwinding of a contract regarding liability for future wage guarantees in 2004, €80 million higher pension costs and €10 million restructuring costs in 2005 caused an increase in salary costs, which could only partly be offset by savings (amongst others reflected in the decline in average FTE's equivalents from 43,825 in 2004 to 41,724 in 2005) in connection with our cost flexibility programme.

## MAIL OPERATING INCOME

### 2006/2005

In 2006 the mail business operating income decreased by €14 million (1.8%) compared to 2005, mainly due to the expansion of European Mail Networks and the continued volume decline in Mail Netherlands, and only partly offset by positive price-mix effects and our continued progress in improving productivity and cost control. The latter is mainly driven by our cost flexibility programme, which delivered additional savings of approximately €64 million in 2006, adding up to €298 million in estimated aggregated savings from the start of the programme in 2002. Furthermore, 2006 included €27 million restructuring costs in Mail Netherlands compared to €10 million in 2005. These effects were partly offset by €22 million book gains on disposals, €18 million release in respect of a lower estimate of the accrual for stamps sold but not yet used and book profit from the sale of real estate.

In 2006, overall operating income of our mail division as a percentage of its operating revenues decreased to 18.7% compared to 19.6% in 2005.

### 2005/2004

The mail business operating income in 2005 decreased by €28 million (3.5%) compared to 2004, mainly caused by Mail Netherlands. The €28 million decline however, was affected by a net positive one-off effect of €9 million in 2004 from a settlement of future wage guarantees and various social measures including social and pension contributions, and €10 million restructuring costs in 2005.

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

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

In 2005, overall operating income of our mail division as a percentage of its operating revenues decreased to 19.6% compared to 20.8% in 2004.