





“Because I try to lead by example, people are willing to work hard for me.”

## **JON STOCKTON**

TNT Express UK, Contract General Manager Royal Bank of Scotland Contract, 34 years old, married, 3 children

## TNT EXPRESS UK

Jon has something of a complex character. When you first meet him, he is extremely polite and reserved, even a little shy. It makes you wonder how he manages to lead a team of 20 people. Then, if you happen to be in his vicinity when he receives a problem phone call from work, it all becomes clear. Out of the blue, he reveals another side of the English character – the bulldog. Hard as nails, he'll fight until he gets what he wants. Maybe that's why he was able to deal with a situation none of us would wish upon our worst enemies. Driving to a customer in July 2005, Jon found himself in the immediate vicinity of the worst terrorist attack ever to hit London. Instead of heading straight home like many of us would have done, Jon continued and completed his work for the day, coordinating the collection of cheques and internal mail for The Royal Bank of Scotland's 250 London branches. He still talks about it as if it was nothing. Typically English.

Jon: "Sure it was scary. The whole mobile phone network went down immediately so I didn't know where my friends and family were. But then we had our job to do. We had to get to the bank's branches. After assessing the number of drivers available, the first thing to do was to devise and coordinate an emergency plan. The first problem was the fact that many of the roads were cordoned off. We used motorbikes to make one collection at the end of the day from every branch. The cheques were consolidated and trunked to two alternative clearing houses - one 50 miles away. While one group of drivers manned the trunk runs, the others set out across the city to make the collections. In the end, we managed to reach all but four of the branches. For those four, we tried to explain to the police what we had to do but they weren't having any of it."

"Throughout the day, I was in touch via my hotel phone with people from the bank, including some that I didn't know. Turns out they were Senior Directors who were worried that their customers would be dissatisfied. I think they might have understood if we had told them that we were unable to collect their cheques that day, but the team worked hard, under tough conditions. In the end, there was a tense instance at around 9:20 p.m. before we received a phone call saying that everything got through. That was a good moment. I am told that RBS still talks about it with their customers. Yes, I'm pretty sure they're impressed with what we did for them that day!"

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# **OTHER FINANCIAL INFORMATION ON THE COMPANY**

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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.

On 6 December 2005 we announced a strategy to focus on our core competency of providing delivery services by expertly managing delivery networks and our intention of selling the logistics business. On 23 August 2006 we announced that we have signed a Sale and Purchase Agreement on the sale of the logistics business. On 4 November 2006 we completed the sale of the logistics division to affiliates of Apollo Management L.P. On 30 October 2006 we announced the decision to divest our freight management business. On 16 November 2006 we signed a Sale and Purchase Agreement to sell our freight management business unit to the French logistics service provider Geodis SA. On 5 February 2007 we completed the sale.

We refer to Note 8 of our consolidated financial statements for further information on the sale of logistics and freight management.

Our logistics division was reported as discontinued operations/assets held for sale as at 31 December 2005. In our statement of income for 2006, 2005 and 2004 we have presented the net result of our discontinued logistics business on a separate line 'Profit/(loss) from discontinued operations'.

Our freight management business is also reported as discontinued operations/assets held for sale. Consequently, in our statement of income for 2006, 2005 and 2004 we have presented the net result of our discontinued freight management business on a separate line 'Profit/(loss) from discontinued operations'. We have restated the comparative figures for the 2005 and 2004 statements of income and cash flow to reflect the presentation of the freight management business as a discontinued operation.

## FINANCIAL CONDITION

Year ended and position at 31 December

	2006	2006	2005	2004
	US\$	€	€	€
<b>BALANCE SHEETS</b>				
Non-current assets	4,985	3,777	3,663	5,070
Current assets	2,800	2,122	2,355	3,159
Assets held for sale	540	409	2,378	
<b>Total assets</b>	<b>8,325</b>	<b>6,308</b>	<b>8,396</b>	<b>8,229</b>
Equity	2,650	2,008	3,279	3,344
Non-current liabilities	2,127	1,612	1,608	2,221
Current liabilities	3,355	2,542	2,279	2,664
Liabilities related to assets classified as held for sale	193	146	1,230	
<b>Total liabilities and equity</b>	<b>8,325</b>	<b>6,308</b>	<b>8,396</b>	<b>8,229</b>
Net return on equity <sup>1</sup> (%)	33.4	33.4	22.9	22.5
Equity as % of total liabilities and equity	31.8	31.8	39.1	40.6
<b>CASH FLOW STATEMENTS CONTINUING OPERATIONS</b>				
Net cash from operating activities	1,131	857	969	690
Net cash used in investing activities	1,409	1,068	(262)	(266)
Net cash used in financing activities	(2,840)	(2,152)	(768)	(298)
<b>Changes in cash and cash equivalents</b>	<b>(300)</b>	<b>(227)</b>	<b>(61)</b>	<b>126</b>
<b>CASH FLOW STATEMENTS DISCONTINUED OPERATIONS</b>				
Net cash from operating activities	(83)	(63)	43	268
Net cash used in investing activities	(40)	(30)	(22)	(24)
Net cash used in financing activities	48	36	8	(202)
<b>Changes in cash and cash equivalents</b>	<b>(75)</b>	<b>(57)</b>	<b>29</b>	<b>42</b>

(in millions, except percentages)

<sup>1</sup> The profit attributable to the equity holders of the parent as a percentage of the total equity.

## CASH FLOW DATA

Cash and cash equivalents (excluding discontinued operations) totalled €297 million at 31 December 2006 (€559 million 31 December 2005). For more detailed information on cash flows from discontinued operations we refer to chapter 5. The following table provides a summary of cash flows from continuing operations for the past three years:

	Year ended at 31 December			
	2006	2006	2005	2004
	US\$	€	€	€
<b>NET CASH FROM OPERATING ACTIVITIES</b>				
Cash generated from operations	1,766	1,338	1,174	1,178
Interest paid	(263)	(199)	(80)	(85)
Income taxes paid	(372)	(282)	(125)	(403)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>				
Net cash used for acquisitions and disposals	1,657	1,256	(50)	(206)
Net cash used for capital investments and disposals	(413)	(313)	(265)	(260)
Net cash used for other investing activities	165	125	53	200
<b>NET CASH USED IN FINANCING ACTIVITIES</b>				
Net cash used for dividends and other changes in equity	(2,609)	(1,977)	(725)	(385)
Net cash from debt financing activities	(231)	(175)	(43)	87
<b>CHANGES IN CASH AND CASH EQUIVALENTS</b>				
	<b>(300)</b>	<b>(227)</b>	<b>(61)</b>	<b>126</b>

(in millions, except percentages)

### NET CASH FROM OPERATING ACTIVITIES 2006

The net cash from operating activities decreased by €112 million from €969 million in 2005 to €857 million in 2006. After correction of the gross up in 2006 of interest paid by €89 million, due to a new set up of our cash pool structure and fully offset by the same amount of interest received, and correction of the repayment of €162 million of taxes in 2005 relating to previous years, the net cash from operating activities would have increased by €139 million compared to 2005.

The increased cash generated from operations reflects an improved profit before income taxes of €77 million compared to 2005. In 2006 profit before income taxes contributed €1,223 million and €1,541 million if adjusted for the non-cash impact of depreciation, amortisation and impairments, an increase of €92 million or 6.3% compared to 2005 (€1,449 million).

The changes in pension liabilities of €110 million (2005: 121; 2004: 256) reflects the total non-cash charges for the defined benefit pension schemes of €120 million, lowered by our total cash contributions of €230 million to various pension funds. The majority of the cash contributions are for our Dutch employees who fall under our collective labour agreement. Of the total cash contribution an amount of €107 million is 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 €34 million lower than last year, mainly due to €59 million lower contributions as prescribed by the minimum funding requirements of DNB, and a reduced number of eligible employees.

In 2006 the 'other provisions' increased as a consequence of a higher provision for claims and indemnities compared to last year of €64 million. This reflects amongst others the disposal of various businesses.

In 2006 the net working capital increased by €90 million compared to an increase of €178 million in 2005. The increase is mainly a result of organic growth and acquisitions. The movements in net working capital cannot be directly reconciled to the balance sheet as a consequence of the treatment of the logistics business as a discontinued operation as at the end of 2005 and the freight management business as at 31 December 2006.

The total cash out flow for interest paid in 2006 is €199 million. In 2006 interest paid increased by €89 million, due to new cash pool structure. This largely explains the variance in interest paid compared to 2005. Interest paid also includes interest on our long term borrowings of €53 million, interest payments of €25 million relating to an increase of short term debt, realised hedge costs on foreign exchange hedges of €17 million and interest paid on taxes of €7 million.

Interest and similar expenses in the statements of income amounted to €246 million. The difference with the interest paid can be explained mainly by interest expense of €21 million relating to our discontinued logistics and freight management business (included in financing relating to our discontinued operations) an increased accrual for interest related to late tax payments of €14 million and interest expenses relating to fair value adjustments on hedges of 9 million.

The cash outflow of the total tax payments amounted to €282 million (2005: 125; 2004: 403). The net amount of income taxes paid in 2005 includes €162 million repayments by the Dutch tax authority of taxes over previous years after it was concluded that preliminary payments were too high.

## 2005

In 2005 net cash provided by operating activities was €969 million, which is an increase of 40.4 % compared to 2004 (€690 million).

Profit before income taxes contributed €1,146 million, or €1,449 million if adjusted for the non-cash impact of depreciation, amortisation and impairments, an increase of €61 million or 4.4% compared to 2004 (€1,388 million).

The changes in pension liabilities of €122 million reflect the total non-cash charges for the defined benefit pension schemes of €141 million, lowered by our total cash contributions of €165 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 €169 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 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 €178 million in 2005, compared to a decrease of €15 million in 2004. Most of the increase of the accounts receivable position related to an increase of trade receivables by €143 million due to a combination of additional revenue and increased debtor days. Trade payables negatively impacted the cash flow by €85 million as a result of a decrease of creditor days compared to last year. Other current liabilities increased by €54 million, including higher accruals for subcontractors and claims.

Interest and similar expenses in the statements of income amounted to €117 million, including non-cash hedge results of €21 million. The cash outflow for interest paid totalled €80 million.

Income taxes paid was €125 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 €690 million.

Profit before income taxes contributed €1,092 million, or €1,388 million if adjusted for the non-cash impact of depreciation, amortisation and impairments.

The changes in pension liabilities of €256 million reflect the total non-cash charges for the defined benefit pension schemes of €89 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 €15 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 €38 million.

The cash outflow for interest paid totalled €85 million. Income taxes paid was €403 million.

## NET CASH USED IN INVESTING ACTIVITIES

### 2006

In 2006, the total payments net of cash for acquisitions of group companies amounted to €89 million. Most acquisitions took place in our express division (€58 million), the largest being ARC India Private Ltd., India (€32 million), TG Plus Transcamer Gomez S.A.U., Spain (€22 million) and ISH Nocni Express, Czech Republic (€3 million). Mail acquired for a total amount of €31 million, mainly related to PostCon Deutschland GmbH, Germany (€12 million), CBS City Briefservice GmbH, Germany (€4 million), Mail Express GmbH, Germany (€3 million), Ridas Sicherheits- und Handelsgesellschaft m.b.H., Germany (€3 million), TVM Italia Srl., Italy (€2 million) and Turbo P.O.S.T. GmbH, Germany (€1 million) (we also refer to note 28 of our Consolidated financial statements).

The investments in associated companies primarily related to additional capital contributions in Logispring Investment Fund Holding B.V. and amounted to €20 million.

On 4 November 2006, we completed the sale of the majority of our logistics division to Louis Topco Limited, a company formed and managed by Apollo Management International L.P. The proceeds from the transaction amount to €1,335 million.

Furthermore, the following investments have been sold during 2006:

- 100% of the outstanding shares in Cendris Document Management B.V. (€19 million),
- 100% of the outstanding shares in ID Company Fashion B.V. (€8 million),
- our 50% shareholding in Mailprofs Employment B.V. (€2 million) and
- other disposals for an amount of €1 million.

In 2006, capital expenditures on property, plant and equipment amounted to €277 million (2005: 230; 2004: 217). Of this amount, €200 million (2005: 140; 2004: 136) related to the express business, €74 million (2005: 80; 2004: 75) related to mail, and €3 million (2005: 10; 2004: 6) to non-allocated. The capital expenditures on intangible assets of €103 million (2005: 80; 2004: 59) mostly related to software. In 2006, net capital expenditures were funded primarily by cash generated from operations.

Proceeds from the sale of property, plant and equipment in 2006 totalled €65 million (2005: 43; 2004: 14), which mainly related to the sale of several buildings from TNT Real Estate B.V. and TNT Real Estate Development B.V. (€44 million). In 2005 the proceeds from the sale of property, plant and equipment related to several buildings from TNT Real Estate B.V. and TNT Real Estate Development B.V. (€23 million) and buildings and equipment from the joint venture Postkantoren B.V. (€7 million) in the mail segment and equipment in our express operations in the United Kingdom (€4 million).

Proceeds from the disposal of intangible assets in 2006 amounted to €2 million (2005: 2; 2004: 2).

In 2006 interest received amounted to €111 million of which €89 million is due to new cash pool structure. This largely explains the variance in interest received compared to 2005. Interest received also includes interest on short term deposits and bank balances of €12 million and realised hedge income on foreign exchange hedges of €6 million.

Interest and similar income in the statements of income amounted to €199 million. The total cash in flow for interest received is €111 million. The difference between interest income and interest received can be mainly explained by interest income of €74 million relating to our discontinued logistics and freight management business (included in financing relating to our discontinued operations) and interest income relating to fair value adjustments on hedges of €9 million, also not having a cash effect.

## 2005

In 2005, the total payments for acquisitions of group companies amounted to €35 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 €5 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.

The net cash generated by other investing activities included €16 million mainly attributable to settling net balances relating to our disposal of Global Collect B.V. Interest and similar income amounted to €117 million of which €75 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.

In 2005, capital expenditures on property, plant and equipment amounted to €230 million (2004: 217). Of this amount €80 million (2004: 75) related to mail, €140 million (2004: 136) to express 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, 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: 14), which mainly related to several buildings from TNT Real Estate B.V. and TNT Real Estate Development B.V. (€23 million) and buildings and equipment from the joint venture Postkantoren B.V. (€7 million) in the mail segment and equipment in our Express operations in the United Kingdom (€4 million).

The net cash generated by other investing activities totalled €16 million (2004: 165) and is mainly attributable to settling net balances relating to our disposal of Global Collect B.V. Interest and similar income amounted to €117 million (of which €72 million was related to our discontinued logistics business), the cash inflow for interest received totalled €40 million. No dividends were received during 2005.

## 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.

In 2004, capital expenditures on property, plant and equipment amounted to €217 million. Of this amount €75 million related to mail and €136 million to express. The capital expenditures on intangible assets of €59 million mainly related to software.

The net cash generated by other investing activities included €165 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

### 2006

Under our share buy back programme announced on 6 December 2005 we purchased 27.8 million of our ordinary shares in 2006 for an amount of €769 million. An additional payment of €17 million was made for shares being purchased during the last three business days of 2005. Under our share buy back programme announced on 6 November 2006 we purchased 27.6 million of our ordinary shares (of which 18.2 million shares were bought from the State of the Netherlands) for a total amount of €887 million, of which €881 million was paid in 2006. The remaining amount was paid in 2007.

Additional to the share buy back programs above, an additional outflow of €79 million occurred relating to the purchase of 2,700,000 ordinary shares to cover our obligations under the existing management option plans and share grants.

A final cash dividend over 2005, amounting to €173 million or €0.41 per ordinary share and a cash interim dividend for 2006 of €109 million or €0.26 per ordinary share were paid in 2006.

TNT received cash payments of €52 million (2005: 16) for the exercise of employee stock options in 2006. The increase results from the accelerated vesting of logistics participants and an increase in the number of regular exercises.

The total repayments relating to long term borrowing of €53 million (2005: 2; 2004: 16) related mainly to repayments of bank loans. The scheduled payments on aircraft leases and other leases amount to €10 million (2005: 4 million; 2004: 9 million).

Movements in short term liabilities resulted in a net cash inflow of €162 million (2005 (outflow): 50; (outflow) 2004: 37). The total repayments to short term borrowings mainly relates tot the repayment of the bilateral bullet loan agreement maturing in 2006 of €129 million, to a decrease of bank overdrafts of €32 million and to repayments on short term leases of €4 million (2005: 47, 2004: 0) offset by a cash inflow relating to short term liabilities of €328 million (2005: 14; 2004: 8), of which €287 million relates to our commercial paper program and €41 million to an increase of bank facilities.

The net cash out flow used in financing our discontinued logistics and freight management businesses amounted to €276 million (2005 outflow: 21; 2004 inflow: 135). This mainly relates to the repayment of €215 million of the Canadian dollar denominated, syndicated facility that was signed in May 2001 before completion of the sale of our logistics business to Apollo.

### 2005

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.

Movements in long term borrowings resulted in a net cash inflow of €26 million. The total proceeds from long term borrowing of €34 million consist mainly of a €14 million additional issuance of the 3.875% 2015 Eurobond, a €13 million increase in bank loans, and a €6 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 €50 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.

A final cash dividend over 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 final dividend for 2005 of €0.41 per share resulted in an aggregate €173 million payment made in April 2006.

In 2005 the net cash flow used in financing our discontinued operations amounted to €21 million.

### 2004

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.

Movements in long term borrowings resulted in a net cash outflow of €11 million. The acquired long term liabilities of €14 million include €9 million of finance leases and €5 million of interest bearing liabilities. A total of €25 million in repayments of long term liabilities related, amongst others, to scheduled repayments on aircraft leases and other leases of €9 million and to various other movements in non-interest bearing liabilities.

The cash outflow relating to short term financing of €37 million includes €8 million regarding hedge transactions and various other repayments of loans within our express and mail divisions.

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 the net cash flow generated from financing of discontinued operations amounted to €135 million.

## DETAILED INFORMATION ON CAPITAL EXPENDITURES AND PROCEEDS

Year ended at 31 December

	2006	2006	2005	2004
	US\$	€	€	€
Property, plant and equipment	366	277	230	217
Other intangible assets	136	103	80	59
<b>Total capital expenditures</b>	<b>502</b>	<b>380</b>	<b>310</b>	<b>276</b>
Proceeds from sale of property, plant and equipment	86	65	43	14
Disposals of other intangible assets	3	2	2	2
<b>Total proceeds</b>	<b>89</b>	<b>67</b>	<b>45</b>	<b>16</b>
<b>Net cash used for capital expenditures and proceeds</b>	<b>413</b>	<b>313</b>	<b>265</b>	<b>260</b>

(in millions)

Our capital expenditure on property, plant and equipment and other intangible assets by segment for the years 2006, 2005 and 2004 was as follows:

Year ended at 31 December

	2006	2006	2005	2004
	US\$	€	€	€
Express	347	263	194	172
Mail	145	110	102	98
Non-allocated	10	7	14	6
<b>Total capital expenditures</b>	<b>502</b>	<b>380</b>	<b>310</b>	<b>276</b>

(in millions)

The capital expenditures shown in the above table are excluding the new finance leases, as they do not lead to cash flows. The finance leases consisted of the acquisition of the first Boeing 747-400 ERF (€110 million) and €30 million of other finance leases.

### EXPRESS 2006

Capital expenditure on property, plant and equipment and other intangible assets by our express business totalled €263 million in 2006, which was an increase of 36% compared to 2005.

During 2006, capital expenditures on other intangible assets totalled €63 million and related primarily to the enhancements to our international shared systems and development of the financial systems (back office) software (€14 million).

Some of the larger express capital expenditures in 2006 included replacement of assets at UK Fashion warehouse (€41 million), replacement depots and vehicles in the United Kingdom (€40 million), Air and Road hub investments in the European Network (€8 million) and the new Italian hub in Piacenza (€7 million).

### 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).

## MAIL

### 2006

Capital expenditure on property, plant and equipment and other intangible assets by our mail division totalled €110 million in 2006, which was an increase of 8% compared to 2005. The main capital expenditures in 2006 related to machinery & equipment (€41 million), IT (€46 million) and housing (€13 million). The remaining €20 million of capital expenditure is related to various smaller projects.

Significant investments were made in trucks & trailers (€12 million) and in sequence sorting machines and sequence sorting software in the Netherlands (€8 million) and elsewhere in Europe (€5 million).

### 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.

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.

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.

## 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 of €857 million in 2006 (2005: €969 million; 2004: €690 million). As with any global organisation, these operating cash flows are affected by economic and business trends. A significant portion of our operating 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. Specifically, the ratio of cash from operating activities to net capital expenditure was 2.7 in 2006, 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 these operating cash flows to continue to cover our capital expenditure requirements in the foreseeable future. We believe our working capital generates sufficient liquidity to cover our requirements.

For any acquisitions or buy back of shares 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, if required we would also consider issuing equity in order to maintain an investment grade around BBB+. 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 29 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, 6, 13 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

#### Cash

At 31 December 2006, our total cash position amounted to €297 million. Included in the €297 million of total cash was €74 million of restricted cash (2005: 140) held mainly by joint ventures and our 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.

#### Eurobond

The fair value of long term interest bearing debt, net of current portion, has been estimated by calculating the discounted value of the loan portfolio using an estimated yield curve, appropriate for the contract terms in effect at the end of the year. The carrying amounts of current portion of long term debt approximate their fair value.

In 2001, TNT N.V. issued a €1 billion 5.125% Eurobond 2008. In 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. After the exchange the nominal value of the 5.125% Eurobond is €646 million, and the nominal value of the 3.875% Eurobond amounts to €400 million.

The total €1,046 million (2005: 1,046) of Eurobonds is measured at amortised cost of €1,015 million (2005: 1,011). A fair value adjustment of positive €11 million (2005: 2) has been reflected in the amortised cost value to adjust the amortised cost value to the carrying amount of €1,004 million (2005: 1,009).

#### Finance leases

Total debt on finance leases consist of financial lease contracts on buildings (depots), trucks and airplanes. The net market value of the long term portion of these leases amounted to €143 million.

#### Interest rate swaps

TNT has €500 million (2005: 500) of interest rate swaps outstanding for which we receive fixed interest and pay floating interest. These interest rate swaps act as a hedge against the fair value interest rate risk of our 5.125% December 2008 Eurobond. The market value of these instruments amounted to negative €11 million as at 31 December 2006 (2005: -2).

In December 2004, we entered into €500 million of forward starting interest rate swaps whereby we will receive floating interest and pay fixed interest. These flows of interest

exchanges under the forward starting interest rate swaps will start per December 2008 and will end in June 2015. 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 whereby we paid the market value of €12 million. Because the forward starting interest rate swap has been designated as a cash flow hedge, the market value will stay in equity until December 2008 and will be straight-line amortised to income until December 2015.

The nominal value of the remaining forward starting interest rate swap agreed upon in December 2004 and starting per December 2008 amounts to €100 million.

In June 2006, we entered into another €500 million of forward starting interest rate swaps whereby we will receive floating interest and pay fixed interest. These flows of interest exchanges under the forward starting interest rate swaps will start per December 2008 and will end in June 2015.

The market value of the above mentioned long term outstanding forward starting interest rate swaps totaling €600 million, amounts to €8 million as at 31 December 2006 (2005: 5). As all forward starting swaps have been designated as cash flow hedges, the market value movements have been included in equity.

In 2006 we entered into \$445 million of (forward starting) interest rate swaps whereby we will receive floating interest and pay fixed interest. These interest rate swaps act as a hedge against the cash flow interest rate risk of future lease terms with respect to the new acquired Boeing 747's. In December 2006 a \$152 million forward starting interest rate swap was unwound whereby we paid the market value of €5 million. Because the swap has been designated as a cash flow hedge, the market value will remain in equity and will be straight-line amortised to income over the lease term of the related Boeing 747.

The market value of the remaining \$293 million (forward starting) interest rate swaps amounted to net €3 million negative as at 31 December 2006. The fair value of the swaps is being classified under other financial fixed assets €1 million and other current liabilities €4 million. As the swaps have been designated as cash flow hedges, the market value movements have been included in equity.

### CREDIT FACILITIES

At 31 December 2006 TNT had the following committed facilities:

- Multicurrency Revolving Facility of €1,000 million;
- Multicurrency Revolving Facility of €600 million.

At 31 December 2006, our long term credit ratings were A- (negative outlook) by Standard & Poor's and A3 (stable outlook) by Moody's.

### CASH OBLIGATIONS

At 31 December 2006, our gross interest bearing borrowings, including finance lease obligations, totalled €1,566 million (2005: 1,284), of which 92% (2005: 94%) was at fixed rates of interest and €1,183 million (2005: 1,071) represented long term debt. We had operating lease commitments of €909 million (2005: 1,251).

The following table shows the maturity of these amounts:

	Total	Less than 1 year	1 to 3 years	4 to 5 years	After 5 years
Total interest bearing borrowings	1,566	383	674	29	480
Rent and operating lease commitments	909	222	345	167	175
<b>Total contractual cash obligations</b>	<b>2,475</b>	<b>605</b>	<b>1,019</b>	<b>196</b>	<b>655</b>

(in € millions)

## GUARANTEES

Total guarantees at 31 December 2006 were €348 million (2005: 267; 2004: 350). Of these guarantees, TNT issued corporate guarantees up to the amount of €183 million (2005: 99; 2004: 164). Banks and other financial institutions issued guarantees up to the amount of €165 million (2005: 147; 2004: 127). The obligations under the bank guarantees have been secured by our company or its subsidiaries.

Of the amount of €348 million, financial guarantees amounted to €211 million (2005: 191) and were mainly issued in connection with our obligations under lease contracts, custom duty deferment, airline cargo services, credit lines and insurance contracts. Operating guarantees amounted to €137 million (2005: 76) and were mainly issued in connection with mailing and other service performance contracts.

### AMOUNTS OF COMMITMENTS EXPIRATION BY PERIOD

	Total	Less than 1 year	1 to 3 years	4 to 5 years	After 5 years
Guarantees	348	134	7	25	182

(in € millions)

## CONTINGENCIES

### OPERATING LEASE COMMITMENTS

Our total operating lease commitments at the end of the year were €909 million (2005: 1,251). The total commitments as at 31 December 2006 relating to capital expenditure were €150 million (2005: 16).

### SHARE BUY BACK

Under the €1,000 million repurchase programme, announced on 6 November 2006 (also refer to note 9), we purchased shares for a total amount of €113 million after 31 December 2006. As at 23 January 2007, we have completed this repurchase programme.

### UNCONDITIONAL PURCHASE COMMITMENTS

At 31 December 2006 we had unconditional purchase commitments of €58 million (2005: 100), which were primarily related to various service and maintenance contracts.

### INCOME TAXES

Multinational groups the size of TNT are exposed to varying degrees of uncertainty related to tax planning and regulatory reviews and audits. We account for our income taxes on the basis of our own internal analyses, supported by external advice. We continually monitor our global tax position, and whenever uncertainties arise, we assess the potential consequences and either accrue the liability or disclose a contingent liability in our financial statements, depending on the strength of our position and the resulting risk of loss.

In 2006, TNT continued to investigate and analyse its global tax position. As a result we currently estimate a range of €100 - €250 million to reflect the realistic range of our total contingent liability in this regard.

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. 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 cover UK tax matters that were not the subject of the original investigation. In 2006 we submitted a substantially advanced draft of available information and related tax conclusions required by the UK tax authorities and started discussions with them on these tax matters.

The major issue being discussed with the UK tax authorities concerns whether some of our non-UK subsidiaries might have been resident in the United Kingdom prior to the acquisition of TNT Limited in December 1996 and, if so, whether capital gains tax would have been due if the tax residency of those subsidiaries later moved to another European country. After having investigated the matter we are of the opinion that the relevant subsidiaries were never UK resident. But even if they were seen to be UK resident, we believe that the imposition of such a capital gains tax would be impermissibly discriminatory under EU law. Our opinion has been and is supported by strong external specialist advice.

We have been in discussion with the UK tax authority to come to an agreement on these issues. While to date no assessments relating to the item under discussion have been raised, the UK tax authority will issue initial assessments, as we understand it, as a matter of procedure, before they and we can effectively continue to seek an agreed solution. TNT will appeal against the initial assessments. The amounts raised in such initial assessments could exceed the realistic range of our estimated total contingent liability as disclosed above. It is customary in the UK with respect to such initial assessments that the actual obligation for payment will be deferred during the litigation and appeal period until either an agreement is reached or a final assessment is raised. On the basis of our ongoing discussions with the UK tax authorities and the strength of our position, we currently expect either these matters to be settled in 2007 or if necessary litigation to be commenced.

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, it was determined in February 2006 that no provision or contingent liability was required as a result of this investigation.

We have also analysed the tax positions of some of our subsidiaries with respect to other countries. Our investigations and analyses concerned, 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. In early 2006 we actively discussed these structures with the relevant tax authorities and have reached an agreement on these matters.

As part of a pilot publicly announced by the Dutch Ministry of Finance, we signed a compliance covenant with the Dutch tax authorities in early 2006 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. In 2006 all relevant past matters presented and discussed have been concluded upon by the Dutch tax authorities and agreed with us.

We have fully accrued the expected cost in our financial statements for 2006 of all of the matters described above, whether agreed or expected to be agreed. From the extensive review to date of our global tax position, on the basis of the facts and circumstances as currently known, the advice received from external advisors and the discussions we have had with various tax authorities some of which are still ongoing, we currently believe that it is unlikely that we will incur an additional liability beyond what we have accrued to date. Our interpretation of past facts and circumstances and relevant tax laws and regulations may be open to challenge or as stated above lead to tax assessments being raised. In addition it is not certain that litigation can be avoided in all cases. 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.

We currently believe that it is unlikely that we will incur an additional liability related to the above matters beyond what we have accrued to date.

We disclosed in our 2005 annual report an estimate of a realistic range to reflect our total contingent liability, including potential penalties and interest, of €150 - €550 million, based on a probability-weighted assessment of our estimated total theoretical liability. In April 2006 we disclosed that we reduced the range to €100 - €250 million which we continue to believe to be the realistic range to reflect our contingent liability. This range represents some 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, any expected initial assessments were unsuccessfully challenged by us, 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 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 positions 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. If the actual taxes, penalties and interest imposed exceed the amounts we have accrued, it could adversely affect our financial position, results and cash flows.

## 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.

For a further description of these contingencies see note 29 to our consolidated financial statements.

## CAPITAL EXPENDITURES PROJECTION FOR 2007

The total projected 2007 capital expenditures on property, plant and equipment and other intangible assets for our divisions is estimated to be €550 million, which is expected to be spent on similar types of property, plant and equipment and other intangible assets as in 2006. The projected 2007 capital expenditures include the second Boeing 747-400 ERF of €110 million, which will be financed by means of a finance lease. We believe that the net cash provided by our operating activities will be sufficient to fund the other capital 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 2006, sales made by our group companies to our joint ventures amounted to €8 million, compared to €42 million in 2005 and €24 million in 2004. Purchases from our joint ventures for 2006 amounted to €103 million (2005: 131; 2004: 125). The net amounts due from joint venture entities as at 31 December 2006 totalled €58 million, compared to €49 million in 2005 and 2004.

Loans receivable from associated companies are disclosed in notes 3 and 5 to our consolidated financial statements. As at 31 December 2006, 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 33 to our consolidated financial statements. For information on our relationship with the State of the Netherlands see chapter 13 and note 32 to our consolidated financial statements.

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our reported financial condition and results of operations are sensitive to accounting policies, assumptions and estimates that underly 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 under the purchase method. 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 cash generating 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

### 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 rates and retirement ages, discount rates, expected long term returns on plan assets, benefit increases 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 2006, our employer pension expense was €120 million. Total cash contributions in 2006 amounted to €230 million and are expected to amount to approximately €214 million in 2007. In 2005, our employer pension expense was €149 million (2004: 185). Total cash contributions in 2005 amounted to €264 million (2004: 437).

## 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, redundancies, contract settlements and tangible asset impairments. Actual experience has been and may continue to be different from these estimates. As at 31 December 2006 and 2005, restructuring provisions were €45 million and €43 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 from stamps (for example sales for Christmas greetings in November and December). In 2006 we have defined a more refined method of calculating the deferred revenue related to the sale of stamps in 2006. In accordance with IAS 8 the change in accounting estimate was recognised in the income statement for the period. The impact was an additional gain of €18 million (pre-tax) and was recognised in "Other operating expenses".

## 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 freight management 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 equity attributable to the equity holders of the parent to those under US GAAP, as presented in note 35 to our consolidated financial statements.

Net income determined in accordance with US GAAP was €657 million in 2006 (2005: 632; 2004: 714), which was €13 million lower than net income determined in accordance with

IFRS in 2006 compared to €27 million lower in 2005 and €38 million lower in 2004. For 2006 the difference relates to the completed sale of the logistics division. Under IFRS we recognised a loss on disposal of €87 million. Under US GAAP we recognised a loss of €56 million. The difference is the result of a smaller loss due to differences in the valuation of assets and liabilities between IFRS and US GAAP offset by the release of a larger negative currency translation adjustment of €69 million. The reduced loss on sale under US GAAP was more than offset by additional depreciation and amortisation of €45 million, net of tax, recognised under US GAAP as the logistics division did not qualify as a discontinued operation until 29 September 2006. For 2005 the 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 equity determined in accordance with US GAAP was €1,571 million at 31 December 2006 (2005: 2,757), which was €437 million lower at 31 December 2006 than our total equity determined in accordance with IFRS. The lower equity under US GAAP was mainly caused by a direct equity movement related to the recognition of a larger net pension liability of €539 million at 31 December 2006 (2005: 587), net of taxes. This was partly offset by differences relating to goodwill and employee benefits.

Until the end of 2005 under US GAAP, we were 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. 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 (net of taxes) of €587 million for 2005 and €454 million for 2004.

In September 2006 the FASB issues Financial Accounting Standard 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* – an amendment of FASB Statements No. 87, 88, 106 and 132(R) (FAS 158). FAS 158 requires companies to fully recognize an asset or liability for the overfunded or underfunded status of their benefit plans in the financial statements for years ending after 15 December 2006. The pension asset or liability equals the difference

between the fair value of the plan's assets and its benefit obligation. The benefit obligation is measured as the projected benefit obligation for pension plans and as the accumulated postretirement benefit obligation for other postretirement benefits. The impact of the company's net funded status is to be recorded in equity as a component of accumulated other comprehensive income, net of tax. The impact of this standard for the year ended December 2006 resulted in a decrease in Accumulated other comprehensive income of €500 million (net of deferred tax assets of €171 million) an increase in plan assets of €135 million and an addition provision for pension liabilities of €807 million in our financial statements under US GAAP. The impact of the adoption of FAS 158 within equity was offset by an overall reduction in the pension liability in 2006 primarily due to an increase in the discount rate from 4.3% to 4.7%. As of 31 December 2006 the amount of unrecognized pension expense within accumulated other comprehensive income was €539 million, net of tax. The amounts in accumulated other comprehensive income expected to be recognised as components of net periodic benefit costs in 2007 are an amortised prior service cost credit of €39 million, offset by an amortised net actuarial loss of €37 million.

Under IFRS such a pension liability has not been a requirement for 2006, 2005 and prior years.

As of 1 January 2006 the Amendment to IAS 19 introduces the option of an alternative recognition approach for actuarial gains and losses. It may impose additional recognition requirements for multi-employer plans where insufficient information is available to apply defined benefit accounting. It also adds new disclosure requirements. As the Group does not intend to change the accounting policy adopted for recognition of actuarial gains and losses, adoption of this amendment only impacts the format and extent of disclosures presented in the accounts.

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 presented assets and liabilities of our discontinued logistics business as long lived assets to be disposed of by sale and 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. On 4 November 2006 we sold our logistics business. We also refer to note 8 in our Financial statements.

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 a number of criteria. We have met all the criteria as required under IFRS 5 for our logistics business as at 31 December 2005.

The position of the SEC is that in the event shareholder approval is required, management is not considered having authority to dispose of an asset, a requirement for US GAAP to treat such assets as being held for sale. Accordingly, under US GAAP this criterium was not met until 29 September 2006. For US GAAP purposes our logistics business was therefore not recognised as a discontinued operation until 29 September 2006. The French logistics business met all criteria and was presented as discontinued operations in 2005 and the remainder of the logistics business was presented as part of continuing operations, whose assets continued to be depreciated.

At 29 September 2006 the Extraordinary General Meeting of Shareholders approved the sale of the remaining logistics division. Due to the approval, US GAAP Statements of Income

for previous periods have been restated to reflect the entire logistics division as a discontinued operation.

Depreciation and amortisation from 1 January 2006 to 29 September 2006 and 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 €60 million and €8 million, respectively. These amounts are included as reconciling items between IFRS and US GAAP. We refer to note 35 of our Financial statements for a full reconciliation of the result from the sale of the discontinued logistics business under IFRS and US GAAP.

The following tables indicate our 2006, 2005 and 2004 operating income determined in accordance with IFRS, compared to that determined in accordance with US GAAP:

Year ended at 31 December

OPERATING INCOME 2006	IFRS			US GAAP		
	2006	2006	% of total	2006	2006	% of total
	US\$	€		US\$	€	
Express	765	580	45.5	765	580	45.2
Mail	1,004	761	59.6	1,013	767	59.9
Non-allocated	(86)	(65)	(5.1)	(86)	(65)	(5.1)
<b>Total</b>	<b>1,683</b>	<b>1,276</b>	100.0	<b>1,692</b>	<b>1,282</b>	100.0

(in millions, except percentages)

Operating income in our express business has no overall differences between IFRS and US GAAP.

In 2006 the IFRS operating income in the mail division was lower by €6 million as compared with the operating income

under US GAAP. This largely relates to lower pension expenses of €16 million as per US GAAP, partially offset by a curtailment gain of €12 million under IFRS that is not recognised in the statements of income under US GAAP.

Year ended at 31 December

OPERATING INCOME 2005	IFRS		US GAAP	
	2005	% of total	2005	% of total
Express	476	41.5	478	42.2
Mail	775	67.5	761	67.1
Non-allocated	(103)	(9.0)	(105)	(9.3)
<b>Total</b>	<b>1,148</b>	100.0	<b>1,134</b>	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 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 business has no material difference between IFRS and US GAAP.

Year ended at 31 December

OPERATING INCOME 2004	IFRS		US GAAP	
	2004	% of total	2004	% of total
Express	378	34.1	383	36.3
Mail	803	72.3	744	70.6
Non-allocated	(71)	(6.4)	(73)	(6.9)
<b>Total</b>	<b>1,110</b>	100.0	<b>1,054</b>	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.

## 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 September 2006 the FASB issued SFAS 157, *Fair Value Measures*, (SFAS 157). This statement enhances the guidance for using fair value to measure assets and liabilities. SFAS 157 provides a single definition of fair value, together with a framework for measuring it, and requires additional disclosure about the use of fair value to measure assets and liabilities. We are required to adopt this pronouncement effective 1 January 2008. We are evaluating the impact this standard will have on our financial statements.

In September 2006, the FASB issued FASB Staff Position (FSP) No. AUG Air-, *Accounting for Planned Major Maintenance Activities*. The FSP prohibits the use of the accrue-in-advance method of accounting for planned major maintenance activities in annual and interim reporting periods. This FSP amends the requirements of American Institute of Certified Public Accountants (AICPA) Audit and Accounting Guide, *Airlines*. This FSP is effective for us starting 1 January 2007. We do not expect this FSP will have an impact on our financial statements related to the maintenance of our aircraft, as our current practice is to expense such maintenance costs when incurred.

In June 2006, the FASB issued FASB interpretation No. 48, *Accounting for Uncertainty in Income taxes an interpretation of FASB Statement No. 109, Accounting for Income Taxes*. This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. This interpretation is effective for us starting 1 January 2007. We are evaluating the impact this interpretation will have on our financial statements.

In June 2006, the Emerging Issues Task Force (EITF) of the FASB ratified EITF 06-2, *Accounting for Sabbatical Leave and Other Similar Benefits Pursuant to FASB Statement No. 43, Accounting for Compensated Absences* (SFAS 43). This pronouncement provides

guidelines under which sabbatical leave or other similar benefits provided to an employee are considered to accumulate, as defined in SFAS 43. If such benefits are deemed to accumulate, then the compensation cost associated with a sabbatical or other similar benefit arrangement should be accrued over the requisite service period. The provisions of this pronouncement are effective for us starting 1 January 2007 and allow for either retrospective application or a cumulative effect adjustment approach upon adoption. We do not expect the adoption of this pronouncement will have a material impact on our financial statements.

In March 2006, the EITF of the FASB issued EITF 06-3, *How Taxes Collected from Customers and Remitted to Governmental Authorities Should be Presented in the Income Statement (That is, Gross versus Net Presentation)*. This pronouncement requires disclosure of a companies accounting policy regarding the gross or net presentation of point-of-sales taxes such as sales tax and value-added tax. If taxes included in gross revenues are significant, the amount of such taxes for each period for which an income statement is presented should also be disclosed. This pronouncement is effective for us starting 1 January 2007. We do not expect that the adoption of this pronouncement will have a material impact on our financial statements as we report such revenues on the net basis.

The EITF of the FASB issued EITF 056, *Determining the Amortisation 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 were required to adopt this pronouncement effective 1 January 2006. The adoption of this pronouncement did not have an impact on our financial statements.

## 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 and liquidity 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 of these financial instruments are leveraged or used for trading purposes or to take speculative positions. For more information see the note on "Financial Risk Management" in chapter 12.