





“Within TNT, even though you may not know the individual personally, you can still connect. We all speak the TNT language.”

## PHANI RAJ

TNT Express India, Manager - Information Systems  
34 years old, married, 1 child

## TNT EXPRESS INDIA

Unless you want to come away with your head reeling, don't get drawn into a detailed conversation with Raj about his job. He is likely to bowl you over with computer terms that if you are not in his line of business will sound like double Dutch. He clearly knows his stuff. Yet unlike many IT specialists, he is also a people person and has a natural charm and understanding character that must be the secret to his success. Within three months, in a project known simply as Domestic, Raj and his team have connected 63 offices across India to create what is now the largest IT network in a TNT country. Don't ask about the details!

Raj: "I have been fascinated by technology since I was young and can remember trying to work out how things like telephones work. You can maybe imagine that being in my current position is something of a dream job! When I started at TNT India in September '97, we had just 40 PCs and a handful of printers. We now have some 1,400 computers and 800 printers, spread across 63 locations, all connected seamlessly on a hybrid network."

"My greatest challenge so far started in January 2006. Before the launch of Domestic, we had what we call a distributed network, whereby each of our 19 offices had its own local network and services. First step was to set up a data centre in Bangalore, where we house all the servers for our CITRIX, Lotus Notes and Quantum systems. This was done with help

of a project team from TNT's ICS centre in Atherstone, while I controlled the rollout centrally from Bangalore. Following strict project planning, weekly reviews and a contingency plan, we set up the IT systems in the outlying depots. With six people, we managed to get all 63 depots completed within four months."

"The key to the success of the implementation was threefold in my eyes. You have to ensure your coordination is tight. You have to provide precision planning with contingencies. And you have to listen and understand those you are working with – connect with them. Even IT is a people game in the end. Just for the record – we're in for a fun time again. We have just purchased a company called Speedage and they have over 500 offices. We're definitely going to need more equipment!"

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# REGULATORY ENVIRONMENT

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## POSTAL REGULATION AND CONCESSION

### INTERNATIONAL POSTAL REGULATION

#### Universal Postal Union

The Universal Postal Union (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.

Since 1 January 2006 a new terminal dues system applies. Under the new system "Target" countries (previously "Industrialised Countries") will pay each other country-specific rates linked to domestic post charges. Over the next years the current percentage of the domestic 20 grammes tariff, 60%, will be increased gradually to 68% in 2009. "Transition" countries (previously "Developing Countries") will continue to pay each other and "Target" countries a fixed kilogramme rate according to a per item and per kilogramme formula based on world average costs and on a world average weight. Transition countries are expected to move towards the Target system before 2014, at which time all exchanges will be based on country-specific compensation.

#### Reims

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.

#### EU postal regulation

The current EU Postal Directive 2002/39/EC, amending Directive 97/67/EC (EU Postal Directive) with regard to the further opening to competition of community postal services, sets out a harmonised set of minimum obligations for the universal postal service (mandatory postal services) regarding service levels, rates, and cost and revenue accounting principles, as well as quality of service standards, with which all member states, including the Netherlands, must comply.

The EU Postal Directive also defines the maximum scope of postal services the EU member states are permitted to reserve for national public postal operators (reserved postal services). Member states are permitted to reserve postal services for domestic and cross-border mail. As of 1 January 2006 this reservation is limited to a weight of up to 50 grammes per item of correspondence or a price of less or equal to two and a half times the public tariff for an item of correspondence in the first weight step of the fastest category, i.e. items of correspondence weighing no more than 20 grammes. To the extent necessary to ensure the provision of universal service, outgoing crossborder mail and direct mail may continue to be reserved within the same weight and price limits.

The current EU Postal Directive delays full liberalisation of the EU postal market until at least 2009. This is depending on approval, by the Council of Ministers and the European Parliament, of the proposal for a new Postal Directive of the European Commission.

### POSTAL REGULATION IN THE NETHERLANDS

Due to the importance of postal services to society, regulation is a significant factor in our mail business. The mandatory undertaking of certain postal activities in the Netherlands, some of which are exclusive to us, has been assigned to us in the Dutch Postal Act.

In the Netherlands, the key legislation regulating our mail activities is the Dutch Postal Act. The Dutch Postal Act requires TNT to perform the mandatory postal services in the Netherlands and it grants us exclusive rights to provide some of these services, the reserved postal services.

In connection with the Dutch Postal Act there is the parliamentary Postal Decree, which specifies the services that constitute the mandatory postal services and defines the scope of the reserved postal services. The combination of these mandates and exclusive rights are commonly called the "Postal Concession". The Postal Concession is performed by our subsidiary Royal TNT Post B.V.

Furthermore, there is a General Postal Regulations Decree, which specifies our obligations regarding the performance of mandatory postal services and the transparency of the financial accounting of these services according to the EU Postal Directive.

The responsibility for supervising our performance of the mandatory postal services lies with an independent Supervisory Authority for Post and Telecommunications established by the government, which is commonly called by its Dutch acronym OPTA. The Minister of Economic Affairs is responsible for postal regulation and policy.

On 16 December 2004 the Minister of Economic Affairs discussed his vision for the Dutch postal market with parliament. During this meeting parliament gave its support to the vision, which addressed issues such as full liberalisation, the scope of the mandatory postal services and tariff regulation. The vision for the Dutch postal market has been translated into the proposal for a new Dutch Postal Act that passed the Dutch government on 13 April 2006. The Dutch government's policy contains the following elements:

- full liberalisation of the Dutch postal market as of 1 January 2008 (conditional on full market liberalisation in the United Kingdom and Germany, i.e. the condition of a level playing field),
- we will be required to perform the mandatory postal services in the Netherlands for an undefined period,
- the Postal Act and the scope of the mandatory postal services can be evaluated every four years,
- rates for mandatory postal services will be regulated using a price cap system linked to inflation,
- non-discrimination will be applicable to our mail services. Competitors and customers must be treated equally in terms of rates and conditions, and
- the OPTA will be charged with monitoring the mandatory services and non-discrimination requirements.

We are pleased that the policy regarding liberalisation is conditional on the future de facto liberalisation in the United Kingdom and Germany. Further liberalisation took place in the United Kingdom as per 1 January 2006 and is scheduled to take place in Germany in 2008.

The decision by the Dutch government to fully liberalise the Dutch postal market on 1 January 2008 and the proposal for a new Dutch Postal Act still await approval of parliament. The dossier will probably be discussed during the course of 2007.

## THE POSTAL CONCESSION

### Mandatory postal services

The domestic mandatory postal services mainly consist of the conveyance against payment of standard single rates of the following postal items:

- letters (including reply items) and printed matter with a maximum individual weight of two kilogrammes,
- postal parcels with a maximum individual weight of 10 kilogrammes, and
- registered, registered insured and registered value declared items.

In addition, bulk mail of letters up to an individual weight of 50 grammes (100 grammes prior to 1 January 2006), which are conveyed against separately agreed rates, are part of the mandatory postal services. Mandatory postal services also cover rental of P.O. boxes.

We are not required to provide the delivery of bulk printed matter such as advertising, magazines and newspapers, the delivery of bulk letters with an individual weight above 50 grammes (100 grammes prior to 1 January 2006) and unaddressed mail items.

For international inbound and outbound mail, based on the Dutch Postal Act and in accordance with the rules of the UPU, mandatory postal services mainly comprise conveyance against payment of both postal items at standard single rates and of bulk mail items at separately agreed rates with a maximum individual weight of two kilogrammes and of postal parcels with a maximum individual weight of 20 kilogrammes. In addition, mandatory postal services cover the postal services regulated by the UPU.

### Regulatory conditions for the provision of mandatory postal services

Regarding mandatory postal services the General Postal Regulations Decree imposes various regulatory conditions on us with respect to service provision, tariffs, cost and revenue accounting, financial administration and reporting. Other than the mandatory postal services, none of our postal services is subject to governmental control.

According to the Dutch Postal Act, article 2d, we are obliged to give our competitors entrance to our P.O. boxes. This service has to be delivered against reasonable, objectively justifiable and non-discriminatory conditions and remunerations. To date these conditions and remunerations are the negotiated results between parties.

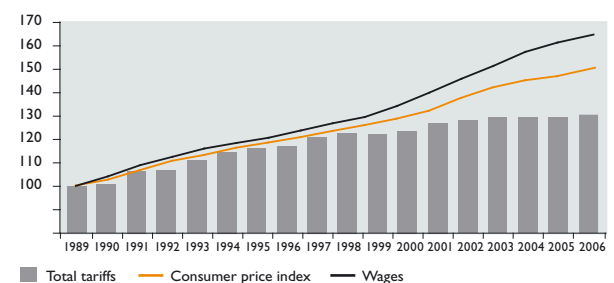
With respect to service levels, the General Postal Regulations Decree requires us to provide a level of service that complies with modern standards, to provide nationwide services and to perform a delivery round every day, except for Sundays and public holidays. We are required to deliver not less than 95% of all domestic letters the day after the day of posting, not including Sundays and public holidays. We are required to maintain a network of service points (post offices and agents) for the access of the general public to the services. With respect to rates and conditions, we are required to set rates and associated conditions that are transparent, non-discriminatory and uniform. However, we may grant volume discounts for items of correspondence and negotiate specific prices and conditions with high volume users. We are required to submit proposed rate changes to OPTA, which has to evaluate whether the proposed changes are in accordance with the price cap system.

The price cap system measures tariff developments in two different baskets of services, a "total basket" and a "small users basket". The total basket comprises domestic mandatory postal services provided to all customers. The small users basket comprises a selection of the total basket of domestic mandatory postal services that is representative for consumers and small business users.

The price cap system uses a weighing factor for each service in these baskets. The levels of the indices for both baskets are not to exceed the official national index of wages for employees in the market sector.

The development of the indices from the base year of 1989 is illustrated below:

Development of tariffs, price index and wages



The price cap system was last evaluated in 2002. Since an earlier decision of the Ministry of Economic Affairs to freeze the tariffs controlled by the price cap system was declared void in June 2004, we have remained able to amend the individual rates for mandatory postal services, subject to the provisions of the tariff control system. However, in view of the wider importance of the adoption of an integral and balanced vision for the postal market as submitted to parliament, we announced our intention not to increase the price of a stamp for consumers from the present level of €0.39 for the years 2004, 2005 and 2006. On 30 August 2006 we announced to amend the TNT Post rates on 1 January 2007. The rate for single-item domestic letters up to 20 grammes will be increased to €0.44. This will be the first rate increase for single-item mail in five and a half years. We intend not to increase €0.44 rate again until 2010. The newly announced rates (12.1% average increase) remain within the inflation rate of 12.5% on aggregate since 2001. The rate increases fall within the maximum levels allowed by law, which has been confirmed by OPTA.

### Reserved postal services

Under the Dutch Postal Act and the Postal Decree, the reserved postal services include the following exclusive rights:

- the conveyance of domestic and inbound international letters with a maximum individual weight of 50 grammes (100 grammes prior to 1 January 2006) at a rate of less than two and a half times (three times prior to 1 January 2006) the standard single rate (€0.39) for the lowest weight class of 20 grammes,
- the exclusive right to place letter boxes intended for the public alongside or on public roads, and
- the exclusive right to issue postal stamps and imprinted stamps bearing the likeness of the monarch and/or the word "Nederland".

These exclusive rights do not extend to courier services or services where the letters are delivered at the rate of more than two and a half times the standard single rate. The exclusive rights also do not extend to the conveyance of parcels, letters weighing in excess of 50 grammes and printed materials such as advertising, newspapers and magazines. In addition, the exclusive rights do not extend to the conveyance of letters by a business to its own customers.

### Accounting and other financial obligations

Our obligations on reporting include the establishment of an annual report on our performance of the mandatory postal services, providing, among other things, an overview of the financial results related to the mandatory postal services. This report must be reviewed by an independent auditor appointed by OPTA.

Our financial accounting obligations require us to maintain separate financial accounts within our internal financial administration for mandatory postal services. This separate accounting must be broken down into reserved postal services and other mandatory postal services and must be separated from the accounting of our other activities. Every year, we must submit to OPTA a declaration of an independent auditor, appointed by OPTA, that our financial accounting system complies with these obligations. This declaration has to be published by OPTA in the "Staatscourant".

Underlying this accounting system and the financial reports to OPTA is a system for allocating costs and revenues to the different types of services. This system complies with the accounting rules laid down in the EU Postal Directive and is approved by OPTA for the period ending 31 December 2006. The approval of OPTA was officially published in the "Staatscourant" on 14 July 2004. The full text of the description of the allocation system is published in Dutch by OPTA on their website, [www.opta.nl](http://www.opta.nl).

### Value added tax on postal services

At present, we are not allowed to charge value added tax on postal items forming part of the mandatory postal services. The flip side of this is that for mandatory postal services we cannot deduct the VAT amounts paid on our purchases of services and goods related to the mandatory services. We are required to charge VAT on all services not included in the mandatory services, i.e. the services in competition with other operators. Competitors are required to charge VAT on those items as well. Therefore, there is a level playing field for competitors and our company on these services.

### Public procurement

Public procurement is the purchase of goods, services and public works by governments. Public sector procurement must follow transparent, open procedures ensuring fair conditions of competition for suppliers. At this moment we have no obligation to tender resulting from any public procurement regulation.

On 2 February 2004, the EU adopted a package of amendments to simplify and modernise its public procurement directives. Those directives impose EU-wide competitive tendering for public contracts above a certain value and transparency and equal treatment for all tenders to ensure that the contract is awarded to the tender offering best value for money. The new directive 2004/17/EC of 31 March 2004, coordinating the procurement procedures of entities operating in the water, energy, transport and postal services sectors also applies to certain postal and non-postal activities that are not exposed to competition. However, the directive leaves to the European member states the possibility of postponing the application of the directive on postal services until 1 January 2009. The Netherlands has exercised this option. We will therefore not be subject to the directive in the Netherlands until 1 January 2009.

### TRANSPORT LAW

The transport activities of TNT Express are mainly regulated from a liability and security point of view, in addition to the regulation applying to TNT's specific means of transport and their use (road vehicles or aircraft mainly).

The liability of TNT Express in the context of international transport of goods by road is governed by the CMR Convention. Similar liability rules are provided for under the Warsaw and Montreal Conventions for international transport of goods by air. National laws, which differ from one country to another, regulate this question with respect to domestic transport of goods. The common feature of this legislation is to limit the liability of a carrier in case of loss or damage to goods during their transport.

TNT Express also needs to comply with security related regulations, which may entail the performance of (X-ray) screening of the transported goods (in case of transport by air) or the compliance with specific transport conditions (in terms of accompanying documentation and handling) in case of carriage of dangerous goods.

## COMPETITION LAW

Our businesses are subject to competition rules in the jurisdictions in which they operate. The most relevant rules stem from:

### European competition law

The Court of Justice of the European Community has explicitly confirmed that the rules of EU competition law also apply to the national mandatory postal services of the EU member states. The European Community published a notice in 1998 describing the application of competition rules to the postal sector and on the assessment of certain state measures. In particular, we are subject to the competition rules contained in articles 81 and 82 of the EC Treaty and to preventative control of mergers and acquisitions as regulated in the EC Merger Control Regulation. Article 81 prohibits collusion between competitors that may affect trade between member states and which has the object or effect of restricting competition within the EU. Article 82 prohibits any abuse of a dominant position within a substantial part of the EU that may affect trade between member states. National competition authorities and national courts have been empowered to apply articles 81 and 82 in full, in close operation with the European Commission in order to ensure the effective and uniform enforcement of these competition rules.

We are also subject to the competition rules in the Agreement on the European Economic Area, which corresponds to the rules of EU competition law. The EEA rules for competition are enforced by the European Commission and the EFTA Surveillance Authority.

### Dutch competition law

The services we provide in the Netherlands, including the mandatory postal services, fall within the scope of the Dutch Competition Act.

The Dutch Competition Act stipulates a similar structure and set of rules as the rules of EU competition law on the prohibition of cartels, the prohibition of abuse of a dominant position and the preventive control on mergers and acquisitions. Compliance with the Dutch Competition Act is monitored by the Netherlands Competition Authority.

