TNT Newco Limited

Directors' report and financial statements

26 December 1998
Registered number 2604019

18/5/99.
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Directors' report and financial statements

Contents

Directors' report

The directors present their report together with the audited financial statements for the year ended 26 December 1998.

Principal activities

The company acts as a holding company. The directors do not envisage initiating any material departure from this activity in the foreseeable future.

Results and dividend

The results of the company are shown in the profit and loss account on page 4. The directors recommend that no dividend be paid.

Directors

The directors of the company during the year were as stated below:

GF Ginty
WV Hanley M.B.E.
AD Jones O.B.E.
JT Yates

Directors' interests

None of the directors had any interests in the shares of the company or any group company at the end of the financial year.

Year 2000 compliance

The directors have considered the impact of the year 2000 problem and do not believe that the issue is significant to the company.

Auditors

A resolution is to be proposed at the annual general meeting for the re-appointment of KPMG Audit Plc as auditors of the company.

By Order of the Board

GF Ginty
Secretary

Railway Street
Ramsbottom
Bury
Lancashire
BL0 9AL

28 April 1999

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss for that year. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Report of the auditors to the members of TNT Newco Limited

We have audited the financial statements on pages 4 to 10.

Respective responsibilities of directors and auditors

As described on page 2 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 26 December 1998 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
2 Cornwall Street
Birmingham
B3 2DL

28 April 1999

Profit and loss account
for the year ended 26 December 1998

	Note	**Year ended 26 December 1998 £000**	18 months ended 27 December 1997 £000
Interest receivable and similar income	*2*	**3,032**	4,149
Interest payable and similar charges	*3*	**(2,879)**	-
Dividends received		**-**	8,473
Profit on sale of fixed asset investments	*5*	**-**	392,239
Profit on ordinary activities before taxation		**153**	404,861
Tax on profit on ordinary activities	*4*	**(81)**	4,119
Retained profit for the financial year	*9*	**72**	408,980

During the current financial year and preceding financial period the company made no material acquisitions and had no discontinued operations.

In the current financial year and preceding financial period there was no material difference between the results reported in the profit and loss account and the results on an unmodified historical cost basis.

The movement on reserves is disclosed in note 9 on page 10 of these financial statements.

Balance sheet
at 26 December 1998

	Note	1998		1997	
		£000	**£000**	£000	£000
Fixed assets					
Investments	5		**960,561**		960,561
Current assets					
Debtors	6	**68,597**		126,118	
Creditors: amounts falling due within one year	7	**(1,373)**		(58,966)	
Net current assets					
Due within one year		**67,224**		(10,856)	
Debtors due after one year		**-**		78,008	
			67,224		67,152
Net assets			**1,027,785**		1,027,713
Capital and reserves					
Called up share capital	8		**371,626**		371,626
Share premium account	9		**234,690**		234,690
Profit and loss account	9		**421,469**		421,397
Equity shareholders' funds			**1,027,785**		1,027,713

These financial statements were approved by the board of directors on 28 April 1999 and were signed on its behalf by:

JT Yates

JT Yates
Director

Statement of total recognised gains and losses
for the year ended 26 December 1998

	Year ended 26 December 1998 £000	18 months ended 27 December 1997 £000
Profit for the financial year	72	408,980
Currency translation differences on foreign currency investments	-	(42,682)
Foreign exchange on hedging loans	-	12,155
Deferred tax on foreign exchange	-	(3,768)
	72	374,685

Notes

(forming part of the financial statements)

1 Accounting Policies

Basis of accounting

The financial statements have been prepared under the historical cost convention in accordance with applicable Accounting Standards.

Investments

Investments are stated at cost less provisions for permanent diminution in value.

Taxation

The charge for taxation is based on the loss for the year and provision is made for taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. No provision for deferred taxation is made if there is reasonable evidence that such deferred taxation will not be payable in the foreseeable future.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of transaction. Assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date.

In accordance with SSAP 20, exchange gains or losses arising on the company's interests in foreign companies, net of any exchange differences arising on foreign currency borrowings which have been used to finance, or provide a hedge against the company's interests in foreign companies, have been taken to reserves.

Exemption from preparation of consolidated financial statements

The financial statements present information about the company as an individual company and not about its group.

The company is exempt under section 228 of the Companies Act 1985 from the obligation to prepare group accounts and to deliver them to the Registrar of Companies as the results of the company and its subsidiaries are consolidated in TNT Post Group NV its ultimate parent company, which is incorporated in the Netherlands.

Cash flow statement

The company is exempt from the requirement of Financial Reporting Standard 1 (revised) to prepare a cash flow statement as 90 percent or more of the voting rights of the company's shares are controlled by TNT Post Group NV. The consolidated financial statements of TNT Post Group NV which include the company are publicly available.

Notes *(Continued)*

2 Interest receivable and similar income

	Year ended 26 December 1998 £000	18 months ended 27 December 1997 £000
Interest received from group companies	3,032	894
Exchange rate gains on foreign currency transactions	-	3,255
	3,032	4,149

3 Interest payable and similar charges

	Year ended 26 December 1998 £000	18 months ended 27 December 1997 £000
Exchange rate losses in foreign currency transactions	2,879	-

4 Tax on profit on ordinary activities

The current tax credit/(charge) for the year is as follows:

	Year ended 26 December 1998 £000	18 months ended 27 December 1997 £000
UK Corporation tax at 31% (1997 : 32%)	(81)	(1,292)
Transfer from deferred tax	-	5,411
	(81)	4,119

In the eighteen month period ended 27 December 1997 the sale of investments, which gave rise to a profit of £392,239,000, did not result in a tax liability as the provisions of s.171 Taxation and Chargeable Gains Act 1992 applied, and the income from group companies of £8,473,000 did not give rise to a tax liability as the provisions of s.208 Income and Corporation Taxes Act 1988 applied.

In the eighteen month period ended 27 December 1997 a matching election was in place in TNT Newco Limited to defer the tax on exchange gains and losses arising on borrowings until the disposal of the matched asset, being the investment in PSP Sub Holdings BV. The investment in PSP Sub Holdings BV was transferred to TNT SPC Limited, a fellow subsidiary, within s.171 Taxation and Chargeable Gains Act 1992. The tax will crystallise only when the investment is sold outside the UK group. Accordingly a provision has been made within TNT SPC Limited against the deferred tax.

Notes *(Continued)*

5 Fixed asset investments

	Shares in Subsidiary Companies £000
At beginning and end of year	960,561

During the eighteen month period ended 27 December 1997, as part of the TNT group reorganisation, the company sold its investment in PSP Sub Holdings BV to its subsidiary company TNT SPC Limited at market value which resulted in a net profit of £392,239,000.

The principal company in which TNT Newco Limited has an interest is TNT SPC Limited, a holding company, incorporated in Great Britain of which 100% of the ordinary shares are owned.

6 Debtors

	1998 £000	1997 £000
Amounts due from group companies	68,597	126,118

Included above is £nil *(1997: £78,008,000)* due after one year.

7 Creditors: amounts falling due within one year

	1998 £000	1997 £000
Amounts owed to group companies	-	57,618
Corporation tax	1,373	1,348
	1,373	58,966

8 Called up share capital

	1998 £000	1997 £000
Authorised:		
500,000,000 Ordinary shares of £1 each	500,000	500,000
Allotted, called up and fully paid:		
371,625,727 Ordinary shares of £1 each	371,626	371,626

Notes *(Continued)*

9 Reserves

	Share premium account £000	Profit and loss account £000	Total £000
At beginning of year	234,690	421,397	656,087
Retained profit for the year	-	72	72
At end of year	234,690	421,469	656,159

10 Reconciliation of movement in shareholders' funds

	1998 £000	1997 £000
Profit for the financial year	**72**	408,980
Currency translation differences on foreign currency investments	-	(42,682)
Foreign exchange on hedging loans	-	12,155
Deferred tax on foreign exchange	-	(3,768)
	72	374,685
Issue of share capital	-	385,161
	72	759,846
Opening shareholders' funds	**1,027,713**	267,867
Closing shareholders' funds	**1,027,785**	1,027,713

11 Related party disclosures

The company is controlled by TNT Holdings (UK) Limited, its parent undertaking. The ultimate controlling party is TNT Post Group NV, its ultimate parent undertaking.

The company being a subsidiary undertaking with 90 percent or more of the voting rights being controlled within the TNT Post Group NV group is exempt from the requirement to disclose transactions with entities that are part of this group or investees of this group qualifying as related parties.

12 Parent company

The ultimate parent company of TNT Newco Limited is TNT Post Group NV a company incorporated in the Netherlands. Copies of the consolidated financial statements of TNT Post Group NV that include TNT Newco Limited may be obtained from TNT Post Group Corporate Communications, PO Box 13000, 1100 KG Amsterdam, The Netherlands.

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TPG

TNT POST GROUP

1998 annual report

This is the official 1998 annual report of TNT Post Group N.V.
A Dutch translation is also available.

In this annual report, "the company" refers to TNT Post Group N.V. and "TPG" refers to TNT Post Group N.V. or TNT Post Group N.V. and its subsidiaries.

For additional copies of the English or Dutch report, please use the enclosed reply card or send a request to annualreport@tntpost.com. Alternatively, fax a request to + 31 20 500 7521.

The information contained in this annual report can also be found on TPG's website at www.tntpost.com.

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The Netherlands
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TNT POST GROUP

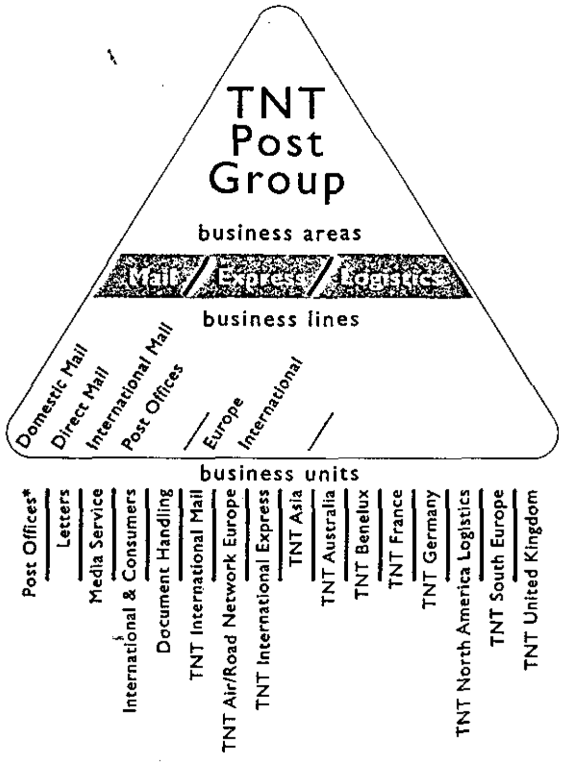
PTT POST and TNT

1 company 2 brands

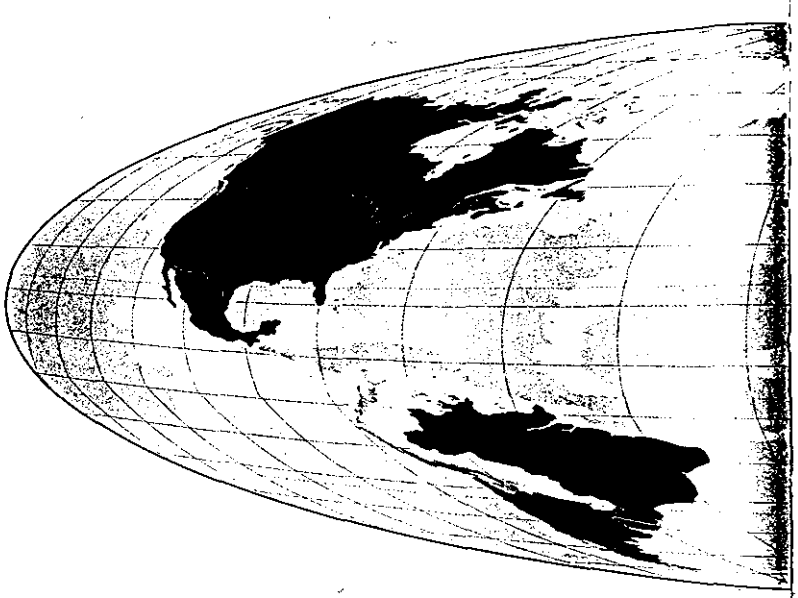
MISSION

Achieve a recognized world leadership position through excellent service to customers in its three business areas – Mail, Express and Logistics – based on a strong market position in Europe

PTT POST TNT



* 50% ING N.V.



key figures	1998 EUR	1998 NLG	1997 NLG
			year ended December 31.
Revenues (millions)	7,409	16,327	15,267
Net income (millions)	372	820	694
Earnings per share	0.79	1.73	1.46
Dividend per share	0.36	0.80	
Employees		101,582	94,116

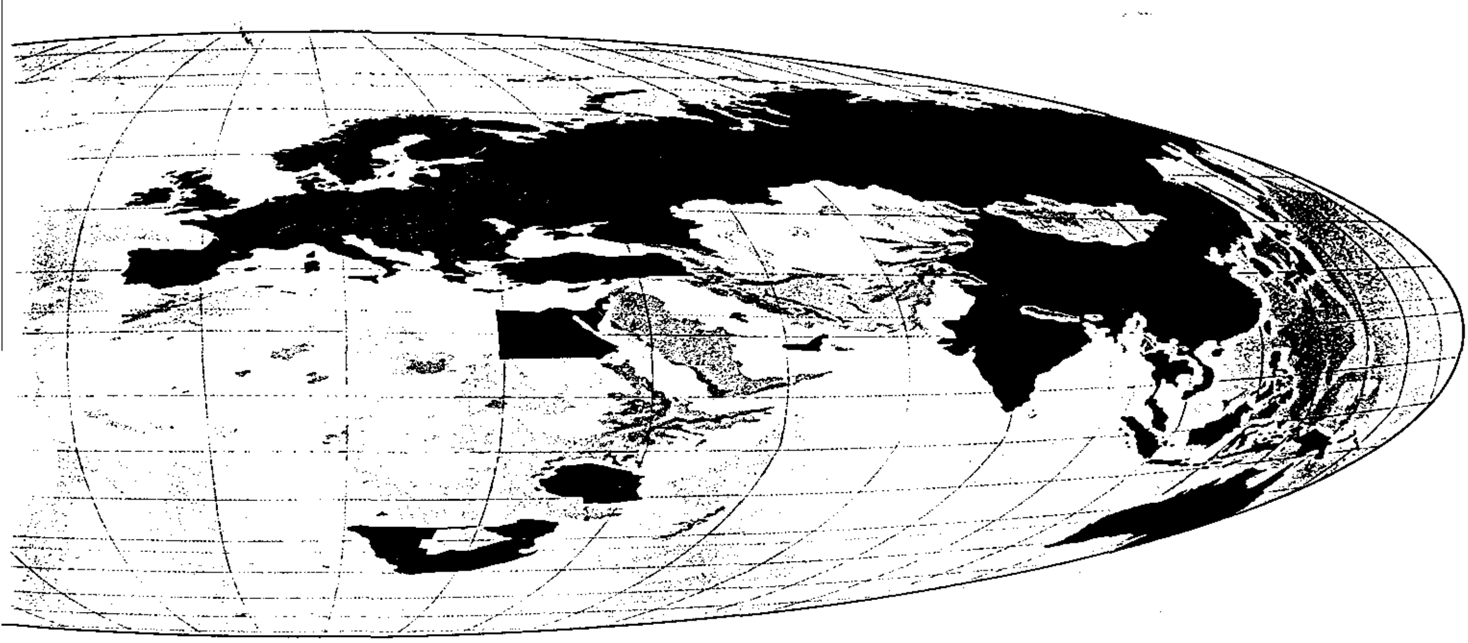
Post Group at a glance

MAIL, EXPRESS and LOGISTICS

3 business areas

CORPORATE STRATEGY

Base leadership on high brand awareness, impeccable reputation, above-average profitability and growth

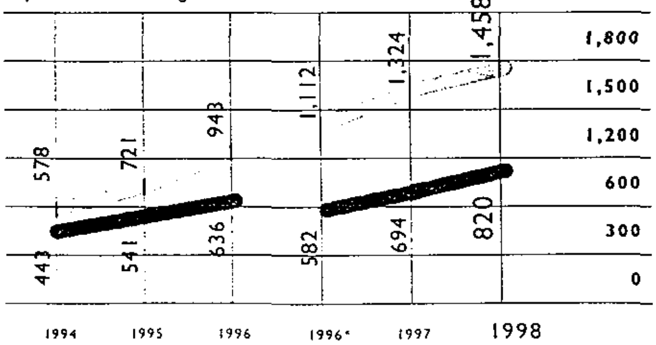


■ 60 countries with TPG-owned operations

Argentina	Canada	Fiji	Ireland	Netherlands	Slovakia	United Kingdom
Australia	Chile	Finland	Israel	New Zealand	South Africa	United States
Austria	Cook Islands	France	Italy	Norway	South Korea	United Arab Emirates
Bahrain	China	Germany	Kuwait	Papua New Guinea	Spain	Uruguay
Barbados	Cyprus	Greece	Luxembourg	Philipines	Sweden	Vietnam
Belgium	Czech Republic	Hong Kong	Malaysia	Poland	Switzerland	Zimbabwe
Bermuda	Denmark	Hungary	Mexico	Portugal	Tanzania	
Brazil	Egypt	India	Namibia	Russia	Thailand	
Bulgaria	Estonia	Indonesia	Netherlands Antilles	Singapore	Turkey	

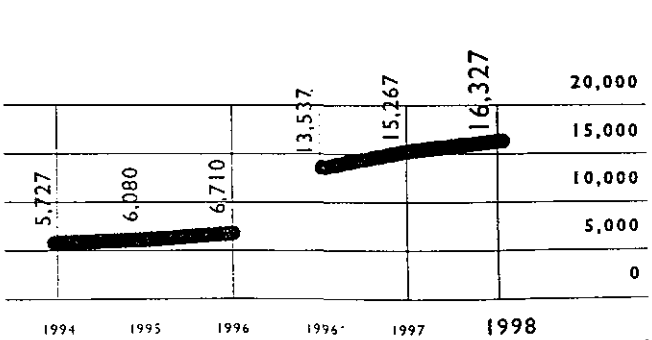
operating income and net income ■

* pro forma including TNT and GDEW, unaudited — in millions



operating revenues

* pro forma including TNT and GDEW, unaudited — in millions



Report of the Supervisory Board

On June 29, 1998, TPG was listed on the Amsterdam, Frankfurt, London and New York stock exchanges. On the previous day, the mail, express and logistics activities of Royal PTT Nederland NV (KPN) had been demerged to become TPG. At that time, a Supervisory Board for TPG was appointed in accordance with the opinion of the General Meeting of Shareholders. The Supervisory Board's composition strives to reflect the international business environment in which TPG operates. The profile of the Supervisory Board is available for inspection at TPG Head Office.

Since its appointment at the end of June 1998, the Supervisory Board met with the Board of Management on three occasions. During these meetings, the Supervisory Board discussed with the Board of Management the half-year results and the acquisitions of Rinaldi Group (Rinaldi), GMA Verwaltungs-gesellschaft mbH (GMA) and Financiere Jet Services S.A. (Jet Services), as well

Left to right: V.(Victor) Halberstadt, W.(Wim) Dik, J.H.M.(Jan) Hommen [c], M.(Morris) Tabaksblat, [illegible] [a b] A.(Arie) Maas, [illegible] [a b], J.M.T.(James) Cochrane [c], R.W.H.(Rolf) Stomberg [a b], C.J.(Coen) Oort [c]

[a] Remuneration Committee member

[b] Appointments Committee member

[c] Audit Committee member

as the company's objectives and strategy and the associated risks, and the mechanisms for controlling financial risks. In its last meeting of 1998, the Supervisory Board approved TPG's 1999 budget plan.

The Supervisory Board also adopted its bylaws and instituted a Remuneration Committee, an Appointments Committee and an Audit Committee. The Remuneration Committee discussed a management option plan and a personnel option plan, which were subsequently adopted by the Supervisory Board. The Appointments Committee met once in the fall of 1998. The Audit Committee met twice, including a meeting with the auditor of the company, in which the company's half-year results were discussed.

The Supervisory Board also adopted a rotation plan for its resignation and reappointment. The plan calls for resignation of two members each year. Although Messrs. W. Dik and V. Halberstadt were just appointed Supervisory Board members in June 1998, both gentlemen indicated they were prepared to resign after one year. Messrs. W. Dik and V. Halberstadt are available for reappointment.

The Supervisory Board intends to reappoint Mr. V. Halberstadt to the Board unless the General Meeting of Shareholders recommends another person or submits objections to the proposed reappointment. Subject to the same conditions, the Minister of Transport, Public Works and Water Management intends to reappoint Mr. W. Dik. Details as to interpretation of article 2:142 (3) of the Dutch Civil Code can be found in the enclosed agenda for the General Meeting of Shareholders. In addition, page 81 of this report presents each Supervisory Board member's year of birth, present and former positions, number of shares held, other supervisory board memberships and nationality. Also listed are the date and term of first appointment.

The Supervisory Board adopted the financial statements on the recommendation of the Board of Management following the examination by the auditor, PricewaterhouseCoopers N.V. The auditor's report can be found on page 78.




The Supervisory Board recommends that the General Meeting of Shareholders approve the 1998 financial statements of TPG. The shareholders will be asked to approve separately the Board of Management's execution of company affairs in 1998 and the supervision exercised by the Supervisory Board. The appropriation of net income approved by the Supervisory Board can be found on page 79.

Subject to approval of the financial statements, a dividend of NLG 0.80 (EUR 0.363) per ordinary share of NLG 1 par value will be paid over the 1998 financial year. An interim dividend of NLG 0.30 (EUR 0.136) has already been paid in 1998 so that the final dividend per ordinary share will be NLG 0.50 (EUR 0.227). With the approval of the Supervisory Board and the holder of the Special Share, the Board of Management has resolved that the shareholders may elect to receive the dividend either in cash or in Ordinary Shares.

The Supervisory Board wishes to thank the Board of Management and all employees of TPG for their outstanding efforts in establishing the new company and ensuring the satisfactory outcome of its activities in the past year.

The Supervisory Board
Amsterdam, March 22, 1999

1998 annual report

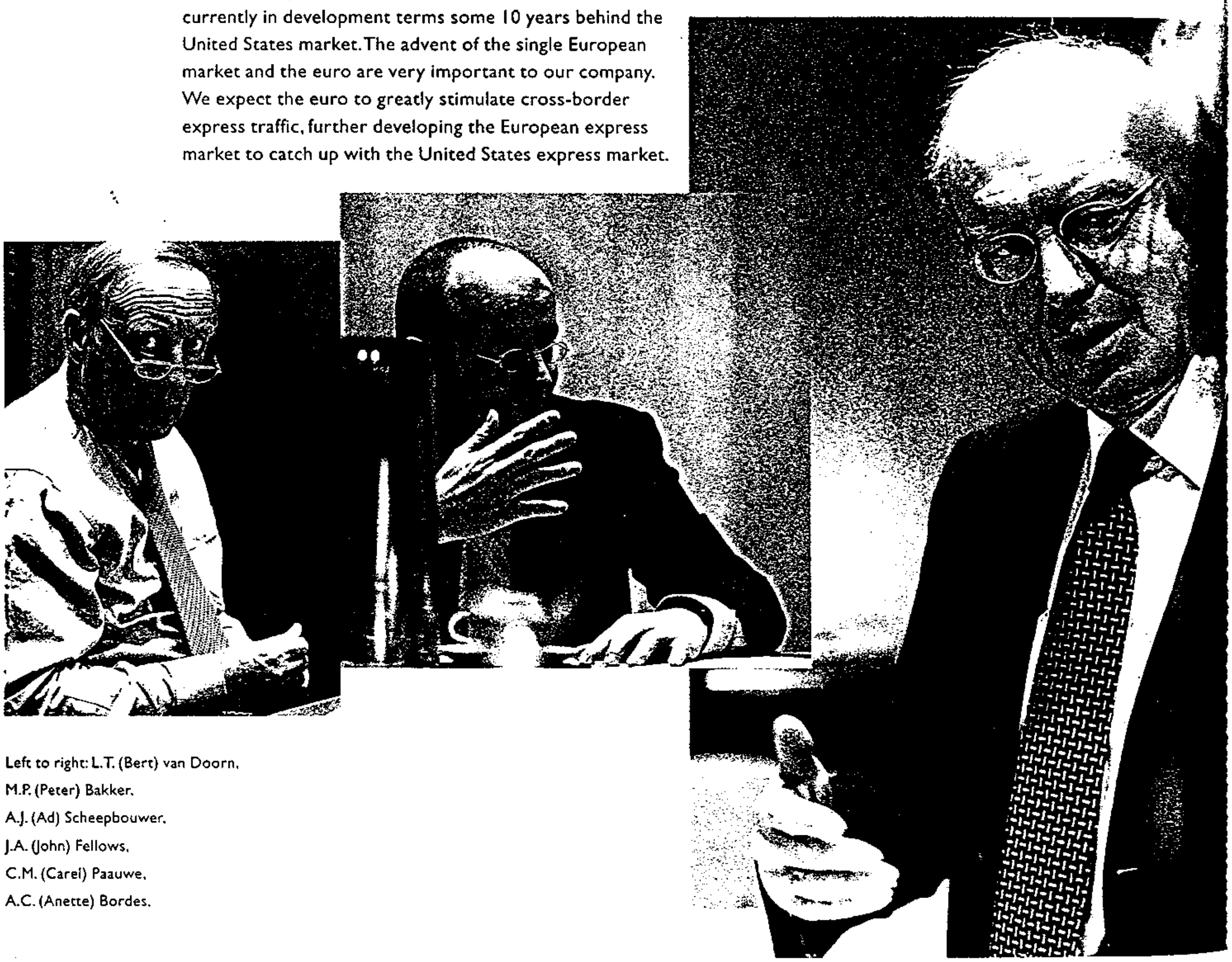
From the Chairman and CEO

Dear Shareholder,

Looking back on 1998, TPG has accomplished the successful positioning and listing as a new company. The financial results are good. Mail had an exceptional year, showing an unprecedented 7.4 percent rise in operating revenues. Express did well in Europe (9 percent growth in operating revenues), but growth outside Europe was significantly affected by unfavourable foreign exchange rates and the economic crises in Asia, Eastern Europe and South America. Logistics showed an excellent 18.3 percent increase in operating revenues.

From the first day of the listing to the end of 1998, the price of TPG shares outperformed by 22 percent the Amsterdam Stock Exchange index, the AEX. All in all, in the second half of 1998, TPG created just under NLG 5 billion of shareholder value.

Looking forward, the European market in express is currently in development terms some 10 years behind the United States market. The advent of the single European market and the euro are very important to our company. We expect the euro to greatly stimulate cross-border express traffic, further developing the European express market to catch up with the United States express market.



Left to right: L.T. (Bert) van Doorn,
M.P. (Peter) Bakker,
A.J. (Ad) Scheepbouwer,
J.A. (John) Fellows,
C.M. (Carel) Paauwe,
A.C. (Anette) Bordes.

From a strategic perspective, 1998 saw a significant improvement in our position in France through the acquisition of the joint market leader in domestic express, Jet Services. In line with the strategy of achieving a worldwide position in our three business areas, we actively review acquisition and other business opportunities on an ongoing basis.

The market: consolidation

In the express market, both in Europe and elsewhere, the trend toward consolidation was prominent in 1998. I think this is likely to continue in the time to come. Apparently, TPG has set a trend with the 1996 takeover of TNT. Other European postal operators have followed suit. Their acquisitions focus on the "generic" parcel market and transport-oriented logistics, whereas our strategy is to target premium services segments in express and higher skills-based logistics for supply chain management. In a few year's time, only a handful of major global players will remain: TPG and the other global integrators will be among them.

In Logistics in particular, we see many openings in the market, as is shown by our recent announcement concerning Tecnologistica. In our perception, logistics as an industry will grow significantly because there are many opportunities in supply chain management. In addition, we see synergies between logistics and express which make TPG uniquely positioned for expansion in its Logistics business area.

For the European mail market, we strongly favour competition, but we demand total deregulation on a level playing field, as soon as possible and for all players simultaneously. In the Dutch mail market, we expect the regulation currently being developed to be fair and even-handed, setting forth clearly defined responsibilities for all parties while at the same time not limiting our ability to compete effectively.

Growth: a central value

Growth is vital. It is crucial for our company, our customers, shareholders and employees. First of all, we grow because the business demands it. Mail and Express are scale-driven businesses. This means volume growth will lead to lower costs per unit, to more and more frequent pick-ups and deliveries, and thus to a better service for our customers at a lower price. We actively pursue this volume growth, and we invest to increase network capacity and to acquire new networks.

Our customers increasingly operate internationally. They are therefore looking for companies that can offer them services on an international or even global scale. TPG has to grow in order to continue to serve our customers well. We have realized our growth in part through innovation and through the development of more cost-effective products and services, and this benefits customers, too.

Growth is important for you as a shareholder as well. If we successfully manage to grow both revenues and cash flows, we will be able to attract more investors and more easily gain access to capital. Through making optimal use of these advantages and the capital provided, our company will create more shareholder value.

Finally, for our employees, a growing company offers better opportunities and more challenges, new places, new activities. Being part of a growing company, of a winning team, has a very stimulating effect.

The road ahead

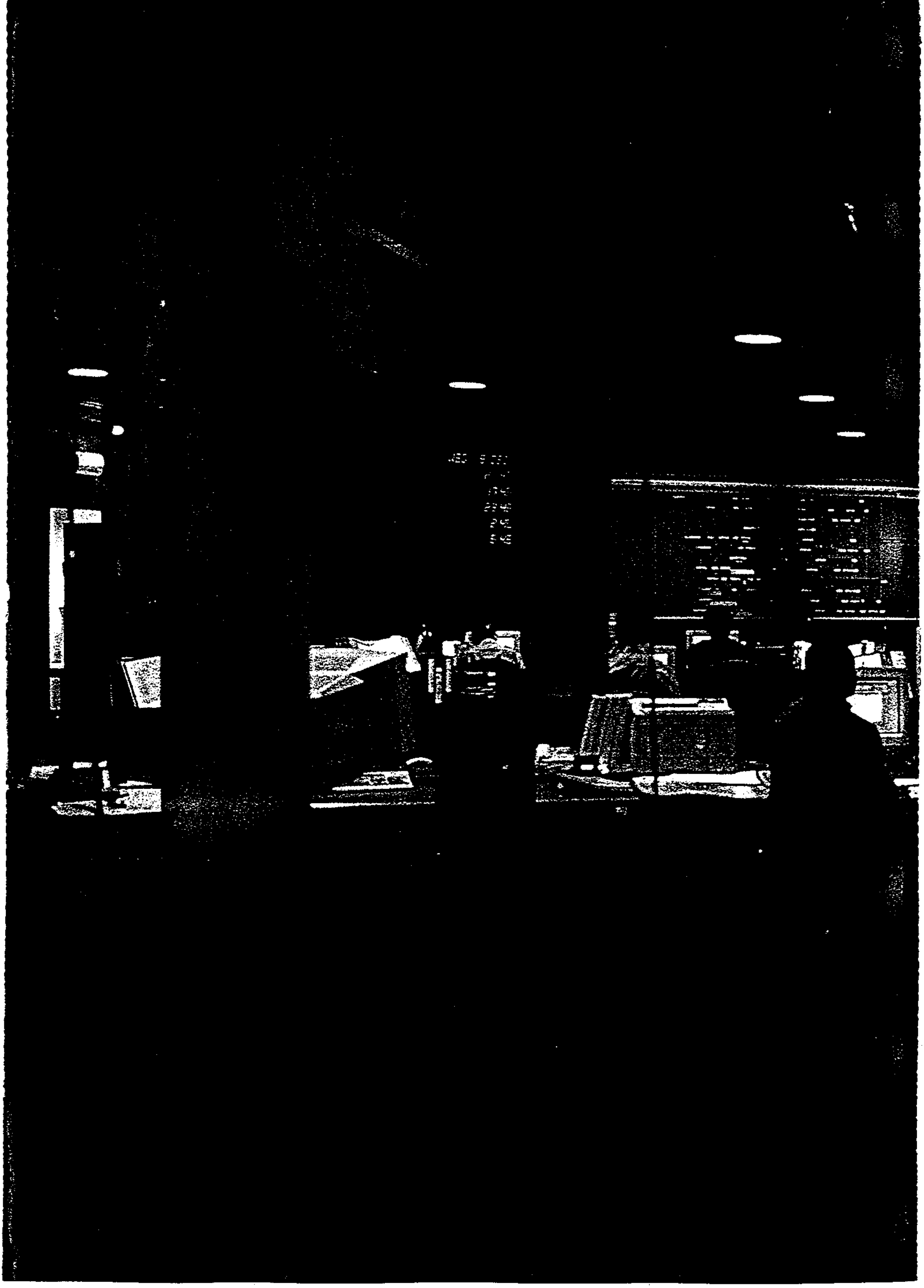
Barely 10 years ago, we were a wholly state-owned company with activities limited to the Netherlands. Since then, we have quadrupled in size. We are now a European-based global player.

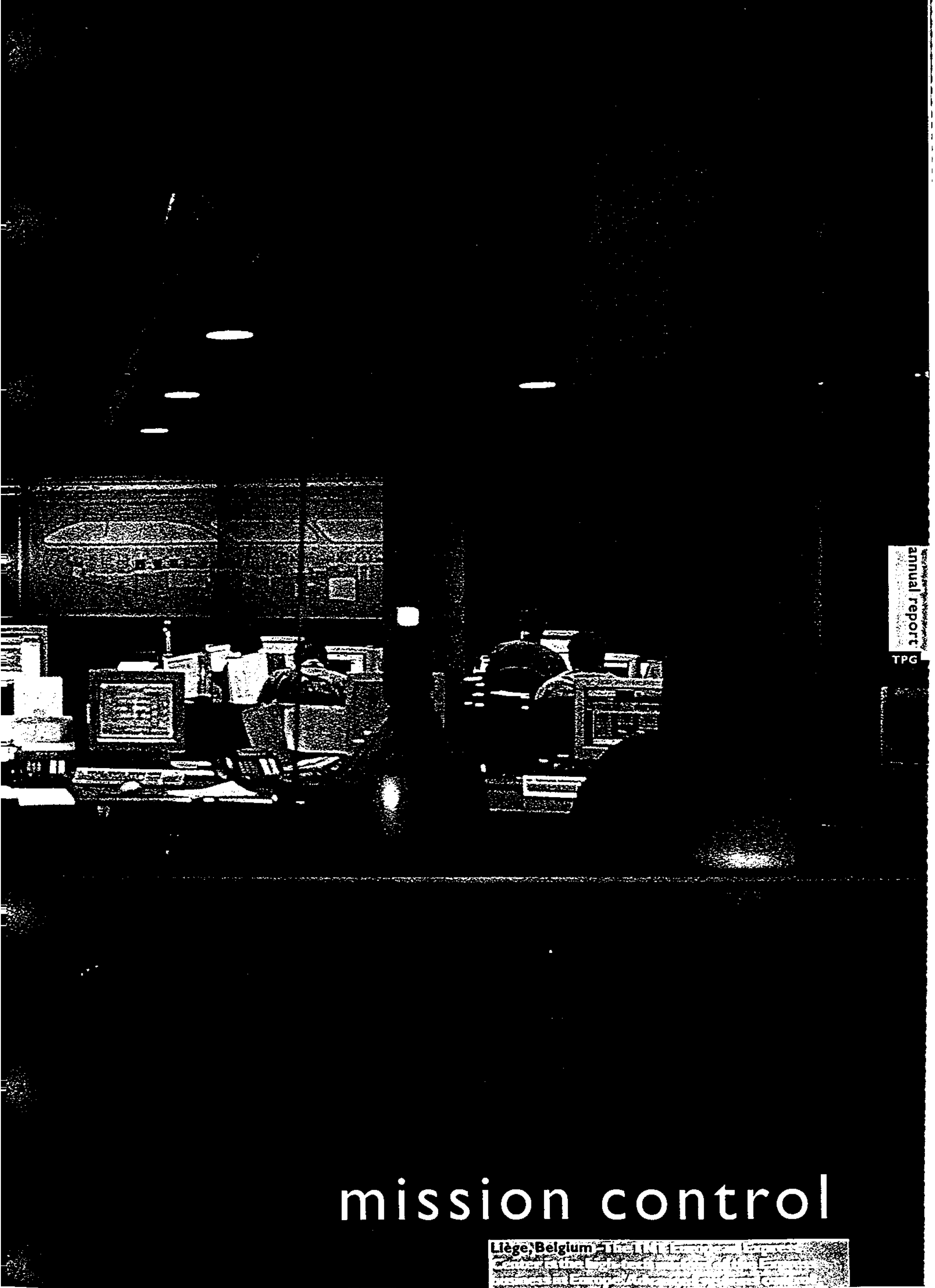
I greatly value the importance of our Dutch activities. We have been in mail since 1799, so there lie the roots of our group. Her Majesty Queen Beatrix of the Netherlands acknowledged this heritage by granting PTT Post the right to use the predicate "royal": Royal PTT Post.

We have come a long way, adding major Express and Logistics businesses to our portfolio, and we intend to go much further in the future. The road ahead is paved with challenges and opportunities.

I would like to thank everyone who was with us on the road in 1998 and who will be with us in 1999 and after. I would like to thank you, our shareholder, for your confidence. I trust that you will join me in thanking the TPG employees for their dedication and flexibility, the Supervisory Board for its vision and support, and especially our customers for choosing our company to provide solutions for their immediate or longer-term needs in Mail, Express and Logistics.

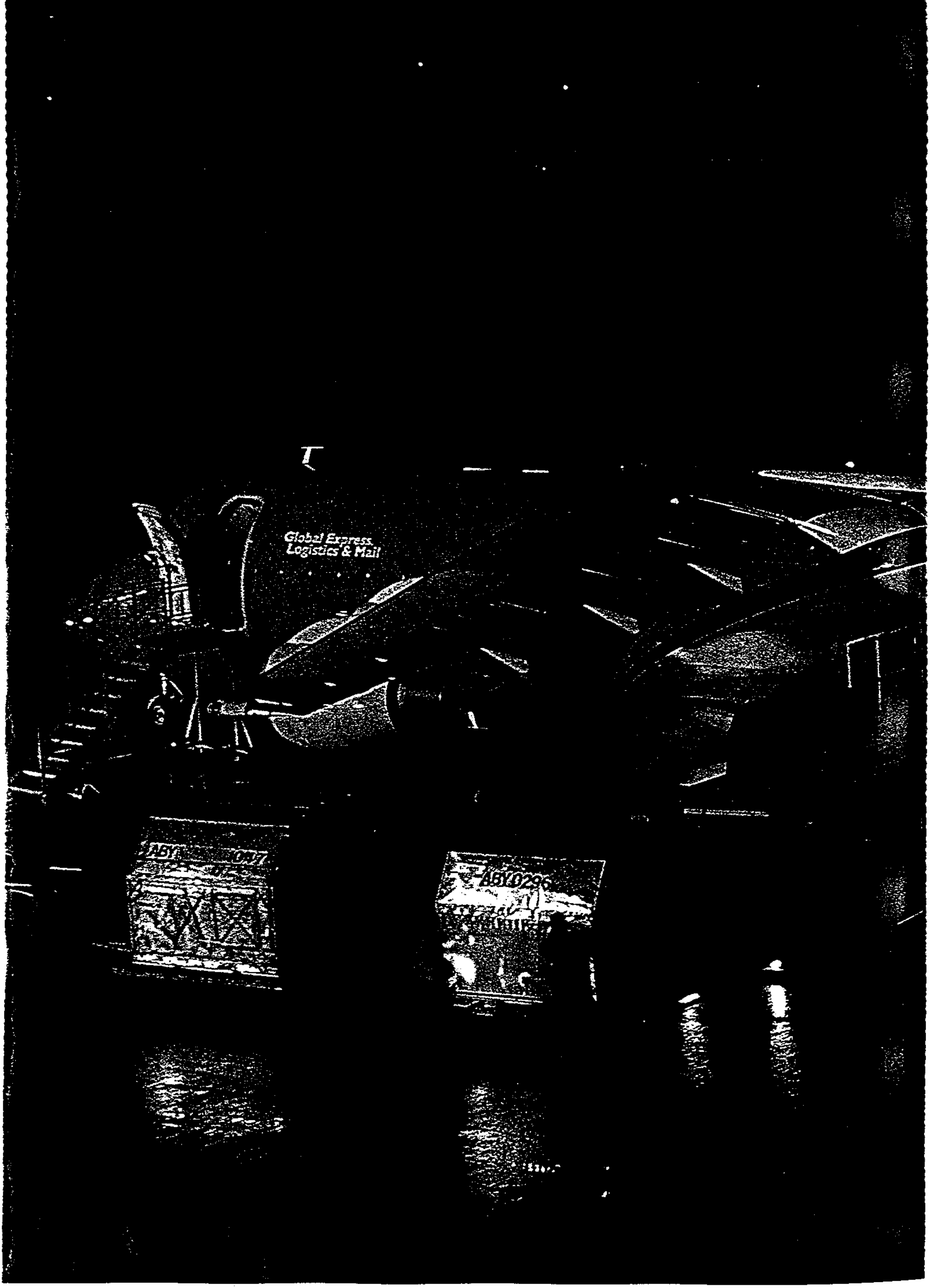
Ad Scheepbouwer

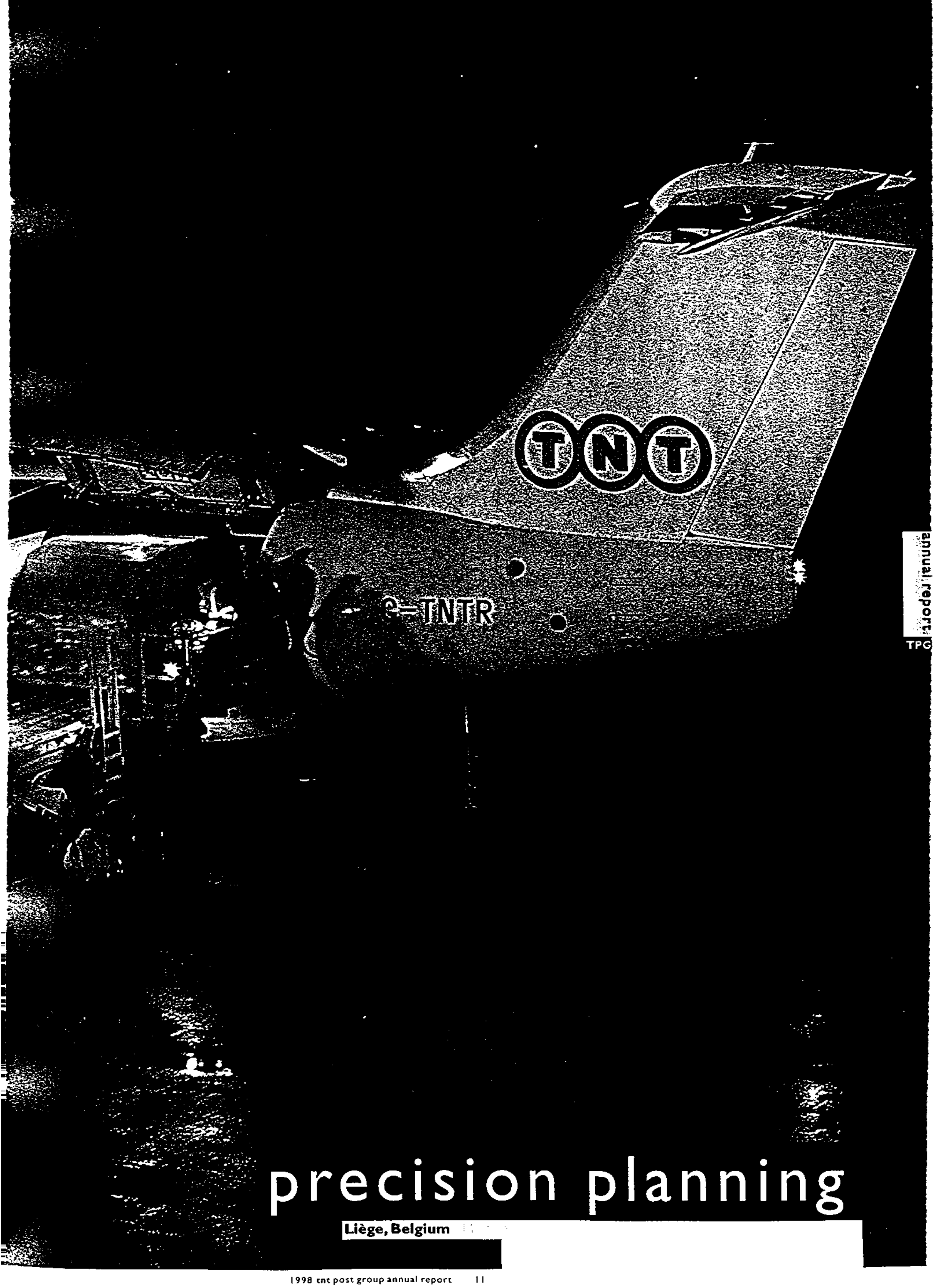




mission control

Liège, Belgium


Global Express.
Logistics & Mail



precision planning

Liège, Belgium

Strategy

Mission

TPG's mission is to achieve a recognized world leadership position through excellent service to customers in its three business areas – Mail, Express and Logistics – based on a strong market position in Europe.

Objectives and strategy

Economies of scale characterize TPG's Mail and Express businesses. A key element of its Mail and Express strategy is improving service quality by expanding network capacity and coverage through the addition of road and air fleet, hubs, depots and other infrastructure, as well as through technological development of network processes and customer interfaces. These improvements are expected to increase the density and efficiency of the networks, thus lowering unit costs and enabling TPG to offer its customers collection, transport and delivery more competitively, in more locations.

"Economies of skill" are as important to TPG's business as economies of scale. For example, in Mail and Express, TPG has developed collecting, sorting, transporting and delivery skills and capabilities that it has applied and will continue to apply in expanding into new geographic markets. In Logistics, TPG has developed specific skills, which have enabled it to expand its customer base and will form the basis for future growth.

TPG has instituted cost management measures that have enabled it to become a highly efficient postal operator. Cost efficiency is essential in Mail, because there is limited potential for increasing mail volumes in the Netherlands and traditional mail volumes may be threatened by competition and substitute technologies, such as fax and e-mail.

TPG continues to complement its Mail, Express and Logistics services by offering customers value-added services.

TPG also seeks to derive maximum value from revenue synergies among its various activities, resulting in the ability to offer integrated services to its customers.

In line with its strategy of achieving a recognized world leadership position in its three business areas, TPG actively reviews acquisition and other business opportunities on an ongoing basis.

Mail strategy

TPG's ambition is to have its postal operations recognized as the industry benchmark for quality, efficiency and customer service, for producing the best returns in the industry and for making optimal use of new technologies and liberalization.

The most important elements of TPG's Mail strategy are:

- Continuing to re-engineer collection, sorting, transporting and delivery processes in the Netherlands and to develop and implement new technology, such as automated sorting centers.
- Developing value-added services, such as database management and document handling, for business customers.
- Utilizing the business model of the European Foundation for Quality Management as a guideline for improving the quality of its services, customer satisfaction, employee motivation and business results in general.
- Offering a good price/quality ratio for large international volumes.
- Expanding its network geographically to attract more international business clients.

Express strategy

TPG's objective is to be one of the leading express distribution companies in the world, with a well-established presence in Europe. TPG expects the market for express services to grow in the coming years as businesses become increasingly international. It also expects that coverage of more locations and the efficiency of the services offered will become increasingly important to maintain and increase market share.

The most important elements of TPG's Express strategy are:

- Maintaining a strong customer focus by creating tailored express solutions for large and mid-size customers and offering excellent customer service by applying state-of-the-art information technology.
- Expanding capacity, coverage and technology capabilities through the addition of road and air fleet, hubs, depots and other infrastructure, and through development of technology.
- Reducing costs and improving services by integrating its international and domestic distribution networks and offering seamless services through its air and road networks for line-haul and delivery operations.
- Further strengthening the TNT brand to increase recognition and appreciation in the global marketplace.

Logistics strategy

TPG's strategy is to build leadership positions in targeted logistics markets.

To achieve this objective, TPG is:

- Continuing to build its expertise and skills in specific industries.
- Moving into increasingly complex supply chain integration and lead logistics supplier roles.
- Expanding geographically, taking advantage of the company's global reach.
- Applying the experience, skills and technology systems developed in other parts of TPG to improve the services offered.
- Enhancing cross-servicing between Express and Logistics.

Report of the Board of Management

Financial results

In 1998, the operating revenues of TPG increased by 6.9%. This increase consisted of 8.3% positive business effects partially offset by a 1.4% negative foreign exchange rate effect. Operating expenses increased by 6.6% compared to 1997. The increase in operating income was 10.1%. Net income in 1998 was NLG 820 million and grew by 18.2% compared to 1997.

amounts in millions of guilders, unless otherwise stated — year ended December 31,

TPG in figures from 1994	1998 EUR	1998	1997	1996*	1996	1995	1994
Total operating revenues	7,409	16,327	15,267	13,537	6,710	6,080	5,727
Salaries and social security contributions	2,736	6,030	5,824	5,343	2,829	2,845	2,819
Depreciation, amortization and impairments	208	458	415	433	178	231	161
Other expenses	3,803	8,381	7,704	6,649	2,760	2,283	2,169
Total operating income	662	1,458	1,324	1,112	943	721	578
as % of total operating revenues	8.9	8.9	8.7	8.2	14.1	11.9	10.1
Net income	372	820	694	582	636	541	443
Capital expenditure on property, plant and equipment	428	942	554		345	260	160
Average total capital	5,066	11,164	10,803		7,919	4,781	4,061
Return on average total capital (in %) **	13.1	13.1	12.3		11.9	15.1	14.2
Basic net income per Ordinary Share and ADS (in guilders)	0.79	1.73	1.46		1.34	1.14	0.93

* Pro forma, unaudited figures, including acquisition of TNT and GDEW.

** The decrease in the return on average total capital (in %) in 1996 is caused by an increase of total capital, mainly due to the acquisition and consolidation of TNT and GDEW. Without this acquisition, the percentage would have been 17.3 in 1996.

Operating revenues

In comparison with 1997, operating revenues increased by NLG 1,060 million (6.9%). In 1998 Mail, Express and Logistics contributed 46.8%, 39.2% and 14.0%, respectively, to total operating revenues.

amounts in millions of guilders — year ended December 31,

	1998 EUR	1998	1997	1996*	1996	1995	1994
Operating revenues per business area							
Mail	3,523	7,763	7,231	6,767	6,393	5,901	5,636
Express	2,953	6,507	6,224	5,210	381	230	146
Logistics	1,058	2,332	1,971	1,730	55	42	48
Intercompany	(125)	(275)	(159)	(170)	(119)	(93)	(103)
Total operating revenues	7,409	16,327	15,267	13,537	6,710	6,080	5,727
Total operating expenses	6,747	14,869	13,943	12,425	5,767	5,359	5,149
Total operating income	662	1,458	1,324	1,112	943	721	578

* Pro forma, unaudited figures, including acquisition of TNT and GDEW.

Mail

amounts in millions of guilders	year ended December 31,	
mail operating revenues	**1998**	1997
Domestic Mail	3,599	3,363
Direct Mail	2,117	1,889
International Mail	1,410	1,362
Post Offices and other	637	617
Total operating revenues	7,763	7,231

Operating revenues of Mail increased by NLG 532 million. Excluding negative foreign exchange rate effects, the revenue growth in 1998 amounted to NLG 544 million (7.5%) compared with 1997. The rise of mail volumes contributed NLG 350 million (4.8%) to this growth. Acquisitions were responsible for an increase of NLG 102 million (1.4%) and positive price and mix effects were responsible for an increase of NLG 58 million (0.8%). The remaining NLG 34 million increase was mainly due to higher revenues of supporting units and incidental revenues. The acquisitions consisted of an increase of the company's share holding in Dutch direct mail company VSP from 50% to 55%, the acquisition at the end of 1997 of IVA-DES, a data entry company in the Netherlands, and the acquisition of GMA, a direct mail delivery company in Germany. The development per line of business is detailed below.

Domestic Mail operating revenues increased by NLG 236 million compared with 1997. This increase was mainly due to a higher volume of postal items (NLG 156 million) and to positive price and mix effects (NLG 40 million). An increase in the number of bulk mail items (6.3%) and letterbox mail items of companies and consumers (3.4%) contributed to this positive volume effect.

Direct Mail operating revenues increased by NLG 228 million, mainly due to positive volume effects of NLG 139 million and acquisition effects of NLG 102 million. The positive effects were partially offset by NLG 13 million of other effects. The increase in the volume of Direct Mail was related to financial services, consumer goods, retail, publishers, lotteries and incidental mailings.

International Mail operating revenues were NLG 48 million above the level of 1997. This increase was primarily the result of an increase of mail volumes (NLG 55 million) and other effects (NLG 5 million) which was partially offset by NLG 12 million negative foreign exchange rate effects.

Operating revenues of Post Offices and other increased by NLG 20 million compared with 1997. This increase is due to higher revenues of supporting units and incidental revenues.

Express

amounts in millions of guilders	year ended December 31,	
express operating revenues	**1998**	1997
Express Europe	5,220	4,791
Express International	1,287	1,433
Total operating revenues	6,507	6,224

Operating revenues of Express increased by NLG 283 million (4.5%) in 1998 compared to 1997. The increase of NLG 429 million (9.0%) in Europe was partially offset by a decrease of operating revenues of NLG 146 million (10.2%) in Express International. Turbulence in the financial markets severely impacted the 1998 operating revenue growth of Express International. Foreign exchange rates (especially in Australia, Indonesia and Korea) negatively affected the growth of operating revenues of Express International by NLG 177 million. In Europe, favorable foreign exchange effects accounted for NLG 17 million of the increase in operating revenues for Express Europe.

Excluding the effects of foreign exchange rates, the operating revenues of Express increased in 1998 by NLG 443 million (7.1%) compared to 1997. NLG 412 million of this increase was attributable to Express Europe and NLG 31 million was attributable to Express International.

In Europe, all geographic areas contributed to the increase of NLG 412 million or 8.6% (excluding foreign exchange rate effects). The stable economic development in TPG's main European markets contributed to the overall growth of Express Europe. In 1998, competition in the European express market continued to grow, which led to pricing pressure. In 1998, average weight per consignment increased due to a mix change from documents to express freight products. The acquisitions of Great Glen, a hanging garment distributor in Ireland, and Pony Express, a city courier in Italy, which was acquired at the end of 1997, contributed modestly to the increase of operating revenues in 1998 compared to 1997.

Outside Europe, growth of operating revenues of Express activities in 1998 compared to 1997 amounted to NLG 31 million or 2.2% (excluding foreign exchange rate effects). Growth in the Express markets in Asia and Latin America was negatively affected by the economic turmoil in those regions. During 1998, TPG's Express business in the United States was restructured. Certain unprofitable operations were terminated and a more flexible cost structure was created.

In 1998, Express continued to integrate its international and domestic Express businesses in Germany, Benelux, Italy and Australia. The focus on the integration and the related alignment of international and domestic Express products tempered the growth in operating revenues. Furthermore, the move to the European Express Center in Liège was accompanied by a decrease of service quality in the second quarter. This tempered the increase of operating revenues in that period.

Logistics

amounts in millions of guilders	year ended December 31,	
logistics operating revenues	**1998**	**1997**
Total operating revenues	2,332	1,971

Operating revenues from Logistics increased in 1998 by NLG 361 million (18.3%) compared with 1997. In 1998, the increase of operating revenues was fully fuelled by organic growth. Included in this net growth is the negative NLG 36 million impact of unfavorable foreign exchange rate effects, primarily due to the weakening of the Australian dollar and Canadian dollar against the Dutch guilder. Excluding this effect, operating revenues increased by NLG 397 million despite the contribution to operating revenues of NLG 169 million by Netlog in the first half of 1997. Netlog was sold in the second half of 1997. Adjusted for the sale of Netlog, Logistics revenues increased by 29.4%.

The growth in operating revenues was largely generated from increased volumes on existing contracts together with the full year effect of contracts begun during 1997. In particular, this included significant contracts in the automotive industry in Italy, the United Kingdom, Germany, France and the United States.

New business in 1998 also contributed significantly to the growth in operating revenues. Significant new Logistics business, primarily in the target industries, was gained in the United Kingdom, Australia and in the Asian region.

Operating expenses

amounts in millions of guilders	year ended December 31,	
operating expenses	**1998**	**1997**
Cost of materials	757	640
Work contracted out and other external expenses	6,173	5,872
Salaries and social security contributions	6,030	5,824
Depreciation, amortization and impairments	458	415
Other operating expenses	1,451	1,192
Total operating expenses	14,869	13,943

Total operating expenses increased by 6.6% in 1998 compared to 1997. This increase consisted of 8.2% positive business effects partially offset by 1.6% negative foreign exchange rate effects. The 6.6% increase in operating expenses was more than matched by the 6.9% increase in operating revenues in 1998, resulting in an increase in gross margin to 8.9% in 1998 compared to 8.7% in 1997.

Cost of materials and work contracted out

Cost of materials, work contracted out and other external expenses increased by NLG 418 million (6.4%) compared with 1997. The increase incurred in all the business areas. In Mail, these revenue-related expenses increased due to higher volumes, consolidations of certain interests for the first time and an increase in the number of temporary employees (hired flexible workforce). In Express, subcontracting costs also increased in line with revenue growth. This increase was primarily related to more subcontracted costs for pick-up and delivery, linehaul and hub activities. In Logistics, the increase was primarily due to new contracts gained and existing contracts contributing higher volumes.

The net increase of the cost of materials, work contracted out and other external expenses was 6.4%. This consisted of a gross increase of these expenses by 7.9% partially offset by a 1.5% negative change in foreign exchanges rates.

Salaries and social security contributions

Salaries and social security contributions increased by NLG 206 million (3.5%) compared to 1997. The increase was for 2.9% due to an increase in the average number of FTEs. The remaining 0.6% was due to other effects.

Depreciation, amortization and impairments

Depreciation, amortization and impairments increased in 1998 by NLG 43 million (10.4%) compared to 1997. This increase was primarily due to an increase of regular depreciation charges. The increase is related to the increased capital expenditures of TPG. In 1998, the capital expenditures in property, plant and equipment amounted to NLG 942 million compared to NLG 554 million in 1997. In 1998, no impairments were recognized compared to NLG 3 million in 1997. In 1998, the amortization of goodwill amounted to NLG 114 million.

Other operating expenses

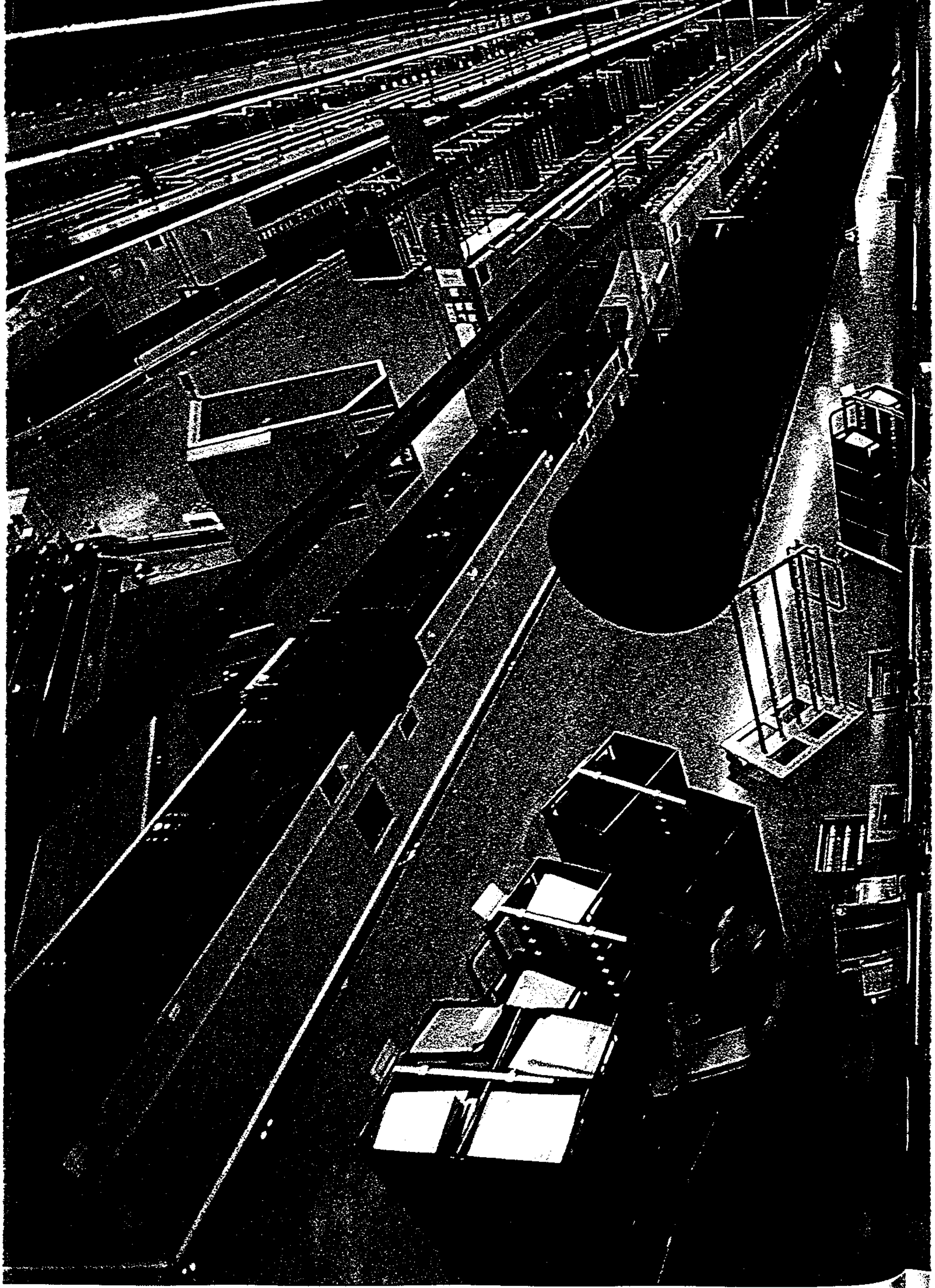
Other operating expenses increased in 1998 by NLG 259 million (21.7%). The increase was related to higher operating revenues and higher consultancy costs and additional IT and automation expenses. Included in other operating expenses in 1998 was an amount of NLG 400 million in net additions to the reorganization provision. In 1997, the net addition to the reorganization provision amounted to NLG 447 million.

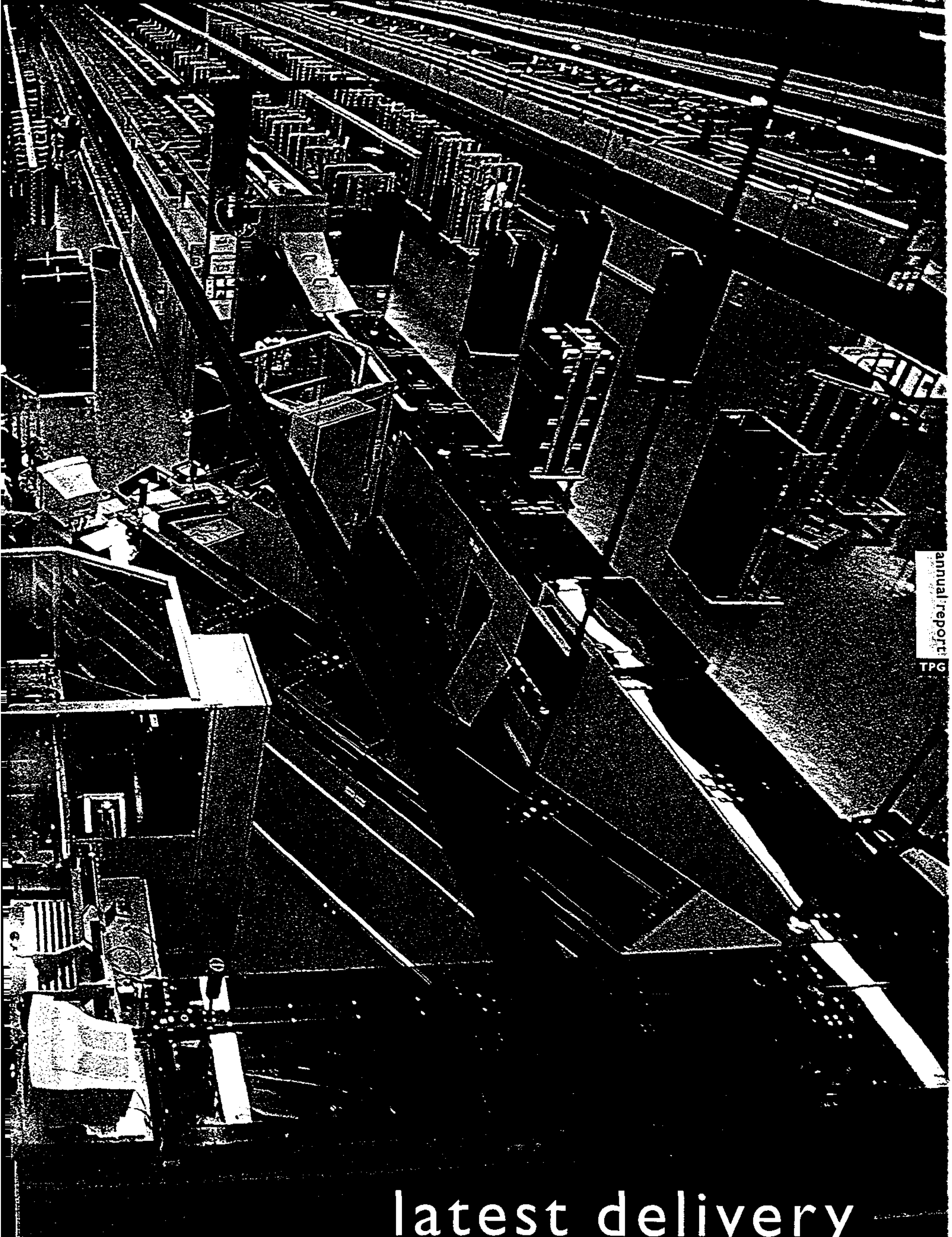
Operating income

amounts in millions of guilders	year ended December 31,	
operating income	**1998**	**1997**
Mail	1,532	1,438
Express	284	275
Logistics	157	129
	1,973	1,842
Amortization of goodwill	114	114
Non-recurring costs	401	404
Total operating income	1,458	1,324

In 1998, Mail, Express and Logistics contributed 77.6%, 14.4% and 8.0%, respectively, to total earnings from operations (operational income before amortization of goodwill and non-recurring costs). Earnings from operations increased in 1998 by NLG 131 million (7.1%) compared with 1997. Mail, Express and Logistics contributed NLG 94 million, NLG 9 million and NLG 28 million, respectively.

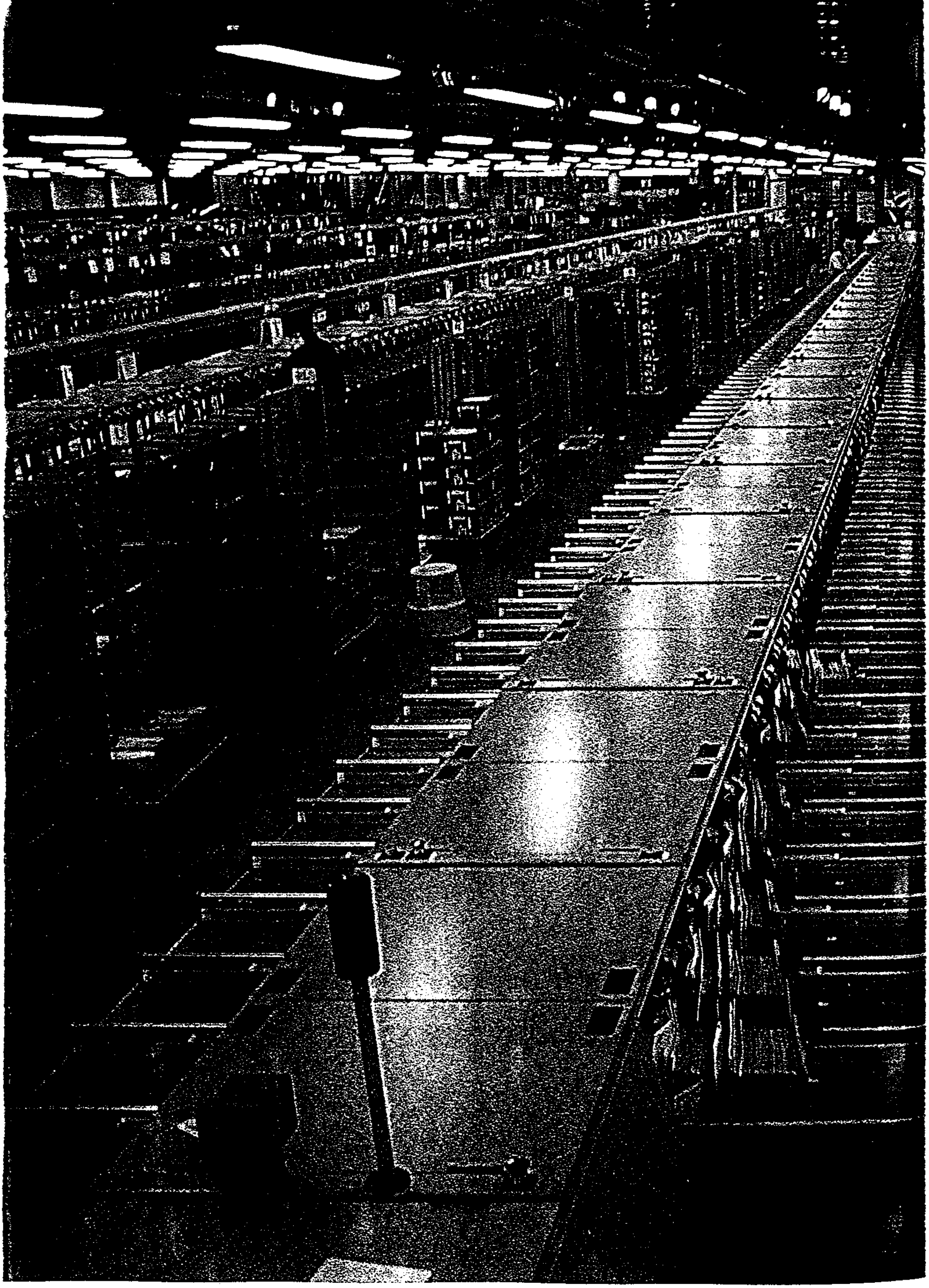
The increase in earnings from operations contributed by Mail was mainly due to higher volumes in Domestic Mail and Direct Mail.

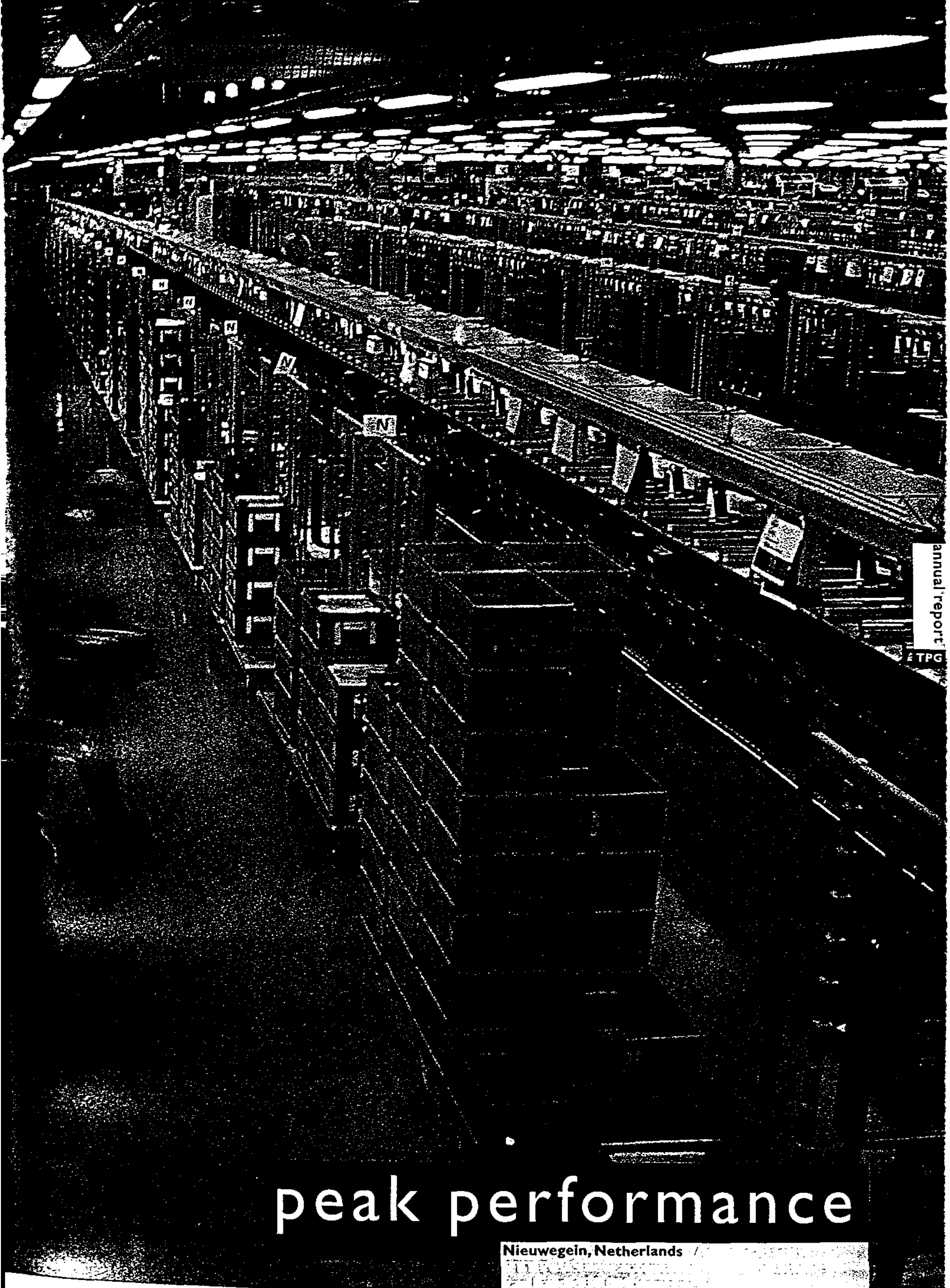




latest delivery

Nieuwegein, Netherlands [illegible]





peak performance

Nieuwegein, Netherlands

In Express, the volume growth in consignments was in line with the growth in operating revenues. Increased network expenses negatively affected the profitability of Express. In addition, minor start-up problems after the opening of the air hub in Liège caused a slight decrease in service quality during the second quarter. This increased service recovery costs and tempered the increase of operating revenues in that period. Savings due to the integration of the domestic and the international Express activities offset both negative effects. Overall, the gross margin of Express in 1998 was on the same level as 1997.

The increase in earnings from operations of Logistics was due to the contribution from increased revenues as a result of growth in existing contracts, new business and cost efficiencies.

In both 1998 and 1997, the amortization of goodwill amounted to NLG 114 million. Non-recurring costs decreased by NLG 3 million in 1998 compared to 1997. The non-recurring costs consist of NLG 400 million net additions to the reorganization provision and NLG 1 million related to discontinued activities.

TPG's provisions for reorganization deal primarily with Briefpost 2000, a reorganization project of Mail activities in the Netherlands, integration projects within Express, promoting the new corporate identity of TNT and some essential adjustments for IT systems and IT applications of TPG to prepare it for the euro and the Year 2000.

Expected savings from various reorganizations include the effects of synergy by integration of the Mail, Express and Logistics businesses of PTT Post and TNT for an amount of NLG 125 million, of which NLG 60 million was realized at the end of 1998. As a result of Briefpost 2000, TPG expects to realize annual savings of approximately NLG 300 million at completion of that reorganization expected in 2000, compared to the start of the project in 1992. At the end of 1998, a total of NLG 200 million of these savings had been realized.

In 1998, operating income increased by 10.1% to NLG 1,458 million compared with 1997. Foreign exchange rate effects contributed to this growth by NLG 9 million (0.7%).

Interest

In 1998, TPG had net interest expense of NLG 88 million, compared to NLG 165 million net interest expense in 1997. The decrease in net interest expense of NLG 77 million was due to an increase of NLG 28 million in interest income and a reduction of interest expense by NLG 49 million. This was due, among other factors, to reimbursements of external loans and the repayment of a revolving credit facility with the proceeds from the demerger from KPN.

Income taxes

Tax expense in the consolidated statements of income in 1998 amounted to NLG 544 million (1997: 469), or 39.7% (1997: 40.4%) of income before income taxes. NLG 113 million (1997: 93) of the total tax expenses in 1998 was paid outside the Netherlands.

The effective tax rate in 1998 was 4.7% (1997: 5.4%) higher than the statutory tax rate (35%) in the Netherlands. This difference is due to permanent differences such as non-deductible amortization of goodwill, non-deductible and partly deductible costs and higher effective income tax rates in other countries.

Net income

TPG's net income in 1998 increased by NLG 126 million (18.2%) to NLG 820 million. This net increase was the result of the increase in operating income of NLG 134 million (10.1%), partially offset by an absolute increase in taxes, a reduction in net interest expense and a change of NLG 12 million in the results from minority interests. Favorable exchange rate effects contributed to the net income growth by NLG 6 million (0.8%).

Liquidity and capital resources

At December 31, 1998, the net debt position consisted of NLG 591 million indebtedness, offset by NLG 890 million of cash and cash equivalents.

At December 31, 1998, TPG's total NLG 591 million indebtedness consisted of NLG 260 million short-term debt and NLG 331 million long-term debt (including the current portion).

Short-term debt consisted of NLG 231 million drawdowns under a short-term Australian dollar revolving credit facility and NLG 29 million local bank debt. The Australian dollar facility was used to repay a 4.875% SFR 266 million debenture.

Long-term debt includes NLG 159 million in loans from the State of the Netherlands assigned to TPG upon demerger, NLG 105 million of aircraft funding, NLG 58 million related to outstanding financial leases and NLG 9 million other long-term debt. The current portion of long-term debt, included in the balance sheet under short-term liabilities, consisted of NLG 60 million aircraft funding and NLG 11 million financial leases.

At December 31, 1998, TPG's total cash position amounted to NLG 890 million, an increase of NLG 327 million compared to year-end 1997 (NLG 563 million). This increase was attributable to a positive cash flow from operations, which was partly offset by negative cash flows from investments and financing activities.

At December 31, 1998, TPG had committed credit facilities outstanding with a number of domestic and international banks amounting to NLG 1,189 million and uncommitted and undrawn facilities amounting to NLG 649 million.

Capital expenditure on property, plant and equipment

amounts in millions of guilders	year ended December 31,	
capital expenditure on property, plant and equipment	1998	1997
Mail	370	240
Express	484	221
Logistics	88	93
Total	942	554

Capital expenditure in 1998 amounted to NLG 942 million and mainly consisted of capital expenditures in the company's infrastructure. Specific infrastructure projects are the Briefpost 2000 project in the Netherlands (NLG 197 million), a new air hub in Liège, Belgium (NLG 124 million), and three new road hubs (NLG 78 million) in the Netherlands, Italy and in the United

6 million (I om. Other capital expenditures were incurred relating to
esult of the ts and equipment throughout Europe (NLG 155 million) and
n (10.1%), p t carriers (NLG 67 million). Further capital expenditures
ion in net in 1998 were made in IT (NLG 33 million), the upgrade of post
results from s (NLG 52 million) and relating to automotive logistics
ects contrib acts (NLG 41 million). The remaining NLG 195 million
8%). l expenditures relate to various small projects throughout
ompany.

ources **Year 2000 issue**

consisted of has been actively working on the Year 2000 date problem
890 million c 1997 and is addressing the millennium issue throughout its
organization. The work has been organized using a risk-
project approach. TPG's methodology consists of a clear
591 million ion of the scope of the problem and agreed steps to address
hort-term de mpliance matter. TPG expects that 90 percent of its business
e current po millennium compliant by mid-1999. The remaining parts
wo additional months to be compliant.
million draw
g credit facili potential Year 2000 problems are not addressed, there is a
ian dollar facil possible failure of key IT and business systems. However,
enture. cognized the Year 2000 issue early and moved to develop
strategy to deal with the problem. TPG's key objective is
lion in loans fr s as usual and the continuation of quality service to our
G upon demerers – before, during and after the turn of the century.
3 million relate
on other long ontingency planning and preparation for possible events
ot, included in t TPG's direct control – for example, the failure of key
consisted of ers, suppliers or other third parties – is also under way.
1 million finan tingency plans are scheduled to be ready in
per 1999.

ash position an amount of NLG 94 million was provided in the
7 million com ated annual accounts of TPG for Year 2000 compliance
rease was attri s at the end of 1998. This amount is expected to cover
hich was partly ated future payments of IT adjustments and systems
nd financing ac ntire group. In 1998, the cash expenditures amounted
44 million. This amount was used for dedicated staffing,
mmitted credit ent equipment and extensive test procedures relating
nd internationa ar 2000 project.
ommitted and u
, like other organizations properly addressing the Year
e, cannot guarantee that there will be an absolutely
n proper transition into the new millennium. TPG, however, has
professional and well-supported approach to identifying
iating the risks, as well as responding quickly in the event
year ended D ems do arise. See Appendix I for an extensive
n.

1998
370
484
88
942

o
y 1, 1999, the euro was introduced in the Netherlands
er member states of the European Monetary Union
is new single currency is a currency in its own right and
e the currencies of each of the participating member
introduction of the euro, which is the third phase of
is that bilateral conversion rates between the national
of participating EMU countries and the euro became
fixed on January 1, 1999.

to NLG 942 mil
s in the compan gement believes that the introduction of the euro will
rojects are the ficial effect on the market risk exposures faced by TPG
197 million), a e significant proportion of TPG activities undertaken
d three new ro ipating EMU countries. See Appendix 2 for an extensive
taly and in the U

Demerger

On June 28, 1998, the assets and liabilities directly related to KPN's mail, express and logistics businesses were transferred, by operation of law, to the company. In addition, at the date of the demerger, certain jointly held assets and liabilities not directly allocable to the mail, express and logistics businesses were also transferred, by operation of law, from KPN to the company. See explanatory note 1 of the consolidated financial statements.

Pursuant to the demerger, all of the mail, express and logistics businesses and jointly held assets and liabilities transferred to TPG were, upon consummation of the demerger, deemed to have been for the risk and account of the company as of January 1, 1998.

Exchange rate risks

TPG operates on an international basis and generates income and expenditures in more than 60 currencies. This creates exposures due to the possibility of fluctuations in foreign currency exchange rates. These fluctuations can in turn affect the results of TPG.

To reduce this exposure, TPG uses financial instruments and derivatives. These include forward exchange contracts, currency swaps and currency options.

The policy of TPG is to hedge completely all significant risks arising from transactions in foreign currency. Financial instruments and derivatives are not used for purposes other than hedging these positions. TPG does not take speculative positions.

Non-core business

Following PTT Post's January 1997 acquisition of TNT, it was decided to dispose of TNT's businesses not centered on the core Mail, Express and Logistics activities. The most important non-core activities of TNT were Ansett Worldwide Aviation Service (AWAS), TNT Komatsu Forklift business (Forklifts), Port of Geelong and the Sydney Monorail.

Because AWAS has been classified non-core, TPG intends to sell its entire share in this joint venture in which TPG and The News Corporation Limited (Newscorp) are equal partners. AWAS trades in new and used aircraft and acquires aircraft for leasing to third parties. Discussions with parties interested in acquiring the business commenced in the latter part of 1997. AWAS achieved good financial results in 1998. Although there are several parties interested in acquiring AWAS, the sale is a complicated transaction due to complex financing structures. If discussions for the sale of AWAS do not come to fruition, TPG intends to pursue other disposal options in cooperation with Newscorp.

The sale of Forklifts was completed in February, 1998. The disposal of Port of Geelong was completed on August 7, 1998. Port of Geelong was sold to Toll Transport. In 1998, Sydney Monorail was sold to a consortium of investors led by a European transport operator, CGEA Transport. The deal was closed on August 10, 1998. CGEA will take over operation of the monorail. In 1998, a few other non-core activities were sold. After a December 1997 letter of intent was signed with Eurest to take over Catering Services, the deal with Eurest was closed January 1, 1999. KPN Autolease was sold to ABN Amro Lease Holding N.V. on November 2, 1998, when ABN Amro acquired all the shares of KPN Autolease. On January 1, 1999, Waardenlogistiek was sold to Geldnet, a 50 percent subsidiary of PTT Post.

In January 1998, a letter of intent was signed with VNV to transfer the shares of KPN Risicom to a venture in which TPG would have a minority share. Negotiations with VNV are still pending.

Dividend policy

The Board of Management of TPG intends to pursue a dividend policy with a pay out in a range of 30% to 35% of its profits to reflect its expected growth and investment strategy.

In the next few years, TPG intends to pay a stable dividend of NLG 0.80 per Ordinary Share. During this period, as TPG expects to grow its business, the intended stable dividend of NLG 0.80 per Ordinary Share is expected to result in a pay-out ratio of 30% to 35%.

The dividend policy will be pursued if permitted by the financial situation of TPG and will be subject to annual review.

TPG intends to pay an interim dividend and a final dividend. For the interim dividend and the final dividend, TPG intends to offer its shareholders (including its shareholders in the United States) a choice between dividends in cash or in Ordinary Shares (based on a conversion rate related to the closing quote (ex-dividend) of the Ordinary Shares on the Amsterdam Stock Exchange on a date prior to payment). In each case, at the announcement of the choice, TPG will announce that the value of the dividend paid in shares will be 2% to 5% lower than the value of the cash dividend.

Quality

Quality is an integral part of TPG's policy and strategy. To implement quality values, many TPG business units use the business model of the European Foundation for Quality Management (EFQM). This model surveys nine areas, which are systematically controlled and objectively assessed.

Self-assessment takes place at all management levels, and external assessments are also conducted. In its quest for quality leadership, TPG applies a number of management principles to foster continuous improvement:

- Focus on results.
- Base discussions and decisions on facts.
- Encourage personnel to improve and to seek involvement.
- Earn internal and external recognition.
- Communicate.

TPG's managers are active in the EFQM and national quality organizations, where they exchange ideas and information with professionals from other quality-conscious organizations.

In 1998, TNT in the United Kingdom won the European Quality Award. Given each year by the EFQM, the award is widely recognized as the pinnacle of achievement in total quality management.

Human resources

TPG's human resources strategy is geared toward developing human capital to enable the company to better serve its customers and to execute business operations and strategy more effectively than its competitors.

TPG strives to become the industry's preferred employer, offering challenging and satisfying careers to its employees around the world. Human resources efforts aim to create a work environment where customer satisfaction is of paramount importance to all employees.

TPG recognizes the link between employee satisfaction, customer satisfaction and shareholder value. Its human resources programs are intentionally focused on encouraging employees and managers to adopt these values. Consequently, the company has gained recognition for investment in people and total quality management. In the United Kingdom, for example, TNT won the 1998 Investors in People Key Champions Award, which is presented by the UK Department of Education and Employment Investors in People organization.

employees	1998	1997
Average number of FTEs	77,795	75,569
Number of employees on December 31	101,582	94,116
Salaries and social security contributions (NLG million)	6,030	5,824

Terms and conditions

In 1998, TPG developed a worldwide reference framework that addresses human resources issues related to managers and potential managers. The framework gives due attention to geographic and cultural diversity. A competitive international reward and mobility process was also launched in 1998. These efforts will be continued and further refined in 1999.

TPG offers competitive, market-oriented employment conditions. In order to link employment conditions with business and individual performance, due attention is given to setting consistent and challenging goals that support customer and corporate values. Reward, particularly that of managers, is linked to individual goal achievement, as well as meeting company profitability objectives.

After TPG's demerger from KPN, a central works council was established to confer with the TPG Board of Management regarding certain organizational and human resources matters in the Netherlands.

On September 22, 1996, European Union legislation mandated that all multinational companies within its borders establish a European body for transnational information and consultation of employees. TPG expects to establish a European body in 1999, which will lead to the termination of existing agreements on transnational information and consultation within TNT Ltd., GD Express Worldwide and TNT Automotive Logistics.

In 1998, a one-time personnel option plan and a management option plan were approved and options were granted. For more information, see pages 80 and 73-74.

The Supervisory Board and the Board of Management see the granting of options as an essential remuneration aspect for managers. In consultation with the Supervisory Board, objective criteria are being further developed to determine the amount of options to be granted.

Management development

TPG encourages mobility and flexibility in its employees and managers. It provides international career opportunities in order to enhance individual career experiences and better serve global customers. TPG also encourages best practice exchange.

Training and development is a cornerstone in performance management at TPG. The company is instituting a competency-based framework to support development of managers and potential managers. TPG offers specialized training courses in areas key to its business success, often in conjunction with renowned academic organizations.

In Germany, for instance, TNT runs an academy that offers employees and managers a range of training courses in 45 functional and behavioral areas. The academy was established in 1991, and some 2,700 employees and managers participated in 300 courses in 1998.

In Europe and North America, a Master in Logistics program for current and future leaders within TNT's Logistics business improves participants' skills in systems design, pricing and proposal development, and logistics strategy. The course focuses on understanding customer needs and how to meet those needs. Students from eight countries participated in the European course in 1998. (See photos on pages 24-27.) The first course in North America began in February 1999.

In the Netherlands, an Executive Program provides training and development for graduates during the first three years of their tenures, and an Executive Business Course provides development opportunities for high-potential managers.

Environment

TPG is committed to reducing the impact of its operations on the environment. The company guarantees carriage of goods in compliance with all international and national regulatory safety requirements.

TPG works to promote its commitment to the environment throughout the organization, and invests in programs aimed at achieving high standards of environmental care and safety. Through these efforts, TPG strives to ensure that employees in all parts of the company are aware of and comply with environmental legislation.

In 1998, TPG demonstrated its commitment to environmental care by starting to replace Boeing 727s with modern Airbus A300B4 freighters and flying state-of-the-art aircraft, such as the BAe146 Quiet Trader, which reduce the noise impact of its operations. TNT developed more environment-friendly packaging for its Express services in 1998, and restructured processes to reduce the number of sorting bags used.

TNT's operations in Sweden have achieved ISO 14001 environmental accreditation. Set by the independent International Organization for Standardization, these standards measure a company's achievements in reducing its impact on the environment, preventing pollution and continually improving its environmental efforts. TNT in the United Kingdom achieved the accreditation in 1998, and PTT Post in the Netherlands has set ISO 14001 accreditation as a goal.

In Australia, TNT received the 1998 New South Wales Transport Association's Environmental Award for its comprehensive approach to environmental management.

Prospects

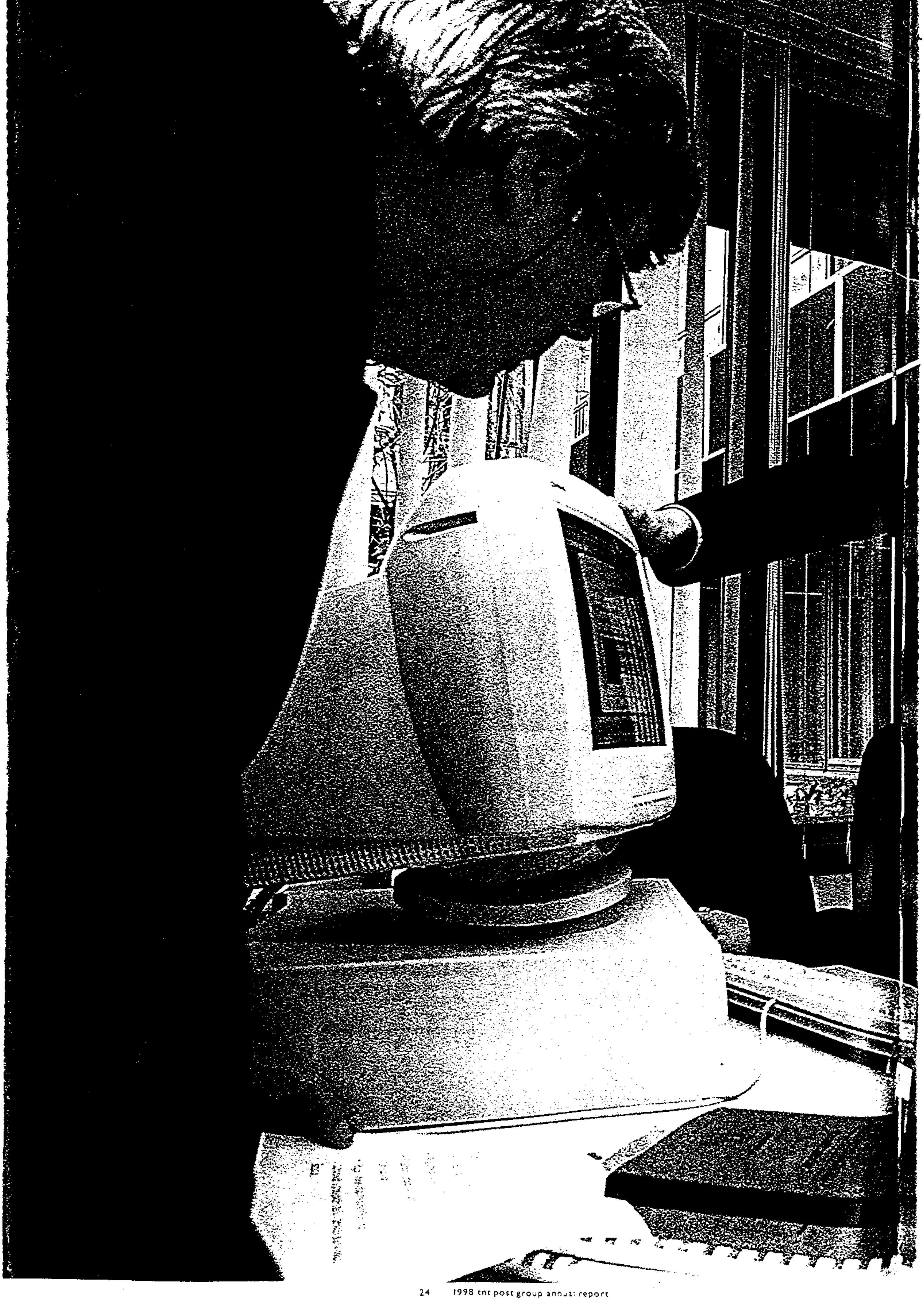
At constant exchange rates, the Board of Management expects the revenue growth in 1999 to be at least in line with the 1998 development. The Board of Management expects, again at constant exchange rates, that the growth of operating income will continue to exceed revenue growth. The Board of Management expects a net income growth within the 10 percent to 15 percent range in 1999.

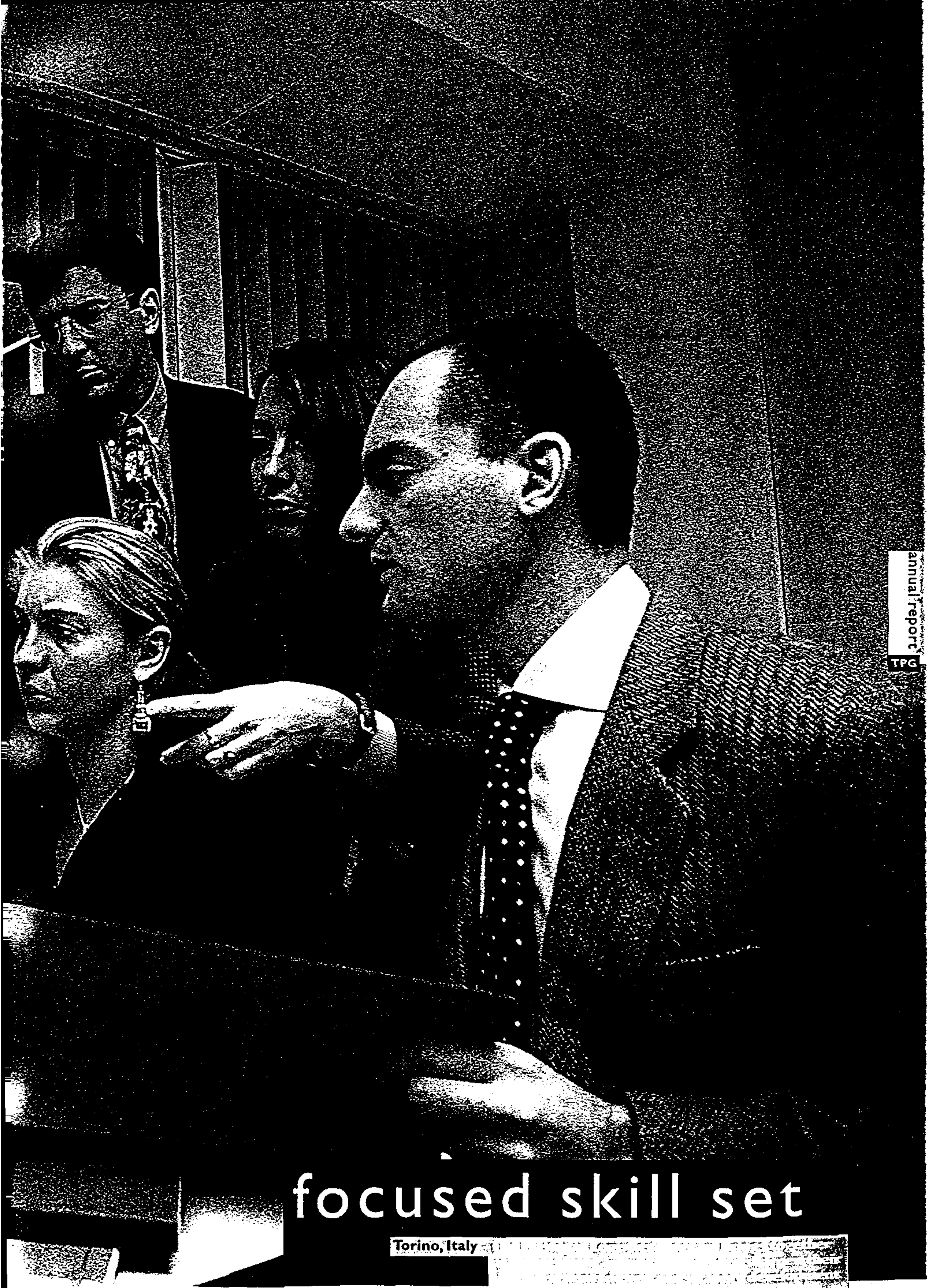
TPG expects capital expenditures in 1999 to be at or above the 1998 level. TPG may incur indebtedness to finance certain capital expenditures and business opportunities.

The number of FTEs at TPG is, while expected to be more or less stable for TPG as a whole, expected to decline in the Mail business area as a result of ongoing efficiency programs and expected to increase in the Express and Logistics business areas, as a result of further growth of these businesses.

Safe harbor statement under the Private Securities Litigation Reform Act of 1995

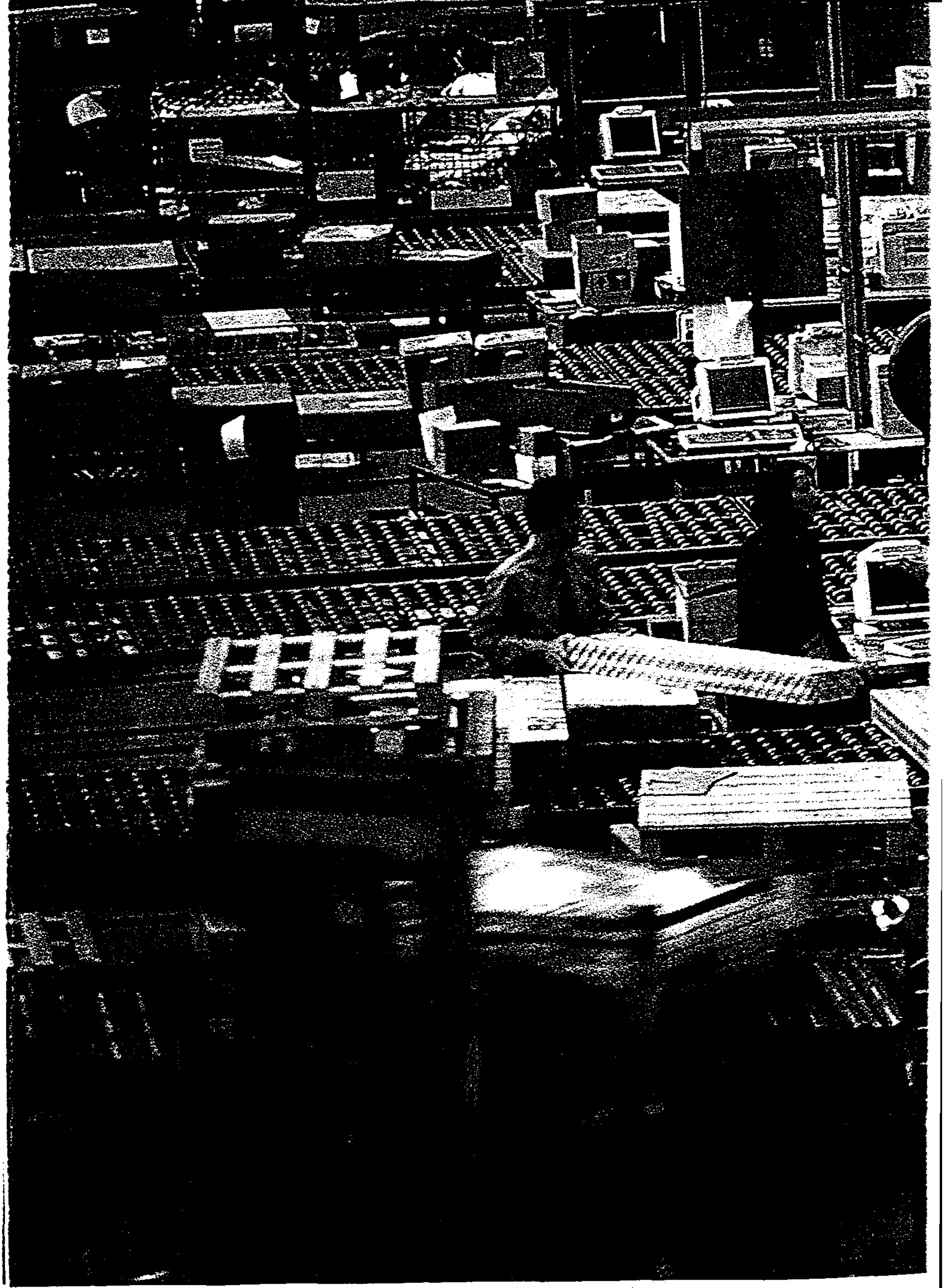
Certain information contained in this annual report, particularly in the Prospects section, is forward-looking. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. In addition to the assumptions specifically mentioned in the above paragraphs, there are a number of other factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements. These factors include, but are not limited to, the actual effects of recent and future regulatory changes and technological developments, mail and express usage levels, competition from alternative technologies, globalization, levels of spending in major economies, the economic climate in Southeast Asia, levels of marketing and promotional expenditure, actions of competitors and joint venture partners, employee costs, future exchange and interest rates, changes in tax rates, uncertainties associated with developments related to the Year 2000 problem and the introduction of the euro, unexpected costs of integrating recently acquired businesses and future business combinations or dispositions. Continuing investment in infrastructure (airplanes, depots and trucks) is important to maintain and increase market share. Infrastructure investment requires substantial lead time and involves significant fixed costs. Any mismatch between investment in infrastructure and actual market growth (or increase in TPG's market share) could result in costly excess capacity (if investment is too great) or losses of market share (if investment is insufficient).

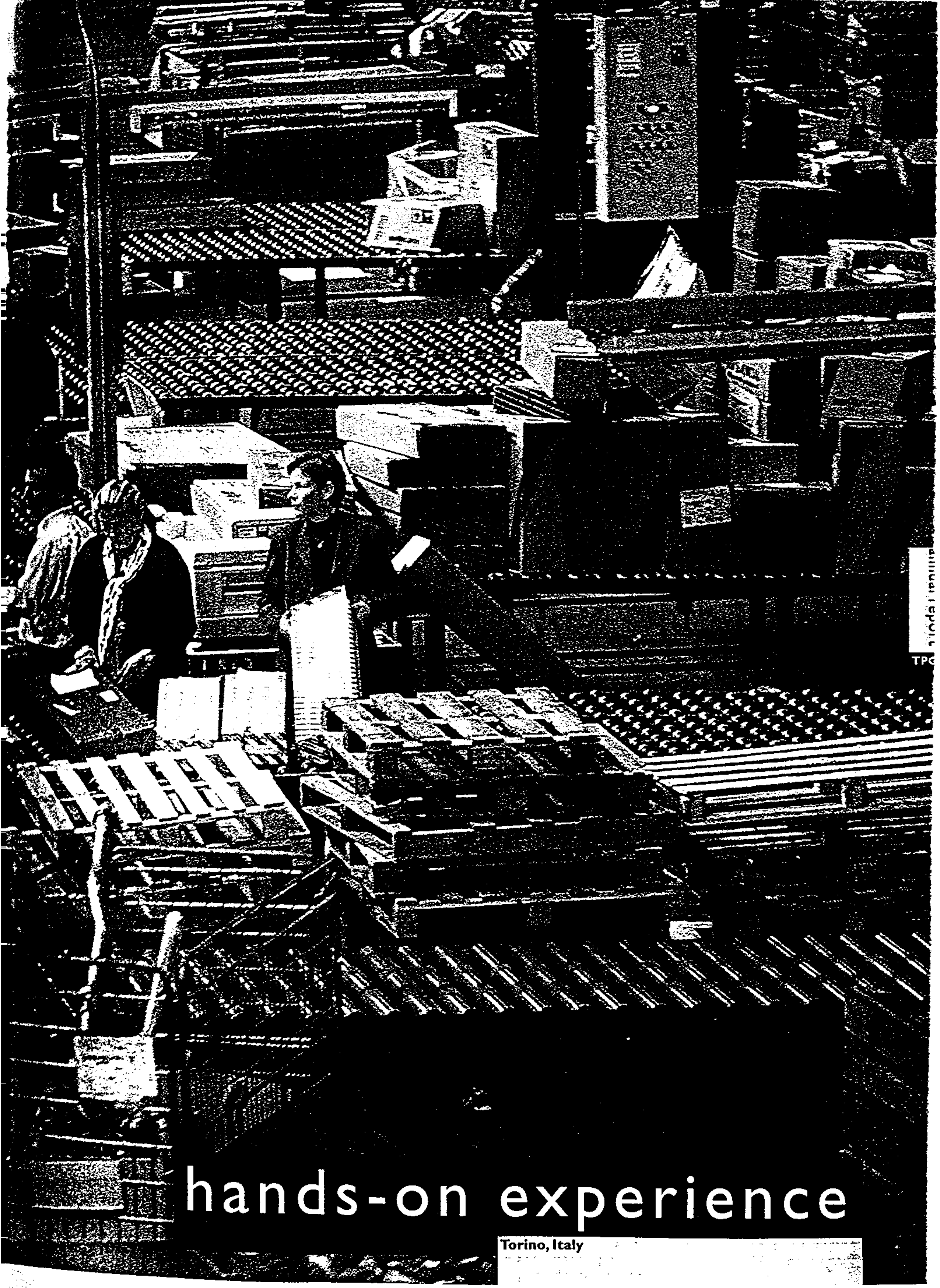




focused skill set

Torino, Italy





hands-on experience

Torino, Italy

TPG operates in three business areas: Mail, Express and Logistics.

Mail

In 1998, Mail accounted for approximately 47 percent of TPG's operating revenues and approximately 78 percent of its earnings from operations.

domestic mail network

● sorting centre

TPG's Mail business area includes the business lines Domestic Mail, Direct Mail, International Mail and Post Offices. Services in all these business lines are delivered under the PTT Post brand. Some International Mail services are delivered under the TNT brand. Mail services provided by PTT Post are subject to Dutch, European and Universal Postal Union legislation. (See Regulation on page 34 and Concession on page 75.)

development of domestic mail in the netherlands	1998	1997	1996	1995	1994
Number of postal items delivered (in millions)	7,009	6,629	6,415	6,240	6,108
Number of delivery addresses (average in thousands)	7,195	7,096	7,001	6,900	6,800
Number of postal items delivered per delivery address	974	934	916	904	898

Domestic Mail

Through its Domestic Mail business line, TPG offers collection, sorting, transport and distribution services for domestic mail. Within the Netherlands, PTT Post collects, sorts and delivers postal items, including letters, printed matter and parcels. It also engages in activities related to philately. While most Domestic Mail services are delivered in the Netherlands, TPG began providing Domestic Mail services in Italy in October 1998 when it acquired Rinaldi, the largest private postal operator in Italy.

Briefpost 2000 automation project Throughout 1998, PTT Post continued implementing its Briefpost 2000 automation project. Begun in 1992, Briefpost 2000 aims to increase productivity and thereby prepare PTT Post for growing competition and to compensate for the rising cost of distributing to the 90,000 additional delivery points in the Netherlands each year.

With a goal of increasing the proportion of mail sorted automatically to more than 90 percent, the Briefpost 2000 project included replacing 12 exchange centers with six new sorting centers and implementing purpose-built sorting machines. The six new sorting centers began operation in 1997 and were officially opened in November 1998. The percentage of mail automatically sorted reached 56 percent at the end of 1998. Once the machines are operating at full capacity by the end of 1999, it is expected that the goal of automatically sorting 90 percent or more will be achieved. (See photos on pages 16-19.)

Briefpost 2000's original objectives – set in 1992 – were based on projected declines in traditional mail volumes. Contrary to those expectations, volumes have risen each year, and machine capacity at peak times is approaching its limits. To handle future growth, five of the new sorting centers will be expanded in 1999 and additional sorting machines will be installed.

Approximately 8,000 staff have changed work locations and been retrained for machine sorting. Because of these changes and the new procedures associated with machine sorting, the percentage of consumer mail delivered next day fell in 1998 by 3 percent from its usual 95 percent. A return to the 95 percent next-day delivery rate is expected in 1999.

While Briefpost 2000 has resulted in a need for fewer employees, this reduction has been achieved without compulsory redundancies. Early retirement plans, internal and external job placement and use of temporary contracts have prevented compulsory redundancies.

.reas:

omatic sorting has resulted in lower prices for business rs. As of January 1, 1999, all business customers receive r rates previously reserved for those supplying pre-sorted ddition, businesses receive quantity discounts and for printing the KIX code – the bar code used by the nachines – on their mail.

w product development Domestic Mail product nents in the Netherlands in 1998 included the Business In October, PostApart, a service whereby mail is held for local post offices, was launched as an alternative to the or consumers.

Zwoll
wegein
en Bosch

rect Mail

ect Mail business line comprises all activities involving rketing initiatives and distribution within domestic f addressed advertising mail and magazines (referred ct mail), addressed newspapers and periodicals, and ed advertising mail and newspapers. It also includes a database management and document-related services. ning these services and expertise, PTT Post is able to range of direct marketing services. In 1998, TPG its Direct Mail activities abroad when it acquired the nail company GMA.

ivery services Most distribution services are provided therlands under the PTT Post brand. Some services, e distribution of unaddressed advertising and rs, are also provided through the VSP network. vices are provided in Belgium, where Belgische dienst distributes unaddressed mail and addressed s and periodicals.

5	1995
5	6,240
1	6,900
6	904

vth in direct marketing and business-to-business mail ularly evident in the Netherlands during 1998 in mailings from financial institutions, insurance providers es. Companies are increasingly using direct mail to nd awareness. PTT Post received the 1998 Hans du rize for its research into the role direct mail plays in advertising of branded products.

end of 1999, it is ex
percent or more w
9.)
ives – set in 1992
ional mail volume
risen each year, a
g its limits. To han
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be installed.

services PTT Post offers a series of database nt services ranging from data entry and list rental d data analysis techniques and other specialized services. The goal to offer a full range of direct services was reached through the 1998 acquisition of Marketing Services, which added telemarketing to direct marketing services.

e changed work lo
Because of these
with machine sort
ered next day fell in
. A return to the
n 1999.
ulted in a need for
achieved without
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ontracts have preve

ronic commerce services In 1998, PTT Post oducts that facilitate electronic commerce, such as hich gives customers a means of identifying the sender essages, thus providing a level of security for electronic

gment services PTT Post provides a range of ervices for managing and processing physical and nformation flows, as well as hybrid information flows e the two. These services are helping PTT Post d the advent of electronic media such as e-mail and nication.

Print & Mail services Print & Mail services are hybrid services that involve data processing, printing and enveloping large mailings for business customers. Electronic data supplied by customers is modified if necessary, then printed and dispatched through the mail network. (See photos on pages 30-33.) A new production and disaster backup center for Print & Mail was set up in the Netherlands in 1998, and a streamlined data-handling model was introduced.

In 1998, PTT Post linked its Netherlands Print & Mail operation to Singapore, where data is printed and distributed by a joint venture betweenTNT and Singapore Post. In the United States, the company is setting up the same concept in the form of Mail2000 Inc., a joint venture with a US company. Facilities enabling distributed printing were opened in Washington, D.C., and Santa Ana, California, in 1998.

Print & Mail's Telepost service was introduced in 1998 to enable small and mid-sized business customers to electronically send batches of personalized mail to printing centers for printing, envelope-insertion and distribution. Telepost by Internet enables consumers to take advantage of the same service.

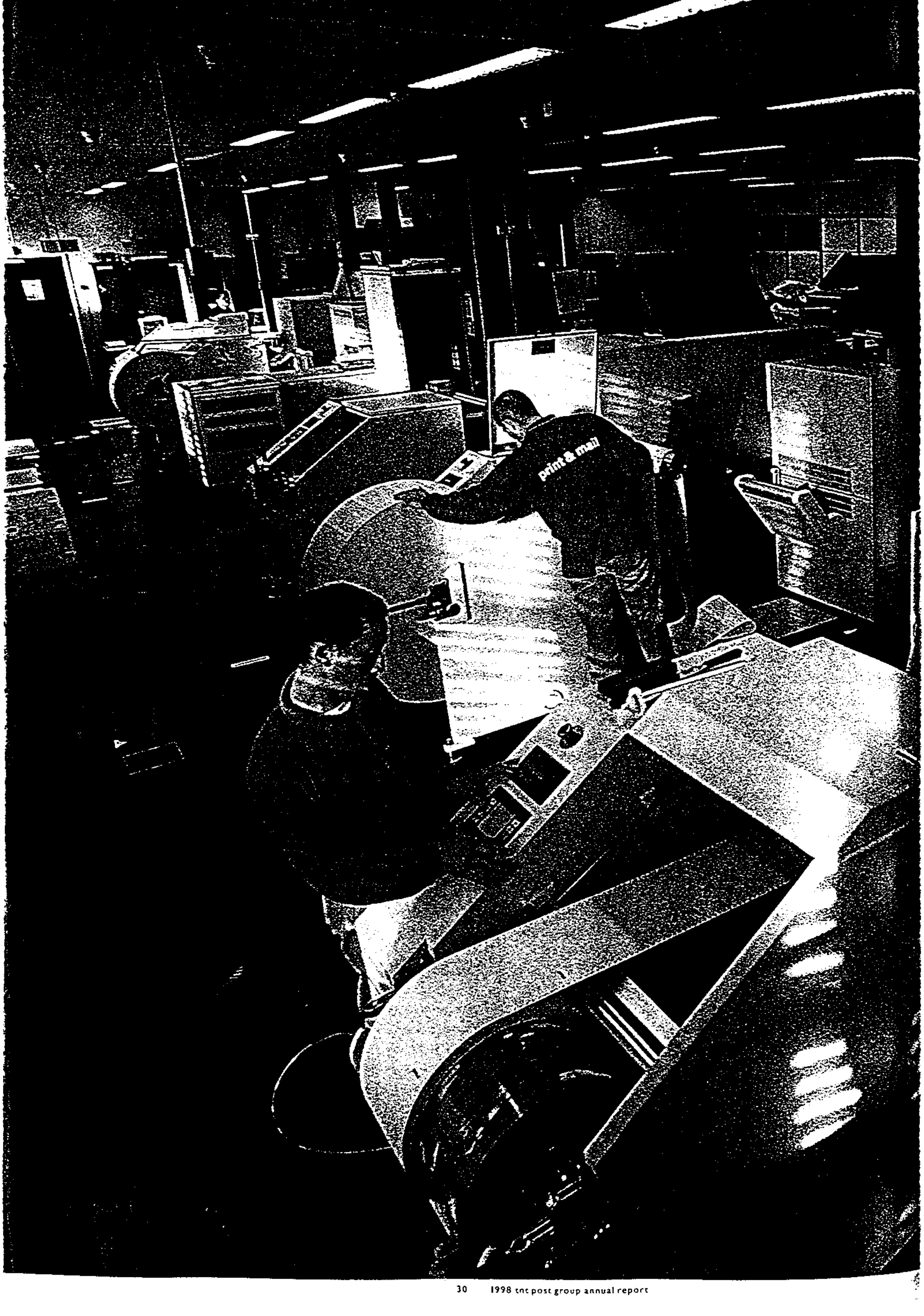
Mailroom services PTT Post also offers companies in the Netherlands internal mail delivery and various forms of document handling, including scanning and digitizing incoming mail, physical and electronic filing, printing and copying, and website development and maintenance. PTT Post expects that companies will consolidate these functions in the future and wants to be in a position to provide the best service.

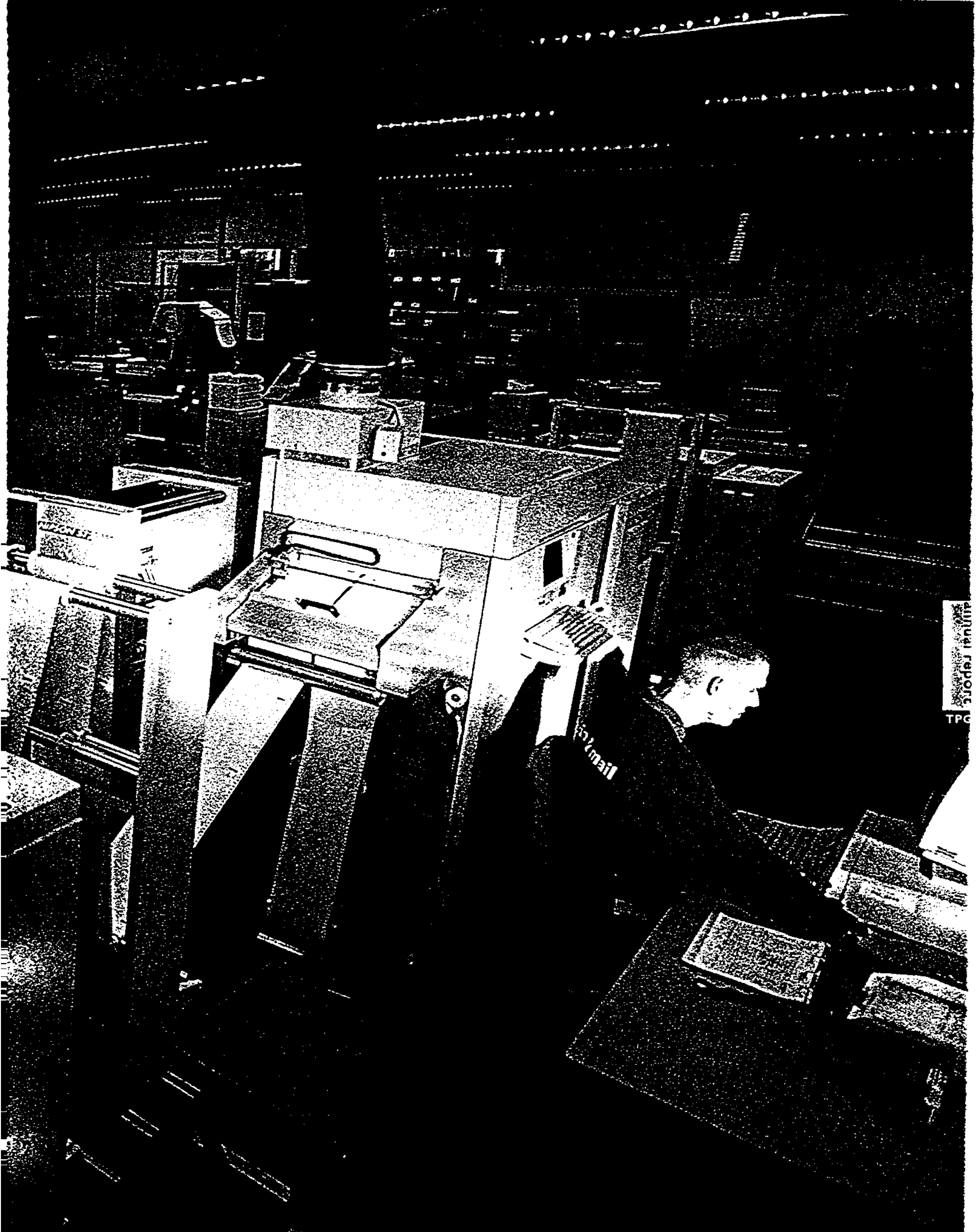
International Mail

numbers in thousands of kilograms	year ended December 31,	
development of international mail volumes	**1998**	**1997**
Total International Mail volumes	85,116	82,500

TPG operates its International Mail business around the world, providing services for collection, sorting and distribution of international mail, parcels and valuables across national borders. Services are provided under both the PTT Post and TNT brands.

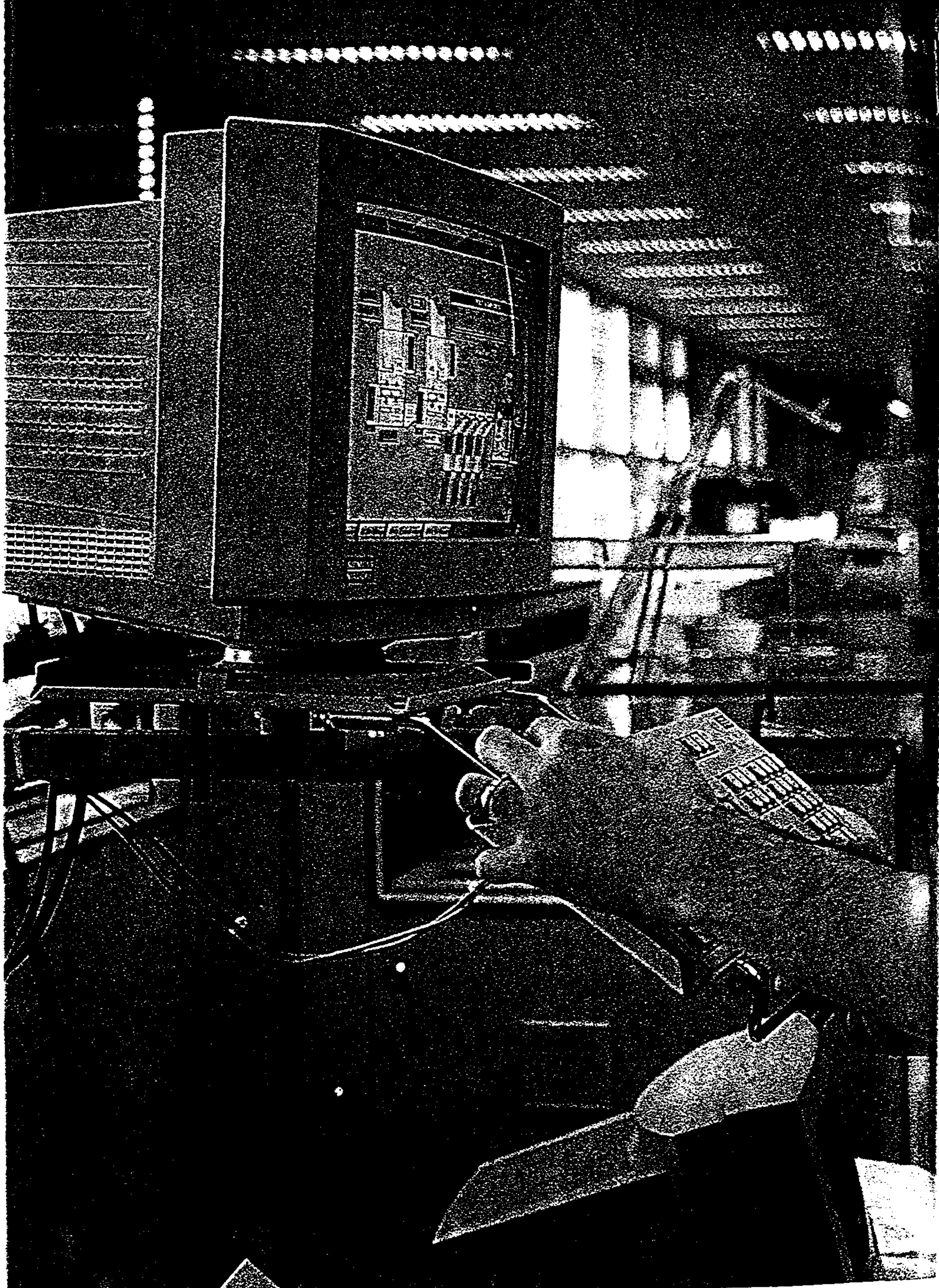
The company offers a range of international services to individual and business customers. These services include handling all exported postal items in the reserved segment of the Dutch market, all postal items imported to the Netherlands from foreign postal operators, and all reserved-segment mail imported to or passing through the Netherlands. (See Regulation on page 34.) International Mail services also include handling bulk mailings in the business-to-consumer segment for a range of customers, including publishers, catalogers, and financial service and direct mail companies. The company contracts with these customers to receive data or material, transform it into mail through printing, addressing or other processes, and then broker the mail to postal operators for delivery. In addition to using its own delivery networks, the company uses delivery agreements with national and private postal operators.

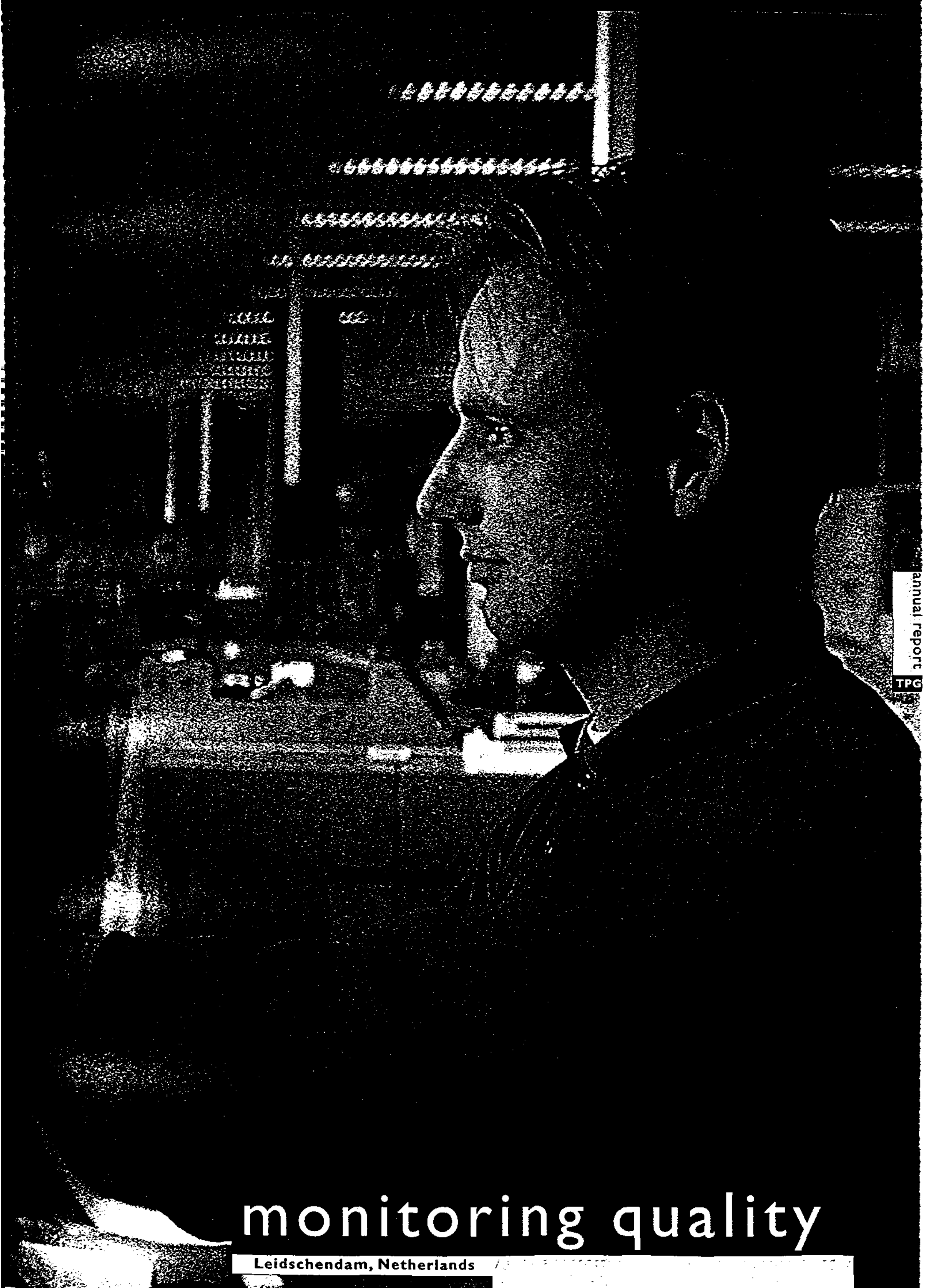

print & mail



millions per month

Leidschendam, Netherlands





monitoring quality

Leidschendam, Netherlands

The international (cross-border) business mail market is highly competitive. Deregulation has prompted national and private postal operators to lower prices in order to compete, and mergers and takeovers are leaving fewer providers in the market. In addition, development of media such as e-mail and Internet make product innovation and proper positioning essential.

TPG competes in the global mail distribution market with other integrators and major postal operators. The price-sensitive international business mail market demands continuous efficiency and quality improvements. The company uses an operating performance system to measure its consistency in meeting delivery deadlines, and operates a dedicated sorting and track-and-trace infrastructure throughout Asia, Europe and North America.

Delivery time of outgoing international mail from the Netherlands improved in 1998. The improvement was partly due to introduction of a priority system that ensures the service level of each item is recognizable outside the Netherlands. Independent research shows that nearly 90 percent of mail to EU destinations is delivered within three days.

New product development In the Netherlands, a quality-based product portfolio was introduced on January 1, 1998. This new structure defines a clear relationship between price and quality, and classifies services as priority, standard or economy. In the cross-border direct mail sector, a number of services that enable businesses to promote and sell their products by directly communicating with customers abroad were also introduced in the Netherlands. Registered Mail, a value-added service that provides a secure, traceable way of distributing items abroad and offers compensation in case of loss or damage, was introduced in Europe.

Post Offices

Postkantoren B.V. is a 50/50 joint venture of Postbank N.V., a subsidiary of ING N.V., and PTT Post B.V. It operates a network of offices that render services for Postbank, PTT Post and other business partners. With 2,577 outlets, including franchises, Postkantoren operates the largest retail network in the Netherlands. Postkantoren publishes its own annual report, where further information about its operations can be found.

Regulation

In 1997, the European Community adopted a directive establishing common rules for the development of the internal market for European Union postal services and improvement of quality of service (the Directive) which became effective on February 10, 1998. Due to the implementation of the Directive, TPG anticipates changes in the regulatory environment governing postal services.

Among the matters regulated in the Directive are the following:

- minimum requirements for the mandatory or universal service;
- maximum scope of the monopoly or the reserved service;
- tariff principles and the transparency of accounts;
- adoption of quality standards;
- harmonization of technical standards;
- establishment of independent national regulatory authorities.

As a result of the Directive, further measures to liberalize the postal sector (as described in the Green Paper on the Development of the Single EU Market for Postal Services of 1992) have been postponed until the beginning of 2000. Depending on various circumstances and developments in the postal sector of the European Union, such further liberalization is expected to be effective no sooner than January 1, 2003.

The Directive requires that member states provide for a good quality universal service to be made available to all users. This means that postal services of a certain quality must be offered in all territories of a member state at prices affordable for all users. To the extent necessary to ensure maintenance of a universal service, member states are permitted to grant the provider of the universal service within a territory the exclusive right to provide postal services for domestic letters and direct mail and cross-border letters and direct mail weighing less than 350 grams and at a price less than five times the public tariff for the relevant item in the first weight step, up to and including 20 grams, of the fastest standard category. At NLG 0.80, the Dutch tariff for first class mail is the third-lowest in Europe, after Spain and the United Kingdom.

Member states are to implement the Directive by February 10, 1999, except for certain provisions regarding cost accounting and cost allocation which must be implemented by February 10, 2000. However, the Directive does not affect the competence of European Union member states to initiate a more progressive path for the liberalization of their national postal sectors.

At the end of 1998, a proposal to implement the Directive in the Netherlands was sent to the Dutch parliament. It is expected that parliament will discuss the legislation in 1999. The Dutch draft proposes to lower the tariff threshold to 100 grams, rather than the 350 grams contained in the Directive.

Express

In 1998, Express accounted for approximately 39 percent of TPG's operating revenues and approximately 14 percent of its earnings from operations.

express productivity statistics and volumes (year ended December 31,)	1998	1997
Number of consignments in thousands	111,046	107,241
Total tons carried	2,861,607	2,473,886
Number of depots/hubs	704	666
Number of vehicles *	14,802	14,322
Number of aircraft *	39	35

* A substantial number of vehicles and aircraft are not owned by TPG but are leased or subcontracted.

TPG's Express business area provides for on-demand conveyance of documents, parcels and freight with time-definite and day-certain delivery. The Express business area includes the business lines Europe and International. Express services are provided under the TNT brand.

TNT launched its new identity in 1998. The new identity was introduced in 50 countries, and was promoted through advertising campaigns in many of those countries. TNT will implement the new identity around the world.

TNT provides local, regional and global Express services. Global services are offered to and from all of the more than 200 countries in which TNT operates. Regional services are offered in Europe and Asia.

Information technology

Information technology is an essential element in TPG's Express business. Since 1993, TNT has been working to develop an efficient network that integrates its Express systems, depots and operations; controls its global distribution network from a single database; and streamlines business processes. The Worldwide Data Center in Atherstone, United Kingdom, is the heart of the centrally managed and controlled information technology function.

Global Link is TNT's global infrastructure and business applications system that facilitates its operations, finance and administration, marketing and sales, and customer service. The system runs TNT's mission-critical Express operations – from order to delivery – at depots, hubs and gateways throughout the world. Global Link is also central to TNT's customer interface technology. The track-and-trace system uses data gathered through worldwide infrastructure and applications to track consignments, enabling service representatives to advise customers on the status of consignments at any point in transit. Customers can also gain direct access to TNT's databases through its website.

In addition to Global Link, customized systems support domestic business in individual countries. These systems provide unique country-specific functionality, servicing critical operations and customer needs. As TNT integrates its domestic and cross-border businesses, the domestic systems are being bridged to Global Link to create a seamless and transparent system.

In line with its goal to create a virtual customer service center on the Internet, TNT enhanced customer facilities on its website in 1998. The www.tnt.com site now provides a single location through which customers around the world can access corporate, service and country-specific information. The site gives customers the ability to produce shipping documentation for global express services. In its major markets around the world, TNT also launched a collection facility that allows customers to order a collection by entering basic shipment details on the website.

Significant investments in information technology used in other areas of TNT's Express business were also made in 1998. These included installation of mobile data terminals with real-time connections to track-and-trace and booking systems in vehicles.

Europe

TNT's Express Europe business line provides local, regional and pan-European express service, as well as express service from Europe to the rest of the world.

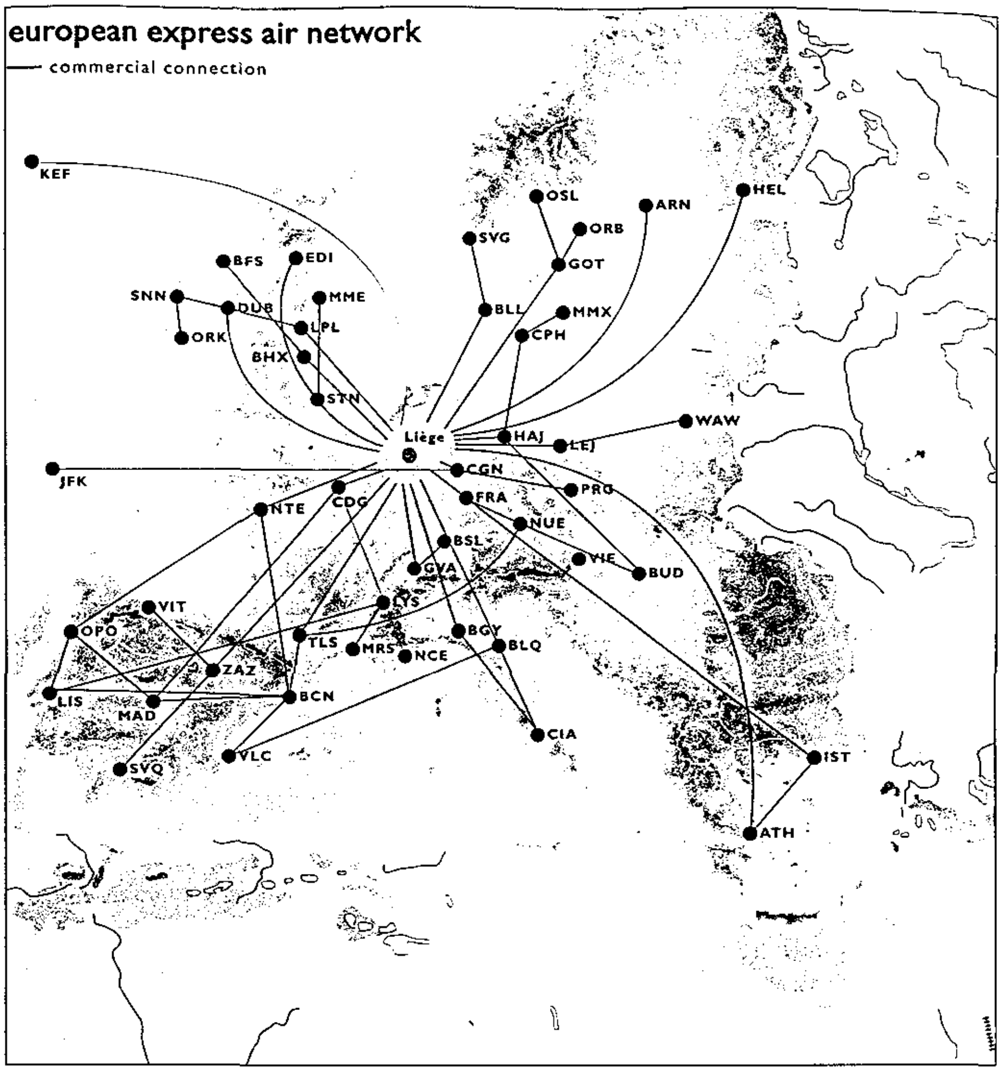
TNT has a strong position in the European express market. Increased trade between European Union member states and introduction of the single European currency are expected to create an economic market comparable to that of the United States. These developments are expected to eventually produce an express market larger than North America's.

The European express market is highly competitive. TNT is the only company offering local, regional and pan-European road and air express services in all major European countries. In the pan-European segment of the market, competition comes from global providers with international networks. Competition in the local and regional segments comes predominantly from domestic parcel carriers. These include express operators, parcel alliances and public postal operators.

To better serve its customers, TNT set out in 1998 to further integrate its Express Europe business and enhance its competitiveness by increasing coverage and expanding in areas with solid growth potential. In Benelux, Germany and South Europe, work continued on reorganizing legal entities, combining infrastructures – depots, hubs, fleets and information systems – and integrating operational, administrative, sales and support structures.

Network Europe

In 1998, TNT enhanced its integrated air and road network in Europe. April's opening of the TNT European Express Center in Liège, Belgium, put TNT in a position to achieve its growth projections well into the 21st century. The facility houses state-of-the-art systems and is designed to handle 1,000 tons of freight per night, with the ability to add capacity for future growth. (See photos on pages 8-11.)



In October, a new international road hub and national depot began operating in Duiven, the Netherlands. The facility is designed to accommodate projected growth until the year 2003, with the possibility for modular expansion of capacity and office space.

Other network improvements, including new hubs, sorting centers and depots, were also undertaken throughout Europe in 1998.

Following the opening of the TNT European Express Center, a number of airport gateways were added to TNT's European air network. These enhancements improved transit times and service reliability, and made early-morning deliveries possible in more locations.

In May, TNT announced its planned acquisition of 14 Airbus A300B4 freighters, which will increase its capacity by 60 percent over the next few years. September 1998 saw the introduction of the first of these new aircraft. The remaining 13 will be introduced over the next four years. The new planes will replace 10 smaller B727-200s.

Developments by region in Europe

Benelux Throughout 1998, TNT worked to offer customers a seamless range of services by integrating several former business entities. In addition to merging operational and service aspects, TNT established a central customer service function and a new regional office. These efforts were presented to the public through introduction of the new TNT identity and a large-scale advertising campaign.

France In November 1998, TPG took over Broos-Fouya, a parcel company operating primarily in the Paris area. In December, TPG announced its planned acquisition of Jet Services, a French express company. Jet Services has a dense network and an established customer base of some 35,000 customers.

Germany Guided by a "one face to the customer" motto, TNT worked to integrate its formerly separate German domestic and cross-border businesses in 1998. The process affected all aspects of the businesses, including legal entities, physical infrastructures, operations, sales and administration. The integration was supported by introduction of the new TNT identity and TNT's first nationwide advertising campaign in Germany.

Italy TNT's customer service function was completely redesigned to cover 12 major cities and support integration of the cross-border and domestic businesses. Operations began at a new automated road hub in Milan and an additional international air gateway was established in Bologna, the air hub for domestic traffic. Acquisition of Spedimacc, a product and part delivery service using drivers who provide technical support, and a same-day delivery company added to TNT's product range.

North Europe TNT's business in the Scandinavian countries of Sweden, Denmark and Norway achieved significant growth in 1998. In Russia, TNT was able to maintain normal business activities despite difficult economic and trading conditions. The depot infrastructure in St. Petersburg, Russia, and Tallin, Estonia, was expanded.

United Kingdom 1998 saw a number of infrastructure enhancements throughout the United Kingdom, including groundbreaking for a state-of-the-art sorting center. Investments in information technology, including enhancements to proprietary operating systems and installation of mobile data terminals in all vehicles, were also made. In addition, TNT's UK Express business gained external recognition when it was named 1998/99 Express Parcels Carrier of the Year by the Institute of Transport Management and again when TNT won the European Quality Award.

International

TNT's coverage extends to more than 200 countries. Outside Europe, TNT provides express services in Africa, Asia, Australia, the Middle East, North America and South America. In many of these markets, TNT's global express services are augmented by local and regional express services. In Australia, for instance, TNT is one of the leading providers of time-sensitive freight delivery.

1998 saw a significant increase in flows between Asia and Europe and Asia and Australia. One rapidly growing TNT service allows customers in Asia to send consolidated shipments into Europe, where direct connections to the European road and air networks speed delivery of the individual consignments. TNT also has initiated an early-morning service between Australia and major cities in Asia and New Zealand. This service provides guaranteed next-day delivery before 9 a.m.

In North America, TNT has arrangements with domestic express providers, which enable it to offer global services throughout the region.

Network International In countries where it does not have its own air lift operations, TNT uses air lift contracts with commercial carriers. TNT enhanced its network capabilities outside Europe in 1998 through agreements with major commercial carriers. These agreements ensure TNT guaranteed space on designated flights, and provide increased service reliability, cost efficiency and greater delivery flexibility.

Developments by region outside Europe

Asia TNT continued strengthening its infrastructure in specific markets in 1998, focusing its business into the key cluster markets of Japan, Southeast Asia and Greater China – mainland China, Hong Kong and Taiwan. (See photos on pages 38-41.) TNT's hub capacity in Hong Kong tripled following its move to the new Chek Lap Kok International Airport. In mainland China, new depots and branches were opened in Wuxi, Xiamen, Fuzhou, Suzhou and Wuhan.

Australia In Australia, TNT made significant investments in depots and equipment in 1998. Sites were opened in Perth, Adelaide, Darwin and Sydney. One of TNT's largest parcel distribution depots in the world was opened in Melbourne. Facilities in rural areas throughout the country were consolidated.

Middle East, Africa In the Middle East, TNT's operation in Saudi Arabia increased coverage to all national destinations through third-party alliances in 1998. The operation in Saudi Arabia was the first to offer special service products in that country. TNT's domestic express business in South Africa continued to grow. In July, TNT began its own business in Israel, where services were previously provided through an agent.

North America In North America, TNT focuses on providing global express services from its three hubs in Los Angeles, Miami and New York. In 1998, TNT restructured its North American Express business and outsourced much of its US pick-up and delivery functions to four domestic providers. Airbourne Express provides delivery services for most TNT imports into the United States, ensuring quality service to TNT's worldwide customers. The outsourcing greatly reduced fixed costs and enabled TNT to focus on key markets. The move also provided a broader network of delivery service points for customers.

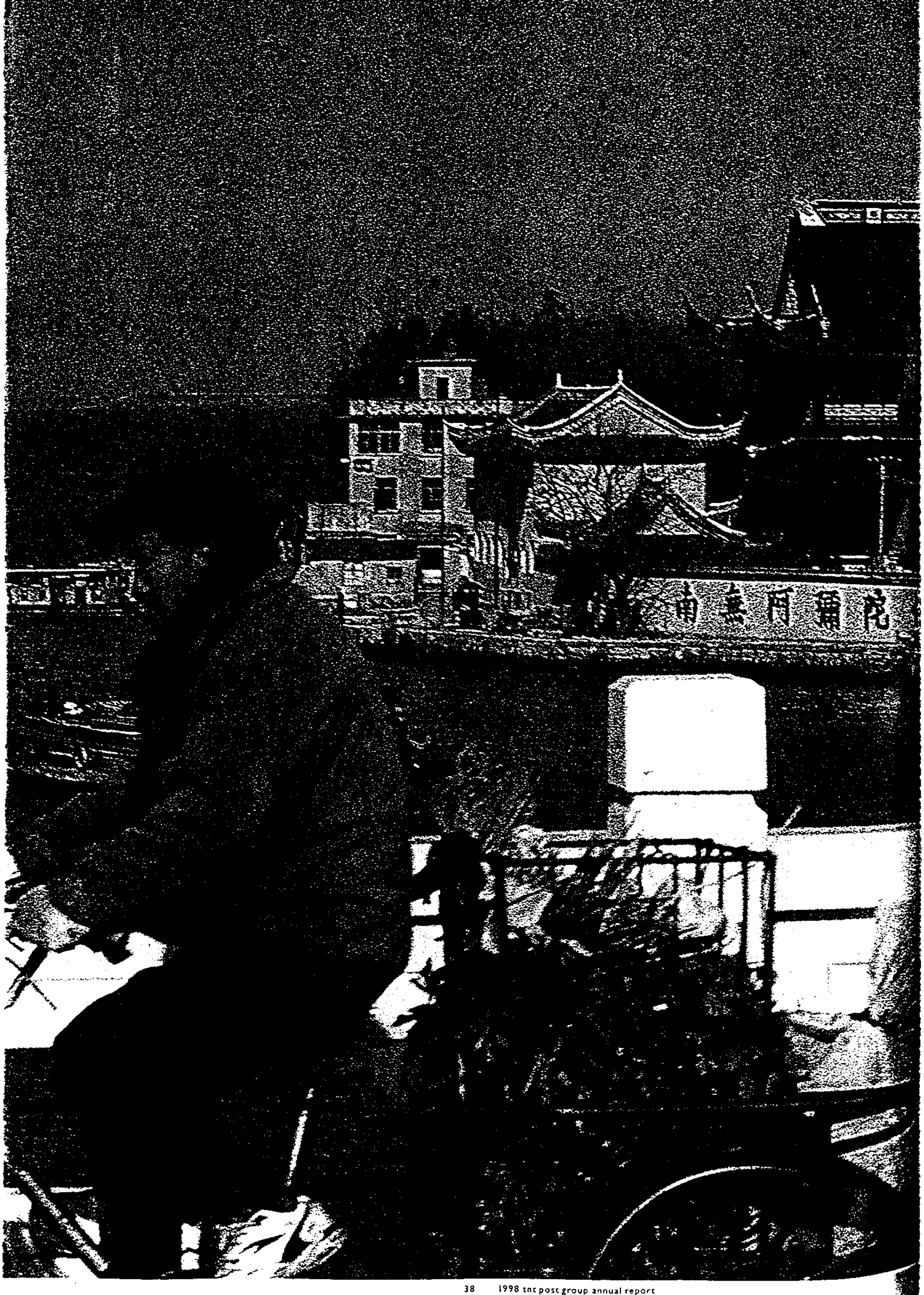
South America To position itself for continued growth in Latin America, TNT established a regional structure in 1998 focused around the rapidly growing Mercosur trade zone. The new structure is organized around TNT's own operations in Chile, Brazil and Argentina and the other major industrial countries in South America.

Express product developments

TNT's express services are tailored to meet demands in each national market. Global express services saw a number of developments in 1998, including repositioning of the core global product offering. The new range of global services was launched in 25 countries in 1998 and is expected to be implemented in remaining countries in 1999. The customer-focused product range includes the following door-to-door services:

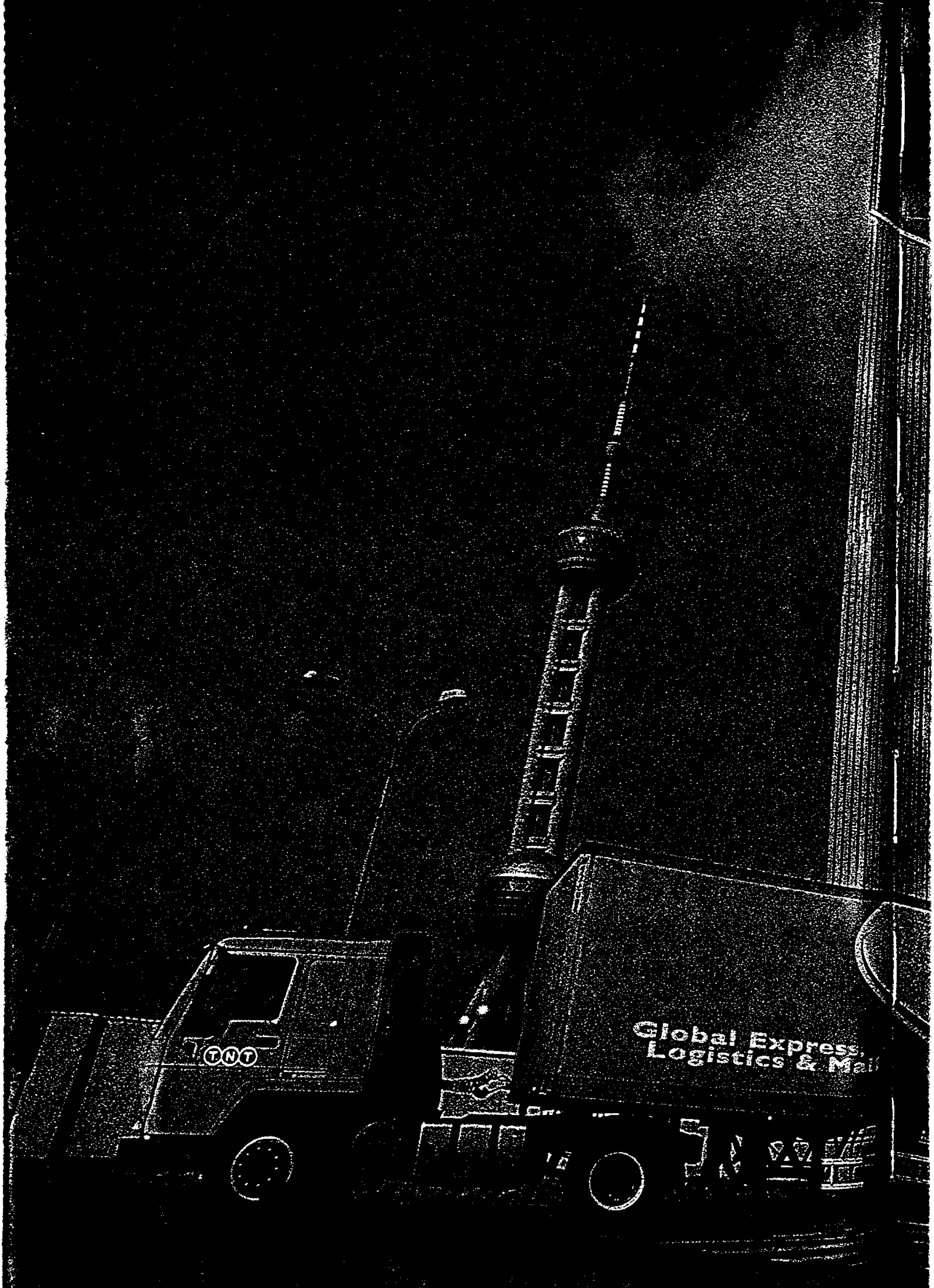
- Special Express – Tailor-made express delivery services, which in many cases offer same-day delivery.
- 9:00 Express – Guaranteed delivery by 9 a.m. to major cities worldwide.
- 12:00 Express – Guaranteed delivery by noon to major cities worldwide.
- Global Express – Express delivery to every location in the world.
- Economy Express – Economical alternative express delivery, with longer delivery times than Global Express.

Other 1998 product developments included enhancements to break bulk services and Europe-wide implementation of the Storapart storage and distribution service for large manufacturers. TNT also launched MedPak to pharmaceutical customers in Europe in 1998.



developing markets

Qing Pu, China


TNT
Global Express,
Logistics & Mai

center point

Shanghai, China

TPG annual report

Logistics

In 1998, Logistics accounted for approximately 14 percent of TPG's operating revenues and approximately 8 percent of its earnings from operations.

logistics statistics	1998	1997
Number of warehouses	137	85
Number of square meters (thousands)	1,546	1,171

TPG's Logistics business area provides services focused on supply chain management. These services involve managing infrastructure, organization, processes and enabling technologies that – across the functions of procurement, manufacturing and distribution – ensure that the right goods, in the right quantities and condition, are available at the right place and time. Logistics services are delivered under the TNT brand. Where appropriate, TNT subcontracts specific services, such as deliveries between certain destinations and repair services, while retaining control and responsibility over the subcontracted services.

TNT's Logistics services involve more than transporting goods. They involve specialized knowledge and skills, and include such diverse activities as stock management, order picking and information systems management to control production and parts supply, as well as value-added services such as assembly and installation upon delivery, repair-returns and sequencing.

TNT's Logistics services adhere to the quality standards of the International Organization for Standardization, a federation of standards bodies from some 130 countries. Initially a requirement for manufacturers, ISO standards are now being adopted by suppliers as well.

A growing number of manufacturers across the spectrum of industry are increasingly focusing on their core competencies and contracting with specialized providers to meet their logistics needs. Driven by cost containment, this trend has created a demand for specialists who can efficiently manage the supply chain.

While the global logistics market is growing rapidly, in many parts of the world the market is still in its infancy. The market is highly fragmented, with no clear leader in any industry or geographic area. There are many competitors in the market, but few have the advanced logistics experience and geographic coverage offered by TNT. In addition, TNT's ability to leverage its Express networks provides a competitive edge for certain offerings within its Logistics business.

Information technology and systems integration are increasingly important to providing logistics services. TNT employs sophisticated information technology, including proprietary and customized systems, in its Logistics solutions.

Developments by region

Benelux TNT gained a contract to establish a central European distribution center in Belgium for a leading electronics producer. The center will include robotic operations. In the beginning of 1998, TNT established a similar operation for a leading paint producer in a new automated warehouse near Amsterdam. TNT also gained a contract to provide pan-European logistics services for a large pharmaceutical company. On December 31, 1998, TPG took full ownership of Holland Districare, a company that specializes in providing logistics services for the medical and pharmaceutical markets.

Germany TNT gained a contract with a compact car manufacturer for the operation of its spare parts and accessories warehouse, as well as a contract to serve as exclusive logistics provider for distribution of accessories and spare parts to its dealerships across Europe. (See photos on pages 44-47.) TNT also gained a contract to manage inbound logistics in Germany and other European locations for a major American motor company. In mid-1998, Express and Logistics activities were combined to provide a range of services targeted to the computer and electronics industries.

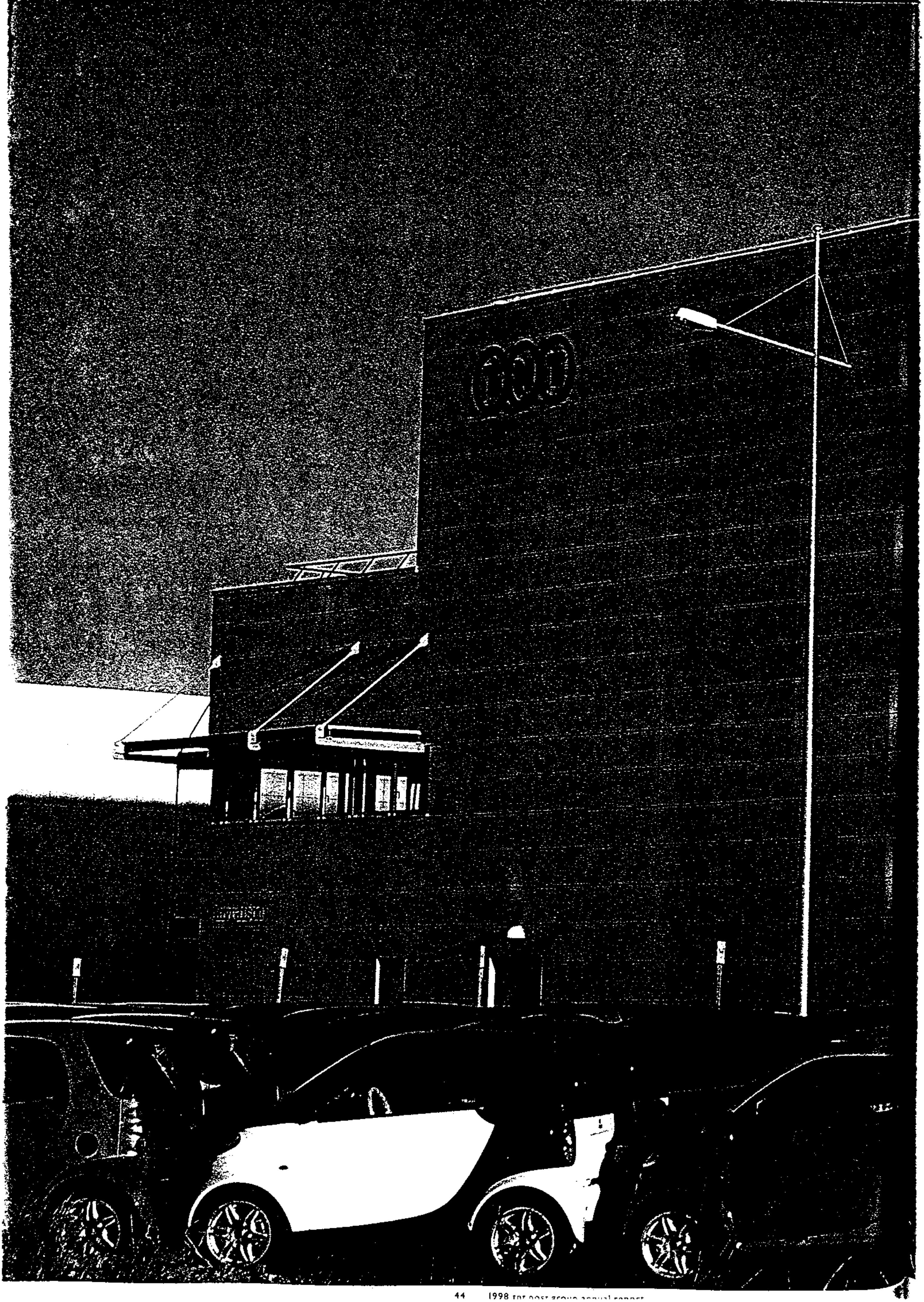
South Europe Expanding on contracts for two Italian motorcycle manufacturers, warehousing and distribution operations were set up in France, Spain and Germany. TNT also extended its network for in-night and bank services and won warehousing and archiving contracts for leading Italian banks.

United Kingdom TNT won contracts to manage the operations of a national distribution center for a heavy machinery company, to handle warehousing and national distribution of lubricants, and to manage a regional distribution center for a large tire producer. In July, TNT was awarded a further contract for distribution of national newspapers produced by a major publishing company. TNT's exhibition handling business was the sole logistics provider for Farnborough Air Show in the United Kingdom and the International Broadcasting Convention.

Asia TNT's first pan-Asia contract, which includes operations in Hong Kong, Indonesia, Malaysia and Taiwan, was begun in mid-1998. This contract includes warehousing, transhipment and distribution throughout Asia for a leading metal producer. In China, TNT began operations for two multinational companies in the fast-moving consumer goods market. New contracts in the automotive and fast-moving consumer goods industries were begun in Thailand. In Malaysia, TNT began a contract for a major soft drink bottler and won a large fast-moving consumer goods contract. On-site exhibition handling services were provided at Expocomm in Beijing and the Singapore Air Show.

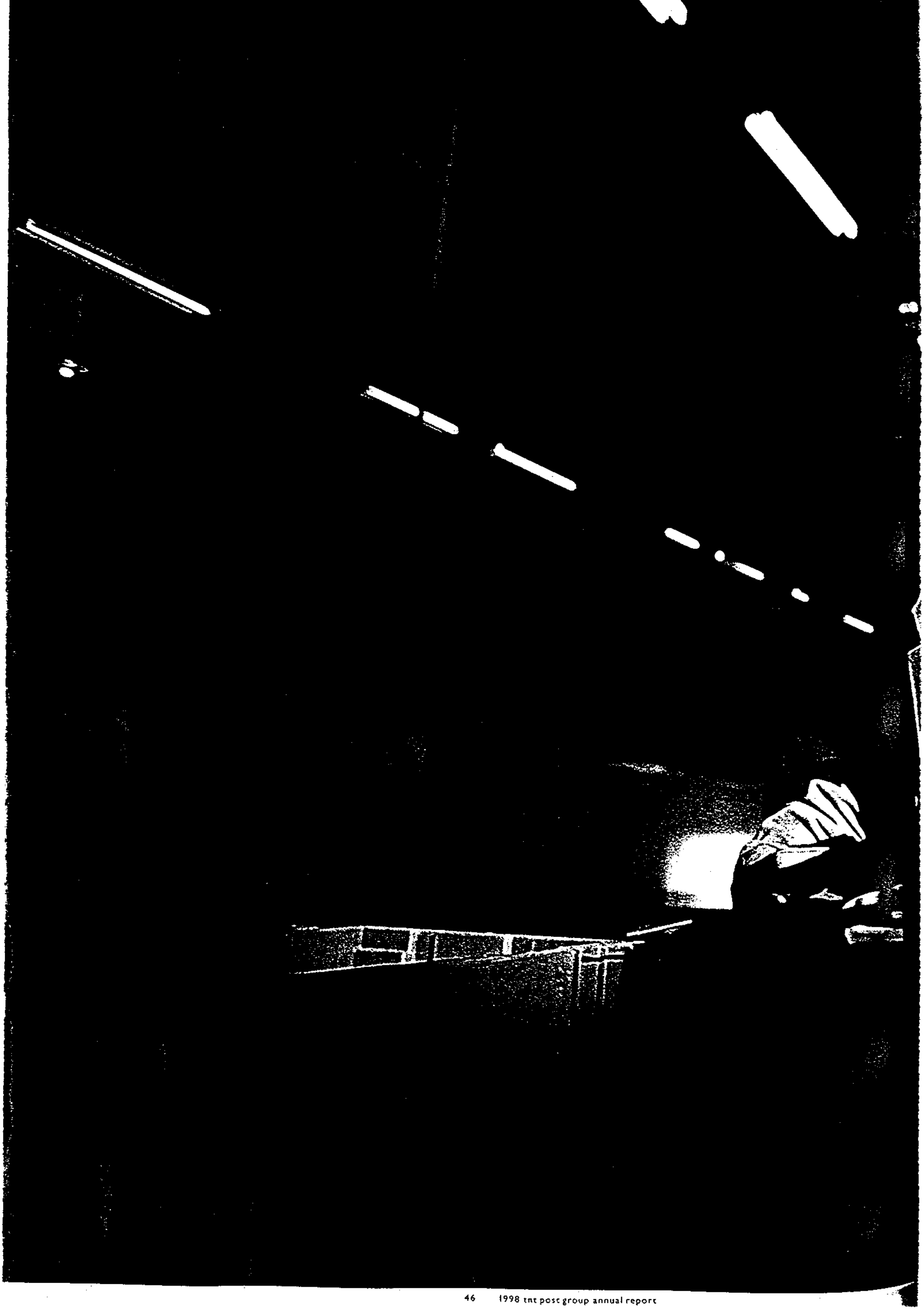
Australia TNT was awarded one of Australia's largest logistics contracts to provide warehouse operation and distribution support for a major telecommunications company in 1998. TNT also gained several new automotive contracts, including an assignment to manage vehicle storage and delivery in New South Wales. A facility capable of storing approximately 2,000 cars was built in Sydney to accommodate this contract. On-site exhibition handling services were provided at the 1998 Australian Formula One Grand Prix.

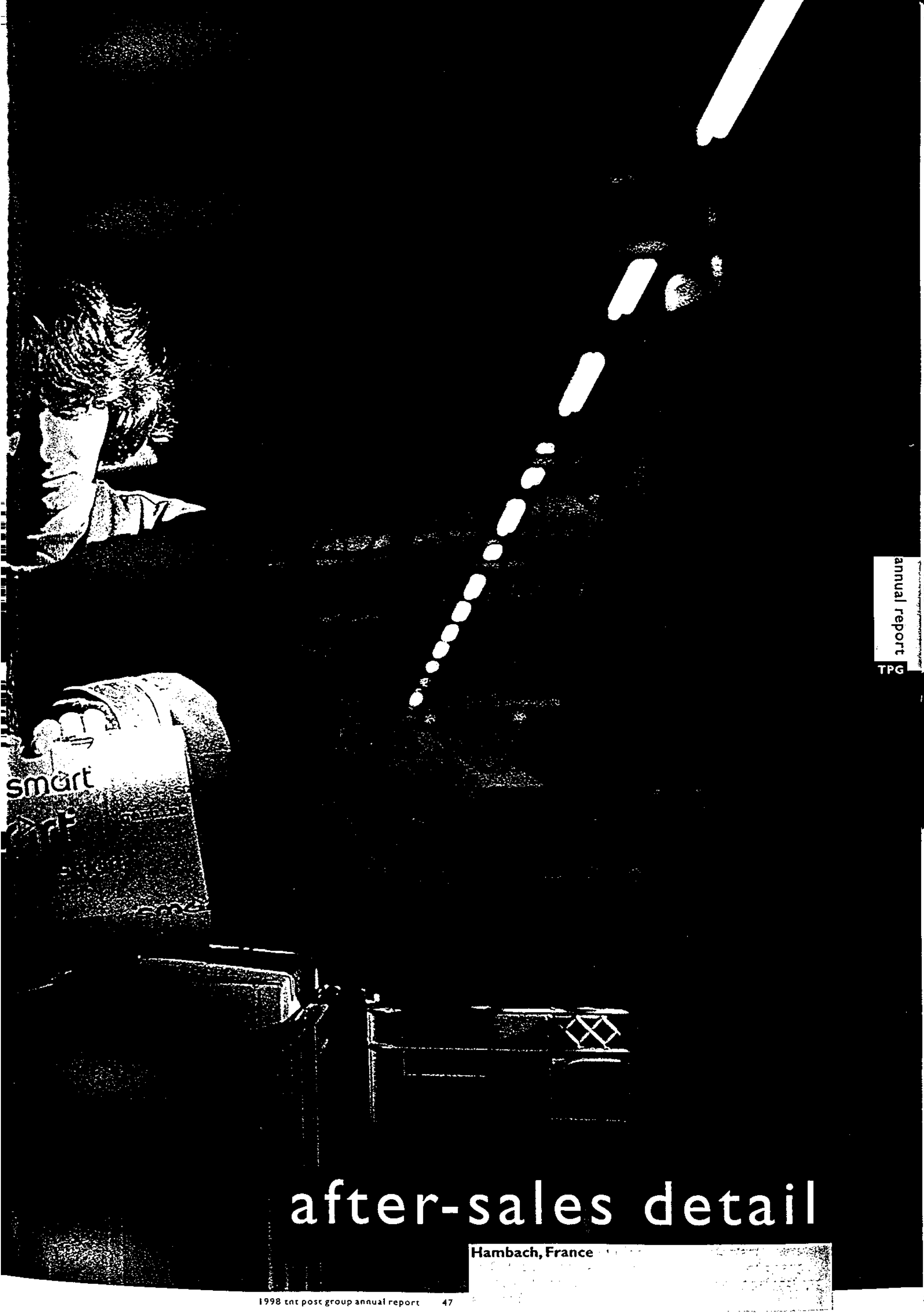
North America TNT won a number of substantial contracts in the automotive and electronics industries in the United States and Canada in 1998. Building from a successful base in Canada, TNT placed new emphasis on business development in the United States. Emphasis of the US business development plan was shifted from a systems orientation to the full-service logistics model designed for the automotive industry. On-site exhibition handling services were provided at the National Association of Broadcasters Exhibition in Las Vegas.



cooperative ingenuity

Hambach, France





after-sales detail

Hambach, France

1998 financial statements

Consolidated balance sheets

after proposed appropriation of net income

amounts in millions	at December 31, pro forma* 1998 EUR		at December 31, 1998 NLG		at December 31, 1997 NLG	
assets						
fixed assets						
2 Intangible assets						
Goodwill		1,476		3,253		3,242
3 Property, plant and equipment						
Land and buildings	701		1,546		1,501	
Plant and equipment	288		634		310	
Other property, plant and equipment	403		888		945	
Construction in progress	79		174		36	
Idle property, plant and equipment	1		3		55	
		1,472		3,245		2,847
4 Financial fixed assets						
Investments in affiliated companies	118		259		320	
Accounts receivable from affiliated companies	20		43		2	
Loans receivable	21		46		31	
Prepayments and accrued income	268		592		489	
		427		940		842
total fixed assets		3,375		7,438		6,931
current assets						
5 Inventory	42		92		103	
6 Accounts receivable	1,260		2,778		2,985	
7 Prepayments and accrued income	117		257		291	
8 Cash and cash equivalents	404		890		563	
total current assets		1,823		4,017		3,942
total assets		5,198		11,455		10,873

* At January 1, 1999, the euro to guilder rate was fixed at NLG 2.20371.
This rate is being used to translate the 1998 figures for illustrative purposes.

The accompanying notes form an integral part of the financial statements.

amounts in millions	at December 31, pro forma 1998 EUR		at December 31, 1998 NLG		at December 31, 1997 NLG	
liabilities and group equity						
group equity						
Shareholders' equity	1,855		4,088		2,369	
Minority interests	7		16		13	
total group equity		1,862		4,104		2,382
provisions						
Retirement schemes	372		819		787	
Deferred tax liabilities	207		456		402	
Other	762		1,681		1,875	
total provisions		1,341		2,956		3,064
long-term liabilities						
State of the Netherlands						
Ordinary loan	41		90			
Subordinated loan	31		69			
Other liabilities	56		124		219	
Accrued liabilities	91		200		112	
total long-term liabilities		219		483		331
current liabilities						
Other liabilities	997		2,196		3,467	
Accrued liabilities	779		1,716		1,629	
total current liabilities		1,776		3,912		5,096
total liabilities and group equity		5,198		11,455		10,873

Liability capital (group equity plus the subordinated loan) was NLG 4,173 million on December 31, 1998 (1997: 2,382).

Consolidated statements of income

amounts in millions					year ended December 31,	
		pro forma 1998 EUR		1998 NLG		1997 NLG
17 Net sales	7,314		16,118		15,100	
18 Other operating revenues	95		209		167	
total operating revenues		7,409		16,327		15,267
Cost of materials	(344)		(757)		(640)	
Work contracted out and other external expenses	(2,801)		(6,173)		(5,872)	
19 Salaries and social security contributions	(2,736)		(6,030)		(5,824)	
20 Depreciation, amortization and impairments	(208)		(458)		(415)	
21 Other operating expenses	(658)		(1,451)		(1,192)	
total operating expenses		(6,747)		(14,869)		(13,943)
operating income		662		1,458		1,324
Interest and similar income	39		85		57	
22 Interest and similar expenses	(79)		(173)		(222)	
financial income and expenses		(40)		(88)		(165)
income before income taxes		622		1,370		1,159
23 Income taxes		(247)		(544)		(469)
Results from investments in affiliated companies						(2)
net income before minority interests		375		826		688
Minority interests		(3)		(6)		6
net income		372		820		694
30 Basic net income per Ordinary Share and per ADS (in guilders)[1]		0.79		1.73		1.46
30 Diluted net income per Ordinary Share and per ADS (in guilders)[2]		0.79		1.73		1.46

1 Based on the average amount of 475,339,166 Ordinary Shares, including shares represented by ADS.
2 Based on 475,357,205 Ordinary Shares, including shares represented by ADS.

Consolidated cash flow statements

after proposed appropriation of net income

amounts in millions	pro forma 1998 EUR	1998 NLG	year ended December 31, 1997 NLG
net income	372	820	694
Depreciation, amortization and impairments	208	458	415
Changes in provisions	(78)	(173)	697
Changes in deferred taxes	35	77	(109)
Changes in working capital:			
Inventory	(5)	(11)	5
Accounts receivable	(141)	(311)	(411)
Other current assets	17	37	(76)
Current liabilities (excluding short-term financing)	238	526	(62)
25 **net cash provided by operating activities**	646	1,423	1,153
Acquisition of group companies	(44)	(98)	(47)
Disposal of group companies	15	34	283
Acquisition of affiliated companies	8	18	(7)
Disposal of affiliated companies	7	16	4
Capital expenditure on intangible assets			(1)
Disposals of intangible assets		1	25
Capital expenditure on property, plant and equipment	(427)	(942)	(554)
Disposals of property, plant and equipment	41	90	160
Changes in other financial fixed assets	(49)	(109)	(133)
Changes in minority interests	1	3	1
26 **net cash used in investing activities**	(448)	(987)	(269)
Changes in shareholders' equity	532	1,174	(636)
Long-term liabilities acquired	81	178	13
Long-term liabilities repaid	(252)	(556)	(791)
Changes in short-term bank debt	(409)	(902)	651
27 **net cash used in financing activities**	(48)	(106)	(763)
changes in cash and cash equivalents	150	330	121
Cash and cash equivalents at beginning of financial year	255	563	442
Exchange rate differences on cash items	(8)	(17)	12
Cash and cash equivalents from acquisition and disposal of group companies	6	14	(12)
Changes in cash and cash equivalents	150	330	121
cash and cash equivalents at end of financial year	403	890	563

Accounting principles for consolidation, balance sheets, determination of results and cash flow statements

General

The financial statements have been prepared in accordance with the provisions of Title 9, Book 2 of the Dutch Civil Code.

The financial statements have been prepared in Dutch guilders (NLG).

Consolidation principles

Group companies, which are companies that form an organizational and economic entity with TPG and in which TPG has a controlling interest, are fully consolidated. The minority participating interests in group equity and in results of operations are disclosed separately. Joint ventures in which TPG and another party have equal control are consolidated proportionally. Companies in which TPG acquired an interest during the course of the financial year are consolidated in the financial statements from the date on which the interest was acquired. Companies that are no longer associated with TPG are included in the financial statements up to the date on which TPG disposed of its interests in them.

The accounting principles apply to the balance sheets and the statements of income of TPG and to the group companies included in the consolidation. All significant intercompany balances and transactions have been eliminated on consolidation.

Foreign currency

Revenues and expenses in foreign currencies are included in the statements of income at the rate on the date incurred (cash value or at an average exchange rate for accounting purposes). If a forward contract has been entered into, the forward exchange rate is applied.

Accounts receivable, liabilities, cash and cash equivalents denominated in foreign currencies are translated into Dutch guilders at the rate of exchange at the balance sheet date or at the forward exchange rate if a forward contract has been entered into. Exchange rate differences are included in the statements of income under financial income and expenses.

Assets and liabilities of foreign companies with functional currencies other than the Dutch guilder have been translated into Dutch guilders at the rate of exchange at the balance sheet. The resulting exchange rate differences are added to or charged against reserves.

Goodwill, property, plant and equipment and inventory of direct foreign activities are translated at historical exchange rates.

Accounting principles relating to the balance sheets

General Capital is determined on the basis of historical cost. Assets, liabilities and group equity are included at nominal value unless otherwise indicated.

Intangible assets Goodwill arising from acquisitions is valued at historical cost less amortization or at economic value if this is less on a permanent basis. Amortization expense is calculated using the straight-line method based on the estimated useful life, ranging from five up to 40 years. In determining whether an impairment has occurred, TPG periodically assesses the carrying amount of goodwill by comparing the future cash flows to the carrying value of the related assets.

Property, plant and equipment Property, plant and equipment is valued at historical cost less depreciation or at economic value if this is less on a permanent basis. Depreciation is calculated using the straight-line method based on the estimated useful life, taking into account any residual value. Land is not depreciated. In determining whether an impairment has occurred, TPG periodically assesses the carrying amount of property, plant and equipment by comparing the future cash flows to the carrying value of the related assets.

Property, plant and equipment that is no longer used in operating activities is valued at the lower of book value on December 31, before the year in which the decision is made or net realizable value. Upon retirement or sale, the related historical cost and accumulated depreciation are removed from the accounts and any profit or loss resulting from disposal of or sale of property, plant and equipment is included in the statements of income.

Affiliated companies Investments in affiliated companies are included in the financial statements under financial fixed assets from the date they are acquired up to the date they are disposed of. These investments are included at net asset value in accordance with the accounting principles of TPG.

Inventory Inventories of raw materials, supplies and finished goods are valued at the lower of historical cost or net realizable value. Historical cost is based on weighted average prices. Work in process is valued at the cost of materials, the cost of work contracted out and labor costs. Obsolescence is taken into account.

Accounts receivable Accounts receivable are stated net of an allowance for doubtful receivables. Accounts receivable from affiliated companies due within one year are included in this account.

Cash and cash equivalents Cash and cash equivalents include cash on hand, bank account balances, bills of exchange and checks (only those which can be cashed in the short term). All highly liquid investments with an original maturity of three months or less at date of purchase are considered to be cash equivalents.

Minority interests Minority interests are valued at net asset value applying the accounting principles of TPG.

Financial instruments TPG uses derivative financial instruments as part of an overall risk-management strategy. These instruments are used as a means of hedging exposure to foreign currency risk connected to anticipated cash flows or existing assets and liabilities. TPG does not hold or issue derivative financial instruments for trading purposes.

TPG uses foreign currency forward exchange contracts to hedge the cash flow risk and on-balance sheet firm commitments.

Gains and losses from foreign currency forward exchange contracts that are hedging anticipated cash flows are deferred in other liabilities and recognized in income, or as adjustments of carrying amounts, when the hedged transaction occurs.

The net exposures of on-balance sheet commitments are revalued at the prevailing spot exchange rate. The resulting gains and losses are included in financial income and expenses. The realized and unrealized gains and losses on the offsetting hedges of on-balance sheet commitments resulting from changes in the spot exchange rate are also included in financial income and expenses.

The related amounts due to or from counterparties are included in other assets or other liabilities.

The premium or discount arising at the inception of the contracts is amortized over the life of the contract and included in financial income and expenses.

Cash flows from derivatives are recognized in the statement of cash flows in the same category as that of the hedged item.

If an anticipated cash flow does not occur, the foreign currency forward exchange contract is terminated, and any results are recognized in financial income and expenses.

Provisions Provisions for early retirement, redundancy pay, pension entitlements as part of reorganizations and provisions for payments in lieu of pensions are included at discounted value. Other provisions are recorded at nominal value.

Deferred taxes Deferred tax assets and liabilities arising from temporary differences between the value of assets and liabilities for book purposes and for tax purposes are calculated on the basis of the current rates of income tax. Deferred tax assets are recognized if it is more likely than not that they can be offset against taxes payable in the coming years. Deferred tax assets and liabilities with the same term are presented net in the balance sheet.

Accounting principles relating to the determination of results

Revenue is recognized when services are rendered, goods are delivered or work is completed and is calculated on the basis of historical cost. Losses are recorded when probable.

Net sales Net sales represent the revenues from the delivery of goods and services invoiced to third parties, less discounts and taxes levied on sales.

Other operating revenues Other operating revenues include revenues that do not arise from TPG's core businesses.

Research and development expenses Expenditures for research and development are expensed as incurred.

Depreciation expense and amortization Depreciation expense and amortization are calculated on the basis of the historical cost of property, plant and equipment and intangible assets using the straight-line method on the basis of the estimated useful life, and taking residual value (if any) into account.

Results from investments in affiliated companies The amount included in this account refers to the contribution made to net income by companies in which TPG has a direct or indirect interest using the equity method.

Income taxes The amount of income tax included in the statements of income is based upon income before tax in accordance with the prevailing regulations and rates, taking into account permanent differences between the income for book purposes and for tax purposes.

Accounting principles relating to the consolidated cash flow statements

The cash flow statement has been prepared using the indirect method. Cash flows in foreign currencies have been translated at average exchange rates. Exchange rate differences affecting cash items are shown separately in the cash flow statement. Receipts and payments in respect of interest and taxation on profits are included in the cash flow from operating activities. The cost of acquisition of new group companies, affiliated companies and investments, insofar as it was paid for in cash, is included in the cash flow from investing activities. The cash assets of the newly acquired group companies are shown separately in the cash flow statement.

Other

The figures for previous years have been restated where necessary to enable comparison.

Notes The numbers in the line items of the financial statements refer to the explanatory notes.

As the financial statements of TNT Post Group N.V. are included in the consolidated financial statements, the corporate statements of income are presented in an abridged form (Article 402, Title 9, Book 2 of the Dutch Civil Code).

Notes to the consolidated financial statements

The consolidated financial statements include the financial statements of TNT Post Group N.V. and the consolidated companies. A complete list of subsidiaries and affiliated companies included in TPG's consolidated financial statements is publicly filed at the office of the Commercial Register of the Chamber of Commerce in Amsterdam. This list has been prepared in accordance with the provisions of Article 379, Paragraph 1 and Article 414, Title 9, Book 2 of the Dutch Civil Code.

Basis of presentation

On June 28, 1998, the demerger of the mail, express and logistics businesses of Koninklijke PTT Nederland NV (KPN) became effective. At this date, all of the assets and liabilities directly related to KPN's mail, express and logistics businesses were transferred, by operation of law, to TNT Post Group N.V. At the date of the demerger, certain jointly held assets and liabilities not directly allocable to the mail, express and logistics businesses were also transferred by operation of law from KPN to the company. The result of the demerger was that the mail, express and logistics businesses, allocable assets and liabilities and the jointly held assets and liabilities referred to above, are held by the company. For purposes of these consolidated financial statements, "TPG" refers to the company and its subsidiaries in relation to the period after the consummation of the demerger and to the mail, express and logistics businesses of KPN and its subsidiaries prior to consummation of the demerger. Pursuant to a demerger agreement (the demerger agreement), all of the mail, express and logistics businesses and jointly held assets and liabilities transferred to TPG were, upon consummation of the demerger, deemed to have been for the risk and account of the company as of January 1, 1998.

The company was incorporated on December 29, 1997. The only shareholder was KPN, holding the Founder Share. Upon consummation of the demerger, the articles of association of the company were amended to provide for an authorized share capital of NLG 2,360 million, comprising of 944 million ordinary shares (Ordinary Shares), 589,999,999 Preference Shares A, 826,000,000 Preference Shares B and one Special Share, each with a par value of NLG 1. The KPN shareholders received shares in the company pro rata to their existing holdings of KPN Shares, in the ratio of one Ordinary Share in the company for every KPN share owned. The State of the Netherlands (the State) received the Special Share. The Founder Share was canceled at that time. As a result, the shareholders had the same proportionate interest in the same aggregate of assets and liabilities immediately before and after the demerger. The number of Ordinary Shares outstanding immediately after the demerger was 475,173,350.

The consolidated financial statements of TPG for the years presented have been prepared as if the Mail, Express and Logistics businesses had been part of TPG for all such years, and as if TPG existed as a separate group for all years presented. Assets, liabilities, shareholders' equity, revenues and expenses of TPG are stated on the basis of historical cost in accordance with the accounting principles of TPG. The consolidated financial statements of prior years do not include the jointly held assets and liabilities transferred to the company because these are not directly allocable to the Mail, Express and Logistics businesses and do not affect operating income or net income for those years presented. Some of the companies in TPG have been part of tax arrangements of KPN prior to the demerger, inter alia, for utilization of TPG losses. In these consolidated financial statements the tax position and tax expenses have been calculated as if TPG had not been part of these tax arrangements and as if TPG had existed as separate entity for the years presented.

Notes to the consolidated balance sheets

1 Financial information related to the demerger

(No corresponding financial statement number)

On June 28, 1998, in addition to the shares of PTT Post Holding N.V. representing the Mail, Express and Logistics businesses, certain jointly held assets and liabilities not directly allocable to the Mail, Express and Logistics businesses were transferred, by operation of law, from KPN to TPG. Such transfer was deemed to have been for the risk and account of the company as of January 1, 1998. This note discloses the effects of this transfer on the balance sheet as of January 1, 1998. See also Basis of presentation.

amounts in millions of guilders	year ended December 31,
demerger effect	total
Financial fixed assets [a]	239
Current assets [b]	1,180
total assets	1,419
Group equity	1,248
Long-term liabilities [c]	159
Current liabilities [d]	12
total liabilities and group equity	1,419

At the date of the demerger of the Mail, Express and Logistics businesses, certain assets and liabilities were transferred to TPG for a total value of NLG 1,248 million. This transfer consists of:

a Financial fixed assets
The shares of, and loans supplied to, KPN Autolease B.V. and KPN Risicom B.V. (NLG 239 million).

b Current assets
Current assets (accrued income and loans receivable) including KPN Autolease B.V. and KPN Risicom B.V. (NLG 96 million) and a receivable from KPN (NLG 1,084 million).

c Long-term liabilities
Long-term liabilities consist of a NLG 90 million ordinary loan from the State and a NLG 69 million subordinated loan from the State (See note 12).

d Current liabilities
Current liabilities related to various costs of the demerger (NLG 12 million).

Fixed assets

2 Intangible assets: NLG 3,253 million (1997: 3,242)

amounts in millions of guilders	year ended December 31,
statement of changes in intangible assets	goodwill
Historical cost	3,434
Accumulated amortization	(192)
Balance on December 31, 1997	3,242
changes in 1998	
Goodwill	126
Disposals	(1)
Amortization	(114)
Total changes	11
Historical cost	3,559
Accumulated amortization	(306)
Balance on December 31, 1998	3,253

In 1998, NLG 126 million of goodwill arose from the acquisition of interests in companies (1997: 44). This goodwill was primarily attributable to Mail acquisitions.

3 Property, plant and equipment NLG 3,245 million (1997: 2,847)

Leasehold rights amounting to NLG 27 million (1997: 38) are included as part of land and buildings. Plant and equipment includes leased assets amounting to NLG 58 million (1997: 90).

amounts in millions of guilders, except percentages

statement of changes in property, plant and equipment

	land and buildings	plant and equipment	other property, plant and equipment	construction in progress	idle property, plant and equipment	total
Depreciation percentage	0-10	4-33	7-25	0	0	
Historical cost	2,673	821	1,248	36	55	4,833
Accumulated depreciation	(1,172)	(511)	(303)			(1,986)
Balance on December 31, 1997	1,501	310	945	36	55	2,847
changes in 1998:						
Exchange rate differences	(23)	(2)	(43)	(2)	(1)	(71)
Capital expenditure	134	62	390	356		942
Acquisitions	4	3	10			17
Disposals	(56)	(3)	(10)	(21)		(90)
Deconsolidation			(56)			(56)
Total capital expenditure	59	60	291	333	(1)	742
Depreciation and impairments	(84)	(65)	(195)			(344)
Reclassifications and other changes	70	329	(153)	(195)	(51)	0
Total changes	45	324	(57)	138	(52)	398
Historical cost	2,632	1,194	1,332	174	3	5,335
Accumulated depreciation	(1,086)	(560)	(444)			(2,090)
Balance on December 31, 1998	1,546	634	888	174	3	3,245

Historical cost refers, among other things, to the value of the property, plant and equipment contributed to TPG when its former parent KPN was established in 1989. The calculation of depreciation expense on those assets takes into consideration the useful life that had already elapsed at that date. The book value at December 31, 1998, of assets transferred to TPG on January 1, 1989, were valued at the then current value of NLG 406 million, which is net of accumulated depreciation of NLG 1,137 million.

The following table shows the balance sheet value of the property, plant and equipment on December 31, 1998, of the segments Mail, Express and Logistics:

amounts in millions of guilders, except percentages

balance sheet value of property, plant and equipment on December 31, 1998 *	mail	express	logistics	total
Land and buildings	1,088	426	32	1,546
Plant and equipment	376	195	63	634
Other property, plant and equipment	83	731	74	888
Construction in progress	91	81	2	174
Idle property, plant and equipment			3	3
Total	1,638	1,433	174	3,245
As percentage of total property, plant and equipment	50.5	44.1	5.4	100.0

* Identifiable assets used jointly for the segments have been allocated based on estimated usage.

The assets of TPG are located as follows:

amounts in millions of guilders

location of property, plant and equipment on December 31, 1998 *	mail	express	logistics	total
The Netherlands	1,549	241	10	1,800
Rest of Europe	87	970	101	1,158
Australia		180	32	212
Asia		34	13	47
United States and Canada	2	3	8	13
Rest of world		5	10	15
Total	1,638	1,433	174	3,245

* Identifiable assets used jointly for the segments have been allocated based on estimated usage.

4 Financial fixed assets: NLG 940 million (1997: 842)

amounts in millions of guilders

statement of changes in financial fixed assets	investments in affiliated companies	accounts receivable from affiliated companies	loans receivable	prepayments and accrued income	total
Balance on December 31, 1997	320	2	31	489	842
changes in 1998:					
Exchange rate differences	(18)		(4)	(5)	(27)
Acquisitions/additions	(18)	298	52	143	475
Disposals/decreases	(16)	(257)	(32)	(88)	(393)
(De)consolidation	7			75	82
Dividend	(26)				(26)
Other changes	10		(1)	(22)	(13)
Total changes	(61)	41	15	103	98
Balance on December 31, 1998	259	43	46	592	940

The line acquisitions/additions includes a NLG 239 million transfer to TPG resulting from the demerger. Included in the NLG 592 million prepayments and accrued income at December 31, 1998, is an amount of NLG 457 million of deferred tax assets (1997: 485).

Current assets

5 Inventory: NLG 92 million (1997: 103)

amounts in millions of guilders	1998	at December 31, 1997
Raw materials and supplies	12	11
Finished goods	80	92
Total	92	103

6 Accounts receivable: NLG 2,778 million (1997: 2,985)

amounts in millions of guilders	1998	at December 31, 1997
Accounts receivable	2,165	2,418
Deferred tax assets	270	253
VAT recoverable	30	24
Accounts receivable from affiliated companies	14	29
Other	299	261
Total	2,778	2,985

Accounts receivable for services rendered and delivered goods have been included after deduction of a provision for doubtful receivables amounting to NLG 72 million on December 31, 1998 (1997: 79).

7 Prepayments and accrued income: NLG 257 million (1997: 291)

This includes amounts paid in advance to cover costs that will be charged against income in future years and amounts still to be invoiced. On December 31, 1998, this account primarily related to prepayments amounting to NLG 165 million (1997: 193).

8 Cash and cash equivalents: NLG 890 million (1997: 563)

The total amount is unrestricted.

9 Group equity

Group equity consists of shareholders' equity and minority interests.

See the corporate financial statements for an explanation of *shareholders' equity*.

Provisions

Provisions relate to obligations and risks associated with TPG's operations and liabilities related to termination of employment contracts.

10 Provisions for retirement schemes: NLG 819 million (1997: 787)

amounts in millions of guilders

statement of changes in provisions for retirement schemes	early retirement	redundancy pay	other	total
Balance on December 31, 1997	490	282	15	787
Withdrawals	(105)	(53)		(158)
Additions/(releases)	144	(5)	4	143
Interest	31	16		47
Balance on December 31, 1998	560	240	19	819

Provisions for retirement schemes are carried at their discounted value at an average interest rate of 6%. Of the above provisions, NLG 158 million have a term of less than one year, of which NLG 103 million are for the early retirement schemes and NLG 53 million for redundancy pay.

The early retirement provision relates to commitments to employees using the scheme and to those who are eligible to use it. The redundancy pay provision relates to the entitlement to redundancy payments of employees who worked as public servants for the Netherlands Postal and Telecommunications Services before January 1, 1989, and who were made redundant before January 1, 1996.

11 Other provisions: NLG 1,681 million (1997: 1,875)

amounts in millions of guilders

statement of changes in other provisions	reorganization	other	total
Balance on December 31, 1997	1,796	79	1,875
Consolidation	1	14	15
Withdrawals	(671)		(671)
Additions/(releases)	400	1	401
Reclassification	18	47	65
Foreign exchange rate effects	(2)	(2)	(4)
Balance on December 31, 1998	1,542	139	1,681

Provision for reorganization

In the table below, the reorganization provision at December 31, 1997 and 1998 is presented together with the related additions and withdrawals in 1998.

amounts in millions of guilders

statement of changes in provisions for reorganization	post-employment	redundant employee benefit costs	wage guarantees costs	other costs	total
Balance on December 31, 1997	56	199	748	793	1,796
Consolidation				1	1
Withdrawals	(11)	(60)	(66)	(534)	(671)
Additions/(releases)		8	35	357	400
Reclassification				18	18
Foreign exchange rate effects				(2)	(2)
Balance on December 31, 1998	45	147	717	633	1,542

In 1998, TPG made a net addition to its reorganization provisions of NLG 400 million. TPG's provisions for reorganization deal primarily with Briefpost 2000, a reorganization project of Mail activities in the Netherlands, integration projects within Express, promoting the corporate identity of TNT and some essential adjustments for IT systems and IT aplications of TPG to prepare them for the euro and the Year 2000.

The net addition of NLG 400 million consists of:

- NLG 213 million for the continuation of the restructuring of Mail activities, primarily in the Netherlands. Of this amount, NLG 137 million relates to an update of the Briefpost 2000 provision due to the delay in the implementation of the automated sorting centers. The delay results in a longer transition period with additional costs for FTEs and infrastructure. The restructuring of the International Mail activities requires NLG 30 million. At this time, the international sorting and handling activities are based on two locations in the Netherlands. Both locations have to move to another building, due to the fact that the existing lease contracts cannot be continued. The International Mail activities will be combined at one central building at Schiphol Airport. An update for the provision for wage guarantees, for employees for which the future pay rate has become less than their current or previous pay rates, accounts for NLG 35 million. Other future restructuring costs for the Mail activities include NLG 11 million primarily related to the movement of Mail staff from various locations to one central building.

- NLG 82 million for an update of the provision for TNT corporate identity costs. The objective is to create a uniform global brand. Until mid-1998 TNT included numerous brands, which are all scheduled to be replaced with the new TNT identity.

- NLG 48 million for several integration and restructuring projects primarily in the Express business area in the geographic regions Benelux, Germany, Asia and Australia.

- NLG 33 million to prepare certain IT systems and IT applications of TPG for the euro and the Year 2000. This amount will be used for dedicated staffing, replacement equipment and extensive test procedures relating to both projects.

- NLG 24 million for various other reorganization costs.

At December 31, 1998, the total reorganization provision of NLG 1,542 million is detailed as follows:

- Post-employment benefit costs, for employees who are expected to leave TPG (NLG 45 million). These costs consist of the accrual amount to be offered to employees who are expected to voluntarily leave TPG.

- Redundant employee costs, for employees who lost or changed their jobs due to the reorganization but who are still entitled to their full salaries (NLG 147 million).

- Wage guarantee accruals related to restructuring processes represent an entitlement due to employees if their future pay rate is less than their current pay rate (NLG 717 million). The entitlements are mainly the result of the restructuring of PTT Post's distribution function of its Mail activities in the Netherlands.

- Other costs, which include outplacement costs, moving and travel expenses, retraining costs, implementation and integration costs relating to the new organization structure, implementation of the new corporate identity and euro and Year 2000 costs (NLG 633 million).

TPG expects to make cash expenditures of approximately NLG 674 million, NLG 238 million, NLG 135 million and NLG 495 million in 1999, in 2000, in 2001 and thereafter, respectively, in connection with the restructuring programs that are provided for. TPG expects to create additional provisions in the coming years in connection with future reorganization projects.

Long-term liabilities

12 Loans of the State of the Netherlands: NLG 159 million (1997: 0)

Long-term liabilities from the State consist of NLG 90 million ordinary loan (Loan A) and NLG 69 million subordinated (Loan B) which were transferred from KPN to TPG upon the demerger.

The interest rate for Loan A is 6.37%. Final repayment will take place on December 31, 2003, or on a later date to be agreed by the State and TPG.

The interest rate for loan B is 6.72%. Final repayment will take place on December 31, 2003, or on a later date to be agreed by the State and TPG. The claim for repayment of the subordinated Loan B principal of NLG 69 million is subordinate to all other existing and future claims on TPG, including all claims by the State.

Loans A and B cannot be repaid prematurely. The State has the right to require payment of the loans in full or in part at any time in order to use the amounts thus received to pay for Preference Shares A to be issued by TPG to the State at that time.

If the State exercises its option to subscribe for Preference Shares A, payments will be required to be made of at least 25% of the par value.

13 Other long-term liabilities: NLG 124 million (1997: 219)

Other long-term liabilities include financial lease obligations amounting to NLG 47 million and loans related to aircraft financing amounting to NLG 45 million and NLG 9 million other interest-bearing long-term liabilities. The other long-term liabilities include non-interest bearing debt for an amount of NLG 23 million.

The table below sets forth the amounts of the interest-bearing long-term liabilities, including the interest-bearing current portion, mentioned under Note 14 that are payable in each of the years ending December 31.

amounts in millions of guilders	state loans	other loans	total
1999		71	71
2000		54	54
2001		9	9
2002		8	8
2003	159	3	162
Thereafter		27	27
Total	159	172	331

Future minimum annual financial lease payments are as follows:

amounts in millions of guilders	payable in the year ending December 31,
1999	11
2000	2
2001	1
2002	1
2003	1
thereafter	42
Total	58
Non-cancelable portion	0

Current liabilities

14 Other short-term liabilities: NLG 2,196 million (1997: 3,467)

amounts in millions of guilders	at December 31, 1998	1997
Short-term bank debt	260	1,734
Taxes and social security contributions	296	275
Trade accounts payable	923	683
Current portion of long-term debts	71	530
Expenses to be paid	92	113
Dividend payable	238	
Other liabilities	316	132
Total	2,196	3,467

Short-term bank debt consists of NLG 231 million drawdowns under a short-term Australian dollar facility, which was used to repay a 4.875% SFR 266 million debenture, and NLG 29 million local bank debt. The current portion of long-term debt consists of financial leases to an amount of NLG 11 million and loans related to aircraft financing amounting to NLG 60 million.

15 Accrued liabilities: NLG 1,716 million (1997: 1,629)

This includes amounts already received that will be credited to future financial statements and amounts which are still to be paid that can be attributed to previous financial years.

amounts in millions of guilders		at December 31,
	1998	1997
Amounts received in advance	262	126
Amounts to be paid attributed to previous years	844	859
Vacation/vacation-payments	326	352
Terminal dues	124	112
Other	160	180
Total	1,716	1,629

16 Commitments not included in the balance sheets

No corresponding financial statement number

amounts in millions of guilders		at December 31,
statement of commitments not included in the balance sheets	1998	1997
Commitments relating to:		
Operating guarantees	206	276
Financial guarantees	1,151	1,264
Rent and lease contracts	3,892	3,877
Capital expenditure	137	349
Purchase commitments	104	80

Of these commitments not included in the balance sheets, NLG 1,144 million are of a short-term nature (1997: 2,035).

Operating guarantees

The operating guarantees primarily relate to a contract with Postkantoren (NLG 201 million). Under this contract, TPG is required to process a minimum number of transactions annually with Postkantoren through the year 2000. If the number of transactions falls below the minimum amount, TPG is obliged to pay a penalty.

Financial guarantees

Total guarantees provided by TPG amounted to NLG 1,151 million, of which NLG 1,022 million relate to guarantees issued by TPG in connection with the financing of aircraft through its 50% interest in Ansett Worldwide Aviation Services (AWAS).

Rent and lease contracts

Operational lease expenses (including rental) amounted to NLG 441 million in 1998 (1997: 381).

Future operational lease payments on currently existing contracts are as follows:

amounts in millions of guilders	payable in the year ending December 31,
1999	718
2000	384
2001	288
2002	328
2003	343
thereafter	1,831
Total	3,892
Non-cancelable portion	0

These operating lease commitments mainly relate to aircraft, buildings and equipment.

Through TPG's interest in AWAS, an aircraft leasing and trading venture conducted through partnerships and incorporated entities, TPG has a 50% share in the future net lease rentals. The future net lease rentals are the annual operating lease rentals payable under the relevant headleases to third parties minus the aggregate operating lease rentals receivable from airline operators under the relevant subleases. As of December 31, 1998, the aggregate operating lease rentals payable exceeds the operating lease rentals receivable by an amount of NLG 2,060 million.

The headlease obligations are the joint and several obligations of the partners and entities. The shortfall net lease rentals will only arise if subleases after expiration are not extended or replaced by a new sublease and aircraft cannot be sold.

TPG has classified AWAS as non-core and consequently intends to sell its entire share in this business. In conjunction with its co-shareholder, discussions with potential interested parties are continuing.

Capital expenditure

Commitments in connection with long-term contracts mainly relate to Briefpost 2000 (NLG 80 million).

Purchase commitments

Commitments in connection with purchase relate for NLG 71 million to Postkantoren. These commitments consist of contracts for general and technical services. Part of the commitments end within a year. Other commitments relate to facilities and real estate.

Legal proceedings

Multigroup Distribution Services Pty Limited (Multigroup), an Australian company providing express freight transportation services, commenced legal proceedings on July 21, 1995, against TNT Australia Pty Limited, J. McPhee & Son (Australia) Pty Limited and two other companies (Ansett Australia Limited and Mayne Nickless Limited) as respondents, in the Federal Court of Australia. Multigroup is seeking an as yet unquantified amount of damages and an account of profits. The proceedings involve allegations that the above-mentioned respondents took part in anti-competitive behavior in breach of the Australian Trade Practices Act of 1974 and associated torts. All respondents are defending these allegations.

Further, TPG is involved in several legal proceedings relating to the normal conduct of its business. TPG does not expect any liability arising from these proceedings to have a material effect on its results of operations, liquidity, capital resources or its financial position. TPG has provided for all probable liabilities.

Credit facilities

During the year 1998, TPG had committed and uncommitted facilities outstanding with a number of domestic and international banks amounting to NLG 1,838 million. On these facilities, NLG 266 million had been drawn on December 31, 1998.

Fair values of financial instruments

amounts in millions of guilders	at December 31, 1998 carrying amount	at December 31, 1998 fair value	at December 31, 1997 carrying amount	at December 31, 1997 fair value
a Cash and cash equivalents	890	890	563	563
b Short-term debt	260	260	1,734	1,734
c Long-term debt *	331	360	709	714

* The carrying amounts reported here can be related to the balance sheets by adding the current portion of long-term debt to the balance sheets long-term liabilities, excluding the accrued long-term liabilities and non-interest-bearing long-term debt (NLG 23 million).

a The carrying value of cash and cash equivalents approximated their fair value because of the short maturities of the instruments held.

b Short-term debt consists only of short-term bank debt and excludes the current portion of long-term interest bearing debt. The fair value of short-term debt approximated its market value because of the short maturities of the relevant instruments.

c Long-term debt includes the current portion of long-term interest bearing debt, which is included in the balance sheets under short-term liabilities. The fair value of other long-term debt has been estimated by calculating the discounted value of the loan portfolio using an estimated yield curve, appropriate to the terms of the contracts, in effect at the end of the year.

The company does not hold or issue financial instruments for trading purposes nor does it allow its subsidiaries to do so. The following table outlines the gross expenses from outstanding forward exchange transactions and their fair values at December 31, 1998.

amounts in millions of guilders	at December 31, 1998 nominal	at December 31, 1998 fair value	at December 31, 1997 nominal	at December 31, 1997 fair value
Total hedges long	1,013	1,007	804	807
Total hedges short	(294)	(300)	(747)	(757)
Net	719	707	57	50

As a result of the fact that outstanding liabilities of TPG at year-end 1998 were primarily short-term and variable interest bearing, the differences between the carrying amount of these liabilities and the fair value of these contracts were not material. No currency or interest swaps were outstanding at December 31, 1998.

Notes to the consolidated statements of income

17 Net sales: NLG 16,118 million (1997: 15,100)

amounts in millions of guilders	year ended December 31,	
net sales by business area	**1998**	1997
Mail	7,638	7,109
Express	6,215	6,064
Logistics	2,265	1,927
Total	16,118	15,100

amounts in millions of guilders	year ended December 31,	
net sales by geographic area	**1998**	1997
The Netherlands	6,997	6,512
United Kingdom	2,152	1,916
Italy	1,185	1,080
Germany	1,184	1,303
Rest of Europe	2,410	2,070
Europe	13,928	12,881
Asia	482	283
Australia	874	933
United States and Canada	579	561
Rest of world	255	342
Total	16,118	15,100

18 Other operating revenues: NLG 209 million (1997: 167)

Other operating revenues include certain claims, revenues from the disposal of non-core activities, proceeds from sale of property and equipment and the rent of buildings and houses.

19 Salaries and social security contributions: NLG 6,030 million (1997: 5,824)

amounts in millions of guilders	year ended December 31,	
	1998	1997
Salaries	5,062	5,101
Pension contributions	312	261
Social security contributions	656	462
Total	6,030	5,824

The transfer allowance (a supplementary payment to employees, compensating them for social security premiums) is included under salaries.

	year ended December 31,	
number of employees	**1998**	1997
TPG	101,582	94,116
Of which in the Netherlands	62,095	59,600

At the end of 1998, 12,545 people (1997: 12,163) were employed by proportionately consolidated affiliated companies, of whom 6,757 were on the payroll of Dutch companies, primarily Postkantoren B.V. and Geldnet and 5,788 were on the payroll of TNT companies outside the Netherlands.

Remuneration of members of the Supervisory Board and the Board of Management

In 1998, the remuneration of the current members of the Supervisory Board, excluding VAT, and Board of Management, including pension and social security contributions, amounted to NLG 339,000 and NLG 9,604,000, respectively.

20 Depreciation, amortization and impairments: NLG 458 million (1997: 415)

amounts in millions of guilders	year ended December 31, 1998	1997
Goodwill	114	114
Property, plant and equipment	344	301
Total	458	415

Depreciation and impairments of property, plant and equipment are detailed as follows:

amounts in millions of guilders	year ended December 31, 1998	1997
By classification:		
Land and buildings	84	91
Plant and equipment	65	44
Other property, plant and equipment	195	166
Total	344	301
By cause:		
Regular depreciation	344	298
Impairment		3
Total	344	301

21 Other operating expenses: NLG 1,451 million (1997: 1,192)

Other operating expenses include NLG 400 million of net additions (additions minus releases) to provisions for reorganization (1997: 447).

22 Interest and similar expenses: NLG 173 million (1997: 222)

amounts in millions of guilders	year ended December 31, 1998	1997
Interest on long-term liabilities	23	54
Interest added to provisions	47	20
Other	103	148
Total	173	222

23 Income taxes: NLG 544 million (1997: 469)

Tax expense in the statement of income for 1998 amounts to NLG 544 million, or 39.7% of income before income taxes (1997: 40.4%).

Income tax expense is comprised of the following:

amounts in millions of guilders	year ended December 31, 1998	1997
Current tax expense	467	696
Changes in deferred taxes (excl. acquisitions) and foreign exchange rate efects	77	(227)
Total income taxes	544	469

NLG 113 million of the total tax expenses of NLG 467 million in 1998 relates to taxes payable to foreign tax authorities (1997: 93).

Tax expense differs from the amount calculated by multiplying the Dutch income tax rate with income before income taxes. The differences between the effective income tax rate and the Dutch income tax rate of 35% are attributable to the following factors:

In percentages	year ended December 31, 1998	1997
Dutch statutory income tax rate	35.0	35.0
Effective income tax rate other countries	2.3	2.0
Permanent differences:		
Non and partly deductible costs	0.3	0.0
Depreciation of goodwill	2.9	3.4
Other	(0.8)	0.0
Effective income tax rate	39.7	40.4

The difference between the total income taxes in the statements of income and the current tax expense is due to temporary differences. These differences are recognized as deferred tax assets or deferred tax liabilities. The deferred tax assets mainly relate to deferred receivables from the Dutch tax authorities.

The following table shows the changes in deferred tax assets in 1998.

amounts in millions of guilders

statement of changes in deferred tax assets

Deferred tax assets on December 31, 1997	738
Changes	(13)
(De)consolidations / foreign exchange effects	2
Deferred tax assets on December 31, 1998	727

Deferred tax assets consist of the following differences:

amounts in millions of guilders	at December 31, 1998	1997
Differences between valuation for book and tax purposes of:		
Provisions	519	525
Property, plant and equipment	51	56
Other	157	157
Total deferred tax assets	727	738

At December 31, 1998, deferred tax assets have been included under financial fixed assets for NLG 457 million (1997: 485) and under current assets for NLG 270 million (1997: 253).

The total accumulated losses at the year end 1998 amounted to NLG 1,260 million. With these losses carried forward potential future tax benefits of NLG 489 million could be recognized.

Due to the fact that the deferred taxes are recognized if it is more likely than not that they can be offset against taxes payable in the future years, an allowance has been made for a total amount of NLG 373 million. The main reason for this allowance is the fact that compensation of these losses with future profits is less likely as a result of restructuring programs and as a result of the expiration of carry forward losses.

The deferred tax assets, net of this allowance, amounted to NLG 116 million at the end of 1998. The total loss carry forward of NLG 1,260 million expires as follows.

amounts in millions of guilders

expiration loss carry forward

1999	226
2000	205
2001	141
2002	128
2003 and further	560
Total	1,260

The following table shows the changes in deferred tax liabilities in 1998.

amounts in millions of guilders

statement of changes in deferred tax liabilities

Deferred tax liabilities on December 31, 1997	402
Changes	64
(De)consolidations / foreign exchange effects	(10)
Deferred tax liabilities on December 31, 1998	456

Deferred tax liabilities consist of the following differences:

amounts in millions of guilders	at December 31, 1998	1997
Differences between valuation for book value and tax purposes of:		
Provisions	222	152
Aircraft leases and other	234	250
Total deferred tax liabilities	456	402

Research and development

No corresponding financial statement number.

In 1998, TPG spent NLG 8 million (1997: 14) on research and development.

Current value method

Historical cost was used for valuation purposes and to determine the results in the consolidated balance sheets and the consolidated statements of income. The differences in capital and income would be negligible if valuation and determination of income were based on current value.

Notes to the consolidated cash flow statements

25 Net cash provided by operating activities: NLG 1,423 million (1997: 1,153)

Net cash provided by operating activities in 1998 was mainly generated from net income (NLG 820 million), adjusted for depreciation, amortization and impairments (NLG 458 million). Changes in provisions (NLG 173 million) negatively affected cash provided by operating activities in 1998, while a reduction in working capital of NLG 241 million had a positive effect.

Total movement of accounts receivable amounted to a decrease of NLG 207 million, of which higher trade accounts receivable used a cash flow of NLG 311 million, related to the increase of operating revenues. The number of days of outstanding accounts receivable remained stable. The remainder of the movement in accounts receivable is related to a receivable from KPN in 1997, the receipt of which is included in the movement in net cash used in financing activities.

Current liabilities increased by NLG 526 million. Trade accounts payable related to the growth in operating revenues increased by NLG 243 million. Other current liabilities increased by NLG 275 million, including amounts received in advance and tax and social securities.

26 Net cash used in investing activities: NLG (987) million (1997: (269))

In 1998, net cash used in investing activities related primarily to capital expenditures in property, plant and equipment.

In 1998, TPG acquired several group companies, mainly in Mail, for an amount of NLG 98 million. The acquisitions included Rinaldi (a domestic mail company in Italy), GMA (a direct mail company in Germany) and Tesselaar Marketing Services (call centers in Benelux). Disposal of group companies included certain non-core activities.

In 1998, capital expenditures on property, plant and equipment made by TPG amounted to NLG 942 million and related for NLG 370 million to Mail, for NLG 484 million to Express and for NLG 88 million to Logistics. In Mail, capital expenditures related mainly to Briefpost 2000, the upgrade of the offices and computer software of Postkantoren and the renewal of post boxes. In Express, capital expenditures included the air hub in Liège, aircraft, road hubs among other items in Benelux, UK and Germany and other equipment. In Logistics, capital expenditures were mainly made for Fiat in Italy, a multinational company in the fast-moving consumer goods market in China, the automotive branch in Australia and Germany, and other. Disposals of property, plant and equipment amounted to NLG 90 million.

Other financial fixed assets increased by NLG 109 million in 1998, including an additional loan issued to AWAS for an amount of NLG 36 million. Furthermore, an amount of NLG 26 million refers to entitlements to personnel taken over from Fiat, which will be reimbursed by Fiat at the time these entitlements are exercised by the employees.

27 Net cash used in financing activities: NLG (106) million (1997: (763))

The cash flow used in financing activities was NLG (106) million in 1998. Interim dividend was paid for an amount of NLG 113 million. Shareholder's equity increased by NLG 1,287 million of which NLG 1,248 million was due to the demerger.

The increase in long-term financing in the amount of NLG 178 million consisted of NLG 159 million related to the State loans assigned to TPG in the demerger and NLG 19 million other.

Long-term liabilities were repaid for an amount of NLG 556 million. In February 1998, a 4.875% SFR 266 million (NLG 371 million) debenture matured, which was refinanced by a NLG 231 million drawdown under a short-term Australian dollar facility. Furthermore, long-term liabilities repaid included aircraft related funding, financial leases and several loan facilities denominated in different currencies.

Decrease in short-term bank debt was NLG 902 million. Repayment of a drawdown under the Revolving Credit Facility amounted to NLG 1,725 million, repayment of other short-term debt amounted to NLG 9 million. Furthermore, the decrease consisted of receivables from KPN (NLG 532 million) and other (NLG 40 million). The facilities drawn (NLG 260 million) included a short-term Australian dollar facility of NLG 231 million.

[illegible] Pro rata consolidation

No corresponding financial statement number

TPG accounts for joint ventures in which TPG and another party have equal control according to the pro rata consolidation method. Key information regarding the joint ventures is set forth below:

amounts in millions of guilders	year ended December 31, 1998	1997
Total fixed assets	243	235
Total current assets	86	137
Group equity	120	127
Provisions	96	104
Long-term liabilities	3	1
Current liabilities	110	140
Net sales	515	472
Operating income	10	12
Net income	6	8
Net cash provided by operating activities	(1)	72
Net cash used in investing activities	(51)	(41)
Net cash used in financing activities	(1)	(1)
Changes in cash and cash equivalents	(53)	30

TNT Post Group N.V.

corporate balance sheets

after appropriation of net income

amounts in millions	at December 31,	at December 31,	at December 31,
assets	pro forma 1998 EUR	1998 NLG	1997 NLG
fixed assets			
29 Financial fixed assets			
Investments in group companies	1,436	3,164	2,369
Investment in affiliated companies	(19)	(42)	
Accounts receivable from affiliated companies	0	0	
Other loans	17	37	
Prepayments and accrued income	172	378	
total fixed assets	1,605	3,537	2,369
current assets			
Accounts receivable from group companies	1,444	3,182	
Accounts receivable from affiliated companies	1	2	
Other accounts receivable	(2)	(5)	
Prepayments and accrued income	121	267	
total current assets	1,564	3,446	
total assets	3,169	6,983	2,369

amounts in millions	at December 31, pro forma 1998 EUR		at December 31, 1998 NLG		at December 31, 1997 NLG
liabilities and shareholders' equity					
shareholders' equity					
Issued share capital	216		476		
Additional paid-in capital	1,435		3,163		
Other reserves	204		449		
total shareholders' equity		1,855		4,088	2,369
provisions					
Retirement schemes	237		523		
Deferred tax liabilities	101		222		
Other	791		1,742		
total provisions		1,129		2,487	
long-term liabilities					
State of the Netherlands					
Ordinary loan	41		90		
Subordinated loan	31		69		
Accrued liabilities	3		7		
total long-term liabilities		75		166	
current liabilities					
Accrued liabilities	2		4		
Dividend payable	108		238		
total current liabilities		110		242	
total liabilities and shareholders' equity		3,169		6,983	2,369

TNT Post Group N.V.

corporate statements of income

As the financial statements of TNT Post Group N.V. are included in the consolidated financial statements, the corporate statements of income are presented in an abridged form (article 402, Title 9, Book 2 of the Dutch Civil Code).

amounts in millions	pro forma 1998 EUR	1998 NLG	year ended December 31 1997 NLG
Results from investments in group companies after taxes	377	832	
Other income and expenses after taxes	(5)	(12)	
net income	372	820	694

Notes to the corporate financial statements

The corporate financial statements of TNT Post Group N.V. are included in the consolidated financial statements. The accounting principles and the principles used to determine results in the corporate financial statements are similar to those used in the consolidated financial statements. The comparable figures of 1997 relate to PTT Post Holding N.V.

Notes to the corporate balance sheets

Fixed assets

29 Financial fixed assets: NLG 3,537 million (1997: 2,369)

amounts in millions of guilders

statement of changes in financial fixed assets	investments in group companies	investments in affiliated companies	accounts receivable from affiliated companies	other loans	prepayments and other income	total
Balance on December 31, 1997	2,369					2,369
changes in 1998:						
Additions *		(9)	256	37	378	662
Disposals		(13)				(13)
Repayments			(256)			(256)
Foreign exchange effects	(37)					(37)
Results	832					832
Other		(20)				(20)
Total changes	795	(42)	0	37	378	1,168
Balance on December 31, 1998	3,164	(42)	0	37	378	3,537

* Included in the additions is an amount of NLG 239 million related to the demerger.

Shareholders' equity: NLG 4,088 million (1997: 2,369)

Amounts in millions of guilders

Changes in shareholders' equity	issued shared capital	additional paid-in capital	other reserves	total
Balance on December 31, 1997				2,369
Equity surplus demerger from KPN				1,248
Balance on January 1, 1998 reflecting demerger	475	3,142		3,617
Stock dividend	1	(1)		0
Foreign exchange effects			(37)	(37)
Net income			820	820
Dividend			(351)	(351)
Other		22	17	39
Balance on December 31, 1998	476	3,163	449	4,088

The balance on December 31, 1997, refers to the equity of PTT Post Holding N.V. At the date of the demerger, the shares of PTT Post Holding N.V. representing the Mail, Express and Logistics activities, with an asset value of NLG 2,369 million, and certain jointly held assets and liabilities not directly allocable to the Mail, Express and Logistics business with a net asset value of NLG 1,248 million were transferred, by operation of law, to the company. (See also note 1 to the financial statements.) At June 28, 1998, the date of the demerger, 475,173,350 Ordinary Shares were issued by operation of law to existing KPN shareholders. The original estimate at April 30, 1998, of 473,289,922 shares was updated at the date of the demerger.

30 Issued share capital: NLG 476 million

TNT Post Group N.V. was incorporated on December 29, 1997. The authorized capital of TNT Post Group N.V. as of June 28, 1998, was NLG 2.36 billion. The authorized capital is composed of the following:

- 944,000,000 Ordinary Shares;
- 589,999,999 Preference Shares A;
- 826,000,000 Preference Shares B; and
- one Special Share,

each with a par value of NLG 1.

The Ordinary Shares are in bearer form, but may be registered on request of the holder. The Special Share and the Preference Shares are registered.

At December 31, 1998, the issued share capital was NLG 476 million and consisted of one Special Share and 475,790,931 Ordinary Shares. The State is the holder of the Special Share. The State holds approximately 44% of the Ordinary Shares.

Management option plan In 1998 a management option plan was approved by the Supervisory Board. The management option plan provides for granting options on TPG Ordinary Shares, either to members of the Board of Management pursuant to a decision of the Supervisory Board or to other managers pursuant to a decision by the Board of Management reached in consultation with the Supervisory Board. Apart from exceptions for certain countries, the plan mandates a vesting period of three years. Options granted lapse on the earlier of five years after granting and the date the employee ceases to be employed by TPG. The exercise price for an option on one TPG Ordinary Share is equal to the market value of one TPG Ordinary Share at the date the option was granted.

In 1998, options on 732,300 Ordinary Shares in TPG were granted under the management option plan, with an exercise price ranging from NLG 46.61 to NLG 51.11, of which 120,000 were granted to members of the Board of Management and the remaining part to other managers. At the time of granting, TPG informed the managers that the options were granted with a view to foster long-term commitment to TPG. At the end of 1998, none of the granted options had vested. The number of forfeited share options was zero and no options had expired. The company intends to issue Ordinary Shares upon exercise of the options.

The following table shows the dilutive effect on the net income per Ordinary Share if all granted options under the management option plan were exercised in 1998.

earnings per share	NLG	number of shares/ADS
Average number of Ordinary Shares in 1998		475,339,166
Diluted number of Ordinary Shares		18,039
Average number of Ordinary Shares in 1998 on fully diluted bases		475,357,205
Basic net income per Ordinary Share and per ADS	1.73	
Diluted net income per Ordinary Share and per ADS	1.73	

For these option plans, no expense is recognized in the income statement. Valuation of the management share options under SFAS 123 (accounting for stock-based compensation) issued in 1998 would result in an adjustment to net income of NLG 4 million. The impact on net income per Ordinary Share would be NLG 0.01. The weighted average grant date fair value of the options granted in 1998 comes to NLG 26.09. The method used in this valuation is the binominal method, American with dividend yield. The significant assumptions for valuation are a volatility of the stock of 58.5%, dividend yield of 0.45%, risk-free rate equivalents to 4.1% and an expected life of the options to the end of term.

31 Additional paid-in capital: NLG 3,163 million

This additional paid-in capital is exempt for Dutch tax purposes.

32 Other reserves: NLG 449 million

The profit for 1998 has been calculated as the net income for 1998 of TNT Post Group N.V. and all its subsidiaries. The corporate result of TNT Post Group N.V. for 1998 is NLG 12 million negative.

Commitments not included in the balance sheets

TNT Post Group N.V. has issued a declaration of joint and several liability for some of its group companies in compliance with article 403, Title 9, Book 2 of the Dutch Civil Code. See note 33.

33 Subsidiaries and affiliated companies on December 31, 1998

No corresponding financial statement number.

The full list containing the information referred to in Article 379 and Article 414, Title 9, Book 2 of the Dutch Civil Code is filed at the office of the Chamber of Commerce in Amsterdam.

A number of affiliated companies have not been consolidated because of their limited financial importance.

Supervisory Board

J.M.T. (James) Cochrane
W. (Wim) Dik
V. (Victor) Halberstadt
J.H.M. (Jan) Hommen
A. (Arie) Maas
C.J. (Coen) Oort
R.W.H. (Rolf) Stomberg
M. (Morris) Tabaksblat

Board of Management

A.J. (Ad) Scheepbouwer
M.P. (Peter) Bakker
L.T. (Bert) van Doorn
J.A. (John) Fellows
C.M. (Carel) Paauwe

Amsterdam, March 22, 1999

Concession

General

TPG has been granted a postal concession by law (Enabling Act). TPG has entrusted the postal concession (the Concession) to PTT Post.

TPG achieves 85 percent of its revenues in markets that are entirely open to competition. Some postal services that TPG provides in the Netherlands under the Concession are not open to competition. Services not subject to competition account for 15 percent of TPG's revenues.

Postal Concession

Mandatory postal services

Under the Postal Concession, the company is required to provide to any person in the Netherlands, for payment, the conveyance within the Netherlands of letters and other addressed postal items (printed matters and parcels) weighing up to and including 10 kilograms and measuring no more than 100 cm x 50 cm x 50 cm. The Postal Act does allow the company to make certain adjustments in the performance of the mandatory service in order to customize it to customers and market requirements as they may develop from time to time.

The mandatory postal service also requires the company to provide to any person in the Netherlands, for payment, the conveyance of postal items to and from countries outside the Netherlands in accordance with the rules of the Universal Postal Union convention.

Reserved postal services

Under the Postal Concession, the company has the exclusive right in the Netherlands, and to and from countries outside the Netherlands, to convey, for payment, letters weighing up to and including 500 grams, to place letter boxes alongside or near public roads, and to issue postal stamps and imprinted stamps bearing the effigy of the monarch and/or the word "Nederland." The conveyance of all postal items other than letters weighing up to and including 500 grams does not fall within the scope of reserved postal services and is open to unrestricted competition.

Price cap systems

The price that the average user pays for services under the Concession is linked to the indices published by the Central Planning Office. Price amendments may not exceed the movements of the indices. For mandatory services of PTT Post, this is the index of the wage costs per employee in the private sector (adjusted for full-time labor costs). This system is used to control the overall development of charges which apply to the complete range of services. PTT Post has the freedom to change its prices for individual services on the basis of market considerations by varying percentages within the limits set by the price cap system. The external auditor audits the correct application of the price control systems.

Annual Concession report to OPTA

TPG is required to report every year to the Independent Postal and Telecommunications Authority (OPTA) on the operation of the Concession. TPG must show that it has operated the mandatory services and obligations in the year under review with sufficient care and awareness of its responsibility to society and that it has complied with the conditions applying to it under the Concession. The external auditor audits the Concession report.

Consultative Body for PTT Post

A PTT Post Consultative Body has been set up to ensure that TPG, as the holder of the Concession, meets its obligations to society in accordance with the wishes of end users, and to enable an exchange of information with suppliers and other interested parties. The Consultative Body discusses matters concerning the Concession which are of a national and general nature. The composition of the Consultative Body is designed to reflect its function as a sounding board as effectively as possible. The Consultative Body is composed of representatives of end users and of other sections of society with an interest in the services assigned to TPG by the government.

Additional information for US investors

General

TPG's consolidated financial statements are prepared in accordance with generally accepted accounting principles in the Netherlands (Dutch GAAP), which differ in certain respects from generally accepted accounting principles in the United States (US GAAP). The following is a summary of the significant differences in the case of TPG.

Employment schemes and group reorganization

Under Dutch GAAP, restructuring provisions are required to be made in relation to anticipated costs of planned reorganizations based on management's decision to restructure parts of its organization. There are no specific requirements as to the nature of items included in restructuring provisions. Under US GAAP, specific criteria relating to timing and nature must be met in order to recognize a liability and expense for costs associated with a restructuring.

Under Dutch GAAP, TPG has recognized a provision for benefits offered to employees that elect to leave TPG (post-employment benefit costs). Under US GAAP, TPG is required to recognize a liability for the contractual portion of these benefits in accordance with SFAS No. 112 "Employers' Accounting for Post-employment Benefits". The remaining costs are required to be recognized as an expense in the period in which the employee accepts the offer.

Under Dutch GAAP, TPG has recognized a provision for redundant employee costs. Under US GAAP, TPG is required to recognize the portion of the provision that relates to employees that will not render future service to TPG. The remaining costs are required to be recognized as an expense in the period in which the employee renders the service. Under Dutch GAAP, TPG has recognized a liability for future wage guarantees. Under US GAAP, TPG is required to recognize these costs in the period in which the service is rendered.

Under Dutch GAAP, TPG has recognized a liability for training costs and moving costs. Under US GAAP, TPG is required to recognize these costs as an expense in the period in which they are incurred.

Pension costs

TPG remits in advance pension premiums on a monthly basis to the *Stichting Bedrijfspensioenfonds TNT Post Groep* and the *Stichting Ondernemingspensioenfonds TNT Post Groep*. These foundations together cover the pension obligations (of a defined benefit nature) of the majority of TPG's employees in the Netherlands. In addition, TPG has certain retirement provisions on its balance sheet, for instance in connection with the Dutch early retirement schemes. These provisions are based on actuarial assumptions and the application of methods prevalent in Dutch practice.

TPG's subsidiary TNT participates outside the Netherlands in more than 30 pension plans. Most of the plans offer TNT no opportunity to participate in the administration of the plans and are defined contribution plans. Actuarial reviews are conducted annually of the major defined benefit plans (TNT Group Retirement Funds, schedules 2 and 3). TPG contributes to these two plans in accordance with actuarial recommendations. TPG's contributions to the defined benefit plans are expensed as made and the surplus assets of the plans are not reflected in the equity consolidated balance sheet.

Methodology that reflects the concepts of accrual accounting with amounts reflected in the income statement systematically over the service lives of the employees covered by the plan. Amounts charged to expense are typically different from amounts funded. The calculation of the income statement charge is more comprehensive and regulated, particularly as to the use of actuarial assumptions, than in the Netherlands.

TPG adopted SFAS No. 87 for US GAAP purposes as of January 1, 1989. The expense for the significant defined benefit plans of TNT is determined on the concepts of defined benefit plan accounting.

Goodwill

The amount of goodwill arisen from the acquisitions of TNT and GDEW under US GAAP differs from the goodwill under Dutch GAAP due to differences in the fair values. The negative variance of NLG 88 million at the end of 1997 arose from differences in the valuation of the pension accrual according to SFAS 87, fair market value and break-up costs of TNT borrowings, capitalized software, reorganization provisions and related tax effect. At December 31, 1998, goodwill as determined under US GAAP is NLG 86 million lower than under Dutch GAAP. The difference is amortized in up to 40 years.

Other differences

Under Dutch GAAP, restoration of previously recognized impairments is required when the reason for the impairment is no longer valid. Under US GAAP, restoration of previously recognized impairments is prohibited.

Under Dutch GAAP, the net proceeds before tax from the sale of activities and assets are included in operating revenues. Under US GAAP, these proceeds would not be considered operating income. This difference does not result in a reconciliation to US GAAP net income.

Property, plant and equipment transferred to TPG in connection with the incorporation of the postal business as of January 1, 1989, were valued at the then current value. This method is prescribed under Dutch law and acceptable under Dutch GAAP. US GAAP requires that property, plant and equipment be valued at historical cost. No adjustment to the Dutch GAAP accounts is made in the US GAAP reconciliation in relation to this difference as the original historical cost cannot be determined.

The interest related to pensions and other similar provisions amounting to NLG 47 million in 1998 (1997: 20) is included in interest expense under Dutch GAAP. Under US GAAP, the interest on provisions of this nature would be considered pension expense and included in income from operations. This difference does not result in a reconciliation to US GAAP net income.

Under Dutch GAAP, investments in joint ventures may be proportionately consolidated. In general, the proportionate consolidation method is prohibited under US GAAP. However, as allowed under the United States Securities and Exchange Commission's (SEC) rules applicable to Form 20-F, no adjustment has been made for this difference.

The company prepares its statement of cash flows in accordance with Dutch GAAP which is consistent with International Accounting Standards. As allowed under the SEC's rules applicable to Form 20-F, no adjustment has been made for this difference.

Under Dutch GAAP, all provisions are classified as long-term liabilities. US GAAP requires that the amount due within the next year be classified as current liabilities. This difference would increase current liabilities by NLG 829 million at December 31, 1998 (1997: 708).

Self-insurance accruals are provided under Dutch GAAP with amounts derived from the insurance premium that would have been paid had the risk been insured. Under US GAAP, accruals that can be reasonably estimated are only recorded when and to the extent it is probable that a loss has been incurred at the balance sheet date.

Expenditures for intangible assets such as certain software (not including system software) are expensed as incurred under Dutch GAAP. Under US GAAP, the cost of purchased software used in the business and costs associated with placing the asset in service to meet its intended use is capitalized.

No goodwill arose on investments accounted for by the net asset value method (equity method) in 1998 (1997: 0). Under Dutch GAAP, this is shown separately on the balance sheet. Under US GAAP, this goodwill would be classified as an equity investment. This difference does not result in a reconciliation to US GAAP net income.

Costs related to refinancing liabilities from acquired companies are recognized as liabilities under Dutch GAAP. Under US GAAP, these costs are recognized as costs when incurred.

Under Dutch GAAP, non-core investments held for resale are carried at historical cost or lower net realizable value. Under US GAAP, one of these investments is accounted for using the equity method. Prior years have been restated in the reconciliation.

Net income and ordinary shareholders' equity reconciliation statements

The following statements summarize the principal adjustments, gross of their tax effects, which reconcile net income and total shareholders' equity under Dutch GAAP to the amounts that would have been reported had US GAAP been applied:

amounts in millions of guilders	year ended December 31, 1998	1997
net income		
Net income under Dutch GAAP	820	694
Adjustments for:		
Employment schemes and group reorganization	(208)	221
Pension costs	(112)	(177)
Refinancing costs		(34)
Goodwill amortization	2	2
Depreciation on restoration of previously recognized impairments	3	2
Depreciation of capitalized software	(12)	(13)
Self-insurance	(2)	48
Non-core investments	53	56
Tax effect of adjustments	115	(42)
Net income under US GAAP	659	757
Basic net income per ordinary shares and per ADS (in guilders) [1]	1.39	1.59
Diluted net income per ordinary share and per ADS (in guilders) [2]	1.39	1.59

1 Based on the average amount of 475,339,166 Ordinary Shares, including shares represented by ADS.
2 Based on 475,357,205 Ordinary Shares, including shares represented by ADS.

amounts in millions of guilders	year ended December 31, 1998	1997
shareholders' equity		
Shareholders' equity under Dutch GAAP	4,088	2,369
Adjustments for:		
Employment schemes and group reorganization	1,497	1,705
Capitalization of interest	1	1
Final dividend 1998	238	
Pension liability	(1,469)	(1,357)
Goodwill	(86)	(88)
Restoration of previously recognized impairments, net of depreciation	(20)	(23)
Self-insurance	46	48
Capitalized software		12
Non-core investments	130	102
Deferred taxes on adjustments	(32)	(147)
Shareholders' equity under US GAAP	4,393	2,622

TPG financial statements | additional information for us investors

Other information

Auditor's report

Introduction

We have audited the accompanying 1998 financial statements of TNT Post Group N.V., Amsterdam. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Scope

We conducted our audit in accordance with auditing standards generally accepted in the Netherlands. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the company as of December 31, 1998, and of the result for the year then ended, in accordance with accounting principles generally accepted in the Netherlands, and comply with the financial reporting requirements included in Title 9, Book 2 of the Dutch Civil Code.

Amsterdam, March 22, 1999
PricewaterhouseCoopers N.V.

Extract from the articles of association on appropriation of net income

Under the articles of association, 7 percent of NLG 1 (i.e. NLG 0.07) will be paid on the Special Share (article 35, paragraph 1). The dividend specified in article 35, paragraph 1 will be paid on Preference Shares. Preference Shares have not been issued. Subject to the approval of the Supervisory Board, the Board of Management will determine which part of net income remaining after payment of the dividend on the Special Share (and any Preference Shares) will be transferred to the reserves (article 35, paragraph 2). The remaining net income will be distributed as dividend on Ordinary Shares (article 35, paragraph 3).

Appropriation of net income

Subject to approval of the financial statements, the dividend over 1998 has been set at NLG 0.80 (EUR 0.363) in cash per Ordinary Share of NLG 1 par value. This is a 46 percent pay-out of the net income for 1998. After deducting the interim dividend of NLG 0.30 (EUR 0.136) per Ordinary Share paid out in September 1998, the final dividend will be NLG 0.50 (EUR 0.227) per Ordinary Share. The interim dividend was paid out as an optional dividend, as will be the final dividend.

appropriation of net income		1998
Net income		820
Appropriation in accordance with the articles of association		
Dividend on Special Share	0	
(article 35, paragraph 1) NLG 0.07		
Reserves adopted by the Board of Management and approved		
by the Supervisory Board (article 35, paragraph 2)	469	
		469
Dividend on Ordinary Shares		351
Interim dividend paid		113
Final dividend		238

Relationship with the State

The State of the Netherlands owns approximately 44 percent of the shares of TPG. An efficiently operating postal system is of great importance to Dutch society for various reasons, including economic, strategic and national security reasons, and is therefore of general interest to the State. For certain important postal services, TPG is the exclusive holder of the postal concession granted by the State. As a result, TPG is crucial to the maintenance of an efficiently operating postal system in the Netherlands.

The operation of the postal concession is regulated by the Enabling Act. In addition, the State uses various corporate governance mechanisms to protect its general interest in an efficiently operating postal system. These include its ownership of the Special Share, options to acquire Preference Shares A and a long-term equity interest in TPG.

Special control rights under the articles of association

Special Share

The State holds the Special Share of the company, which gives it the right to approve decisions that lead to fundamental changes in the group structure of TPG. The State has committed itself to exercising the rights attached to the Special Share only to safeguard the general interest in having an efficiently operating postal system or to protect its financial interest as a shareholder, and not solely to protect the company from, or with the additional purpose of protecting the company from, shareholder influence unwanted by the company. The State is the holder of the Special Share and may not transfer or encumber the Special Share without the approval of the Board of Management and the Supervisory Board. Ownership of the Special Share gives the State the right to approve certain actions by TPG, including issuances of shares in the capital of the company, restrictions on or exclusions of the preemptive rights of holders of Ordinary Shares, mergers, demergers and dissolutions with respect to the company and PTT Post, certain capital expenditures, certain dividends and distributions and certain amendments to the articles of association and the articles of association of PTT Post, including any amendments to the articles of association with respect to (i) a modification of the objects clause that relates to performance of the concession obligations, (ii) the creation of new classes of shares, profit sharing certificates or other securities entitling the holder thereof to the earnings and/or shareholders' equity of the company, (iii) the cancellation of the Special Share, (iv) the cancellation of the Preference Shares A (as defined below) and Preference Shares B (as defined below), (v) the transfer of the Special Share, (vi) the determination of the number of members of the Supervisory Board, (vii) the appointment of three members of the Supervisory Board by the Minister of Transport, Public Works and Water Management and (viii) the amendment of the rights attached to the Special Share.

Option to acquire Preference Shares A

With a view to the State's general interest in the company, the company has granted the State an option to acquire Preference Shares A, par value NLG 1 (Preference Shares A), which will have the same voting rights as Ordinary Shares, in order to increase its voting interest in the company to 51 percent in certain circumstances. The State committed itself to exercising this option only to safeguard the general interest (which would include preventing, to the maximum extent possible, a third party from acquiring shareholder influence in a general meeting of shareholders that might possibly damage such general interest) and not solely to protect the company from, or with the additional purpose of protecting the company from, shareholder influence unwanted by the company. The issuance of Preference Shares A does not preclude the issuance of Preference Shares B, which may represent greater voting rights than Preference Shares A issued.

Long-term equity interest and option to purchase Preference Shares A

The State has confirmed to the company its intentions not to reduce its interest in the voting capital to less than one third, plus the Special Share, before 2004. In addition, the State has been granted the option to subscribe for Preference Shares A (described above) during or after an increase in the share capital of the company in order to preserve voting rights equal to a minimum of one-third of the company's voting capital. The State has been granted this option in order to allow it to maintain one-third of the voting rights without having to restrict the company's ability to issue Ordinary Shares. As mentioned above, the State has committed itself to exercising this option only to safeguard the general interest and not solely to protect the company from, or with the additional purpose of protecting the company from, shareholder influence unwanted by the company. The State has agreed that, after its equity interest is reduced to one-third of the voting capital of the company, it will not without the consent of the company transfer or encumber any shares before having agreed with the company to protective measures to be included in the articles of association.

In addition, pursuant to the articles of association, the Minister of Transport, Public Works and Water Management has the right to appoint three of the seven to nine members of the Supervisory Board.

The State as creditor

At the time of the demerger from KPN, TPG was assigned two loans: a loan that was previously granted by the State to KPN amounting to NLG 90 million and a subordinated loan granted by the State to KPN amounting to NLG 69 million.

The TPG Protection Foundation and Preference Shares B

The TPG Protection Foundation (the Foundation) was formed to care for the interests of TPG, the enterprises connected therewith and all interested parties, such as shareholders and employees, by, among other things, preventing as much as possible influences which would threaten the continuity, independence and identity of TPG contrary to such interests. The Foundation is an independent legal entity and is not owned or controlled by any other legal person.

Agreements have been concluded between TPG and the Foundation for the placement of Preference Shares B.

The independent members of the board of the Foundation are H.B. van Liemt (chairman), J.J.M. Maeijer (deputy chairman), O. Hattink and L. Koopmans. A. Maas, chairman of the TPG Supervisory Board, is also a Foundation board member. TPG and the members of the board of the Foundation share the view that the Foundation is independent of TPG in the sense referred to in Appendix X of the Listing Rules of the Amsterdam Stock Exchange.

Subsequent events

Personnel option plan

Following the demerger, the TPG Board of Management decided with the approval of the Supervisory Board to offer TPG employees working in the Netherlands under the collective labor agreement a one-time opportunity to participate in a personnel option plan.

The plan contains a vesting period of three years and options lapse five years after granting. The exercise price for an option on one TPG Ordinary Share is equal to the opening price of one TPG Ordinary Share on the Amsterdam Stock Exchange at the date the option was granted.

At January 4, 1999, options on approximately 2.3 million Ordinary Shares had been granted under the personnel option plan with an exercise price of EUR 27.70. The company intends to issue Ordinary Shares upon exercise of the options.

Jet Services

In December 1998, TPG commenced the acquisition of Jet Services in France by acquiring 100 percent of the shares for an amount of FRF 2,000 million (NLG 672 million). On February 15, 1999, the European Commission announced its decision not to oppose TPG's acquisition of Jet Services. On March 11, 1999, the acquisition was completed.

With headquarters in Lyon, Jet Services is a leading company and pioneer in domestic express in France. In 1997 (financial year ending March 31, 1998), based on French GAAP, net sales amounted to FRF 1,963 million (NLG 660 million). Operating and net income amounted to FRF 55 million (NLG 18 million) and FRF 25 million (NLG 8 million), respectively. Total assets amounted to FRF 1,067 million (NLG 359 million).

Total revenue is expected to reach nearly FRF 3,000 million (NLG 1,000 million) in 1999. The acquisition of Jet Services is expected to have no impact in 1999 and to begin contributing thereafter.

Tecnologistica

Provided the European Commission does not oppose the transaction, TPG will acquire Tecnologistica, a logistics company in Italy, for an amount of ITL 145 billion (NLG 165 million). Based on Italian GAAP, net sales amounted to ITL 645 billion (NLG 734 million) at December 31, 1997. Operating income and net income amounted to ITL 40 billion (NLG 46 million) and ITL 65 billion negative (NLG 74 million negative), respectively. Total assets amounted to ITL 477 billion (NLG 543 million). The acquisition of Tecnologistica is expected to have no impact in 1999 and will begin contributing as of 2000.

Management profile

Supervisory Board

J.M.T. (James) Cochrane (1944)
Present position: Executive director Glaxo Wellcome plc, responsible for Europe, the Middle East and Africa
Former positions: Various positions in Wellcome plc
Number of shares: 0
Supervisory board membership: Non-executive Director of British Pharma Group Limited
Nationality: British
Appointed: June 1998
Term expires: 2002

W. (Wim) Dik (1939)
Present position: Chairman of the Board of Management of Royal KPN N.V.
Former positions: State Secretary for Foreign Trade, Chairman of the Board of Nederlandse Unilever Bedrijven B.V.
Number of shares: 0
Supervisory board memberships: Chairman of the Supervisory Board of the Netherlands Bureau of Tourism, Van Ganzewinkel Group (Waste Management) and of Unisource N.V., member of the Supervisory Board of Ohra Nuts Insurance Group, ABN AMRO Bank N.V., Holland Casinos Foundation and Coffee and Tea Blender De Drie Mollen
Nationality: Dutch
Appointed: June 1998
Term expires: 1999

V. (Victor) Halberstadt (1939)
Present positions: Professor of Public Finance Leiden University
Crown-member Social Economic Council
Chairman, International Advisory Board, Daimler Chrysler AG
Member, International Advisory Group, Goldman Sachs & Co.
Member, Investment Committee, ABP Pension Fund
Former position: President, International Institute of Public Finance
Number of shares: 0
Supervisory board memberships: Chairman of the Supervisory Board of Xerox (Nederland) B.V. and Xerox Manufacturing (Nederland) B.V., member of the Supervisory Board of Royal KPN N.V. and member of the Supervisory Board of Concertgebouw N.V.
Nationality: Dutch
Appointed: June 1998
Term expires: 1999

J.H.M. (Jan) Hommen (1943)
Present position: Executive Vice President and Chief Financial Officer of Royal Philips Electronics N.V.
Former position: Executive Vice President and Chief Financial Officer of the Aluminum Company of America (Alcoa) in Pittsburgh, USA
Number of shares: 0
Supervisory board memberships: Member of the Supervisory Board of Origin B.V. and Allendale Insurance Company
Nationality: Dutch
Appointed: June 1998
Term expires: 2001

A. (Arie) Maas (1934) Chairman
Former position: Chairman of the Board of Management of N.V. Koninklijke Bijenkorf Beheer KBB
Number of shares: 0
Supervisory board memberships: Chairman of the Supervisory Board of Content Beheer N.V., member of the Supervisory Board of Heineken N.V., KLM Royal Dutch Airlines N.V., De Nationale Investeringsbank N.V., and Vendex N.V.
Nationality: Dutch
Appointed: June 1998
Term expires: 2000

C.J. (Coen) Oort (1928)
Former positions: Member of the Board of Management of Algemene Bank Nederland N.V., Treasurer-General and Professor of Economics
Number of shares: 0
Supervisory board memberships: Chairman of the Supervisory Board of BCE International Holdings B.V., KLM Royal Dutch Airlines N.V. and Robeco Groep, member of the Supervisory Board of Royal KPN N.V., Northern Telecom International Finance B.V., Royal Philips Electronics N.V., and BCE Tele-Direct Publications International B.V.
Nationality: Dutch
Appointed: June 1998
Term expires: 2000

R.W.H. (Rolf) Stomberg (1940)
Present positions: Chairman of John Mowlem & Company plc. Non-executive Director of Smith & Nephew plc, Cordiant Communications plc, Proudfoot plc, Reed International plc, and Reed Elsevier plc. Chairman of the Board of Unipoly S.A. Luxembourg. Member of the Supervisory Board of Scania AB, Södertälje, Sweden, and Member of the Supervisory Board of Stinnes AG., Mülheim-Ruhr, Germany. Chairman of the Supervisory Board of Deutsche BP Holding AG.
Former positions: Managing Director on the Board of British Petroleum Company plc and Chief Executive of BP Oil International
Number of shares: 0
Nationality: German
Appointed: June 1998
Term expires: 2002

M. (Morris) Tabaksblat (1937) Vice Chairman
Present position: Chairman of the Board of Management of Unilever N.V.
Former positions: Various positions at Unilever N.V.
Number of shares: 0
Supervisory board memberships: Member of the Supervisory Board of AEGON N.V., Elsevier N.V. and VEBA AG, Director of Reed Elsevier PLC
Nationality: Dutch
Appointed: June 1998
Term expires: 2001

J. (Jeroen) Brabers (1953), Secretary

Board of Management

A.J. (Ad) Scheepbouwer (1944)

Ad Scheepbouwer is Chairman and Chief Executive Officer of TPG. From 1989 until the June 1998 demerger of TPG from KPN, Scheepbouwer served as president of PTT Post. He has served as a member of the board of management of KPN since 1992. Before joining PTT Post, Scheepbouwer was president of the Pandair Group, a division of Pakhoed Holding. He now serves as a member of the supervisory board of Royal KPN N.V. and Vedior N.V., and chairman of the supervisory board of Postkantoren B.V., a joint venture between TPG and ING.

Number of shares: 0

M.P. (Peter) Bakker (1961)

Peter Bakker is Chief Financial Officer of TPG. He joined PTT Post in 1991 and was appointed financial director of its Parcels business unit in 1993. He was appointed financial control director of PTT Post in 1996 and became a member of the board of management of PTT Post in 1997. Before joining PTT Post, Bakker worked for TS Seeds Holdings.

Number of shares: 0

L.T. (Bert) van Doorn (1939)

Bert van Doorn is TPG's Executive Vice President Mail. He has worked for PTT Post since 1960, holding various staff and line positions, including vice president of the Letters business unit.

Number of shares: 0

J.A. (John) Fellows (1945)

John Fellows is TPG's Executive Vice President Express. He joined GD Express Worldwide in 1992 and was appointed chief executive officer in 1994. Before joining GD Express Worldwide, Fellows held various positions with Canada Post Corporation over a nine-year period and with Canadian National Railways over an 11-year period.

Number of shares: 0

C.M. (Carel) Paauwe (1939)

Carel Paauwe is TPG's Executive Vice President Logistics. He is also responsible for corporate strategy and business development. Before joining TPG in April 1998, he was senior director of McKinsey & Company, where he served for more than 25 years, most recently leading the firm's worldwide transportation practice.

Number of shares: 0

A.C. (Anette) Bordes (1962), Corporate Secretary

Business Unit Vice Presidents

F. (Fred) Beljaars
Air/Road Network Europe

C.S. (Simone) Bos
PTT Post International & Consumers

R. (Roger) Corcoran
TNT International Express

J. (Jim) Davidson
TNT North America Logistics

P. (Philip) Dobbenberg
PTT Post Media Service

H.M. (Harry) Koorstra
PTT Post Letters

J.C. (Hans) Hokke
TNT Benelux

A.D. (Alan) Jones
TNT United Kingdom

Th. (Theo) Jongsma
TNT International Mail

P.H. (Pieter) Kunz
PTT Post Document Handling

K.S. (Ken) McCall
TNT Asia

R.A.S. (Roberto) Rossi
TNT South Europe

V. (Vinzenz) Wagner
TNT Germany

J. (James) Wilson
TNT Australia

Information for shareholders

Through its investor relations initiatives, TPG aims to provide its shareholders with accurate and timely information, thus ensuring the company's adequate presence in the financial world. To this end, TPG proactively and openly communicates with institutional and private investors and with intermediary groups, such as analysts and financial journalists.

Means

TPG holds regular roadshows, one-on-one presentations and other meetings with investors. In addition to its annual and half-year reports, TPG publishes *Share*, a quarterly magazine distributed to more than 100,000 private shareholders and other interested readers in the Netherlands. Another important channel for financial and general information is the TPG corporate website (www.tntpost.com), where press releases, corporate presentations and speeches, as well as the current share price and a host of other information on the company and is presented. Visitors to the website can subscribe to *Share* or to regular e-mail updates about the company or special TPG-related subjects.

An exciting year

1998 was an exciting year for TPG and consequently for its investor relations activities. The first half year was dominated by activities aimed at introducing TPG to financial target groups in the run-up to the demerger from KPN and the subsequent listing of TPG as an independent company. Many meetings were held by members of the prospective TPG board with investors and analysts. At the end of April, TPG hosted a group of analysts and financial journalists from all over the world at the official opening of the new TNT European Express Center in Liège, Belgium.

KPN's general meeting of shareholders on June 26 resolved to demerge KPN's mail, express and logistics activities to TPG. Three days later, on June 29, TPG was listed on the Amsterdam, New York, London and Frankfurt stock exchanges.

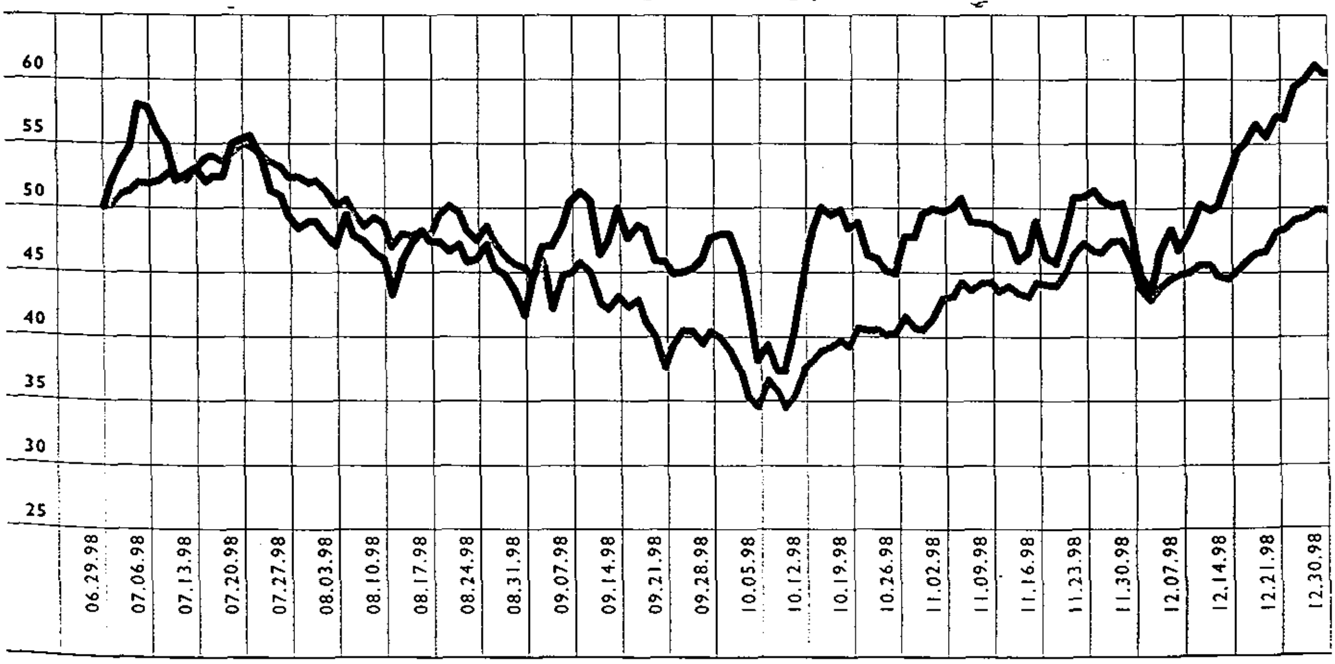
Growth, both organic and through acquisitions, is central to TPG's strategy. Since the listing, TPG has made several acquisitions. In September, Tesselaar Marketing Services, a Dutch call-center company specializing in direct marketing and direct mail response handling, was acquired. In October, TPG took over Rinaldi, an Italian domestic mail provider. A few weeks later, in November, GMA, a German company that distributes unaddressed mail, magazines and direct mail was purchased. Also in November, TPG acquired Spedimacc, an Italian company specializing in the transport and installation of electronic equipment, such as photocopiers. The year ended with the December announcement of TPG's acquisition of Jet Services, a French domestic express company.

Dividend policy

In September, TPG paid an interim dividend of NLG 0.30 (EUR 0.136). The 1998 dividend will be set at NLG 0.80 (EUR 0.363) per Ordinary Share of NLG 1 par value. The final 1998 dividend will therefore be NLG 0.50 (EUR 0.227). The final dividend will be payable from June 7, 1999. Shareholders may elect to receive the dividend either in cash or in Ordinary Shares. The value of the dividend paid in shares will be 2 percent to 5 percent lower than the value of the cash dividend.

TPG intends to pursue a dividend policy that reflects its expected growth and investment strategy. In the years to come, TPG intends to pay a stable dividend of NLG 0.80 (EUR 0.363) per ordinary share of NLG 1 par value. During this period, as TPG expects to grow its business, the intended stable dividend is expected to result in a pay-out ratio of 30 percent to 35 percent. Pay-out in 1998 was 46 percent.

TPG ■ and relative Amsterdam Stock Exchange ■ closing prices



1999 Financial calendar

May 6	Annual general meeting of shareholders
May 10	Ex-dividend listing of TPG shares Starting date for electing form of payment of final dividend
May 31	Closing date for stating preference for final dividend payment options Announcement of the final dividend in shares (after the close of trading on the Amsterdam Stock Exchange)
June 7	Payment of dividend and start of delivery of shares *in connection with stock dividend conversion*
August 31	Announcement of 1999 half-year results
September 2	Ex-dividend listing of TPG shares Starting date for electing form of payment of the interim dividend
September 21	Closing date for stating preference for interim dividend payment options (before the close of trading on the Amsterdam Stock Exchange)
September 27	Payment of dividend and start of delivery of shares in connection with stock dividend

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Appendix I – Year 2000 issue

TPG's state of readiness

TPG has been actively working on the Year 2000 date problem since 1997 and is addressing the millennium issue throughout its whole organization. The work has been organized using a risk-based project approach. TPG's methodology consists of a clear definition of the scope of the problem and agreed steps to address the compliance matter. TPG's key objective is business as usual and the continuation of quality service to customers – before, during and after the turn of the century.

TPG has adopted for its PTT Post and its TNT entities the approach of forming central and local teams in its business units and countries worldwide, working to common plans and standards. The project teams report, through the business units, to the central millennium department and ultimately, to the Board of Management of TPG.

The Year 2000 issue is not limited to computer systems. Other equipment that relies on computer chip technology can also be influenced by incorrect date interpretations, with the risk of disruptions to business processes. That is why TPG's strategy focuses not only on computer applications, operating systems, databases and networks, but also on all equipment with embedded chip technology such as scanners, sorting and weighing equipment, aircraft, vehicles, office equipment and utilities.

Project plans are in place, together with a monthly reporting system, to ensure that the key project milestones are being met throughout the entire organization. The project's uniform reporting structure allows the central team to monitor total progress and also share best practices.

Compliance is defined by TPG as follows:

- No value for current date will cause any interruption in operation.
- Date-based functionality must behave consistently for dates prior to, during and after the year 2000.
- In all interfaces and data storage, the century in any date must be specified either explicitly or by unambiguous algorithms or inferencing rules.
- Year 2000 must be recognized as a leap year.

TPG has adopted a six-step approach to achieve Year 2000 compliance. These steps are:

- Strategy and awareness
  A strategy and planning process was put in place at an early stage and built around a formal project approach. It was also decided to communicate with and involve key staff, customers and suppliers in dealing with the problem. This phase was completed successfully during the middle of 1998.
- Identification
  TPG is compiling (and in the case of the IT systems, has compiled) a full list of those objects and systems that may be affected by Year 2000. The identification phase was 90 percent complete at the end of 1998.
- Assessment
  Based on this identification, TPG is assessing which objects and systems are affected by Year 2000 and then prioritizing these for action based on their importance for business continuity. This phase has been 90 percent completed.
- Remediation
  This is the action process by which TPG will fix, upgrade, replace or retire the object or system primarily based on structural changes and some temporary measures. The remediation phase was 80 percent completed by the end of the first quarter of 1999.
- Testing
  After remediation, key systems will be thoroughly tested against the relevant Year 2000 dates to confirm that they are Year 2000 compliant and that they work correctly for current date processing. The progress of the testing phase is in line with the implementation.
- Implementation
  Covers the re-introduction of the Year 2000 compliant object or system, back into the live day-to-day TPG business processes. The implementation/compliance phase is planned to be completed by July 31, 1999. TPG expects that 90 percent of its businesses will be millennium compliant by this date. The remaining parts need two additional months to be fully Year 2000 compliant. This delay is not considered to be critical for business continuity.

The status and local progress of the Year 2000 program is formally reported to and reviewed by the Board of Management on a monthly basis.

Contingency planning and formal risk-management techniques will be applied throughout the stages to reduce the impact of failure of any part of TPG's process, any key supplier or major customer. (See contingency plans.)

TPG considers key suppliers for business continuity critical to the Year 2000 strategy because those suppliers provide integral services to TPG's total service provision to its customers and supply physical assets containing embedded computer technology. All key suppliers are being approached to demonstrate their compliance with, and readiness for, the Year 2000. TPG has established a standard process for assessing general issues of compliance and readiness, which leads to a more rigorous level of actual testing and verification, where appropriate.

Also, one of the objectives of the program is to ensure there is an appropriate level of general and functional awareness both internally and externally of the relevant Year 2000 issues through worldwide communication processes.

Costs to address Year 2000 issue

TPG's cash expenditures and dedicated human resources investment to address the Year 2000 issues are substantial. Each part of the organization has taken into account the additional expenses that might be necessary to make all relevant systems and objects Year 2000 compliant before the end of this year.

Under Dutch GAAP, an amount of NLG 94 million was provided in the consolidated annual accounts of TPG for Year 2000 compliance measures at the end of 1998. This amount is expected to cover all anticipated future payments of IT adjustments and systems for the entire group. In 1998, the cash expenditures amounted to NLG 44 million. This amount was used for dedicated staffing, replacement equipment and extensive test procedures relating to the Year 2000 project. Under US GAAP, the expenses to address Year 2000 issues have been expensed as incurred.

Risks relating to Year 2000 issue

If potential Year 2000 problems are not addressed, there is a risk of possible failure of key IT and business systems. However, TPG recognized the Year 2000 issue early and moved to develop a clear strategy to deal with the problem. The first identification of potential problems was made at the beginning of 1997, revealing that the potential risks fell into a number of general categories, namely:

- Customer relations
  All elements of the transport chain are supported by some level of technology with the result that any system failure or problem generated by the Year 2000 may physically interfere with, or delay, the shipment. TPG is addressing this threat by ensuring that its core information systems are Year 2000 compliant. Additionally, TPG has mapped the shipment process flow to identify and seek compliance tests or statements for any key third-party supplied systems, objects or services that impact this flow.

  TPG makes available standard or personalized customer interface technology (CIT) and EDI products to its customers. Any problems caused by non-compliant products may have a direct impact on the customer's ability to interface with TPG and/or obtain a wide range of information about its transactions with TPG. If something goes wrong during the electronic exchange of data, this will disrupt the customer's systems as well as TPG's.

  TPG has approached this issue in two ways. First, all new standard CIT software issued to customers is Year 2000 compliant at December 31, 1998. Second, any existing non-compliant products already with customers will be identified and systematically replaced. TPG expects that this second element will be completed by July 31, 1999.

  TPG will be able to invoice customers correctly and on a timely basis as invoicing is expected to be Year 2000 compliant by July 1999.

- Relations with suppliers
  The risk profile is twofold. If something goes wrong during the electronic exchange of data, this will disrupt the supplier's systems as well as TPG's. Millennium activities with regard to suppliers will therefore be undertaken in mutual consultation.

- IT applications
  IT applications refer to dedicated software, packaged software, operating systems, PC software and software used by customers for communicating with TPG.

- IT Infrastructure
  Relates to mainframes, servers, interfaces, data-networking equipment and PCs.

- All equipment in the core process with embedded chip technology

- Facilities and services
  Buildings, elevators, air conditioning, power supplies, electronic alarm systems.

The aim is to ensure that all the systems can take TPG into the next century without disruption. TPG, like other organizations properly addressing the Year 2000 issue, cannot guarantee that there will be an absolutely seamless transition into the new millennium. TPG, however, has adopted a professional and well-supported approach to identifying and eliminating the risks, as well as responding quickly in the event that problems will arise.

Contingency plans

Contingency planning and preparation for possible events outside TPG's direct control – for example, the failure of key customers, suppliers or other third parties – is also under way. The contingency plans are scheduled to be ready in November 1999.

These plans will include the formation of contingency teams. The task of these teams will be to intervene when the basic process within a business unit is in danger of failing or has failed. The activities performed by a contingency team will be set down in a scenario that provides a clear picture of business-critical processes and interdependencies. Further, the contingency plans will include fallback scenarios for critical information systems that support the primary processes, such as acceptance and tracking and tracing.

Contingency planning is not an issue specific to the Year 2000 problem. Risk management and contingency planning is part of TPG's normal business processes and IT systems.

While TPG's objective is business as usual over the Year 2000, TPG will have in place a rolling contingency plan which will address any identified concerns raised in the program, where TPG determines that there is a potential risk in a key area. TPG does not anticipate the need to vary its normal Terms and Conditions of Carriage for the Year 2000.

Further clean-up management may be required due to the fact that some actions are required to replace temporary measures by structural solutions after the turn of the century. All stopgap and temporary measures with respect to soft- and hardware repairs will have to be replaced by structural solutions. This work will include converting all date changes by means of windowing techniques, replacing all temporary interface bridges and making all less important systems millennium-proof.

TPG has in place a comprehensive program to achieve Year 2000 compliance, as outlined in this Year 2000 disclosure. TPG believes that it will achieve the project objective, which is business as usual and the provision of quality services to customers – before, during and after the turn of the century. It is clear, however, that Year 2000 is a unique and complex problem with many factors outside the reasonable control of TPG (e.g. the traffic control systems at airports). Therefore, like any organization, it is not possible to guarantee complete Year 2000 compliance.

Appendix 2 – Euro

On January 1, 1999, the euro was introduced in the Netherlands and 10 other member states of the European Monetary Union (EMU). The introduction of the euro, which is the third phase of EMU, means that bilateral conversion rates between the national currencies of participating EMU countries and the euro became irrevocably fixed on January 1, 1999.

Management believes that the introduction of the euro will have a beneficial effect on the market risk exposures faced by TPG in view of the significant proportion of TPG activities undertaken in the participating EMU countries.

TPG has established an EMU steering committee in order to assess the possible impact of changes in relation to the introduction of the euro and to prepare TPG for these changes. With respect to the following matters, this committee adopted a policy to address the transition period and to make systems euro compliant.

Tariffs

In general, euro prices will be a conversion of the local tariffs. The character of the Mail business in the Netherlands (high volume with low unit prices) and the franking with stamps make it necessary, that during the transition period the tariffs will continue to be based on the local currency. As of January 1, 2002, TPG will issue stamps with euro amounts. The stamps in Dutch guilders can be used until June 30, 2002, and can be converted to euro stamps until December 31, 2002.

During the transition period, the tariffs in the Express and Logistic business are also based on local currencies. Management expects this to change during the transition period. This will depend on how quickly the market will convert to the euro and will be evaluated by TPG regularly. The longer-term competitive implications of the conversion will depend on this evaluation and the decisions of the Board of Management when and how to align its domestic and international tariffs.

Commercial/financial transactions

From January 1999, all the customers of TPG in the euro participating countries have the option to be invoiced either in euros or local currency. In both situations, TPG can fully meet the needs of customers. In addition, the supplier has the choice to invoice in either local currency or euros. As of April 1, 1999, this is also possible for suppliers from countries which do not participate in the euro currency. All required systems modifications related to the euro conversion were completed or resolved ultimately at this date. So far TPG has not encountered major problems and all systems and processes seem to be euro compliant already.

Communication

TPG informed its customers in the euro participating countries about the working of the euro through personal contact for the major accounts and through mailing(s) and/or letters to all other customers. Furthermore, there was an internal communication within the company for all changes to the field.

Treasury

From January 1, 1999, no currency fluctuations will appear within the currencies of the 11 EMU countries that adopted the euro, thus eliminating the foreign exchange rate risks. The internal charging, whether in local currency or in euro, will therefore have no foreign exchange impact. The elimination of foreign exchange transactions among the EMU currencies is expected to save TPG transaction margins of approximately NLG 2.5 million per year.

Reporting

In 1998, the reporting application Hyperion was extended with the facility to report the group statutory and management accounts in euro currency. The company has yet to decide when the euro will be introduced as reporting currency.

Costs

Under Dutch GAAP, an amount of NLG 8 million has been provided in the consolidated annual accounts of TPG at the end of 1998. This amount is expected to cover all anticipated future payments of euro adjustments and systems for the entire group. In 1998, the cash expenditures amounted to NLG 2 million. This amount was used for dedicated staffing and making systems euro compliant.

Under US GAAP, the expenses to address euro issues have been expensed as incurred.

Colophon

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