BUHRMANN NV
Form 20-F
March 07, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

(Mark One)

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended: 31 December 2005

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Transition Period From _______ to______
Commission file number 333-11768

BUHRMANN NV

(Exact name of Registrant as specified in its charter)

THE NETHERLANDS
(Jurisdiction of incorporation or organization)

Hoogoorddreef 62, 1101 BE Amsterdam ZO, The Netherlands
(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of each class	Name of each exchange on which registered
None	None

Securities registered or to be registered pursuant to Section 12(g) of the Act.

None
(title of class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

8¼% Senior Subordinated Notes due 2014,
7^{7}/8% Senior Subordinated Notes due 2015, and
Ordinary Shares at a par value of EUR 1.20 per share each,

represented by American Depositary Shares
(Title of Class)

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of the close of the period covered by the annual report.

179,324,704 Ordinary Shares
53,281,979 Preference Shares A
0 Preferences Shares B

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes: No:

Indicate by check mark which financial statement item the registrant has elected to follow.

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About this Report

Cautionary Statement

This Annual Report contains forward-looking statements (within the meaning of the US Private Securities Litigation Reform Act 1995) based on our best current information and what we believe to be reasonable assumptions about anticipated developments. Words such as expects , anticipates , intends and other similar expressions are intended to identify such forward-looking statements. These statements are based on certain assumptions and analyses made by Buhrmann in light of its experience and its perception of historical trends, current conditions and expected future developments, as well as other factors it believes are appropriate under the circumstances. Because of the risks and uncertainties that always exist in any operating environment or business, including, but not limited to, those set forth under Risk factors (see page 63 to 67), we cannot give any assurance that the expectations reflected in these statements will prove correct. Actual results and developments may differ materially depending upon, among other factors, industry conditions, currency values, competitive pricing, customer demand, costs, risks related to the integration of acquisitions, legislative, fiscal and regulatory developments and political and social conditions in the economies and environments where Buhrmann operates. You are cautioned not to place undue reliance on these forward-looking statements.

Use of non-GAAP financial measures

In this Annual Report certain non-GAAP financial measures are presented because Buhrmann believes each of these non-GAAP financial measures provides useful information regarding the Company s financial condition and results of operations.

Our non-GAAP financial measures should be considered in addition to, and not as a substitute for or as a superior measure to, measures of financial performance reported in our primary financial statements. In the Group Financial Review and Financial Review per business segment, the most directly comparable GAAP figures have been presented together with a reconciliation of the GAAP and non-GAAP figures.

Below is an explanation of why we believe each of the non-GAAP financial measures used in this Annual Report provides useful information regarding our financial condition and results of operations.

Constant exchange rates

Our reporting currency is the euro. The majority of our business is conducted in currencies other than the euro. The position in relation to the US dollar is, in particular, relevant. Results of subsidiaries denominated in currencies other than the euro are translated into euro at an average exchange rate for the period. In this Annual Report, in particular the Group Financial Review and Financial Review per business segment in the chapter About Buhrmann , we include discussions on the performance of our businesses based on constant exchange rates. We use constant exchange rate analysis to give a year-on-year measure of change which excludes the effect of fluctuations in currency exchange rates because fluctuations in currency exchange rates are outside of our control and may distort our underlying performance and result.

Changes of results at constant exchange rates as disclosed in this Annual Report are calculated by translation of prior year results into euro at a current year average exchange rate.

Changes of results at constant exchange rates can be materially different to changes based on our reported results because prior year average exchange rates can be significantly different from current year average exchange rates.

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About this Report

Organic sales analysis

The organic sales analysis presented in this Annual Report eliminates all factors that disturb a like-for-like comparison. In addition to the currency exchange rate movements discussed above, these factors include such items as acquisitions, divestitures, variations in the number of working days and the ongoing move from a gross sales-based to a commission-based model in ASAP Software. We use organic sales analysis, in conjunction with constant exchange rates to give a measure of the underlying growth year-on-year. The factors mentioned above can have a significant impact on a business segment s reported results. Their exclusion provides a useful insight into the underlying performance of the business segment and enables us to monitor the performance of both the underlying activities and acquired activities. Organic performance can be materially different to the reported performance of a business segment. In each instance where we present organic results, we also present a table which illustrates the basis on which the result is derived and a reconciliation to the nearest comparable GAAP measure.

Publications

This report complies with the regulations in the Netherlands regarding financial reporting and is also the basis of Buhrmann s Annual Report on Form 20-F. A cross-reference table to Form 20-F is included in this report on page 178. Certain exhibits to the Form 20-F will be filed with the SEC.

Presentation of financial and other information

Buhrmann has adopted the International Financial Reporting Standards (IFRS) with effect from 1 January 2005. Our transition date is 1 January 2004 as this is the start date of the earliest period for which full comparative information under IFRS is presented. Until 31 December 2004 Buhrmann reported under accounting principles generally accepted in the Netherlands (Dutch GAAP). The effects of transition from Dutch GAAP to IFRS are shown on pages 131 to 138 in the chapter Financial Statements . The most important IFRS accounting policies are listed on pages 81 to 89.

IFRS differs, in certain significant aspects, from accounting principles generally accepted in the United States of America (US GAAP). For a discussion of the principal differences between IFRS and US GAAP, as they relate to Buhrmann, and a reconciliation of net result and shareholders equity from IFRS to US GAAP, please see Note 37 to our Consolidated Financial Statements included on page 120 to 129 in this Annual Report.

Amounts expressed in this Annual Report in euro , EUR or € relate to the single currency of the member states of the European Union that have adopted such currency in accordance with legislation of the European Union relating to European Economic and Monetary Union. The euro is Buhrmann s reporting currency. Amounts expressed in GBP or £ relate to the British pound, amounts in AUD or A$ relate to Australian dollars and amounts expressed in USD , $, US$, or US dollar relate to dollars of the United States of America.

Exchange rate information, including Noon Buying Rates in New York, is given on page 164.

Use in this Annual Report of the terms we , us , our , the Buhrmann Group , the Group , Buhrmann and the Company refer to Buhrmann NV and its subsidiaries on a consolidated basis except where otherwise specified or clear from the context.

Amounts in millions are rounded to the nearest million, therefore amounts may not equal (sub) totals due to rounding.

Documents on display

Copies of this Annual Reports and documents referred to within this Annual Report are available for inspection upon request at the Buhrmann Corporate Centre at Hoogoorddreef 62, 1101 BE Amsterdam ZO, the Netherlands (telephone +31 (0)20 651 11 11) and the SEC s public reference room located at 450 Fifth Street, NW, Washington DC, 20549. In addition, Buhrmann s SEC filings are also available through the SEC s website www.sec.gov.

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4 Chapter 1

Buhrmann in 2005

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Letter from the President and CEO
A Year of Achievement

Dear Shareholder and other Readers,

We are pleased with our performance in 2005. In particular we have seen the successful execution of strategies that reinforce Buhrmann s reputation as a profitable, global business services and distribution company. This year of achievement resulted in the delivery of sustainable growth and significant value creation for our stakeholders.

All our businesses delivered significant sales growth. We increased our market share in the large account business, benefiting from our continuing investments in advanced logistics, eCommerce solutions and sales force effectiveness. We grew mid-market sales.

These favourable developments have been supported by healthy economic conditions in North America and Australia. Here, sustained growth was underwritten by a gradual growth of white-collar employment. Despite challenging economic circumstances, we witnessed accelerating sales growth in Europe. Our operation in Australia has continued to lead the way with growth based on the single-source supplier concept.

Demand for new presses from Graphic Systems was up, but lower compared to previous cyclical recoveries. However, our Triple S strategy service, supplies and spare parts offering a total solution to print companies underpinned our performance. Next to reducing cyclicality it also serves as a platform on which to sustain long-term relationships with our customer base.

In order to provide international customers consistency in service and support, the Company extended its reach with partnerships in Latin America, Eastern Europe and Asia. This fully underlines our proposition of providing the widest global coverage of any office products supplier.

The Company improved its financial structure by repurchasing all the outstanding Preference Shares C funded primarily by a €250 million rights offering and a US$150 million Senior Subordinated Notes offering. Also our capital structure has benefited from continuous focus on the need to minimise working capital and cost control.

This has further put us in a position, as opportunities arise, to make acquisitions that will enhance our competitive position and create further value for our shareholders. In this regard we acquired several smaller companies in the packaging, janitorial and office products sector. This is in line with the desire to broaden our product categories and we are seeking acquisitions to support that expansion. In Europe acquisitions will be aimed at extending our geographical footprint.

Satisfying customer needs

By setting our sights on satisfying customer needs we have demonstrated our ability, not only to service customers, but to anticipate their requirements.

We have had success in demonstrating to our customers the benefits of our single-source supplier concept. We are pleased with the progress we have made. Growing numbers of our customers are buying in to the cost and time savings and the convenience that arises from concentrating purchases through a single supplier.

This is being achieved by the broader range of products we offer. We sell an increasingly wide selection of products to a growing proportion of our customer base. In addition to office and computer supplies, we deliver print and forms, promotional articles, furniture and computer

Letter from the President and CEO

software, as well as facility and break room products. We expect sales from these new categories to increase significantly over the next couple of years. Demand for these products is ensuring that we further optimise our logistical capabilities.

Currently mid-market customers represent 20% of total office products sales. As a result of investments made and our refocus on the high-value end of the mid-market segment, we have been able to achieve modest sales growth in the second half of 2005.

The extension of our product range has gone hand-in-hand with the further development of our private brands programme. Customers are showing a growing appreciation of the value of private brand products which compete favourably in terms of both quality and price with other, heavily-marketed brands. Some 25% of our office supplies and computer supplies turnover in 2005 was represented by private brands, up from 20% in 2004.

Pursuing operational excellence

Our achievements in 2005 were spurred by our pursuit of operational excellence. By this we mean the streamlining of our management, sales, service, sourcing, IT and logistical processes in order to maximise growth opportunities and add value.

The centralisation of customer care operations in North America, bringing together operators from 28 sites to a facility in the Denver, Colorado area will improve the service we are able to offer benefiting our customers well into the future. Also the extension of our shared service activities for the back-office is resulting in improved, more efficient operations.

Our ongoing investment in sophisticated logistics infrastructure has ensured that we are able to deliver tomorrow what has been ordered today. Our distribution centres use advanced management systems and state-of-the-art technology. For example, in 2005 our U.S. operation implemented the Roadnet road management system that plans and executes delivery routes with greater efficiency.

We have more than justified our strategy of continuing investment in our eCommerce infrastructure. eCommerce transactions now account for more than 40% of office products turnover. eCommerce continues to shrink transaction costs and the integration of our systems with that of our customers promotes the principle of exclusivity, giving us a growing share of our customers spend.

We have continued the process of building relationships with preferred suppliers. In 2005 we started to see the rewards of our global sourcing initiative. We have taken the logical step of expanding our procurement catchment area beyond single markets. This keeps on adding to our purchasing power and entrenches the culture of cost-effective procurement in all our operations.

As a service-oriented business, it is no surprise that a large proportion of our employees are customer-facing, in the field and inside selling positions. The quality of our people is critical to our success so we regard them as an essential part of our foundation and future.

People

Buhrmann staff have played a vital role in ensuring that the strategies the Company has laid down are executed. On behalf of the Board and our shareholders I would like to thank Buhrmann s employees for the high standards of customer service we have been able to achieve and for the sales growth and profitability to which they have contributed.

Delivering profitable growth

Building on the foundations laid over the past years we face 2006 in good position. With a future shaped by 18,000 dedicated employees, all the building blocks are in place. We are committed to further strengthening our competitive position in the industry and to play an active role in any industry consolidation.

We are poised to deliver sustainable growth by pursuing operational excellence and satisfying customer needs. In the years to come we will continue to grow the Company on the basis of our clear strategy. We will continue to provide businesses and institutions with everything they need to keep their offices running, to help our customers streamline their procurement processes and reduce their purchasing costs. Reinforcing our single-source supplier concept, we will supply the wider product ranges that are essential to the modern office environment.

Frans Koffrie
President and CEO

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Key Figures

The following tables present key figures as of and for the years ended 31 December 2004 and 2005. The key figures should be read in conjunction with our consolidated financial statements and the notes thereto included elsewhere in this Annual Report. Additionally, please see the Group Financial

Review in chapter 2 starting on page 16 for a description of major events that may affect the comparability of the results of operations presented below.

Income statement data

in millions of euro	**2005**	2004
Net sales	5,890	5,553
Gross contribution	1,776	1,671
Operating result	232	214
Result before taxes	46	94
Taxes	(25)	13
Net result	21	107
Attributable to:		
Holders of ordinary shares Buhrmann NV	**2**	**90**
Minority interests in Group companies	19	18
	21	**107**

Balance sheet data

in millions of euro, at period end	**2005**	2004
Goodwill	1,499	1,322
Working capital	474	388
Total assets	4,042	3,659
Long-term borrowings	1,184	1,265
Total equity	1,510	1,118

Other data

	in millions of euro, unless stated otherwise	**2005**	2004
	Basic net result attributable to shareholders of ordinary shares Buhrmann NV per ordinary share (in euro)	0.01	0.62
	Number of ordinary shares outstanding at year-end (in thousands)	178,750	137,595
	Dividend declared per ordinary share (in euro)	0.17*	0.14
A	Net cash provided by operating activities	232	276
B	Net cash used in investing activities	(86)	(85)
A+B	Cash flow available for financing activities	145	191

* Subject for approval Annual General Meeting of Shareholders.

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Executive Board and Senior Management

Biographies of Executive Board

1 Frans Koffrie

President and CEO, joined Buhrmann in 1988. In 1990 he was appointed a member of the Executive Board and became the Group s President and CEO in 1998. Mr Koffrie is a Dutch national, born in Weert, the Netherlands on 15 May 1952. He holds a Master s degree in Business Economics (Amsterdam University) and a Bachelor s degree in Law (Erasmus University Rotterdam). Before he joined Buhrmann predecessor VRG-Groep, he worked for Vroom & Dreesmann and Triumph-Adler Nederland BV. Within the Executive Board he holds responsibility for the Office Products Europe Division, Strategy, Investor Relations & Corporate Communications, General and Legal Affairs, and Internal Audit. Mr Koffrie is a member of the supervisory board of Royal Wessanen NV and a member of the supervisory board of Nyenrode Business Universiteit.

3 Mark Hoffman

President of the Office Products North America Division and President and CEO of Corporate Express, Inc., Mr Hoffman joined Buhrmann in 1999. He was appointed a member of the Executive Board in 2002. Mr Hoffman is an American national, born in Jackson, MI on 31 August 1952. He holds a Master s of Business Administration from Harvard Business School. Before he joined Buhrmann, he was the CEO of APS Holdings and also held management positions with W.W. Grainger, TRW, Inc. and Lockheed Corporation.

2 George Dean

Responsible for the Graphic Systems Division and the Office Products Australia Division, he joined Buhrmann in 1990. He was appointed as a member of the Executive Board in 1998. He was President of the Paper Merchanting Division until the divestment of these activities on 31 October 2003. In addition to his responsibility for supervising the two aforementioned Divisions, Mr Dean also holds responsibility within the Executive Board for Human Resources and Group Real Estate. Mr Dean is a British national and was born in Perth (Scotland) on 18 February 1947. He holds a Bachelor of Science Honours Degree in Chemical Engineering from the University of Edinburgh. Before he joined Buhrmann s predecessor VRG in 1990, he worked with the Wiggins Teape Group for 21 years.

4 Floris Waller

Joined Buhrmann in 1999, and was appointed a member of the Executive Board and CFO in the same year. Mr Waller is a Dutch national, born in Leiden, the Netherlands on 21 December 1958. He has a Master s degree in Business Economics and a CPA Degree (both from the Erasmus University Rotterdam). Before he joined Buhrmann he worked with Unilever for 15 years in various financial management positions. Within the Executive Board he holds responsibility for: Accounting & Control, Corporate Finance & Group Treasury, Corporate Tax & Pensions, Risk Management, Information Technology, Mergers, Acquisitions & Divestments, the Holdings, and jointly with the CEO Investor Relations and Internal Audit. Mr Waller is a member of the supervisory board of Univar N.V.

Executive Board and Senior Management
Management Structure

Executive Board
Frans Koffrie 1952
President & CEO

George Dean 1947
Member

Mark Hoffman 1952
President North American operations

Floris Waller 1958
CFO

Corporate
Kees Bangma1956
Director Corporate Finance and Group Treasury

Herman Brauckmann 1948
Director Mergers, Acquisitions and Divestments

Gerard van Buttingha Wichers 1964
Director Investor Relations and Corporate Communications

Neil Callahan 1943
Director Information Technology

Rutger Goldschmeding 1961
Director Accounting and Control

Roelof Hoving 1962
Director Corporate Tax and Pensions

Heidi van der Kooij 1962
General Counsel and Company Secretary

Chris Thrush 1951
Director Human Resources

Cor Zwart 1946
Director Internal Audit

Operations

Office Products North America

Mark Hoffman 1952
President and CEO

John Brenholt 1962
CFO

Corporate Express North America

Jay Mutschler 1952
President Central/East Region

Gary Gonsalves 1957
President West/South Region

Rick Toppin 1958
President Canada

Brian Kaplan 1959
President Imaging and Computer
Graphics Supplies

Michael Cate 1965
President Document and Print Management

Dennis Multack 1947
President Promotional Marketing

ASAP Software

Paul Jarvie 1952
President

Corporate Express Europe

Peter Ventress 1960
President

Robert VanHees 1969
CFO

Corporate Express Australia

Grant Harrod 1962
Managing Director and CEO

Grant Logan 1952
CFO

Office Products Global Merchandising

Ron Lalla 1958
Executive Vice President

Graphic Systems

Carl Thomas 1947
President

Gerhard Nijhuis 1949
Financial Director

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4 Chapter 2

About Buhrmann

The Company

General information

Buhrmann is one of the world s leading suppliers of office products to businesses and institutions. This includes primarily its operations under the trade name Corporate Express and desktop software sold through ASAP Software. It has a global distribution network spanning North America, Europe and Australia. In addition, through its Graphics Systems business, Buhrmann is a distributor of graphic equipment and related services in six European countries. The Company generated net sales of €5.9 billion in 2005. Over the past years the Company has demonstrated the adaptable and efficient nature of its business model through the successful integration of three significant acquisitions, namely Corporate Express, the office products business of US Office Products Company and the office products division of Samas Groep NV, as well as a number of smaller acquisitions.

Buhrmann s customer relationships, logistics and IT infrastructure have created the opportunity and the capacity that allows us to deliver more than traditional office and computer supplies. These include print and forms, promotional articles, furniture and desktop software, as well as facility and break room supplies. While expansion into such areas is a response to an evolution of customer demands towards single-sourcing, it also optimises the use of our logistic capacity.

The majority of office products sales arise from contracts with major companies with which Buhrmann has integrated its highly successful eCommerce platforms and other IT applications. eCommerce generates over 40% of Buhrmann s total sales of office products. eCommerce considerably reduces customers transaction costs and allows customers to speed up their ordering process by viewing assortments and pricing. Buhrmann s single-source supplier concept encourages customers to concentrate purchases through a single supplier, which further streamlines their procurement processes and enables them to reduce purchasing costs.

Structure

Buhrmann NV is the ultimate parent company over the subsidiary companies which conduct their business on a worldwide basis. Our significant subsidiaries are listed on pages 157. All subsidiaries are wholly owned, except for our Australian and New Zealand subsidiaries (Corporate Express Australia Ltd and Corporate Express New Zealand Ltd), in which Buhrmann owns a 53% interest.

Buhrmann NV is a public limited company (Naamloze Vennootschap), incorporated under the laws of the Netherlands and has its statutory seat in Maastricht, the Netherlands. Buhrmann s corporate head office is located in Amsterdam, the Netherlands.

Buhrmann has five business segments which are organised into four divisions, reflecting a customer-focused and sales-driven structure:

- Office Products North America, or Corporate Express North America includes the activities of Corporate Express in the United States and Canada.
- Office Products Europe, or Corporate Express Europe , covers the activities of Corporate Express in the Benelux, Germany, the United Kingdom and a number of other countries, as well as the Veenman copier businesses.
- Office Products Australia, or Corporate Express Australia covers the activities of Corporate Express in Australia and New Zealand.
- ASAP Software operating mainly in North America.
- The Graphic Systems businesses in six countries in Europe.

Each business segment has its own management reporting to Buhrmann s Executive Board. Corporate Express North America and ASAP Software are managed through the North American Division, while the Corporate Express businesses in Europe are managed from the European Division and the Australian/New Zealand business through the Australian Division. Our remaining businesses are managed through the Graphic Systems Division.

The Company

The Executive Board is supported by the Corporate Centre, primarily located in Amsterdam, the Netherlands. Corporate and holding costs are reported as a separate activity.

History

Incorporated in 1875, Buhrmann NV has evolved into an office products supplier from its origins as the Koninklijke Nederlandsche Papierfabrieken NV (KNP).

The transition from paper maker to an office products supplier began in 1993 when KNP merged with Buhrmann-Tetterode NV and VRG-Groep NV. The resulting conglomerate, NV Koninklijke KNP BT (KNP BT) defined packaging, business services and distribution as its portfolio.

In 1997 both the protective and flexible packaging activities and the paper-manufacturing subsidiary were sold. The following year the remainder of the packaging business was divested. The remaining business services and distribution services of KNP BT were renamed Buhrmann NV.

In 1999 Buhrmann complemented its office products activities with the acquisition of Corporate Express, Inc. Operating in North America, Europe and Australia, Corporate Express ran a distribution business for office and computer supplies, office furniture, imaging and computer graphic supplies and desktop software.

In 2000, Buhrmann divested the Information Systems Division.

In 2001, Buhrmann strengthened its office products activities with two acquisitions: the North American office products business of USOP and the European office products division of Samas.

Seeking to concentrate on the office products market while strengthening its capital structure, in 2003 Buhrmann divested its paper merchanting division to Australian-based PaperlinX Limited.

Following the Corporate Express acquisition, Buhrmann s interest-bearing debt had increased significantly to €2.0 billion at December 1999. In order to adjust the capital structure to the development in the business, subsequent steps in debt restructuring and reduction have been made. These financial measures included the issuance of Subordinated Convertible Bonds in late 2003.

Furthermore, in July and September 2004 all outstanding 2009 Notes were redeemed through the issuance of US$150 million 81/4% Senior Subordinated Notes due 2014. Additionally, in March 2005 Buhrmann completed the repurchase of all its issued and outstanding Preference Shares C and renegotiated the terms of its Senior Facilities Agreement in November 2005.

Strategy

As a specialised services and distribution company, our focus is on servicing businesses and institutions by delivering an extensive range of products for their daily work. We have chosen to work on a purely business-to-business basis and we believe that direct distribution is a key value-added service helping our customers reduce their process-related procurement costs. We have a strong technological focus, being convinced that integrated IT solutions and intelligent eCommerce tools are key to streamline the supply chain.

We are committed to delivering sustainable and profitable growth. We aim to achieve this through generating organic sales growth and gaining market share in the large account segment that represents around 80% of our sales. Our strong market positions and our ongoing focus on cost control will drive profitability.

We have identified a number of initiatives that will help us achieve that ambition. One of the ways in which we are growing sales is to look beyond the successful penetration of the large account segment and to seek further opportunities in the more profitable, high end of the mid-market segment. Supply to the mid-market is still highly fragmented and we offer mid-market companies an excellent service where they too can benefit from outsourcing procurement and contracting with a single-source supplier.

The Company

Another way in which we are growing sales and securing a greater share of our customers spend is by broadening our product range. By offering traditional and non-traditional office products such as print and forms, promotional articles, furniture, and computer software but also facility and break room products, we are meeting a wider set of needs among our customer base. This helps us in positioning Buhrmann as the preferred single-source supplier to our customers. By helping them streamline their ordering through Buhrmann they are removing the unnecessary hassle of multiple invoices and the additional administration of managing several suppliers. The proportion of our business from companies that have seen the value of this approach is growing steadily. We are taking advantage in this regard from the trend among large companies to outsource non-strategic tasks such as procurement.

As we focus on generating profitable sales growth, we also have identified a number of margin-enhancement initiatives. We have developed a successful range of private label products, notably the Corporate Express brand, where we deliver customers competitive alternatives to well-known branded products.

Additionally, our preferred supplier programme is helping us to concentrate procurement towards a reduced group of suppliers. This process is being reinforced by our global sourcing initiative where we are sourcing high quality products at competitive prices from Asian countries.

For a discussion of the risks associated with the implementation of the Company s strategy, see pages 63 to 67.

Industry context

Structure

Our markets can be defined in terms of the demand for a certain number of office products categories. The demand arises from the usages in offices, office like environments (such as at home), but also in other environments like educational programmes or manufacturing facilities.

For Buhrmann, we define the office products market based on the office products categories we actually have on offer in the office market.

This office market is being served by many participants with widely different business models and sizes. Except for office products distributors it includes for example copier resellers, manufacturers of office products with direct distribution capabilities, paper merchants and other distributors, supermarket chains and general department stores. Buhrmann and its direct competitors are often referred to as the office products distributors industry. Although (potential) customers source office products in many different ways, generally three channels are distinguished: direct distributors, which can be subdivided into large national and small regional businesses; direct mail; and retail companies.

Large, national distributors (such as Corporate Express) serve mainly large- and medium-sized business customers often on the basis of a contractual framework. Products are presented in printed catalogues, brochure flyers and on the internet. These firms maintain a wide range of inventory items primarily sourced directly from vendors. They operate a network of distribution centres allowing them to deliver to customers on the next business day across a wide geographical area.

Smaller, transactional distributors carry a limited range of products in stock and use wholesalers extensively. Sales are generally made in a limited geographical area only to medium and small business customers without having formal contracts in place. They rely on wholesaler intermediaries for inventory backup, product depth and delivery. Some of these distributors operate as stockless dealers relying entirely on wholesalers for their fulfilment.

The Company

Direct mail companies generally target small home offices and medium size business customers.While their procurement and order fulfilment functions are similar to contract stationers, direct marketers rely on a narrower assortment of products.They operate primarily by using catalogues and other directmarketing programmes rather than a direct sales force. They generally use generic third parties to deliver products.

Office product retailers generally serve smaller businesses, home offices and individual customers.Customers obtain their products at the retail outlet which often offers a some what different range of products than in the business-to-business channels.

Competitive factors

Buhrmann operates in a highly dynamic marketplace, particularly because competition is not limited to market participants with a specific position in a channel. Also, within each channel, there are multiple players with different kinds of propositions to the customers, creating many alternative solutions for the demand side of the market. More details on competition within our channels are given in the sections on the Company s business segments.

The three most significant competitive factors in the office products industry are service (for example ease of ordering, delivery speed and reliability), price and the total procurement costs from the perspective of the customer.

Customer demand for attractive pricing, IT capabilities, private brands and a wide choice of products gives larger players a competitive edge. However, components of service such as fast and complete delivery can be achieved by any size of player and thus ensure that competition remains vigorous.

Product quality is less of an issue since all distributors can carry or source the same or similar products. Private brand strategies also aim to differentiate in this area.

Seasonality

Sales correlate with white-collar employment and the average amount spent per employee, as people working in offices are the largest consumers of office supplies. Hence there is a relationship between sales and the number of effective working days in a quarter. Items such as software or furniture are typically negotiated at month or at quarter ends.

Trends

Customers increasingly seek to control purchases of office products by centralising their contractual arrangements. At the same time, they also expect delivery to multiple locations on a local, regional, national or international level. Lastly, large companies have been focusing on their cost structures leading to decisions to outsource non-strategic tasks such as procurement of non-mission critical purchases such as office products.

Therefore, Buhrmann strongly believes that large companies are increasingly attracted to the use of a single-source supplier. This allows them to consolidate purchasing power and eliminate the internal costs associated with complex, multiple deliveries, multiple invoices and varied ordering procedures, uneven service levels and inconsistent product availability. It also allows them to compare purchasing patterns of departments, locations and business units with each other.

Major players in the industry, such as our Corporate Express business, therefore keep investing in extensive information technology, eCommerce and logistical infrastructures. The low value per order, high order volume, dispersed ordering points and multiple delivery locations that customers seek, require a sizeable fixed cost base that allow to deliver what has been requested. As a result, the eCommerce business model becomes increasingly attractive to customers.

Sales, marketing and customer relations

Corporate Express markets and sells its products and services to both contract and non-contract business customers through a network of account managers servicing national accounts and local sales representatives.

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The Company

Many contract customers enter into agreements setting service levels for certain products over a particular period, typically two to three years minimum after which contracts are often rolled over.

Corporate Express also provides its customers with customised billing and usage information. This helps customers to analyse and rationalise their ordering and usage of office supplies and to use such information for budgeting purposes.

Sourcing, assortment and supplier relations

In volume terms a large majority of the products are purchased directly from manufacturers, who deliver the products to Buhrmann s distribution centres. Additionally, lower volume items are sourced from various types of wholesalers.

To optimise sourcing, Buhrmann s sourcing strategy has been to establish preferential relations with certain suppliers with whom it can derive mutually attractive supply chain economics.

To further maximise its purchasing power, Buhrmann has been consolidating, and will continue to consolidate its purchases from key suppliers. This includes the sourcing of the office products sold under the private brand names of which Corporate Express is the most important. Promoting the preferred supplier initiative increases the importance of Buhrmann to those suppliers. This leads to better pricing, lower sourcing costs and working capital and it results in long-term supplier relationships that benefit Buhrmann and its customers.

To optimise our merchanting activities we have created a new position, responsible for the development of our merchandising on a global scale. This should lead to more efficient sourcing of private brands, a more effective assortment of products with improved category management and an optimal mix of global and regional suppliers.

Like all companies, Buhrmann is subject to price changes for commodities, including energy. The Company s contractual arrangements with customers generally allow cost increases to be passed through albeit subject to review respectively negotiation with the customers.

IT and logistics

Customers have access to Buhrmann s product assortment through the online ordering system and printed catalogues, including some catalogues tailored for specific markets.

Orders are placed either over its proprietary eCommerce system or by traditional means such as telephone, fax or mail. Buhrmann s larger distribution centres typically have over 10,000 stock keeping units. Orders for items in stock are routed to the appropriate distribution centre for order fulfilment. Where items are not part of the regular stock, orders are transmitted mostly via the electronic data interchange (EDI) to vendors or wholesalers for fulfilment.

Buhrmann is able to acquire most items unavailable in its own inventory on the same order cycle as those kept in stock. At shipment these are combined with the in-stock items. In North America the first time fill rate is over 98%; in Europe it is 95%.

Buhrmann s advanced logistics system is the key to its efficient distribution network that allows for next-day delivery across its office products markets.

Buhrmann typically operates from a single regional distribution centre that generally supports multiple distribution breakpoints and satellite sales offices. A combination of owned vehicles and third-party delivery services are used to deliver office products.

Group Financial Review

Major events in 2005 and 2004

The Financial Review should be considered in light of the following, major events:

2005

On 31 March 2005, the repurchase was completed of all our issued and outstanding Preference Shares C for an aggregate purchase price of US$520 million in cash. For funding this transaction, Buhrmann placed 7^7/8% Senior Subordinated Notes due 2015 (2015 Notes) with an aggregate principal amount of US$150 million in February 2005. Also a discounted rights issue of 39.3 million ordinary shares was executed successfully, raising €250 million in March 2005.

As the majority proportion of our activities is conducted in US dollars, our financial position, results of operations and cash flows as reported in euro were affected by the translation effects of the exchange rate of the US dollar to the euro. In 2005, the US dollar strengthened against the euro with the year end rate up 15%; the average exchange rate was equal to last year s average exchange rate.

Some special items were recorded of which the restructuring of customer care and back-office activities in North America was the most significant.

2004

In the second and third quarter of 2004, changes to the capital structure were made. We repaid the US$350 million 12¼% Senior Subordinated Notes due 2009 (2009 Notes). We funded the repayment by issuing US$150 million of new 8¼% Senior Subordinated Notes due 2014 (2014 Notes), increasing the Term Loans under the Senior Facilities Agreement by US$125 million and using available liquidity in the Company.

Special items were recorded for restructuring activities in the Office Products Europe business segment.

Critical accounting policies and estimates

Our principal accounting policies are set out in Note 2 to our Financial Statements. The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. If actual amounts or estimates are different than previously estimated, the revisions are included in the Company s results for the period in which the revised amounts become known. The accounting policies and estimates that are most critical in determining the presentation of the financial condition and which require subjective or complex judgments from management are listed in Note 3 to our Financial Statements.

Our Financial Statements prepared in accordance with IFRS differ, in certain significant aspects, from US GAAP. For a discussion of the principal differences between IFRS and US GAAP, as they relate to us, and a reconciliation of net result and shareholders equity from IFRS to US GAAP for 2005 and 2004, please see Note 37 to our Financial Statements included in this Annual Report.

Net sales

Net sales for the Buhrmann Group were €5,890 million in 2005 compared to €5,553 million in 2004, an increase of 6.1%. At constant exchange rates the increase was 5.4%. Net sales on an organic basis increased 6%.

Key figures

in millions of euro, unless stated otherwise	**2005**	2004	Change in %	Change at constant rates[1]
Net sales	**5,890**	5,553	6.1%	5.4%
Gross contribution	**1,776**	1,671	6.3%	5.6%
Operating expenses	**(1,544)**	(1,456)	6.0%	5.5%
Operating result	**232**	214	8.2%	6.7%
Gross contribution as a percentage of net sales	**30.1%**	30.1%		
Operating expenses as a percentage of net sales	**26.2%**	26.2%		
Operating result as a percentage of net sales	**3.9%**	3.9%		

1 See Use of non-GAAP financial measures on page 2.

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Group Financial Review

We increased our market share in the large account business segment, benefiting from our single- source supplier concept and continuing investments in advanced logistics and eCommerce solutions. Our mid-market initiative contributed positively to sales growth albeit to a lesser extent. The net sales growth has been supported by positive economic conditions in North America and Australia. In these markets sustained growth was underwritten by a gradual growth of white-collar employment.

In Office Products North America we experienced significant growth. In Office Products Australia we continued the roll-out of the single-source supplier model including extending it into the small and medium customer sector. Office Products Europe, despite challenging economic circumstances resumed sales growth, mainly as a result of new customer wins in the large account segment, notably in Germany and the United Kingdom. Net sales on an organic basis for ASAP Software increased 7% benefiting from its strong position in the provisioning of software licences to companies and institutions.

Demand for new printing presses from Graphic Systems increased but at a lower pace compared to previous cyclical recoveries. Graphic Systems continued its strategy to make sales less dependent on the economic cycle by offering customers a total solution to their printer-related supply needs.

The table presents a calculation, on an organic basis, of the development of net sales for the Group.

Gross contribution

In 2005, gross contribution developed in line with our net sales growth and increased 6.3%, from €1,671 million in 2004 to €1,776 million in 2005. At constant exchange rates the increase was 5.6%.

Competitive pressure reflected in margin erosion due to re-tendering and incentives attached to new customer contracts as well as a stronger growth in the large account segment (which experiences lower gross contribution margins) and a stronger growth in lower margin product categories (such as computer hardware and software and computer supplies), had a negative impact on gross contribution. However, despite these challenges, gross contribution as a percentage of net sales was stable at 30.1% which was due to the positive impact on gross contribution of our private brand, preferred supplier and global sourcing initiatives. Graphic Systems contributed positively to gross contribution as a percentage of net sales thanks to improved margins on machinery sales.

Operating result

Operating result of the Group increased 8.2% from €214 million in 2004 to €232 million in 2005. At constant exchange rates the increase was 6.7%. Operating result as percentage of net sales was stable at 3.9%.

The increase in operating result was due to the increase in gross contribution of 5.6% at constant exchange rates which was partially offset by an increase in operating expenses of 5.5% at constant exchange rates.

in millions of euro, unless stated otherwise	**2005**	2004	Change in %
Net sales	5,890	5,553	
Effect of currency exchange rate movements		19	

Net sales at constant exchange rates	5,890	5,572	5%
Acquisitions and divestments	(12)	18	
Variation in the number of working days	24		
Change to commission-based model at ASAP[1]	302	243	
Net sales on an organic basis	**6,204**	**5,833**	**6%**

1 See Financial Review of ASAP Software on page 29.

Group Financial Review

Operating expenses increased mainly as a result of higher delivery expenses due to higher sales volumes and the impact of higher fuel expenses. Total share-based payment charges amounted to €7 million in 2005 (€6 million in 2004), largely allocated to the business segments. Corporate operating expenses, not allocated to the business segments, were €12 million in 2005 compared with €6 million in 2004. This increase was mainly due to higher consultancy fees such as for the implementation of Sarbanes-Oxley and charges following the rationalisation of our holding organisation.

Total operating expenses included an income of €18 million in 2005 and €15 million in 2004 related to the financing part (interest cost less expected return on plan assets) of the pension plan in the Netherlands, which is a defined benefit plan. Of this income approximately €16 million in 2005 and €13 million in 2004 is included in Corporate operating expenses relating to the inactive participants in this plan. The assumptions used to calculate the pension income and benefit obligations of this plan are listed in Note 20 to the Financial Statements. In 2005, we used a discount rate of 4.9% and in 2004 of 5.5% for this plan which resulted in an approximately €1 million lower interest expense in 2005 compared to 2004. Both in 2005 and 2004 we used a rate of expected return on plan assets of 7%. The amount of expected return on plan assets in the Statement of Income increased by €3 million in 2005 compared to 2004. This is due to the higher value of the plan assets at 31 December 2004 compared to 31 December 2003 which is the basis for calculating the expected return for 2005 and 2004, respectively. The actual return on the assets of the pension plan in the Netherlands was 15% in 2005 and 10% in 2004.

Special items included in operating expenses in 2005 and 2004

In 2005, in the Office Products North America business segment we recorded a €10 million charge for the centralisation of its local, administrative operations such as credit and collections, and customer care. A charge of €4 million was recorded in the Office Products North America business segment to settle, with the U.S. Department of Justice, allegations that Corporate Express Office Products submitted false claims in connection with the sale of office products to U.S. government agencies that were from countries of origin not designated under the Trade Agreement Act.

In the Office Products Europe business segment, we recorded an expense of €8 million in 2005 for the further restructuring of the German copier and furniture business as well as some restructuring activities of Corporate Express Benelux.

In 2004, an expense of €5 million was recorded for the restructuring of the copier business in Germany and restructuring activities of Corporate Express Benelux.

Excluding these special items, operating expenses increased 4.4% at constant exchange rates and operating result increased 15.4% at the same basis.

No impairment of goodwill was recorded in 2005 or 2004.

Financing expenses; taxes; other financial items

in millions of euro	**2005**	2004
Financing expenses related to refinancing	(85)	(35)

Other financing expenses	(106)	(92)
Subsequent result from disposal of operations	5	6
Taxes on special items and special tax items	3	18
Other taxes	(28)	(5)
Total financial items	**(210)**	**(107)**

Group Financial Review

Financing expenses related to refinancing

In 2005 and 2004, expenses were recorded relating to refinancing activities. In February 2005, Buhrmann placed the 2015 Notes, the proceeds of which were used to repurchase the Preference Shares C, together with a discounted rights issue which raised €250 million in March 2005. The expenses related to the placement of the 2015 Notes and the discounted rights issue have been recorded as a deduction from the proceeds and have not been recorded in the income statement. The repurchase of the Preference Shares C resulted in a charge of €85 million in 2005. This special item constitutes the difference between the value paid and the book value of the liability and conversion option which were both recorded as debt.

In 2004, we incurred a special item when we repaid our 2009 Notes which resulted in a charge of €35 million which consists of a premium paid to holders of the 2009 Notes of €27 million and a non-cash write-off of capitalised financing fees of €7 million. The expenses related to the placement of the 2014 Notes in 2004 have been recorded as a deduction from the proceeds and have not been recorded in the income statement.

Other financing expenses

in millions of euro	**2005**	2004
Cash interest expenses	(64)	(68)
Interest income	3	3
Dividend Preference Shares	(19)	(42)
Non-cash interest	(8)	(8)
Exchange results due to translation of long-term internal and external borrowings	(18)	23
Total other financing expenses	**(106)**	**(92)**

Non-cash interest includes amortisation cost of long-term borrowings, such as the imputed interest on the convertible, and amortisation of capitalised financing costs.

The exchange results in the table above are predominantly due to the Preference Shares C which are denominated in US dollar and translated into euro.

Dividend on Preference Shares decreased due to the repurchase of the Preference Shares C.

Subsequent result from disposal of operations

This concerns the (partial) release of provisions regarding contractual obligations relating to the disposal of operations in previous years and mainly relates in 2005 to the divestment of Kappa Packaging in 1998 and in 2004 to the sale of the paper merchanting division which took effect in 2003.

Taxes

Our operations are subject to income taxes of different jurisdictions with varying statutory tax rates.

Buhrmann s effective tax rate was 15% in 2005 and 4% in 2004. The effective tax rate is determined based on the ratio of taxes to the amount of result from operations before taxes and expenses related to the Preference Shares A and C, as these items are exempted from taxes (for a detailed calculation of the effective tax rate, see Note 12 to the Financial Statements).

In 2005 taxes included a €7 million benefit due to the further recognition of deferred tax assets.

In 2004, taxes included a benefit due to the release of tax provisions of €8 million as a result of finalised tax audits and the recognition of additional deferred tax assets. In 2004, a benefit was also included of €14 million related to the refinancing of the US$350 million 2009 Notes and a benefit of €6 million was included for the fiscal finalisation of the divestment of the paper merchanting division.

Net result

in millions of euro	**2005**	2004
Operating result	232	214
Total financial items	(211)	(107)
Net result	**21**	**107**
Attributable to:		
Holders of ordinary shares Buhrmann NV	**2**	**90**
Minority interests in Group companies	19	18

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Group Financial Review

Minority interests represent the 46.9% (2004: 48.5%) at year end share of third parties in the net result of Corporate Express Australia Ltd.

On 18 April 2005, Corporate Express Australia completed its off-market share buy-back. A total of 6.3 million of its own shares were purchased for A$35 million. Buhrmann chose not to participate in the buy-back, thereby raising its interest in Corporate Express Australia to 53.1%.

Net result attributable to holders of ordinary shares

The net result of €2 million attributable to holders of ordinary shares Buhrmann NV in 2005 translates to basic earnings per share (eps) of €0.01.

Excluding the tax-adjusted impact of special items, exchange results due to translation of long-term internal and external borrowings as reported under net financing costs, and other adjustments, net result in 2005 would have amounted to €118 million, compared to €82 million in 2004, a 44% increase, representing €0.70 per ordinary share in 2005, compared to €0.57 in 2004.

After considering the nature of the special items and the exchange results due to the translation of long-term internal and external borrowings in determining the base used to calculate the dividend, a dividend has been proposed of €0.17 per share.

Liquidity

Buhrmann s liquidity requirements arise primarily from the need to fund the expansion of its business, working capital requirements, capital expenditure and restructuring. Buhrmann s primary source of liquidity is cash generated from operations. The table sets forth the cash flow movements for the periods indicated.

in millions of euro		**12 months ended 31 December 2005**	12 months ended 31 December 2004
A	Net cash provided by operating activities	232	276
B	Net cash used in investing activities	(86)	(85)
A+B	**Cash flow available for financing activities**	**145**	**191**
C	Net cash used in financing activities	(199)	(177)
A+B+C	Net cash flow	(54)	14

Net cash provided by operating activities

Operating result adjusted for non-cash items (such as depreciation of tangible fixed assets, amortisation of internally used software and intangible assets and additions/releases of provisions) was €31 million higher in 2005 compared to 2004.

Working capital increased by €51 million in 2005 in comparison with a reduction of €32 million in 2004 as a consequence of the growth of our business. However, as a percentage of net sales, working capital (four-quarter rolling average) could be kept stable at 8.4%.

Profit tax payments were €8 million higher and other operational payments (such as for restructuring) were €18 million lower in 2005 compared to 2004. Payments regarding the defined benefit pension plans of €9 million were slightly higher than in 2004 (€7 million).

The net effect was a decrease of €44 million in cash provided by operating activities from €276 million in 2004 to €232 million in 2005. At constant exchange rates the decrease was approximately the same.

Group Financial Review

Net cash used in investing activities

Net capital expenditure of €65 million in 2005 was almost level with the spend in 2004: €63 million. A significant portion of our capital expenditure represents the development of information technology, eCommerce and logistics systems.

Cash related to acquisitions and divestments amounted to €22 million in 2005, almost the same amount as in 2004. In 2005, several small asset acquisitions were made in the Office Products North America business segment and in the Office Products Australia business segment.

The net effect was that cash used in investing activities in 2005 was almost the same as in 2004.

Net cash used in financing activities

In 2005, Buhrmann placed the 2015 Notes with an aggregate principal amount of US$150 million. The net proceeds of the 2015 Notes were US$142million, (€110 million) after deduction of transaction expenses. Buhrmann also executed a discounted rights issue which raised €238 million, after deduction of transaction expenses. The proceeds of the 2015 Notes and discounted rights issue were used to finance the repurchase of the Preference Shares C of US$520 million (€401 million).

In 2004, Buhrmann successfully tendered for the US$350 million 2009 Notes. The tender, including a premium of €27 million paid to holders who tendered their 2009 Notes, and the remaining 2009 Notes which were not tendered were funded by an issue of US$150 million of 2014 Notes, an increase of US$125 million of Term Loans and cash on hand of US$118 million. The refinancing in 2004 resulted in a reduction of long-term borrowings of €72 million.

Interest payments in 2005 were €4 million higher than in 2004. Interest payments decreased as a result of the redemption of the 2009 Notes in 2004 (which bore interest of 12.25%). However due to changes in the timing of the interest payments, among others due to the issue of the 2014 and 2015 Notes, the net effect on interest payments in 2005 was an increase of €4 million compared to 2004.

In both 2005 and 2004, Buhrmann paid cash dividends on its Preference Shares A of €11 million.

As Buhrmann paid the dividend on its Preference Shares C in kind in 2004 and repurchased all Preference Shares C in 2005, no cash dividends were declared for these shares.

In 2005, Buhrmann paid €12 million in dividends on its ordinary shares which is about 48% of the total dividend declared on ordinary shares. The balance was paid out as dividend in stock at the option of the shareholder. In 2004, the dividend on ordinary shares was paid entirely in additional ordinary shares.

Payments to minority shareholders were €31 million in 2005 and €8 million in 2004. This includes dividends paid to minority shareholders of Corporate Express Australia of €9 million in 2005 and €8 million in 2004 and in 2005 the buy-back by Corporate Express Australia of its own shares for €22 million in which Buhrmann did not participate.

Net cash flow

The resulting net cash flow was negative €54 million in 2005 compared to positive €14 million in 2004 which was reflected in the movements in net liquid funds.

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Overview of Business Segments
Office Products **North America**

Highlights in 2005

Gained market share in the large account segment
Range extension successful
High customer acceptance for private brand

Priorities for 2006

Mid-market sales growth to benefit from refocus
Centralisation customer care function
Extending product offerings

Web link
www.corporateexpress.com

Introduction

Office Products North America comprises our operations in the United States and Canada excluding those of ASAP Software. Headquartered in Broomfield, Colorado all activities are under the Corporate Express banner, including our promotional marketing, document and print management (DPM) and our imaging and computer graphic supplies (ICGS) operations.

Corporate Express North America is a market leader, based on revenue, in the business-to-business market for office products and related services in North America. Corporate Express North America manages a dynamic assortment of about 50,000 items within approximately 180 locations, including 38 distribution centres. It operates approximately 1,100 dedicated delivery vehicles and has around 10,000 employees, including 1,400 sales representatives.

Execution of strategy

Corporate Express North America

The business also continues to leverage its strong distribution channel to extend Corporate Express North America s product range. We focus particularly on the facility and break room supplies market, which Corporate Express North America believes is significant in size. In 2005, double- digit growth was achieved. This growth was supplemented by the acquisition of the US$31 million sales, facility products distributor, Portsmouth Paper Company in November 2005.

Corporate Express North America is pursuing various sourcing initiatives including forming partnerships with key suppliers on a global basis in order to maximise purchasing power and expanding private brands. The aim is to increase sourcing potential, brand awareness and customer loyalty as well as to improve margins.

Competition

Corporate Express North America believes that customers in the office market prefer to deal with large value-added office products suppliers. These can provide the lowest total overall cost of managing their office products needs, high levels of service, convenience and rapid delivery. From this perspective, the largest competitors are the contract division of OfficeMax, Inc. and the business services divisions of Office Depot, Inc. and Staples, Inc. These businesses and many smaller, often regional, office products distributors and other businesses which are penetrating the office products market compete for and sell office products to many of the same kinds of customers as Corporate Express.

Corporate Express North America believes that it competes favourably with these companies on the basis of aims to consolidate its leading position in the large account business, which represents over 80% of sales. Additionally, the business is focused on further growing sales in the mid-market.

its customised and value-added services and the breadth of its product offerings.

Key figures

in millions of euro, unless stated otherwise	**2005**	2004	Change in %	Change at constant rates[1]
Net sales	**3,047**	2,869	6.2%	5.7%
Gross contribution	**1,054**	991	6.4%	5.9%
Operating expenses	**(911)**	(849)	7.3%	6.9%
Operating result	**143**	141	0.9%	0.0%
Gross contribution as a percentage of net sales	**34.6%**	34.5%		
Operating expenses as a percentage of net sales	**29.9%**	29.6%		
Operating result as a percentage of net sales	**4.7%**	4.9%		

1 See Use of non-GAAP financial measures on page 2.

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Overview of Business Segments
Office Products **North America**

Financial review

Net sales

Net sales of Office Products North America increased 6.2%, from €2,869 million in 2004 to €3,047 million in 2005. At constant exchange rates the increase was 5.7%. On an organic basis, sales increased 6%.

Market conditions in North America remained healthy with more people at work and a higher average spend on office products per employee. All regions and product groups contributed to the sales growth of the Office Products North America business segment. The large account segment showed significant sales growth while the mid-market segment also contributed positively helped by our integrated sales teams initiative. The relatively strong sales growth in facility supplies, furniture and promotional marketing products reflect the success of our single-source supplier concept.

Our Corporate Express brands offering was well received. In 2005, private brands accounted for 25% of our office supplies, computer supplies and furniture sales, compared with 18% in 2004.

The table presents a calculation, on an organic basis, of the development of net sales.

in millions of euro, unless stated otherwise	**2005**	2004	Change in %
Net sales	3,047	2,869	
Effect of currency exchange rate movements		12	
Net sales at constant exchange rates	3,047	2,882	6%
Acquisitions and divestments	(3)		
Variation in the number of working days	12		
Net sales on an organic basis	**3,056**	**2,882**	**6%**

Gross contribution

Gross contribution increased by 6.4% in line with net sales growth. As a percentage of net sales, gross contribution was slightly up at 34.6%.

Our private brands programme and preferred supplier initiative could offset competitive margin pressure due to re-tendering and incentives attached to new customer contracts, especially

in the large account segment, combined with stronger sales growth in this segment which has lower gross contribution margins. Gross contribution margins were also negatively affected by higher shares of lower margin product categories such as computer supplies.

Operating result

Operating result benefited from the increased gross contribution as a result of higher sales volumes and our strategic initiatives. Operating expenses increased 7.3%. At constant exchange rates the increase was 6.9%.

The increase in operating expenses is mainly due to higher delivery expenses as a result of the higher sales volumes and also higher fuel expenses had a negative impact. In 2005, the Roadnet road management system was implemented. This system plans and executes delivery routes with greater efficiency, the full benefits of which we expect to see in 2006.

Operating expenses included incidental expenses, such as double running costs, related to the centralisation of back-office activities, amounting to €4 million.

Operating expenses included special items. In 2005, a €10 million charge relating to a further streamlining of the administrative operations, was recorded. Activities such as credit and collections and customer care are being centralised into a shared service operation in the Denver area.

In the fourth quarter of 2005, a charge of €4 million was recorded to settle with the Department of Justice, allegations that Corporate Express Office Products submitted false claims in connection with the sale of office products to U.S. government agencies that were from countries of origin not designated under the Trade Agreement Act.

Excluding these charges, operating expenses increased 5.3% at constant exchange rates instead of 6.9%.

Operating result of the Office Products North America business segment improved slightly to €143 million, an increase of 0.9%. Excluding the aforementioned special items, operating result increased 10.6%; at constant rates the increase amounted to 9.7%.

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Overview of Business Segments
Office Products **Europe**

Highlights in 2005

Sales trend turned positive

Copier and furniture business in Germany being restructured

European functions centralised and strengthened

Priorities for 2006

Development o fmid-market programme

European sourcing initiative leveraging global relationships

Merchandising initiatives focused on product range management

Web link

www.corporateexpress.info

Introduction

Office Products Europe is active in 13 countries. Business is mainly conducted under the name Corporate Express. Our document and copier division is known under the name Veenman and is only active in the Netherlands and Germany. Veenman contributes around 11% of the total net sales of Office Products Europe.

Corporate Express Europe operates from more than 100 locations in Austria, Belgium, Germany, France, Hungary, Ireland, Italy, Luxembourg, the Netherlands, Poland, Spain, Sweden and the United Kingdom, and employs almost 3,700 people. It has partnerships in the Baltic States, Denmark, Norway, Slovenia and Switzerland. Corporate Express s head office is located in Amsterdam, the Netherlands.

Execution of strategy

Corporate Express Europe is focused on growing its business through a differentiated sales approach whereby it tailors its sales strategy to the type of customer Corporate targeting. For example, an international account management approach is frequently used for large international companies, while direct marketing is more appropriate for small office and home office operations.

Corporate Express Europe continues to harmonise its European business and operations. It is integrating its international account management systems in order to strengthen its position as a full-service supplier of office products and related services to businesses and institutions. Certain functions, like purchasing, international account management, international category management and eCommerce management, have been centralised on a European level in Amsterdam, the Netherlands.

Veenman introduced a private brand solution for the copier market. After reaching agreement with Konica Minolta, Veenman markets its products under the Linium® brand.

Competition

The office products industry in Europe is highly fragmented with no single company accounting for more than 10% of the total market. Corporate Express Europe offers a wide variety of products and services, and frequently competes against companies that focus on only a few products or categories of products within one or only a few countries or even regions. From a European perspective, Corporate Express s principal competitors include Lyreco and Guilbert/Office Depot. In addition, Corporate Express faces competition from various direct marketing companies and, in many countries, relatively strong local distributors.

Express is

Key figures

in millions of euro, unless stated otherwise	**2005**	2004	Change in %	Change at constant rates[1]
Net sales	**948**	914	3.7%	3.9%
Gross contribution	**309**	307	0.6%	0.8%
Operating expenses	**(309)**	(311)	(0.6%)	(0.4%)
Operating result	**(0)**	(4)		
Gross contribution as a percentage of net sales	**32.6%**	33.6%		
Operating expenses as a percentage of net sales	**32.6%**	34.0%		
Operating result as a percentage of net sales	**(0.0%)**	(0.4%)		

1 See Use of non-GAAP financial measures on page 2.

Overview of Business Segments
Office Products **Europe**

Financial review

Net sales

In the Office Products Europe business segment, we saw resumption of net sales growth in 2005 despite challenging economic circumstances in Europe. Net sales increased from €914 million in 2004 to €948 million in 2005, an increase of 3.9% at constant exchange rates. On an organic basis, net sales increased 4%.

Corporate Express Germany and Corporate Express UK, two of the business segment s main European operations, contributed mostly to the sales growth, mainly driven by large account wins and to a lesser extent, a better mid-market performance in Germany. Germany reported sales of €289 million and the UK of €150 million. Additionally, noteworthy sales growth was achieved in Austria, Sweden and Ireland. Corporate Express Benelux saw declining sales due to the discontinuation of low-margin contracts with wholesale customers; it recorded sales of €144 million. Sales of our private brands in Europe remained stable at 23% of our office supplies and computer supplies sales.

The product groups office supplies and furniture benefited from new customers, notably in Germany. Facility products showed strong sales growth but still from a low base. Veenman, again performed solidly in the Netherlands whereas in Germany its performance remained unsatisfactorily but is gradually improving.

The table presents a calculation, on an organic basis, of the development of net sales.

Gross contribution

Gross contribution improved only slightly as the contribution from higher sales volumes was offset by severe margin pressure due to re-tendering as well as unfavourable mix effects, both in products (higher share of computer supplies) and countries (strong sales in Germany where the gross contribution margins are lower). Gross contribution increased from €307 million in 2004 to €309 million in 2005, an increase of 0.8% at constant exchange rates. As a percentage of net sales, gross contribution declined from 33.6% to 32.6%.

Operating result

Operating result improved from a loss of €4 million in 2004 to almost break-even in 2005. Gross contribution improved slightly while operating expenses could be effectively controlled.

Operating expenses declined from €311 million in 2004 to €309 million in 2005, at constant exchange rates a decrease of 0.4%. Employee benefit expenses declined mainly as a result of the reduction of 3% in the number of full-time employees following the restructuring efforts. Delivery expenses increased due to higher sales volumes and the impact of higher fuel expenses.

In this business segment we recorded special charges both in 2005 and 2004 relating to continued restructuring and centralisation efforts.

In 2005, restructuring charges were recorded for the further restructuring of the German copier business along with the implementation of best practices from Veenman Netherlands necessary to improve operating performance. At the German furniture business, some locations are to be closed and furniture activities have been integrated with the office products activities to benefit from a lower cost base and a more efficient market approach. Finally, some restructuring activities of Corporate Express Benelux are included in the charge. Total charges amounted to €8 million.

In 2004, a charge of €5 million was recorded for restructuring activities in the Benelux and the copier business in Germany.

Excluding the above mentioned special charges, operating expenses declined by 1.3% at constant rates and operating result would have improved from €0 million to €7 million.

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Overview of Business Segments
Office Products **Australia**

Highlights in 2005

Continued high growth rates

Increased presence in mid-market

Further expansion in new product categories

Priorities for 2006

Continue roll-out of single-source supplier business model

Further expand mid- and small-customer segments

Project One Source to maximise business efficiency

Web link
www.ce.com.au

Introduction

Office Products Australia is active in both Australia and New Zealand under the name Corporate Express. Corporate Express Australia is one of the largest providers of office products and related services in the region, based on revenue. Corporate Express Australia employs more than 2,300 staff and services customers from 45 locations. Corporate Express Australia s head office is located in Rosebery, near Sydney.

At year end, Buhrmann owned 53% of the issued share capital of Corporate Express Australia Ltd. The remaining 47% is as a free-float quoted on the Australian Stock Exchange (ASX).

Execution of strategy

Corporate Express Australia s growth strategy is focused on being the single-source supplier of choice in order to gain a larger share of its customers business. The business will achieve this via expanding its product range and geographic coverage through organic growth and acquisitions. In 2005, seven companies were acquired generating annualised revenue of about €19 million. In addition, Corporate Express Australia continues to expand its customer base by focusing on mid-market customers.

Competition

Corporate Express Australia is a leading single-source distributor of office and business supplies in Australia and New Zealand. As a result of our single-source model we operate across many different business sectors in a fragmented market place. Competition therefore comes from a multitude of local distributors who focus on only a few products or categories of products and from international competitors such as OfficeMax or Lyreco who have sizeable companies in Australia.

Key figures

in millions of euro, unless stated otherwise	**2005**	2004	Change in %	Change at constant rates[1]

Net sales	**701**	596	17.6%	13.7%
Gross contribution	**216**	191	12.8%	9.0%
Operating expenses	**(156)**	(138)	13.7%	9.9%
Operating result	**59**	54	10.3%	6.6%
Gross contribution as a percentage of net sales	**30.7%**	32.1%		
Operating expenses as a percentage of net sales	**22.3%**	23.1%		
Operating result as a percentage of net sales	**8.4%**	9.0%		

1 See Use of non-GAAP financial measures on page 2.

Overview of Business Segments
Office Products **Australia**

Financial review

Net sales

Net sales growth of 13.7% was realised in Australia and New Zealand in 2005 compared to 2004, measured at constant exchange rates. We maintained our strong performance in these markets as a leading full-service distributor, mainly due to our single-source business model with continued expansion in new product categories underpinned by an increasing presence in the mid-market. The focus is on a continuous roll-out of this business model across all customer segments. The acquisition of small- and medium-sized businesses has contributed to the net sales growth. On an organic basis, net sales growth was 10%.

The table presents a calculation, on an organic basis, of the development of net sales.

in millions of euro, unless stated otherwise	**2005**	2004	Change in %
Net sales	701	596	
Effect of currency exchange rate movements		14	
Net sales at constant exchange rates	701	610	14%
Acquisitions and divestments	(9)	21	
Variation in the number of working days	3		
Net sales on an organic basis	**694**	**631**	**10%**

Gross contribution

Gross contribution improved from €191 million in 2004 to €216 million in 2005, an increase of 9.0% at constant exchange rates. Gross contribution as a percentage of net sales declined from 32.1% in 2004 to 30.7% in 2005 due to competitive pressure with lower margin levels following the re-tendering of customers as well as relatively strong sales growth in lower margin product groups such as computer hard- and software and computer supplies.

Operating result

Operating result increased 6.6% at constant exchange rates, from €54 million in 2004 to €59 million in 2005. Gross contribution increased 9.0% at constant exchange rates whereas operating expenses increased by 9.9%. Corporate Express Australia has started a number of initiatives, project OneSource , to reduce expenses and improve operational leverage. Operating expenses as a percentage of net sales declined from 23.1% in 2004 to 22.3% in 2005.

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Overview of Business Segments
ASAP Software

Highlights in 2005

Extended its geographic coverage by opening additional field offices in Canada, Germany and France

Realised strong gains in asset management solution *e*Smart

Strengthened sales organisation

Priorities for 2006

Increase penetration in small- and medium-sized businesses

Expand sales in the higher margin IT service area

Invest in future growth opportunities: consultancy services and mid-market

Web link
www.asap.com

Introduction

ASAP Software is a reseller of desktop software; hardware and related services to commercial and government markets. ASAP Software generates its sales predominantly in the United States but also has operations in Canada, France and Germany. Relatively its position is strongest in the large account segment. ASAP Software and Corporate Express are cross-selling each other s products and services. ASAP Software supports software publishers processes for licensing, renewals and control of digital rights. ASAP Software s main supplier is Microsoft Corp. ASAP Software s expertise is complemented by the ability to offer computer hardware and peripherals through a network of vendors allowing ASAP Software to operate practically without stock.

Execution of strategy

ASAP Software plans to expand by gaining market share in the segment of small- and medium-sized organisations and by penetrating new geographic markets, mostly in Europe.

It is also broadening its product range to include computer hardware and peripherals. ASAP Software expects that the effect of this change will be more pronounced in 2006. ASAP Software will further enhance its strong technological position by integrating its systems into a single worldwide application, introducing an enhanced eCommerce capability into new markets. We aim to expand the scope of our offering of management tools for monitoring software installation, utilisation and licensing (*e*Smart). Also services are being delivered to the publisher community through our License Technologies Group.

Competition

In respect of the packaged software market, one can distinguish between PC software publishers who support a direct or indirect model (i.e. making use of entities like our ASAP Software operations). In the indirect channel there is competition from a variety of different types of businesses including hardware companies selling their products with installed software. Regarding indirect software distribution similar to ASAP Software, we compete with many different entities, for example companies such as Spectrum, CDW and Softchoice.

Key figures

in millions of euro, unless stated otherwise	**2005**	2004	Change in %	Change at constant rates[1]
Net sales	**773**	765	1.1%	1.2%
Gross contribution	**79**	72	10.8%	10.9%
Operating expenses	**(46)**	(41)	12.8%	12.9%
Operating result	**33**	31	8.1%	8.2%
Gross contribution as a percentage of net sales	**10.3%**	9.4%		
Operating expenses as a percentage of net sales	**6.0%**	5.4%		
Operating result as a percentage of net sales	**4.3%**	4.0%		