BUHRMANN NV
Form 20-F
March 14, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

(Mark One)

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

OR

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

For the fiscal year ended: December 31, 2004

OR

o 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 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.

138,126,528 Ordinary Shares

53,281,979 Preference Shares A

0 Preferences Shares B

43,628 Preference Shares C

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 ý No o

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

ITEM 17 **o** **ITEM 18** **ý**

ITEM 1: IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable

ITEM 2: OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable

ITEM 3: KEY INFORMATION

Selected Financial Data

The following tables present selected consolidated financial data for Buhrmann as of and for the years ended December 31, 2000, 2001, 2002, 2003 and 2004. The selected consolidated financial data should be read in conjunction with our consolidated financial statements and the notes thereto included in Item 18 of this Annual Report. The selected financial data set forth below is presented in accordance with Dutch GAAP, and where specified, in accordance with U.S. GAAP. For a discussion of the material differences between Dutch GAAP and U.S. GAAP, as applicable to Buhrmann, please see note 34 to our consolidated financial statements. Additionally, please see Item 4 Information on the Company and Item 5 Operating and Financial Review and Prospects Major Events and Acquisitions and Divestments for a description of major events and significant acquisitions or divestments that may affect the comparability of the results of operations presented below.

We note that under Dutch GAAP, as from January 1, 2002, the results from discontinued operations are included in operating results until the date the operations are actually sold (prior to 2002, such results were included until the moment the divestment decision was made), whereas under U.S. GAAP, the results from discontinued operations are presented separately from continuing operations. Accordingly, under U.S. GAAP the consolidated statements of income for previous years are restated for discontinuance of an operation. The Paper Merchanting Division, which was sold with effect from October 31, 2003, qualifies as a discontinued operation.

	Year ended December 31, (in millions except ratios) (audited)					
	2000	**2001**	**2002**	**2003**	**2004**	**2004(1)**
Statement of Income Data:						
Amounts in accordance with Dutch GAAP						
Net sales	9,603	10,408	9,948	8,053	5,539	$ 7,499
Added value	2,341	2,396	2,253	1,854	1,476	1,999
Operating result	491	341	(301)	171	161	218
Result from operations before taxes	270	131	(500)	(86)	58	79
Total taxes	(55)	(24)	(18)	68	33	45
Total results from participations and other financial results	5	(3)	16	(102)	6	8
Total minority interests	(9)	(9)	(12)	(12)	(17)	(22)
Net result from operations	211	95	(514)	(132)	80	109
Extraordinary result, after tax	10	(40)	(74)		0	0
Net result	221	55	(588)	(132)	80	$ 109

	Year ended December 31,					
	2000	2001	2002	2003	2004	2004(1)
	(in millions except ratios) (audited)					
Amounts in accordance with U.S. GAAP						
Net sales(2)	6,581	7,310	6,967	5,840	5,550	$ 7,514
Operating result(2)	250	116	(718)	182	213	288
Result from continuing operations(2)	57	13	(849)	(59)	104	141
Discontinued operations(2)	30	22	(92)	(249)	4	5
Net result before cumulative effect of change in accounting principles(2)	87	35	(941)	(308)	108	146
Cumulative effect of change in accounting principles, after tax(2)				(29)		
Net result(2)	87	35	(941)	(337)	108	$ 146
Balance Sheet Data (at period end):						
Amounts in accordance with Dutch GAAP						
Total assets	6,418	7,117	5,409	3,677	3,481	$ 4,713
Long-term debt	2,070	2,059	1,678	949	822	1,112
Group equity	1,948	2,671	1,811	1,484	1,474	1,996
Amounts in accordance with U.S. GAAP						
Total assets(2)	7,127	7,701	5,607	3,791	3,683	$ 4,986
Long-term debt	2,070	2,059	1,678	949	862	1,167
Group equity(2)	2,513	3,157	1,910	1,504	1,530	2,071

	Year Ended December 31,				
	2000	2001	2002	2003	2004
	(in , unless otherwise indicated)				
Other Data:					
Amounts in accordance with or derived from Dutch GAAP					
EBITDA (in millions of) (3)	672	439	(216)	213	280
Depreciation of tangible fixed assets and internally used software (in millions of)	(113)	(109)	(114)	(104)	(84)
Amortization of goodwill (in millions of)	(55)	(67)	(70)	(52)	(45)
Impairment of goodwill (in millions of)	—	—	(573)	(53)	—
Operating result (in millions of)	491	341	(301)	171	161
Capital expenditures (in millions of)	122	127	107	79	59
Capital stock - Ordinary (in millions of)	116	157	158	164	166
Number of Ordinary Shares outstanding at year-end (in thousands)	102,544	131,835	132,628	136,692	138,12727
Dividend declared in per Ordinary Share	0.60	0.16	0.07	0.07	0.07
Basic net result per Ordinary Share before extraordinary results	1.80	0.49	(4.14)	(1.23)	0.32
Basic extraordinary result per Ordinary Share	0.10	(0.32)	(0.56)	—	—
Basic net result per Ordinary Share	1.90	0.17	(4.70)	(1.23)	0.32
Fully diluted net result per Ordinary Share before extraordinary results (5)	1.64	0.49	(4.14)	(1.23)	0.32
Fully diluted extraordinary result per Ordinary Share (5)	0.08	(0.28)	(0.48)	—	—
Fully diluted net result per Ordinary Share (5)	1.72	0.17	(4.70)	(1.23)	0.32

	Year Ended December 31,				
	2000	2001	2002	2003	2004
	(in , unless otherwise indicated)				
In millions of :					
Net cash provided by operating activities	66	469	258	272	223
Net cash provided by (used in) investing activities	(317)	(766)	(138)	544	(82)
Net cash provided by (used in) financing activities	163	420	(208)	(681)	(127)
Dividend declared per Ordinary Share (in USD) (4)	0.81	0.22	0.09	0.09	0.09
Amounts in accordance with U.S. GAAP					
Basic result from continuing operations per Ordinary Share	0.24	(0.16)	(6.68)	(0.68)	0.49
Basic net result before cumulative effect of change in accounting principle per Ordinary Share	0.55	0.01	(7.38)	(2.53)	0.52
Basic net result per Ordinary Share	0.55	0.01	(7.38)	(2.75)	0.52
Fully diluted result from continuing operations per Ordinary Share	0.24	(0.16)	(6.68)	(0.68)	0.45
Fully diluted net result before cumulative effect of change in accounting principle per Ordinary Share	0.54	0.01	(7.38)	(2.53)	0.48
Fully diluted net result per Ordinary Share	0.54	0.01	(7.38)	(2.75)	0.48

(1) Certain euro amounts for 2004 have been translated into United States dollars at the Noon Buying Rate at December 31, 2004 of 1.3538 U.S. dollars to the euro. Such translations should not be construed as representation that the euro amounts represent, or have been or could be converted into, United States dollars at that or any other rate.

(2) Several U.S. GAAP adjustments have been made to net result under Dutch GAAP to comply with U.S. GAAP. These adjustments have been made, among other things to:

recognize discontinuance of certain operations;

recognize goodwill on acquisitions that was previously written off to equity;

adjust goodwill for restructuring and integration provisions that did not qualify under U.S. GAAP;

reverse those restructuring and integration provisions and other provisions not allowed under U.S. GAAP;

amortize intangible assets;

write-off capitalized software;

add extraordinary items to operating income;

record derivative instruments at fair value;

recognize pension assets;

defer revenue for timing differences in recognition;

write-off and amortize financing fees;

expense operating lease payments on a straight-line basis;

as of 2002, reverse amortization and adjust impairment of goodwill; and

as of 2003, defer revenue from catalog contributions.

Several U.S. GAAP adjustments have been made to total assets under Dutch GAAP to comply with U.S. GAAP. These adjustments have been made, among other things, to:

- recognize goodwill on acquisitions that was written off to equity under Dutch GAAP;
- adjust goodwill for restructuring and integration provisions not allowed under U.S. GAAP;
- recognize intangible assets;
- expense software costs which do not qualify for capitalization under U.S. GAAP;
- recognize deferred tax assets under U.S. GAAP;
- recognize pension assets;
- adjust our capitalization of financing fees;
- accrue for operating lease payments on a straight-line basis;
- as of 2002, reverse amortization and adjust impairment of goodwill; and
- as of 2003, reduce inventory values for catalog contributions.

(3) We define EBITDA as net result before interest and other financing costs, taxes, depreciation of tangible fixed assets and internally used software and before amortization of goodwill. This is a non-GAAP financial measure for which the most directly comparable GAAP financial measure is net result. In the past we defined EBITDA as operating result before depreciation of tangible fixed assets and internally used software and amortization and impairment of goodwill and therefore our presentation of EBITDA in certain past disclosure documentation cannot be

compared to the presentation of EBITDA in this annual report of Form 20-F.

Buhrmann evaluates its operating performance based on several factors, including the financial measure EBITDA. Buhrmann believes EBITDA to be an important indicator of the operational strength and performance of its business, including the ability to generate cash and to repay long-term debt. For a discussion of the reasons we use EBITDA to evaluate our operating performance, and its limitations, and a reconciliation between the GAAP measure of net result and the non-GAAP financial measure EBITDA , see Item 5 Operating and Financial Review and Prospects Use of Non-GAAP Financial Measures EBITDA .

(4) The dividend was translated from euro to U.S. dollar at the March 11, 2005 Noon Buying Rate (as defined below in Exchange Rates) for cable transfers of 1 = 1.3465 U.S. dollar.

(5) A mathematical calculation of net result per Ordinary Share before extraordinary result on fully diluted basis would be 0.38 in 2004, (0.76) in 2003, (3.39) in 2002 and 0.56 in 2001. Net result per Ordinary Share on fully diluted basis would be 0.38 in 2004, (0.76) in 2003, (3.87) in 2002 and 0.28 in 2001. Under Dutch GAAP, in case fully diluted earnings per share figures are higher than basic earnings per share figures, fully diluted earnings per share figures should be adjusted downwards to basic earning per share figures.

EXCHANGE RATE INFORMATION

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. Amounts expressed in GBP relate to the British pound, amounts in AUD relate to Australian dollars and amounts expressed in USD, $ or U.S. dollar r to dollars of the United States of America.

In January 1999, Buhrmann started reporting in euro. We prepare our financial statements in euro.

The following table sets forth, for the periods indicated, certain information regarding the Noon Buying Rate for the euro for the period 2000-2004. The term Noon Buying Rate means the noon buying rate in New York City for cable transfers into foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York:

	U.S. dollar per euro			
Year	**Year end**	**Average**	**High**	**Low**
2000	0.9388	0.9207	1.0335	0.8270
2001	0.8901	0.8909	0.9535	0.8370
2002	1.0485	0.9495	1.0485	0.8594
2003	1.2597	1.1315	1.2597	1.0361
2004	1.3538	1.2439	1.3625	1.1801

The average Noon Buying Rate for each year is calculated by using the average of the Noon Buying Rates on the last day of each month during the year.

In determining earnings originally stated in foreign currencies, Buhrmann used an average of daily exchange rates of the respective currency versus the euro. For the balance sheet, Buhrmann used the exchange rates of the last business day of the reported period. The following table shows the applicable rates used for such purposes for the periods indicated:

	Balance sheet as of December 31, 2002	**Income statement for year ended December 31, 2002**
Australian dollar per euro	1.8556	1.7365
Canadian dollar per euro	1.6550	1.4828
British pound per euro	0.6505	0.6287
U.S. dollar per euro	1.0487	0.9448

	Balance sheet as of December 31, 2003	**Income statement for year ended December 31, 2003**
Australian dollar per euro	1.6802	1.7384
Canadian dollar per euro	1.6234	1.5821
British pound per euro	0.7048	0.6918
U.S. dollar per euro	1.2630	1.1307

	Balance sheet as of December 31, 2004	Income statement for year ended December 31, 2004
Australian dollar per euro	1.7459	1.6891
Canadian dollar per euro	1.6416	1.6169
British pound per euro	0.7051	0.6785
U.S. dollar per euro	1.3621	1.2434

The following table sets forth the high and low Noon Buying Rate for the euro of each of the monthly periods indicated in U.S. dollar per euro:

Month	High	Low
September 2004	1.2417	1.2052
October 2004	1.2783	1.2271
November 2004	1.3288	1.2703
December 2004	1.3625	1.3224
January 2005	1.3476	1.2954
February 2005	1.3274	1.2773

On March 11, 2005, the exchange rate of the euro to the U.S. dollar based on the Noon Buying Rate of the Federal Reserve Bank of New York was 1.00 = $1.3465.

RISK FACTORS

The key risks related to our business and our industry are described below. These risks are not the only ones we face; additional risks of which we are presently not aware or that we currently deem immaterial may also impair our business.

Risks Relating to Our Business

Buhrmann has material debt.

Buhrmann has indebtedness that is material in relation to its shareholders equity. A substantial portion of Buhrmann s cash flow from operations is dedicated to the payment of principal and interest on Buhrmann s debt. At December 31, 2004, we had a total indebtedness of approximately 861 million. As a result, we are a highly leveraged company.

Buhrmann s indebtedness could have important consequences, including that:

Buhrmann s ability to obtain additional financing for working capital, capital expenditures, acquisitions, or general corporate purposes may be impaired;

certain of Buhrmann s borrowings are and will continue to be at variable rates of interest, which exposes Buhrmann to the risk of increasing interest rates;

it may increase our vulnerability to general adverse economic and industry conditions;

it may make it more difficult for us to satisfy our obligations with respect to the $8^1/_4$% Senior Subordinated Notes due 2014 (the 2014 Notes);

it may limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;

a substantial part of Buhrmann s assets has been pledged to secure Buhrmann s obligations under the Senior Credit Facility and in connection with its securitization program and will be unavailable to secure other debt; and

Buhrmann may be more leveraged than certain of its competitors, which may place Buhrmann at a competitive disadvantage.

Buhrmann s ability to make scheduled payments or to refinance its obligations with respect to its indebtedness will depend on Buhrmann s financial and operating performance, which, in turn, is subject to prevailing economic conditions and to certain financial, business and other factors beyond its control, including interest rate exposure and credit risks. Buhrmann s operating performance, cash flow and capital resources may not be sufficient for payment of its debt in the future. If Buhrmann s cash flow and capital resources are insufficient to fund its debt service obligations, Buhrmann may be forced to reduce or delay scheduled expansion and capital expenditures, sell material assets or operations, obtain additional capital or restructure its debt. In the event that Buhrmann is required to dispose of material assets or operations, obtain additional capital, or restructure its debt to meet its debt service and other obligations, the terms of any such transaction may not be as advantageous to Buhrmann as they otherwise might be.

Buhrmann is restricted by the terms of its debt.

The terms of the Senior Credit Facility limit Buhrmann s flexibility in operating its business. In particular, the Senior Credit Facility limits Buhrmann s ability to, among other things, incur other debt, pay dividends, make investments and enter into certain corporate transactions. The Senior Credit Facility also requires Buhrmann to meet certain financial ratios and tests. Buhrmann may not be able to do so for reasons beyond its control. If Buhrmann fails to comply with the obligations in the Senior Credit Facility, there could be an event of default under the Senior Credit Facility. This may cause Buhrmann to renegotiate the terms of the Senior Credit Facility, which may lead to an increase of interest expenses and may further restrict Buhrmann s ability to operate its business, including making acquisitions and paying dividends. In addition, if an event of default occurs, the lenders under the Senior Credit Facility could declare the debt under that agreement immediately due and payable, and seek to foreclose on Buhrmann s assets that secure the Senior Credit Facility. If there is a default under the Senior Credit Facility, Buhrmann may not have sufficient assets to repay the debt under that facility and other debt.

In addition, other funding instruments such as the accounts receivable securitization program, our 2% Subordinated Convertible Bonds due 2010 (the Subordinated Convertible Bonds), and the 8 (1)⁄4% Senior Subordinated Notes due 2014 (the 2014 Notes) have certain restrictions attached. Failure to comply with the restrictions imposed in relation to any such instruments could result in a default under those agreements.

Buhrmann may not be able to manage its growth effectively.

Challenges which may result from organic growth, as well as growth through acquisitions, include Buhrmann s ability to:

- improve the efficiency of growing operations;
- manage efficiently the operations and employees of expanding businesses;
- hire and retain enough qualified personnel to staff new or expanded operations;
- maintain its existing customer base and the amount of sales to these customers; and
- assess the value, strength and weaknesses of acquisition candidates.

Buhrmann cannot ensure that it will be able to adequately address these concerns. Buhrmann s failure to address these concerns could prevent Buhrmann from achieving its strategic initiatives and could also lead to a material adverse effect on its business, financial condition and results of operations.

Adverse developments in equity and bond markets may require Buhrmann to make additional contributions to its pension funds.

Buhrmann is operating a variety of pension funds, including a number of defined pension schemes that are separately insured in trusts (pension funds). Local law or specific arrangements with these pension funds require a minimum funding level of benefit obligations of these pension funds. The funding levels are calculated based on certain assumptions, including expected return on plan assets. The value of the assets under management of these trusts varies, particularly with developments in the equity and bond markets, which can affect the costs to Buhrmann. Declining returns on the equity and bond markets may require Buhrmann to make additional contributions to these pension funds in order to meet the minimum funding levels, which may adversely affect Buhrmann s business, financial condition and results of operations.

We face risks associated with acquisitions and divestitures.

We have made a number of acquisitions over the last five years, and our growth strategy relies in part on selective acquisitions in the industries in which we operate. Risks we could face with respect to recent and future acquisitions include:

- difficulties in the integration of operations, technologies, products and personnel of the acquired entity;
- diversion of management s attention away from other business concerns; and
- expenses of any undisclosed or unknown potential liabilities of the acquired entity.

In addition, future acquisitions could result in the incurrence of debt and the assumption of liabilities, including contingent liabilities. Any of the foregoing could have a significant negative impact on our business, financial condition and results of operations.

Buhrmann has also divested various subsidiaries and divisions, some of which were substantial. In connection with these divestments, Buhrmann has agreed to indemnify the purchasers against various potential liabilities, such as liabilities related to legal and regulatory proceedings, environmental liabilities and liabilities related to taxes. Buhrmann has established reserves for such potential liabilities that Buhrmann believes are adequate. However, Buhrmann cannot assure you that these reserves will in fact be sufficient to cover these potential liabilities. The lack of adequate reserves could have a material adverse effect on Buhrmann s business, financial condition and results of operations.

Buhrmann s exposure to exchange rate fluctuations may affect its reported results of operations and financial condition.

A major proportion of Buhrmann s activities is conducted in currencies other than the euro, which is Buhrmann s reporting currency. The position in relation to the U.S. dollar is, in particular, relevant, as approximately two-thirds of Buhrmann s revenues and more than two-thirds of Buhrmann s operating results were generated in U.S. dollars in 2004. This results in foreign exchange translation exposure when our results are translated into euro in our consolidated financial statements included elsewhere in this Annual Report. For example, a 10% weakening in the value of the U.S. dollar in relation to the euro (i.e., a 10% change in the U.S. dollar/euro exchange rate) would have decreased the net result from ordinary operations before amortization and impairment of goodwill in 2004 by approximately 7%. Under the Company s foreign exchange policy, translation risks in these subsidiaries are, in general, not hedged. This means that fluctuations in exchange rates may positively or negatively affect results of operations reported in euro.

Of Buhrmann s external long-term debt at December 31, 2004, approximately 80% was denominated in U.S. dollars and approximately 20% in other currencies after hedging. Buhrmann finances its subsidiaries predominantly through internal debt denominated in local currencies. Exchange rate fluctuations may lead to currency translation adjustments which may have a direct negative impact on the Buhrmann Group s equity and may negatively affect net result reported in euro.

Inability to maintain and improve its information systems effectively, and prevent and recover from serious breakdowns, could disrupt Buhrmann s business processes.

Buhrmann needs to maintain and consistently improve sophisticated information systems to grow its businesses and achieve operating efficiencies. If Buhrmann fails to do so, its information systems may not function correctly or efficiently, which could have an adverse effect on Buhrmann s ability to perform administrative functions and process and distribute customer orders. This, in turn, could have an material adverse impact on Buhrmann s results of operations. Furthermore, in the event of a serious breakdown of information systems, customers will expect a timely recovery. If Buhrmann fails to implement information technology improvements or recover from serious breakdowns within the anticipated time frame, such failure could have a material adverse effect on Buhrmann s business, financial condition and results of operations.

If Buhrmann s contract with Heidelberg were to be terminated, or Heidelberg were to cease operations, Buhrmann could lose most of its Graphic Systems Division s revenues.

Buhrmann s Graphics Systems Division is the authorized distributor in a number of countries of printing equipment manufactured by Heidelberg. The Graphic Systems Division derives most of its revenues from the sale of that equipment. The exclusive distribution agreement runs until June 30, 2008 but may be terminated earlier by either party for cause. If Heidelberg were to terminate the distribution agreement or cease operations (without a successor), Buhrmann s business, financial condition and results of operations could be materially adversely affected.

If Buhrmann s relationship with Microsoft were to be terminated, or Microsoft were to cease operations, Buhrmann could lose most of its revenues derived from its specialty business, ASAP Software, Inc.

ASAP is a distributor of Microsoft software in a number of countries. The Office Products North America Division derives more than half of its revenues from the sale of Microsoft products through ASAP s operations. If Microsoft were to appoint a third-party exclusive distributor of its products in the markets in which ASAP operates or otherwise terminate its relationship with ASAP, or cease operations (without a successor), Buhrmann s business, financial condition and results of operations could be materially adversely affected.

Our restructuring programs may not achieve expected benefits.

From time to time, Buhrmann implements restructuring programs, including reductions in the number of staff. Buhrmann expects that these programs will result in structural cost savings and will improve Buhrmann s operating results. However, this expectation involves a number of assumptions and uncertainties, and as a result, Buhrmann may not achieve the expected benefits. The savings expected from these programs are often significant and need to be realized on a timely basis. Buhrmann has recorded reserves for these restructuring programs. Buhrmann cannot assure you that additional reserves for restructuring programs will not be required in the future as well. In addition, these restructuring programs absorb management time and can interrupt normal business operations.

Changes in the assumptions underlying Buhrmann s estimated utilization of its considerable amount of tax loss carry-forwards could have a material adverse impact on its tax assets and effective tax burden.

Buhrmann has a considerable amount of tax loss carry-forwards, pursuant to which it records deferred tax assets. In addition, Buhrmann records certain valuation allowances to reduce these deferred tax assets to the amount that Buhrmann estimates the deferred tax assets are likely to be realized. In determining these valuation allowances and deferred tax liabilities, Buhrmann takes into account estimated future taxable income, tax planning, applicable limitations on the use of tax loss carry-forwards and the possibility that prior year tax returns will be challenged by the tax authorities. If actual future taxable income is different than originally assessed, if tax planning fails to materialize, if limitations on the use of tax loss carry-forwards apply or if the possibility that prior year tax returns will be challenged turn out to be different than originally assessed, the valuation allowances on deferred tax assets and deferred tax liabilities may have to be adjusted which could have a material adverse affect on Buhrmann s reported tax expense and net result in future years and a corresponding effect on its financial condition and results of operations.

Volatility of the market for our Ordinary Shares, the 2014 Notes and the Subordinated Convertible Bonds.

The market price of Buhrmann s Ordinary Shares, the 2014 Notes and the Subordinated Convertible Bonds could be subject to wide fluctuations in response to numerous factors, many of which are beyond the control of Buhrmann. These factors include, among other things, actual or anticipated variations in operating results, earnings releases by the Buhrmann Group and its competitors, changes in financial estimates by securities analysts, market conditions in the industry and the general state of the securities market, governmental legislation or regulation, currency and exchange rate fluctuations, as well as general economic and market conditions, such as recessions.

Risks Relating to Our Industry

The demand for Buhrmann s products and services relates to the number of white collar workers employed by Buhrmann s customers, and as a result, to general economic conditions.

Buhrmann s Office Products business is concentrated in North America, Western Europe and Australia. The demand for Buhrmann s products and services, most notably in office products, relates to the number of white collar workers employed by Buhrmann s customers in these markets. An interruption of growth in these markets or a reduction of white collar workers employed by Buhrmann s customers may adversely affect Buhrmann s operating results. A downturn in the United States and other western economies has recently had an adverse impact on a number of our customers, resulting in some cases in cutbacks in the employment of white collar workers and the related cutbacks in expenditures for office supplies and other products and services that we sell to them. Any future general economic downturn, together with the negative effect this has on the number of white collar workers employed, may adversely affect Buhrmann s business, financial condition and results of operations.

Customers are able to reduce their spend per white collar worker on short term notice, by postponing the purchase of items or through the substitution of lower-cost items and services.

Buhrmann s customers may, on short notice, postpone or reduce spending on Buhrmann s products and services per white collar worker, for instance, through the use of our eCommerce platforms. As a result, our level of sales can significantly change over a short period of time. In addition, customers may also, on short notice, substitute certain of Buhrmann s products and services for its other, lower margin, products and services. We cannot assure you that a significant amount of our customers will not choose to postpone, reduce or eliminate their spending on short notice, whether in response to market conditions or otherwise. Any such postponement, reduction or substitution would adversely affect Buhrmann s business, financial condition and results of operations.

Although our customer base is spread over many industries and sectors, including government institutions, most of our customers are large corporations or institutions which frequently re-tender their office products contracts.

Many of our large account customers frequently re-tender their office products contracts in order to take advantage of the competitive pricing within the office products industries and achieved efficiencies in office products distribution. Although we have tens of thousands of customers, and no single customer represents more than 1% of our revenues, the loss of several large account customers in a relatively short period as a result of contract re-tendering could materially adversely affect our business, financial condition and results of operations.

Buhrmann could lose market share and profit margins due to increased competitive pressures, or due to a disruption in its service levels.

Each of Buhrmann s divisions operates in a highly competitive market. Many of Buhrmann s competitors offer the same or similar products that Buhrmann offers to the same customers or potential customers. Some of Buhrmann s competitors may have advantages over Buhrmann, including greater financial resources, better technical capabilities, better marketing capabilities, the ability to adapt more quickly to changing customer requirements, greater name recognition and the ability to devote greater resources to developing, promoting and selling their products. Also, new entrants in Buhrmann s markets such as new Internet based businesses may, by offering alternative distribution channels, alter the competitive landscape to Buhrmann s disadvantage. If Buhrmann s competitors successfully exploit these advantages, they could force Buhrmann to lower its prices or may cause Buhrmann to sell fewer of its products, either of which could adversely affect Buhrmann s business, financial condition and results of operations.

Furthermore, the continuation of office products contracts with our existing customers, and the successful retention of new office products contracts, primarily depends on pricing and service levels. We believe that one of the key factors differentiating Buhrmann from its competitors is its ability to provide competitive pricing on products combined with high quality service levels. Any disruption in the service levels that our customers have come to expect from us could result in the loss of their business to our competitors and adversely impact sales going-forward, which, in turn, could adversely affect Buhrmann s business, financial condition and results of operations.

Our reliance on suppliers allowances and promotional incentives could impact profitability.

We derive important benefits from suppliers allowances and promotional incentives provided by certain suppliers of products and services. We cannot be certain that we will be able to take advantage of any such suppliers allowances and promotional incentives that may be offered.

Should any of our key suppliers reduce or otherwise eliminate suppliers allowances and promotional benefits, our profit margin for these products and services may be harmed. These occurrences may have a material adverse effect on our business, financial condition and results of operations.

Revenues in Buhrmann s Graphic Systems Division are cyclical.

A substantial part of the Graphic Systems Division s revenues derives from the sale of printing equipment which is regarded as a high-value investment good. The demand for this type of good depends to a large extent on developments in macro-economic circumstances, particularly in relation to the activity levels at commercial printers, and innovation of technology at the Graphic Systems Division s main suppliers. As a result, the Graphic Systems Division experiences cyclicality in its revenues which could adversely affect Buhrmann s business, financial condition and results of operations.

There may be substantial differences between our financial condition as reported under Dutch GAAP from the equivalent data we would report under IFRS.

We prepare our financial statements in accordance with Dutch GAAP. From January 1, 2005, all European publicly listed companies are required to report on the basis of International Financial Reporting Standards (IFRS). Buhrmann started preparing for the transition in 2003, aiming to begin external reporting on the basis of IFRS from the 2005 reporting periods onwards. Within the limits of the IFRS framework we strive towards convergence with our U.S. GAAP reporting. There may be substantial differences between the results of operations, cash flows and financial condition Buhrmann reports under Dutch GAAP from the equivalent data Buhrmann would report under IFRS. Some of the accounting standards under IFRS, including their practical implementation, are not yet fully finalized, but we expect that the classification as debt of our Preference Shares A under IFRS, which are classified as part of shareholders equity under Dutch GAAP, will have a material impact. In addition, the European Financial Reporting Advisory Group has not yet fully endorsed the adoption of all IFRS standards. Separate IFRS information may not be available for periods prior to our 2004 financial year.

Forward-Looking Statements.

This document contains certain forward-looking statements concerning Buhrmann s future operations, economic performances, financial conditions and financing plans, including such things as business strategy and measures to implement strategy, competitive strengths, goals, expansion and Buhrmann s business and operations and references to future success. 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. However, whether actual results and developments will conform with Buhrmann s expectations and predictions is subject to a number of risks and uncertainties, including, among other things, the risk factors discussed above. Consequently, all of the forward-looking statements made in this document are qualified by these cautionary statements, and there can be no assurance that the actual results or developments anticipated by Buhrmann will be realized or, even if substantially realized, that they will have the expected consequences for or effects on Buhrmann and its subsidiaries or their business or operations.

ITEM 4: INFORMATION ON THE COMPANY

HISTORY AND DEVELOPMENT OF THE COMPANY

Company History

Buhrmann was incorporated in 1875 under the name Koninklijke Nederlandsche Papierfabrieken N.V. (KNP). In 1993, KNP merged with Buhrmann-Tetterode N.V. and VRG-Groep N.V., forming N.V. Koninklijke KNP BT (KNP BT). KNP BT was active in three main areas: paper manufacturing, packaging, and business services and distribution. In 1997 and early 1998, certain strategic decisions were made concerning the future of KNP BT. As a result, in April 1997, the protective and flexible packaging activities of KNP BT were divested for 454 million to Tenneco, Inc. and, in December 1997, the paper manufacturing subsidiary, KNP LEYKAM, was sold to Sappi Ltd. (Sappi), a South African paper group. In consideration for the sale of KNP LEYKAM, KNP BT received 335 million in the form of loan notes (sold immediately following the closing for 307 million in cash) and 44.6 million shares in Sappi. Buhrmann sold these shares in two tranches; 31.5 million as part of a global offering by Sappi in November 1999 and in February 2001 the remaining 13.1 million. The remainder of KNP BT s packaging business was sold in June 1998 for 1.4 billion to CVC and Cinven, two venture capital groups.

In August 1998, KNP BT was renamed Buhrmann NV, which can be regarded as the continuation of KNP BT s business services and distribution activities.

On October 28, 1999, Buhrmann acquired 100% of the outstanding capital stock of Corporate Express Inc., a global supplier of office and computer supplies, office furniture, imaging and computer graphic supplies and computer desktop software. The acquisition and the related refinancing costs amounted to approximately $2.9 billion, raised by means of the Senior Credit Facility in the amount of $1.9 billion, the issue of the 2009 Notes in the amount of $350 million, the issue of Preference Shares C in the amount of $350 million and 300 million newly issued Buhrmann Ordinary Shares.

In the first half of 2000, Buhrmann divested its Information Systems Division (comprising value added resellers of personal computers, computer networks, peripheral equipment and related services, as well as an information technology training business), which was no longer considered a core business.

In April 2001, the office products division of Samas Groep NV (Samas) was acquired for 321 million in cash and in May 2001 the North American office products business of U.S. Office Products Company (USOP) was acquired for $172 million in cash. The Samas and USOP acquisitions were financed partly by means of additional debt under the Senior Credit Facility and partly by means of an issue of Buhrmann Ordinary Shares in March 2001 which raised 665 million, net of expenses. A precondition for approval by the European Commission of the acquisition of the Samas office supplies division was the sale of the office products division of Buhrmann s then existing Dutch office products subsidiary. This sale was effected in November 2001.

In September 2001, Buhrmann listed American Depository Shares (ADSs), representing its Ordinary Shares, on the New York Stock Exchange. The ADSs are quoted under the symbol BUH. The ADSs, evidenced by American Depositary Receipts (ADRs), each represent one Ordinary Share of Buhrmann NV. Buhrmann s primary listing of Ordinary Shares remains at Euronext N.V. in Amsterdam, quoted under the symbol BUHR .

With effect from October 31, 2003, Buhrmann completed the sale of its Paper Merchanting Division to PaperlinX Limited, an Australian-based paper manufacturer. The Division was sold on a debt-free and cash-free basis for a base cash consideration of 706 million. The sale resulted in a net consideration of 637 million after deduction of estimated debt and cash and net asset value adjustments. The net consideration from the sale of the Paper Merchanting Division was used to reduce the Company s indebtedness by approximately 600 million. The remainder was used to pay various costs related to the transaction.

In December 2003, Buhrmann completed the issuance of its 115 million Subordinated Convertible Bonds and entered into the Senior Credit Facility in the amount of up to 730 million. The net proceeds from the issuance of the Subordinated Convertible Bonds and the Senior Credit Facility were used to reduce the Company s debt under the previous senior credit facility, which was entered into in 1999 when Corporate Express Inc. was acquired.

In July 2004, the Term Loans B were replaced by Term Loans C with tranches of 50 million and $503 million. This increased the borrowings under the Senior Credit Facility by $125 million. The other terms and conditions under the Senior Credit Facility remained the same except for a reduction in the payable interest margin. In addition, Buhrmann issued $150 million 2014 Notes in a private placement. These Notes were exchanged for newly registered bonds in October 2004.

The proceeds of both the 2014 Notes and the increase in the Senior Credit Facility were, together with available cash, used for a tender offer of Buhrmann s existing $350 million 2009 Notes. The tender offer and redemption of these bonds was completed in September 2004.

The legal name of the Company is Buhrmann NV (Naamloze Vennootschap). It is incorporated under the laws of the Netherlands and has its statutory seat in Maastricht (the Netherlands). Buhrmann s corporate head office is located at, and its registered office address is, Hoogoorddreef 62, 1101 BE Amsterdam ZO, the Netherlands. Our telephone number is +31 20 651 1111, and our website is www.buhrmann.com. Information included on our website does not form part of this Annual Report. Our agent in the United States for service of process in connection with the 2014 Notes is CT Corporation System, 111 Eighth Avenue, 13th Floor, New York, New York 10011. The transfer agent, registrar and depositary for the ADSs is The Bank of New York, located at 101 Barclay Street, New York, NY 10286.

Recent developments

Repurchase Preference Shares C

On February 22, 2005, Buhrmann reached agreement with all the holders of the Preference Shares C regarding the purchase by Buhrmann of all 43,628 issued and outstanding Preference Shares C for an aggregate purchase price of

$520 million in cash together with certain options to acquire Ordinary Shares of Buhrmann in certain defined circumstances. For further information regarding the repurchase of Preference Shares C, see Item 7 Major Shareholders and Related Party Transactions Related Party Transactions Holders of Preference Shares C . Provided that all conditions are fulfilled, Buhrmann expects to complete the repurchase of the Preference Shares C on or about April 1, 2005.

From January 1, 2005 Buhrmann will report its financial results on the basis of International Financial Reporting Standards (IFRS). Under IFRS, the Preference Shares C are accounted for as debt, combining a liability calculated by using the historic effective interest method and a derivative using the fair value approach. Consequently, under IFRS, the repurchase of the Preference Shares C is expected to result in an exceptional charge of 80 million to 100 million in the first quarter of 2005. The exceptional charge constitutes the difference between the value paid and the bookvalue, reflecting among others, accrued interest, the buy-back premium of the conversion option and the value of the specific contractual rights attached to the Preference Shares C.

Placement of 7 $^{7}/_{8}$% Senior Subordinated Notes due 2015

On February 24, 2005 Buhrmann announced that it had successfully placed *77/8%* Senior Subordinated Notes due 2015 (2015 Notes) with an aggregate principal amount of $150 million. The proceeds of the 2015 Notes are intended to be used to finance the planned repurchase of the Preference Shares C, together with a discounted rights issue of approximately 250 million and cash on hand. The proceeds of the 2015 Notes are being placed in escrow pending the completion of the repurchase transaction, which is expected to occur on or about April 1, 2005.

The 2015 Notes have been issued at a price of 99.151% of the par value to institutional investors in the United States and in Europe through a private placement pursuant to Rule 144A and Regulation S under the US Securities Act of 1933. The effective yield on the 2015 Notes is 8%. This transaction was closed on March 2, 2005.

Business Overview

Introduction

Buhrmann is an international business-to-business services and distribution group, supplying office products and graphic systems and related services for the business market. A combination of modern Internet technology and advanced logistic processes allows Buhrmann to distribute its products in an efficient way. Internet sales account for a growing proportion of the Company s total sales.

We believe we are a market leader based on revenue, in the business-to-business market for office products in North America and Australia. We operate in these markets mostly under the name Corporate Express. In Europe, we believe that Corporate Express is one of the market leaders, based on revenue. Furthermore, we believe that we are one of the largest independent distributors of graphic systems in Europe, based on revenue.

Buhrmann generated sales in 2004 of 5.5 billion. At the end of 2004, Buhrmann had approximately 18,000 employees in 18 countries.

Office Products

Buhrmann believes that it is one of the world leaders in the sale, distribution and service of office and computer products to the business market, based on revenue. Products of this type are ideally suited for Internet selling. The vast majority of Buhrmann s customers have Internet access. Orders can be placed more easily, efficiently and accurately via the Internet than using traditional methods such as telephone or fax, where there is a greater risk of incorrect data input. The costs are also lower as the process circumvents a number of administrative tasks. Customers place e-commerce orders by accessing one of our websites. Buhrmann arranges next-day on-site delivery. Due to the geographical spread of its activities, Buhrmann is able to offer a high level of service to companies operating on a worldwide basis.

Graphic Systems

Buhrmann s graphic systems business is active in six European countries, supplying graphic machines, materials and related services to the graphic industry. Buhrmann is an authorized distributor for Heidelberger Druckmaschinen AG. In addition to the well-known Heidelberg presses, Buhrmann sells pre-press systems, cutting, folding and binding equipment and also supplies consumables, such as ink and spare parts.

Business strategy

Continued focus on growth

We continue to focus on growth in our existing businesses through the consolidation of our leadership in the large account segment, the penetration of the mid-market segment, the further growth of our private brand product ranges and the extension of our product range across all our geographic markets. We may support the growth in our existing businesses with selective acquisitions. Over the past five years we have demonstrated the flexible and efficient nature of our business model through the successful integration of three significant acquisitions (namely Corporate Express, the office products business of USOP, and the office products division of Samas) as well as a number of smaller acquisitions. Following up on these successful experiences, Buhrmann intends to pursue this balanced strategy.

Increase sales by leveraging global service capabilities

Buhrmann intends to increase sales through continued emphasis on service quality across all of its business segments. Buhrmann believes that, in its Office Products business segment, service quality (for example fill rates, lead time, delivery reliability and a high degree of customization of ordering processes through adaptive information technology solutions) and the ability to provide a breadth of product offerings in a large number of markets are the key criteria that its customers consider when selecting suppliers for office products. Buhrmann believes that it will further strengthen its position with businesses and institutions in North America, Europe and Australia, as these entities increasingly demand single-source suppliers for their global office product needs. Furthermore, Buhrmann has also been stepping up efforts to reach out to small- and medium-sized office supplies customers who can benefit from a total supply solution. Buhrmann can help these customers fulfill their sourcing needs in addition to lowering their overall supply chain costs.

Consolidate market positions

In our core Office Products business segment aimed at strategic and large accounts, we will continue to consolidate our prominent market positions, while increasing our global contract business through which we provide office products sourcing coverage for global customers who operate in our North American, European and Australian markets.

Extend product lines

By further leveraging its distribution network through product range extensions including forms, promotional items, facility, break room and safety supplies, Buhrmann has expanded its product-line. We will continue to focus on broadening our product line in order to further increase growth in our existing business.

Extend our customer base

We believe that in our major geographical markets the strategic and large accounts market segment represents approximately 80% of our total sales. Small- and medium-sized companies account for the remainder of our total office product sales. We seek to increase sales to small- and medium-sized companies with a goal of increasing our overall customer base across different market segments and to utilize more fully the capacity of our distribution infrastructure.

Expand private brands

Buhrmann has also successfully introduced private brand product ranges, of which the Corporate Express brand name is the most important. The extension of the private brand range has positively impacted gross margins and operational profitability and it represents a profit growth opportunity which Buhrmann will continue to exploit.

Extend preferred supplier relations

Buhrmann actively pursues a strategy of working with fewer, more strategic suppliers for a growing number of product categories. Category management is an essential part of our merchandising strategy. By strategically sourcing a core range of consumable supplies for our customers business environment from preferred suppliers, we are able to streamline the supply chain and improve our cost base. This preferred supplier initiative has positively impacted gross margins and operational profitability and it represents a profit growth opportunity which Buhrmann will continue to exploit.

Focus on improving operating margins

Buhrmann has identified opportunities to improve the operating margins in each of its business segments. In the Office Products Divisions, Buhrmann will try to improve operating margins by (i) engaging in targeted marketing programs to increase sales of value-added products that carry higher margins, (ii) eliminating unprofitable product lines and (iii) centralizing or regionalizing certain administrative and operational functions. In the Graphic Systems Division, Buhrmann will continue to develop its Triple S (service, supplies and spare parts) in order to reduce the effect of cyclicality of equipment sales on the operating margin of this Division.

Risks associated with our strategy

You should also consider the risks we face that could limit our ability to implement our business strategies, including:

a reduction in the number of white collar workers employed by our customers or a reduction in the spending per white collar worker could adversely affect growth in our existing businesses;

if we do not efficiently manage our growth, whether through organic growth or as a result of acquisitions, we may not fully realize the expected growth of our revenues;

the terms of our debt may limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate and may limit our ability to, among other things, make acquisitions;

if we are unable to maintain and improve our information systems in a timely manner in order to correctly and efficiently process and distribute customers orders on a global basis, this could adversely affect our ability to successfully leverage our global service capabilities;

the highly competitive nature of the markets in which we operate, combined with the fact that many of our competitors offer the same or similar products, could adversely affect our ability to extend our customer base and maintain our existing customers resulting in a loss of market share; and

our strategy for the improvement of operating margins relies on the successful implementation of certain measures which may not be sufficiently realized.

In addition, while we may implement individual elements of our strategies, the benefits derived from such implementation may be mitigated in part, or in whole, if we suffer from one or more of the risks described in this Annual Report. As a result of these or other risks, we may decide to alter or discontinue aspects of our strategy and may adopt alternative or additional strategies. Any failure to successfully implement our strategies could adversely affect our business, results of operation or financial condition. See Risk Factors and Disclosure Regarding Forward-Looking Statements.

Industry Trends

Globalization/outsourcing

Our customers are increasingly concentrating their purchase volumes of office products or related products, while the customers expect delivery and services rendered to multiple locations. In addition, customers concentrate on their key processes, while they outsource non-strategic tasks. We believe this trend has contributed to the formation of our global office products business.

Size and scale/consolidation

In order to service our customers, extensive logistical, sales and information technology infrastructure is required. In addition, purchasing volumes determine largely how attractive products can be sourced. These factors underlie the economies of scale of our business model, hence the trend in our industry for the formation of larger entities in Office Products.

Internet/eCommerce

Due to the low value per order, high order volume, dispersed ordering points at our customers, extensive assortments and relatively high administrative costs, our business model is suitable for eCommerce developments. This has resulted in significant growth of volumes sold over the Internet.

Service

Notwithstanding the importance of attractive pricing and ease of ordering, service in terms of quick and complete delivery is essential in our industry.

Seasonality

The seasonality of sales in the office products business segment is limited as sales primarily relate to employees at work in the office. Therefore, sales in this segment are spread more or less in accordance with the effective working days in a quarter. Discretionary items such as software or furniture are typically negotiated at month or quarter ends. In the Graphic Systems Division, historically, most printing presses are sold in the last quarter of the fiscal year.

DIVISIONAL OVERVIEW

Buhrmann s business activities are organized into four divisions. These are the three Office Products Divisions of North America, Europe and Australia and the Graphic Systems Division. For reporting purposes, the Office Products Europe Division and Office Products Australia Division are combined. Therefore, both of them are addressed together in this section.

Office Products North America

Key figures (in millions of euro, except number of employees)

	2004	2003	2002
Net sales	3,628	3,939	4,931
Operating result	138	115	(273)
Number of employees at year-end	10,544	10,775	12,211

General

We believe our Office Products North America Division is a market leader, based on revenue, in the business-to-business market for office products and related services in the United States and Canada. Its Office Products business operates under the name Corporate Express (Corporate Express North America). Corporate Express North America manages a dynamic assortment of about 50,000 items. Its product range encompasses office products, computer and imaging supplies, furniture, promotional marketing products, forms management services, and, increasingly in 2003 and 2004, facility, break room and safety supplies. Corporate Express North America has more than 200 facilities, including 38 distribution centers, and approximately 1,400 dedicated delivery vehicles, which helps provide customers with next business day delivery services and has approximately 10,500 employees, including approximately 2,500 sales and marketing representatives. The Division s head office is located in Broomfield, Colorado. The Office Products North America Division also includes ASAP (distributor of desktop software).

Buhrmann believes that large companies are increasingly opting to use a single supplier in order to consolidate purchasing power and eliminate the internal costs associated with multiple invoices, multiple deliveries, complex and varied ordering procedures, uneven service levels and inconsistent product availability. Many large companies operate from multiple locations and can benefit from selecting suppliers who can service them in many of their locations.

Industry overview

The office products industry consists primarily of companies that operate in one or more of three broad sales channels: the contract stationer (or contract distribution) channel, the direct marketing channel and the retail channel. Contract distributors typically serve medium- and large-size business customers through the use of a product catalog and a direct sales organization and typically stock certain products in distribution centers and deliver these products to customers on the next business day. The major contract stationers carry a significant proportion of their merchandise in-stock, relying only upon wholesaler intermediaries for inventory backup and increased product breadth, while smaller contract distributors carry a much smaller portion of their merchandise in stock. Direct marketers of office products typically target small business customers and home offices. While their procurement and order fulfillment functions are similar to contract stationers, direct marketers rely almost exclusively on catalogs and other direct marketing programs, rather than direct sales forces, to sell their products, and generally use third parties to deliver products. Office product retailers typically serve smaller businesses, home offices and individual customers.

The non-store business-to-business office product distribution industry in North America has been rapidly consolidating and undergoing other significant changes. As a result of this consolidation, the number of independent, mid-size office products contract distribution companies has declined significantly. Large companies (including Corporate Express North America) serving a broad range of customers have acquired many of these smaller businesses. As the office products industry continues to consolidate, Buhrmann believes that many of the remaining smaller office products distribution companies will be unable to compete effectively due, in part, to their inability to purchase products

at favorable prices or provide all of the services customers require. Buhrmann expects that many of these independent businesses will be acquired by larger companies or will cease to operate. Medium- and large-size companies, the market segments in which Corporate Express North America operates, are increasingly opting to use a single national supplier. Central purchasing of office products (such as office supplies, computer supplies and office furniture) and services provides several advantages for customers. For example, a customer could take advantage of the economies of scale Corporate Express North America offers and achieve uniformity in its office products services and distribution company-wide, while reducing its procurement process costs by dealing with one supplier and a uniform system.

Strategy

In 2003, Corporate Express North America completed its restructuring program announced in December 2002. Increased efficiencies were realized by centralizing and right-sizing the operation. Back-office functions have been harmonized and were brought together to a large extent in one shared service center. Since early 2003, an enterprise-wide information system has been fully deployed throughout the United States. Following the completion of this integration and restructuring, Corporate Express North America, is now fully focused on driving growth in its existing businesses through a number of strategic initiatives.

Corporate Express North America aims to consolidate its leading position in the strategic and large client segment, which represents approximately 80% of sales. We believe our dedicated strategic sales organization should drive sales conversion, penetration and retention across product lines with large and strategic accounts. Additionally, Corporate Express North America is focusing on growing sales in the small- and medium-sized enterprise market segment. Our approach consists of database marketing techniques as part of an integrated sales effort utilizing direct sales, telemarketing sales, integrated sales teams, direct mail, email and other communication tools to optimize customer contacts.

In addition, we aim to continue leveraging our strong core distribution channel to extend Corporate Express North America s product range, with a particular focus on the facilities, break room and safety supplies market which we believe is significant in size.

Corporate Express North America is also pursuing various global sourcing initiatives including forming partnerships with key suppliers on a global basis in order to maximize purchasing power and expanding private brands, which should increase sourcing potential, brand awareness and customer loyalty and contribute to improving margins.

Buhrmann is also a significant provider of desktop software to organizations through its subsidiary, ASAP. Together with its partners, ASAP helps its clients purchase, manage and deploy software solutions and volume licensing programs. ASAP plans to expand by gaining market share in the segment of small- and medium-sized organizations and by penetrating new geographic markets, mostly in Europe. It will further enhance its strong technological position by integrating its systems into a single worldwide application, introducing an enhanced eBusiness capability into new markets, and expanding the scope of its offering of management tools for monitoring software installation, utilization and licensing.

Product offerings

Corporate Express North America offers its customers a full range of office products, including:

- traditional consumable office supplies, such as pencils, pens, paper clips, paper and writing pads;
- consumable computer products, including toner and inkjet cartridges, magnetic media products, CDs, and diskettes;
- office furniture such as desks, filing cabinets and chairs;
- desktop software products such as well known operating systems and applications as well as anti-virus applications and CD label printing software;
- digital printing equipment and services, including copiers;
- print and forms management services, such as business cards, general business forms, labels and direct mail;
- customized corporate gifts and promotional items such as caps and mugs;
- facility equipment and supplies, such as paper towels, liquid soap and dusters;
- break room supplies, including coffee, plastic cups and chewing gum; and
- safety equipment and supplies, such as padlocks and fire extinguishers.

Sales and marketing

The marketing strategy is designed to increase the customer base of medium- and large-sized businesses and institutions by flexibly and responsively demonstrating to customers and potential customers that the total overall cost of managing their office products needs can be reduced by focusing on process alignment. Corporate Express North America works with customers to simplify and reduce the costs of the office product procurement process by providing services such as customized, sophisticated e-commerce procurement solutions.

Corporate Express North America markets its products and services to customers using a centrally produced catalog of its products and services. A large part of the products offered in these full-line catalogs are kept in stock at the distribution centers. Additionally, Corporate Express North America is linked electronically to certain wholesalers so that items not in stock can also be delivered to a customer on a next-day basis. In addition to the full-line catalog, Corporate Express North America produces a substantial number of customized and promotional catalogs. Customers can also place orders through the Internet using E-Way, Corporate Express North America s full-line Internet ordering system.

Corporate Express North America markets and sells its products and services to both contract and non-contract business customers through a network of national account managers servicing national accounts and local employee sales representatives. Contract customers enter into agreements setting prices for certain products over a particular time period. The primary responsibility and priority of the national account managers is to acquire, retain and increase sales of the wide array of products and services to large, multiple location customers.

Account managers are assigned a list of prospective customers for whom the account manager takes responsibility in directing all marketing efforts. Additional responsibilities of the account managers include designing and implementing customized merchandise and service packages for each of their accounts as well as responding to all special service requests. A company-wide network of personnel and resources supports all account managers, including information technology resources. The local sales force is generally commission-based and is organized within each of the major customer segments with specialists in each of the product categories. In order to maximize the productivity as well as the product and service knowledge of the sales force, Corporate Express North America is focusing on expanding its national account customer base to increase the cross-selling opportunities among its various product lines and gaining share in the mid-market by structuring the sales force to reflect customer segmentation.

Logistics and Purchasing

Corporate Express North America receives approximately 65% of its office supplies orders through EDI systems and through E-Way, its electronic commerce ordering and fulfillment system, and the remaining amount of its orders by telephone, fax, mail-in purchase order and other traditional methods. After an order has been placed, picking documents are created for those items in stock and routed to the appropriate distribution center for order fulfillment. At the same time, the EDI systems transmit those portions of the orders not in stock to the vendors and wholesalers. Corporate Express North America is able to acquire many items unavailable in their own inventory on the same day and to combine such items with the in-stock items to yield a first time fill rate in the United States exceeding 99%.

The Division s larger distribution centers typically have in stock over 10,000 SKUs of office products. The most popular items are contained in Corporate Express North America s catalog available in both printed and electronic versions, providing a comprehensive selection of more than 13,000 items in the core categories of office and computer supplies. Corporate Express North America offers brands such as 3M, Microsoft and Hewlett-Packard, as well as its own Corporate Express private label. A large majority of these items are maintained in inventory in the distribution centers. Corporate Express North America also has access, through EDI and other supplier ordering systems, to about 50,000 SKUs of office supplies, computer supplies and catalog furniture from wholesalers and other suppliers, enabling it to provide its customers with immediate access to a broad range of products, including those not stocked at its facilities. Corporate Express North America provides a wide variety of customized value added services, such as customer specific electronic catalogs, which are designed to reduce the customer s total overall cost of managing its office products needs.

Most of the distribution centers use bar coding, radio frequency and scanning technology to ensure accuracy and efficiency. After an order is picked and packed, conveyors and overhead scanning systems are utilized to route and manifest outgoing customers deliveries. Significant detailed reporting is available to optimize warehouse productivity, inventory turns, SKU selection and to evaluate vendor performance.

The distribution centers generally have a logistical reach of up to approximately four to five hours by truck in any direction and a combination of owned vehicles and third-party delivery services are used to deliver office products. Corporate Express North America typically operates from a single regional distribution center that generally supports multiple distribution breakpoints and satellite sales offices.

Corporate Express North America intends to continue to invest in enhanced warehouse and distribution technology in order to improve customer service capabilities. Technologies such as Pick-to-Voice (automated voice picking technology) in its distribution centers increase the group s ability to assemble multi-line orders accurately and efficiently. Another example is RoadNet , a program for vehicles that directs deliveries quickly. During 2002, two new technologically advanced distribution centers went on line in the New York and Los Angeles metropolitan areas. In 2003, another state-of-the-art distribution center was opened in Baltimore serving the Baltimore/Washington DC metropolitan area.

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Corporate Express North America purchases a large majority of the products in volume directly from manufacturers or major office products wholesalers, who deliver the merchandise to each of the distribution centers.

To maximize its purchasing capabilities, Buhrmann s purchasing strategy has been to establish preferred relations with certain suppliers with whom it can capitalize on purchasing economies. This preferred supplier strategy creates advantageous pricing relationships and has led to competition among suppliers for inclusion in this group. To further maximize its purchasing power, Corporate Express North America has been consolidating, and will continue to consolidate, its purchases from key suppliers to increase its importance to those suppliers, including the sourcing of the office products sold under the private brand names, of which Corporate Express is the most important. Additionally, Corporate Express North America has utilized, and will continue to utilize, the ability to further consolidate sourcing by combining with the European and Australian Office Products Divisions as part of the purchasing strategy.

Competition

Corporate Express operates in North America in a highly competitive environment. The primary competitive factors in the North American office products distribution industry are service, ability to customize supply chain efficiency and product offerings, including price. The North American office products industry is estimated to be $100 billion to $120 billion, including retail.

The principal competitors, varying in the different regions, are national office products distributors, traditional contract stationers, direct mail order companies, retail office products superstores and stationery stores. The target market is medium and large-sized businesses and other institutions. Buhrmann believes that existing customers and potential customers in this market prefer to deal with large value-added office products distributors, which can provide the lowest total overall cost of managing their office products needs, high levels of service, convenience and rapid delivery.

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 office products distributors and other businesses penetrating the office products market, compete for and sell office products to many of the same kind of customers as Corporate Express. Buhrmann believes that Corporate Express competes favorably with these companies on the basis of its customized and value-added services and the breadth of its product offerings. On the other hand, some of our main competitors have greater financial resources than Buhrmann and, particularly in the case of the retail office product superstores in the United States, significant name recognition.

Information technology

Corporate Express North America currently employs automated order entry, EDI, reporting and other information technology systems designed to decrease response times and error rates and improve customer service, and has several operating systems to enhance its operations. E-Way is the Internet on-line catalog ordering system, which generates an increasing amount of fully automated orders, thus reducing costs for both the customers and Corporate Express.

This system is linked to the general order entry system, called ISIS. Key features of the ISIS system include the use of three-tier client server architecture that allows customers and suppliers to better communicate with Corporate Express, object oriented design techniques, and a relational database designed to handle customer inquiry, data warehouse, and management information applications.

Through the implementation of these enhanced systems, Buhrmann plans to make the products and services available to a broader range of customers and to further personalize customer services and account information while lowering the customer s overall procurement cost.

Corporate Express North America also provides its customers with billing and usage information in hard copy, magnetic tape, cartridge or diskette media, in each case designed to a particular customer s specifications. Customized cost center billing allows a customer with this assistance to analyze and rationalize its ordering and usage of office supplies and to use such information for budgeting purposes.

The information initiatives and administrative programs, together with the increased sales and purchasing power, are designed to decrease operating costs as a percentage of sales and increase operating profitability.

Office Products Europe and Australia

Key figures (in millions of euro, except number of employees)

	2004	**2003**	**2002**
Net sales	1,500	1,479	1,540
Operating Result	47	(23)	(75)
Number of employees at year-end	6,003	5,873	6,023

General

The Office Products Europe Division, operating under the name Corporate Express (Corporate Express Europe), is a supplier and service provider of office supplies: stationery, office papers, information technology consumables, office furniture, presentation equipment, document printing equipment (including copiers, fax machines and printers), promotional products, telecommunications and facility management. Corporate Express Europe operates from approximately 130 locations in Austria, Belgium, Germany, France, Hungary, Ireland, Italy, Luxembourg, the Netherlands, Poland, Sweden and the United Kingdom, and employs approximately 3,800 employees. Through partnerships in countries like Denmark, Norway, Spain, Slovenia and Switzerland, Corporate Express Europe has a European network that spans 24 nations in total.

Also operating under the name of Corporate Express is the Australian Office Products Division (Corporate Express Australia), covering both Australia and New Zealand. We believe that 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 approximately 2,200 staff and services customers from 49 locations throughout Australia and New Zealand.

Industry overview

The office products business in most major international markets is following similar trends to those seen in the United States in recent years. The industry in Europe is fragmented and is being consolidated by major office product distributors, including Corporate Express. As in the United States, large contract stationers are establishing customer relationships with medium and large corporations that are seeking to lower the cost of procurement for consumable office supplies. In the case of smaller customers, the direct marketing segment is developing in global markets, especially in Europe. The retail superstore concept in the United States is not as widely accepted in other international markets, due to the high cost of real estate in major global markets and strong ties between small end-users and traditional small retail dealers. There is growing interest, particularly in European markets, in multinational relationships between large global corporations and the major contract stationers with international operations, such as Corporate Express. Increasingly, medium- and large-sized companies, the market segment where Corporate Express Europe operates, are opting to use a single pan-European supplier. There are several advantages for customers which use central purchasing of office supplies, office furniture, machines and services. For example, a customer could take advantage of the economies of scale offered by Corporate Express Europe and achieve uniformity in its office products services and distribution company-wide while reducing procurement process costs by dealing with one supplier and system.

Strategy

Corporate Express Europe continues to harmonize its European business and operations and to integrate its international account management in order to strengthen its position as a full-service distributor of office products and related services to businesses and institutions in Europe. In 2003, Corporate Express Europe focused on cost savings and right-sizing the organization. Headcount was reduced and Corporate Express Europe continued to strengthen management and sales. Certain European functions, like purchasing, international account management, international category management and eCommerce management, have been centralized on a European level in Amsterdam.

We continue to strengthen our sales organization, particularly in Germany, Benelux, the United Kingdom and France. With management concentrating on an extended period of integration and restructuring in recent years, development of dedicated sales organizations for each market sector has been a mixed success. Also hampered by unfavorable economic circumstances, our major operating companies were unable to fulfill their ambitions to boost top-line growth. Nevertheless, significant progress has been made in stabilizing the business and ramping up new prospects.

Corporate Express Europe will continue to focus on growth of its existing business. We believe Corporate Express Europe can leverage its strong infrastructure and information technology systems to enable it to offer its customers a superior office products procurement solution through a single source. We believe significant opportunities exist to allow Corporate Express Europe to gain market share in every national market in the market segments for medium- and large-sized companies.

We have clustered our merchandising organization into four regions (Central, West, South and North). The markets within each region show a similarity in product assortment, customer usage habits and brand presence. The four regions are supported by centralized procurement, marketing and international sales organizations.

Corporate Express Australia s growth strategy focuses on being the single-source provider of choice via expanding its product range and geographic coverage through organic growth and continued acquisitions, to gain a larger share of its existing customers business. In addition, Corporate Express Australia will increasingly aim to expand its customer base by focusing on the small and medium-sized enterprise market segments.

Product Offerings

Corporate Express Europe offers its customers a full range of office products, including office supplies (such as computer supplies, stationery and office paper), office furniture, copiers and office equipment. It also offers services relating to advertising specialty and promotional products and business (printing and distribution) forms. Corporate Express Europe increasingly acts as a single-source supplier with print-forms, janitorial and catering products. Corporate Express Europe has approximately 5,000 to 6,000 SKUs of office supplies contained in its separate European country catalogs. It also has access, through its EDI and other ordering systems, to thousands of additional SKUs of office supplies, computer supplies and catalog furniture from wholesalers and other suppliers, enabling Corporate Express Europe to provide its customers with immediate access to an increasing range of products. Corporate Express Europe has a strong private brand, Corporate Express , which accounts for approximately 25% of its office supplies sales. Corporate Express Europe will seek to increase the percentage of office supplies sales attributable to the Corporate Express brand, through leveraging existing distribution networks.

The Australian and New Zealand businesses also offer customers a comprehensive range of supplies for the office, including computer supplies, stationery, information technology products, office furniture, facility and break room, print and forms management and promotional products. The private brand EXP, available throughout Australia and New Zealand, provides customers with high-quality, cost-saving product alternatives. The EXP private brand program continues to expand, developing the brand as an alternative to the higher cost original products.

Sales and marketing

Products are marketed through a dedicated sales force in each national market which focuses on medium- to large-size accounts using catalogs of the product and service offerings. Buhrmann works with customers to simplify and reduce the costs of the office product procurement process by providing services such as customized and tailored catalogs and electronic ordering and information systems. Buhrmann intends to make greater use of direct marketing, through eCommerce and telephone sales to small customers in an effort to reduce costs and to grow sales.

Corporate Express Europe markets its products and services to customers through a local dedicated sales force using a separate full-color catalog of its product and service offerings in each country. Corporate Express runs a European catalog which contains a range of approximately 2,800 common articles to all the markets plus approximately 3,000 additional products, which are specific for the local markets. The catalog is also available in Corporate Express eCommerce tool, as well as on CD-ROM. Corporate Express Europe developed a new pan-European catalog that is increasingly being used by its international customers throughout Europe. It believes that the new catalog will be helpful to its international customers, in that the customers will have a uniform catalog of items available for immediate delivery to any of the customers European locations. The catalog will also enhance the image and presence of Corporate Express as an international player in the European office products industry.

Corporate Express Europe employs a differentiated sales approach whereby it tailors its sales approach to the type of customer Corporate Express is 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 keeps most of the office products it offers in its catalogs in stock at its distribution centers. Additionally, Corporate Express maintains electronic links to certain suppliers so that items not in stock can be delivered to a customer on a next-day basis and it can better manage its inventory levels. In addition to Corporate Express main catalogs, Corporate Express Europe produces a substantial number of customized and promotional catalogs. Together, Corporate Express Europe s local sales force and catalogs are key elements of its marketing strategy.

Leveraging its broad geographic infrastructure, linked via one computer system, Corporate Express Australia is able to offer customers a common national service with outlets located throughout Australia and New Zealand. A specialist national accounts team, offering a high level of service, manages these national customers. Corporate Express Australia also employs new sales channels such as telemarketing and direct mail to reach customers efficiently.

Logistics and Purchasing

Corporate Express Europe receives orders increasingly through eCommerce, as well as by telephone, fax and other traditional methods. Orders are routed to the warehouse to be picked up. Corporate Express Europe achieves an average first order fill ratio of over 95%. The distribution centers use different technologies for picking up orders and delivery. Corporate Express Europe has decided to change or replace methods and systems for those distribution centers that have become obsolete or inefficient operations or for which the capacity must be extended in order to serve more customers. New distribution centers in the Netherlands and the United Kingdom were built in 2002 and 2003 to replace regional distribution centers.

The distribution centers use conveyor belts, automatic bar code scanning, (pallet) flow racks, wave-based order picking, weight checks and case calculation, all with the objective of achieving high quality and efficiency. Corporate Express Europe has introduced a new warehouse management system that has improved the operational control of all the pick and pack activities, as well as all resource management activities. Corporate Express Europe uses different transportation options, such as delivery by truck and parcel services. The transportation method chosen depends on the size of the order and the location of the customer. Corporate Express Europe both owns delivery trucks and contracts deliveries out to third parties.

Corporate Express Europe purchases most of its products in high volume, directly from manufacturers who deliver the merchandise to distribution centers. Corporate Express goal has been to establish strong relationships with a limited number of suppliers with a view to achieving both lower prices and lower inventory levels as a result of the suppliers willingness to provide prompt delivery out of their inventory. Corporate Express Europe has accomplished this by entering into agreements to purchase large quantities from certain suppliers on a centralized basis. It is then able to negotiate favorable discounts and rebates that apply to purchases by all of Corporate Express branches. This strategy has led to competition among certain suppliers to be chosen as one of its suppliers. As a result, Corporate Express Europe will consider further consolidating its purchases from key suppliers to increase its importance to those suppliers, thereby increasing its bargaining power with its largest suppliers.

Certain of Corporate Express Europe s suppliers are linked through EDI with its on-line order entry system. If products ordered through the Corporate Express on-line order entry system are not in stock, Corporate Express purchases such products automatically through EDI from such suppliers. The suppliers deliver these products to Corporate Express warehouses in time for next-day delivery to the customer.

Corporate Express Australia has achieved a rationalization in supply partners in Australia and New Zealand. That rationalization has resulted in increased trading with a consolidated group of major suppliers. It also increases the level of service available to customers, while reducing costs through efficiency in the supply chain and elimination of duplicative processes.

Competition

Corporate Express Europe operates in a highly competitive environment. The two most significant competitive factors in the office products distribution industry in Europe are service (including, in particular, delivery speed and reliability) and price. New elements in the competitive environment are the power of eCommerce and the ability to deliver products to a customer on a pan-European basis. Having a wide variety of product offerings can also give a company in the industry a certain competitive advantage. Product quality is less significant than in many other industries, due to the perceived uniformity of products.

The office products industry in Europe is highly fragmented, with no single company accounting for more than 10% of the total European 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. Corporate Express Europe s competitors include national office products distributors, traditional contract stationers, direct mail order companies, e-tailers and portals and, to a lesser extent, office products superstores and stationery stores. Its principal competitors include Lyreco and Guilbert/Office Depot. In addition, Corporate Express Europe faces increasing competition from direct marketing companies.

Corporate Express Europe s target market is medium- and large-sized businesses and other institutions. It believes that existing customers and potential customers in this market prefer to deal with large value added office products distributors, such as Corporate Express, which can provide customers the lowest total overall costs of managing their office products needs, high levels of service, convenience and rapid delivery.

We believe that Corporate Express Australia is the market leader in the office products market in Australia and is placed second in this respect in New Zealand, based on revenue. Corporate Express Australia has demonstrated an ability to maintain these leading market positions in the past five years.

Information technology

The office products industry is witnessing strong growth in the number of orders placed on-line. The option of placing orders on-line supplements the other common methods of placing orders such as by telephone, fax and PC-based remote order entry. Corporate Express Europe currently uses a variety of national electronic retail price systems for sales, order entry and warehouse management applications as a result of the different systems used by the numerous businesses it acquired over the last few years.

In 2003, Corporate Express Europe started to replace SyntraNet with the new generation ExpressNet® , which allows for the on-line placement of orders. ExpressNet was enhanced and, since 2004, four solutions have been operational which offer varying levels of features and integration solutions tailored to each market segment:

ExpressConnect for strategic and large accounts, a software solution that interfaces with customer systems, delivering 100% data integration;

ExpressProcure for large organizations, an eProcurement service that offers on-line supply chain management tools;

ExpressOrder for medium-sized companies, an easy to use Internet-based ordering system; and

ExpressDirect, an open web shop for small businesses.

Our catalog database management system enables Corporate Express Europe to produce catalogs in a flexible and efficient manner. In particular, Corporate Express Europe expects to be able to produce customer-specific catalogs that can be printed at the customers premises by sales staff using their laptop computers.

Customers of Corporate Express Australia increasingly use its Internet ordering site, NetXpress.biz, one of the most transacted business-to-business systems in Australia. Sales via the Internet represented 53% of Corporate Express Australia s total lines ordered at the end of 2004, down from 56% in 2003, and continues to provide an excellent cost saving alternative to traditional paper-based processes. Customers using the Internet are able to increase expenditure control via user log-in and tailored product selection. They are also able to speed up their ordering process by viewing stock availability and pricing.

Graphic Systems

Key figures (in millions of euro, except number of employees)

	2004	**2003**	**2002**
Net sales	411	369	489
Operating Result	0	(13)	23
Number of employees at year-end	1,002	1,114	1,139

General

Buhrmann s Graphic Systems Division supplies graphic consumables, equipment (pre-press systems, printing presses, folding, cutting and binding machines) and provides service and maintenance for the graphic industry in Belgium, Greece, Italy, Luxembourg, the Netherlands and Spain.

The Graphic Systems Division is an agent for Heidelberg, the largest manufacturer of printing equipment in the world. The Division has been a preferred Heidelberg distributor in the countries mentioned above for over 75 years and currently operates under a distribution contract which took effect as of July 1, 2003. The distribution contract runs for five years and has a termination period of 18 months.

The Division offers its customers a full range of Heidelberg offset printing presses, both sheetfed and webfed, together with digital pre-press (scanner equipment, computer-to-film and computer-to-plate equipment), as well as finishing systems. It also sells products manufactured by Polar BASF, Kodak, and Polychrome Graphics.

The Division maintains and services a large installed machine base that holds over 80,000 stock items in five spare parts warehouses in Europe. The Division offers some 4,000 different consumables, ranging from offset plates to printing inks.

The emergence of new technologies has led to more streamlined and simplified printing processes. The application of these new technologies allows information to be transferred directly from the computer to the print-plate and via the printer to the finishing equipment where the cutting, folding and binding takes place.

The Graphic Systems Division experiences more cyclicality in its results than Buhrmann s other Divisions because a substantial part of its sales consists of capital goods with dominant market shares, such as printing presses, and thus is more directly susceptible to changes in the general economic climate. However, the increasing non-cyclical income derived from service, supplies and spare parts enhance the Division s resilience throughout the economic cycle.

Industry overview

The market for graphic systems is comprised of three basic categories: (i) sales of printing systems hardware, (ii) service contracts, and (iii) sale of consumables. Approximately 60% of the industry s sales are attributable to hardware, and approximately 40% of sales result from providing spare parts, supplies and services.

Offset printing accounts for a significant portion of the market and has grown at a steady rate of 2% to 3% per annum over the last decade, although sales have shown significant cyclicality depending on the economic environment and technological changes. A good portion of the existing population of printing presses need to be replaced or adapted to directly receive digitized information. Since there are lead times between ordering and installing the equipment, an economic upswing does not immediately correlate with sales for the Division.

A major trade show for the graphic arts industry, DRUPA, is held only once every four years. This event usually results in increased order intake of printing equipment in the year of the DRUPA because new technology is showcased at this trade show. The most recent DRUPA was held in May 2004.

The majority of printhouses in Europe are small companies employing no more than 20 people. By tradition, printers handle all the steps of the printing process (pre-press, printing, assembling and mailing) under one roof. Few printers specialize, for example, as a service bureau (essentially for pre-press), as a bindery or as a print center (handling low-quality and short-run print).

Strategy

The Division is concentrating on the distribution and service of graphic equipment in six European countries. Its underlying strategic goal is to remain Heidelberg s preferred distribution channel to the graphic arts market.

Offering Triple S is our primary strategy to balance the cyclical revenues associated with capital investments in printing equipment. In 2004, our sales in Triple S grew to 151, representing 37% of total divisional sales. Our focus continues to be on growing Triple S sales, which will not only continue to enhance our resilience to future cyclical reductions in equipment sales but also strengthen our relationships with customers. This focus has made the Division less dependent than it has been previously on the distribution of capital goods, as a result of which the Division expects its operating results to be less vulnerable to downturns in the economy than they were in the past.

We continue to encourage our customers to convert from the traditional forms of ordering to the more efficient and simpler Internet model. All product lines are available through the online system. In 2004, Internet orders for supplies increased to 30% as compared to 25% in 2003.

Customers in all our markets continue to experience cautious spend in graphic production. We expect that consolidation of the printing industry will reduce the number of commercial printing companies in Europe in the coming years. We will continue to invest in building strong customer relationships by offering a total solution service that includes the best printing equipment available in the market and the specialist expertise to support our customers.

In 2004, Heidelberg divested its digital printing business, partly due to disappointing growth. We, in turn, have also adjusted our expectations for growth in this sector, and divested the assets related to our digital sales and service organizations.

Sales and marketing

The Division s marketing strategy focuses on the selling and servicing of total solution printing systems. This includes its training, support programs and extended knowledge of print processes. In addition, the customer relationships that the Division has maintained over the years are particularly important in marketing investment goods such as printing systems.

The Division s customer base is comprised of print shops and related specialized service bureaus. The sales cycle of printing equipment is lengthy and can spread over several years. Sales are generated through the sales force. Customer dedicated sales managers receive commissions on sales, providing an incentive for meeting sales targets.

Logistics and purchasing

The Graphic Systems Division has five main logistics centers which are located in Amsterdam, Athens, Barcelona, Brussels and Milan. These centers stock spare parts, graphic consumables and smaller equipment. Shipping is mainly through third-party delivery services. Large printing presses are shipped directly from Heidelberg to the Division s customers.

The Division purchases all of its products directly from Heidelberg and other manufacturers and is an authorized distributor for Heidelberg in the six European markets in which its operates. Annual purchasing volumes are agreed upon with vendors and updated monthly. Delivery lead-time (time between purchase and delivery to the customer) for large presses can be up to six months and occasionally even more when new technology is introduced, such as at the DRUPA. The Division requires a down payment from the customer prior to purchasing the printing press.

Competition

Competition in this market is primarily driven by product quality, pricing, service and sales coverage. The Division believes it has a strong advantage as to service and sales coverage over its competitors.

Office Products North America

Buhrmann s Graphic Systems Division has participated in the graphic arts markets for more than 75 years and has achieved a high market penetration in such markets. Graphic equipment sold by the Division can be found in print shops throughout the markets in which operates. Good customer database management and complex printing process knowledge combined with high-quality service and equipment provide entrance barriers in these markets.

The consumables market (film, plates and ink) is more fragmented and characterized by many small orders which need to be delivered on very short notice.

Information technology

Printing systems have become increasingly complex due to built-in functionalities and integrated expert guidance is needed to understand the benefits of one equipment offering versus another. The Graphic Systems Division employs sophisticated simulation tools to allow the customers to select the investment and machine configurations appropriate for them.

Each operating company has an Internet website that is linked to the worldwide Buhrmann and Heidelberg networks. An in-house eCommerce platform has been developed. Besides supplies, also the services and spare parts business will be migrated to the new eCommerce platform which enables lower-cost sales growth and greater efficiency in ordering, servicing and distribution.

Risk control framework

Company-level controls, control environment

In combination with our corporate governance structure, the internal arrangements as defined in our Management Charter provide the base for Buhrmann s control system. Except for detailing our Business Principles and Code of Ethics (see our web site: www.buhrmann.com), it outlines our risk assessment processes (describing most of the responsibilities and authority levels for the divisional and operational managers), our mission and our performance approach. It includes specific authorisation levels for items such as capital expenditure, acquisitions and divestments, restructuring and remuneration issues.

Various aspects of the Management Charter are further defined in a set of mandatory policies and manuals completed with best practice guidelines. Our policies address for instance the application of financial disclosures procedures, insider-trading rules and compliance to Competition Laws. Manuals are available on subjects like accounting principles and reporting, insurance and financial management. As strong recommendations we have guidelines in place for example on ICT business continuity matters.

Also a whistle-blower procedure is in existence. Adherence is being monitored at various levels in the organisation.

In terms of arrangements of the Company on internal control, we have taken guidance from the COSO internal control framework (COSO-I).

Monitoring, assessment and reporting

Buhrmann uses a comprehensive management reporting system to monitor the Company s performance. This comprises a coherent set of instruments, which cover adoption of strategy, portfolio analysis, budgeting and reporting of current results, as well as projected results. Internally, we set financial targets and judge business performance primarily by using an economic-value-creation based concept. Reporting and analysis of actual results take place on a monthly basis and covers not only results, but also balance sheet and cash flow information.

The management of risks associated with business activities, and compliance with local legislation and regulations functions through the responsibility of local operational management following normal reporting lines to senior management. A system of authority limits for divisional and local operational management has been established. Besides requesting the relevant manager to obtain approval from a higher level of authority for a number of matters, the system also triggers a flow of information to senior management of Buhrmann. The same approach to applies to corporate matters.

Following new more formal internal control requirements (the Sarbanes-Oxley Act in the United States and the Dutch Code on Corporate Governance), an extensive review of the design, documentation and functioning of critical internal control processes related to financial reporting has been carried out. This resulted in specific minimum requirements on the level of control laid down in a draft internal control manual. Also, every quarter, operational management is required to confirm by means of a letter-of-representation that compliance is maintained with, among other things, the Management Charter, policies, manuals, internal control standards, fraud procedures and representation and disclosure requirements.

In order to support the Executive Board in matters related to disclosure controls and procedures, our internal Disclosure Committee reviews, discusses and reports on disclosure related issues quarterly (the minutes of the Disclosure Committee are also provided to the Audit Committee).The main purpose is to ensure that all disclosures made by Buhrmann are accurate, complete, timely and fairly present the financial condition and the results of operations in all material respects.

The adequacy of the design and proper functioning of internal control systems of our operations are periodically investigated by the Internal Audit Department who reports its findings to division management and the Executive Board. Although the Internal Audit Department functions directly under the responsibility of the Executive Board, the head of internal audit discusses at least annually the control status of our operations with the Audit Committee. The external auditor has full access to these reports. The head of Internal Audit attends the meetings with the Audit Committee.

External auditor

The external auditor reports on findings on internal control as part of the audit of the Consolidated Financial Statements. Also the external auditor attends the meetings with the Audit Committee. The external auditor s reports are discussed at the appropriate levels in the organization. The Group level reports are reviewed both by the Executive Board and the Audit Committee. In respect of the conclusions and observations about the Annual Report a final reporting takes place to the Executive Board and Supervisory Board jointly.

The independence of our external auditor is required by the rules under the provisions of our Policy on External Auditors Independence and Services. This policy stipulates, among other things, what services may not be provided and to what extent certain non-audit services may be provided by the external auditor. Other provisions require, for example, that the lead audit partner and review partner rotate from their position after a maximum period of five years.In the context of a pending court case against Béfec (a predecessor of PricewaterhouseCoopers, France), the independence of our external auditors was discussed between the Executive Board, the Audit Committee and the signing partners of our external auditors, PricewaterhouseCoopers Accountants N.V. after which it was concluded that there are appropriate measures in place at the external auditor to safeguard their independence.

Evaluation of risk control framework

The Executive Board of Buhrmann is responsible for the design and operation of the Company s internal risk control systems. Although the purpose of these systems is to enable risks to be optimally managed, such systems, no matter how well designed and operated, can never provide absolute assurance regarding achievement of our Company s objectives, or entirely prevent material losses, fraud and the violation of laws or regulations from occurring. Also, like with other business propositions, we need to apply our judgement in evaluating the cost-benefit relationship of possible controls and control procedures, while taking into account the developments in our business and the external environment.

During 2004, as part of its ongoing involvement in our Company, the Executive Board has continuously analysed and assessed the performance, the control environment and risks to which our Company is exposed. We also reviewed the operating effectiveness of the risk control systems and have initiated improvements if and when deemed necessary.

Our operational and corporate senior management have carried out similar assessments and reported results to the Executive Board in business reviews, letters-of-representations and ad hoc meetings where required. The Executive Board has assessed their findings, in conjunction with the results of internal and external audits; it resulted in identifying a small number of cases where additional activities have been respectively are being carried out to further strengthen controls. No major issues were reported.

Environmental Overview

In general, we believe that we have relatively little impact on the environment, given the fact that we are not a manufacturer. Despite the fact that we are considered to be active in a low impact industry, we do provide environmental information upon request where relevant data is available. For example, in this past year we have responded to questionnaires from various research firms, banks, investment advisers, fund managers, governments, and non-governmental organizations as well as numerous requests from customers.

Our guiding principle is to conduct business activities in a responsible manner that meets or exceeds all recognized standards for environmental issues. As such, we are implementing policies and practices to help better manage the environmental impacts of our products, services and supporting activities. In general we therefore adhere to the following principles:

ensure environmentally appropriate sourcing of the products we sell;

determine measurable objectives that promote continuous improvement toward pollution prevention;

conduct effective communication and training to maintain environmental protection;

communicate to employees and subcontractors that environmental protection is a condition of employment;

integrate environmental considerations, including identifying and controlling risks, into business decisions, plans and operations, and

comply with all applicable legislation, regulations and relevant industry standards.

We are active in environmental associations and place great emphasis on offering environmental friendly products to customers. For example, in 2003 Corporate Express North America participated in an industry-wide initiative, the Environmental Responsibility Task Force, to define industry environmental procurement standards under the auspices of the School, Home, and Office Products Association. Corporate Express Europe is represented in The Environmental Standard for Office Supplies Association. This industry association promotes a proactive environmental sustainability policy throughout the entire sector, by providing clear, uniform, and standardized environmental information on a product level for all office products.

Corporate Express North America has worked extensively with suppliers since 1991 to offer its customers a comprehensive line of EarthSaver(r) products. In catalogs, this symbol identifies products that contain recycled materials. Today approximately 2,700 products containing recycled materials are available through our sourcebook, representing over 20% of our catalog product offering.

One of our most successful customer initiatives is in toner and inkjet printer cartridge collection. Corporate Express North America conducts toner refill and disposal programs for numerous contract clients. In 2003, Corporate Express North America encouraged customers to recycle over 225,000 inkjet cartridges. Internally, environmental policies reduce energy use in our own office space, the materials we use for our promotional activities, and our employees are encouraged to adopt positive environmental practices in all of their everyday tasks. In our warehouses, software automatically selects the optimal size box or bag for every product shipment in order to eliminate waste. Whenever possible, factory cartons are used for full case shipments. Bags are composed of 35% recycled materials and envelopes are used for small items. We continue to emphasize using fewer corrugated boxes and more bags in field operations.

Organization

Buhrmann NV is the ultimate parent company over the subsidiary companies which conduct their business on a worldwide basis. All significant 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 52% interest.

Property, Plant and Equipment

We lease our principal executive offices, which are located at Hoogoorddreef 62, 1101 BE Amsterdam ZO, the Netherlands. We own and lease additional properties in the United States and Europe for use in the ordinary course of business, which includes numerous sales offices, distribution centers and warehouses. Land and buildings had a book value of 99 million at December 31, 2004. Many of our leases contain options to renew and/or purchase the property. We do not own or lease any physical property which is considered material to us as a whole.

We periodically reassess the adequacy of our facilities and acquire or lease new properties as is necessary to provide adequate facilities for our business. We believe that our facilities are adequate for our current level of business. We are considering closing and selling or subleasing certain of our existing facilities as part of our ongoing rationalization process.

ITEM 5: OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The information in this section should be read in conjunction with, and is qualified by reference to, our consolidated financial statements and the notes thereto included elsewhere in this Annual Report. This discussion contains forward-looking statements. Our actual results may differ materially from those contemplated in the forward-looking statements. Forward looking statements involve a number of risks, uncertainties and assumptions, and include trend information and other factors that could cause actual results to differ materially, including, but not limited to, those set forth under the section entitled Risk Factors in Item 3.

General

The following discussion and analysis of our results of operations and financial condition, which should be read together with our consolidated financial statements and the notes thereto appearing elsewhere in this document, is organized as follows:

Overview. This section provides a brief description of the activities of Buhrmann and its Divisions.

Use of Non-GAAP Financial Measures. This section discusses the presentation and use by the Company of certain non-GAAP financial measures in this Annual Report and provides an explanation of why we believe each of these non-GAAP financial measures provides useful information regarding the Company s financial condition and results of operations.

Critical Accounting Policies. This section provides a discussion of certain accounting estimates and assumptions involved in the application of Dutch GAAP and U.S. GAAP that may have a material impact on our reported financial condition and operating performance, and on the comparability of this information over different periods.

Major Events and Acquisitions and Divestments. These sections provide a brief description of major events and significant acquisitions or divestments that may impact the comparability of the results of operations being analyzed.

Results of Operations. This section provides an analysis of Buhrmann s results of operations for the year ended December 31, 2004 as compared to the year ended December 31, 2003 and an analysis of results of operations for the year ended December 31, 2003 as compared to the year ended December 31, 2002. The analysis in this section is presented on a consolidated and a segment basis.

Liquidity and Capital Resources. This section provides an analysis of Buhrmann s financial condition for the year ended December 31, 2004, and cash flows for the year ended December 31, 2004 as compared to the year ended December 31, 2003, and includes a discussion of our off-balance sheet arrangements, contingent liabilities and contractual obligations.

New Accounting Pronouncements. This section provides a brief analysis of new accounting changes for Buhrmann which might have an impact on results of operations, financial position and cash flows from January 1, 2005, including the impact of the IFRS, which is Buhrmann s primary basis of accounting as of January 1, 2005.

Our consolidated financial statements have been prepared in accordance with Dutch GAAP, which, in certain significant aspects, differ from U.S. GAAP. For a discussion of the principal differences between Dutch GAAP and U.S. GAAP, as they relate to us, and a reconciliation of net result and group equity from Dutch GAAP to U.S. GAAP, please see note 34 to our consolidated financial statements included elsewhere in this Annual Report.

Overview

We believe Buhrmann is one of the world s leading suppliers of office products to businesses and institutions in North America, Europe, Australia and New Zealand, based on revenue. Our Office Products business is comprised of three divisions: North America, Europe and Australia. For reporting purposes, the Office Products Europe and Office Products Australia Divisions are combined. The Office Products Divisions combined represented 93% of Buhrmann s total sales in 2004.

In addition, we believe Buhrmann is a leading supplier of graphic equipment and related services, supplies and spare parts to commercial printers in six European countries, based on revenue. Our Graphic Systems Division sells, maintains and services graphic equipment. For related services it holds over 80,000 stock items in five warehouses in Europe. The Graphic Systems Division represented 7% of Buhrmann s total sales in 2004.

On October 31, 2003, Buhrmann completed the sale of its Paper Merchanting Division. Buhrmann s Paper Merchanting Division was a distributor of paper and related products to the graphic, office and display markets.

Use of Non-GAAP Financial Measures

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. Where we discuss non-GAAP financial measures, 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. Our financial statements are presented in this Annual Report beginning on page F-1.

EBITDA

We define EBITDA as net result before interest and other financing costs, taxes, depreciation of tangible fixed assets and internally used software and before amortization of goodwill. This is a non-GAAP financial measure for which the most directly comparable GAAP financial measure is net result. We present EBITDA because we consider it, and we believe that our investors and lenders consider it, to be an important supplemental measure of our performance and believe it is frequently used by securities analysts, investors and other interested parties in the evaluation of companies in our industry. We believe issuers of high yield securities also present EBITDA because investors, lenders, analysts and rating agencies consider them useful in measuring the ability of those issuers to meet debt service obligations. We believe EBITDA is an appropriate supplemental measure of debt service capacity because cash expenditures on interest are, by definition, available to pay interest, and tax expense is inversely correlated to interest expense because tax expense goes down as deductible interest expense goes up. Depreciation and amortization are non-cash charges.

In the past we defined EBITDA as operating result before depreciation of tangible fixed assets and internally used software and before amortization and impairment of goodwill and therefore the presentation of EBITDA in certain of our past disclosure documentation cannot be compared to the presentation of EBITDA in this Annual Report.

EBITDA has limitations as analytical tools, and you should not consider them in isolation, or as substitutes for analysis of our results as reported under Dutch GAAP or U.S. GAAP. Some of these limitations are:

- EBITDA does not reflect our cash expenditures, or future requirements, for capital expenditures or contractual commitments;

- EBITDA does not reflect changes in, or cash requirements for, our working capital needs;

- EBITDA does not reflect changes in tax;

- EBITDA does not reflect the significant interest expense, or the cash requirements necessary to service interest or principal payments, on our debts;

- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and EBITDA does not reflect any cash requirements for such replacements; and

- other companies may calculate EBITDA differently than we do, limiting its usefulness as comparative measures.

Because of these limitations, EBITDA should not be considered as a measure of discretionary cash available to us to invest in the growth of our business. We compensate for these limitations by relying primarily on our Dutch GAAP results and using EBITDA only as supplementary measure.

Buhrmann evaluates its operating performance based on several factors, including its financial measure of EBITDA. EBITDA is a supplemental measure of our performance that is not required by, or presented in accordance with, Dutch GAAP or U.S. GAAP. EBITDA is not a measure of our financial performance under Dutch GAAP or U.S. GAAP and should not be considered as an alternative to net result, operating result or any other performance measures derived in accordance with Dutch GAAP or U.S. GAAP or as an alternative to cash flow from operating activities as a measure of our operating liquidity.

In addition, we believe that the presentation of EBITDA as a financial measure provides useful information because it excludes the inconsistent impact of amortization of goodwill on operating result across the Company s Divisions. Prior to January 1, 1997, under Dutch GAAP, goodwill was written off directly to shareholders equity. This means that no amortization or impairment expense is recorded for goodwill on acquisitions which were made prior to January 1, 1997.

The reconciliation between the Dutch GAAP measure of net result and the non-GAAP financial measure EBITDA is as follows (based on Dutch GAAP):

	Year ended December 31,		
	2004	2003	2002
		(in millions)	
Net result	80	(132)	(588)
Interest and other financing costs	103	257	199
Taxes	(33)	(68)	(11)
Depreciation of tangible fixed assets and internally used software	84	104	114
Amortization of goodwill	45	52	70
EBITDA	280	213	(216)

Constant exchange rates

We present our results in euro. Results of subsidiaries denominated in currencies other than the euro are translated into euro at an average exchange rate for the period. In our operating and financial review and prospects we include discussions on the performance of our business 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 elsewhere 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.

Organic Analysis

The organic analysis presented in this Annual Report eliminates all factors that disturb a like-for-like comparison in our relevant business Divisions. 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 with respect to our Office Products North America Division, the change to a commission-based model at our subsidiary ASAP Software Express, Inc. (ASAP), and the change in the sales recognition of the Graphic Systems Division. We use organic 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 Division s reported results. Their exclusion provides a useful insight into the underlying performance of the Division and enables us to monitor the performance of both the underlying businesses and acquired businesses. Organic performance can be materially different to the Division s reported performance. 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.

Critical Accounting Policies

The preparation of financial statements in accordance with Dutch GAAP and U.S. GAAP 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. Buhrmann bases its estimates on historical experience which are evaluated on an on-going basis. 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. Buhrmann believes that the accounting policies that are most critical in determining the presentation of the financial condition and which require subjective or complex judgments from management are the following:

impairment and amortization of goodwill;

other receivables in respect of rebates from suppliers;

provisions for restructuring and integration;

provisions for legal proceedings;

pensions;

taxation in respect of deferred taxes; and

currency translation and exchange differences on loans and currency swaps.

Buhrmann s accounting policies, including the aforementioned critical accounting policies, are discussed in the notes to the consolidated financial statements included elsewhere in this Annual Report, including note 34, which also discusses the principal differences between Dutch GAAP and U.S. GAAP as they relate to Buhrmann.

Impairment of goodwill

Goodwill is tested for impairment at least once annually or more frequently if changes in circumstances indicate that an impairment may have occurred. Under the impairment test under Dutch GAAP, the fair value of the cash-generating unit that contains the goodwill is compared to its book value, including the goodwill. Under Dutch GAAP, any excess of book value over fair value is recorded as an impairment of goodwill, if the impairment is expected to be permanent. The fair value of the cash-generating unit is calculated based on discounted future cash flows and residual values. Under U.S. GAAP, a two-step process is performed to analyze whether or not goodwill has been impaired. Step one is to test for potential impairment, and requires that the fair value of the reporting unit be compared to its book value including goodwill. The fair value of the reporting unit is calculated based on discounted future cash flows and residual values as under Dutch GAAP. If the fair value is higher than the book value, no impairment is recognized. If the fair value is lower than the book value, a second step is performed. The second step is to measure the amount of impairment loss, if any, and requires that assets and liabilities, including unrecognized intangible assets such as customer and supplier relationships and brand names, be assigned fair values in a hypothetical purchase price allocation to determine the implied fair value of goodwill. This fair value is then compared to the carrying value of goodwill. If the implied fair value is lower than the carrying value, an impairment must be recorded for the difference.

The annual impairment test did not result in an impairment of goodwill in 2004 under Dutch GAAP or U.S. GAAP. In 2003, Buhrmann recorded an impairment charge on goodwill of 53 million under Dutch GAAP and 49 million under U.S. GAAP. In 2002, an impairment charge of 573 million under Dutch GAAP and 1,012 million under U.S. GAAP was recorded. Our judgment relating to the fair value of assets and liabilities, including unrecognized intangible assets, is affected by such factors as assumed economic conditions and expectations about our markets and our operating performance. These factors may change over time and may cause the Company to record additional impairment charges which may adversely impact operating result and net result. Also the fair value and hence the impairment charge is sensitive to the discount rate chosen. The discount rate is derived from the estimated weighted cost of capital, reflecting the risks inherent to our business and a normative financing profile. A 0.5% higher discount rate would have resulted in an approximately 14 million higher impairment under both Dutch GAAP and U.S. GAAP in 2003 and 160 million in 2002. Conversely, a 0.5% lower discount rate would have resulted in an approximately 16 million lower impairment charge under both Dutch GAAP and U.S. GAAP in 2003 and 180 million in 2002. As almost the full amount of the impairment charge is not tax deductible, the higher or lower amount of impairment would impact net result almost fully.

Amortization of goodwill

Under Dutch GAAP, goodwill is amortized over the expected economic life of the asset; goodwill is not amortized under U.S. GAAP. The assessment of the economic life of an asset is based on the consideration that a permanent advantage is being realized. Consequently, Buhrmann applies the maximum amortization period of 40 years as allowed under Dutch GAAP. The table below demonstrates the increase in the amortization charge in the event that the economic life of the asset is less than originally assessed by showing the amount by which the amortization charge of 45 million in 2004 would be increased (amounts in millions of euro):

Revised economic life:	**Increase in amortization charge (annualized):**
30 years	60
20 years	91
10 years	181

As almost the full amount of this amortization charge is not tax deductible, the above additional charges would impact net result almost fully.

Other receivables in respect of rebates from suppliers

Buhrmann receives various types of rebates from suppliers, which are based on the volume of goods purchased (volume-based rebates) or based on the inclusion of certain products of the supplier in Buhrmann s catalog offerings (catalog contributions) or are received for entering into a contract with a supplier (contract-based rebates).

Volume-based rebates are settled in arrears, mostly not exceeding one year. For each reporting period Buhrmann accrues volume-based rebates on the basis of prudently estimated purchased volumes for the rebate period. Rebates received or accrued relating to goods not yet sold are deducted from the value of the related inventories. These inventory related rebates are recognized as income in the period when the relevant inventories are sold to third-parties.

Catalog contributions from suppliers are usually settled in arrears and are based on the number of pages dedicated to the products of a supplier in a catalog or on purchased volumes from a catalog. Before January 1, 2003, catalog contributions were recognized as income over the life of the related catalog both under U.S. GAAP and Dutch GAAP. As of January 1, 2003, for U.S. GAAP purposes only, Buhrmann adopted a policy of treating all catalog contributions as a reduction of purchase cost in accordance with Emerging Issues Task Force (EITF) Issue No. 02-16, Accounting by a Reseller for Cash Consideration Received from a Vendor. This means that under U.S. GAAP, as of January 1, 2003, a portion of the catalog contributions will be deferred in inventory and will be recognized as a reduction of cost of sales when the products are sold, similar to the practice for volume-related rebates. The allocation to purchase costs of catalog contributions that are based on the number of pages in a catalog is based on an implied relationship with purchases of products, as they are not related to volumes. The designation of an implied relationship requires certain subjective judgments from management.

Contract-based rebates are recorded as income evenly over the life of the contract, unless it qualifies as compensation for costs incurred in relation to the changing of a specific supply arrangement.

Provisions for collection risk are recorded up to recoverable value only if specific events indicate that collection of the rebates is less certain due to a credit event at the supplier or a dispute on the actual rebate amount accrued.

Actual rebates received and the allocation to purchase costs could be different than originally assessed which could impact operating result and net result.

Provisions for restructuring and integration

Buhrmann records provisions for restructuring and integration relating to cost-saving restructuring measures and the integration of acquired businesses. These provisions are based on Buhrmann s best estimate of costs to be incurred for, among other things, severance payments, termination fees and penalties for rental and other contracts. If actual costs are different than originally estimated, the provisions for restructuring and integration may be insufficient which could affect operating result and net result. Furthermore, additional restructuring measures may be necessary depending on changes in economic conditions and operating performance, which may result in additional provisions, which in turn may affect operating result and net result. Restructuring and integration activities in 2004 and 2003 were not significant.

Provisions for legal proceedings

Buhrmann is involved in various legal and regulatory proceedings arising in the normal course of its business. Buhrmann accrues for the estimated probable costs to resolve these proceedings if a reasonable estimate can be made of the outcome of which the incurrence is judged to be probable. After consultation of in-house and outside legal counsel, these accruals are based on the analysis of possible outcomes of litigation and settlements. Operating result and net result could be affected if actual outcomes are different than originally estimated.

Pensions

Buhrmann s operating companies in Europe offer a variety of defined benefit plans. In countries such as the Netherlands and the United Kingdom, these defined benefit plans are maintained in separate trusts (pension funds) to which Buhrmann makes contributions.

Under Dutch GAAP, these pension funds are not included in the consolidated financial statements. The periodically paid contributions to these pension funds are expensed when incurred. In case the Company is obligated to make additional contributions to the pension plans in order to meet minimum funding levels, as required by local law or specific arrangements, an accrual is recorded. The funding levels are based on, among other things, actuarial assumptions, estimated returns and the market value of the pension funds assets. Actual circumstances could change the impact of these assumptions, which could result in additional contributions, which in turn could have an adverse affect on Buhrmann s operating result and net result.

Under U.S. GAAP, the Company accounts for pensions in accordance with SFAS No. 87 under which pension expense and related plan assets and benefit obligations are based on a specific methodology that reflects the concepts of accrual accounting. SFAS No. 87 requires re-adjustment of the significant actuarial assumptions annually to reflect current market and economic conditions. Amounts are reflected in the income statement systematically over the service lives of the employees covered by the plan. Amounts expensed are typically different from amounts funded. Application of SFAS No. 87 requires that management makes use of assumptions regarding discount rate, expected return on plan assets and rates of compensation, state pension and pension increases in assessing plan assets, benefit obligations and periodic pension costs. Actual circumstances could change the impact of these assumptions giving rise to different plan assets and benefit obligations, reflected as additional income or expense which could have an affect on Buhrmann s operating result and net result.

Taxation in respect of deferred taxes

Buhrmann has a considerable amount of loss carry forwards. For these loss carry forwards and for temporary differences in the valuation of assets and liabilities for reporting and fiscal purposes, deferred tax assets and deferred tax liabilities are recognized. Buhrmann records valuation allowances to reduce deferred tax assets to the amount of the deferred tax assets likely to be realized. In determining these valuation allowances and deferred tax liabilities, Buhrmann s assessment of future taxable income, tax planning and the possibility that prior year tax returns will be challenged by the tax authorities, are factors taken into account. These factors are determined in consultation with in-house and outside tax experts. If actual future taxable income is different than originally assessed, if tax planning fails to materialize or if the possibility that prior year tax returns will be challenged turn out to be different than originally assessed, the valuation allowances on deferred tax assets and the deferred tax liabilities may have to be adjusted which may have an affect on Buhrmann s reported tax expense and net result in future years.

Currency translation and exchange differences on loans and currency swaps

Translation and exchange differences on loans and currency swaps are recorded in income except if they relate to inter-company loans extended by a Group company, including the parent, to another Group company insofar as these loans are designated as permanently invested, in which case differences are recorded directly in shareholders equity. Translation differences on loans extended by third parties and currency swaps concluded with third parties, which are designated as, and effective as, economic hedges of net investments (equity investments or permanently invested loans) in a foreign Group company are also recorded directly in shareholders equity.

The designation of loans as permanently invested requires certain subjective judgments from management as to, among other things, the intended renewal of loans at maturity and hedge effectiveness.

Major Events

The following events substantially affected our results of operations for the periods presented and our Consolidated Financial Statements for 2004, 2003 and 2002 and should be considered in light of these events:

2004

In the second and third quarter of 2004, changes to the capital structure were made. We repaid the $350 million 12 $^{1}/_{4}$% Senior Subordinated Notes due 2009. We funded the repayment by issuing $150 million of new 8 $^{1}/_{4}$% Senior Subordinated Notes due 2014, increasing the Term Loans under the Senior Credit Facility by $125 million and using available liquidity in the Company. Simultaneously, certain term loans (Term Loans B) were replaced by the Term Loans C, thereby lowering the interest rate throughout the pricing matrix by 25 basis points.

The U.S. dollar continued to weaken against the euro with the year-end exchange rate 7% lower, and the average exchange rate 9% lower as compared to 2003.

A number of exceptional items were reported affecting the net result by negative 14 million.

2003

In the fourth quarter, the existing senior credit facility was repaid and replaced by the Senior Credit Facility and the issuance of the 115 million Subordinated Convertible Bonds.

In the fourth quarter, an impairment charge on goodwill for Office Products Europe of 53 million was recorded.

In the fourth quarter, the sale of the Paper Merchanting Division was completed, leading to an exceptional loss after tax of 167 million, and to a net cash inflow of 637 million.

In the first quarter, an indemnity payment of 79 million was received which resulted in an exceptional net profit of approximately 58 million.

The U.S. dollar continued to weaken against the euro with the year-end exchange rate 17% lower, and the average exchange rate 16% lower as compared to 2002.

2002

In the fourth quarter, extraordinary charges of 111 million before tax were taken for restructuring plans, which include further reductions in the workforce and write-offs of redundant IT systems and distribution facilities.

In the fourth quarter, an impairment charge on goodwill of 573 million was recorded.

The year-end exchange rate of the U.S. dollar against the euro was 19% lower and the average exchange rate was 6% lower as compared to 2001.

Acquisitions and Divestments

In 2004, 2003 and 2002, Buhrmann made a number of smaller acquisitions, mainly in the Office Products Australia Division.

In the fourth quarter of 2004, Buhrmann sold the digital printing activities of its Graphic Systems Division to NexPress Solutions, Inc., a subsidiary of Eastman Kodak Company (NexPress).

On October 31, 2003, Buhrmann completed the sale of the Paper Merchanting Division to PaperlinX Limited. The initial consideration for the sale was 706 million. As the sale was made on a debt-free and cash-free basis, the consideration was accordingly reduced by 6 million. Under the terms of the final purchase agreement, there were certain agreed purchase price adjustments mainly related to the net asset value of the Paper Merchanting Division, pensions and restructuring. These purchase price adjustments resulted in a further reduction of the purchase price of 63 million. For further information, see note 3 to our consolidated financial statements included elsewhere in this Annual Report. Net sales of the Paper Merchanting Division were 2,266 million in 2003, until October 31, 2003, and 2,988 million in 2002.

In April 2003, Buhrmann sold the assets of DocVision B.V. (DocVision) (mailroom, copy and print services and archives management).

In 2002, no major divestments were made by Buhrmann.

These acquisitions and divestments affect the comparability of Buhrmann s results of operations over the three-year period ending December 31, 2004.

Results of Operations

The following table sets forth, for the periods indicated, net sales, added value and operating result by Buhrmann s divisions as well as net sales and operating result by geographic region.

	Year ended December 31,		
	2004	2003 (in millions)	2002
Summary by Division			
Net Sales:			
Office products North America	3,628	3,939	4,931
Office products Europe and Australia	1,500	1,479	1,540
Graphic Systems	411	369	489
Sub-total excluding the Paper Merchanting Division	5,539	5,787	6,960
Paper Merchanting Division		2,266	2,988
Total Group	5,539	8,053	9,948
Added Value:			
Office products North America	961	1,018	1,261
Office products Europe and Australia	420	392	413
Graphic Systems	95	85	118
Sub-total excluding the Paper Merchanting Division	1,476	1,495	1,792
Paper Merchanting Division		359	461
Total Group	1,476	1,854	2,253
Operating Result:			
Office products North America	138	115	(273)
Office products Europe and Australia	47	(23)	(75)
Graphic Systems	0	(13)	23
Corporate	(24)	37	(20)
Sub-total excluding the Paper Merchanting Division	161	116	(345)
Paper Merchanting Division		55	44
Total Group	161	171	(301)
Summary by Geographic Region			
Net Sales:			
United States	3,268	3,667	4,665
United Kingdom	148	884	1,251
The Netherlands	281	772	961
Germany	321	701	817
Rest of European Union members	710	1,188	1,458
Australia and New Zealand	589	496	419
Rest of the World	222	345	377
Total Group	5,539	8,053	9,948
Operating Result:			
United States	116	96	(296)
United Kingdom	0	22	28
The Netherlands (including Corporate)	(14)	0	33
Germany	(10)	(10)	(15)
Rest of European Union members	6	12	(101)
Australia and New Zealand	48	31	33
Rest of the World	15	20	17
Total Group	161	171	(301)

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Results of operations year ended December 31, 2004 compared to year ended December 31, 2003

Net sales for the Buhrmann Group were 5,539 million in 2004 compared to 5,787 million in 2003, excluding the Paper Merchanting Division. At constant exchange rates this is an increase of 1.1%. Added value decreased from 1,495 to 1,476. At constant exchange rates, this is an increase of 4.3%, excluding the Paper Merchanting Division. Market conditions in North America gradually improved, while Europe remained difficult and Australia continued to grow.

Margin enhancement was supported by two of our key strategic initiatives: our Private Brand program and our Preferred Supplier initiative. There was an increase of orders and sales for printing equipment in our Graphic Systems Division.

We continued our disciplined working capital management and cost control. Combined with our improved operating results, return on capital employed improved further.

Our capital structure was further optimized. The Senior Credit Facility and the issue of the Subordinated Convertible Bonds in the fourth quarter of 2003 resulted in lower financing costs in 2004. In the third quarter of 2004, the maturity of our debt portfolio was extended. This was achieved by the successful placing of the 2014 Notes and an increase of loans under the Senior Credit Facility. Cash on hand from the proceeds was used to fund the tender for our 12 $^{1}/_{4}$% Senior Subordinated Notes due 2009 (the 2009 Notes).

We again achieved a positive available cash flow in 2004.

With effect from October 31, 2003, we divested our Paper Merchanting Division, which affects the comparability of our results of operations for the year ended December 31, 2004 with the year ended December 31, 2003. The consolidated statements of income and cash flows for 2003 only include income and cash flows of the Paper Merchanting Division for the period January 1 to October 31.

In December 2003, we recorded an impairment charge on goodwill for the Office Products Europe Division. No goodwill impairment charges were required in 2004.

Although the major proportion of our activities is conducted in U.S. dollars, our financial position, results of operations and cash flows as reported in euro were affected by the translation effects of the weakening of the exchange rate of the U.S. dollar to the euro in both 2004 and 2003. Changes at constant exchange rates in the tables below exclude the effect of fluctuations in currency exchange rates on reported numbers in euro.

Consolidated Results

Net sales; Added value; Operating result

The following table shows net sales, added value and operating result, excluding the Paper Merchanting Division and its related Corporate holding companies.

	2004	2003	Change in	Change at constant rates(1)
		(in millions, except percentages)		
Net sales	5,539	5,787	(4.3)%	1.1%
Added value	1,476	1,495	(1.2)%	4.3%
Operating result	161	116	38.4%	47.5%
Added value as a percentage of net sales	26.7%	25.8%		
Operating result as a percentage of net sales	2.9%	2.0%		

The following table shows net sales, added value and operating result, including the Paper Merchanting Division and its related corporate holding companies (until October 31, 2003).

	2004	2003	Change in	Change at constant rates(1)
		(in millions, except percentages)		
Net sales	5,539	8,053	(31.2)%	(27.3)%
Added value	1,476	1,854	(20.3)%	(15.8)%
Operating result	161	171	(6.0)%	0.2%
Added value as a percentage of net sales	26.7%	23.0%		
Operating result as a percentage of net sales	2.9%	2.1%		

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(1) We present our results on a constant currency basis by converting our prior year results into euro at the current year average exchange rate. We explain why we believe the presentation of this non-GAAP financial measure provides useful information regarding our financial performance in the Use of Non-GAAP Financial Measures section of this Item 5.

Net sales

Net sales of our Group were 5,539 million in 2004 compared with 5,787 in 2003, excluding the Paper Merchanting Division, a decrease of 4.3% which is attributable to the further weakening of the U.S. dollar. At constant exchange rates, net sales were up 1.1%, excluding the Paper Merchanting Division. Net sales in the Office Products Europe and Australia Divisions combined, were level with last year at constant exchange rates, whereas the Graphics Systems Division increased net sales by 11.6%.

In 2004, the organic sales growth of the Group, excluding the Paper Merchanting Division, was 2% positive against a decline of 4% in 2003, mainly reflecting the recovery of demand in North America. Sales to our existing large account customers increased as a result of our initiative to extend the product range. Also, software sales progressed markedly in 2004 compared to 2003. We noticed encouraging signs of recovery in our business in the United Kingdom while our continental European operations continued to experience difficult market conditions. Our Australia and New Zealand based office products business continued to perform strongly in 2004.

Globally, our mid-market sales did not live up to our expectations, but we continued our investments in marketing, sales and service models for these markets.

Our Graphic Systems Division achieved noticeable growth in printing equipment orders in the second half of 2004, primarily reflecting the impact of the DRUPA exhibition in May 2004 and increased investment relating to the economic recovery.

The following table presents a calculation, on an organic basis, of net sales for the Group in 2004 as compared to 2003.

	2004	2003	Change in %
	(in millions, except percentages)		
Net sales	5,539	8,053	
Divestment of the Paper Merchanting Division		(2,266)	
Net sales excluding the Paper Merchanting Division	5,539	5,787	
Effect of currency exchange rate movements		(312)	
Net sales at constant exchange rates excluding Paper Merchanting Division	5,539	5,474	
Acquisitions and divestments	(14)	9	
Variation in the number of working days	(14)		
Change to commission-based model at ASAP(1)	243	153	
Change in sales recognition of Graphic Systems Division(2)		13	
Net sales on an organic basis	5,743	5,649	2%

(1) Change to commission-based model at ASAP relates to sales of software products by ASAP whereby the manufacturer performs the billing and ASAP receives a commission from the manufacturer which is recorded as sales by ASAP. In the past, ASAP performed the billing of these sales and ASAP recorded sales and cost of sales separately rather than only the commission.

(2) Change in sales recognition in the Graphic Systems Division relates to graphic machines of which the sale, as of January 1, 2003, is recognized at installation whereas prior to January 1, 2003, the sale was recognized at delivery of the machines.

Added value

In 2004, the added value of the Group benefited from increased sales and margin enhancement. The added value was 1,476 million in 2004 compared to 1,495 million in 2003, excluding the Paper Merchanting Division, a decrease of 1.2%. At constant exchange rates however, added value improved by 4.3% despite competitive pricing pressure. Added value as a percentage of net sales, excluding the Paper Merchanting Division, improved from 25.8% to 26.7% in 2004. This is largely attributable to our successful strategic initiatives to increase our share of private brand products and to convert customers to the products of preferred suppliers.

Graphic Systems continued its strategy to make sales less dependent on the economic cycle by increasing sales of Triple S, which also has higher margins.

In 2003, an exceptional charge of 5 million was recorded in added value in the Australian Division to fully comply with Buhrmann s rebate and catalog income recognition policies. In 2004, no exceptional results were recorded in added value.

Operating result

Operating result of the Group increased 38.4% from 116 million in 2003, excluding the Paper Merchanting Division, to 161 million in 2004. At constant exchange rates the increase amounted to 47.5%, excluding the Paper Merchanting Division, driven by the increased added value.

Amortization of goodwill in 2004 amounted to 45 million, compared with 49 million in 2003, excluding the Paper Merchanting Division, predominantly due to the lower exchange rate of the U.S. dollar and a lower goodwill number due to an impairment charge of 53 million in 2003. This charge was recorded following the annual goodwill impairment test, as the calculated fair value of the European Office Products Division was lower than the book value. For 2004, no impairment charge was required, reflecting the improved business performance and prospects.

Depreciation costs of tangible fixed assets and internally used software decreased by 3.4% (at constant exchange rates, the increase was 2.4%) to 84 million in 2004 from 87 million in 2003, excluding the Paper Merchanting Division. Depreciation costs for 2004 include an incidental charge of 2 million for the write-off of software that could not be effectively used.

The number of full time employees, excluding the Paper Merchanting Division, was reduced by 1.2% to 17,618 at year-end 2004.

In 2004, exceptional results as part of operating result amounted to a loss of 5 million which consisted of a provision for announced restructuring activities in Office Products Europe. These restructuring activities included reorganizations at the Benelux offices as well as the copier division in Germany.

Office Products North America

In 2003, total exceptional operating results amounted to an income of 43 million, excluding the Paper Merchanting Division, and consisted of the following:

Office Products North America: a reassessment of lease commitments of vacant properties, which were included in the 2002 restructuring charge (expense of 6 million).

Office Products Europe and Australia: an adjustment of catalog income recognition of Office Products Australia to fully comply with Buhrmann accounting policies (expense of 5 million); and additional restructuring charges in Office Products Europe (expense of 3 million).

Graphic Systems: a restructuring charge (expense of 1 million).

Corporate: primarily the result of an indemnity payment (income of 58 million net of costs) awarded to Buhrmann as the outcome of arbitration proceedings against the French company Ipfo Bail S.A.

The above mentioned factors resulted in an improvement of operating result as a percentage of net sales from 2.0% in 2003 (excluding the Paper Merchanting Division) to 2.9% in 2004.

Financial income and expense; Minority interests; Taxation

	2004	**2003**
	(in millions)	
Total financing costs	(103)	(257)
Results from participations and other financial results	6	(102)
Total minority interests	(17)	(12)
Total taxes	33	68
Total financial items	(81)	(303)

Total financing costs

Net financing costs consist of interest costs and amortization of capitalized financing fees.

Excluding translation differences, interest costs were reduced by 79 million from 144 million in 2003 to 65 million in 2004, as a result of the lower average interest bearing debt level and lower interest rates following the optimization of the capital structure. After obtaining the Senior Credit Facility and issuing the Subordinated Convertible Bonds in the fourth quarter of 2003, we repaid our $350 million 2009 Notes in the third quarter of 2004. We financed the repayment with an issue of $150 million of new 2014 Notes, an increase of $125 million of Term Loans under the Senior Credit Facility and the balance and fees out of cash on hand. Simultaneously, the Term Loans B were replaced by Term Loans C as we used the opportunity to lower the interest on the Term Loans C by 0.25% compared to the Term Loans B.

Amortization of capitalized financing fees was 5 million in 2004 and 14 million in 2003.

In 2004, exceptional financing costs, before taxes, in a total amount of 35 million were recorded, consisting of:

a premium paid to holders of the 2009 Notes in June 2004 of 27 million;

a non-cash write-off of capitalized financing fees of 4 million; and

an exceptional financing cost of 4 million was recorded for actuarial results on the pensions of our U.S. forms management business.

In 2003, exceptional financing costs of 96 million were recorded. This includes an impairment of capitalized financing fees of 53 million as a result of repayments of debt with the proceeds from the sale of the Paper Merchanting Division, the replacement of our old Senior Credit Facility and the issue of the Subordinated Convertible Bonds. This also includes a charge of 40 million as a result of settlement of interest rate swaps following the debt reduction in order to achieve a fixed to variable rate profile in line with our policy for hedging interest rate risks. In addition, in connection with the refinancing of our old senior credit facility with the Senior Credit Facility and the issue of the Subordinated Convertible Bonds, exceptional advisory costs of 5 million were recorded.

Total financing costs also includes the resulting currency translation differences on accounts receivable, cash and liabilities after application of currency forward contracts and certain currency translation differences on intercompany loans amounting to an income of 2 million in 2004 and a loss of 3 million in 2003.

Results from participations and other financial results

Exceptional other financial results in 2004, of 6 million in total, include exceptional income from the release of contractual provisions related to former divestments as well as write-offs of some minor investments.

Exceptional other financial results in 2003 include a book loss of 79 million from the sale of the Paper Merchanting Division, related transaction costs of 15 million and provisions for indemnities and warranties of 18 million. Also included is a 7 million gain from the sale of DocVision and a gain of 2 million due to a release of a divestment related provision which was no longer needed.

Minority interests

Minority interests mainly represent the 48.5% share of third-parties in the result of Corporate Express Australia Ltd., a publicly traded company. In 2003, exceptional results of 2 million of income were included relating to the adjustment of catalog income recognition of Office Products

Australia to fully comply with Buhrmann accounting policies.

Taxes on result from ordinary operations

The effective tax rate amounted to negative 9% in 2004 (2003: positive 12%) and is below Buhrmann s weighted average statutory tax rate of 31% (2003: 28%) due to changes in valuation allowances, predominantly related to the valuation of losses carried forward, exempt income, non-deductible expenses and incentives. Tax results in 2004 and 2003 benefited from changes in the composition of the geographic distribution of taxable earnings and finalized tax audits leading to a release of allowances, which were recorded in previous years, and which are no longer deemed necessary. As a result of finalizing tax audits 8 million of tax provisions was released in 2004. Exceptional profit tax in 2004 of 20 million includes an exceptional non-cash benefit of 14 million related to the refinancing and financial results on the pensions of our U.S. forms management business. In addition, a tax benefit of 6 million was recorded on the fiscal finalization of the divestment of the Paper Merchanting Division.

In 2003, exceptional non-cash tax benefits of 76 million were recorded. Following the receipt of the indemnity payment, a tax benefit of 30 million was recognized resulting from the release of a valuation allowance regarding the former ISD (France) investments. The transaction structure for the sale of the Paper Merchanting Division and the subsequent debt reduction resulted in an 8 million tax benefit. The refinancing of Buhrmann led to a further impairment of capitalized financing fees resulting in the recognition of a tax asset of 11 million. Improved outlook on future taxable results triggered the release of a valuation allowance of 15 million. Tax provisions related to the acquisitions of both Corporate Express in 1999 and USOP in 2001 were released to an amount of 10 million.

Net result

	2004	2003
	(in millions)	
Operating result	161	171
Total financial items	(81)	(303)
Net result	80	(132)

Office Products North America

	2004	2003	Change in	Change at constant rates(1)
		(in millions, except percentages)		
Net sales	3,628	3,939	(7.9)%	0.5%
Added value	961	1,018	(5.6)%	3.2%
Operating result	138	115	19.5%	30.0%
Added value as a percentage of net sales	26.5%	25.9%		
Operating result as a percentage of net sales	3.8%	2.9%		

(1) We present our results on a constant currency basis by converting our prior year results into euro at the current year average exchange rate. We explain why we believe the presentation of this non-GAAP financial measure provides useful information regarding our financial performance in the Use of Non-GAAP Financial Measures section of this Item 5.

Net sales

Net sales in the Office Products North America Division decreased by 7.9% from 3,939 million to 3,628 million, but increased by 0.5% at constant exchange rates. The office products business strengthened its position in the large account segment benefiting from the single sourcing strategy and product range extensions. As an example, the category of facility products achieved double-digit growth, exceeding expectations. Also, customers total procurement costs were addressed by our eCommerce tools and OneShopExpress® (one order, one invoice, one payment for multiple product lines) and as a result, new contracts have been won. Mid-market sales did not live up to our expectations, but we continued our investments in marketing, sales and service models for these markets.

ASAP sales decreased from 788 million in 2003 to 768 million in 2004. At constant exchange rates, however, net sales increased by 5.3%. Reported net sales declined due to the continued shift of invoiced sales to a commission-based system whereby the manufacturer performs the billing and ASAP receives a commission from the manufacturer. In the past, ASAP performed the billing of these sales and ASAP recorded sales and costs of sales rather than only the commission. However, this shift had a minimal effect on the profitability of the business. ASAP continued its successful expansion and opened a new sales office in Canada.

Sales in the Office Products North America Division increased by 3%, on an organic basis, reflecting the gradually improved economic conditions with growth of white collar employment and stabilized spend on office products per white collar employee. Organic sales growth of office supplies (the office supplies business excludes the Division s speciality business: software, forms and promotional marketing) was level with last year. This includes the impact of the increased share of lower priced products under our own Corporate Express brand name which results in a lower sales value but higher returns. Adjusting for this substitution effect, organic sales growth was 4% for the whole Division.

The following table presents a calculation, on an organic basis, of net sales for the Office Products North America Division in 2004 as compared to 2003.

	2004	2003	Change in %
	(in millions, except percentages)		
Net sales	3,628	3,939	
Effect of currency exchange rate movements		(329)	
Net sales at constant exchange rates	3,628	3,610	
Variation in the number of working days			
Change to commission-based model at ASAP(1)	243	153	
Net sales on an organic basis before effect of sales under Corporate Express brand name(2)	3,871	3,763	3%
Effect of sales under Corporate Express brand name	35		
Net sales on an organic basis after effect of sales under Corporate Express brand name	3,907	3,763	4%

(1) Change to commission-based model at ASAP relates to sales of software products by ASAP whereby the manufacturer performs the billing and ASAP receives a commission from the manufacturer which is recorded as sales by ASAP. In the past, ASAP performed the billing of these sales and ASAP recorded sales and cost of sales separately rather than only the commission.

(2) This includes the impact of the increased share of lower priced products under our own Corporate Express Brand name.

Added value

Added value of Office Product North America Division decreased by 5.6%, from 1,018 million in 2003 to 961 million in 2004, reflecting the weakening of the U.S. dollar. At constant exchange rates, added value improved by 3.2%.

In addition to higher sales volumes, costs of goods sold were lower as a result of our successful strategic initiatives to increase the share of our own Corporate Express brand products and to convert customer products to our Preferred Supplier program, which allowed us to benefit from suppliers allowances and promotional incentives.

ASAP delivered an added value of 73 million in 2004 (an increase of 11.2% compared to 2003 and at constant exchange rates an increase of 20.4%).

As a result of the initiatives, added value as a percentage of net sales of the Office Products North America division increased from 25.9% in 2003 to 26.5% in 2004, despite the negative impact of the higher share of lower margin software sales. ASAP realized an added value as percentage of net sales of 9.5% (8.3% in 2003).

Operating result

The operating result in Office Products North America Division benefited from the improved added value, maintaining high productivity, following the restructuring effort in previous years, and efficient logistics infrastructure. Operating result increased from 115 million in 2003 to 138 million in 2004 (an increase of 19.5%). At constant exchange rates, operating result increased 30.0%.

Total operating costs, excluding depreciation of tangible fixed assets and internally used software, as a percentage of net sales were 20.1% in 2004 as compared to 20.4% in 2003. In 2003, this included an exceptional expense of 6 million which was recorded due to a reassessment of lease commitments of vacant properties which were included in the 2002 restructuring program. In 2004, no exceptional operating expenses were recorded.

Amortization of goodwill decreased to 33 million in 2004 from 37 million in 2003 due to the lower exchange rate of the U.S. dollar.

Depreciation of tangible fixed assets and internally used software was 60 million in 2004 compared to 63 million in 2003. This is a decrease of 3.4%, however, measured at constant exchange rates, an increase of 5.8%. The depreciation charge of 2004 includes an incidental charge of 2 million for the write-off of software that could not be effectively used.

As a percentage of net sales, operating result improved, from 2.9% in 2003 to 3.8% in 2004. ASAP achieved an operating result of 31 million (4.0% of net sales). At constant exchange rates, ASAP s operating result improved 32.3% compared to 2003.

Office Products Europe and Australia

	2004	2003	Change in	Change at constant rates(1)
		(in millions, except percentages)		
Net sales	1,500	1,479	1.4%	0.1%
Added value	420	392	7.1%	5.7%
Operating result	47	(23)		
Added value as a percentage of net sales	28.0%	26.6%		
Operating result as a percentage of net sales	3.1%	(1.6)%		

(1) We present our results on a constant currency basis by converting our prior year results into euro at the current year average exchange rate. We explain why we believe the presentation of this non-GAAP financial measure provides useful information regarding our financial performance in the Use of Non-GAAP Financial Measures section of this Item 5.

Net sales

Net sales in the Office Products Europe and Australia Divisions combined increased by 1.4%, from 1,479 million in 2003 to 1,500 million in 2004. At constant exchange rates net sales were level with last year.

In Europe, we strengthened our position within the segment of large businesses and institutions, both locally and internationally. Our business in the United Kingdom showed first signals of gaining momentum and had a positive turn in the sales per day trend in the second half of 2004. In Germany, the largest European operating unit, the core office products business outperformed the market, but the copier business suffered from losses and has now been brought under the management of our Dutch business in an attempt to improve its efficiency. In the Netherlands we were impacted by the weak economic climate. In addition, we discontinued the unprofitable portions of our Dutch wholesale business, leading to a reduced sales value. Our operations in France showed particularly good growth rates while our other European operations showed a mixed but generally stable picture.

In Australia and New Zealand, net sales increased 15.3% in 2004 compared to 2003 measured at constant exchange rates. We maintained our strong performance in these markets as a leading full service distributor, due to our single-source business model, extended market coverage and new product categories. The facility products offer was extended and established in the majority of our locations with designated marketing and sales people. CE Direct (a dedicated sales and marketing team, rolling out a low cost maximum touch point strategy) was launched for the medium and small business segments in the Sydney market.

Organically, sales in the Office Products Europe and Australia Divisions combined decreased by 2% in 2004 compared to 2003 due to a 7% organic sales decline in Europe, partly offset by organic growth of 8% in Australia and New Zealand.

The following tables present a calculation, on an organic basis, of net sales for the Office Products Europe and Australia Divisions, respectively, in 2004 as compared to 2003.

Office Products Europe Division

	2004	2003	Change in %
	(in millions, except percentages)		
Net sales	911	983	
Effect of currency exchange rate movements		3	
Net sales at constant exchange rates	911	986	
Acquisitions and divestments		(7)	
Variation in the number of working days	(5)		
Net sales on an organic basis	905	978	(7)%

Office Products Australia Division

	2004	2003	Change in %
	(in millions, except percentages)		
Net sales	589	496	
Effect of currency exchange rate movements		14	
Net sales at constant exchange rates	589	510	
Acquisitions and divestments	(14)	17	
Variation in the number of working days	(4)		
Net sales on an organic basis	571	527	8%

Added value

Added value in the Office Products Europe and Australia Divisions combined showed an improvement of 7.1%, from 392 million in 2003 to 420 million in 2004; at constant exchange rates, the increase was 5.7%. In 2003, this included an exceptional charge for the Australian Division of 5 million to fully comply with Buhrmann s rebate and catalog income recognition policies. As a percentage of net sales, added value improved significantly to 28.0%, supported by our strategic initiatives. Both Divisions increased their share of private brand sales; the Australian Division extended the program to most of its specialty businesses (facilities, catering, promotional marketing, furniture). The European Division continued its product harmonization and rationalization initiative.

Operating result

The operating result for the combined Office Products Europe and Australia Divisions, increased from a loss of 23 million in 2003 to a profit of 47 million in 2004. Operating result as a percentage of net sales improved from negative 1.6% in 2003 to positive 3.1% in 2004 as a result of increased added value due to improved sourcing, private brand progress and margin management initiatives particularly in Germany. In Europe, operating costs were lowered in 2004 compared to 2003 due to reduction in staff levels, while in Australia headcount and costs increased.

Amortization of goodwill decreased to 6 million in 2004 from 8 million in 2003 due to a lower amount of goodwill after the impairment recorded in 2003. Following the outcome of the annual goodwill impairment test, an impairment of 53 million was recorded in 2003 as the calculated fair value of the European Office Products businesses combined was lower than the book value. No impairment charge was recorded in 2004.

Depreciation of tangible fixed assets and internally used software was stable at 20 million in both 2004 and 2003.

In 2004 and 2003, exceptional operating costs of 5 and 3 million, respectively, for additional restructuring charges in Europe were recorded.

Graphic Systems

	2004	2003	Change in	Change at constant rates(1)
		(in millions, except percentages)		
Net sales	411	369	11.6%	11.6%
Added value	95	85	11.9%	11.9%
Operating result	0	(13)		
Added value as a percentage of net sales	23.2%	23.1%		
Operating result as a percentage of net sales	0.0%	(3.6)%		

(1) We present our results on a constant currency basis by converting our prior year results into euro at the current year average exchange rate. We explain why we believe the presentation of this non-GAAP financial measure provides useful information regarding our financial performance in the Use of Non-GAAP Financial Measures section of this Item 5.

Net sales

Net sales in the Graphic Systems Division increased by 11.6%, from 369 million in 2003 to 411 million in 2004. While macro-economic conditions are still delaying a recovery, the lowest point of the investment cycle seems to have passed. Traditionally, sales of equipment of the Division correlate with the long-term investment cycle and therefore experience a level of cyclicality. The increase in orders for printing equipment in 2004 was in part a direct result of the successful presentation of productivity improvement for equipment shown at the DRUPA exhibition. The Division continued its strategy to make sales less dependent on the investment cycle by increasing the sales of Triple S in the Division s total sales. The Division also sold its digital printing activities to NexPress in the fourth quarter of 2004.

Added value

The added value of the Graphic Systems Division was 95 million in 2004 compared with 85 million in 2003, an increase of 11.9%. Graphic Systems Division continued its strategy to make sales less dependent on the economic cycle by increasing Triple S sales which produce higher margins. Added value as a percentage of net sales increased slightly to 23.2% in 2004.

Operating result

Operating result in the Graphic Systems Division improved from a loss of 13 million in 2003 to break even in 2004. This was the result of higher sales volumes and slightly better added value margins. Also, the Division further reduced its cost base due to the divestment of its digital print and reduced staffing levels. Operating results improved from negative 3.6% in 2003 to break even in 2004.

The Division did not incur amortization or impairment cost of goodwill in 2004 or 2003.

Depreciation costs were stable at 4 million in 2004.

In 2003, exceptional operating costs of 1 million were recorded as additional restructuring charges. In 2004, no exceptional operating costs were recorded.

Corporate

Net corporate operating costs not allocated to the Divisions, were 18 million in 2004, an increase of 2 million compared to 2003 mainly because, in 2003, we benefited from some non-recurring benefits in operating costs.

In 2003, an exceptional operating income, not allocated to the Divisions, of 58 million was recorded which is the result of an indemnity payment (net of costs) awarded to Buhrmann as the outcome of arbitration proceedings against the French company Ipfo Bail S.A. In 2004, no exceptional operating income or costs were recorded.

Amortization cost of goodwill not allocated to the Divisions was 6 million in 2004 and 5 million in 2003.

Results of operations year ended December 31, 2003 compared to year ended December 31, 2002

The majority of Buhrmann s business activities are conducted in U.S. dollars. Buhrmann s financial position, results of operations and cash flows reported in euro were significantly affected by the weakening of the exchange rate of the U.S. dollar to the euro in 2003. Changes at constant exchange rates in the tables below exclude the effect of currency exchange rate movements on reported numbers in euro.

In general, our business was affected by continuing difficult economic conditions in our major markets. Personnel reductions and lower spend per white collar employee resulted in lower demand from our existing office products customers. We partially compensated for this reduction in demand through product range extensions and the addition of new customers. In addition, customers of our graphic equipment were postponing their investments, leading to reduced sales levels in our Graphic Systems Division.

As these difficult economic conditions restricted the growth of our business, we focused on restructuring our office products operations, strengthening our management teams, modifying our sales and marketing strategies, integrating companies acquired over the past years, reducing costs, managing working capital and realizing a satisfactory cash flow. Ongoing investments were made in technology and the launch of our global sourcing and private label initiatives. We achieved significant debt reduction in 2003 due to strong cash flow generation from operating activities and the sale of the Paper Merchanting Division.

Our global office products business, mainly operating under the name of Corporate Express, made significant progress in optimizing operations. Our North American office supplies business completed streamlining its operations and centralizing back-office functions improving labor productivity by more than 10% in 2003. Our European office products operations were strengthened by the appointment of several new national management teams, reduced personnel numbers and further aligned their infrastructure. Our operations in Australia and New Zealand continued to expand geographic coverage and multiple lines of business through selective acquisitions. We continued to invest in these operations to strengthen our sales and marketing approach and enhance customer experience while helping them take cost out of their procurement process, thus maintaining our competitive advantage. In addition, information technology investments continued to drive operational efficiencies, fostering a more efficient internal administrative and operational service.

The sale of the Paper Merchanting Division in 2003 facilitated a substantial reduction in our net debt. The net consideration for the sale amounted to 637 million. The sale of the Paper Merchanting Division also enabled us to focus more of our attention and efforts on the office products business. We believe that the office products market offers attractive growth opportunities, a high profit margin, and a good return on capital employed.

During 2003 we reduced our total interest bearing debt by 899 million. At the end of 2003, Buhrmann s total interest bearing debt amounted to 836 million compared to 1,735 million at the end of the previous year. In view of the relatively high financing costs in relation to the Company s earnings performance, debt reduction was given the highest priority, while available cash flow was maximized through further stringent working capital management. The changed composition of the Group, the composition of our debt portfolio and the favorable capital market environment gave rise to an in-depth and favorable revision of Buhrmann s financing structure with the refinancing of our senior credit facility with the Senior Credit Facility and the issue of the Subordinated Convertible Bonds, see Financing activities below. Particular attention was given to optimizing the duration and the composition of the debt portfolio to match the requirements of the Group going forward. In addition, the Senior Credit Facility enhances the flexibility in our operational and financial activities.

Consolidated results

Net sales; Added value; Operating result

The following table shows net sales, added value and operating result of the Buhrmann Group, including the Paper Merchanting Division which was sold with effect from October 31, 2003.

	2003	2002	Change in	Change at constant rates(1)
	(in millions, except percentages)			
Net sales	8,053	9,948	(19.0)%	(10.8)%
Added value	1,854	2,253	(17.7)%	(8.6)%
Operating result	171	(301)		
Added value as a percentage of net sales	23.0%	22.6%		
Operating result as a percentage of net sales	2.1%	(3.0)%		

The following table shows net sales, added value and operating result excluding the Paper Merchanting Division and related Corporate holding companies.

	2003	2002	Change in	Change at constant rates(1)
	(in millions, except percentages)			
Net sales	5,787	6,960	(16.9)%	(6.4)%
Added value	1,495	1,792	(16.5)%	(5.7)%
Operating result	116	(348)		
Added value as a percentage of net sales	25.9%	25.7%		
Operating result as a percentage of net sales	2.0%	(5.0)%		

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(1) We present our results on a constant currency basis by converting our prior year results into euro at the current year average exchange rate. We explain why we believe the presentation of this non-GAAP financial measure provides useful information regarding our financial performance in the Use of Non-GAAP Financial Measures section of this Item 5.

Net sales

Net sales of the Group in 2003 were 8,053 million compared with 9,948 million in 2002, a decrease of 19.0%. Excluding the Paper Merchanting Division, net sales in 2003 were 5,787 million compared with 6,960 million in 2002, a decrease of 16.9%. This decrease is to a large extent attributable to the weakening of the U.S. dollar, which adversely affected net sales in the Office Products North America Division. At constant exchange rates, the decrease in net sales was 10.8% for the total Group and a decrease of 6.4% excluding the Paper Merchanting Division.

Personnel reductions and lower spend on office products per employee continued across our customer base in 2003. Especially with respect to our large-account customers, which we serve primarily in our key markets, such as the United States, Germany, and the Netherlands, we experienced reduced demand for office products. Our business in the United Kingdom was negatively impacted by internal restructuring, leading to a decline in sales. In Australia, New Zealand, Canada and in most other European countries we continued to grow. This is primarily attributable to increased sales to small- and medium-sized businesses. Even in the face of difficult market conditions in our major markets, most Buhrmann businesses increased market share within our core customer segment, the large and strategic accounts.

The organic sales growth for Buhrmann as a whole, excluding the Paper Merchanting Division, was negative 4.0% in 2003 as compared to 2002.

The following table presents a calculation, on an organic basis, of net sales for the Group in 2003 as compared to 2002.

	2003	**2002**	**Change in %**
	(in millions, except percentages)		
Net sales	8,053	9,948	
Divestment of the Paper Merchanting Division	(2,266)	(2,988)	
Net sales excluding the Paper Merchanting Division	5,787	6,960	
Effect of currency exchange rate movements		(780)	
Net sales at constant exchange rates excluding the Paper Merchanting Division	5,787	6,180	
Acquisitions	(26)	17	
Divestments (excluding the Paper Merchanting Division)	(7)	(28)	
Variation in the number of working days	41		
Change to commission-based model at ASAP(1)	168	87	
Change in sales recognition in the Graphic Systems Division(2)	16		
Net sales on an organic basis	5,979	6,256	(4)%

(1) Change to commission-based model at ASAP relates to sales of software products by ASAP whereby the manufacturer performs the billing and ASAP receives a commission from the manufacturer which is recorded as sales by ASAP. In the past, ASAP performed the billing of these sales and ASAP recorded sales and cost of sales separately, rather than only the commission.

(2) Change in sales recognition in the Graphic Systems Division relates to graphic machines of which the sale, as of January 1, 2003, is recognized at installation, whereas prior to January 1, 2003 the sale was recognized at delivery of the machines.

Added value

Total added value of the Group was 1,854 million in 2003 compared to 2,253 million in 2002. This represented a decrease of 17.7%, or 8.6% at constant exchange rates. Total added value excluding the Paper Merchanting Division was 1,495 million in 2003 compared to 1,792 million in 2002, a decrease of 16.5%, or 5.7% at constant exchange rates. This decrease was predominantly a result of lower sales volumes. Added value as a percentage of net sales before exceptional results, excluding the Paper Merchanting Division, was 25.9% in 2003 compared to 25.7% in 2002.

In 2003, an exceptional charge of 5 million was recorded in added value in the Australian Division to fully comply with Buhrmann s rebate and catalog income recognition policies.

Operating result

The operating result of the Buhrmann Group was an income of 171 million in 2003, compared to a loss of 301 million in 2002.

In 2003, a goodwill impairment charge of 53 million was recorded following the annual goodwill impairment test, as the calculated fair value of the European Office Products Division was lower than the book value. This reflects primarily the Division s business performance, which was lower than expected when 2002 s impairment test was made. Following the annual goodwill impairment test in 2002, a goodwill impairment charge of 573 million was recorded which includes the Office Products North America Division (423 million), the Office Products Europe Division (124 million) and the Paper Merchanting Division (26 million).

The amortization of goodwill was 52 million in 2003 compared to 70 million in 2002, a reduction of 25.7% or 15.2% measured at constant exchange rates which is due to a lower amount of goodwill as a result of an impairment charge in 2002.

As from the financial year 2003, Buhrmann s operating result includes a number of exceptional results that are disclosed separately in order to increase comparability of results from normal operations (following new Guidelines for Annual Reporting in the Netherlands). In 2002, most of these exceptional results were excluded from operating result and classified as extraordinary result.

Total exceptional results in 2003 as part of operating result amounted to 51 million and consisted of the following:

Office Products North America: a reassessment of lease commitments of vacant properties which were included in the 2002 restructuring charge (6 million negative).

Office Products Europe and Australia: an adjustment of catalog income recognition of Office Products Australia to fully comply with Buhrmann accounting policies (5 million negative); and additional restructuring charges in Office Products Europe (3 million negative).

Graphic Systems: a restructuring charge (1 million negative).

Corporate: primarily the result of an indemnity payment (58 million positive net of costs) awarded to Buhrmann as the outcome of arbitration proceedings against the French company Ipfo Bail S.A.

Paper Merchanting Division: a reassessment of restructuring commitments related to revised numbers of redundancies and a continuation of property usage (8 million positive).

Depreciation costs of tangible fixed assets and internally used software was 104 million in 2003 compared to 114 million in 2002. This is a decrease of 8.5%, however, measured at constant exchange rates it was an increase of 2.5%. The increase is a result of large investments in information technology systems, internally used software and distribution facilities in the past years.

Operating result was negatively affected by lower sales volumes which were partially offset by lower labor and other operating costs, mainly as a result of our restructuring and integration efforts.

Excluding the Paper Merchanting Division and related corporate holding companies, the operating result was an income of 116 million in 2003 compared to a loss of 348 million in 2002.

Financial income and expense; Minority interests; Taxation

	2003	**2002**
	(in millions)	
Total financing costs	(257)	(199)
Results from participations and other financial results	(102)	16
Total minority interests	(12)	(12)
Total taxes	68	(18)
Total financial items	(303)	(213)

Total financing costs

Interest costs were substantially reduced in 2003 to 144 million from 182 million in 2002, a reduction of 20.9%. This is predominantly a result of lower average interest-bearing debt due to early repayments, especially from the proceeds of the sale of the Paper Merchanting Division, as well as from the positive cash flow from operations. Interest costs were also reduced in the course of 2003 as a number of interest rate swaps with relatively high fixed rates either matured or were cancelled. Interest rate margins in 2003, however, were slightly higher than in 2002 due to the application of the pricing structure of the Senior Credit Facility.

Amortization of capitalized financing fees was 14 million in 2003 and 22 million in 2002. In 2003, an exceptional impairment of capitalized financing fees of 53 million was recorded as a result of repayments of debt following the proceeds from the sale of the Paper Merchanting Division, the replacement of the Senior Credit Facility and the issue of the Subordinated Convertible Bonds.

As a consequence of the debt reduction, interest rate swaps were settled in order to achieve a fixed to variable rate profile in line with our policy for hedging interest rate risks. This resulted in an exceptional charge of 40 million.

In addition, in connection with the refinancing of our senior credit facility with the Senior Credit Facility and the issue of the Subordinated Convertible Bonds, exceptional advisory costs of 5 million were recorded.

Total financing costs also includes the resulting currency translation differences on accounts receivable, cash and liabilities after application of currency forward contracts and certain currency translation differences on intercompany loans.

Results from participations and other financial results

The sale of the Paper Merchanting Division resulted in a loss of 112 million in 2003, consisting of a book loss of 79 million, related transaction costs of 15 million and provisions for indemnities and warranties of 18 million. The profit from the sale of the assets of DocVision of 7 million was also included in the 2003 results. In 2002, an income of 13 million was recorded as a result of the release of a provision related to uncollectability of loan notes which were received with the sale of the Information Systems Division in 2000. These loan notes were redeemed in 2002 prior to their stated maturity.

Minority interests

Minority interests mainly represent the 48% share of third parties in the result of Corporate Express Australia Ltd, a publicly traded company. This includes an exceptional income of 2 million in connection with the adjustment of the recognition of catalog contributions in the Office Products Australia Division to fully comply with Buhrmann accounting policies.

Taxes on result from ordinary operations

In 2003, exceptional non-cash tax benefits of 76 million were recorded which include a tax gain of 30 million as a result of the receipt of the indemnity payment awarded to Buhrmann as the outcome of arbitration proceedings against the French company Ipfo Bail S.A. The transaction structure for the sale of the Paper Merchanting Division and the subsequent debt reduction resulted in an 8 million tax benefit. The refinancing of Buhrmann led to a further impairment of capitalized financing fees resulting in the recognition of a tax asset of 11 million. Improved outlook on future taxable results triggered the release of a valuation allowance of 15 million. Tax provisions related to the acquisitions of both Corporate Express in 1999 and USOP in 2001 were released to an amount of 10 million.

Tax expense on result from operations before exceptional tax results was 8 million in 2003 compared to 18 million in 2002. The decrease in tax expense is mainly due to lower taxable income in 2003 due to lower operating result before amortization and impairment of goodwill which are predominantly non-deductible. In addition, taxes on result from operations in 2003 and 2002 benefited from changes in the composition of the geographic distribution of taxable income and finalized tax audits which led to a release of allowances on deferred tax assets which were recorded in previous years and which are no longer deemed necessary.

Buhrmann s effective tax rate was 12.5% in 2003 and 12.2% in 2002. The effective tax rate is determined based on the ratio of taxes on result from operations to the amount of result from operations before taxes and exceptional and extraordinary results and before, as these items are predominantly exempted from taxes, amortization and impairment of goodwill. Buhrmann s effective tax rate is below Buhrmann s weighted average statutory tax rate of 28% in 2003 (2002: 26%) due to changes in valuation allowances, predominantly related to the valuation of losses carried forward, exempt income, non-deductible expenses and incentives.

Result from operations; Extraordinary result; Net result

	2003	2002
	(in millions)	
Operating result	171	(301)
Total financial items	(303)	(213)
Result from operations before extraordinary result	(132)	(514)
Extraordinary result		(74)
Net result	(132)	(588)

Extraordinary result

Extraordinary result in 2002 consisted of extraordinary income of 10 million and extraordinary losses of 113 million and a related tax gain of 29 million. Extraordinary income relates to a release of 10 million of a provision for warranties relating to divested companies in previous years which were settled in 2002. Extraordinary losses in 2002 includes a charge of 111 million relating to both restructuring measures and write-offs on information technology and distribution infrastructure. As of January 1, 2003, these items are no longer presented as extraordinary results.

Office Products North America Division

	2003	2002	Change in	Change at constant rates(1)
	(in millions, except percentages)			
Net sales	3,939	4,931	(20.1)%	(5.6) %
Added value	1,018	1,261	(19.2)%	(4.0)%
Operating result	115	(273)		
Added value as a percentage of net sales	25.9%	25.6%		
Operating result as a percentage of net sales	2.9%	(5.5)%		

(1) We present our results on a constant currency basis by converting our prior year results into euro at the current year average exchange rate. We explain why we believe the presentation of this non-GAAP financial measure provides useful information regarding our financial performance in the Use of Non-GAAP Financial Measures section of this Item 5.

Net sales

Net sales in the Office Products North America Division decreased by 20.1% to 3,939 million in 2003, compared to 4,931 million in 2002. At constant exchange rates, sales were 5.6% lower than in 2002. The perceived recovery of the economic growth in the United States did not result in 2003 in an increase in employment rates, and therefore did not result in increased sales in the Office Products North America Division, as the demand for office products relates primarily to the number of office workers employed by our customers and their spending per office worker. Sales of office supplies on an organic basis were almost level with 2002. The office supplies business excludes the Division s specialty businesses ASAP, forms and promotional marketing. The Division s software sales also declined due to a continuing shift from invoiced sales to a commission-based system. Also in 2002, software sales benefited strongly from promotional activities of a major supplier, which were not repeated to the same extent in 2003.

Organically, sales were 3% lower in 2003 compared to 2002.

The following table presents a calculation, on an organic basis, of net sales for the Office Products North America Division in 2003 as compared to 2002.

	2003	2002	Change in %
	(in millions, except percentages)		
Net sales	3,939	4,931	
Effect of currency exchange rate movements		(760)	
Net sales at constant exchange rates	3,939	4,171	
Acquisitions	(14)		
Variation in the number of working days	33		
Change to commission-based model at ASAP(1)	168	87	
Net sales on an organic basis	4,126	4,258	(3)%

(1) Change to commission-based model at ASAP relates to sales of software products by ASAP whereby the manufacturer performs the billing and ASAP receives a commission from the manufacturer which is recorded as sales by ASAP. In the past ASAP performed the billing of these sales and ASAP recorded sales and cost of sales separately, rather than only the commission.

Added value

In our Office Products North America Division, added value decreased by 19.2% to 1,018 million in 2003 from 1,261 million in 2002. Measured at constant exchange rates, the decrease was 4.0%. Added value as a percentage of net sales increased slightly to 25.9% in 2003 from 25.6% in 2002, reflecting the change in the product mix with a lower share of software sales. Within the office supplies business, the share of the strategic and large-account customers remained high and the proportion of competitively priced contract sales increased further. Margin levels per product group were relatively stable, however margins in the mid- and small-market segment increased. Margin improvements were achieved through global sourcing initiatives and the expansion of the Division s private brand program. Rebates from suppliers increased and allowances paid to customers increased, both in comparison with sales levels. In 2003, software sales contributed 66 million to the Division s added value or 8.3%, of software sales, which is at the same level as in 2002.

Operating result

Amortization of goodwill decreased to 37 million in 2003 from 48 million in 2002 due to the lower exchange rate of the U.S. dollar and a lower amount of goodwill after the impairment recorded in 2002. Following the outcome of the annual goodwill impairment test, an impairment of 423 million on the remaining goodwill was recorded in 2002 as the business performance was lower than expected when the relevant acquisitions were made. In 2003, the annual impairment test did not result in a goodwill impairment for Office Products North America.

Depreciation of tangible fixed assets and internally used software was 63 million in 2003 compared to 69 million in 2002. This is a decrease of 8.7%, however, measured at constant exchange rates, this is an increase of 8.7%. This increase is due to the large investments in information technology systems, internally used software and distribution facilities made in the past years.

Operating result was negatively affected by lower added value which was partially compensated by lower labor and other operating costs, largely due to restructuring measures implemented in the course of 2003. The restructuring entailed among other things a significant reduction in the number of employees, the closure of several facilities and the expansion of the Division s shared service facility. Total operating costs, excluding depreciation of tangible fixed assets and internally used software, as a percentage of net sales were 20.4% in 2003 as compared to 20.2% in 2002, despite the decline in sales and an exceptional expense of 6 million in 2003 due to a reassessment of lease commitments of vacant properties which were included in the 2002 restructuring program. The charge for the restructuring program in 2002 was recorded as an extraordinary expense.

Office Products Europe and Australia Division

	2003	2002	Change in	Change at constant rates(1)
	(in millions, except percentages)			
Net sales	1,479	1,540	(4.0)%	(3.0)%
Added value	392	413	(5.1)%	(3.6)%
Operating result	(23)	(75)	(68.8)%	(69.3)%
Added value as a percentage of net sales	26.6%	26.8%		
Operating result as a percentage of net sales	(1.6)%	(4.9)%		

(1) We present our results on a constant currency basis by converting our prior year results into euro at the current year average exchange rate. We explain why we believe the presentation of this non-GAAP financial measure provides useful information regarding our financial performance in the Use of Non-GAAP Financial Measures section of this Item 5.

Net sales

Net sales in the Office Products Europe and Australia Divisions combined, decreased by 4.0% to 1,479 million in 2003 from 1,540 million in 2002. Measured at constant exchange rates, the decrease amounted to 3.0%. Sales in particular declined in Germany and the Benelux. In these markets our strategic and large-account customers implemented personnel rationalization and cost-reduction initiatives. In addition, our business in the United Kingdom lost sales due to internal restructuring, which was resolved in the second half of 2003. In those European countries where the customers are predominantly small- and medium-sized, sales continued to grow. The Office Products Europe Division made progress in harmonizing its local European businesses. In each of the Division s local businesses, dedicated sales teams were established for both the strategic and large account and the mid-market account segment.

Our Australia and New Zealand-based office products business continued to perform strongly in 2003 with an increase in net sales of 18.4% to 496 million in 2003 from 419 million in 2002. The increase at constant exchange rates was practically the same at 18.5%. Large customers decreased their office products spending but this was more than offset by growth and increased penetration in the mid- and small-markets, using dedicated sales teams. The expansion of specialty product categories (such as facility, break room and safety supplies) reflected the successful development of the single-source business model.

On an organic basis, sales in the Office Products Europe Division were 9% lower than in 2002 whereas sales in the Office Products Australia Division were 11% higher than in 2002 on an organic basis.

The following tables present a calculation, on an organic basis, of net sales for the Office Products Europe and Australia Divisions, respectively, in 2003 as compared to 2002.

Office Products Europe Division

	2003	2002	Change in %
	(in millions, except percentages)		
Net sales	983	1,121	
Effect of currency exchange rate movements		(20)	
Net sales at constant exchange rates	983	1,101	
Divestments	(7)	(28)	
Variation in the number of working days	(4)		
Net sales on an organic basis	972	1,072	(9)%

Office Products Australia Division

	2003	2002	Change in %
	(in millions, except percentages)		
Net sales	496	419	
Effect of currency exchange rate movements		(1)	
Net sales at constant exchange rates	496	418	
Acquisitions	(12)	17	
Net sales on an organic basis	484	435	11%

Added value

Added value in the Office Products Europe and Australia Divisions combined, decreased by 5.1% to 392 million in 2003 from 413 million in 2002 or 3.6% measured at constant exchange rates. Added value as a percentage of net sales was 26.6% in 2003, the same level as in 2002. In 2003, an exceptional charge of 5 million was recorded in the Australian Division to fully comply with Buhrmann s rebate and catalog income recognition policies. In Europe, sales of stationery supplies showed a decline whereas sales of computer supplies remained stable. As a result of the continuing weak economic climate and competitive pressure, price and margin pressure remained present in 2003. The European business launched a new private brand offering in 2003 and the Australian business increased the share of sales under its own brand which helped to maintain margins and offers our customers an attractive alternative to manufacturers brands.

Operating result

Amortization of goodwill decreased to 8 million in 2003 from 15 million in 2002 due to a lower amount of goodwill after the impairment recorded in 2002. Following the outcome of the annual goodwill impairment test, an impairment of 53 million was recorded in 2003 as the calculated fair value of the European Office Products businesses combined was lower than the book value. This reflects primarily the recent performance of the European Office Products Division, which is lower than we expected when the 2002 impairment test was made which resulted in an impairment of goodwill of 124 million.

Depreciation of tangible fixed assets and internally used software was stable at 20 million in both 2003 and 2002.

Operating result in the Office Products Europe and Australia Divisions combined, was negatively affected by the decline in added value in Europe due to lower sales levels, which was only partly offset by the increase in added value in Australia.

In Europe, labor and other operating costs were 4.3% lower, which was the result of further integration and streamlining of the operations. In the Netherlands, a new distribution center was brought into use while in other countries, such as Italy, facilities were modernized. The implementation of a new warehouse system in Australia had a temporary negative impact on labor and operating costs.

In 2003, exceptional operating costs of 3 million for additional restructuring charges in Europe were recorded. In 2002, the charge for restructuring was recorded as an extraordinary expense.

Graphic Systems Division

	2003	**2002**	**Change in**	**Change at constant rates(1)**
		(in millions, except percentages)		
Net sales	369	489	(24.5)%	(24.5)%
Added value	85	118	(28.0)%	(28.0)%
Operating result	(13)	23		
Added value as a percentage of net sales	23.1%	24.1%		
Operating result as a percentage of net sales	(3.6)%	4.7%		

(1) We present our results on a constant currency basis by converting our prior year results into euro at the current year average exchange rate. We explain why we believe the presentation of this non-GAAP financial measure provides useful information regarding our financial performance in the Use of Non-GAAP Financial Measures section of this Item 5.

Net sales

Net sales in the Graphic Systems Division decreased by 24.5% to 369 million in 2003 from 489 million in 2002, and organically by 21%. Sales of machinery were sharply down from 2002 as the European graphic industry continued to postpone capital investments in the wake of low business volumes in the market for print publications. Traditionally, sales of machinery in our Graphic Systems Division correlate with the investment cycle, and therefore experiences more cyclicality than Buhrmann s other divisions. Additionally, the tight lending climate in 2003 made it difficult for printers to buy new equipment. Overall however, the Division made good progress in its strategy to make its sales less dependent on the economic cycle. Sales of services (such as configuration and repairs), supplies and spare parts continued to grow to approximately 40% of the Division s total sales in 2003.

Added value

Added value in the Graphic Systems Division decreased by 28.0% to 85 million in 2003 from 118 million in 2002. The added value as a percentage of net sales decreased to 23.1% in 2003 from 24.1% in 2002. Margins on machinery declined in 2003 due to severe competition as commercial printers continued to face a low capacity utilization and manufacturers have overcapacity. Higher inventory and receivables provisions also had a negative impact on added value. Conversely, the increase in sales of services, supplies and spare parts, which have higher margins, had a positive effect on added value.

Operating result

The decrease in operating result was due to a decline in added value as a result of lower sales while employee levels were reduced and cost levels, including depreciation, remained stable.

The Division did not incur amortization or impairment cost of goodwill in 2003 or 2002.

Exceptional costs of 1 million in 2003 were recorded as additional restructuring charges. In 2002, the charge for restructuring was recorded as an extraordinary expense.

Paper Merchanting Division

	2003	2002	Change in	Change at constant rates(1)
	(in millions, except percentages)			
Net sales	2,266	2,988	(24.2)%	(21.0)%
Added value	359	461	(22.1)%	(18.7)%
Operating result	55	44	25.0%	32.8%
Added value as a percentage of net sales	15.8%	15.4%		
Operating result as a percentage of net sales	2.4%	1.5%		

(1) We present our results on a constant currency basis by converting our prior year results into euro at the current year average exchange rate. We explain why we believe the presentation of this non-GAAP financial measure provides useful information regarding our financial performance in the Use of Non-GAAP Financial Measures section of this Item 5.

Net sales

Net sales in the Paper Merchanting Division from January 1 to October 31, 2003 (Buhrmann divested its Paper Merchanting Division with effect from October 31, 2003) were 10.3% lower compared to the same period in 2002. Sales measured in euro were negatively impacted by a weaker exchange rate of the British pound sterling. Measured at constant exchange rates, the decrease in sales amounted to 6.5%. The sales mix between stock and lower priced indent (paper ordered through merchants but delivered directly from the mills) was stable in 2003.

Added value

Added value in the Paper Merchanting Division decreased by 8.2% in the period January 1 to October 31, 2003 compared to the same period in 2002. Measured at constant exchange rates, the decline was 3.7%. This decrease was due to lower average paper prices while gross margins were stable in 2003 compared to 2002. Added value as a percentage of net sales in the Paper Merchanting Division was slightly higher at 15.8% in 2003 compared to 15.4% in 2002.

Operating result

Operating result in the Paper Merchanting Division increased to 55 million in 2003 from 44 million in 2002. This is predominantly due to the impairment charge of goodwill of 26 million in 2002 resulting from the annual goodwill impairment test. In 2003, no goodwill impairment was recorded.

There was no major change in depreciation of tangible fixed assets and internally used software in the period January 1 to October 31, 2003 compared to the same period in 2002.

Operating result was negatively affected by the decrease in added value while labor and other operating costs were 5.3% lower than in the same period in 2002, or 1.0% at constant exchange rates. This was compensated for by an exceptional operating income of 8 million in 2003 due to a reassessment of restructuring commitments resulting from the 2002 restructuring program. In 2002, the charge for these restructuring commitments was recorded as an extraordinary expense.

Corporate

Corporate net operating costs not allocated to the Divisions were 16 million in 2003 and in 2002. In 2003, higher labor costs could be compensated by lower other operating costs (such as insurance and consultancy costs).

Furthermore, there was an exceptional income, not allocated to the Divisions, in 2003 of 58 million which was the result of an indemnity payment (net of costs) awarded to Buhrmann as the outcome of arbitration proceedings against the French company Ipfo Bail S.A.

Amortization cost of goodwill not allocated to the Divisions was 5 million in 2003 and 4 million in 2002.

Liquidity and Capital Resources

Liquidity

Buhrmann s liquidity requirements arise primarily from the need to fund the expansion of its business, working capital requirements, capital expenditure and restructuring. Our primary source of liquidity is cash generated from operations. The following table sets forth cash flow movements for the periods indicated (includes the Paper Merchanting Division until October 31, 2003):

	Twelve Months ended December 31,		
	2004	**2003**	**2002**
		(in millions)	
Net cash provided by operating activities	223	272	258
Net cash provided by (used in) investing activities	(82)	544	(138)
Available cash flow	141	816	120
Net cash (used in) financing activities	(127)	(681)	(208)
Net cash flow	14	135	(88)

Net cash provided by operating activities

Net cash provided by operating activities was 223 million in 2004, compared with 272 million in 2003 (including the Paper Merchanting Division).

An 83 million lower operating result in 2004 compared 2003 adjusted for non-cash items (depreciation of tangible fixed assets and internally used software, amortization and impairment of goodwill, additions to/releases from provisions) was more then compensated by lower spending related to cost saving restructuring activities of 25 million and lower interest payments of 72 million. Operating result in 2003 includes the Paper Merchanting Division until October 31.

Working capital was further reduced by 36 million in 2004 and 81 million in 2003. Average working capital as a percentage of net sales decreased from 12.3% in 2003 to 9.5% in 2004.

Interest payments decreased as a result of the lower average interest-bearing debt at lower average interest rates following the optimization of our debt portfolio in fourth quarter of 2003 and the third quarter of 2004.

Profit tax payments were stable at 22 million.

Cash flow from operating activities in 2003 includes a receipt of 79 million of indemnities resulting from the arbitration proceedings against the French company Ipfo Bail.

Net cash provided by (used in) investing activities

Net cash used in investing activities was 82 million in 2004 compared to 544 million provided in 2003.

Capital expenditure amounted to 59 million in 2004 compared to 79 million in 2003. A significant portion of our capital expenditure represents the development of information technology, eCommerce and logistics systems.

Cash used for acquisitions predominantly relates to the Office Products Australia Division and amounted to 6 million in 2004, compared with 10 million in 2003.

In 2004, 10 million was paid for transaction fees related to divested companies.

Divestment proceeds in 2003 were 641 million, which include the proceeds from the sale of the Paper Merchanting Division (637 million) and the sale of the assets of DocVision (8 million), reduced by related payments.

The resulting available cash flow from operations after giving effect to investment activities was 141 million in 2004 compared to 816 million in 2003.

Net cash (used in) financing activities

Net cash used in financing activities was 127 million in 2004 compared to 681 million in 2003.

In 2004, Buhrmann successfully tendered for the $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 $150 million of new 2014 Notes, an increase of $125 million of Term Loans and cash on hand of $118 million. In 2004, the financing fees, related advisory costs, tender premium for the tender, the issue of new 2014 Notes and the increase of Term Loans amounted to 35 million. Also, in 2004, fees of 4 million were paid related to the refinancing of 2003.

In 2003, early repayments of long-term debt were mostly funded out of the proceeds of the sale of the Paper Merchanting Division supplemented by cash flows from operations. In December 2003, Buhrmann placed its 115 million of Subordinated Convertible Bonds and entered into the Senior Credit Facility.

The financing fees and related advisory costs paid for the issue of the Subordinated Convertible Bonds and the entering into the new Senior Credit Facility in December 2003 amounted to 25 million. As a result of the repayment of long-term debt, some interest rate swaps were settled, in accordance with Buhrmann s policy on hedging for interest rate risks, which resulted in a cash outflow of 40 million in 2003.

In 2004, Buhrmann paid cash dividends on its Preference Shares A of 11 million. The dividend on Preference Shares C for 2003, paid in 2004, was paid entirely in additional Preference Shares C. The dividend on Ordinary Shares for 2003, which was 0.07 per share, was paid out in additional Ordinary Shares.

Payments to minority shareholders amounted to 8 million in 2004 compared to 7 million in 2003.

The resulting net cash flow was positive 14 million in 2004 compared to positive 135 million in 2003 which was reflected in the movements in net liquid funds.

Capital Resources

Buhrmann s cash requirements for needs in excess of cash generated by operations are largely funded by borrowings under arrangements with commercial banks and debt raised in the capital markets.

Buhrmann incurred substantial indebtedness in connection with the acquisition of Corporate Express in October 1999 which was partly funded through a senior credit facility and the issuance of $350 million 2009 Notes. After the sale of the Paper Merchanting Division, the original senior credit facility was replaced with the Senior Credit Facility in December 2003. In addition to the new Senior Credit Facility, Buhrmann issued its 115 million Subordinated Convertible Bonds in December 2003 which are listed on the Amsterdam Stock Exchange.

In July 2004, Buhrmann successfully tendered for the $350 million 2009 Notes. The tender was funded by an issue of 2014 Notes, an increase of Term Loans under the Senior Credit Facility and cash on-hand.

Buhrmann also has an accounts receivable securitization program under which funds are raised by pledging accounts receivable from subsidiaries in the Netherlands and the United States as security for short-term and medium-term borrowings.

The Senior Credit Facility

The Senior Credit Facility was arranged in the course of 2003 and funded on December 31, 2003. The Senior Credit Facility initially consisted of a Term Loan A of 120 million and Term Loans B with tranches of 50 million and $380 million plus a working capital facility of 255 million. On July 1, 2004, the Term Loans B were converted into Term Loans C. The U.S. dollar tranche Term Loans C was increased by $125 million. The security provided for the Senior Credit Facility is a pledge on assets by Buhrmann NV, Buhrmann US Inc. and substantially all of Buhrmann s existing and future U.S. subsidiaries and certain of its material non-U.S. subsidiaries. Borrowings under the Senior Credit Facility bear interest at floating rates related to LIBOR or EURIBOR, as applicable, for the relevant currency for varying fixed interest periods. The interest rate margins for the working capital facility, the Term Loan A and the Term Loans C vary with the leverage ratio (pricing grid). The initial margin for the working capital facility and the Term Loan A is 2.50%. The initial margin for the Term Loans C is 2.50%. The working capital facility carries a fee of 0.75% for the undrawn balance. The documentation of the Senior Credit Facility provides for uncommitted increases in the working capital facility and term loans subject to meeting certain conditions such as a maximum senior leverage ratio.

The Senior Credit Facility imposes certain restrictions on Buhrmann and certain of its subsidiaries, including restrictions on the ability to incur additional indebtedness. Also, Buhrmann is required to apply a percentage of the proceeds of any equity offering (other than certain equity offerings to finance the purchase of the Preference Shares C) and sale of assets to the prepayment of debt under the facility. Under the Senior Credit Facility, Buhrmann must also comply with certain financial covenants. Buhrmann was in compliance with these financial covenants as of December 31, 2004. It is noted that among other things, the earnings before depreciation of tangible fixed assets and internally used software and amortization of goodwill used for banking covenant calculation purposes may differ significantly from the EBITDA as derived from our consolidated financial statements due to specific contractual definitions. Also, profit and loss items are calculated on a rolling four-quarterly basis. If Buhrmann fails to comply with the covenants in the Senior Credit Facility, there could be an event of default under the Senior Credit Facility. In addition, the lenders under the Senior Credit Facility could demand repayment of the debt under the Senior Credit Facility, and seek to foreclose on Buhrmann s assets that secure the Senior Credit Facility. Buhrmann can on occasion obtain consent from its lenders to amend certain terms and conditions of the Senior Credit Facility, which may involve additional fees.

8 1/4% Senior Subordinated Notes due 2014

In June 2004, Buhrmann US Inc. issued $150 million in aggregate principal amount of 8 1/4% Senior Subordinated Notes due 2014 in a private placement. These bonds are unsecured obligations of Buhrmann US Inc., and are guaranteed by Buhrmann and certain of its subsidiaries. In September 2004, Buhrmann US Inc. filed a registration statement on Form F-4 with the SEC for $150 million in aggregate principal amount of the 2014 Notes, the terms of which were substantially identical to the unregistered bonds issued in June. The registration statement filed by Buhrmann US Inc. was an offer to exchange all of its outstanding unregistered 2014 Notes for the newly registered 2014 Notes. Pursuant to this exchange offer, which closed in October 2004, registered bonds were issued to certain existing holders in exchange for their unregistered bonds.

7-year Subordinated Convertible Bonds

In addition to the Senior Credit Facility, in December 2003, Buhrmann issued its 115 million Subordinated Convertible Bonds, which are listed on the Amsterdam Stock Exchange. The Subordinated Convertible Bonds have a coupon of 2% which is payable annually on June 18 and is convertible into Buhrmann Ordinary Shares at a conversion price of 8.40 per Ordinary Share. The Subordinated Convertible Bonds must be redeemed on or before December 18, 2010. Buhrmann has the option to redeem the Subordinated Convertible Bonds after July 9, 2008 if the official closing price of Buhrmann s Ordinary Shares has been in excess of 150% of the conversion price for 20 trading days in a period of 30 trading days.

Accounts Receivable Securitization Program

Buhrmann has an accounts receivable securitization program under which funds are raised by pledging accounts receivable from operating companies in the Netherlands and the United States as security for short-term and medium-term borrowings. The operating companies sell their accounts receivable to Buhrmann Silver SA and Buhrmann Silver US LLC, which in turn pledge the accounts receivable to third-party dedicated entities as security for short-term borrowings in the form of short term notes (Short Term Notes) and medium term notes (Medium Term Notes, and together with the Short Term Notes, the Term Notes). At December 31, 2004, accounts receivables of 239 million were pledged under this program. The program delivers funding at attractive rates and at the same time diversifies sources of capital and increases financial flexibility. Both receivables and borrowings related to this program are included in our consolidated balance sheet.

The Short Term Notes are issued in U.S. dollars, reflecting the currency of the pledged receivables. The amount of Short Term Notes outstanding against the receivables pledged, fluctuates as a result of liquidity requirements, advance rates calculated and invoices outstanding. To ensure availability of re-financing for the notes, a back-up liquidity facility has been arranged. At December 31, 2004 and December 31, 2003, no Short Term Notes were issued or outstanding.

In July 2002, Medium Term Notes in U.S. dollars and GBP were issued. As a consequence of the sale of the Paper Merchanting Division, the collateral for the Medium Term Notes denominated in GBP in the form of accounts receivables denominated in GBP generated by Paper Merchanting companies in the United Kingdom, no longer existed. The Medium Term Notes outstanding in GBP, amounting to GBP 107 million were therefore redeemed on November 25, 2003. At December 31, 2004, $100 million of Medium Term Notes were outstanding. The average interest margin, including issuers cost, is approximately 0.50% over LIBOR.

The transactions relating to the accounts receivable securitization program are as follows:

The Dutch Originators sell their receivables on a true sale basis to the European receivables warehouse: Buhrmann Silver SA. Buhrmann Silver SA (a wholly owned Buhrmann subsidiary) sells the receivables onward to the Silver Securitisation B.V. (the European Master Purchaser). Silver Securitisation B.V. is a separate company of which the shares are held by a Stichting (Dutch Foundation) which is controlled by a board independent from Buhrmann. Silver Securitisation B.V. holds the European receivables and issues notes (Buhrmann Notes) with the receivables as security to the investors in the Buhrmann Notes. Investors in the Buhrmann Notes are Rheingold no 11 Ltd (a Jersey company sponsored by Deutsche Bank AG) as Initial Buhrmann Term Note Purchaser and Silver Funding Ltd as MTN issuer. The shares of Silver Funding are held by the Silver Funding Charitable Trust which is controlled by a board that is independent from Buhrmann.

In the United States the U.S. Originators sell their receivables to Buhrmann Silver US LLC (the U.S. Master Purchaser), which is a partnership with the U.S. Originators as partners. The U.S. Master Purchaser issues notes (Buhrmann U.S. Notes) to both the Initial Buhrmann Notes Purchaser and the MTN Issuer. The U.S. Master Purchaser and the European Master Purchaser have issued a cross guarantee on their respective receivables.

With the Buhrmann Notes and Buhrmann U.S. Notes as collateral, Rheingold no 11 Ltd and Silver Funding Ltd raise funds in the market. Rheingold no 11 issues Short Term Notes in the form of commercial paper through the CP Issuer Rheingold Securitisation Ltd. Silver Funding Ltd issues Medium Term Notes, which are listed on the Luxembourg Stock Exchange, in U.S. dollars and euro. As the euro denominated notes have the U.S. dollars pool as their primary collateral, the Term Notes outstanding in euro have been swapped to U.S. dollars until maturity of the Term Notes.

Buhrmann Stafdiensten B.V. (a Dutch Buhrmann company) services the program.

The receivables sold by the Dutch Originators and the U.S. Originators to Buhrmann Silver SA and Buhrmann Silver US LLC are included in Buhrmann s consolidated balance sheet, both under Dutch GAAP and U.S. GAAP. Also the Buhrmann Notes issued by Silver Securitisation B.V. And the Buhrmann U.S. Notes issued by Buhrmann Silver US LLC are included in Buhrmann s consolidated balance sheet, both under Dutch GAAP and U.S. GAAP.

Total scheduled debt payments, interest rate and currency hedges

As at December 31, 2004, Buhrmann is required to make the following scheduled debt payments:

	2005	2006	2007	2008 (in millions)	2009	>2009	TOTAL
Term Loan A	16	16	26	26	27	0	112
Term Loans C	4	4	4	4	4	396	417
2014 Notes						110	110
Subordinated Convertible Bonds						115	115
Account receivables securitization			74				74
Overdrafts & Others	19	12			2		33
Total debt	39	32	104	31	34	621	861

Buhrmann has entered into a series of interest rate hedging agreements, the purpose of which is to limit Buhrmann s interest cost with respect to its long-term debt, of which 72% was issued at variable interest rates and 28% at fixed interest rates at December 31, 2004. The principal hedging agreements are a series of interest rate swaps (in euro and U.S. dollars) with a total principal of 294 million at December 31, 2004 for appropriate maturities. These swaps adjusted the interest rate profile of the long-term debt at December 31, 2004 to 63% fixed and 37% variable. For more information about our hedging policies and interest rate swaps, we refer to Item 11 Quantitative and Qualitative Disclosures about Market Risk.

Buhrmann also purchases various financial instruments and enters into certain agreements in the ordinary course of business in order to hedge price and foreign currency risks arising from the purchase of raw materials and the sale of its products.

Buhrmann US Inc. is the principal borrower under the Senior Credit Facility and the issuer of the 2014 Notes for the Buhrmann Group. Proceeds from borrowings received by Buhrmann US Inc. are used to finance the Group.

Research and development

Buhrmann s policy is to expense costs of research as incurred and to capitalize costs of development. Costs of research were insignificant in the years 2004, 2003 and 2002.

Inflation

Cost inflation has been in line with the general economic conditions at around 2% in Buhrmann s primary U.S. and European markets for each of the last three fiscal years.

Contractual Obligations, Contingent Liabilities, Commitments and Guarantees

The table below presents our on- and off-balance sheet contractual cash obligations as at December 31, 2004 (in millions).

		Payments due by period			
	Total	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
Total gross borrowings and interest	1,047	71	194	112	670
Rent and operating leases	388	75	114	77	122
Repurchase guarantees	52	16	16	14	6
Other contractual obligations and guarantees	11	9	0	2	0
Total contractual cash obligations	1,498	171	324	205	798

Total gross borrowings at December 31, 2004, were 861 million in total, which is further detailed under Capital Resources above. Interest included in the table above does not include the effect of interest rate swaps which are described under off-balance sheet arrangements below.

Buhrmann has certain contingent liabilities, commitments and guarantees which are not included in the consolidated balance sheet, but are disclosed in the related notes.

Rent and Operating Leases of 388 million in total at December 31, 2004 (436 million at December 31, 2003) are primarily related to distribution facilities and offices which the Company leases under non-cancelable operating leases. The amounts are the nominal value of future lease payments and are netted for sub-leases.

Repurchase guarantees of 52 million in total at December 31, 2004 (64 million at December 31, 2003) mainly relate to repurchase guarantees concerning graphic machines sold to customers and financed by external financing companies. Should the customer be declared in default, the respective financing company has a right of recourse, which, in general, will be lower than market value. The amount included in the table is the maximum exposure under these guarantees.

Other contractual obligations and guarantees of 11 million in total at December 31, 2004 (24 million at December 31, 2003) mainly relate to investment commitments relating to expenditure on projects, such as the development of information technology systems.

Off-balance sheet arrangements

Buhrmann s operating companies in Europe offer a variety of defined benefit plans, in addition to Government schemes, as part of the remuneration package. In countries like the Netherlands and the United Kingdom, the defined benefit plans are separated from Buhrmann in pension funds to which Buhrmann makes contributions. For its employees in the United States, Buhrmann sponsors several defined contribution plans and a defined benefit plan with a relatively small number of participants. Depending on specific financing arrangements and funding levels, Buhrmann may incur liabilities for certain deficits which amounted to 10 million at December 31, 2004. No provisions were recorded in the balance sheet at December 31, 2004 in connection with this liability.

Buhrmann has commitments to purchasers of divested businesses with respect to indemnifications and representations and warranties. These commitments include indemnifications for the imposition of additional taxes upon the divested company and/or the purchaser covering the period before the divestment. For these indemnification and warranty commitments, a provision of 21 million is included in the consolidated balance sheet at December 31, 2004. This provision is calculated based on the expected payments to be made under these indemnification and warranty commitments.

In connection with the accounts receivable securitization program (the Program), Buhrmann has entered into agreements pursuant to which Buhrmann has agreed to guarantee the performance of the Buhrmann operating companies in the Netherlands and the United States that sell their accounts receivable into the Program (the Dutch Originators and the U.S. Originators respectively), and the servicers of the Program (including compliance with the terms of the documentation under the Program relating to selection and servicing of receivables). However, Buhrmann does not guarantee payment on any accounts receivable sold to the master purchasers (Master Purchasers) in accordance with the documentation under the Program nor does Buhrmann guarantee repayment of any notes issued in connection with the Program. Buhrmann s obligations under the guarantees issued in connection with the Program are not quantifiable and are contingent in nature. For more information about the agreed guarantees in connection with the Program, we refer to the material contracts related to the Program which are filed as Exhibits 4.8 through 4.17. The transactions in the Program are described under Accounts Receivable Securitization Program above.

Buhrmann has entered into a number of forward foreign exchange and currency swap contracts and interest rate swap contracts which had an estimated negative fair value of 5 million at December 31, 2004. The estimated fair value of the outstanding forward foreign exchange and currency swap contracts and interest rate swap contracts indicates how much Buhrmann would have to pay as per the balance sheet date in exchange for termination of these contracts without further commitments.

Buhrmann has issued certain performance guarantees, usually in the form of standby letters of credit, to an estimated maximum amount of 4 million at December 31, 2004. The major part of these guarantees expire latest on September 1, 2007.

Variable Interest Entities

FASB Interpretation No. 46 (FIN 46) Consolidation of Variable Interest Entities requires certain disclosures of variable interest entities and, as of January 1, 2003, the consolidation of certain of these variable interest entities under U.S. GAAP.

Buhrmann has determined that at December 31, 2004 it had a variable interest in Silver Securitisation B.V., Silver Funding Ltd and Rheingold Securitisation Ltd which facilitate the accounts receivable securitization program described above. Aside from the accounts receivable and liabilities in connection with the accounts receivable securitization program that are included in Buhrmann s Consolidated Balance Sheet, these entities do not have other significant assets or liabilities. Buhrmann has also determined that at December 31, 2004 it had a variable interest in Faison Inc. which sells office products mainly to government institutions in the United States. The consolidation of this entity would not have a material impact on net result or Group equity under US GAAP.

New Accounting Pronouncements

U.S. GAAP

In November 2004, the FASB issued SFAS No. 151, Inventory Costs An Amendment of ARB No. 43, Chapter 4 . SFAS No. 151 amends the guidance in ARB No. 43, Chapter 4, Inventory Pricing, to clarify that abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage) must be recognized as current-period charges regardless of whether they meet the criterion of so abnormal as stated in ARB No. 43. Additionally, SFAS No. 151 requires that the allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. SFAS No. 151 is effective for fiscal years beginning after June 15, 2005. Buhrmann is currently reviewing the impact that adoption of SFAS No. 151 will have on its consolidated results of operations, financial position and cash flows.

In December 2004, the FASB issued SFAS No. 123 (revised 2004), Share-Based Payments, which revises SFAS No. 123, Accounting for Stock-Based Compensation , and supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees. SFAS No. 123 (revised 2004) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values, beginning with the first interim or annual period after June 15, 2005, with early adoption encouraged. The pro forma disclosures previously permitted under SFAS No. 123, are no longer an alternative to financial statement recognition. Buhrmann intends to adopt this revised standard from January 1, 2005. Buhrmann is currently reviewing the impact that adoption of SFAS No. 123 (revised 2004) will have on its consolidated results of operations, financial position and cash flows. Buhrmann has not yet determined whether adoption of SFAS No. 123 will result in amounts that are similar to the pro forma disclosures in note 34.

In December 2004, the FASB issued SFAS No. 153, Exchanges of Nonmonetary Assets An Amendment of APB Opinion No. 29. SFAS No. 153 eliminates the exception from fair value measurement for nonmonetary exchanges of similar productive assets in paragraph 21(b) of APB Opinion No. 29, Accounting for Nonmonetary Transactions, and replaces it with an exception for exchanges that do not have commercial substance. SFAS No. 153 specifies that a nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS No. 153 is effective for the fiscal periods beginning after June 15, 2005. Buhrmann is currently reviewing the impact that adoption of SFAS No. 153 will have on its consolidated results of operations, financial position and cash flows but expects that it will not have a material impact.

International Financial Reporting Standards (IFRS)

The 2004 financial statements of Buhrmann have been prepared in accordance with generally accepted accounting principles in the Netherlands (Dutch GAAP). Therefore reviews, analyses and accounting policies disclosed in this Annual Report are based on Dutch GAAP. From January 1, 2005, Buhrmann reports on the basis of IFRS. In the process of conversion to IFRS, we have selected accounting policies of which the main policies are described below. These policies might change, among others, because the European Financial Reporting Advisory Group has not yet fully endorsed the adoption of all IFRS standards.

The conversion of our reporting to IFRS does not affect the underlying performance of our business. Also, the conversion will not trigger any event related to our existing business or financing arrangements. In respect of our financial policies (including our policy on additions to retained earnings and dividends), an amendment may be necessary for maintaining the same effects in economic terms.

Within the limits of the IFRS framework we strive towards convergence with our U.S. GAAP reporting. We have decided to use some of the optional exemptions granted by IFRS 1 First-time Adoption of International Financial Reporting Standards for, among others, pensions and business combinations. We have decided not to use the exemption provided by IFRS 1 that allows comparative information in the 2005 financial statements to not comply with standards 32 and 39 (financial instruments).

Buhrmann Accounting Policies under IFRS

Basis of preparation

The financial statements have been prepared under the historical cost convention, unless indicated differently in the accounting policies below or in the notes. Preparing financial statements requires the use of estimates and assumptions that affect the recorded amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the reporting and the amounts of revenues and expenses during the reporting period. These estimates and assumptions are based on management s best knowledge of current events and actions.

Basis of consolidation

The consolidated financial statements will include Buhrmann N.V. and the entities controlled by Buhrmann (Group companies). Control is achieved when Buhrmann has the power to govern the financial and operating policies of an investee (subsidiary) so as to obtain benefits from its activities.

Subsidiaries are consolidated from the date on which control is obtained and are excluded from consolidation from the date that control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries.

On acquisition, the identifiable assets, liabilities and contingent liabilities of a Group company are accounted for at their fair values, based on Buhrmann s accounting policies, that existed at the date of acquisition. Any excess of the cost of acquisition over the fair values of the Group s share in the identifiable net assets acquired is recognized as goodwill. Goodwill is capitalized. After initial recognition goodwill is measured at cost less accumulated impairment losses. An excess of the fair value of the Group s share in the identifiable net assets acquired over the cost of acquisition is recorded, after reassessment of the purchase price allocation as a gain in the income statement.

At the date a Group company is divested (cessation of control), the difference between the realizable value and the net asset value, including the book value of capitalized goodwill, is recorded in the income statement.

Intercompany transactions, balances and unrealized gains on transactions between Group companies are eliminated; unrealized losses are only eliminated if cost can be recovered in an external transaction.

The interest of minority shareholders is stated at the minority s proportion of the net asset (equity) values.

Foreign currencies

Transactions in currencies other than the local currency are recorded at the exchange rates prevailing on the dates of the transactions. Monetary items (e.g. receivables, cash and deposits and liabilities) denominated in currencies other than the local currency are translated at the rates prevailing on the balance sheet date. The resulting translation differences are reflected in the income statement.

Translation differences, net of related taxation, arising from long-term loans to Group companies that have the nature of permanent investments, are recorded directly in shareholders equity.

Translation and exchange differences on loans extended by third parties which are designated as, and effective as, hedges of net investments (equity investments or permanently invested loans) in a foreign Group company are recorded directly in shareholders equity.

In the consolidated financial statements, the income statements and cash flow statement of Group companies whose local currency is not the euro, are translated into euro at average exchange rates. The assets and liabilities of these companies are translated into euro at the rates prevailing at the balance sheet date.

Resulting translation differences are recorded directly into shareholders equity.

When a Group company is divested, the translation differences that were recorded in shareholder s equity are recognized in the income statement as part of the result on sale.

Borrowing costs

Borrowing costs that are directly attributable to an acquisition, construction or production of qualifying assets are capitalized as part of the cost of such assets, until such assets are substantially ready for their use.

All other borrowing costs are recognized in the income statement in the period in which they are incurred.

Long-term employee benefits

Pension plans:

Group companies have various pension schemes in accordance with local conditions and practices in the countries in which they operate.

Defined contribution plans are post-employment plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay additional contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

Obligations for contributions to defined contribution pension plans are recognized as an expense in the income statement as incurred.

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

The liability or (contingent) asset in respect of defined benefit pension plans is recorded in the balance sheet. The liability or (contingent) asset is the net of the fair value of plan assets and the defined benefit obligation at the balance sheet date, including adjustments for unrecognized actuarial gains/losses and past service costs. In case of an asset the amount recognized does not exceed the present value of any benefits in the form of refunds or reductions in future employer contributions to the plan.

Actuarial gains and losses are amortized over the remaining service period when their net cumulative amount exceeds 10% of the assets or obligations of the plan (whichever is higher).

Other employee benefits:

Termination benefits are payable whenever an employee s employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. Buhrmann recognizes termination benefits when it is demonstrably committed to either terminate the employment of current employees according to a detailed formal plan without possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits due more than 12 months after the balance sheet date are discounted to present value.

Income taxes, deferred taxes and tax liabilities

The amount of tax included in the income statement is based on the reported accounting profit plus or minus permanent differences and includes changes in valuation allowances on deferred taxes.

Current tax assets and liabilities are stated at nominal value using the tax rates prevailing on the balance sheet date.

Deferred tax assets and liabilities are recognized for temporary differences in the carrying value in the balance sheet of assets and liabilities and their tax base and for loss carry-forwards.

Deferred taxes are stated at nominal value and are determined at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. Within tax groups, where the exercise periods permit and offsetting is legally enforceable, deferred tax assets and liabilities are netted.

Deferred tax assets are recognized insofar as realization is probable. In connection with the probability of realization, valuation allowances are recorded. Realization is dependent upon the generation of future taxable income before losses expire.

Tax expense and income related to items that are recorded in shareholders equity are recorded likewise.

No withholding taxes are provided for the undistributed earnings of foreign subsidiaries.

Property, plant and equipment

Property, plant and equipment (PP&E) are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation is recognized as an expense and calculated in principle on a straight-line basis over the expected useful lives of the assets, taking into account a potential residual value.

Land is not depreciated.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately over its own useful life.

Borrowing costs to finance the construction of property, plant and equipment are capitalized as part of the costs of the asset, during the period of time that is required to complete and prepare the asset for its intended use.

Maintenance, repairs and renewals are generally charged to expense during the period in which they are incurred. However, major renovations are capitalized and included in the carrying amount of the asset when it is probable that future economic benefits will increase beyond the originally assessed level. Major improvements are depreciated over the useful life of the component, not exceeding the remaining useful life of the related asset.

Where the estimated recoverable amount falls below the carrying amount of an asset, the asset is written down immediately (impairment) to its recoverable amount.

The recoverable amount is the higher of the net selling price and its value in use.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. These results are recorded in the income statement.

Goodwill

Acquisitions of companies are accounted for using the purchase accounting method.

Goodwill represents the excess of the cost of an acquisition over the fair value (based on Buhrmann accounting policies) of the Group s share of the net assets of the acquired company at the date of the acquisition.

Goodwill on acquisitions of Group companies is included in goodwill. Goodwill on acquisition of associates is included in investments in associates.

Goodwill on acquisitions that occurred prior to January 1, 1997 has been charged in full to retained earnings in shareholders equity; such goodwill has not been retroactively capitalized and amortized.

After the initial recognition, goodwill is measured at cost less accumulated impairment losses and less, until 2004, accumulated amortization. As per January 1, 2004, under IFRS, amortization of goodwill has ceased.

Goodwill is tested for impairment at least annually. Goodwill related to cash-generating units whose carrying values exceed their recoverable amount are written down to the higher of the net selling price or the discounted net future cash flows expected to be generated. Impairment losses are recognized as an expense immediately.

Other intangible assets

Intangible assets other than goodwill, such as software, are stated at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized as an expense and calculated on a straight-line basis over the expected useful lives of the assets, taking into account a potential residual value.

Borrowing costs to finance the development of software are included in the cost of the asset during the period of time that is required to complete and prepare the asset for its intended use.

Investments in associates

An associate is an entity over which the Group is in a position to exercise significant influence, but not control, in the financial and operational policy decisions of the investee through participation. Significant influence is assumed when the Group holds 20% or more of the voting power.

Investments in associates are carried in the balance sheet at the Group s share in the value of the net assets of the associate, plus the goodwill recognized at acquisition, less any impairment in the value of individual investments.

Results of associated companies are determined in accordance with Buhrmann s accounting policies. For these companies, the proportional share in the result is shown using the equity method. Distributions received from the investee reduce the carrying amount of the investment.

Derivatives

Derivatives (such as interest rate swaps and currency swaps) are measured at their fair value. The movements in the fair value of derivatives are in principle recorded in the income statement. The movements in the fair value of the interest rate swaps, which are designated as hedges and which meet the criteria for hedge accounting, are recorded directly in shareholders equity.

Inventories

Inventories related to goods for resale, used machines and goods in transit are valued at the lower of costs or net realizable value. Cost is based on the weighted average cost (taking into account discounts and rebates from suppliers) and includes import duties and other taxes (other than those subsequently recoverable from the tax authority) and inbound transportation, handling and other costs directly attributable to the acquisition of finished goods.

Trade discounts, rebates and other similar items are deducted in determining the costs of purchase. However, cash discounts from suppliers for prompt payment are recognized when incurred. The difference between cost of purchase and net realizable value (if the latter is lower) is the allowance for obsolete and slow moving items.

Trade receivables

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less an allowance for doubtful receivables.

Other receivables

Other receivables and prepayments are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less an allowance for doubtful receivables and includes rebates and catalog income receivables.

Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at fair value comprising:

- cash on hand, deposits held at call with banks; and other short-term highly liquid investments with original maturities of three months or less.

Ordinary Shares, Preference Shares and Subordinated Convertible Bonds

Buhrmann s Ordinary Shares are classified as shareholders equity.

Buhrmann s Preference Shares A are classified as a liability. The Subordinated Convertible Bonds are classified as a compound financial instrument and recorded accordingly partly under equity and partly as liabilities. Buhrmann s Preference Shares C are classified as compound financial instruments and accordingly recorded as liabilities. The Preference Shares C have a conversion option. As this option is indexed to both the share price and the USD/EUR exchange rate, the conversion option classifies as a derivative. Therefore it is valued separately as a derivative (liability) at fair value.

External costs directly attributable to the issue of new shares, other than in connection with business combinations, are shown in shareholders equity as a deduction, net of tax, from the share premium.

Stock option plans

Stock options are granted to a group of employees and directors. The plans meet the definition of equity settled share based compensation.

The fair value of the options is recognized as labor cost during the vesting period, with a corresponding increase in shareholders equity.

Minority interest

The portion of third parties in the net equity of fully consolidated subsidiaries in which Buhrmann has less than 100% of the issued share capital is disclosed as minority interests in the balance sheet.

Minority interests in the net assets consist of:

the amount of those minority interests at the date of the original acquisition calculated at fair value at that date; and

the minority s share of changes in equity since the date of the combination.

Provisions

Provisions are recognized when the Group has:

- a present legal or constructive obligation as a result of past events;
- it is probable that an outflow of resources will be required to settle the obligation; and
- a reliable estimate of the amount can be made.

Provisions include integration and reorganization accruals following divestments and restructuring of the business.

Provisions for restructuring as a result of an acquisition are only recognized as part of the cost of the acquisition if the acquired company has an existing liability for restructuring recognized before the acquisition date.

A provision recognized after an acquisition cannot be recognized as part of the cost of the acquisition and is therefore not part of goodwill as result of the acquisition. In this case the provision is set up through the income statement.

Non-current financial liabilities

Non-current financial liabilities are recognized initially at the fair value (proceeds received net of transaction costs incurred).

Non-current financial liabilities are subsequently stated at amortized cost. The difference between the net proceeds