

Royal Mail Holdings plc
Unaudited Interim Report
for the half year ended 25 September 2005

Royal Mail Holdings plc

Unaudited Interim Report for the half year ended 25 September 2005

Royal Mail Group is unique in reaching everyone in the UK through its mails, Post Office® and parcels businesses - which employ over 196,000 people. Every working day Royal Mail collects, processes and delivers around 83 million items to 27 million addresses for prices that are amongst the lowest in Europe; each week we serve 28 million customers through our network of 14,542 Post Office® branches and in the first half of this financial year our domestic and European parcels businesses - General Logistics Systems and Parcelforce Worldwide - have delivered some 160 million parcels.

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Royal Mail Holdings plc

Chairman's Statement

Royal Mail faces massive and unprecedented challenges.

We've made good progress through the first half of 2005-06 – particularly through record performances on letters quality – but it's been against a backdrop of major challenges, all of which could pose a threat to our future development.

In particular, we're publishing these results as we wait to discover the Regulator's conclusion on the prices Royal Mail will be allowed to charge for the next four years. The Regulator's proposals put what we have achieved through our Renewal Plan at risk.

We believe the current proposals ignore the need for adequate investments to allow us to match the capabilities of the overseas postal operators who now have an open invitation to cherry pick business in the UK – while their own domestic markets remain protected. The proposals also ignore the reality of an accounting pension deficit of £4bn – a deficit which now means Royal Mail's liabilities exceed our assets.

Postcomm's plans also peg too many of our prices far below real costs, demanding new unrealistic efficiency gains on top of what we achieved during our Renewal Plan.

Unless the proposals are amended, the Regulator – whether intentionally or inadvertently – is about to undermine the fantastic turnaround our people have achieved.

That turnaround made sure we started 2005-06 with some momentum, with losses of more than £1m every working day transformed into profits of more than £2m... With quality of service raised to some of the best levels in ten years... With the number of lost letters almost halved... With postmen and postwomen earning almost 25% more in basic pay for a five, rather than six day week... With the number of days lost to strikes at record lows... With our first new Post Office® financial and telephony services launched... And with both our parcels businesses showing strong improvements.

Our performance in the first six months has reinforced those successes. More Post Office® products hit the streets. And Post Office Limited's financial performance held steady as we entered the post Benefits Book era. Its losses of £57m are marginally improved on 2004-05. Our parcels businesses – Parcelforce Worldwide in the UK and General Logistics Systems (GLS) in the European market, neither of which is subject to regulation by Postcomm – have seen improved results, GLS making a profit of £43m – up a massive 87%, as a result of strong volume growth – and Parcelforce Worldwide near to break even with losses reduced to £1m.

But the letters business is no longer contributing to our overall growth or to our improved financial performance. It has hit its best ever quality of service (based on independent measurement) – a fantastic achievement which highlights both the determination of our postmen and postwomen and the success of last year's massive modernisation programmes. But profits of £168m are down 3% on the same period last year – as the overall weakness in the UK economy feeds through to mail volumes and as competition through Access services begins to bite. Even before the impact of full competition, our addressed mail market is already shrinking.

Overall our Group result is an operating profit of £159m, compared to £132m for the corresponding first half of 2004-05. The improvement, driven by the performance of our non-regulated businesses, is an encouraging sign.

But it's not enough. Everything will change in January when the market opens, and current performance will not be any sort of guide to what's going to happen next year.

We now face two tests as the market opens fully to competition.

Are we up to it?

And if we are, will our Regulator actually let us compete with the same freedoms as our rivals?

Total competition is being introduced in the UK market in January 2006 – but with the playing field deliberately and unfairly tilted in favour of our rivals. Royal Mail's prices and services are over-regulated and the Regulator is looking for more, not less, control. Prices on too many services are still being held below costs. We need sensible prices to compete effectively for the profitable parts of the business market – without which there are simply no earnings to pay for loss-making social mail, like personal letters and birthday cards, and the one-price-goes anywhere universal service is under threat.

The challenges are threefold.

Royal Mail has a pension accounting deficit of £4bn and has liabilities in excess of its assets. We need to be allowed to make sufficient money – in a competitive market, not as a monopoly – to meet our responsibilities.

We need to spend money – £2bn – to modernise the Company. Our use of technology is lagging behind our competitors and our premises and equipment need renewal.

Royal Mail Holdings plc

Chairman's Statement (continued)

We also need to complete the modernisation of our relationship with our people. They're the reason why our letters service is the best it's ever been. They're the people who are on all our doorsteps every day. It's only their personal commitment, their energy and their determination to succeed that will take Royal Mail as a business forward through this next stage of unprecedented change. That's why I think they should have a real stake in Royal Mail. That's why I've made clear to Government that I wholeheartedly support the idea of some form of employee share ownership.

Much is at stake. Unprecedented change – which early market opening undoubtedly is – means unprecedented risk. At risk if we get it wrong is the ability to provide a truly universal set of services, available to everyone, delivering to everywhere, every working day for the same price. There's no shortage of people engaged in the issue. Postcomm is close to concluding its consultation on the next, critical price control. A poor outcome will, quite simply, be fatal. Sir George Bain is supporting the Department for Trade and Industry in its decision making. Our customers – and competitors – are watching.

Royal Mail welcomes competition but needs both the ability and the freedom to compete. This year will start to show whether we have that ability – which I believe we have – and whether we will be permitted that freedom. I think we've earned it.

Allan Leighton

Chairman

17 November 2005

The prior year figures quoted have been restated for the impact of the transition to International Financial Reporting Standards.

Royal Mail Holdings plc

Chief Executives' Statement

Royal Mail delivered almost 94% of First Class letters the working day after posting during the first half of 2005-06. It's a performance that beats our newly increased target of 93%, and which beats any performance Royal Mail has ever achieved in the past. Our Renewal Plan was about service as well as financial performance. We finished the Renewal Plan, and started this financial year, with the best quality performance in ten years; we've gone on to beat it. Second Class letters and the Mailsort and Presstream services for business were also ahead of target. Nothing is more important as we prepare for competition. Our priority will be to invest to make sure we continue to improve the services we offer our customers. We can only do this if Postcomm deliver a pricing regime that supports, rather than ignores, customers' aspirations for better, more innovative mail services. Current proposals will force quality down not up.

Financially, the picture is already much tougher. Revenue in our letters business grew by only £38m (1.2%). That growth was from a below inflation price increase. Underlying volumes in core ordinary mail services are down – First and Second Class post declined by around 4%, and the Mailsort services for businesses by 7%, while overall mail volumes, excluding unaddressed door to door deliveries, dipped by 1.2%, which is the first drop in 25 years.

Door to door deliveries, and Access services where Royal Mail is required to deliver mail collected and sorted by competitors, showed growth but this was at lower margins and therefore revenue and profitability were depressed.

This is a fundamental shift in the market. Customers are posting less and using cheaper services when they do post. This is not a prediction or a forecast – it's the reality that Royal Mail and its people are seeing in the marketplace every day.

Royal Mail has already carried 382 million letters for competitors through Access services. By the end of the year we expect to have carried at least one billion letters for our major rivals. Assumptions about the growth of the market going forward – which still form the basis for the Regulator's thinking on prices and much else – are now out of date. The evidence is clear – the market we operate in isn't expanding.

The universal service is at the heart of everything we do. It's a key reason for pursuing the business marketplace – because social stamped mail is loss making, and is funded by the prices Royal Mail charges business customers. Royal Mail isn't proposing charging a full economic price for stamped mail. But some degree of rebalancing is essential if we're to charge competitive prices to business customers. We've asked to increase the price of a First Class stamp to 39p by the end of the next four year price control in 2009-10, which will still be well below the economic cost – 46p – of delivering a letter.

In August we gained agreement to change the basis for prices from August next year to incorporate the size as well as the weight of an item. This is an important first step in putting Royal Mail's prices on a more commercial footing but needs to be followed by greater flexibility on prices for business services.

Post Office Limited is now operating without traditional revenues from benefits payments. Total income during the first six months of the year fell by £70m (14.3%) compared to 2004-05. Losses held steady at £57m, £1m better than last year – reflecting the introduction of new telephony and financial services products, continued growth in travel services, and our traditional strengths in selling Royal Mail and Parcelforce Worldwide products.

The Post Office®'s own credit card, offering a unique two-in-one borrowing facility was launched in September, further extending our strategy of offering financial services through our trusted brand and unrivalled network of 14,542 Post Office® branches.

Our growing portfolio of new products is matched by the ongoing transformation of our network as we seek to secure a sustainable model for the future. We need our subpostmasters and their people to become a strong sales force, using their depth of local knowledge and trust in a way that no other service provider can. More than 900 training events have been organised to help colleagues build their skills and sales techniques. We have started to transform the retail offer in our main directly managed branches through a partnership with ISA Retail, bringing an attractive range of retail goods to our high street premises.

The challenge facing the network remains immense. The total number of branches is now 14,542, a reduction of 67 from the end of 2004-05. Rural branches continue to be supported by social network funding of £150m annually, while we seek to find and test innovative solutions to the problems facing unviable branches in local rural communities.

Our parcels businesses already operate in a fully competitive marketplace, and remain outside the regulatory regime established by Postcomm. Both are improving their performance. **General Logistics Systems (GLS)** has increased its income by £72m (17.2%) to £490m for the half year, largely as a result of strong growth in core parcel volumes, particularly in both domestic and export markets. Growth was also helped by the strengthening of the euro, while management delivered tighter cost controls and improved operational productivity. Profitability increased an exceptionally strong 87% to £43m – making GLS an increasingly important player in the Group's overall financial performance.

Royal Mail Holdings plc

Chief Executives' Statement (continued)

Parcelforce Worldwide has seen income growth of £10m (7.2%) at the same time as achieving operational efficiencies of around 10% compared to last year. As a result the operating loss has been reduced by 92.3% over the same period in 2004-05 to only £1m.

Our overall improved profitability is driven by the parts of our organisation that are least regulated. But almost 76% of our income comes from our regulated letters business. We cannot afford to falter in what is now a difficult and challenging external market. That means getting a fair regulatory deal on price. It also means continuing to drive quality and innovation in our business. We are working hard with our customers to transform the product portfolios of both Post Office Limited and the letters business. In a competitive market all our businesses need to provide products and services which are based on what customers want, and are priced on the basis of true costs. Products, which deliver on the trust that our brands enjoy. Products that make customers want to stay with us.

We firmly believe that commercial focus combined with commercial freedoms and fair regulation are the best safeguards for mail and Post Office® services which serve our local communities throughout the UK.

Adam Crozier
Chief Executive
Royal Mail Group plc
17 November 2005

David Mills
Chief Executive
Post Office Limited
17 November 2005

The prior year figures quoted have been restated for the impact of the transition to International Financial Reporting Standards. Royal Mail's quality of service is independently measured.

Royal Mail Holdings plc

Financial Review

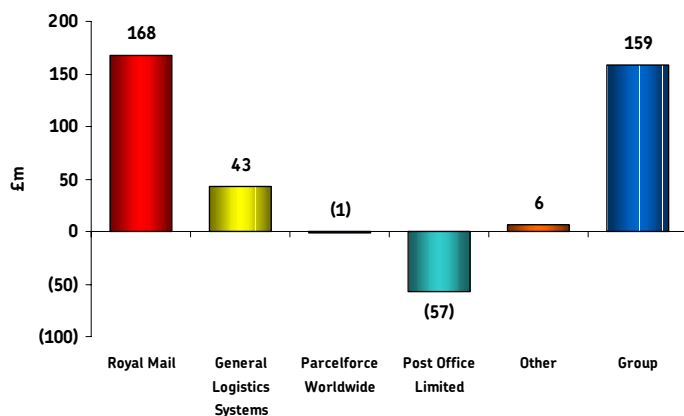
Summary of results	2005	2004
	£m	£m
External revenue	4,378	4,327
Operating profit	159	132
Net exceptional items	(72)	(99)
Net finance income	49	35
Profit before taxation	136	68
Taxation charge	(45)	(11)
Profit after taxation	91	57

In the following analysis, all references to operating profit are before exceptional items.

We report a first half-year operating profit of £159m compared to £132m for the corresponding first half of 2004, an increase of £27m or 20.5% driven by the performance of our unregulated parcels businesses. All operational business units apart from Royal Mail contributed to this increase, with General Logistics Systems improving profitability by £20m (87.0%), Parcelforce Worldwide by £12m (92.3%), Post Office Limited by £1m (1.7%) whilst Royal Mail reported a decrease of £5m (2.9%).

Royal Mail's £5m operating profit deterioration is mainly due to a reduction in revenue growth, 1.2% versus a 4.2% growth in the corresponding period last year. The growth of 1.2% (£38m) is due to tariff increases of some 1.8% (£59m), a volume increase of 0.8% (£26m) offset by an adverse mix impact of 1.4% (£47m) mainly due to business customers reducing spend on direct marketing and switching to lower priced products including Access. There is limited scope to reduce operational costs in the short term.

Operating profit/(loss) by business unit - £m



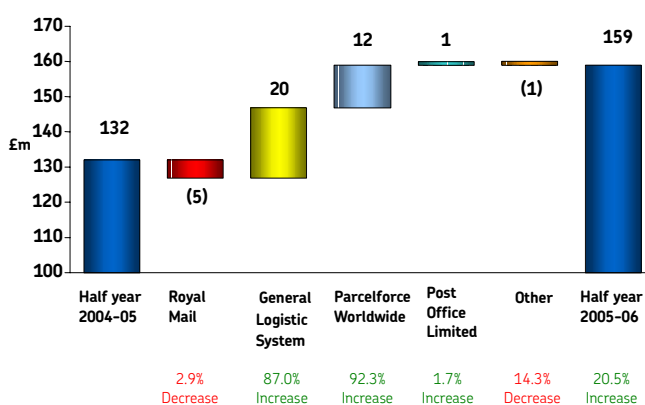
Despite the loss of the traditional benefits income, which had represented 40% of its historic revenue, Post Office Limited reduced its losses from £58m to £57m. This was achieved by attracting new revenue streams, primarily from higher banking and Bureau de Change activity, together with continued improvements in overall cost efficiency. The £57m loss includes the cost of maintaining the uneconomic part of the rural network. Had this activity been funded by an arm's length commercial contract with Government, Post Office Limited would have made profits.

General Logistics Systems' external revenue rose by £72m (17.2%) including the £8m positive impact as a result of the strengthening of the Euro. The underlying growth of £64m (15.3%) results from strong growth in core parcel volumes, and the continuing expansion of the European network including acquisitions in Poland and Italy. Operating profit increased by £20m (87.0%), from £23m last year to £43m this year, driven by a combination of increased revenue, tight cost controls and improved operational productivity.

Parcelforce Worldwide contributed £12m to the overall Group operating profit improvement as result of a reduction in losses from £13m to £1m, an improved performance of 92.3%. This performance results from revenue growth £10m (7.2%) mainly due to increased volumes and improved margins, together with its cost reduction programmes.

Other businesses include the Group share of results from our joint ventures (JVs) and associates notably Quadrant (catering), and Camelot (lottery). In aggregate, the other Group businesses reported profits of £6m compared to £7m last year.

Operating profit/(loss) growth by business unit - £m



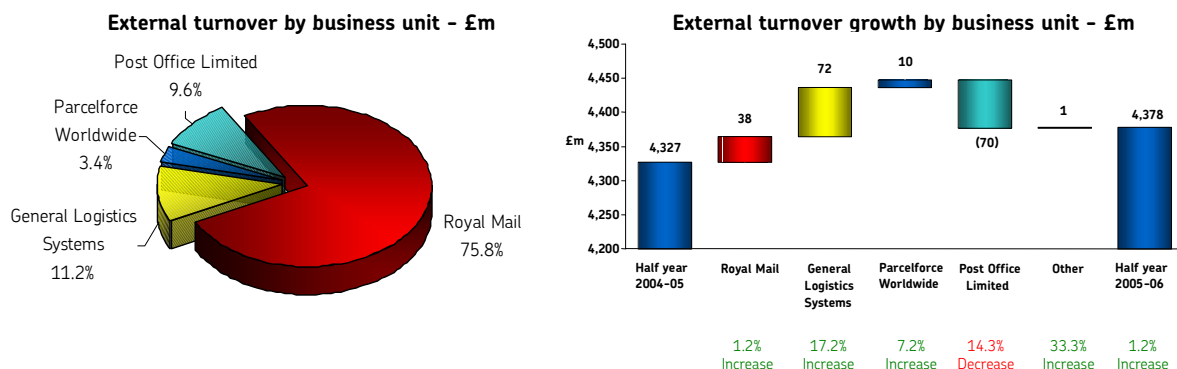
Royal Mail Holdings plc

Financial Review (continued)

External Revenue

External revenue increased by 1.2% (£51m) from £4,327m to £4,378m, of which £59m arose from domestic mail price increases (1.8%), £26m from an underlying domestic mail volume growth (0.8%) and £47m (1.4%) from negative mix impact. However, the total mail volume growth was well below inflation and much lower than expected due to the slow down in the UK economy and, for the first time in 25 years we have seen decline in our major retail products including First Class, Second Class and Mailsort. This, together with business customers reducing their spend on direct marketing and switching to lower priced products such as Access, resulted in an adverse mix impact on profitability.

Royal Mail's revenue contributes 75.8% of the Group's external revenue. General Logistics Systems increased its revenue by 17.2% (£72m) – 15.3% before exchange rate impact – from £418m to £490m (11.2% of Group external revenue) mainly due to volume growth, primarily in Germany, France and Italy. Parcelforce Worldwide increased its revenue by 7.2% (£10m) from £138m to £148m (3.4% of Group external revenue), reflecting higher volumes from increases in national account products and favourable mix. Post Office Limited reported a decrease of 14.3% (£70m) from £490m to £420m (9.6% of Group external revenue), primarily as a result of erosion of traditional benefits volumes, partially offset by new financial service revenues.



Costs (excluding exceptional items)

Total costs of £4,238m have increased by £30m (0.7%), which is well below inflation.

People costs of £2,629m represent 62% of the Group's cost base and have increased year-on-year by £151m (6.1%). This is due to the annualised flow through impact of the minimum £300 per week pay settlement – upon successful completion at the end of last year of core letters operations efficiency programmes – and the inflation cost of living rise for the year effective from 1 April 2005 taking basic weekly pay to £311.50 per person for the majority of our frontline people. This has been partially offset by cost reductions from people leaving the business under the voluntary redundancy programme.

Distribution and conveyance costs of £454m, representing 10.7% of the Group's cost base, have increased by £54m (13.5%), including £8m for fuel, which has risen by 13.6% and which cannot be passed onto our regulated customers through price increases.

Other operating charges of £1,155m representing 27.3% of the Group's cost base have decreased by £175m (13.2%) due to continuing efficiency improvements in a number of areas, including central support functions and property costs.

Share of profits in associates and joint ventures

The Group's share of profits in associates and joint ventures of £19m (2004 £13m) comprises £3m (2004 £4m) from Camelot, £19m (2004 £17m) from POL's Bureau de Change joint venture (First Rate Travel Services Limited), £3m (2004 £nil) from Quadrant our catering joint venture and £nil profits from Romec Limited our facilities management operation and NDC 2000 Limited our building engineering services operation (2004 profits £1m and £1m), both now subsidiary companies of the Group (formerly joint ventures), offset by a loss of £6m from Bank of Ireland's financial services venture with Post Office Limited (2004 loss of £10m). The set up losses from Post Office Financial Services were expected and are a result of sales and marketing expenditure to promote new products.

Exceptional items

Net exceptional costs of £72m (2004 £99m) comprise £38m (2004 £80m cost) relating to the Share in Success payments, £8m (2004 £1m cost) for fixed asset impairment mainly in POL and £53m (2004 £34m cost) for redundancy costs, offset by profits of £27m (2004 £16m) from property and business disposals.

Net interest receivable

Net finance income of £49m (2004 £35m) comprises interest earned on investments £25m (2004 £26m), offset by interest payable on loans £25m (2004 £20m) and notional pension interest of £49m (2004 £29m). Interest earned on investments decreased by £1m due to lower average investment balances, because of the funding of POL's loss making social network, offset by higher interest rates. Interest payable increased primarily due to higher borrowings in our Post Office® network to replace the interest free working capital in the network formerly provided by the pre-funding of benefits payments. The notional pension finance income has increased by £20m due to higher returns on pension scheme assets more than offsetting interest cost on higher pension scheme liabilities.

Royal Mail Holdings plc

Financial Review (continued)

Taxation

The taxation charge of £45m (reported rate of 33%) comprises £13m current tax payable on overseas profits, a £3m deferred tax charge with respect to overseas operations, a UK current tax charge of £11m and a UK deferred tax charge of £18m. Last year a charge of £11m was recorded comprising £5m current tax charge with respect to UK operations and a £6m current tax charge on overseas profits. The high reported rate is due to non-deductible expenses and overseas taxes, offset by rollover relief to be claimed on profits from the sale of properties.

Cash flow and capital expenditure

Summary of cash flows	2005 £m	2004 £m
Cash utilised in operations	(187)	(112)
Dividends received from JVs and associates	8	14
Capital expenditure and disposals	(95)	(55)
Tax, interest and other	21	24
Business acquisitions and disposals	5	(3)
Financing activities	(2)	61
Net cash outflow	(250)	(71)
Add back:		
Share in Success	218	-
Other exceptionals relating to last year	259	-
In year cash flow	227	(71)

The Group has made significant payments with respect to costs recorded in 2004-05, the last year of the Renewal Plan, of £477m, mainly Share in Success £218m, and pension top ups £208m. The adjacent table is an extract from the Group cash flow statement.

Cash utilised in operations is £187m (2004 £112m), which comprises:

- Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) inflows of £224m (2004 £189m);
- Working capital inflows of £66m (2004 £87m outflow); and the following relating to last year's Renewal Plan:-
- Share in Success payments of £218m relating to the last three year's Renewal Plan (2004 £nil); and
- Other payments relating to exceptional items of £259m (2004 £214m), including pension top ups of £208m (2004 £nil) and further rationalisation costs of £51m (2004 £214m) for the penultimate and final year of the Renewal Plan.

Dividends received from joint ventures and associates of £8m (2004 £14m) are mainly from Quadrant, £4m (2004 £2m) and Camelot, £3m (2004 £2m).

Capital expenditure net of disposals of £95m (2004 £55m) comprises £122m (2004 £78m) of expenditure, including motor vehicles of £48m, further payments with respect to the International Mail Centre near Heathrow of £13m, and £27m for GLS projects, with the remaining balance for property improvements, offset by inflows of £27m (2004 £23m), mainly from surplus property disposals. Tax and interest inflows in the year of £36m (2004 £34m) are offset by deferred consideration outflows of £15m (2004 £nil). The £5m inflow from business disposals (2004 outflow of £3m), relates to the sale of RM Netherlands £1m and receipts of £4m in respect of the outsourcing of IT operations to the Prism Alliance.

Provisions

Provisions at the end of September 2005 were £148m (March 2005 £172m). The decrease of £24m comprises cash spend of £51m, transfers to short term pension creditors of £29m, offset by £56m of new provisions relating to rationalisation and onerous property contracts.

Pensions

The Group now recognises a pension deficit on its balance sheet of £4,250m (March 2005 £3,958m) with respect to its defined benefit pension schemes. The increase since March 2005 of £292m principally represents an actuarial loss that results from the impact of falling AA bonds rates on liabilities more than offsetting the growth in the plan's asset values. The recognition of this accounting deficit has led to the Group's balance sheet liabilities exceeding its assets for the first time since incorporation.

The key assumptions relating to pensions are based on market conditions experienced in the first half year and are as follows: inflation 2.50% (2004 2.60%); rate of increase in salaries 4.00% (2004 4.10%); rate of increase in pensions 2.50% (2004 2.60%); and discount rate 4.90% (2004 5.50%). Minor movements in these assumptions can have a material impact on the Group's results.

Royal Mail Holdings plc

Financial Review (continued)

Treasury management

The Group operates a central Treasury function that manages some £691m of current financial assets, £241m of cash equivalent investments, £916m of debt and £849m of cash liquidity, in accordance with investment and borrowing rules set by the Government. It also acts as internal banker for the Group's business. The Group finances its operations largely through retained profits and borrowings.

Group Treasury derives its authority from the Royal Mail Holdings plc Board, and provides quarterly monitoring reports for their review. The Treasury function only has the authority to undertake financial transactions relating to the management of the underlying business risks; it does not engage in speculative transactions and does not operate as a profit centre. All strategies are risk averse, and the treasury policy has remained unchanged during the year. The principal financial instruments are deposits, gilts and long and short-term borrowings.

During the year the UK businesses increased their credit terms to customers from 21 days to 30 days, resulting in working capital increasing by nearly £90m.

At September 2005, gross liabilities of £7,141m exceed gross assets of £4,975m by £2,166m primarily because of the liabilities of Royal Mail Group plc exceeding its assets by £1,894m, which in turn triggers a technical breach of Royal Mail Group plc's drawn down facilities of £500m (used to finance the purchase of GLS in December 1998). Written confirmation from the Secretary of State for Trade and Industry, in his capacity as lender to Royal Mail Group plc, that he waived this technical breach at September 2005 has been received.

Furthermore, Royal Mail Group ("RMG") has received reassurance from the Secretary of State in the waiver letter as follows: "The Shareholder is presently involved in discussions with RMG as to the Balance Sheet Issues.... In the meantime you have informed the Shareholder and the Lender that the decision of the directors of RMG to continue trading in its current insolvent state is in reliance on those Balance Sheet Issues being satisfactorily resolved in the near future. Furthermore, the Shareholder agrees that should the Shareholder in the future form the opinion that those Balance Sheet Issues are unlikely to be satisfactorily resolved within a reasonable time, the Shareholder will immediately inform the directors of RMG so that both they and the Lender can take appropriate steps in the light of that information."

Regulation

In June 2005 Postcomm published their *Initial Proposals* for Royal Mail's third price control period, due to commence on 1st April 2006. Postcomm propose to continue with an RPI-X control, with X=3 for "captive" products and X=2 for "non-captive" products. Royal Mail rejected several aspects of Postcomm's proposals and has responded with alternative proposals on 1st September 2005. Postcomm is considering Royal Mail's response, together with the responses from other stakeholders, before publishing their *Final Proposals* at the end of November 2005.

In June 2005 Postcomm published their Decision Document on which bulk services should be classified as universal. Postcomm decided that there should be a generic obligation on Royal Mail for its universal service to include a bulk mail service; and that this should be met through Mailsort 1400 (First and Second Class, 0-2kg) and Cleanmail (First and Second Class, 0-100g). Royal Mail continues to believe that the Universal Service should be restricted to social products only.

In preparation for full liberalisation of the UK postal services market in January 2006, Postcomm published Decision Documents on two Codes of Practice in August: on Mail Integrity and Common Operational Procedures Royal Mail has accepted both Codes of Practice, together with the associated Licence amendments.

In August 2005 Postcomm decided that Pricing in Proportion, Royal Mail's proposed size-based pricing structure, can be introduced from August 2006.

Condition 9 Downstream Access

The Royal Mail Wholesale unit has handled in the region of 380 million downstream access items during the first half of the financial year. This compares with some 87million items during the whole of 2004-05. It is forecasting to handle close to one billion items by the end of the full year. 50% of the volume is through competitors' own contracts with Royal Mail, with the remainder through customers with direct contracts with Royal Mail, and logistics through a third party carrier. As at September 2005, there were 10 contract holders and this is expected to rise to 20 by March 2006. Thereafter, the effects of full market liberalisation are expected to cause a further significant rise in both volumes and numbers of contract holders. Weekly volumes have grown from 8 million items a week in April 2005 to 23 million items per week in September 2005, with the exit rate for the financial year expected to be in the region of 30 million items per week. Downstream access traffic currently provides significantly less profit contribution per unit than the retail equivalents.

Royal Mail Holdings plc

Financial Review (continued)

Special reserves

During the period, £75m of the Rural Network reserve has been used by Post Office Limited, representing the financing required during the period to maintain the rural network of Post Office® branches.

International Financial Reporting Standards (IFRS)

The results for the group for the first half of 2005-06 and comparative periods have been restated in accordance with International Financial Reporting Standards (IFRS).

The impact of IFRS on prior period results is included within Royal Mail's preliminary IFRS statements, which are to be published on 17th November 2005. These statements can be found on our website (www.royalmail.com).

Segmental analysis – revenue and profitability

Group external revenue of £4,378m (2004 £4,327m) and operating profit before exceptionals of £159m (2004 £132m) are made up as follows:

Business unit performance	External revenue		Operating profit/(loss) before exceptionals	
	Half year 2005 £m	Half year 2004 £m	Half year 2005 £m	Half year 2004 £m
Royal Mail	3,316	3,278	168	173
General Logistics Systems	490	418	43	23
Parcelforce Worldwide	148	138	(1)	(13)
Post Office Limited	420	490	(57)	(58)
Other businesses	4	3	6	7
Group	4,378	4,327	159	132

A further analysis of results, on a unit-by-unit basis, is shown below:

Royal Mail	2005 £m	2004 £m
External revenue	3,316	3,278
Operating profit before exceptionals	168	173

External revenue grew by £38m (1.2%) to £3,316m, which is a result of average price increases of 1.8%, a below inflation underlying increase in delivered volumes of 0.7% (excluding Door to Door and International products), offset by an unexpected decline in retail products including stamps, meters and MailSort, which is the first drop in 25 years. The price increases are across most products as permitted by the current price control, which allows Royal Mail to increase its prices by RPI-1%.

The decrease in operating profit of £5m (2.9%) is driven by an unexpected slow down in revenue increase being more than offset by below inflation increases in net costs of 0.7% - with people costs showing a £151m (6.1%) increase, partially offset by non people cost reductions of £121m (7.0%).

Royal Mail Holdings plc

Financial Review (continued)

General Logistics Systems	2005	2004
	£m	£m
External revenue	490	418
Operating profit before exceptionals	43	23

External revenue rose by £72m (17.2%) including an £8m positive impact as a result of the strengthening of the euro. The underlying growth of £64m (15.3%) results from strong growth in core parcel volumes and further expansion of the European network with acquisitions in Poland and Italy. Operating profit increased by £20m (87.0%), from £23m last year to £43m this year driven by increased revenue and operational efficiency.

Parcelforce Worldwide	2005	2004
	£m	£m
External revenue	148	138
Operating loss before exceptionals	(1)	(13)

External turnover rose by £10m (7.2%) as Parcelforce Worldwide saw the benefits of its refocused commercial direction.

Operations continue to focus upon improving efficiency and costs with operational efficiency improving by 10% compared to last year. Operating costs are in line with last year whilst

absorbing 8% additional volumes. Although operational costs have improved, progress against planned revisions was slower than anticipated, reflecting lengthy but ultimately successful negotiations with the Communication Workers Union (CWU) over the final phase of depot restructuring. Strong improvements in people, vehicle and logistics costs have in part been offset by higher international conveyance costs as international volumes have risen. Operating loss of £1m has improved by £12m (92.3%) from last half year.

Post Office Limited	2005	2004
	£m	£m
External revenue	420	490
Operating loss before exceptionals	(57)	(58)

Post Office Limited operates a network of 14,542 retail outlets. Revenue decreased by £70m (14.3%) due to reduced benefit payments revenue as a result of migration to direct payment of benefits but offset by further growth in banking revenue and other new product initiatives such as Post Office Financial Services and Homephone.

Operating loss decreased by £1m (1.7%) primarily due to gains in new revenue streams together with continued management focus on cost reduction, offset by reduced benefit payments and a share of start up losses from the launch of the new financial services products. Underlying people costs have reduced by £6m due to the continuing drive to reduce central costs.

Other businesses	2005	2004
	£m	£m
External revenue	4	3
Operating profit before exceptionals	6	7

Other Group businesses comprise Romec, our facilities management operation (51% subsidiary), NDC, our building engineering services operation (51% subsidiary) Quadrant, catering services (51% associate) and Camelot, UK national lottery operator (20% associate). Although external revenue has increased to £4m (2004 £3m), operating profit is £1m lower primarily due to reduced dividend in the first half year

from Camelot. The results of other associates and joint ventures not held centrally (Bureau de Change and financial services) are included within Post Office Limited's results.

Way forward

The improved year-on-year performance has been delivered by our unregulated Parcels businesses. POL has been successful at holding its losses at last year's level notwithstanding the loss of a valuable and significant part of its revenue stream from Government benefits payments. We expect similar performance from these businesses in the second half of the year.

The decline in profitability in Royal Mail, from unexpected decreases in retail volumes and revenues to below inflation levels – not experienced for some 25 years – is seen to be continuing in the second half year and is expected to accelerate as customers switch to lower priced Access products. Given the fixed nature of our cost base in the mails operations there is little flexibility in the short-term and particularly in the delivery part of the pipeline to flex costs in line with volume decline and the switch in product mix.

There are four significant events as set out below that are expected to take place in the second half year which could materially impact the financial standing of the Group, its continued financial viability, and its ability to continue to trade as a going concern and discharge its obligations:

- How Postcomm addresses the pension deficit funding, future capital and investment requirements, future volume and contribution decline and electronic substitution risks, achievable efficiency targets taking into account the fixed nature of the letters business cost base and the industrial relations climate, and how it permits Royal Mail to respond to the advent of competition;
- How Postcomm ensures that competitive entry is appropriate when the UK postal market is fully opened up to competition in January 2006;

Royal Mail Holdings plc

Financial Review (continued)

- How the longer term funding requirements of Post Office Limited involving its parent, ultimate parent and the Government are resolved; and
- How the pension accounting deficit, and volatility, which has led to the Group's balance sheet liabilities exceeding its assets is permanently resolved, and how the additional constraints imposed by the new pensions regulations to pay off deficits over a shorter time horizon than was previously required are addressed.

All of the above represents major challenges for the Group to overcome if we are to continue to grow and develop profitability against an increasing and more challenging competitive and economic backdrop.

Marisa Cassoni

Group Finance Director

17 November 2005

The prior year figures quoted have been restated for the impact of the transition to International Financial Reporting Standards.

Royal Mail Holdings plc

Independent Review Report to Royal Mail Holdings plc

Introduction

We have been instructed by the Company to review the financial information for the half year ended 25 September 2005, which comprises the Summary Group income statement, Summary Group statement of recognised income and expense, Summary Group balance sheet, Summary Group cash flow statement and related notes 1 to 8.

This report is made solely to the Company in accordance with guidance contained in Bulletin 1999/4 'Review of interim financial information' issued by the Auditing Practices Board. To the fullest extent permitted by the law, we do not accept or assume responsibility to anyone other than the Company for our work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The Interim Report, including the financial information contained therein, is the responsibility of, and has been approved by, the Directors. As disclosed in note 1, the next annual financial statements of the Group will be prepared in accordance with those IFRS adopted for use by the European Union.

The accounting policies are consistent with those that the directors intend to use in the next financial statements. There is however a possibility that the directors may determine that some changes to these policies are necessary when preparing the full annual financial statements for the first time in accordance with those IFRS adopted for use by the European Union. This is because, as disclosed in note 1, the directors have anticipated that the revised IAS 19, which has yet to be formally adopted for use in the EU will be so adopted in time to be applicable to the next annual financial statements.

Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 'Review of interim financial information' issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of Group management and applying analytical procedures to the financial information and underlying financial data, and based thereon, assessing whether the accounting policies and presentation have been consistently applied, unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with International Standards on Auditing (United Kingdom and Ireland) and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the interim financial information as presented for the 26 weeks ended 25 September 2005.

Ernst & Young LLP

Registered Auditor

London

17 November 2005

Royal Mail Holdings plc

Summary Group Income Statement unaudited for the half year ended 25 September 2005

	Notes	25 September 2005 £m	26 September 2004* £m	27 March 2005* £m
Revenue	3	4,378	4,327	8,956
People costs		(2,629)	(2,478)	(5,138)
Wages and salaries		(2,199)	(2,086)	(4,330)
Pensions		(268)	(237)	(489)
Social security		(162)	(155)	(319)
Distribution and conveyance costs		(454)	(400)	(879)
Other operating costs		(1,155)	(1,330)	(2,665)
Share of profit from associates and joint ventures		19	13	28
Operating profit before exceptional items		159	132	302
Operating exceptional items	4	(99)	(115)	(277)
Operating profit		60	17	25
Profit/(loss) on disposal of subsidiary undertaking		5	-	(3)
Profit on disposal of property, plant and equipment		22	16	70
Profit before financing and taxation		87	33	92
Finance costs		(25)	(20)	(42)
Finance income	5	74	55	117
Profit before taxation		136	68	167
Taxation	6	(45)	(11)	(16)
Profit for the period		91	57	151
Profit attributable to:				
Equity holder of the parent company		92	57	151
Minority interest		(1)	-	-

Summary Group Statement of Recognised Income and Expense unaudited for the half year ended 25 September 2005

	25 September 2005 £m	26 September 2004* £m	27 March 2005* £m
Translation differences on foreign currency net investments	(6)	-	8
Balances recognised on adoption of IAS 32 and 39 **	(3)	-	-
Fair value gains on fuel and currency hedges	5	-	-
Hedge losses recycled and reported in profit	(3)	-	-
Actuarial (losses)/gains on defined benefit schemes	(251)	59	410
Taxation on items taken directly to equity	39	12	367
Net income recognised directly in equity	(219)	71	785
Profit for the period	91	57	151
Total recognised income and expense for the period	(128)	128	936
Attributable to:			
Equity holder of the parent company	(127)	128	932
Minority interest	(1)	-	4

* Results are restated for the impact of the transition to International Financial Reporting Standards. See note 1.

** As detailed in note 1, on 28 March 2005 the balance sheet was restated for the effects of IAS 32 and IAS 39.

Royal Mail Holdings plc

Summary Group Balance Sheet unaudited

at 25 September 2005

	Notes	25 September 2005 £m	26 September 2004* £m	27 March 2005** £m
Non current assets				
Property, plant and equipment		1,588	1,552	1,591
Goodwill		129	115	131
Intangible assets		16	15	21
Financial assets/Investments		149	135	138
Other receivables		11	18	14
Deferred tax assets		331	-	334
		2,224	1,835	2,229
Current assets				
Inventories		24	32	27
Trade and other receivables		911	923	1,091
Financial assets/Investments		691	693	691
Cash and cash equivalents		1,090	1,294	1,340
Derivatives		11	-	-
		2,727	2,942	3,149
Non current assets held for sale		24	-	-
Total assets		4,975	4,777	5,378
Current liabilities				
Trade and other payables		(1,778)	(2,257)	(2,352)
Income tax payable		(14)	(18)	-
Financial liabilities - bank overdrafts and loans		(400)	(150)	(375)
Short-term provisions		(84)	(195)	(124)
Derivatives		(1)	-	-
		(2,277)	(2,620)	(2,851)
Non current liabilities				
Financial liabilities - interest bearing loans and borrowings		(504)	(509)	(506)
Retirement benefit obligation		(4,250)	(4,402)	(3,958)
Long-term provisions		(64)	(54)	(48)
Deferred tax liabilities		(5)	(1)	(5)
Other payables		(41)	(40)	(48)
		(4,864)	(5,006)	(4,565)
Total liabilities		(7,141)	(7,626)	(7,416)
Net liabilities		(2,166)	(2,849)	(2,038)
Equity				
Capital and reserves	7	(2,169)	(2,849)	(2,042)
Equity attributable to equity holder of parent company		(2,169)	(2,849)	(2,042)
Minority interest		3	-	4
Total equity		(2,166)	(2,849)	(2,038)

* Results are restated for the impact of the transition to International Financial Reporting Standards. See note 1.

**Results are restated for the impact of the transition to International Financial Reporting Standards and before the adjustment for the effects of IAS 32 and IAS 39 as detailed in note 1.

The accounts on pages 15 to 21 were approved by the Board of Directors on 17 November 2005 and signed on its behalf by:

Allan Leighton

Marisa Cassoni

Royal Mail Holdings plc

Summary Group Cash Flow Statement unaudited

for the half year ended 25 September 2005

	25 September 2005 £m	26 September 2004* £m	27 March 2005* £m
Cash flow from operating activities			
Operating profit before exceptional items	159	132	302
Depreciation and amortisation	84	70	148
Other non-cash movements (profits from associates and joint ventures)	(19)	(13)	(28)
	224	189	422
Changes in working capital	66	(87)	(387)
Cash payments in respect of exceptional items	(477)	(214)	(255)
Cash utilised in operations	(187)	(112)	(220)
Income tax recovered	11	8	13
Net cash outflow from operating activities	(176)	(104)	(207)
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment	27	23	95
Dividends received from associates and joint ventures	8	14	19
Investment income (interest) received	25	26	52
Purchase of property, plant and equipment	(122)	(78)	(219)
Payment of deferred consideration in respect of prior years' acquisitions	(15)	-	(2)
Disposal of subsidiary undertaking	5	(3)	-
Purchase of other financial assets	-	(10)	(8)
Net cash outflow from investing activities	(72)	(28)	(63)
Net cash outflow before financing activities	(248)	(132)	(270)
Cash flows from financing activities			
Payment of finance lease liabilities	-	(17)	(34)
Repayment of borrowings	(2)	(3)	(4)
Finance costs (interest) paid	(25)	(21)	(42)
New loans	25	102	325
Net cash (outflow)/inflow from financing activities	(2)	61	245
Net decrease in cash and cash equivalents	(250)	(71)	(25)
Cash and cash equivalents at the beginning of the period	1,340	1,365	1,365
Cash and cash equivalents at the end of the period	1,090	1,294	1,340

*Results are restated for the impact of the transition to International Financial Reporting Standards.

Royal Mail Holdings plc

Notes to the Unaudited Interim Report

for the half year ended 25 September 2005

1 Basis of preparation

Royal Mail Holdings plc has previously prepared its primary financial statements under UK Generally Accepted Accounting Practice (UK GAAP). With effect from the accounting year 2005-06 Royal Mail will produce consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

These financial statements are presented in accordance with International Accounting Standard (IAS) 1, "Presentation of Financial Statements". Where no definitive guidance exists in IAS 1, a UK GAAP approach has been adopted in order to maintain consistency with prior years. Accordingly, the terms 'operating profit' and 'operating exceptional items' have continued to be used in the financial statements and their respective definitions are included in the accounting policies section of the IFRS Preliminary Financial Statements document. The format and presentation of these financial statements may require modification in the event that further guidance is issued, but otherwise the Company believes that the basis on which these financial statements have been prepared will be sufficient to enable it to be able to comply fully with IFRS in its annual financial statements for the year ended 26 March 2006 without further significant modification to either the format and presentation or the comparative financial information contained herein.

The results for the half year ended 25 September 2005 represent the Group's first interim financial statements prepared in accordance with its accounting policies under IFRS and use the historic cost convention with the exception of derivative financial instruments that have been measured at fair value.

The Group's first IFRS annual statements will be those for the year ending 26 March 2006. The interim financial statements have been prepared on the basis of IFRS expected to be applicable and endorsed by the European Union at 26 March 2006. IFRS are subject to ongoing review or possible amendment by interpretative guidance from the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) and are therefore still subject to change, specifically the amendment to IAS 19, 'Employee Benefits', allowing actuarial gains and losses to be recognised in full through reserves. The financial statements will be updated and restated as necessary for any such changes should they occur.

As permitted under IFRS 1, First-Time Adoption of International Financial Reporting Standards, management has elected not to restate comparative information for the financial instruments standards IAS 32 Financial instruments: disclosure and presentation and IAS 39 Financial instruments: recognition and measurement. A restatement of the opening balance sheet at 28 March 2005, to present the Group's 2005 opening position, is included in the IFRS preliminary financial statements.

IFRS preliminary financial statements were published on 17 November 2005 and are available on the Group's website. The published document explains how the Group's previously reported financial performance and position are reported under IFRS and includes the new policies adopted. The published document includes the following financial statements restated on an IFRS basis:

- The Group's consolidated balance sheet at 29 March 2004, the Group's date of transition;
- The Group's primary statements: income statement, statement of recognised income and expense (SORIE) and cash flow statement for the year ended 27 March 2005, and balance sheet as at 27 March 2005;
- The Group's balance sheet as at 28 March 2005 reflecting the adoption of IAS 32 and IAS 39 for the 2005-06 financial year; and
- The Group's primary statements, income statement, SORIE and cash flow statement for the period ended 26 September 2004, and balance sheet as at 26 September 2004.

2 Funding

Royal Mail Group plc

Royal Mail Group plc is currently in discussion with Government around improving the strength of the Company's balance sheet, which shows liabilities exceeding its assets by £1.9bn. This negative net asset position principally arose from accounting for the deficit within its key pension plan, Royal Mail Pension Plan, under the new accounting standards and is also the principal reason why Royal Mail was in default of its borrowing facilities with Government. Royal Mail has received formal waivers from the Department of Trade and Industry, in its capacity as lender, for these defaults and believes that discussions with Government around its balance sheet and future finances will be satisfactorily resolved.

Post Office Limited

Post Office Limited had net current liabilities of £339m at 25 September 2005 and continues to operate at a loss. To become viable in the longer term, new profitable business areas are being developed to replace the lost contribution from benefits income. Post Office Limited is therefore currently dependent on continuing financial support from its ultimate parent company, Royal Mail Holdings plc.

Up to £300m of funding for the rural network until March 2008 has been agreed, subject to a State Aid clearance process that has still to be completed.

Post Office Limited successfully concluded negotiations with its parent, ultimate parent and the Government to provide additional capital contributions to meet short term funding requirements of £145m through to March 2007. Beyond this date, additional funding will be required to refinance the Company's operations, including the existing working capital facilities of £1.15bn, which mature in March 2010.

As part of these funding negotiations, Post Office Limited has entered into a process with its parent, ultimate parent and the Government to review the funding implications of returning the business to profitability and the capital requirements of the Company. Whilst these discussions continue, after careful consideration, the Directors of Post Office Limited are confident that the business will be able to meet future obligations as they fall due.

Royal Mail Holdings plc

Notes to the Unaudited Interim Report

The Directors of Post Office Limited consider that it is appropriate that its accounts be prepared on a going concern basis assuming that:

- the £300m of rural funding receives appropriate State Aid clearance;
- Post Office Limited will meet its revenue and expenditure targets; and
- a satisfactory resolution of the longer term funding requirements of Post Office Limited is achieved with its parent, ultimate parent and the Government within the agreed timetable.

On the basis of the above arrangements, the Directors consider it appropriate to include both Royal Mail Group plc and Post Office Limited in the consolidated accounts on a going concern basis.

3 Segmental information

The Group discloses its segmental results into five classes of business: Royal Mail, Parcelforce Worldwide, Post Office Limited, General Logistics Systems and Other businesses. The latter comprises two part owned subsidiaries – Romec Limited and NDC 2000 Limited – and the Group's investments in the following joint venture and associates – Quadrant Catering Limited and Camelot Group plc.

Analysis of revenue by class of business and geographic area of origin

	Half year to 25 September 2005			Half year to 26 September 2004*			Year to 27 March 2005*		
	£m			£m			£m		
	Total revenue	Revenue between segments	External revenue	Total revenue	Revenue between segments	External revenue	Total revenue	Revenue between segments	External revenue
Royal Mail	3,368	(52)	3,316	3,293	(15)	3,278	6,850	(87)	6,763
Parcelforce Worldwide	150	(2)	148	144	(6)	138	313	(15)	298
Post Office Limited	575	(155)	420	639	(149)	490	1,287	(311)	976
Other businesses	4	-	4	3	-	3	6	-	6
Total UK operations	4,097	(209)	3,888	4,079	(170)	3,909	8,456	(413)	8,043
General Logistics Systems (principally Europe)	490	-	490	418	-	418	913	-	913
Total	4,587	(209)	4,378	4,497	(170)	4,327	9,369	(413)	8,956

Transfer prices between business segments are set on a basis of charges reached through a negotiation with the respective businesses.

Analysis of operating profit/(loss) before exceptional items by class of business and geographic area of origin

	Half year to 25 September 2005		Half year to 26 September 2004*		Year to 27 March 2005*	
	£m		£m		£m	
Royal Mail	168		174		348	
Parcelforce Worldwide	(1)		(13)		(7)	
Post Office Limited	(70)		(65)		(139)	
Other businesses	-		-		-	
Total UK operations	97		96		202	
General Logistics Systems (principally Europe)	43		23		72	
Total before share of profits from associates and joint ventures	140		119		274	
Share of profits from associates and joint ventures	19		13		28	
Total	159		132		302	

Of the share of profits from joint ventures and associates of £19m (2004 £13m), £13m (2004 £7m) relates to investments managed by Post Office Limited and £6m (2004 £6m) relates to investments managed at the centre and hence are classified within Other businesses. For Operating and Financial Review purposes these amounts are allocated back to the respective business units operating profit analyses. A further £nil (2004 £1m) profits generated from Other businesses were allocated to Royal Mail for the purposes of this segmental analysis.

* Results are restated for the impact of the transition to International Financial Reporting Standards.

Royal Mail Holdings plc

Notes to the Unaudited Interim Report (continued)

4 Operating exceptional items

	25 September 2005 £m	26 September 2004 £m	27 March 2005 £m
Share in Success	(38)	(80)	(218)
Impairment of tangible fixed assets	(8)	(1)	(23)
Redundancy	(53)	(34)	(36)
Total	(99)	(115)	(277)

5 Finance income

	25 September 2005 £m	26 September 2004 £m	27 March 2005 £m
Investment income	25	26	58
Pensions notional interest	49	29	59
Total	74	55	117

6 Taxation

The overall taxation charge is calculated by applying the forecast effective tax rates to the reported interim profit after adjusting for exceptional items. The tax charge of £45m (2004 half year restated, a tax charge of £11m and full year restated, a tax charge of £16m), includes overseas current taxation of £13m (2004 half year restated, a charge of £6m and full year restated, a charge of £12m), overseas deferred taxation charge of £3m (2004 half year restated, £nil, full year restated, a credit of £23m) and UK current taxation of £11m (2004 half year restated, a charge of £5m, full year restated, a tax charge of £8m) and UK deferred taxation of £18m (2004 half year restated, £nil, full year restated a charge of £19m).

7 Total equity

	Retained Earnings £m	Mails Network £m	Rural £m	Foreign Currency Translation £m	Hedging Reserve £m	Other £m	Equity holder of the parent £m	Minority Interest £m	Total equity £m
At 28 March 2005	(3,085)	801	171	8	-	63	(2,042)	4	(2,038)
Restatement for the effect of IAS 32 and IAS 39	(11)	-	-	-	8	-	(3)	-	(3)
Restated opening equity as at 28 March 2005	(3,096)	801	171	8	8	63	(2,045)	4	(2,041)
Profit for the period	92	-	-	-	-	-	92	(1)	91
Actuarial losses on defined benefit schemes	(251)	-	-	-	-	-	(251)	-	(251)
Taxation on items taken directly to equity	39	-	-	-	-	-	39	-	39
Transfer of Rural Network reserve	75	-	(75)	-	-	-	-	-	-
Transfer of interest income	(22)	18	4	-	-	-	-	-	-
Translation differences	-	-	-	(6)	-	-	(6)	-	(6)
Net gains/(losses) on fuel and currency hedges	-	-	-	-	2	-	2	-	2
At 25 September 2005	(3,163)	819	100	2	10	63	(2,169)	3	(2,166)

As detailed in note 1, on 28 March 2005 the reserves were restated for the effects of IAS 32 and IAS 39.

Royal Mail Holdings plc

Notes to the Unaudited Interim Report (continued)

The Rural Network reserve has been applied to the extent of £75m representing the financing required during the period in maintaining the rural network of Post Offices.

The transfer of interest relates to income recorded in the profit and loss account, which has been earned on the assets that support the Mails and Rural Network reserves.

Other reserves of £63m comprise £2m unrealised gain on First Rate Travel Services Holdings Limited, a joint venture transaction, and £46m and £15m relating to unrealised gains on Midasgrange Limited and G3 Worldwide Mail N.V., respectively, both associate transactions.

8 Publication of non-statutory accounts

The interim results are unaudited but have been reviewed by the auditors. The financial information herein does not amount to full statutory accounts within the meaning of Section 240 of the Companies Act 1985 (as amended). The figures for the year to 27 March 2005 and at 28 March 2005 have been extracted from the IFRS restatements issued on 17 November 2005, which were themselves based on the Annual Report and Accounts 2005, which has been filed with the Registrar of Companies. The audit report on the Annual Report and Accounts 2005 was unqualified and did not contain a statement under Section 237 (2) or (3) of the Companies Act 1985.

Royal Mail Holdings plc

Forward Looking Statements

This document contains statements concerning the Group's business, financial condition, results of operations and certain of the Group's plans, objectives, assumptions, projections, expectations or beliefs with respect to these items.

The Company cautions that any forward looking statements in this document may and often do vary from actual results and the differences between these statements and actual results can be material. Accordingly, readers are cautioned not to place undue reliance on forward looking statements. The Company undertakes no obligation to release publicly the result of any revisions to these forward looking statements that may be made to reflect events or circumstances after the date of this document, including, without limitation, changes in the Group's strategy, or to reflect the occurrence of unanticipated events.

By their nature, forward looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. Such forward looking statements should, therefore, be considered in light of various important factors that could cause actual results and developments to differ materially by those expressed or implied by these forward looking statements. These factors include, among other things: the impact of competitive products and pricing; the occurrence of major operational problems; the loss of major customers; limitations imposed by the Group's indebtedness; undertakings and guarantees relating to pension funds; contingent liabilities; risks of litigation and risks associated with the Group's overseas operations.

Corporate Information

Registered Office and Group Head Office

Royal Mail Holdings plc
148 Old Street
LONDON
EC1V 9HQ
020 7250 2888
Registered No: 4074919

Corporate website

Additional corporate and other information can be accessed on the following website (www.royalmail.com). Information made available on the website is not intended to be, and should not be regarded as being, part of the accounts.

The maintenance and integrity of the Group's websites is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Auditors

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Royal Mail Holdings plc and the Royal Mail group of companies

The Royal Mail group of companies comprises Royal Mail Holdings plc (the Company) - which is wholly-owned by HM Government - and its subsidiaries. The Company is incorporated under the Companies Act 1985 (the Act) and the accounts are produced in accordance with the Act and applicable International accounting standards.

The interim results are drawn up for the 26-week period ended 25 September 2005 (2004 26 weeks ended 26 September 2004) and have been prepared on a going concern basis.