

Royal Mail Holdings plc

Unaudited Interim Report for the half year ended 24 September 2006



Royal Mail Holdings plc

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Royal Mail Group is unique in reaching everyone in the UK through its mails, Post Office® and parcels businesses – which directly employ 188,000 people in the UK.

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 nearly 25 million customers through our network of 14,299 Post Office® branches and in the first half of this year our domestic and European parcels businesses – General Logistics Systems and Parcelforce Worldwide – delivered some 168 million parcels.

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Royal Mail Holdings plc

Chairman and Group Chief Executive's Statement

Royal Mail gears up to the challenge of transformation

After four years of continuous improvement in performance during which the Group improved quality of service to record levels, turned losses of £1m a day to a £355m profit last year, and, by September 2006, managed more than 40,000 people out of the business – the Group's operating profits in the first half of 2006-07 fell by 86% to £22m from £159m at the same time last year. The drop in profits is in line with the expectations of the Shareholder and the Group and starkly underlines the challenges we face and have begun to tackle in this financial year and which have impacted on these results.

The results reflect the Group's longstanding requirement to:

- modernise operations to compete effectively in the new competitive market;
- deal with a pension fund deficit which has risen further to £6.6 billion; and
- restore the Post Office network to profitability.

The results also demonstrate the impact of a decline in the overall UK mail market, the introduction of full competition for the first time in January this year, and the ongoing decline in traditional business in the Post Office network.

Specifically:

- total volumes in the UK mails market have declined by 2% compared to the same period a year ago;
- the annual pension fund charge has increased by £170 million;
- operating losses in the Post Office network have risen to £102 million in the half year; and
- Royal Mail is now beginning investment to modernise the mails business.

Quality of service rose to record levels with 94.4% of First Class letters arriving the day after posting against a target of 93.0%. Parcels, Bulk business mail, European International Mail and Special Delivery all performed above target.

Last year, Royal Mail delivered an operating profit of £355 million. But since then total addressed mail volumes have fallen by 1.9%. Specifically, First Class mail has fallen by 7.9% and Second Class by 5.8%. These changes are in line with what other postal administrations in other countries have already seen – mail volume falls that are set to continue. The growth in electronic communications – with, for example, the recent expansion in broadband access – is undoubtedly a key factor behind this change.

At the same time as total mail volumes fell, the amount of mail handled under access arrangements by rival companies has risen – this year competitors are expected to handle more than 2.5 billion letters and packets.

The cost of servicing the Group's pension deficit – which has increased by £1 billion to £6.6 billion since the spring – is having a substantial impact on our financial results. Our cash payments into the pension scheme this year are expected to increase by around £300 million with the total amount of cash paid this year expected to be in excess of £700 million – and we expect similar amounts every year for the foreseeable future.

There was a small increase in our total revenue this half year – to £4,439 million, up £61 million on the same period a year ago. This was driven by increased turnover in GLS, our successful European parcels business, and, also, in part, from the increase in postage prices from April 2006.

Royal Mail's market was opened to full competition on 1 January 2006 and customers, especially business customers, now have a choice. Postcomm, the regulator, allowed us to increase prices by 4.3% on average this year for price controlled products but the extra revenue actually generated across the business as a whole was just 1% as customers chose to use a rival supplier, use a cheaper service or simply sent less mail. At the same time, Royal Mail still needs to address the problems caused by the current price structure where business prices subsidise the loss-making stamped mail posted by individual consumers and small businesses.

For the first time, Royal Mail is making an underlying loss on providing the one-price-goes-anywhere service to the UK's 27 million addresses – because the real costs of our operation are simply not reflected in the prices we are allowed to charge. This situation will continue to affect results as we move forward. At the same time the Group must improve the productivity of every part of the operation – so that customers see both real transparency in prices, and low overall costs.

The cost of maintaining the Post Office network has also continued to rise with operating losses running at £4 million a week. Revenue fell as a result of the continuing fall in Government income and the loss of TV licence work. New products and services, including car insurance, HomePhone and an Instant Saver account – which have all performed very strongly – helped offset the fall in traditional revenue. There was also another good performance by the Post Office's travel insurance and foreign currency services.

New products and services in the Post Office network have not replaced the revenue losses stemming from the fundamental change to the business. This has seen in recent years almost all of the services which were once all or largely exclusively provided in Post Office branches now becoming available from a variety of other sources.

The changes the Group will now need to make are more stretching and challenging than the gains we made during the three-year renewal plan to 2005. New technology is vital for our future – and we need to invest in new equipment, change the way we work and make sure that our working practices are modern and built around what our customers need.

Royal Mail Holdings plc

Chairman and Group Chief Executive's statement (continued)

If we are to be able to compete and succeed in the marketplace, we will need to transform our operations and achieve a substantial efficiency gain over the next five years.

The task facing our people is extremely challenging. Transforming our operations is a necessity for the business. Our people must continue to deliver results on behalf of our customers every day, as well play their part in improving productivity.

Success means that through being more efficient, we can provide customers with better products tailored to their needs with improved customer service across the board. We face enormous challenges but if Royal Mail is to compete and thrive, there is no alternative but to change. We continue to discuss these challenges and the way in which the Group will be funded with our Shareholder.

Allan Leighton

Chairman

21 December 2006

Adam Crozier

Group Chief Executive

21 December 2006

All references to operating profit are before exceptional items.

Royal Mail Holdings plc

Operating and Financial Review

Introduction

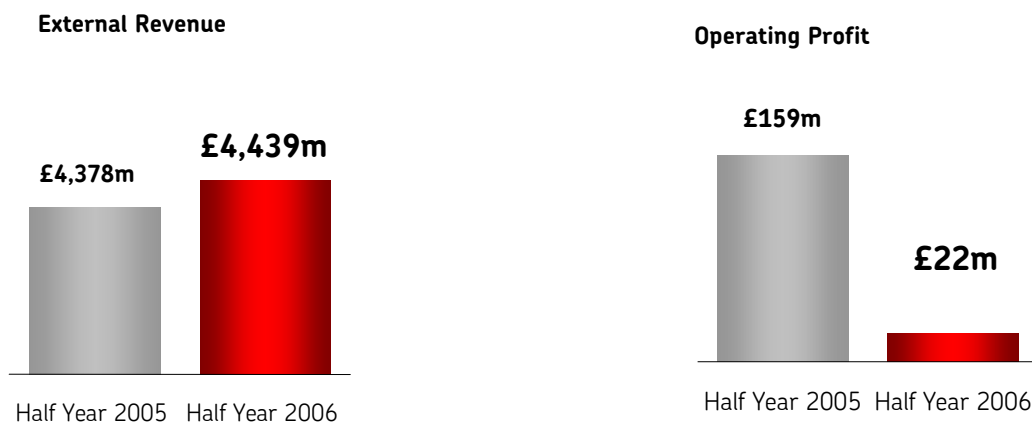
Royal Mail Holdings plc (the Company) is a public limited company wholly owned by the UK Government. It became a plc on 26 March 2001. The framework for change was the Postal Services Act 2000 that created a commercially focused company with a more strategic relationship with the Government. The Postal Services Act also established a new regulatory regime with an independent Regulator, Postcomm, and a reformed consumer body, Postwatch. Royal Mail Holdings plc together with its subsidiaries, associates and joint ventures comprise 'the Group'.

The Group has over 370 years experience of providing the public with postal services – through our trusted brands we reach everyone every working day in mail, parcels and express services and through our Post Office® branches. Our market place is, however, rapidly changing: Government revenue, such as benefit payments, is being lost from Post Office Limited whilst the UK mails market has been fully liberalised since January 2006, resulting in full competition.

We are providing new services to meet these challenges – from a range of new Post Office® financial services including personal loans and a 'two-in-one' credit card, to electronic 'stamps', online shopping fulfilment and mail-related data tools to help companies improve their marketing performance. Our continued aim is to put the customer at the heart of everything we do by – increasing value through excellent quality of service, our unique reach to every address in the UK, enhancing our trusted brands, becoming easier to do business with, expanding our profitable business, and developing innovative products and services for our customers.

Performance Highlights

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



Summary of results	2006	2005
£m unless stated otherwise		
External turnover	4,439	4,378
Operating profit*	22	159
<i>Return on sales* (%)</i>	0.5%	3.6%
Exceptional items:		
Share in Success costs	-	(38)
Other	(93)	(34)
(Loss)/profit before interest and taxation	(71)	87
Net finance income	97	49
Profit before taxation	26	136
Taxation charge	(13)	(45)
Profit after taxation	13	91

* Before exceptional items

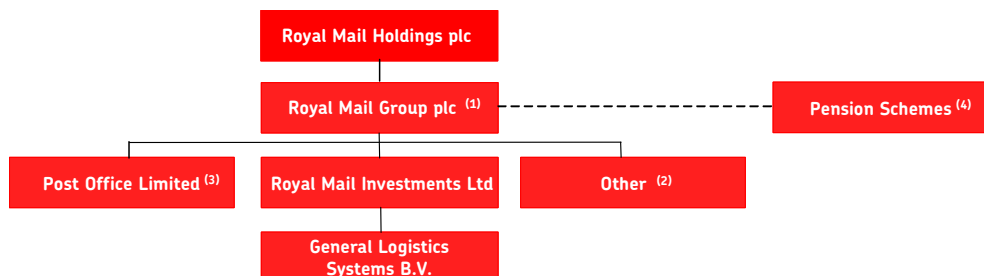
- Revenue of £4,439m – up 1.4% – driven by Royal Mail and GLS;
- Operating Profits before Exceptionals of £22m;
- Expenditure increases of £198m due to higher pension costs, implementation of strategic initiatives and higher Post Office Limited costs; and
- Service to our customers continues to improve with 94.4% of Retail First Class mail being delivered on time. Royal Mail has met or exceeded 11 out of 12 regulatory targets.

Royal Mail Holdings plc

Operating and Financial Review (continued)

Legal Structure

Royal Mail Holdings plc is directly owned by the Department of Trade and Industry and is the ultimate parent company. It primarily operates within the United Kingdom, having a number of subsidiaries and participating in several joint ventures, but also has a presence in most European countries, mainly through its General Logistics Systems business unit. It is organised into four principal operating units – Royal Mail, Post Office Limited, General Logistics Systems and Parcelforce Worldwide. Its basic legal structure is as follows:



(1) Comprising Royal Mail and Parcelforce Worldwide

(2) Other includes Royal Mail Pensions Trustees Limited (100% owned), Postcap Guernsey (100% owned), Romec Limited (51% subsidiary), Romec Services Limited (51% subsidiary), NDC 2000 Limited (51% subsidiary), Quadrant Catering Limited (51% associate), Camelot Group plc (20% associate) and Camelot International Services Limited (20% associate) plus other non-trading central businesses

(3) Owns Midasgrange Limited (50% owned venture with Bank of Ireland) and First Rate Exchange Services Holdings Limited (50% joint venture)

(4) Royal Mail Group plc is the sponsoring employer for the Royal Mail Pension Plan, the Royal Mail Senior Executive pension Plan and the Royal Mail Retirement Savings Plan.

Our Operating Units

Royal Mail

Royal Mail collects and delivers almost 83 million letters and packages to 27 million addresses every working day, in line with its unique Universal Service Obligation. It is also responsible for designing and producing the UK's stamps and philatelic products.

Post Office Limited

The Post Office®'s national network of branches is at the heart of communities across the country. They provide a trusted access point for everyday products, services and information in: postal services, financial services, travel, banking, telephony, bill payments, Government information, retail and the secure transportation of cash.

General Logistics Systems B.V. (GLS)

GLS is a pan-European company providing reliable, high-quality parcel and express services as well as value-added logistics solutions.

Parcelforce Worldwide

Parcelforce Worldwide is a leading provider of collection and delivery services for urgent packages and parcels within the UK and throughout the world, providing both business and private addresses with a range of timed delivery options.

Other

Other Group businesses includes Postcap Guernsey, our captive insurer (100% owned), Royal Mail Pensions Trustees, our pension administrators (100% owned), Romec, our facilities management operation (51% subsidiary), NDC, our building engineering services operation (51% subsidiary), Quadrant, our catering services (51% associate), and Camelot, the UK national lottery operator (20% associate).





Our pension schemes

Royal Mail Group plc's pension schemes' assets and liabilities are materially larger than its other operating assets and it is one of the most exposed UK corporates to pension scheme volatility, particularly with respect to movements in equity values and bond rates.

Royal Mail Group plc is the sponsoring employer for the Royal Mail Pension Plan, the Royal Mail Senior Executive Pension Plan and the Royal Mail Retirement Savings Plan. The Royal Mail Pension Plan and Royal Mail Senior Executive Pension Plan are defined benefit schemes. The Royal Mail Retirement Saving Plan is a defined contribution scheme. Based on assets, the Royal Mail Pension Plan is the sixth largest pension scheme in the UK.

Royal Mail Holdings plc

Operating and Financial Review (continued) Operating Unit facts and figures

Unit and % of Group external revenue	No. of employees	Region	Revenue (£m) Profit (£m)* Margin (%)	Facts and Figures	Vision
 75.8% of Group external revenue	170,097	UK	Revenue £3,347m Profit £68m Margin 2.0%	<ul style="list-style-type: none"> • 113,000 pillar boxes • 70 Mail Centres • 1,400 delivery offices • 30,000 vehicles • 33,000 bicycles • Almost 83 million items handled every working day • Deliver to 27 million addresses a day • 1st Class Quality of Service – 94.4% • 2nd Class Quality of Service – 99.1% 	...to be 'demonstrably the best and most trusted postal services company in the world'
 11.4% of Group external revenue	10,805	Europe	Revenue £506m Profit £52m Margin 10.3%	<ul style="list-style-type: none"> • 31 hubs • 645 depots • 17,800 vehicles • Over 1 million parcels handled every working day 	...to provide 'service, quality and reliability', with local expertise and knowledge of different cultures being integral to the end-to-end service
 9.3% of Group external revenue	10,760	UK	Revenue £411m Loss (£102m) Margin (24.8%)	<ul style="list-style-type: none"> • 14,299 branches, of which 6,506 urban branches (including 458 directly managed) and 7,793 rural branches • Nearly 25 million customers a week, making over 36 million visits a week • UK's leading supplier of foreign currency • 95% of customers satisfied with their branch 	...to 'sell products and services that are important to our customers simply and at a profit' backed up by a business approach of being 'community minded and profit driven, and putting customers at the heart of the business'
 3.5% of Group external revenue	4,103	UK	Revenue £155m Profit £2m Margin 1.3%	<ul style="list-style-type: none"> • 2 national hubs • 48 depots • 1,700 vehicles • 170,000 parcels delivered every day, • Parcelforce 24 Quality of Service – 96.7%, delivered on time and with electronic proof of delivery 	To be the UK's most trusted worldwide carrier
Other	3,330 Wholly owned 4,800 Part owned	UK	Revenue# £20m Profit £2m # For subsidiaries only	PostCap Guernsey – captive insurers (100% owned) Royal Mail Pensions Trustees – pension administrators (100% owned) Romec and Romec Services – facilities management operation (51% subsidiary) NDC – building engineering services operation (51% subsidiary) Quadrant – catering services (51% associate) Camelot , UK national lottery operator (20% associate)	

* before exceptional items

Royal Mail Holdings plc

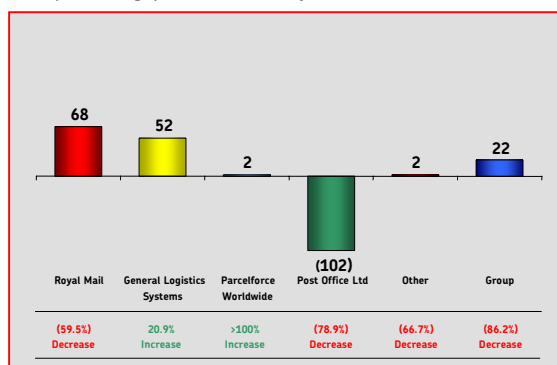
Operating and Financial Review (continued)

Group financial analysis

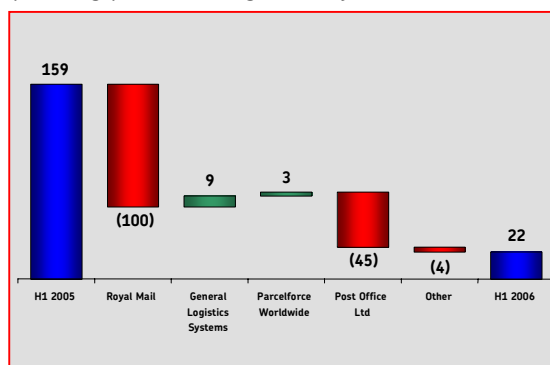
In the following analysis, all references to operating profit are before exceptional items.

We report a half year operating profit of £22m compared to £159m in the first half of 2005. This decline was driven by increased pension costs, investments made in our business and deteriorating financial performance within Post Office Limited.

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



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



External revenue

The Group's external revenue increased by £61m (1.4%) from £4,378m to £4,439m driven principally by Royal Mail and GLS.

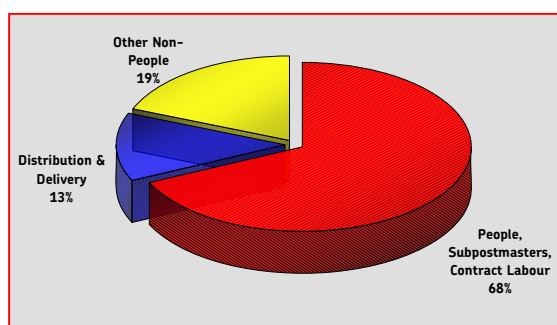
Royal Mail's revenue grew by £31m (0.9%) arising from domestic mail price increases of 2.4% and international mail volume growth. The overall growth in revenue is despite inland addressed mail volume declining by 1.9% (£38m) and a three-fold increase in customers switching to the lower priced Downstream Access products (£34m).

GLS increased its revenue by £16m (3.3%) from £490m to £506m driven principally by higher domestic and export parcel growth across Europe, particularly in Eastern Europe. Parcellforce Worldwide increased its revenues from £148m to £155m (£7m; 4.7%) driven by increased timed product volumes from existing customers. Post Office Limited reported a decline in revenue of £9m from £420m to £411m driven by the reduction in governmental work including benefit payments and European health form applications (£111's) being replaced by the European Health Insurance Card (EHIC). This has been partly offset by increased sales of Post Office Limited's new products.

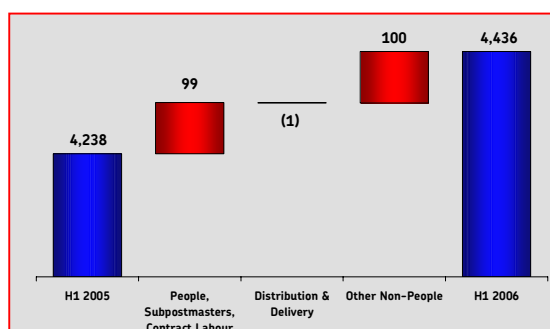
Costs (excluding exceptional items)

The Group's costs of £4,436m have increased by £198m (4.7%).

Cost by type - %



Cost growth by type - £m



People costs, which include subpostmasters and contract labour, of £3,019m have increased by £99m (3.4%) primarily as a result of increased pension costs. The Group's pension costs have increased by £84m (31.3%). The increase mainly relates to the higher cost of employing members of the schemes, principally due to an allowance for increased life expectancy and lower long-term interest rates. The majority of our frontline staff enjoyed a 2.9% pay award effective from 3rd April 2006 with an additional 1.0% productivity payment from 5th June 2006. This has been largely offset by a reduction in the Group's UK headcount of almost 9,000 since last half year, resulting in wages and salaries increasing by £15m (0.6%). People costs represent 68.0% of the Group's cost base.

Distribution and conveyance costs of £583m, representing 13.1% of the Group's cost base, have decreased by £1m (0.2%) driven partially by lower volumes.

Other operating costs of £834m have increased by £100m (13.6%) primarily due to increased expenditure on strategic initiatives in line with the business' modernisation investment plan, higher cost of sales within Post Office Limited and consolidation of Romec Services Limited.

Royal Mail Holdings plc

Operating and Financial Review (continued)

Pensions

Pension charges within operating profit	2006	2005
	£m	£m
Operating profit before exceptionals	352	268
Exceptionals (relating to redundancy)	23	18
Operating profit	375	286

The balance sheet pension deficit has increased from £5,588m in March 2006 to £6,604m. The increase in the deficit of £1,016m mainly relates to an actuarial loss of £1,069m, which arose due to investment returns on the schemes' assets being in line with market performance and therefore lower than the long-term expected rate of return. The actual investment returns during the period were negative, driven by the performance of equity markets,

leading to a reduction in pension assets. The actuarial loss is recorded in the Statement of recognised income and expense. Pension costs (pre-exceptionals) have increased by over 30% from £268m to £352m. This increase of £84m mainly relates to the increased cost of employing members of the schemes, principally due to an allowance for increased life expectancy and lower long-term interest rates.

Pension cash funding: Group contributions	2006	2005
	£m	£m
Regular pension contributions	268	119
Funding of pension deficit	37	5
Payments relating to redundancy	46	209
Net cash payments	351	333

Regular pension contributions more than doubled from £119m to £268m - an increase of £149m, of which £51m arose due to timing differences in payments. The remaining increase of £98m was principally driven by the regular rate of employer contributions for the Royal Mail Pension Plan that increased from 12.6% to 20% of pensionable pay. Key elements of this increase are an allowance for increased life expectancy and lower expected long-term investment returns. The regular rate of employee contributions for the Royal Mail Pension Plan remains unchanged at 6%.

The Group has also been contributing some £140m per year to fund the deficit in the Royal Mail Pension Plan, which will significantly increase in the current year. There have been no employee deficit contributions.

Share of profits in associates and joint ventures

The Group's share of profits in associates and joint ventures of £19m (2005 £19m) comprises combined profits of £24m (2005 £25m) from Camelot, Post Office Limited's Bureau de Change joint venture (First Rate Exchange Services Holdings Limited), Quadrant our catering associate and G3 Worldwide Mail N.V. (Spring), offset by a loss of £5m (2005 loss of £6m) from Post Office Limited's financial services venture with the Bank of Ireland.

Net exceptional items (including operational exceptional items and profits/(losses) relating to business and property disposals)

Net exceptional costs of £93m (2005 £72m) comprise, £96m (2005 £53m) for redundancy costs, £19m (2005 £8m) for impairment in Post Office Limited, and Share in Success £nil (2005 £38m), offset by profits of £22m (2005 £27m) from property disposals.

Net finance income

Net finance income of £97m (2005 £49m) mainly comprises net pensions interest of £99m (2005 £49m), interest earned on investments of £26m (2005 £25m), offset by interest payable on loans of £25m (2005 £23m) and other interest payable of £3m (2005 £2m). Interest payable increased due to higher average borrowings to fund our Post Office® network. The net pensions interest, a non-cash item for the Group, has increased by £50m mainly due to an increase in equity values during the most recent year to 26 March 2006. Since the year end, equity values have fallen.

Taxation

The taxation charge of £13m comprises £13m current tax payable on overseas profits, a £6m deferred tax charge with respect to overseas operations, a UK current charge of £38m and a UK deferred tax credit of £44m. Last year a charge of £45m was reported comprising £11m current and £18m deferred tax charges with respect to UK operations, and £13m current and £3m deferred tax charges on overseas operations. A debit of £5m relating to the tax effects of the pension deficit has been taken to reserves in accordance with IFRS.

Royal Mail Holdings plc

Operating and Financial Review (continued)

Cash flow and capital expenditure

The table below is an extract from the Group cash flow statement.

Summary of cash flows	2006 £m	2005 £m
Cash utilised in operations	(83)	(187)
Dividends received from JVs and associates	8	8
Capital expenditure and disposals	(91)	(95)
Tax, interest and other	33	21
Business acquisitions and disposals	(1)	5
Sale of financial assets	134	-
Proceeds from issue of ordinary share	145	-
Other financing activities	(8)	(2)
Net cash inflow/(outflow)	137	(250)

Cash utilised in operations is £83m (2005 £187m), which comprises:

- Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) inflows of £99m (2005 £224m);
- Working capital inflows of £28m (2005 £66m);
- Share in Success payments of £90m (2005 £218m); and
- Other payments relating to exceptional items of £120m (2005 £259m), including pension top ups of £46m (2005 £208m) and further rationalisation costs of £74m (2005 £51m).

Dividends received from joint ventures and associates of £8m (2005 £8m) are mainly from Quadrant, £5m (2005 £4m) and Camelot, £3m (2005 £3m).

During the period, one ordinary share in the Company was issued to the Secretary of State for Trade and Industry under section 64(1) of the Postal Services Act 2000. The consideration received of £145m was used to reimburse Royal Mail Group plc for amounts that had been advanced to Post Office Limited.

Capital expenditure net of disposals of £91m (2005 £95m) comprises £92m (2005 £122m) of expenditure relating to tangible fixed assets, including motor vehicles of £28m, plant and equipment of £17m, £29m for GLS projects and £18m for property improvements and £32m (2005 £nil) purchase of intangible assets, being software licences and development expenditure, offset by inflows of £33m (2005 £27m), mainly from surplus property disposals. Tax and interest inflows in the year were £33m (2005 £21m). The £134m inflow from sale of financial assets (2005 £nil) relates to the sale of securities and investments, the proceeds of which have been invested in cash and cash equivalents. The £1m cash outflow relating to business acquisitions and disposals (2005 £5m cash inflow) is in respect of the purchase of business interests in Italy.

Provisions

Provisions at the end of September 2006 were £107m (March 2006 £111m). The decrease of £4m comprises cash spend of £79m, transfers to short-term creditors of £27m, offset by £102m of new provisions relating to rationalisation and onerous property contracts.

Mails Reserve & Rural Network Reserve

During the period £75m was transferred from the Mails Reserve to Post Office Limited, allocated to the Rural Network Reserve and used towards the maintenance of a rural network of Post Office® branches. Of the interest earned on investments during the period, £17m related to the Mails and Rural Network Reserves and, accordingly, has been transferred to those Reserves.

Treasury management

The Group operates a central Treasury function that manages some £564m of current financial assets, £1,298m of cash and cash equivalent investments (including £804m cash in the Post Office® network funded mainly by a Government loan facility) and £892m of financial liabilities, in accordance with investment and borrowing parameters agreed 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.

Royal Mail Holdings plc

Operating and Financial Review (continued)

Business environment

Regulation

Until the last few years, Royal Mail had enjoyed a monopoly status in the UK letters industry. However, in 2000 the Postal Services Act created an independent postal Regulator – Postcomm – and allowed Royal Mail to have greater commercial freedom. Postcomm regulates the prices of nearly 90% of Royal Mail's letters business, controls the terms and conditions for nearly all its services, fixes the quality of service targets in its Licence with Royal Mail Group plc and determines compensation arrangements.

Post Office Limited is increasingly subject to regulation in financial services and in telephony. Post Office Limited is an appointed representative of the Bank of Ireland, which in turn is regulated directly by the Financial Services Authority.

It is the Group's policy to be fully compliant with the regulatory framework in which we operate. During 2006-07 we continued to strengthen our compliance activities working in close liaison with our Regulators.

Competition

The Group's business units now all operate in a competitive marketplace. Parcelforce Worldwide and GLS have been operating in an open market since their inception. These units have demonstrated their ability to perform in a non-regulated and competitive environment, which is reflected in their interim results.

Post Office Limited, due to a reduction in income from benefit payments and a significant and continuing decrease in Government use, has developed new revenue streams from financial services products (including car insurance, a 'two-in-one' credit card, personal loans etc.), its HomePhone and directory enquiries services etc. These products are in direct competition with services offered by banks, insurance and telephony companies, as are many of the services it has traditionally offered, e.g. bill payments, renewal of car tax discs, travel services etc.

Royal Mail's operating environment has gradually been opened up to competition since February 2004, with the market fully liberalised in January 2006. Competitors are now able to offer customers the opportunity of end-to-end service for the collection, sorting and delivery of their mail.

The Group has recently responded to Postcomm's Strategy Review and believes that four key principles need to be addressed which will result in a truly competitive industry whereby all stakeholders benefit:

- 1. Realign prices to underlying costs** - to create transparency for business customers and to ensure that competition is sustainable. Some competitors in the UK are basing their entry strategies on unsustainable business models which target the historical cross-subsidies in Royal Mail's pricing structure. But cross-subsidies are fundamentally incompatible with an effectively functioning competitive market. Postcomm should allow Royal Mail to remove these cross-subsidies, so that customers face the right pricing signals and competitor models going forward are based on efficiency.
- 2. A narrower range of universal service products** - focused on the needs of all social customers and fully funded through stamp prices. Business customers tell us they do not need the protection that the USO provides - Postcomm describes many of these customers as "non-captive" and we agree given the ample choice they have across mail and other communications providers. So the USO should be refocused on stamped mail only, and prices should reflect the true costs of this provision.
- 3. Full retail deregulation of business products** - The explosion in access competition - now representing 25% of bulk mail after only 18 months - is encouraging business customers to demand more commercial and innovative responses from Royal Mail. However, Royal Mail is prevented from responding rapidly by regulatory requirements such as an involved process for changing terms and conditions. Royal Mail envisages a near-term future in which the intense competition in the business mail market replaces the need for regulation.
- 4. Continued operational integration of the postal network** - We have put in place measures to ensure that competitors and customers have access to our network on fair and reasonable terms. Separation of the postal network would create confusion for customers, introduce complex and costly interfaces, endanger quality of service and put at risk delivery of our transformation programme.

Royal Mail Holdings plc

Operating and Financial Review (continued)

Segmental analysis – revenue and profitability

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

The Group's external revenue of £4,439m (2005 £4,378m) and operating profit before exceptionals of £22m (2005 £159m) is analysed by business unit as follows:

Business unit performance	External revenue		Operating profit/(loss)	
	2006 £m	2005 £m	2006 £m	2005 £m
Royal Mail	3,347	3,316	68	168
General Logistics Systems	506	490	52	43
Parcelforce Worldwide	155	148	2	(1)
Post Office Limited	411	420	(102)	(57)
Other businesses	20	4	2	6
Group	4,439	4,378	22	159

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

Royal Mail	2006 £m	2005 £m
External revenue	3,347	3,316
Operating profit before exceptionals	68	168

External revenue grew by £31m (0.9%) to £3,347m. The average price increases of 2.4% in April 2006 generated an additional £78m on inland addressed mail and revenue from International products increased by £51m generated through increased volumes and prices. This was partially offset by a 1.9% decline in inland addressed volumes, which includes stamped, metered and Mailsort mail, equating to a loss in

revenue of £38m. These results reflect the impact of Royal Mail's market being fully liberalised in January 2006, with Downstream Access volumes increasing threefold. This switch to lower priced products further reduced revenue by £34m. The 2005 results include the impact of the general election and European elections, which generated £27m in revenue.

Royal Mail successfully introduced Pricing in Proportion on 21st August 2006 resulting in mail now being priced by size and weight and will help to align the price of sending a letter with the cost of its processing.

Despite the increase in revenue, operating profit declined by £100m (59.5%) to £68m. This was primarily driven by increased pension costs (up £70m; 29.7%). The unit also increased strategic initiatives expenditure, with the aim of creating a more modern and efficient operation. Despite declining volumes, there is limited scope to reduce operational costs in the short-term due to the Universal Service Obligation.

General Logistics Systems	2006 £m	2005 £m
External revenue	506	490
Operating profit before exceptionals	52	43

External revenue rose by £16m (3.3%) from £490m to £506m including the £3m positive impact as a result of the strengthening of the euro. The underlying growth of £13m (2.6%) results from higher domestic and export parcel volumes across Europe, particularly in Eastern Europe.

Operating profit increased by £9m (20.9%), from £43m last year to £52m. Operating margins have improved as GLS continues to focus on cost control.

External revenue increased from £148m to £155m – up £7m (4.7%) mainly driven by timed delivery volume growth from

Parcelforce Worldwide	2006 £m	2005 £m
External revenue	155	148
Operating profit/(loss) before exceptionals	2	(1)

existing customers. The business has continued to focus on delivering a reliable service that meets customers needs backed by a high level of community responsibility, leading it to win the prestigious award for "a safer workplace and healthier workforce", presented by HRH the Prince of Wales and supported by the Department of Health.

Parcelforce Worldwide generated a half year profit of £2m compared to a £1m loss for the prior half year, a continuation

of the success achieved in the second half of 2005–06. This has been achieved through continued focus on cost control in a period of revenue growth, generating a significant drop in the average unit cost of each parcel handled whilst improving quality of service.

Royal Mail Holdings plc

Operating and Financial Review (continued)

Post Office Limited	2006	2005
	£m	£m
External revenue	411	420
Operating loss before exceptionals	(102)	(57)

Revenue decreased by £9m (2%) due to a number of factors including the loss of TV Licensing work from the BBC and the final effects of the change to direct payment of benefits. This has been partly offset by increases in Post Office Limited's new commercial products of which HomePhone revenue is significantly higher than last year. The business continues to expand its presence in the Financial Services

sector with the launch of the Post Office[®] Instant Saver account, which has been exceptionally well received in the instant access savings market. Travel products performed well over the summer period.

Overall expenditure increased, mainly driven by subpostmasters pay, costs associated with new commercial products and increased pension costs. However, it should be noted that the overall loss, which increased by £45m, includes the cost of maintaining the uneconomic part of the rural network.

Other businesses	2006	2005
	£m	£m
External revenue	20	4
Operating profit before exceptionals	2	6

Other Group businesses include PostCap Guernsey, our captive insurer (100% owned), Royal Mail Pensions Trustees, our pension administrators (100% owned), Romec and Romec Services, our facilities management operation (51% subsidiary), NDC, our building engineering services operation (51% subsidiary), Quadrant, our catering services (51% associate), and Camelot, UK national lottery operator (20% associate).

External revenue has increased to £20m (2006 £4m), mainly due to consolidating the results of Romec Services Limited. Operating profit is £4m lower primarily due to decreased profits in Camelot (£1m) and Romec (£2m). The results of other associates and joint ventures not held centrally are included within Post Office Limited's and Royal Mail's results.

Way forward

The Group experienced a difficult start to the year and profit has fallen for the first time in four years. Our operating profit reduced to £22m compared to £159m in the first half of last year. Investment in the transformation has commenced which, combined with the impact of the decline in volumes and increased pension costs, has reduced Royal Mail profits. Post Office Limited's losses doubled as a consequence of reduced income including further traditional government income decline despite progress made with new commercial products. The good news is that our unregulated parcels businesses continue to improve their performance and we are delivering record quality of service results to our customers.

Moving forward the major challenges that face the Group are:

- Transformation and modernisation of our operations;
- Increased competition;
- Cost of servicing the pension scheme; and
- Addressing the cost of maintaining the Post Office network.

We need to secure the approval by our Shareholder for the investment plan but this alone does not provide a solution to the challenges ahead. We need to ensure that the investment is used to provide sustainable long-term operational transformation. We also need to secure further commitment from our people to make these changes happen.

Ian Duncan

Group Finance Director

21 December 2006

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 24 September 2006, 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 10. We have read the other information in the Interim Report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

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.

The accounting policies are consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

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 24 September 2006.

Ernst & Young LLP
London
21 December 2006

Royal Mail Holdings plc

Summary Group income statement unaudited

for the half year ended 24 September 2006 and 25 September 2005 and year ended 26 March 2006

	Notes	24 September 2006 £m	25 September 2005 £m	26 March 2006 £m
Revenue	4	4,439	4,378	9,056
People costs		(3,019)	(2,920)	(5,968)
Wages and salaries		(2,216)	(2,199)	(4,530)
Pensions		(352)	(268)	(529)
Social security		(160)	(162)	(326)
Subpostmasters		(269)	(252)	(507)
Temporary resource		(22)	(39)	(76)
Distribution and conveyance costs		(583)	(584)	(1,218)
Other operating costs		(834)	(734)	(1,547)
Share of post tax profit from associates and joint ventures		19	19	32
Operating profit before exceptional items		22	159	355
Operating exceptional items	5	(115)	(99)	(210)
Operating (loss)/profit		(93)	60	145
Profit on disposal of businesses		-	5	6
Profit on disposal of property, plant and equipment		22	22	61
(Loss)/profit before financing and taxation		(71)	87	212
Finance costs	6	(28)	(25)	(52)
Finance income	7	125	74	152
Profit before taxation		26	136	312
Taxation	8	(13)	(45)	83
Profit for the period from continuing operations		13	91	395
Profit attributable to:				
Equity holder of the parent company		13	92	395
Minority interest		-	(1)	-

Royal Mail Holdings plc

Summary Group statement of recognised income and expense unaudited

for the half year ended 24 September 2006 and 25 September 2005 and year ended 26 March 2006

	24 September 2006 £m	25 September 2005 £m	26 March 2006 £m
Translation differences on foreign currency net investments	(8)	(6)	-
Transfers to the balance sheet – on the carrying amount of non financial assets and liabilities	-	-	(1)
(Loss)/gain on cash flow hedges taken to equity during the period	(5)	5	3
Transfers to income statement on cash flow hedges	-	(3)	(10)
Actuarial losses on defined benefit schemes	(1,069)	(251)	(1,659)
Taxation on items taken directly to equity	(5)	39	(26)
Net expense recognised directly in equity	(1,087)	(216)	(1,693)
Profit for the period	13	91	395
Total recognised income and expense for the period	(1,074)	(125)	(1,298)
Attributable to:			
Equity holder of the parent company	(1,074)	(124)	(1,298)
Minority interest	-	(1)	-
Effects of changes in accounting policy:			
Loss on the first time adoption of IAS 32 and IAS 39	-	(3)	(3)

Royal Mail Holdings plc

Summary Group balance sheet unaudited

for the half year ended 24 September 2006 and 25 September 2005 and year ended 26 March 2006

	Notes	24 September 2006 £m	25 September 2005 £m	26 March 2006 £m
Non current assets				
Property, plant and equipment		1,587	1,588	1,594
Goodwill and intangible assets		178	145	174
Investments		138	149	129
Other receivables		6	11	6
Deferred tax assets		380	331	393
		2,289	2,224	2,296
Current assets				
Inventories		28	24	27
Trade and other receivables		963	911	1,093
Financial assets		564	702	697
Cash and cash equivalents		1,298	1,090	1,161
		2,853	2,727	2,978
Non current assets held for sale		2	24	11
Total assets		5,144	4,975	5,285
Current liabilities				
Trade and other payables		(1,774)	(1,792)	(2,021)
Financial liabilities		(388)	(401)	(364)
Provisions		(42)	(84)	(58)
		(2,204)	(2,277)	(2,443)
Non current liabilities				
Financial liabilities		(504)	(504)	(505)
Retirement benefit obligation		(6,604)	(4,250)	(5,588)
Provisions		(65)	(64)	(53)
Deferred tax liabilities		(6)	(5)	(3)
Other payables		(30)	(41)	(32)
		(7,209)	(4,864)	(6,181)
Total liabilities		(9,413)	(7,141)	(8,624)
Net liabilities		(4,269)	(2,166)	(3,339)
Equity attributable to equity holder of parent company				
Equity attributable to equity holder of parent company		(4,272)	(2,169)	(3,343)
Minority interest		3	3	4
Total equity	9	(4,269)	(2,166)	(3,339)

The accounts on pages 14 to 23 were approved by the Board of Directors on 21 December 2006 and signed on its behalf by:

Adam Crozier

Ian Duncan

Royal Mail Holdings plc

Summary Group cash flow statement unaudited

for the half year ended 24 September 2006 and 25 September 2005 and year ended 26 March 2006

	24 September 2006 £m	25 September 2005 £m	26 March 2006 £m
Cash flow from operating activities			
Operating profit before exceptional items	22	159	355
Depreciation and amortisation	96	84	174
Other non-cash movements (profits from associates and joint ventures)	(19)	(19)	(32)
	99	224	497
Changes in working capital	28	66	17
Cash payments in respect of exceptional items	(210)	(477)	(524)
Cash utilised in operations	(83)	(187)	(10)
Income tax recovered	5	11	4
Net cash outflow from operating activities	(78)	(176)	(6)
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment	33	27	73
Dividends received from associates and joint ventures	8	8	30
Investment income (interest) received	28	25	53
Purchase of property, plant and equipment	(92)	(122)	(210)
Payment of deferred consideration in respect of prior years' acquisitions	-	(15)	(22)
Proceeds from sale of business	-	5	6
Purchase of business	(1)	-	(1)
Purchase of intangible assets	(32)	-	(33)
Proceeds from sale of other financial assets	134	-	2
Purchase of other financial assets	-	-	(3)
Net cash inflow/(outflow) from investing activities	78	(72)	(105)
Net cash outflow before financing activities	-	(248)	(111)
Cash flows from financing activities			
Proceeds from issue of ordinary share	145	-	-
Payment of capital element of finance lease liabilities	-	-	(1)
Finance costs (interest) paid	(26)	(25)	(52)
Repayment of borrowings	(1)	(2)	(15)
New borrowings	20	25	-
Dividend paid to minority interest	(1)	-	-
Net cash inflow/(outflow) from financing activities	137	(2)	(68)
Net increase/(decrease) in cash and cash equivalents	137	(250)	(179)
Cash and cash equivalents at the beginning of the period	1,161	1,340	1,340
Cash and cash equivalents at the end of the period	1,298	1,090	1,161

Royal Mail Holdings plc

Notes to the Unaudited Interim Report

for the half year ended 24 September 2006

1 Authorisation of financial statements

The Group's financial statements for the period ended 24 September 2006 were authorised for issue by the Board on 21 December 2006 and the balance sheet was signed on the Board's behalf by Adam Crozier and Ian Duncan. Royal Mail Holdings plc is a public limited company owned by HM Government.

2 Basis of preparation

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 Financial Reporting Standards (IFRS).

The interim results are drawn up for the 26-week period ended 24 September 2006 (2005 26 weeks ended 25 September 2005) and have been prepared on a going concern basis.

Royal Mail Holdings plc prepares its financial statements on the basis of IFRS as adopted by the European Union. The accounting policies adopted in the preparation of these half-year interim financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 26 March 2006.

The Group financial statements are presented in sterling and all values are rounded to the nearest million pounds except when otherwise indicated.

3 Funding

Royal Mail Group plc

Royal Mail Group plc has net liabilities at 24 September 2006, primarily because of the pension deficit within its main pension plan, the Royal Mail Pension Plan. Consequently, Royal Mail Group plc is in default of its borrowing facilities with Government, but has received formal waivers from the Department of Trade and Industry, in its capacity as lender.

Royal Mail Group plc is profitable, even though it has to bear losses relating to stamped mail and carry out its Universal Service Obligations, but it now faces considerable cash requirements with respect to its proposed investment in plant and equipment and funding its pension deficit at a time when the market has been opened up to full competition.

It is therefore currently in discussion with its Shareholder around a new funding package, which will enable the transformation of the Company to take place and permit appropriate discussion with its pension Trustee with respect to the funding of its pension deficit. The Directors of Royal Mail Group plc believe that the financing package will be delivered shortly. If new financing is not made available, the Directors will have to review the cash requirements of its strategic plan that will result in a delay to the planned benefits. On the basis of careful consideration of cash flow projections the Directors have concluded that it is appropriate that the accounts have been prepared on a going concern basis.

Post Office Limited

Post Office Limited had net liabilities as at 24 September 2006 and, as explained in the Operating and Financial Review, continues to operate at a loss, primarily because of supporting the loss-making rural network.

To become viable in the longer term, new profitable business areas continue to be developed to replace the lost contribution from traditional income sources and, significant cost reduction programmes are being implemented. Continuing support for the loss-making social network was announced by the Government on 14 December 2006.

However, until the above activities have been successfully completed, Post Office Limited will continue to be dependent on financial support from its parent company, Royal Mail Group plc, its ultimate parent company Royal Mail Holdings plc, and from the Government.

During the year, Post Office Limited has updated the five-year strategic plan and its future financing is underpinned by:

- rural network funding of £75m in the second half of 2006-07 and £150m for 2007-08 for which state aid clearance has now been obtained;
- short-term funding of £231m to March 2008 agreed with Government, of which £193.5m was received by the Group after the balance sheet date in consideration for two ordinary shares of £1 in the Company. The shares were allotted and issued to the Secretary of State for Trade and Industry under section 64(1) of the Postal Services Act 2000;
- an understanding that Government will agree a long-term funding arrangement in line with their announcement on 14 December 2006; and
- Government being committed to a timetable, route map and consultation processes and, for any additional financing, that the necessary state aid applications will be commenced as soon as practical.

It is understood that the above process will specifically address the following financing issues:

- extending the existing working capital facility of £1.15bn which expires in March 2010; and
- providing a funding solution for the loss-making parts of the network.

After careful consideration, the Directors are confident that a satisfactory long-term resolution will be agreed and that the Group will be able to meet future liabilities as they fall due.

Accordingly, on that basis, the Directors consider that it is appropriate that the accounts have been prepared on a going concern basis.

Royal Mail Holdings plc

Notes to the Unaudited Interim Report (continued)

4 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 includes two fully owned subsidiaries – Postcap Guernsey Limited and Royal Mail Pensions Trustees Limited, three part owned subsidiaries – Romec Limited, Romec Services Limited and NDC 2000 Limited – and the Group's investments in the following associates – Quadrant Catering Limited, Camelot Group plc and Camelot International Services Limited.

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

Half year to 24 September 2006	UK operations					Principally Europe	Total revenue from continuing operations
	Royal Mail	Parcelforce Worldwide	Post Office Limited	Other businesses	Total	General Logistics Systems	
	£m	£m	£m	£m	£m	£m	£m
External revenue	3,347	155	411	20	3,933	506	4,439
Revenue between segments	51	1	165	-	217	-	217
Segment revenue	3,398	156	576	20	4,150	506	4,656
Analysis of segment result by class of business and geographic area of origin	£m	£m	£m	£m	£m	£m	Total £m
Operating profit before exceptional items	68	2	(102)	2	(30)	52	22
Less share of post tax profits from associates and joint ventures	-	-	(14)	(5)	(19)	-	(19)
Operating exceptional items	(74)	-	(41)	-	(115)	-	(115)
Profit on disposal of property, plant and equipment	-	-	6	16	22	-	22
Profit on disposal of business	-	-	-	-	-	-	-
Segment result	(6)	2	(151)	13	(142)	52	(90)
Share of post tax profits from associates and joint ventures	-	-	14	5	19	-	19
Segment result after share of post tax profits from associates and joint ventures	(6)	2	(137)	18	(123)	52	(71)

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

Half year to 25 September 2005	UK operations					Principally Europe	Total revenue from continuing operations
	Royal Mail	Parcelforce Worldwide	Post Office Limited	Other businesses	Total	General Logistics Systems	
	£m	£m	£m	£m	£m	£m	£m
External revenue	3,316	148	420	4	3,888	490	4,378
Revenue between segments	52	2	155	-	209	-	209
Segment revenue	3,368	150	575	4	4,097	490	4,587
Analysis of segment result by class of business and geographic area of origin	£m	£m	£m	£m	£m	£m	Total £m
Operating profit before exceptional items	168	(1)	(57)	6	116	43	159
Less share of post tax profits from associates and joint ventures	-	-	(13)	(6)	(19)	-	(19)
Operating exceptional items	(84)	(5)	(10)	-	(99)	-	(99)
Profit on disposal of property, plant and equipment	-	-	1	21	22	-	22
Profit on disposal of business	5	-	-	-	5	-	5
Segment result	89	(6)	(79)	21	25	43	68
Share of post tax profits from associates and joint ventures	-	-	13	6	19	-	19
Segment result after share of post tax profits from associates and joint ventures	89	(6)	(66)	27	44	43	87

Royal Mail Holdings plc

Notes to the Unaudited Interim Report (continued)

4 Segmental information (continued)

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

Year to 26 March 2006	UK operations					Principally Europe	Total revenue from continuing operations £m
	Royal Mail £m	Parcelforce Worldwide £m	Post Office Limited £m	Other businesses £m	Total £m	General Logistics Systems £m	
External revenue	6,859	314	838	8	8,019	1,037	9,056
Revenue between segments	107	5	336	-	448	-	448
Segment revenue	6,966	319	1,174	8	8,467	1,037	9,504
Analysis of segment result by class of business and geographic area of origin	£m	£m	£m	£m	£m	£m	Total £m
Operating profit before exceptional items	344	5	(111)	17	255	100	355
Less share of post tax profits from associates and joint ventures	(1)	-	(19)	(12)	(32)	-	(32)
Operating exceptional items	(152)	(2)	(56)	-	(210)	-	(210)
Profit on disposal of property, plant and equipment	-	-	8	53	61	-	61
Profit on disposal of business	6	-	-	-	6	-	6
Segment result	197	3	(178)	58	80	100	180
Share of post tax profits from associates and joint ventures	1	-	19	12	32	-	32
Segment result after share of post tax profits from associates and joint ventures	198	3	(159)	70	112	100	212

Profits on disposal of properties managed by our Group Property unit are no longer allocated across Royal Mail (£53m) and Parcelforce Worldwide (£nil) and are now disclosed within the 'Other businesses segment'.

5 Operating exceptional items

	24 September 2006 £m	25 September 2005 £m	26 March 2006 £m
Share in Success	-	(38)	(91)
Redundancy	(96)	(53)	(75)
Impairment of property, plant and equipment	(4)	(8)	(17)
Impairment of intangible assets	(15)	-	(15)
Impairment of goodwill relating to associates	-	-	(9)
Impairment of property categorised as non-current assets held for sale	-	-	(3)
Total	(115)	(99)	(210)

Royal Mail Holdings plc

Notes to the Unaudited Interim Report (continued)

6 Finance costs

	24 September 2006 £m	25 September 2005 £m	26 March 2006 £m
Interest payable on DTI borrowings	25	23	48
Other interest payable	3	2	4
Total	28	25	52

7 Finance income

	24 September 2006 £m	25 September 2005 £m	26 March 2006 £m
Investment income	26	25	51
Net pensions interest	99	49	101
Total	125	74	152

8 Taxation

The overall taxation charge in the income statement is calculated by applying the forecast effective tax rates to the reported interim profit after adjusting for exceptional items, and profit after tax on joint ventures and associates.

	24 September 2006 £m	25 September 2005 £m	26 March 2006 £m
Current income tax			
Current UK income tax charge	38	11	21
Foreign tax	13	13	25
Adjustments in respect of current income tax of previous years	-	-	(10)
Deferred income tax			
Relating to origination and reversal of temporary differences	(38)	21	(119)
Income tax expense/(credit) reported in the consolidated income statement	13	45	(83)

Royal Mail Holdings plc

Notes to the Unaudited Interim Report (continued)

9 Total equity

	Retained earnings £m	Mails Contribution Reserve £m	Mails Reserve £m	Rural Network Reserve £m	Foreign Currency Translation Reserve £m	Hedging Reserve £m	Other Reserves £m	Share Premium £m	Equity holder of the parent £m	Minority interest £m	Total equity £m
At 27 March 2006	(4,270)	-	836	28	8	-	55	-	(3,343)	4	(3,339)
Profit for the period	13	-	-	-	-	-	-	-	13	-	13
Share issue	-	-	-	-	-	-	-	145	145	-	145
Allocation to Mails Contribution Reserve	(145)	145	-	-	-	-	-	-	-	-	-
Transfer from Mails Contribution Reserve	145	(145)	-	-	-	-	-	-	-	-	-
Actuarial losses on defined benefit schemes	(1,069)	-	-	-	-	-	-	-	(1,069)	-	(1,069)
Taxation on items taken directly to equity	(5)	-	-	-	-	-	-	-	(5)	-	(5)
Transfer from Mails Reserve to Rural Network Reserve	-	-	(75)	75	-	-	-	-	-	-	-
Transfer from Rural Network Reserve	75	-	-	(75)	-	-	-	-	-	-	-
Transfer of interest income	(17)	-	16	1	-	-	-	-	-	-	-
Translation differences	-	-	-	-	(8)	-	-	-	(8)	-	(8)
Net losses on fuel and currency hedges	-	-	-	-	-	(5)	-	-	(5)	-	(5)
Dividend paid to minority interest	-	-	-	-	-	-	-	-	-	(1)	(1)
At 24 September 2006	(5,273)	-	777	29	-	(5)	55	145	(4,272)	3	(4,269)

Share issue & Mails Contribution Reserve

During the period one ordinary share of £1 in the Company was allotted and issued to the Secretary of State for Trade and Industry under section 64(1) of the Postal Services Act 2000 (the Act). Consideration in full of £145m was received on the same day. A share premium of £144,999,999 resulted from this subscription.

Following a direction issued by the Secretary of State under section 72 of the Act, the Company, upon receipt of the £145m consideration, created the Mails Contribution Reserve and allocated to it a sum of £145m. Under the direction issued, the Company then immediately transferred funds of £145m from the Mails Contribution Reserve to Royal Mail Group plc, a wholly owned subsidiary of the Company.

Under the terms of an agreement, the funds transferred have been applied by Royal Mail Group plc as reimbursement in full of £145m that had been advanced to Post Office Limited. Post Office Limited is a wholly owned subsidiary of Royal Mail Group plc.

Mails Reserve & Rural Network Reserve

The Mails Reserve was created by Royal Mail Group plc on 3 February 2003, following directions issued by the Secretary of State for Trade and Industry under section 72 of the Act. The amounts allocated to the Reserve are to be applied as if they were profits available for distribution. The purposes for which the Mails Reserve may be utilised are stated in the directions issued, and principally relate to providing financial assistance to Post Office Limited. Financial assistance of £1,121m has been provided from this Reserve to Post Office Limited up to the beginning of the current financial year.

The Rural Network Reserve was created by Post Office Limited, following directions issued by the Secretary of State for Trade and Industry under section 72 of the Act. The amounts allocated to the Reserve are to be applied as if they were profits available for distribution. The purposes for which the Rural Network Reserve may be utilised are stated in the directions issued, and, principally relate to the maintenance of a rural network of post offices. A total of £444m has been used from this Reserve towards the maintenance of a rural network between March 2003 and the beginning of the current financial year.

Royal Mail Holdings plc

Notes to the Unaudited Interim Report (continued)

Following directions issued by the Secretary of State under section 72 of the Act, Royal Mail Group plc transferred funds of £75m from the Mails Reserve to Post Office Limited during the period and, upon receipt, Post Office Limited allocated these funds to the Rural Network Reserve. During the period £75m of the Rural Network Reserve was applied towards the maintenance of a rural network of Post Offices.

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

Other Reserves

Other Reserves of £55m comprise £2m unrealised gain on First Rate Exchange Services Holdings Limited, a joint venture transaction, and £46m and £7m relating to unrealised gains on Midasgrange Limited and G3 Worldwide Mail N.V., respectively, both associate transactions.

10 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 26 March 2006 and those at 27 March 2006 have been extracted from the Annual Report and Accounts 2006, which have been filed with the Registrar of Companies. The audit report on the Annual Report and Accounts 2006 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
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EC1V 9HQ
020 7250 2888
Registered No: 4074919

Corporate website

Additional corporate and other information can be accessed on the following website (www.royalmailgroup.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.

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