



15th December 2006

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Condition 7 Notification: Implementation of Payment Holidays

Dear Derek

In accordance with Condition 7(3) of Royal Mail's licence, I am writing to formally notify you of changes to Royal Mail's Credit Policy, which will take effect from 15th March 2007.

Royal Mail Group will be introducing the ability for all customers (retail and Wholesale) to take two payment holidays a year, each of 30 days. A payment holiday can be described as a period of time during which any invoices which fall due, do not require payment to be made until the day after the 30 day payment holiday ends. Invoices falling under this arrangement will be charged interest at prevailing market rates. A worked example is contained within Annex A for clarity.

The first date a payment holiday will commence will be three months from the date of this letter.

These amendments are being made in response to customer demand and follow a positive assessment of the impact of these changes on our internal processes.

A copy of this letter has been sent to Postwatch, and a copy will be published on our website within 4 working days. Royal Mail will publish a copy of the credit policy with this revision over the coming months.

Cont...

Yours sincerely,

A handwritten signature in black ink that reads "M Waples". The signature is written in a cursive style with a large, stylized initial 'M'.

Mark Waples
Regulation & Commercial Policy Manager

Annex A

Example: Assume a customer wants a payment holiday for the period 1 March 2007 to 30 March 2007. Based on a BoE base rate of 5%, interest would be charged at 7%.

The following invoices due for payment in this period.

1. Invoice dated 29 January 2007 for £1m due to be paid on 1 March 2007. This will now be paid on 31 March 2007 (30 days holiday for £1m invoice)
2. Invoice dated 5 February 2007 for £1.2m due to be paid on 8 March 2007. This will now be paid on 31 March 2007 (23 days holiday for £1.2m invoice)
3. Invoice dated 12 February 2007 for £800k due to be paid on 15 March 2007. This will now be paid on 31 March 2007 (16 days holiday for £800k invoice)
4. Invoice dated 19 February 2007 for £1.4m due to be paid on 22 March 2007. This will now be paid on 31 March 2007 (9 days holiday for £1.4m invoice)
5. Invoice dated 26 February 2007 for £1.6m due to be paid on 29 March 2007. This will now be paid on 31 March 2007 (2 days holiday for £1.6m invoice)
6. Invoice dated 5 March 2007 for £1.8m due to be paid on 5 April 2007. This will be paid **as due** on 5 April 2007. (No holiday, as the holiday period is expired)

We will then calculate the interest due for holidays taken in respect of invoices 1-5. For the above example, using the current rate of 7% the interest charge will be

Invoice 1: £5,753-42
Invoice 2: £5,293-15
Invoice 3: £2,454-79
Invoice 4: £2,416-44
Invoice 5: £ 613-99

Total interest due and payable on 31 March £16,531-79.