

Royal Mail Holdings plc
IFRS Preliminary Financial Statements

Royal Mail Holdings plc

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Restatement of financial information under International Financial Reporting Standards (IFRS)

Introduction

The Royal Mail Holdings plc (Royal Mail) financial year ends on the last Sunday in March.

In previous years, the accounts have been prepared under UK Generally Accepted Accounting Principles (UK GAAP). From the accounting year 2005-06 Royal Mail will produce its consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

This document explains how the Group's previously reported financial performance and position are reported under IFRS. This 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 income statement, statement of recognised income and expense (SORIE) and cash flow statement for the year ended 27 March 2005, and balance sheet at 27 March 2005;
- The Group's balance sheet at 28 March 2005 reflecting the adoption of IAS32 and IAS39 for the 2005-06 financial year; and
- The Group's income statement, SORIE and cash flow statement for the period ended 26 September 2004, and balance sheet at 26 September 2004.

The information has been prepared on the basis of IFRS's expected to be applicable at 26 March 2006. IFRS's 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. The financial statements will be updated and restated as necessary for any such changes should they occur.

Basis of preparation

The restated financial statements of the Group have been prepared in accordance with IFRS that had been issued and adopted by the EU at that date and use the historic cost convention with the exception of derivative financial instruments that have been measured at fair value.

The rules for first time adoption of IFRS are set out in IFRS 1 'First Time Adoption of International Financial Reporting Standards'. IFRS 1 requires an entity to comply with each IFRS effective at the reporting date for its first full set of IFRS financial statements. As a general principle IFRS 1 requires the standards effective at the reporting date to be applied retrospectively. However, retrospective application is prohibited in some areas, particularly where retrospective application would require judgements by management after the outcome of the particular transaction is already known. In addition a number of limited optional exemptions from full retrospective application of IFRS are granted where the cost of compliance is deemed to exceed the benefits to users of the financial statements. Where applicable, the options selected by management are set out in the notes below.

The effect on the Group's reported results at 27 March 2005 is to reduce profit before taxation from £207m to £167m.

The significant changes as a result of the adoption of IFRS are detailed below:

Balance sheet reclassifications

To aid comparability the UK GAAP format has been reconfigured into the IFRS format as far as possible from the available, previously published information. The balance sheet reclassifications required by IFRS are as follows:

- i) IAS 1 requires intangible assets to be separated from goodwill on the balance sheet. £107m was reclassified from intangible assets to goodwill at March 2004 (March 2005 £129m);
- ii) At March 2004 long-term debtors previously included within trade and other receivables in current assets under UK GAAP of £14m are included within non current assets under IFRS (March 2005 £14m);
- iii) A deferred tax asset of £nil at March 2004 (March 2005 £16m) was also included within trade and other receivables in current assets under UK GAAP and is now disclosed separately within non current assets under IFRS;
- iv) At March 2004 trade and other payables under UK GAAP include £10m (March 2005 £nil) and £53m (March 2005 £375m) for income tax payable and bank loans respectively. These figures are disclosed separately as current liabilities under IFRS;
- v) IFRS requires provisions expected to be settled within one year of the balance sheet date to be shown within current liabilities. This has resulted in a reclassification of £408m at March 2004 (March 2005 £124m) from non current liabilities;
- vi) Deferred tax liabilities at March 2004 are also included in provisions under UK GAAP and £96m (March 2005 £94m) is shown separately as a non current liability under IFRS;
- vii) Interest bearing loans under UK GAAP are included in "other payables" at March 2004. These are disclosed separately under IFRS and £507m (March 2005 £506m) has been reclassified within non current liabilities; and

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Restatement of financial information under International Financial Reporting Standards (IFRS) (continued)

- viii) Assets and liabilities of foreign operations are translated at the rate of exchange ruling at the balance sheet date. Income statements of foreign operations are translated at the average rate of exchange for the reporting period. The post tax exchange differences arising on the translation, since the date of transition to IFRS, are taken directly to a separate component of equity. There is no reclassification required at March 2004 as the Group has elected not to apply IAS 21 retrospectively. The effect at March 2005 is £8m.

IAS 19 --- Employee benefits

IAS 19 requires separate recognition of the operating and financing costs of defined benefit pension schemes, together with other employee benefits, in the income statement. The standard permits a number of options for the recognition of actuarial gains and losses. Royal Mail has adopted the IFRS 1 transitional exemption and recognised the full actuarial pension deficit at the date of transition. The business will then recognise any actuarial gains and losses immediately in the SORIE. The option to account for actuarial gains and losses in this way is part of an amendment to IAS 19 'Actuarial Gains and Losses, Group Plans and Disclosures'. This amendment is effective from 1 January 2006 with earlier adoption allowed.

The impact of the standard on the balance sheet at the date of transition is to recognise a pension liability of some £4.4 billion at 29 March 2004 and a liability of £4.0 billion at 27 March 2005. Additionally, pension prepayments of £770m (2005 £834m) have been derecognised.

The impact of the standard on operating profits before exceptional items for the year ended 27 March 2005 is a reduction of £98m with an increase to interest and other financial income of £59m.

Under UK GAAP, Royal Mail did not accrue for annual leave not taken at the half year or year ends. Under IAS 19 Royal Mail is required to accrue for all short-term accumulating compensated absences such as holiday entitlement earned but not taken at the balance sheet date. The impact of IAS 19 on Royal Mail's transitional balance sheet is to recognise an annual leave accrual of £40m at 29 March 2004. There is also a charge of £2m to the March 2005 income statement reflecting the increase in the accrual at the year end.

IFRS 3 --- Business combinations, IAS 36 Impairment of assets and IAS 38 Intangible assets

IFRS 3 prohibits merger accounting and the amortisation of goodwill. The standard requires goodwill to be carried at cost with impairment reviews both annually and also when there are indications that the carrying value may not be recoverable.

As permitted in IFRS 1, Royal Mail has chosen to apply IFRS 3 prospectively from the date of transition and has chosen not to restate previous business combinations. Therefore, goodwill is stated in the transitional balance sheet at its UK GAAP carrying value of £107m with subsequent amortisation in the year to 27 March 2005 being reversed. The increase in operating profit from reversing goodwill amortisation is £11m for the year to 27 March 2005.

Under IFRS 3, the identification of assets and liabilities within acquired businesses will include intangible assets not previously recognised under UK GAAP. The principal intangible assets that will be recognised separately from goodwill on an acquisition will be customer contracts and relationships. These intangible assets will be valued for each acquisition after 29 March 2004 and will be amortised over their estimated economic lives.

The principle acquisitions in 2004-05 were DGE Firenze, DGE Vicenza and GLS Poland. The value of the customer contract and customer relationships for these businesses amounted to £6m, with economic lives of 2 to 4 years. In addition, Romec Limited previously a joint venture, and NDC 2000 Limited, previously an associate, became subsidiaries of the Group. Neither the Romec Limited nor NDC 2000 Limited acquisitions resulted in the identification of any intangible assets.

IAS 12 --- Income taxes

IAS 12 requires entities to calculate deferred tax based on temporary differences, as opposed to timing differences under UK GAAP. Temporary differences are defined as the difference between the carrying value of assets and liabilities and their tax base. The standard requires deferred tax assets and liabilities to be disclosed separately on the Group balance sheet.

Whilst the adoption of IAS 12 does not itself result in any restatement of the Group's tax charge, the deferred tax has been reassessed taking into account other accounting adjustments arising from the transition to IFRS. The deferred tax liability at the transition date in March 2004 was reduced from £96m to £1m due to the derecognition of the pension prepayment and the recognition of a defined benefit pension liability. Similarly, in the balance sheet at March 2005 an additional £318m of deferred income tax asset and a reduction in deferred tax liability of £89m is recognised.

IAS 7 --- Cash flow statements

Under UK GAAP the cash flow statement focuses on movements in cash with details of these movements under seven headings. Under IAS 7, the focus is widened to cash and cash equivalents and details are classified under three headings - operational, investing and financing. The transition does not alter Royal Mail's cash flow but the presentation of information on the cash flow statement changes. £316m and £450m of investments in March 2004 and March 2005 respectively, are now classified as cash equivalents. These are now reconciled within the cash flow statement rather than being disclosed under the heading of "management of liquid resources" under UK GAAP. The Group continues to produce its cash flow statement using the indirect method.

SIC 15 --- Operating leases - Incentives

This interpretation requires that all incentives for the agreement of a new or renewed operating lease should be recognised at the commencement of the lease, rather than from the date when the lease will first be used. Lessees must recognise the aggregate benefit of incentives as a reduction of rental expense over the lease term, on a straight line basis.

Royal Mail has recognised lease incentives of £8m at the date of transition at March 2004. This has been amortised by £1m during 2004-05 leaving a balance of £7m on the balance sheet at 27 March 2005.

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IAS 32 and 39 Financial instruments

The requirements of IFRS are different to UK GAAP in a number of areas. The changes that impact Royal Mail relate to hedging instruments and investments. Royal Mail has taken advantage of the exemption not to adopt IAS 32 and 39 until the 2005-06 financial year.

Hedging instruments

Under IAS 39, all derivatives are recognised at fair value with the corresponding entry booked to the hedging reserve in equity for those instruments that meet the requirement for hedge accounting. Derivative instruments of £9m assets and £1m liabilities have been recognised at fair value at 28 March 2005.

Under UK GAAP, foreign exchange gains and losses on an unsettled hedge programme were carried in the balance sheet. On introducing IAS 32 and 39 at 28 March 2005 losses amounting to £11m, have been written off against profit and loss reserves.

Investments

Under UK GAAP investments are held at cost less provision for any permanent impairment. Under IFRS, investments are initially recognised at fair value. The impact at 28 March 2005 is to recategorise the £691m investments on the balance sheet as £134m of "Held for trading investments" and £557m of "Held to maturity investments".

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Group balance sheet at 29 March 2004

	UK GAAP £m	Reclass £m	Income Tax & Pensions IAS 12 & 19 £m	Holiday Pay IAS 19 £m	Cash Equiv IAS 7 £m	Lease Incentives SIC 15 £m	IFRS £m
Non current assets							
Property, plant and equipment	1,550						1,550
Goodwill		107					107
Intangible assets	123	(107)					16
Financial assets/Investments	138						138
Other receivables	-	14					14
	1,811	14	-	-	-	-	1,825
Current assets							
Inventories	32						32
Trade and other receivables	1,955	(14)	(770)				1,171
Financial assets/Investments	999				(316)		683
Cash and cash equivalents	1,049				316		1,365
	4,035	(14)	(770)	-	-	-	3,251
Non-current assets held for sale							
Total assets	5,846	-	(770)	-	-	-	5,076
Current liabilities							
Trade and other payables	(2,590)	63		(40)		(1)	(2,568)
Income tax payable	-	(10)					(10)
Financial liabilities - bank overdrafts and loans	-	(53)					(53)
Short-term provisions	-	(408)					(408)
	(2,590)	(408)	-	(40)	-	(1)	(3,039)
Non current liabilities							
Financial liabilities - interest bearing loans and borrowings	-	(507)					(507)
Retirement benefit obligation	-		(4,394)				(4,394)
Long-term provisions	(575)	504					(71)
Deferred tax liabilities	-	(96)	95				(1)
Other payables	(543)	507				(7)	(43)
	(1,118)	408	(4,299)	-	-	(7)	(5,016)
Total liabilities	(3,708)	-	(4,299)	(40)	-	(8)	(8,055)
Net assets/(liabilities)	2,138	-	(5,069)	(40)	-	(8)	(2,979)
Equity							
Retained earnings	999		(5,069)	(40)		(8)	(4,118)
Hedging reserve	-						-
Foreign currency translation	-						-
Other reserves*	1,139						1,139
Equity attributable to equity holder of parent company	2,138	-	(5,069)	(40)	-	(8)	(2,979)
Minority interest	-	-	-	-	-	-	-
Total equity	2,138	-	(5,069)	(40)	-	(8)	(2,979)

*The other reserves comprise Mails reserve £765m, Rural Network reserve £311m and Other £63m.

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Group income statement for the year ended 27 March 2005

	UK GAAP £m	Income Tax & Pensions IAS 12 & 19 £m	Goodwill IFRS 3 £m	Associates/JV's IFRS 3/ IAS 28/31 £m	Holiday Pay IAS 19 £m	Lease Incentives SIC 15 £m	IFRS £m
Revenue	8,956						8,956
People costs	(5,038)	(98)			(2)		(5,138)
Wages and salaries	(4,328)				(2)		(4,330)
Pensions	(391)	(98)					(489)
Social security	(319)						(319)
Distribution and conveyance costs	(879)						(879)
Other operating costs	(2,674)		8			1	(2,665)
Share of profit from associates and joint ventures	34		3	(9)			28
Operating profit before exceptional items	399	(98)	11	(9)	(2)	1	302
Operating exceptional items	(277)						(277)
Operating profit	122	(98)	11	(9)	(2)	1	25
Loss on disposal of subsidiary undertaking	(3)						(3)
Profit on disposal of property, plant and equipment	70						70
Profit before financing and taxation	189	(98)	11	(9)	(2)	1	92
Finance costs	(42)						(42)
Finance income	60	59		(2)			117
Profit before taxation	207	(39)	11	(11)	(2)	1	167
Taxation	28	(55)		11			(16)
Profit for the period	235	(94)	11	-	(2)	1	151
Profit attributable to:							
Equity holder of the parent company	235	(94)	11	-	(2)	1	151
Minority interest	-	-	-	-	-	-	-

Group statement of recognised income and expense for the year ended 27 March 2005

	Previously Reported under UK GAAP £m	Income Tax & Pensions IAS 12 & 19 £m	Goodwill IAS 38 £m	Holiday Pay IAS 19 £m	Lease Incentives SIC 15 £m	Restated under IFRS £m
Profit for the period	235	(94)	11	(2)	1	151
Translation differences on foreign currency net investments	8					8
Actuarial gains and losses on defined benefit schemes		410				410
Taxation on items taken directly to equity		367				367
Total recognised income and expense for the period	243	683	11	(2)	1	936
Attributable to:						
Equity holder of the parent company						932
Minority interest						4

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Group balance sheet at 27 March 2005

	UK GAAP £m	Reclass £m	Income Tax & Pensions IAS 12 & 19 £m	Goodwill IFRS 3 £m	Intangible Assets IAS 38 £m	Holiday Pay IAS 19 £m	Cash Equiv IAS 7 £m	Lease Incentives SIC 15 £m	IFRS £m
Non current assets									
Property, plant and equipment	1,591								1,591
Goodwill	-	129		8	(6)				131
Intangible assets	144	(129)			6				21
Financial assets/investments	135			3					138
Other receivables	-	14							14
Deferred tax asset	-	16	318						334
	1,870	30	318	11	-	-	-	-	2,229
Current assets									
Inventories	27								27
Trade and other receivables	1,955	(30)	(834)						1,091
Financial assets/investments	1,141						(450)		691
Cash and cash equivalents	890						450		1,340
	4,013	(30)	(834)	-	-	-	-	-	3,149
Non-current assets held for sale	-	-	-	-	-	-	-	-	-
Total assets	5,883	-	(516)	11	-	-	-	-	5,378
Current liabilities									
Trade and other payables	(2,684)	375				(42)		(1)	(2,352)
Financial liabilities - bank overdrafts and loans	-	(375)							(375)
Short-term provisions	-	(124)							(124)
	(2,684)	(124)	-	-	-	(42)	-	(1)	(2,851)
Non current liabilities									
Financial liabilities - interest bearing loans and borrowings	-	(506)							(506)
Retirement benefit obligation	-		(3,958)						(3,958)
Long-term provisions	(266)	218							(48)
Deferred tax liabilities		(94)	89						(5)
Other payables	(548)	506						(6)	(48)
	(814)	124	(3,869)	-	-	-	-	(6)	(4,565)
Total liabilities	(3,498)	-	(3,869)	-	-	(42)	-	(7)	(7,416)
Net assets/(liabilities)	2,385	-	(4,385)	11	-	(42)	-	(7)	(2,038)
Equity									
Retained earnings	1,346	(8)	(4,385)	11		(42)		(7)	(3,085)
Hedging reserve	-								-
Foreign currency translation	-	8							8
Other reserves*	1,035								1,035
Equity attributable to equity holder of parent company	2,381	-	(4,385)	11	-	(42)	-	(7)	(2,042)
Minority interest	4	-	-	-	-	-	-	-	4
Total equity	2,385	-	(4,385)	11	-	(42)	-	(7)	(2,038)

*The other reserves comprise Mails reserve £801m, Rural Network reserve £171m and Other £63m.

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Group cash flow statement for the year ended 27 March 2005

	UK GAAP £m	Cash flow statements IAS 7 £m	Income Tax & Pensions IAS 12 & 19 £m	Goodwill IFRS 3 £m	Associates /JVs IAS 28/31 £m	Holiday Pay IAS 19 £m	Lease Incentives SIC 15 £m	IFRS restated £m
Cash flow from operating activities								
Operating profit before exceptional items*	399		(98)	11	(9)	(2)	1	302
Depreciation and amortisation	156			(8)				148
Other non-cash movements (profits from associates and joint ventures)	(34)			(3)	9			(28)
	521	-	(98)	-	-	(2)	1	422
Changes in working capital	(486)		98			2	(1)	(387)
Cash payments in respect of exceptional items	(255)							(255)
Cash utilised in operations	(220)	-	-	-	-	-	-	(220)
Income tax recovered	13							13
Net cash outflow from operating activities	(207)	-	-	-	-	-	-	(207)
Cash flows from investing activities								
Proceeds from sale of property, plant and equipment	95							95
Dividends received from associates and joint ventures	19							19
Investment income (interest) received	52							52
Purchase of property, plant and equipment	(219)							(219)
Payment of deferred consideration in respect of prior years' acquisitions	(2)							(2)
Purchase of other financial assets	(142)	134						(8)
Net cash outflow from investing activities	(197)	134	-	-	-	-	-	(63)
Net cash outflow before financing activities	(404)	134	-	-	-	-	-	(270)
Cash flows from financing activities								
Payment of finance lease liabilities	(34)							(34)
Repayment of borrowings	(4)							(4)
Finance costs (interest) paid	(42)							(42)
New loans	325							325
Net cash inflow from financing activities	245	-	-	-	-	-	-	245
Net decrease in cash and cash equivalents	(159)	134						(25)
Cash and cash equivalents at the beginning of the period**	1,049	316						1,365
Cash and cash equivalents at the end of the period	890	450	-	-	-	-	-	1,340

*The operating profit before exceptional items of £399m is after taking account of £34m profits from associates and joint ventures. This compares to a published operating profit of £365m under UK GAAP, which was before taking account of the £34m profits from associates and joint ventures.

**The cash and cash equivalents under UK GAAP are defined as cash whereas, under IFRS, cash and cash equivalents includes investments with a maturity date of less than three months at the date of acquisition and money market funds in line with the revised accounting policy. The adjustment of £450m reflects the reclassification of the appropriate short-term investments as cash equivalents.

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Group balance sheet at 28 March 2005

	IFRS £m	IAS 32 & IAS 39 £m	Opening balance sheet £m
Non current assets			
Property, plant and equipment	1,591		1,591
Goodwill	131		131
Intangible assets	21		21
Financial assets/Investments	138		138
Other receivables	14		14
Deferred tax asset	334		334
	2,229	-	2,229
Current assets			
Inventories	27		27
Trade and other receivables	1,091	(11)	1,080
Financial assets/Investments	691	(691)	-
Held for trading investments	-	134	134
Held to maturity investment	-	557	557
Cash and cash equivalents	1,340		1,340
Derivatives	-	9	9
	3,149	(2)	3,147
Non-current assets held for sale	-	-	-
Total assets	5,378	(2)	5,376
Current liabilities			
Trade and other payables	(2,352)		(2,352)
Financial liabilities - bank overdrafts and loans	(375)		(375)
Short-term provisions	(124)		(124)
Derivatives	-	(1)	(1)
	(2,851)	(1)	(2,852)
Non current liabilities			
Financial liabilities - interest bearing loans and borrowings	(506)		(506)
Retirement benefit obligation	(3,958)		(3,958)
Long-term provisions	(48)		(48)
Deferred tax liabilities	(5)		(5)
Other payables	(48)		(48)
	(4,565)	-	(4,565)
Total liabilities	(7,416)	(1)	(7,417)
Net liabilities	(2,038)	(3)	(2,041)
Equity			
Profit and loss account	(3,085)	(11)	(3,096)
Hedging reserve	-	8	8
Foreign exchange reserve	8		8
Other reserves*	1,035		1,035
Equity attributable to equity holder of parent company	(2,042)	(3)	(2,045)
Minority interest	4	-	4
Total equity	(2,038)	(3)	(2,041)

* The other reserves comprise Mails reserve £801m, Rural Network reserve £171m and Other £63m.

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Group income statement for the half year ended 26 September 2004

	UK GAAP £m	Income Tax & Pensions IAS 12 & 19 £m	Goodwill IFRS 3 £m	Associates/ JV's IAS 28/31 £m	Holiday Pay IAS 19 £m	IFRS £m
Revenue	4,327					4,327
People costs	(2,465)	(46)			33	(2,478)
Wages and salaries	(2,119)				33	(2,086)
Pensions	(191)	(46)				(237)
Social security	(155)					(155)
Distribution and conveyance costs	(400)					(400)
Other operating costs	(1,335)		5			(1,330)
Share of profit from associates and joint ventures	21		2	(10)		13
Operating profit before exceptional items	148	(46)	7	(10)	33	132
Operating exceptional items	(115)					(115)
Operating profit	33	(46)	7	(10)	33	17
Loss on disposal of subsidiary undertaking	-					-
Profit on disposal of property, plant and equipment	16					16
Profit before financing and taxation	49	(46)	7	(10)	33	33
Finance costs	(20)					(20)
Finance income	26	29				55
Profit before taxation	55	(17)	7	(10)	33	68
Taxation	(2)	(19)		10		(11)
Profit retained for the period	53	(36)	7	-	33	57
Profit attributable to:						
Equity holder of the parent company	53	(36)	7	-	33	57
Minority interest	-					-

Group statement of recognised income and expense for the half year ended 26 September 2004

	Previously Reported under UK GAAP £m	Income Tax & Pensions IAS 12 & 19 £m	Goodwill IAS 38 £m	Associates/ JV's IAS 28/31 £m	Holiday Pay IAS 19 £m	Restated under IFRS £m
Profit for the period	53	(36)	7	-	33	57
Translation differences on foreign currency net investments						-
Actuarial gains and losses on defined benefit schemes		59				59
Taxation on items taken directly to equity		12				12
Total recognised income and expense for the period	53	35	7	-	33	128
Attributable to:						
Equity holder of the parent company						128
Minority interest						-

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Group balance sheet at 26 September 2004

	UK GAAP £m	Reclass £m	Income Tax & Pensions IAS 12 & 19 £m	Goodwill IFRS 3 £m	Intangible Assets IAS 38 £m	Holiday Pay IAS 19 £m	Cash Equiv IAS 7 £m	Lease Incentives SIC 15 £m	IFRS £m
Non current assets									
Property, plant and equipment	1,552								1,552
Goodwill	-	109		7	(1)				115
Intangible assets	123	(109)			1				15
Financial assets/investments	135								135
Other receivables	-	18							18
	1,810	18	-	7	-	-	-	-	1,835
Current assets									
Inventories	32								32
Trade and other receivables	1,659	(18)	(718)						923
Financial assets/investments	1,019						(326)		693
Cash and cash equivalents	968						326		1,294
	3,678	(18)	(718)	-	-	-	-	-	2,942
Non-current assets held for sale									
	-								-
Total assets	5,488	-	(718)	7	-	-	-	-	4,777
Current liabilities									
Trade and other payables	(2,410)	168				(7)		(8)	(2,257)
Income tax payable	-	(18)							(18)
Financial liabilities - bank - overdrafts and loans	-	(150)							(150)
Short-term provisions	-	(195)							(195)
	(2,410)	(195)	-	-	-	(7)	-	(8)	(2,620)
Non current liabilities									
Financial liabilities - interest bearing loans and borrowings	-	(509)							(509)
Retirement benefit obligation	-		(4,402)						(4,402)
Long-term provisions	(338)	284							(54)
Deferred tax liabilities	-	(89)	88						(1)
Other payables	(549)	509							(40)
	(887)	195	(4,314)	-	-	-	-	-	(5,006)
Total liabilities	(3,297)	-	(4,314)	-	-	(7)	-	(8)	(7,626)
Net assets/(liabilities)	2,191	-	(5,032)	7	-	(7)	-	(8)	(2,849)
Equity									
Retained earnings	1,103		(5,032)	7		(7)		(8)	(3,937)
Hedging reserve	-								-
Foreign currency translation	-								-
Other reserves*	1,088								1,088
Equity attributable to equity holder of parent company	2,191	-	(5,032)	7	-	(7)	-	(8)	(2,849)
Minority interest	-	-	-	-	-	-	-	-	-
Total equity	2,191	-	(5,032)	7	-	(7)	-	(8)	(2,849)

*The other reserves comprise Mails reserve £782m, Rural Network reserve £243m and Other £63m.

Royal Mail Holdings plc

Group cash flow statement for the year ended 26 September 2004

	UK GAAP £m	Cash flow statements IAS7 £m	Income Tax & Pensions IAS 12 & 19 £m	Goodwill IAS 38 £m	Associates /JVs IAS 28/31 £m	Holiday Pay IAS 19 £m	IFRS restated £m
Cash flow from operating activities							
Operating profit before exceptional items*	148		(46)	7	(10)	33	132
Depreciation and amortisation	75			(5)			70
Other non-cash movements (profits from associates and joint ventures)	(21)			(2)	10		(13)
	202	-	(46)	-	-	33	189
Changes in working capital	(100)		46			(33)	(87)
Cash payments in respect of exceptional items	(214)						(214)
Cash utilised in operations	(112)	-	-	-	-	-	(112)
Income tax recovered	8						8
Net cash outflow from operating activities	(104)	-	-	-	-	-	(104)
Cash flows from investing activities							
Proceeds from sale of property, plant and equipment	23						23
Dividends received from associates and joint ventures	14						14
Investment income (interest) received	26						26
Purchase of property, plant and equipment	(78)						(78)
Disposal of subsidiary undertaking	(3)						(3)
Purchase of other financial assets	(20)	10					(10)
Net cash outflow from investing activities	(38)	10	-	-	-	-	(28)
Net cash outflow before financing activities	(142)	10	-	-	-	-	(132)
Cash flows from financing activities							
Payment of finance lease liabilities	(17)						(17)
Repayment of borrowings	(3)						(3)
Finance costs (interest) paid	(21)						(21)
New loans	102						102
Net cash inflow from financing activities	61	-	-	-	-	-	61
Net decrease in cash and cash equivalents	(81)	10					(71)
Cash and cash equivalents at the beginning of the period**	1,049	316					1,365
Cash and cash equivalents at the end of the period	968	326	-	-	-	-	1,294

*The operating profit before exceptional items of £148m is after taking account of £21m profits from associates and joint ventures. This compares to a published operating profit of £365m under UK GAAP, which was before taking account of the £21m profits from associates and joint ventures.

**The cash and cash equivalents under UK GAAP are defined as cash whereas, under IFRS, cash and cash equivalents includes investments with a maturity date of less than three months at the date of acquisition and money market funds in line with the revised accounting policy. The adjustment of £326m reflects the reclassification of the appropriate short-term investments as cash equivalents.

Royal Mail Holdings plc

Accounting policies

The adoption of IFRS has resulted in changes to the Group's accounting policies. The amended accounting policies are:

Basis of accounting

The restated financial statements of the Royal Mail Holdings plc (the Company) have been prepared in accordance with International Financial Reporting Standards (IFRS) as set out in the Introduction and Basis of Preparation on page 3.

Royal Mail Group plc is exposed to the risk of being fined by its industry regulator and of being required to pay compensation to certain customers, as a result of failing to meet operational targets set by the Regulator in the Company's licence. The amount of such fines and compensation will be determined by the Regulator after further representations from the Company and no further information is being disclosed on the grounds that it can be expected to prejudice the outcome of that process.

Basis of consolidation

The consolidated financial statements comprise the accounts of Royal Mail Holdings plc and its subsidiary undertakings. The financial statements of subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies.

All intragroup balances and transactions, including unrealised profits arising from intragroup transactions have been eliminated in full.

Subsidiaries are consolidated from the date on which control is obtained by the Group and cease to be consolidated from the date on which control is no longer held by the Group. Where there is a loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting year during which the Company has control.

Investments in associates and joint ventures

The Group's investments in its associates and joint ventures are accounted for under the equity method of accounting. Under the equity method, the investment is carried in the balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associate/joint venture, less any impairment in value. The income statement reflects the Group's share of the results of operations of the associate/joint venture.

The reporting dates and accounting policies of associates and joint ventures are consistent with those of the Group.

Revenue

Revenue comprises monies receivable directly from customers as adjusted for an assessment of prepaid stamps and meter sales still in the hands of the public. Revenue excludes VAT.

Operating profit

Operating profit is the profit arising from the ordinary, normal, recurring operations of the business. This incorporates, revenue, people costs, operating costs including distribution and delivery and Royal Mail's share of profits from associates and joint ventures. Operating exceptional items are separately identified.

Operating exceptional items

Operating exceptional items are unusual, abnormal or infrequent items of income or expenditure. They are derived from events or transactions that fall within ordinary activities and which individually or, if of a similar type, in aggregate, need to be disclosed by virtue of their size or incidence, separately in the financial statements.

Goodwill

Goodwill arising from acquisitions is measured at cost, being the excess of the fair value of consideration over the fair value of the separately identifiable net assets acquired. In accordance with IFRS 3, goodwill is not amortised.

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. An impairment loss is recognised for the amount by which the carrying value of the asset exceeds its recoverable amount, which is the higher of an asset's net realisable value and its value in use.

Goodwill is allocated to cash generating units for the purpose of impairment testing.

In calculating the profit or loss on disposal of a subsidiary, associate or jointly controlled entity, the carrying amount of goodwill relating to the entity disposed of is included with the relevant net assets.

Intangible assets

Intangible assets acquired separately are capitalised at cost. Intangible assets acquired as part of a business acquisition are capitalised separately from goodwill if the fair value can be measured reliably on initial recognition. Useful lives of intangible assets are assessed to be either finite or indefinite. Amortisation on intangible assets with finite lives is taken annually to the income statement. Intangible assets with indefinite useful lives are reviewed annually for impairment. An impairment loss is recognised for the amount by which the carrying value of the asset exceeds its recoverable amount, which is the higher of an asset's net realisable value and its value in use.

Intangible assets, excluding development costs, created within the business are not capitalised and expenditure is charged against profits in the year in which the expenditure is incurred.

Royal Mail Holdings plc

Accounting policies (continued)

Property, plant and equipment

Property, plant and equipment is recognised at cost, including attributable costs in bringing the asset into working condition for its intended use.

Depreciation of property, plant and equipment is provided on a straight-line basis by reference to original cost and to the remaining useful economic lives of assets and their estimated residual values. The useful lives and residual values are reviewed annually and adjustments, where applicable, are made on a prospective basis. The lives assigned to major categories of property, plant and equipment and remaining lives are:

	Average remaining lives	Range of asset lives
Land and buildings:		
Freehold land	Not depreciated	Not depreciated
Freehold buildings	14 years	Up to 50 years
Leasehold land and buildings	9 years	The shorter of the period of the lease, 50 years or the estimated remaining useful life
Plant and machinery	5 years	3-15 years
Motor vehicles and trailers	3 years	1-12 years
Fixtures and equipment	2 years	2-15 years

Impairment reviews of property, plant and equipment are performed where there is an indication of impairment as defined by IAS 36 Impairment of assets.

Property that the Company has identified as surplus is available for sale. When authority to market property categorised in this manner has been approved and the property is vacant and therefore available for immediate occupation, the property is transferred in line with IFRS 5 into a separate category on the balance sheet. Such properties are expected primarily to generate economic cash flow by sale of the asset rather than by operational activities.

Leases

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to the ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases and rentals are charged to the profit and loss account over the lease term. The aggregate benefit of incentives are recognised as a reduction of rental expenses over the lease term on a straight-line basis.

Inventories

Inventories are valued at the lower of cost and net realisable value. Inventory include uniforms, bicycles and stationery, and in the case of Counter Services also include retail stocks.

Trade and other receivables

Trade receivables are recognised and carried at original invoice amount less an allowance for any non-collectable amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity date of three months or less. In addition the Group use Money Market funds as a readily available source of cash, which are bought and sold on a daily basis to meet the cash requirements of the business. These funds are also categorised as cash equivalents.

For the purpose of the cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of bank overdrafts.

Investments

The Group has followed the transitional provisions of IFRS 1 to adopt IAS 32 and IAS 39 from 28 March 2005. All investments are initially recognised at cost, being the fair value of the consideration given and, except for investments classified as held for trading, include acquisition charges associated with the investment.

After initial recognition, investments, which are classified as held for trading, are measured at fair value. Gains or losses on investments held for trading are recognised in the income statement.

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity when the Group has the positive intention and ability to hold to maturity. Held to maturity financial assets are carried at

Royal Mail Holdings plc

Accounting policies (continued)

amortised cost. Prior to 28 March 2005, the Group held such investments at historic cost less any provision for impairment, except government gilt-edged securities, which were stated at market value and will now be categorised as held for trading.

Income tax and deferred tax

The charge for current taxation is based on the results for the year as adjusted for items that are non-assessable or disallowed. It is calculated using rates that have been enacted or substantively enacted at the balance sheet date.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- Initial recognition of goodwill;
- The initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction affects neither the accounting profit nor taxable profit or loss; and
- Taxable temporary differences associated with investments in subsidiaries, associates and interest in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Other than stated below, deferred tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carry-forward of unused tax assets, and unused tax losses can be utilised. Deferred tax assets are not recognised in respect of:

- Deductible temporary differences arising from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor the taxable profit or loss; and
- Deductible temporary differences associated with investments in subsidiaries, associates and interest in joint ventures, except to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary difference will be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and increased or reduced to the extent that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the tax asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax balances are not discounted.

Deferred income

Royal Mail reflects an adjustment to revenue received for which a service has not yet been provided as a liability on the balance sheet. The liability is referred to as SITHOP/MITHOP (stamps / meter credits in the hands of the public. The methodology to calculate the liability takes account of private stamp holdings, business stamp holdings, retail stamp sales, discount wholesale stamp sales and meter credit. The liability is calculated monthly taking the previous month's statistical results into account.

Supplier payment policy

It is Royal Mail policy to use its purchasing power fairly. Payment terms are agreed in advance for all major contracts. For lower value transactions, standard payment terms included on the purchase order apply. It is Royal Mail policy to make payments within 45 days of receiving a valid invoice. Royal Mail has sought to comply with the DTI's Better Payment Practice Code, which replaced the CBI Prompt Payment Code.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Pensions and other post-retirement benefits

Membership of occupational pension schemes is open to most permanent UK employees of the Group. All members of defined benefit schemes are contracted out of the earnings-related part of the State pension scheme. Overseas subsidiaries make separate arrangements for the provision of pensions and other post-retirement benefits.

Pension scheme assets are measured at fair value, and liabilities are measured on an actuarial basis using the projected unit credit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities. Full actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The resulting defined benefit asset or liability is presented separately on the face of the balance sheet.

For defined benefit schemes the amounts charged to operating profit are the current service costs and any gains and losses on settlements and curtailments. They are included as part of staff costs. Past service costs are charged to operating profit

Royal Mail Holdings plc

Accounting policies (continued)

immediately if benefits have vested. If the benefits have not vested immediately, the costs are recognised by equal annual instalments over the period until vesting occurs. The interest costs and the expected return on assets are included as other finance income. Actuarial gains and losses net of deferred tax are recognised immediately in the statement of recognised income and expense.

The assets of the schemes are held in separate trustee administered funds.

The Group's contributions to defined contribution plans are charged to the profit and loss account in the period to which the contributions relate.

Research and development

Expenditure on research is written off in the year it is incurred. Development expenditure incurred on an individual project may be carried forward if its future recoverability can reasonably be regarded as assured. The costs will then be amortised over their useful economic lives. Any impairment losses are written off immediately to income.

Foreign currencies

The functional and presentational currency of Royal Mail Holdings plc is sterling (£). The functional currency of the overseas subsidiaries in Europe is mainly the euro.

Transactions in foreign currencies are recorded at the rates of exchange prevailing at the dates of the individual transactions.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

The assets and liabilities of foreign operations are translated at the rate of exchange ruling at the balance sheet date. The profit and loss accounts of foreign operations are translated at the average rates of exchange for the reporting period. The post tax exchange differences arising on the translation, since the date of transition to IFRS, are taken directly to a separate component of equity.

Derivative financial instruments

The Group uses derivative instruments such as foreign currency contracts in order to manage the risk profile of any underlying risk exposure of the Group in line with the Group's treasury management policies. Such derivative financial instruments are initially stated at fair value.

For the purpose of hedge accounting, hedges are classified as either fair value hedges when they hedge the exposure to changes in the fair value of a recognised asset or liability; or cash flow hedges where they hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a forecasted transaction.

In relation to cash flow hedges (forward foreign currency contracts) to hedge firm commitments that meet the conditions for special hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity and the ineffective portion is recognised in net profit or loss.

When the hedged firm commitment results in the recognition of a non financial asset or non financial liability, then, at the time the asset or liability is recognised, the associated gains or losses that had previously been recognised in equity are included in the initial measurement of the acquisition cost or other carrying amount of the asset or liability. For all other cash flow hedges, the gains or losses that are recognised in equity are transferred to the income statement in the same year in which the hedged firm commitment affects the net profit and loss, for example when the future sale actually occurs.

For derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in fair value are taken directly to the income statement in the period.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point in time, any cumulative gain or loss on the hedging instrument recognised in equity is kept in equity until the forecast transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the income statement for the year.

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable issue costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Gains and losses are recognised in net profit or loss when the liabilities are derecognised, as well as through the amortisation process.

Segmental information

The Group discloses segmental results as required by IAS 14. The Group's primary reporting format is by business segments and its secondary format is by geographical segments. The operating segments are organised and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves largely different markets.

Royal Mail Holdings plc

Accounting policies (continued)

Royal Mail is the Group's letters business and delivers letters to all addresses in the United Kingdom. Royal Mail offers a number of products to both business and domestic users.

Parcelforce Worldwide is the parcels business unit operating within the UK.

Post Office Limited is a limited company responsible for the 'High Street' Post Office 'counters' branches offering a series of retail services to its customers.

General Logistic Services is the European parcels business which delivers parcels in 34 countries throughout the World but primarily in Europe.

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

Royal Mail Holdings plc

Audit opinion for the year ended 27 March 2005

Independent auditors' report to the group on the preliminary IFRS financial statements for the year ended 27 March 2005

We have audited the accompanying preliminary International Financial Reporting Standards ("IFRS") financial statements of the Group for the year ended 27 March 2005 which comprise the opening IFRS Balance Sheet as at 29 March 2004, the Income Statement, Cash Flow Statement and the Statement of Recognised Income and Expense for the year ended 27 March 2005 and the Balance Sheet as at 27 March 2005.

This report is made solely to the Group in accordance with our engagement letter dated 8 April 2005. Our audit work has been undertaken so that we might state to the Group those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility or liability to anyone other than the Group for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

These preliminary IFRS financial statements are the responsibility of the Group's directors and have been prepared as part of the Group's conversion to IFRS. They have been prepared in accordance with the basis set out in the 'Basis of Preparation' note on page 3 to the preliminary IFRS financial statements, which describes how IFRS have been applied under IFRS 1, including the assumptions management has made about the standards and interpretations expected to be effective, and the policies expected to be adopted, when management prepares its first complete set of IFRS financial statements as at 26 March 2006.

Our responsibility is to express an independent opinion on the preliminary IFRS financial statements based on our audit. We read the other information accompanying the preliminary IFRS financial statements and consider whether it is consistent with the preliminary IFRS financial statements. This other information comprises the description of significant changes in accounting policies on pages 3 to 5 and 14 to 18. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the preliminary opening balance sheet. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the preliminary IFRS financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the preliminary IFRS financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the preliminary IFRS financial statements. We believe that our audit provides a reasonable basis for our opinion.

Emphasis of matter

Without qualifying our opinion, we draw attention to the fact that the Introduction on page 3 explains why there is a possibility that the preliminary IFRS financial statements may require adjustment before constituting the final IFRS financial statements. Moreover, we draw attention to the fact that, under IFRSs only a complete set of financial statements with comparative financial information and explanatory notes can provide a fair presentation of the Group's financial position, results of operations and cash flows in accordance with IFRSs.

Opinion

In our opinion, the preliminary IFRS financial statements for the year ended 27 March 2005 have been prepared, in all material respects, in accordance with the basis set out in the Basis of Preparation, which describes how IFRS have been applied under IFRS 1, including the assumptions management has made about the standards and interpretations expected to be effective, and the policies expected to be adopted, when management prepares its first complete set of IFRS financial statements as at 26 March 2006.

Ernst & Young LLP

London

17 November 2005

Royal Mail Holdings plc

Audit opinion for the balance sheet as at 28 March 2005

Independent auditors report to the group on the preliminary opening IFRS balance sheet as at 28 March 2005

We have audited the accompanying preliminary opening IFRS balance sheet of Royal Mail Holdings PLC as at 28 March 2005 ("the opening IFRS balance sheet") and the related accounting policies note set out on pages 3 to 5 and 14 to 18.

This report is made solely to the Group in accordance with our engagement letter dated 8 April 2005. Our audit work has been undertaken so that we might state to the Group those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility or liability to anyone other than the Group for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

This preliminary opening IFRS balance sheet the responsibility of the Group's directors and have been prepared as part of the Group's conversion to IFRS. It has been prepared in accordance with the basis set out in the 'Basis of Preparation' note on page 3 to the preliminary IFRS financial statements, which describes how IFRS have been applied under IFRS 1, including the assumptions management has made about the standards and interpretations expected to be effective, and the policies expected to be adopted, when management prepares its first complete set of IFRS financial statements as at 26 March 2006.

Our responsibility is to express an independent opinion on the preliminary opening IFRS balance sheet based on our audit. We read the other information accompanying the preliminary opening IFRS balance sheet and consider whether it is consistent with the preliminary opening IFRS balance sheet. This other information comprises the description of significant changes in accounting policies on pages 3 to 5 and 14 to 18. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the preliminary opening IFRS balance sheet. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the preliminary opening IFRS balance sheet is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the preliminary opening IFRS balance sheet. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the preliminary opening IFRS balance sheet. We believe that our audit provides a reasonable basis for our opinion.

Emphasis of matter

Without qualifying our opinion, we draw attention to the fact that the Introduction on page 3 explains why there is a possibility that the preliminary opening IFRS balance sheet may require adjustment before constituting the final opening IFRS balance sheet. Moreover, we draw attention to the fact that, under IFRSs only a complete set of financial statements with comparative financial information and explanatory notes can provide a fair presentation of the Group's financial position, results of operations and cash flows in accordance with IFRSs.

Opinion

In our opinion, the preliminary opening IFRS balance sheet has been prepared, in all material respects, in accordance with the basis set out in the Basis of Preparation which describes how IFRS have been applied under IFRS 1, including the assumptions management has made about the standards and interpretations expected to be effective, and the policies expected to be adopted, when management prepares its first complete set of IFRS financial statements as at 26 March 2006.

Ernst & Young LLP

London

17 November 2005

Royal Mail Holdings plc

Review opinion for the half year ended 26 September 2004

Independent review report to Royal Mail Holdings plc on the preliminary interim IFRS financial information for the six months ended 26 September 2004

We have been instructed by the company to review the preliminary consolidated interim financial information of Royal Mail Holdings PLC ("the Company") and its subsidiaries (together the Group) for the six months ended 26 September 2004 which comprises the consolidated IFRS income statement, consolidated IFRS balance sheet, consolidated IFRS cash flow statement and the consolidated IFRS statements of recognised income and expense, together with related accounting policies.

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 law, we do not accept or assume responsibility to anyone other than the Company, for our work, or for the conclusions we have formed.

Directors' responsibilities

The preliminary interim IFRS financial information is the responsibility of the Company's directors and has been prepared as part of the Company's conversion to IFRS. It has been prepared in accordance with the basis of preparation on page 3, which describes how IFRS has been applied under IFRS 1, *First-time Adoption of International Financial Reporting Standards*, including the assumptions management has made about the standards and interpretations expected to be effective, and the policies expected to be adopted, when management prepares its first complete set of IFRS financial statements as at 26 March 2006.

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 United Kingdom Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the preliminary interim IFRS financial information.

Emphasis of matter

Without qualifying our opinion, we draw attention to the fact that the Introduction on page 3 note explains why there is a possibility that the preliminary IFRS financial statements may require adjustment before constituting the final interim IFRS financial statements. Moreover, we draw attention to the fact that, under IFRS only a complete set of financial statements with comparative financial information and explanatory notes can present a fair presentation of the Company's financial position, results of operations and cash flows in accordance with IFRS.

Review conclusion

On the basis of our review we are not aware of any material modification that should be made to the financial information as presented for the six months ended 26 September 2004.

Ernst & Young LLP

London

17 November 2005