

Statutory Notification: proposed USP accounting condition

NOTIFICATION OF PROPOSALS TO IMPOSE A REGULATORY CONDITION IN ACCORDANCE WITH SECTION 53 OF, AND PARAGRAPH 3 OF SCHEDULE 6 TO, THE POSTAL SERVICES ACT 2011

BACKGROUND

A. On 23 March 2001, the Postal Services Commission (“**Postcomm**”) granted to Royal Mail a licence (the “**Licence**”) under section 11 of the Postal Services Act 2000. The Licence included Conditions imposing obligations on Royal Mail obligations relating to financial reporting.

B. On 13 June 2011, the Postal Services Act 2011 received Royal Assent, which Act makes provision (among other things) about the new regulation of postal services. The new regulatory regime is set out in Part 3 of the Act, which Part came into force on 1 October 2011 and on which day the regulatory responsibility was also transferred from Postcomm to Ofcom. The provisions of the Act also give effect to Directive 2008/6/EC of the European Parliament and of the Council of 20 February 2008, which amends Directive 97/67/EC with regard to the full accomplishment of the internal market of Community postal services.

C. On 29 September 2011, following a consultation, Ofcom published a statement entitled ‘*Postal regulation: Transition to the new regulatory framework*’¹ (the “**September Statement**”) setting out various decisions, including the provisional designation of Royal Mail as universal service provider with effect from 1 October 2011 under paragraph 3(1) of Schedule 9 to the Postal Services Act 2011 (see Annex 1 to that Statement). Ofcom also imposed various regulatory conditions and directions in accordance with the transitional provisions under section 66 of, and paragraphs 4 to 6 of Schedule 9 to, the Act, including conditions relating to financial reporting to carry forward corresponding conditions in the Licence (see Annex 2 to the September Statement).

D. On 20 October 2011, following a previous consultation by Postcomm², Ofcom published a consultation document entitled ‘*Securing the Universal Postal Service – Proposals for the future framework for economic regulation*’ (the “**October Consultation**”). The closing date for responses to that consultation is 5 January 2012 and it includes proposals for new regulatory financial reporting requirements (see, in particular, Sections 8 and 9 of, and Annex 6 to, the October Consultation). Whilst that consultation set out details of those proposed requirements, it explains that Ofcom would further consult on the proposed USP accounting condition under section 39 of the Act, together with any associated legal instruments, which would give effect to our policy proposals set out in the October Consultation.

¹ <http://stakeholders.ofcom.org.uk/binaries/consultations/postal-regulation/statement/statement.pdf>

² See document entitled ‘*The building blocks for a sustainable postal service – Initial proposals for regulatory safeguards*’, April 2011, Postcomm.

PROPOSAL

1. Ofcom hereby proposes, in accordance with section 53 of, and paragraph 3 of Schedule 6 to, the Act and pursuant to powers in section 39 of the Act, to impose on Royal Mail a USP accounting condition to make provision for matters set out in that section 39, such as accounting separation, rules about the identification of costs etc.
2. The proposed USP accounting condition is specified in the Schedule hereto.
3. The effect of, and Ofcom's reasons for making, this proposal are set out in the October Consultation as well as in the accompanying consultation document.

OFCOM'S DUTIES AND LEGAL TESTS

4. Ofcom is satisfied that this proposal satisfies the general test in paragraph 1 of Schedule 6 to the Act.
5. In making this proposal, Ofcom has considered and acted in accordance with its principal duty in section 29 of the Act and its general duties in section 3 of the Communications Act 2003.

MAKING REPRESENTATIONS

6. Representations may be made to Ofcom about the proposal set out in this Notification by no later than **31 January 2012**.
7. Copies of this Notification and the accompanying consultation document have been sent to the Secretary of State in accordance with paragraph 5(1)(a) of Schedule 6 to the Act.
8. By virtue of paragraph 3(5) of Schedule 6 to the Act, Ofcom may give effect, with or without modifications, to a proposal with respect to which it has published a notification only if Ofcom has—
 - (a) considered every representation about the proposal that is made to Ofcom within the period specified in this Notification; and
 - (b) had regard to every international obligation of the United Kingdom (if any) which has been notified to Ofcom for this purpose by the Secretary of State.

INTERPRETATION

9. Except insofar as the context otherwise requires, words or expressions shall have the meaning assigned to them in this Notification and otherwise any word or expression shall have the same meaning as it has been ascribed for the purpose of Part 3 of the Act.
10. In this Notification—
 - (a) “**Act**” means the Postal Services Act 2011 (c.5);
 - (b) “**October Consultation**” has the meaning given to it in recital (D) above;
 - (c) “**Ofcom**” means the Office of Communications; and

(d) “**Royal Mail**” means Royal Mail Group Ltd, whose registered company number in England and Wales is 04138203.

11. For the purpose of interpreting this Notification—

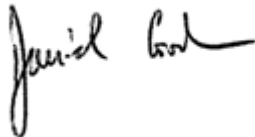
(a) headings and titles shall be disregarded;

(b) expressions cognate with those referred to in this Notification shall be construed accordingly;

(c) the Interpretation Act 1978 (c. 30) shall apply as if this Notification were an Act of Parliament.

12. The Schedule to this Notification shall form part of this Notification.

Signed by **Daniel Gordon**

A handwritten signature in black ink, appearing to read "Daniel Gordon". The signature is written in a cursive style with a long, sweeping underline.

Competition Policy Director

A person duly authorised by Ofcom under paragraph 18 of the Schedule to the Office of Communications Act 2002

13 December 2011

SCHEDULE

USP ACCOUNTING CONDITION

PART 1: APPLICATION, DEFINITIONS AND INTERPRETATION

1. The USP accounting condition in Part 2 of this Schedule shall apply to Royal Mail as the universal service provider designated by Ofcom.
2. In this Schedule—
 - (a) “**Accounting Methodology Manual**” means the documentation of all the Regulatory Accounting Methodology used by Royal Mail to comply with obligations imposed by or under this Condition, in particular the requirements in the Regulatory Accounting Guidelines, except for the National Costing Methodology and Zonal Costing Methodology which are both documented in the Costing Manual;
 - (b) “**Act**” means the Postal Services Act 2011 (c.5);
 - (c) “**consolidated**” means the combination of the accounts of persons corporate and unincorporate that make up the Relevant Group, applying the same methodologies used for consolidating the consolidated accounts of RMH plc;
 - (d) “**Costing Manual**” means the document containing Royal Mail’s detailed description of the National Costing Methodology and the Zonal Costing Methodology and identifying all sources of data, and all supporting empirical data used for assumptions, used in these Methodologies;
 - (e) “**EBIT**” means ‘Earnings Before Interest and Tax’, namely revenue less all the costs of products and services provided before the deduction of interest and tax, also referred to as operating (loss) or profit;
 - (f) “**Financial Month**” means each month comprised in the Financial Year;
 - (g) “**Financial Quarter**” means each period of three consecutive months comprised in the Financial Year, the first quarterly period of which begins with the first month of the Financial Year;
 - (h) “**Financial Year**” means any period of twelve consecutive months for which the annual statutory financial statements of RMH plc are prepared, the first twelve month period of which begins on 26 March 2012;
 - (i) “**Four FREs**” has the meaning given to it in **paragraph 22** of the Condition;
 - (j) “**Guiding Principles**” has the meaning given to it in **paragraph 44** of the Condition;
 - (k) “**Inward Mail Centre**” means the activities in a mail centre related to the processes of final sorting and delivering of mail received from the outward part of the Royal Mail network to the final addresses. The outward part of Royal Mail’s network consists of the processes related to collection and distribution of mail;

- (l) **“National Costing Methodology”** means the rules, procedures, methods, algorithms, assumptions and other processes used by Royal Mail for the purpose of assigning the costs of the Reported Business, which it incurs in the conduct of its business, without geographic differentiation in the United Kingdom to the products it provides in the course of that business, wherever those rules, procedures, methods, algorithms, assumptions and other processes may be set out;
- (m) **“non-Mails”** means all of the products and/or services provided by the Reported Business that do not fall within the meaning of “postal services” given by section 27 of the Act, which products and/or services Ofcom may direct from time to time (in the Regulatory Accounting Guidelines or otherwise) to be treated as ‘non-Mails’ for the purpose of matters relating to this Condition;
- (n) **“non-USO”** means all of the products and/or services provided by the Reported Business that are not part of USO products and/or services;
- (o) **“Ofcom”** means the Office of Communications;
- (p) **“PAF”** means Postal Address File, a database of all valid UK postal addresses and their postcodes, and the services provided by Royal Mail in relation to that database;
- (q) **“POL”** means Post Office Limited, whose registered company number in England and Wales is 02154540, and any of its subsidiary or associated undertakings;
- (r) **“Postal Services Directive”** means Directive 97/67/EC of the European Parliament and of the Council on common rules for the development for the development of the internal market of Community postal services and the improvement of quality of service, as amended by Directive 2008/6/EC of the European Parliament and of the Council on amending Directive 97/67/EC with regard to the full accomplishment of the internal market of Community postal services;
- (s) **“Qualified Independent Auditor”** means a person who is eligible for appointment as a statutory auditor under Part 42 of the Companies Act 2006 and, if the appointment were an appointment as a statutory auditor, would not be prohibited from acting by section 1214 of that Act (independence requirement);
- (t) **“Regulatory Accounting Guidelines”** mean the document so entitled and published by Ofcom (as amended from time to time) setting out such requirements as Ofcom may direct from time to time relating to the preparation, auditing, reporting and publication, of regulatory financial statements and other regulatory financial reports to be prepared and maintained by Royal Mail under this Condition, including the preparation of income statements, balance sheet statements and cash flow statements, cash flow projection statements and other information;
- (u) **“Regulatory Accounting Methodology”** means the rules, policies, procedures, methods, models (including tables, matrices, mappings, lists of accounts, codes and cost structures), calculations, algorithms,

concepts, assumptions (including a description of any evidence underlying such assumptions) and any other processes, used by Royal Mail for the purpose of preparing regulatory financial statements and other regulatory financial reports;

- (v) **“Relay”** means Royal Mail Relay, a contract-only service that provides a scheduled collection and delivery of urgent, or time-sensitive items to and from an agreed set of locations;
- (w) **“Relevant Group”** means Royal Mail, and all persons corporate and unincorporate included in the statutory consolidated accounts of RMH plc, excluding RMH plc itself and POL;
- (x) **“Reported Business”** means all the activities and products and/or services, the costing of which is covered by the Costing Manual published by Royal Mail dated December 2011;
- (y) **“RMH plc”** means Royal Mail Holdings plc, whose registered company number in England and Wales is 04074919;
- (z) **“Royal Mail”** means Royal Mail Group Limited, whose registered company number in England and Wales is 04138203;
- (aa) **“Strategic Business Plan”** means Royal Mail’s business plan setting out its performance and vision for the activities undertaken by the Relevant Group over at least the next five years including a forecast of revenue, operating expenditure, capital expenditure, expectations of change in the postal market, details of future planned initiatives (e.g. projects to improve efficiency) and Royal Mail’s view on appropriate quality of service targets;
- (bb) **“USO”** means products and/or services provided by Royal Mail for the purpose of complying with its universal service obligations imposed by any designated USP condition;
- (cc) **“Zonal Costing Methodology”** means the rules, procedures, methods, algorithms, assumptions and other processes used by Royal Mail for the purpose of assigning the costs of the Reported Business, which it incurs in the conduct of its business, to the products for which it sets geographically differentiated prices, wherever those rules, procedures, methods, algorithms, assumptions and other processes identify cost differentials between specific zones defined by Royal Mail in accordance with its obligations.

3. For the purpose of interpreting this Schedule—
- (a) except in so far as the context otherwise requires, words or expressions shall have the meaning assigned to them in paragraph 2 of this Part above and otherwise any word or expression shall have the same meaning as it has been ascribed for the purpose of Part 3 of the Act;
 - (b) headings and titles shall be disregarded;
 - (c) expressions cognate with those referred to in this Notification shall be construed accordingly;
 - (d) the Interpretation Act 1978 (c. 30) shall apply as if the Condition set out in Part 2 were an Act of Parliament;
 - (e) references to a day are references to a period of twenty-four hours beginning with one midnight and ending with the next, which period shall be treated to include a Saturday, a Sunday, a Bank Holiday, Christmas Day, Good Friday or other public holiday.

PART 2: THE USP ACCOUNTING CONDITION

A. General Obligations

1. Royal Mail shall act in the manner and form required by the obligations imposed by or under this Condition, except in so far as Ofcom may otherwise consent, approve or recommend in writing from time to time.
2. Ofcom may from time to time give such directions as it considers appropriate in relation to Royal Mail—
 - (a) maintaining a separation for accounting purposes between such different matters as Ofcom may direct for such purposes as it may direct, including separation in relation to different services, facilities or products or in relation to services, facilities or products provided in different areas as well as the accounting methods to be used in maintaining the separation;
 - (b) complying with rules made by Ofcom in relation to those matters about the identification of costs and cost orientation, including the application of presumptions in the fixing and determination of costs and charges for any purpose as well as the publication of such accounts and other information relating to anything required to be done by Ofcom in this regard;
 - (c) complying with rules made by Ofcom about the use of cost accounting systems in relation to those matters, including the application of presumptions in the fixing and determination of costs and charges for any purpose as well as the publication of such accounts and other information relating to anything required to be done by Ofcom in this regard;
 - (d) securing that Royal Mail's compliance with those systems is audited annually by a Qualified Independent Auditor, including Royal Mail meeting the costs of the audit; and
 - (e) otherwise in relation to Royal Mail's obligations under this Condition.
3. Royal Mail must comply with any direction given by Ofcom from time to time under this Condition.
4. Except in so far as Ofcom may otherwise consent in writing from time to time, Royal Mail shall keep for a period of six years all the financial statements and information required by or under this Condition.

B. Obligations relating to the Relevant Group

Financial statements and information

5. Royal Mail shall prepare and maintain the following—
 - (a) for each Financial Year, a consolidated income statement for the Relevant Group;
 - (b) for each Financial Year, a consolidated balance sheet statement for the Relevant Group;
 - (c) for each Financial Year, a consolidated cash flow statement for the Relevant Group;
 - (d) for each Financial Quarter, a consolidated cash flow projection statement for the Relevant Group in respect of the next eight Financial Quarters;
 - (e) for each Financial Year, a Strategic Business Plan for the Relevant Group;
 - (f) for each Financial Year, an annual reconciliation of the consolidated income statement, a consolidated balance sheet statement and a consolidated cash flow statement for the Relevant Group with the consolidated accounts of RMH plc.

Manner and form

6. Royal Mail shall prepare the financial statements and information required under **paragraph 5** of this Condition applying the accounting standards and methodologies used in the statutory consolidated accounts of RMH plc, and using the pro-forma corresponding to the statement or information in question prescribed by Ofcom in the Regulatory Accounting Guidelines or otherwise as Ofcom may direct from time to time.
7. Royal Mail shall prepare and maintain the financial statements and information required under **paragraph 5** of this Condition in accordance with such additional requirements prescribed by Ofcom in the Regulatory Accounting Guidelines or otherwise as Ofcom may direct from time to time.

Auditing

8. Royal Mail shall secure an appropriate audit opinion by a Qualified Independent Auditor in respect of each of the financial statements and information required under **paragraph 5(a), (b), (c) and (f)** of this Condition, on the basis as directed by Ofcom from time to time.
9. Royal Mail shall select and appoint the Qualified Independent Auditor for the purpose of **paragraph 8** upon Ofcom giving its approval to the appointment and the terms of the engagement.
10. Royal Mail shall remunerate the Qualified Independent Auditor and meet the costs of the audit.

Publication and delivery

11. Royal Mail shall publish each of the financial statements and information required under **paragraph 5(a), (b), (c) and (f)** of this Condition by placing a copy of the statements and information on any relevant website operated or controlled by Royal Mail within 120 days after the end of the Financial Year for which the statement has been prepared.
12. In addition, Royal Mail shall send a copy of a financial statement and information required under **paragraph 5(a), (b) and (c)** of this Condition to any person at that person's written request. The provision of such a copy may be subject to a reasonable charge. For the avoidance of doubt, Royal Mail is not required to send any requested statement and information before the corresponding date of publication prescribed by **paragraph 11** of this Condition.
13. Royal Mail shall deliver to Ofcom—
 - (a) the financial statement and information required under **paragraph 5(d)** of this Condition,
 - (i) in relation to the first Financial Quarter of the first Financial Year, by 25 March 2012;
 - (ii) in relation to each subsequent Financial Quarter, before the commencement of the Financial Quarter to which it relates; and
 - (b) the financial statement and information required under **paragraph 5(e)** of this Condition,
 - (i) in relation to the first Financial Year, by 23 June 2012;
 - (ii) in relation to each subsequent Financial Year, before the commencement of the Financial Year to which it relates.

C. Obligations relating to the Reported Business

Financial statements and information

14. Royal Mail shall prepare and maintain the following—
- (a) for each Financial Year, an annual income statement (to EBIT only) for the Reported Business as a whole;
 - (b) for each Financial Quarter, a quarterly income statement (to EBIT only) for the Reported Business as a whole;
 - (c) for each Financial Year, a reconciliation of the income statement (to EBIT only) for the Reported Business as a whole in respect of the quarterly information to be provided under **paragraph 14(b)** of this Condition with the annual information to be provided under **paragraph 14(a)** of this Condition, together with explanatory notes where appropriate;
 - (d) for each Financial Year, an annual reconciliation of the income statement (to EBIT only) for the Reported Business as a whole in respect of the annual information to be provided under **paragraph 14(a)** of this Condition with the corresponding equivalent information for the Relevant Group;
 - (e) for each Financial Year, an annual balance sheet statement for the Reported Business as a whole;
 - (f) for each Financial Year, an annual reconciliation of the balance sheet statement for the Reported Business as a whole in respect of the annual information to be provided under **paragraph 14(e)** of this Condition with the corresponding equivalent information for the Relevant Group;
 - (g) for each Financial Year, an annual cash flow sheet statement for the Reported Business as a whole;
 - (h) for each Financial Year, an annual reconciliation of the cash flow sheet statement for the Reported Business as a whole in respect of the annual information to be provided under **paragraph 14(g)** of this Condition with the corresponding equivalent information for the Relevant Group.

Manner and form

15. Royal Mail shall prepare the financial statements and information required under **paragraph 14** of this Condition using the pro formas corresponding to the statement or information in question prescribed by Ofcom in the Regulatory Accounting Guidelines or otherwise as Ofcom may direct from time to time.
16. Royal Mail shall prepare and maintain the financial statements and information required under **paragraph 14** of this Condition in accordance with such additional requirements prescribed by Ofcom in the Regulatory Accounting Guidelines or otherwise as Ofcom may direct from time to time.

Auditing

17. Except for financial statements required under **paragraph 14(b) and (c)** of this Condition, Royal Mail shall secure an appropriate audit opinion by a Qualified Independent Auditor in respect of each of the financial statements required under **paragraph 14** of this Condition, on the basis as directed by Ofcom from time to time.
18. Royal Mail shall select and appoint the Qualified Independent Auditor for the purpose of **paragraph 14** upon Ofcom giving its approval to the appointment and the terms of the engagement.
19. Royal Mail shall remunerate the Qualified Independent Auditor and meet the costs of the audit.

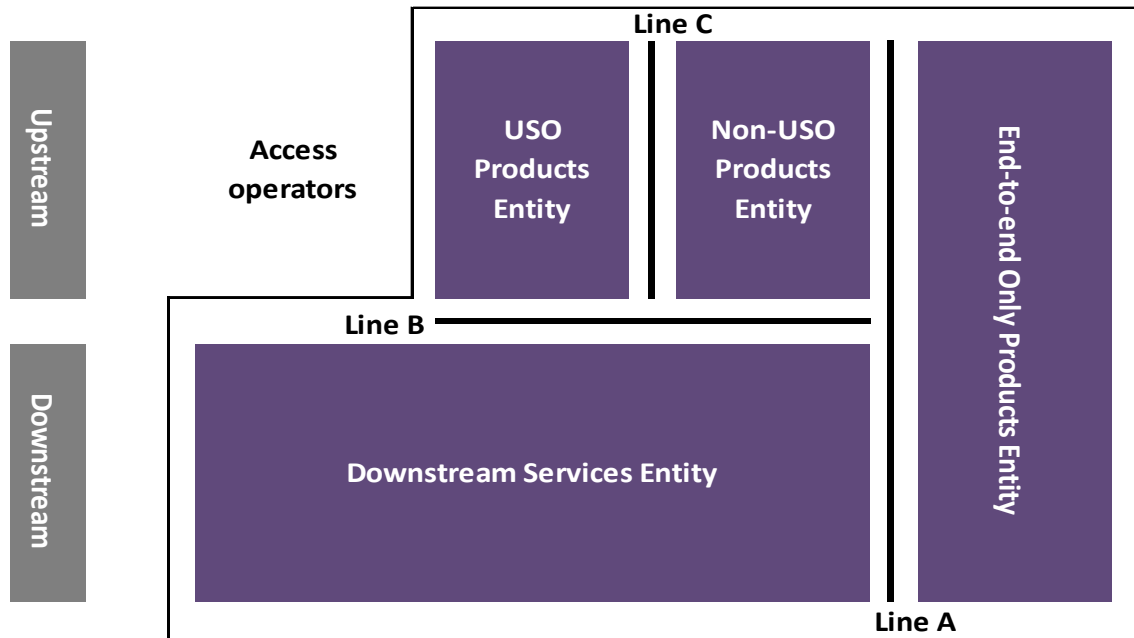
Publication and delivery

20. Royal Mail shall publish each of the financial statements and information required under **paragraph 14** of this Condition by placing a copy of the statements on any relevant website operated or controlled by Royal Mail within—
 - (a) for the statements and information referred to in **paragraph 14(a), (c), (d), (e), (f), (g), and (h)**, 120 days after the end of the Financial Year for which the statement has been prepared;
 - (b) for the statements and information referred to in **paragraph 14(b)**, 90 days after the end of the Financial Quarter for which the statement has been prepared in respect of the Financial Quarter.
21. In addition, Royal Mail shall send a copy of a financial statement and information required under **paragraph 14** of this Condition to any person at that person's written request. The provision of such a copy may be subject to a reasonable charge. For the avoidance of doubt, Royal Mail is not required to send any requested statement and information before the corresponding date of publication prescribed by **paragraph 20** of this Condition.

D. Obligations relating to the separated Reported Business

Separate financial statements and information for the Four FREs

22. Royal Mail must maintain a separation for accounting purposes between the activities of the four financial reporting entities (the “**Four FREs**”) within the Reported Business as represented and defined by the Lines described below—



where—

- (a) **Line A** shows the separation of regulatory financial statements and information for products competing with other operators' products which do not require the benefit of access to Royal Mail's integrated core universal service network to ensure effective competition and the efficient provision of the universal service, from those that do, excluding any USO products.
- (b) **Line B** shows the separation of regulatory financial statements and information for downstream services from upstream services, at the point of entry to the Inward Mail Centre, for those products which are not separated by Line A above.
- (c) **Line C** shows the separation of regulatory financial statements and information for USO products within the upstream services separated by Line B, from non-USO products.
- (d) Ofcom may direct from time to time in the Regulatory Accounting Guidelines or otherwise the products and services which fall into each financial reporting entity.

Financial statements and information

23. Royal Mail shall prepare and maintain for each of the Four FREs the following—
- (a) for each Financial Year, an annual income statement (to EBIT only) for the Reported Business;
 - (b) for each Financial Quarter, a quarterly income statement (to EBIT only) for the Reported Business;
 - (c) for each Financial Year, a reconciliation of the income statement (to EBIT only) for the Reported Business in respect of the quarterly information to be provided under **paragraph 23(b)** of this Condition with the annual information to be provided under **paragraph 23(a)** of this Condition, together with explanatory notes where appropriate;
 - (d) for each Financial Year, an annual extended end to end income statement (to EBIT only) for the Reported Business in respect of USO, non-USO and non-Mails;
 - (e) for each Financial Quarter, a quarterly extended end to end income statement (to EBIT only) for the Reported Business in respect of USO, non-USO and non-Mails;
 - (f) for each Financial Year, an annual balance sheet statement for the Reported Business;
 - (g) for each Financial Year, an annual cash flow sheet statement;
 - (h) for each Financial Year, annual product profitability statements for the Reported Business for products and services as Ofcom may direct from time to time;
 - (i) for each Financial Quarter, quarterly product profitability statements for the Reported Business for products and services as Ofcom may direct from time to time;
 - (j) for each Financial Month, revenue, cost and volume information statements for the Reported Business for products and services as Ofcom may direct from time to time.

Manner and form

24. Royal Mail shall prepare the financial statements and information required under **paragraph 23(a) to (j)** of this Condition by using the pro-forma corresponding to the statement or information in question prescribed by Ofcom in the Regulatory Accounting Guidelines or otherwise as Ofcom may direct from time to time.
25. Royal Mail shall prepare and maintain the financial statements and information required under **paragraph 23** of this Condition in accordance with such additional requirements prescribed by Ofcom in the Regulatory Accounting Guidelines or otherwise as Ofcom may direct from time to time.

Auditing

28. Royal Mail shall secure an appropriate audit opinion by a Qualified Independent Auditor in respect of each of the financial statements required under **paragraph 23(a), (d), (f), (g) and (h)** of this Condition, on the basis directed by Ofcom from time to time.
30. Royal Mail shall select and appoint the Qualified Independent Auditor for the purpose of **paragraph 28** upon Ofcom giving its approval to the appointment and the terms of the engagement.
31. Royal Mail shall remunerate the Qualified Independent Auditor and meet the costs of the audit.

Publication and delivery

32. Royal Mail shall publish each of the financial statements and information required under **paragraph 23(a), (b), (c), (d), (e), (f), (g) and (h)** of this Condition by placing a copy of the statements (or part thereof as specified in this **paragraph 32** below) on any relevant website operated or controlled by Royal Mail within—
 - (a) for the statements and information referred to in **paragraph 23(a), (c), (d), (f) and (g)** of this Condition, 120 days after the end of the Financial Year for which the statement and information have been prepared;
 - (b) for the statements and information referred to in **paragraph 23(b) and (e)**, of this Condition, 90 days after the end of the Financial Quarter for which the statement and information have been prepared in respect of the Financial Quarter;
 - (c) for the statements and information referred to in **paragraph 23(h)** of this Condition for access products, Relay and PAF only as specified in the Regulatory Accounting Guidelines, 120 days after the end of the Financial Year for which the statement and information have been prepared.
33. In addition, Royal Mail shall send a copy of a financial statement and information required under **paragraph 32** of this Condition to any person at that person's written request. The provision of such a copy may be subject to a reasonable charge. For the avoidance of doubt, Royal Mail is not required to send any requested statement and information before the corresponding date of publication prescribed by **paragraph 32** of this Condition.
34. Royal Mail shall deliver to Ofcom each of the financial statements and information required under **paragraph 23(h), (i) and (j)** of this Condition within—
 - (a) for the statements and information referred to in **paragraph 23(h)** of this Condition excluding the information referred to in **paragraph 32(c)** of this Condition, 120 days after the end of the Financial Year for which the statement and information have been prepared;

- (b)** for the statements and information referred to in **paragraph 23(i)** of this Condition, 90 days after the end of the Financial Quarter for which the statement and information have been prepared;
- (c)** for the statements and information referred to in **paragraph 23(j)** of this Condition, 30 days after the end of the Financial Month for which the statement and information have been prepared.

E. Obligations relating to the Costing Manual and the Accounting Methodology Manual

35. Royal Mail shall prepare, maintain and keep up-to-date the Costing Manual and the Accounting Methodology Manual in accordance with such requirements prescribed by Ofcom in the Regulatory Accounting Guidelines or otherwise as Ofcom may direct from time to time.
36. In addition, Royal Mail shall prepare and maintain the following—
 - (a) for each Financial Quarter, a quarterly update of the Costing Manual for the Reported Business;
 - (b) for each Financial Quarter, a quarterly update of the Accounting Methodology Manual.
37. Royal Mail shall notify Ofcom of any material changes made to the information required under **paragraph 36** prior to the change being made. For the purpose of this obligation, a “material change” shall be determined in the same manner as materiality is directed by Ofcom from time to time for the purpose of the Regulatory Accounting Guidelines.
38. Royal Mail shall secure a statement by the Qualified Independent Auditor setting out whether or not Royal Mail has complied with the requirements set out in **paragraph 37**.
39. Royal Mail shall select and appoint the Qualified Independent Auditor for the purpose of **paragraph 38** upon Ofcom giving its approval to the appointment and the terms of the engagement. Royal Mail shall remunerate the Qualified Independent Auditor and meet the costs for that purpose.
40. Royal Mail shall publish—
 - (a) a copy of the Costing Manual prepared with a view to comply with the requirements under this Condition, by no later than 25 March 2012; and
 - (b) a quarterly update of the Costing Manual in accordance with **paragraph 36(a)**, 90 days after the end of the Financial Quarter for which the update in question has been prepared in respect of the Financial Quarter,by placing a copy of the Costing Manual on any relevant website operated or controlled by Royal Mail, excluding any information prescribed as confidential by Ofcom in the Regulatory Accounting Guidelines or otherwise as Ofcom may direct from time to time.
41. In addition, Royal Mail shall send a copy of the information required under **paragraph 40** of this Condition to any person at that person’s written request. The provision of such a copy may be subject to a reasonable charge. For the avoidance of doubt, Royal Mail is not required to send any requested information before the date of publication prescribed by **paragraph 40** of this Condition.
42. Royal Mail shall deliver to Ofcom—

- (a) a copy of the Accounting Methodology Manual prepared with a view to comply with the requirements under this Condition, by no later than 23 June 2012;
- (b) a quarterly update of the Accounting Methodology Manual in accordance with **paragraph 36(b)**, 90 days after the end of the Financial Quarter for which the update in question has been prepared in respect of the Financial Quarter; and
- (c) any information that has been excluded under in paragraph 40 of this Condition—
 - (i) in relation to the copy of the Costing Manual prepared with a view to comply with the requirements under this Condition, by no later than 25 March 2012; and
 - (ii) in relation to each quarterly update of the Costing Manual, 90 days after the end of the Financial Quarter for which the update in question has been prepared in respect of the Financial Quarter.

F. Obligations to comply with the Guiding Principles etc.

43. Royal Mail must ensure that financial statements and information required by or under this Condition comply with the Guiding Principles and such other requirements as Ofcom may direct from time to time (including in the Regulatory Accounting Guidelines). Where it appears to Royal Mail that any of these requirements conflict with each other in a particular case, Royal Mail must secure that the conflict is resolved by—
- (a) where the requirements of any of the Guiding Principles conflict with each other, priority must be given to them in the order in which they are set out in **paragraph 44** of this Condition (starting with compliance with the Guiding Principle concerning completeness, which shall have the highest priority, and so on);
 - (b) where the requirements of any of the Guiding Principles set out in **paragraphs 44(a) to (g)** conflict with other specific requirements as Ofcom may direct from time to time (including in the Regulatory Accounting Guidelines), priority must be given to the latter specific requirements;
 - (c) where the requirement of the Guiding Principle in **paragraph 44(h)** concerning materiality conflict with other specific requirements as Ofcom may direct from time to time (including in the Regulatory Accounting Guidelines), priority must be given to the former (i.e. the Guiding Principle). The only exception to giving such priority to the Guiding Principle in **paragraph 44(h)** is in relation to the identification of material changes for the purpose of complying with the requirements set out in **paragraph 37** of this Condition, in respect of which priority shall be given to other specific requirements as Ofcom may direct from time to time (including in the Regulatory Accounting Guidelines).

Where Royal Mail resolves a conflict in the manner set out above, Royal Mail must include in the affected financial statements and information a statement setting out the nature of the conflict and the manner in which Royal Mail has resolved it.

44. The Guiding Principles are—

(a) **Completeness**, i.e.

Royal Mail must ensure that its Regulatory Accounting Methodology takes into account all the relevant revenues, costs, assets and liabilities of the business activities on which relevant financial statements and information are required by or under this Condition (including the Regulatory Accounting Guidelines).

(b) **Equivalence**, i.e.

Royal Mail must ensure, wherever possible, that transfer prices and/or charges for internal products or services (used for regulatory reporting purposes in relation to requirements by or under this Condition) are determined based on similar products or services provided to external parties, reflecting where appropriate the differences in the following aspects of the internal and external products or services—

- (i) specifications of the above products or services;
- (ii) operational features of, and costs associated with, the production of the above products or the provision of the above services.

(c) Causality, i.e.

Royal Mail must ensure, wherever possible in preparing financial statements and information required by or under this Condition, that—

- (i) revenue (including revenue resulting from transfer charges);
- (ii) costs (including costs resulting from transfer charges);
- (iii) assets;
- (iv) liabilities; and
- (v) cash flows,

are attributed in accordance with the activities which cause the revenues to be earned, or costs to be incurred, or the assets to be acquired, or liabilities to be incurred, or the cash to be earned or spent.

(d) Objectivity, i.e.

Royal Mail must ensure so far as is possible that each element of its Regulatory Accounting Methodology takes account of all the available financial and operational data that is relevant to that element. Where an element of its Regulatory Accounting Methodology is based on assumptions, those assumptions must be justified and supported, so far as is possible, by all available relevant empirical data. The assumptions must not be formulated in a manner which unfairly benefits Royal Mail or any other operator, or creates undue bias towards any part of Royal Mail's business or product.

(e) Accuracy, i.e.

Royal Mail must ensure that its Regulatory Accounting Methodology maintains an adequate degree of accuracy, such that items included in the financial statements and information required by or under this Condition are free from material errors, including any double-counting. Materiality shall be determined in accordance with the Guiding Principle in **paragraph 44(h)** of this Condition below.

(f) Compliance with the statutory accounting standards, i.e.

Royal Mail must ensure that its Regulatory Accounting Methodology complies with the accounting standards applied in Royal Mail's statutory accounts; with the exception of any departures as Ofcom may direct from time to time (including in the Regulatory Accounting Guidelines).

(g) Consistency, i.e.

Royal Mail must ensure so far as is possible that its Regulatory Accounting Methodology is applied consistently with the Guiding Principles to the financial statements and information required by or under this Condition (including the Regulatory Accounting Guidelines). Royal Mail must ensure that any and all differences in application and/or changes from one period to another are justified by reference to the Guiding Principles.

(h) Materiality, i.e.

The principles set out in **paragraph 44(a) to (h)** of this Condition above must be applied to all material items of revenue, costs, assets, liabilities and cash flows, or material changes in those items. A material item of revenue, costs, assets, liabilities or cash flows, or a material change in those items, is one which is reasonably expected to affect the views of a competent user of Royal Mail's regulatory financial statements and information.