

Statutory Notification: proposed Regulatory Accounting Guidelines

NOTIFICATION OF A PROPOSED DIRECTION TO IMPOSE REQUIREMENTS ON ROYAL MAIL UNDER THE PROPOSED USP ACCOUNTING CONDITION IN ACCORDANCE WITH SECTION 53 OF, AND PARAGRAPH 4 OF SCHEDULE 6 TO, THE POSTAL SERVICES ACT 2011

PROPOSAL

1. Ofcom hereby proposes, in accordance with section 53 of, and paragraph 4 of Schedule 6 to, the Act—and pursuant to anticipated powers under the USP accounting condition proposed by Ofcom to be imposed under section 39 of the Act on Royal Mail—to give a direction setting out specific requirements relating to that condition in a document to be known as the Regulatory Accounting Guidelines.
2. The proposed direction is set out 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 4(2) 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.

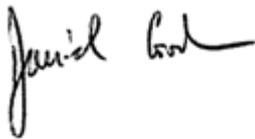
MAKING REPRESENTATIONS

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 4(8) 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.
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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**” means the consultation document entitled ‘*Securing the Universal Postal Service – Proposals for the future framework for economic regulation*’, published by Ofcom on 20 October 2011;
 - (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', written in a cursive style.

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

Proposed Direction under the proposed USP Accounting Condition

Regulatory Accounting Guidelines (RAG)

Issue No. 1

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Section 1: Purpose

1. The USP accounting condition (i.e. the Condition) imposes on Royal Mail as the universal service provider designated by Ofcom various obligations under section 39 of the Postal Services Act 2011. Pursuant to powers in section 53 of (and paragraph 2 of Schedule 6 to) the Act, that Condition also empowers Ofcom from time to time to 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 the Condition.
2. Given the obligation in the Condition for Royal Mail to comply with any direction given by Ofcom from time to time under it, the regulatory requirements in any direction are enforceable via the Condition in accordance with the relevant procedures in the Act.
3. By definition in the Condition, the "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 the Condition, including the preparation of income statements, balance sheet statements and cash flow statements, cash flow projection statements and other information. Additionally to the general direction-making power referred to in **paragraph 1** above, the Condition makes express references to these Guidelines in prescribing specific requirements on Royal Mail imposed by means of a direction, such as those concerning the manner and form in which financial statements and information should be prepared and maintained, etc.
4. Accordingly, Ofcom has directed that the regulatory requirements prescribed in these Guidelines shall apply to Royal Mail under the Condition.

Section 2: Definitions & Interpretation

5. For the purpose of interpreting these Guidelines—
- (a) except in so far as the context otherwise requires, words or expressions shall have the meaning assigned to them in **paragraph 6** and otherwise any word or expression shall have the same meaning as it has been ascribed in and for the purpose of the Condition;
 - (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) subject to sub-**paragraph (f)** below, references to “material”, and cognate expressions, are references to the meaning of materiality as prescribed by the Guiding Principle concerning materiality in **paragraph 44** of the Condition;
 - (f) in relation to the identification of material changes for the purpose of complying with the requirements set out in **paragraph 37** of the Condition, materiality shall be determined as follows—
 - (i) for all items of the Regulatory Accounting Methodology, a change in any item (including revenues, costs, assets, liabilities, and cash flows) in any of the financial statements and information required by or under the Condition shall be deemed to be material if the resultant percentage difference (be it positive or negative) exceeds 3%. The resultant percentage difference shall be calculated by taking the value of the non-compliant item and subtracting from it the value of the same item if calculated under compliant approach (“**Compliance Base Value**”), and then dividing this result by the Compliance Base Value;
 - (ii) for the purposes of the National Costing Methodology and the Zonal Costing Methodology only, a change in any reported item of product, SPHCC, or activity (total or unit) cost shall be deemed to be material if the resultant percentage difference (be it positive or negative) exceeds 1%, unless the change itself is smaller than £0.5 million. The resultant percentage difference shall be calculated by reference to the Compliance Base Value as set out in **sub-paragraph (i)** above;
 - (iii) any determination of materiality under sub-paragraphs (i) and (ii) above shall be measured by reference to the most recent quarterly or annual financial statements and information, as applicable.

6. In these Guidelines, the following words or expressions shall have the meaning assigned to them—

<u>Word or expression</u>	<u>Meaning</u>
“Activity Based Costing”	A costing model used to allocate the costs recorded in the general ledger accounts (using other sources of data where necessary) to products, through an intermediate step of allocating costs to a series of Activities.
“ABC Model”	Activity Based Costing Model, which is the costing model that Royal Mail uses to allocate the costs recorded in its general ledger accounts (using other sources of data where necessary) to its products, through an intermediate step of allocating costs to a series of Activities.
“Activity”	Activities, tasks or work (whether operational or non operational) which are required to be carried out in order to complete a Business Process.
“Activity Cost”	Total costs attributed to an Activity.
“Activity Drivers”	Numeric values which are used to assign Activity Costs to SPHCC’s in accordance with National Costing Rule 9.
“Aggregate Costs”	Has the meaning given to it by National Costing Rule 9.
“Avoidable First Class Costs”	Has the meaning given to it by National Costing Rule 3.
“Avoidable Second Class Costs”	Has the meaning given to it by National Costing Rule 3.
“Business Processes”	Operational Business Processes and Non-operational Business Processes.
“Class Costing”	The methodologies applied in the National Costing Methodology and the Zonal Costing Methodology to quantify the additional costs of processing First Class mail relative to Second Class mail, and the additional costs of processing Second Class mail relative to Third Class mail.
“Compliance Base Value”	Has the meaning given to it under paragraph 5 of these Guidelines.
“Condition”	The USP accounting condition imposed on Royal Mail as the universal service provider designated by Ofcom under section 39 of the Act, as set out in the notification published by Ofcom on [<i>date to be inserted following Ofcom’s decision</i>].
“Cost Centre”	The basic unit of responsibility in an organisation for which costs are accumulated. This could be a

	production or service location, function, activity or item of equipment.
“Cost Element”	Individual General Ledger account cost record, e.g. Basic Pay, Overtime, and National Insurance.
“Cost Type”	Cost figures obtained after rearranging the relevant categories of costs recorded in Royal Mail’s financial information, including the General Ledger cost accounts of the Reported Business, including aggregating or separating some of those costs.
“Delivery Office”	Part of the network that is responsible for the final sortation of mail items and from which outdoor delivery of mail to recipients is undertaken.
“Downstream Services Entity”	the one entity within the Four FREs which contains the services (or products) as determined by Line B.
“End-to-end Only Products Entity”	the one entity within the Four FREs which contains the services (or products) as determined by Line A.
“EPMU”	Equi-Proportional Mark-Up, which has the meaning given to it in National Costing Rule 12.
“FAC”	Fully Allocated Cost: a costing methodology in which all costs (including overheads) are allocated to the outputs of the business.
“Fixed Asset Register”	A register or list of assets held for the purpose of production of goods or rendering of services that are not held for the purpose of sale in the ordinary course of business. The list allows a company to keep track of details of each fixed asset, ensuring control and preventing misappropriation of assets. It also keeps track of the correct value of assets, which allows for computation of depreciation and for tax and insurance purposes.
“General Ledger”	The SAP R3 General Ledger system used by Royal Mail the National Costing Methodology in the Reported Business.
“General Overheads”	Has the meaning given to it by National Costing Rule 8.
“Line A”	Has the meaning given to it in paragraph 22 of the Condition for the purpose of defining the Four FREs.
“Line B”	Has the meaning given to it in paragraph 22 of the Condition for the purpose of defining the Four FREs.
“Line C”	Has the meaning given to it in paragraph 22 of the Condition for the purpose of defining the Four FREs.
“MCS”	Mails Characteristics Survey: a survey conducted by

	Royal Mail of the mail product types and volumes within the mail traffic of the Reported Business.
“National Costing Rule(s)”	The requirements in these Guidelines for the purpose of the National Costing Methodology.
“NBV”	Net Book Value: the historical cost of an asset less the associated accumulated depreciation.
“Non-operational Business Processes”	The following processes of the Reported Business— <ol style="list-style-type: none">1. sales and marketing; and2. business sustaining activities.
“non-USO Products Entity”	the one entity within the Four FREs which contains the services (or products) as determined by Line C.
“Operational Business Processes”	The following processes of the Reported Business— <ol style="list-style-type: none">1. access (collections);2. outward processing;3. network distribution;4. regional distribution centres processing;5. inward processing;6. local distribution;7. delivery – indoor;8. delivery – outdoor;9. operational support;10. network operations; and11. international mail.
“Overheads”	Costs which are either General Overheads or Pipeline Overheads.
“Pipeline”	All the Operational Business Processes involved in Royal Mail’s provision of its products and/or services from collection to final delivery of the products and/or services.
“Pipeline Overheads”	Has the meaning given to it by National Costing Rule 9.
“PPIA”	Properly Prepared In Accordance with these Guidelines: a “PPIA” audit opinion provides reasonable assurance that a statement, taken as a whole, has been prepared, in all material respects, in accordance with the detailed requirements prescribed by these Guidelines.
“Resource Drivers”	Numeric values which are used to attribute Cost Types to Activities and determined in accordance the National Costing Rules.

“Revenue derived method”	A method of deriving the volume of a product going through the Pipeline, by dividing the revenue received for that product by the average unit price of that product, which is estimated by sampling.
“SPHCC”	Sales Product Handling Characteristic Combinations: Products sub-divided based on the relevant measured characteristics (e.g. class, payment type, item size and handling method).
“Transfer Charge(s)” or “Transfer Price(s)”	The notional charge or price that one part of a business may charge to another part of the same business, for the products and/or services which the former provides to the latter.
“UKLPI”	UK Letters & Parcels and International, an operating unit of Royal Mail.
“USO Products Entity”	the one entity within the Four FREs which contains the services (or products) as determined by Line C.
“Weighting Factors”	Factors representing the relative proportions of resources that units of each SPHCC require from the related Activity and determined in accordance with the National Costing Rules.
“Weighted Volume Drivers”	Has the meaning given to it by National Costing Rule10.
“Zonal Costing Rule(s)”	The requirements in these Guidelines for the purpose of the Zonal Costing Methodology.

Section 3: Obligations relating to the Relevant Group under Part B of the Condition

7. For the purpose of **paragraph 6** of the Condition, Royal Mail shall prepare the financial statements and information specified in **Column 1 of Table 1** by using the pro-forma corresponding to the statement or information as specified in **Column 2 of that Table** (including notes disclosing a breakdown and explanations of any material items).

Table 1: Pro-formas for the financial statements and information for the Relevant Group

<i>Column 1: Financial statement/information referred to in paragraph 5 of the Condition</i>		<i>Column 2: Pro-forma specified in Appendix 1 of these Guidelines</i>
5(a)	Consolidated income statement	Figure 1, Appendix 1
5(b)	Consolidated balance sheet statement	Figure 2, Appendix 1
5(c)	Consolidated cash flow statement	Figure 3, Appendix 1
5(d)	Consolidated cash flow projection statement	Figure 4, Appendix 1
5(f)	Reconciliation of consolidated income, balance sheet and cash flow statements with the consolidated accounts of RMH plc	Figures 1, 2 and 3, Appendix 1

8. For the purpose of **paragraph 7** of the Condition, Royal Mail shall also prepare each of the financial statements and information referred to in **paragraph 5(a), 5(b) and 5(c)** of the Condition by setting out accompanying notes that reconciles the following—
- (i) the line for “Loss for the financial year from continuing operations” in **Figure 1 in Appendix 1** of these Guidelines shall be reconciled with the line for “Operating profit” in **Figure 5 in Appendix 1** of these Guidelines;
 - (ii) the line for “Total equity” in **Figure 2 in Appendix 1** of these Guidelines shall be reconciled with the line for “Capital employed” in **Figure 8 in Appendix 1** of these Guidelines;
 - (iii) the line for “Cash and cash equivalents” in **Figure 3 in Appendix 1** of these Guidelines shall be reconciled with the line for “Net cash outflow after exceptional items and financing costs” in **Figure 10 in Appendix 1** of these Guidelines.
9. The reconciliations referred to in **paragraph 8** above shall be prepared to the same level of detail, and be consistent with, the notes accompanying the financial statements and information required for the Reported Business under **Part C** of the Condition.

Section 4: Obligations relating to the Reported Business under Part C of the Condition

10. For the purpose of **paragraph 15** of the Condition, Royal Mail shall prepare the financial statements and information specified in **Column 1 of Table 2** by using the pro-forma corresponding to the statement or information as specified in **Column 2 of that Table** (including notes disclosing a breakdown and explanations of any material items).

Table 2: Pro-formas for the financial statements and information for the Reported Business

<i>Column 1: Financial statement/information referred to in paragraph 14 of the Condition</i>		<i>Column 2: Pro-forma specified in Appendix 1 of these Guidelines</i>
14(a)	Annual income statement	Figure 5, Appendix 1
14(b)	Quarterly income statement	Figure 5, Appendix 1
14(d)	Annual reconciliation of statements/information specified in paragraph 14(d) of the Condition	Figure 7, Appendix 1
14(e)	Annual balance sheet statement	Figure 8, Appendix 1
14(f)	Annual reconciliation of statements/information specified in paragraph 14(f) of the Condition	Figure 9, Appendix 1
14(g)	Annual cash flow statement	Figure 10, Appendix 1
14(h)	Annual reconciliation of statements/information specified in paragraph 14(h) of the Condition	Figure 11, Appendix 1

11. For the purpose of **paragraph 16** of the Condition, Royal Mail shall also prepare the financial statements and information specified in Column 1 of Table 3 by using the pro-forma corresponding to the statement or information as specified in Column 2 of that Table.

Table 3: Additional requirements for the financial statements and information for the separated Reported Business

<i>Column 1: Financial statement/information referred to in paragraph 14 of the Condition</i>		<i>Column 2: Additional requirement in these Guidelines</i>
14(a) and (b)	Annual and quarterly income statement	A statement of Transfer Charges setting out each material Transfer Charge separately
14(c)	Annual reconciliation of statements/information specified in paragraph 14(c) of the Condition	The annual reconciliation shall set out each of the quarterly financial statements produced for paragraph 14(b) of the Condition and then reconcile the combined total of these four statements with the

		financial statement produced for paragraph 14(a) of the Condition. Where there are any reconciling differences, Royal Mail shall provide accompanying notes and explanations to describe these reconciling differences.
14(d)	Annual reconciliation of statements/information specified in paragraph 14(d) of the Condition	<p>The annual reconciliation shall be reconciled giving appropriate detail and explanation of any reconciling items. Each reconciliation, shall include the following two steps as shown in Figure 7 of Appendix 1 of these Guidelines—</p> <ul style="list-style-type: none"> a) reconciliation between the Reported Business and UKLPI; and b) reconciliation between UKLPI and the Relevant Group. <p>In addition, Royal Mail shall provide in the accompanying notes the detail of the material reconciling differences in the annual reconciliation.</p>
14(e)	Annual balance sheet statement	A breakdown of the total fixed asset Net Book Value allocated to the Reported Business as a whole, by main asset classes
14(f)	Annual reconciliation of statements/information specified in paragraph 14(f) of the Condition	<p>The annual reconciliation shall be reconciled giving appropriate detail and explanation of any reconciling items. Each reconciliation shall include the following two steps as shown in Figure 9 of Appendix 1 of these Guidelines—</p> <ul style="list-style-type: none"> a) reconciliation between the Reported Business and UKLPI; and b) reconciliation between UKLPI and the Relevant Group. <p>In addition, Royal Mail shall provide in the accompanying notes the detail of the material reconciling differences in the annual reconciliation; and</p> <p>An explanation regarding the long term debt and financing costs</p>
14(h)	Annual reconciliation of statements/information specified in paragraph 14(h) of the Condition	<p>The annual reconciliation shall be reconciled giving appropriate detail and explanation of any reconciling items. Each reconciliation, shall include the following two steps as shown in Figure 11 of Appendix 1 of these Guidelines—</p> <ul style="list-style-type: none"> a) reconciliation between the

		<p>Reported Business and UKLPI; and</p> <p>b) reconciliation between UKLPI and the Relevant Group.</p> <p>In addition, Royal Mail shall provide in the accompanying notes the detail of the material reconciling differences in the annual reconciliation.</p>
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Section 5: Obligations relating to the separated Reported Business under Part D of the Condition

12. For the purpose of **paragraph 24** of the Condition, Royal Mail shall prepare the financial statements and information specified in **Column 1 of Table 4** by using the pro-forma corresponding to the statement or information as specified in **Column 2 of that Table** (including notes disclosing a breakdown and explanations of any material items).

Table4: Pro-formas for the financial statements and information for the separated Reported Business

<i>Column 1: Financial statement/information referred to in paragraph 23 of the Condition</i>		<i>Column 2: Pro-forma specified in Appendix 1 of these Guidelines</i>
23(a)	Annual income statement	Figure 5, Appendix 1
23(b)	Quarterly income statement	Figure 5, Appendix 1
23(d)	Annual extended end to end income statement	Figure 6, Appendix 1
23(e)	Quarterly extended end to end income statement	Figure 6, Appendix 1
23(f)	Annual balance sheet statement	Figure 8, Appendix 1
23(g)	Annual cash flow statement	Figure 10, Appendix 1
23(h)	Annual product profitability statements	Figure 12, Appendix 1
23(i)	Quarterly product profitability statements	Figure 12, Appendix 1
23(j)	Monthly revenue, cost and volume information statements	Figure 13, Appendix 1

13. For the purpose of **paragraph 25** of the Condition, Royal Mail shall also prepare the financial statements and information specified in **Column 1 of Table 5** by using the pro-forma corresponding to the statement or information as specified in **Column 2 of that Table**.

Table5: Additional requirements for the financial statements and information for the separated Reported Business

<i>Column 1: Financial statement/information referred to in paragraph 23 of the Condition</i>		<i>Column 2: Additional requirement in these Guidelines</i>
23(c)	Annual reconciliation of statements/information specified in paragraph 23(c) of the Condition	The annual reconciliation shall set out each of the quarterly financial statements produced for paragraph 23(b) of the Condition and then reconcile the combined total of these four statements with the

		financial statement produced for paragraph 23(a) of the Condition. Where there are any reconciling differences, Royal Mail shall provide accompanying notes and explanations to describe these reconciling differences.
23(f)	Annual balance sheet statement	Operational fixed assets utilised in the day to day trading operations of the business shall be included, but excluding properties the depreciation costs of which are not captured in the FAC product costing system in accordance with the National Costing Methodology, and working capital; and A breakdown of the total fixed asset Net Book Value allocated to each of the Four FREs, by main asset classes
23(g)	Annual cash flow statement	Trading cash flows and investment cash flows related to operational fixed assets shall be included
23(h)	Annual product profitability statements	Separate statements for the products specified in Column 1 of Table 6 below as corresponding to the scope specified in Column 2 of that Table . Each of these statements shall only include the costs covered in the National Costing Methodology.
23(i)	Quarterly product profitability statements	Separate statements for the products specified in Column 1 of Table 6 below as corresponding to the scope specified in Column 2 of that Table . Each of these statements shall only include the costs covered in the National Costing Methodology.

Table 6: Product profitability statements

No	Statement	Scope
1	Access products (all revenue derived from external customers)	Downstream Services Entity
2	Pre-sorted D+1 Letters and Large Letters	Non-USO Products Entity and Downstream Services Entity
3	Pre-sorted D+2 and later Letters and Large Letters	Non-USO Products Entity and Downstream Services Entity

The Draft Accounting Condition and Regulatory Guidelines Content

4	High volume D+1 unsorted Letters	Non-USO Products Entity and Downstream Services Entity
5	High volume D+1 unsorted Large Letters	Non-USO Products Entity and Downstream Services Entity
6	High volume unsorted D+2 and later Letters	Non-USO Products Entity and Downstream Services Entity
7	High volume unsorted D+2 and later Large Letters	Non-USO Products Entity and Downstream Services Entity
8	Low volume unsorted non-USO Letters	Non-USO Products Entity and Downstream Services Entity
9	Low volume unsorted non-USO Large Letters	Non-USO Products Entity and Downstream Services Entity
10	Non-USO B2X Express PPS	End-to-end Only Products Entity
11	Non-USO B2X Deferred Heavy (>2kg) PPS	End-to-end Only Products Entity
12	Non-USO B2X Deferred Light (1kg - 2kg) PPS	Non-USO Products Entity and Downstream Services Entity
13	Non-USO B2X Deferred Light (500g – 1kg)	Non-USO Products Entity and Downstream Services Entity
14	Non-USO B2X Deferred Light (0-500g)	Non-USO Products Entity and Downstream Services Entity
15	USO single piece priority products sold via stamps payment channel	USO Products Entity and Downstream Services Entity
16	USO single piece non-priority products sold via stamps payment channel	USO Products Entity and Downstream Services Entity
17	USO single piece priority products sold via Meter payment channel	USO Products Entity and Downstream Services Entity
18	USO single piece non-priority products sold via Meter payment channel	USO Products Entity and Downstream Services Entity
19	Other USO services not included above (e.g. redirections)	USO Products Entity and Downstream Services Entity
20	Relay	End-to-end Only Products Entity
21	PAF	End-to-end Only Products Entity

Section 6: Obligations relating to the Costing Manual and the Accounting Methodology Manual under Part E of the Condition

14. For the purpose of **paragraph 35** of the Condition, Royal Mail shall prepare, maintain and keep up-to-date the Costing Manual and the Accounting Methodology Manual in accordance with the general requirements set out in this Section concerning the Costing Manual and the Accounting Methodology Manual.

The Costing Manual

General requirements

15. Subject to **paragraph 16** below, Royal Mail shall prepare, maintain and keep up-to-date the Costing Manual to at least the same level of detail as contained in the Costing Manual published by Royal Mail dated September 2011 (version 2011-1¹). In addition, the Costing Manual shall contain such additional level of detail required in these Guidelines, including the documentation of the Zonal Costing Methodology.
16. Royal Mail shall prepare and present the Costing Manual in a manner that contains the level of detail necessary to allow a competent user of the Manual with a reasonable degree of professional skill to reproduce the results of the National Costing Methodology and Zonal Costing Methodology without the need for further instruction or interpretation.
17. Royal Mail shall provide information to Ofcom for each separate change to the Costing Manual that is material in a format that is clear and transparent using the pro-formas set out in **Appendix 3**.

Confidentiality

18. For the purpose of **paragraph 40** of the Condition, Ofcom hereby directs that the technical appendices of the Costing Manual that contain commercially confidential or sensitive information to Royal Mail is prescribed as confidential for that purpose.

The Accounting Methodology Manual

19. Royal Mail shall in the Accounting Methodology Manual include all the detailed documentation of the Regulatory Accounting Methodology that Royal Mail is not required to document in the Costing Manual.
20. Subject to **paragraph 21** below, Royal Mail shall prepare, maintain and keep up-to-date the Accounting Methodology Manual to at least the same level of detail as contained in the Costing Manual published by Royal Mail dated September 2011 (version 2011-1²). In addition, Accounting Methodology Manual shall contain such additional level of detail required in these Guidelines, including—
 - (a) a detailed description of the methodology followed in the identification of the relevant Royal Mail costs for the Relevant Group and the Reported Business as a whole and each of the Four FREs; and

¹<http://www.royalmailgroup.com/sites/default/files/ABC%20Costing%20Manual%20%20v2011-1%20final.pdf>

²<http://www.royalmailgroup.com/sites/default/files/ABC%20Costing%20Manual%20%20v2011-1%20final.pdf>

- (b) separate descriptions of the detailed Regulatory Accounting Methodology used by Royal Mail shall be provided for all the main items in the income statements, balance sheet and cash flow statements, and including—

 - (i) a detailed description of the methodology used by Royal Mail to prepare the financial statements and information for the Four FRE's and a mapping of all activities and services to these Four FREs;
 - (ii) a description of the data sources used to calculate inputs and allocations;and
 - (iii) the methodology and calculations used by Royal Mail to determine that the transfer charges are presented in sufficient detail to enable Ofcom to confirm that the calculated transfer charges follow the requirements in these Guidelines.
21. Royal Mail shall prepare and present the Accounting Methodology Manual in a manner that contains the level of detail necessary to allow a competent user of the Manual with a reasonable degree of professional accounting skill, and when used in conjunction with the Costing Manual, to gain a clear understanding of how the financial statements and information required by or under the Condition have been prepared without the need for further instruction or interpretation.
22. Royal Mail shall provide information to Ofcom for each separate change to the Accounting Methodology Manual that is material in a format that is clear and transparent using, the pro-formas as set out in **Appendix 3** of this document.

Section 7: Product Allocations for Accounting Separation

23. For the purpose of **paragraph 22(d)** of the Condition, Ofcom hereby directs that Royal Mail shall, as its starting point, allocate products across Lines A, B and C as set out in **paragraph 22** of the Condition in conformity with the allocations set out in **Appendix 2** of these Guidelines, which are based on Ofcom's understanding of Royal Mail's product allocations for 2010-11.
24. Subject to Royal Mail allocating its products and services in a manner consistent with the descriptions of Lines A, B and C as set out in **paragraph 22** of the Condition, Royal Mail may make changes to those product allocations for any Financial Year to which the Condition applies.
25. Royal Mail shall specify in the Accounting Methodology Manual every product and service that falls into each financial reporting entity allocated to the Four FREs, together with any changes Royal Mail may make pursuant to **paragraph 24** above. For the avoidance of doubt, such changes by Royal Mail shall be treated as a change subject to the notification requirement prescribed by **paragraph 22** of these Guidelines.

Section 8: Regulatory Accounting Methodology

26. Royal Mail must ensure that its Regulatory Accounting Methodology complies with the detailed rules set out in this Section, which relate to the allocation and apportionment of costs, revenues, assets and cash flows for the Reported Business.

Income Statements

Introduction

27. Royal Mail shall ensure that its preparation of any income statement for the Reported Business to the level of EBIT required under the Condition complies with the rules set out below.

Revenue Accounting

28. References to “revenue” in this Section are references to external and internal turnover used in the preparation of the regulatory income financial statement and information. External and internal turnover consist of income for services arising from the fair value of the consideration received or receivable for services provided as part of the operational trading of the Reported Business.
29. To recognise revenue, Royal Mail must follow the revenue recognition accounting policies adopted by Royal Mail as part of their compliance with the accounting standards used in producing its audited annual statutory accounts.
30. Revenue shall be assigned directly to the appropriate product and/or services using the relevant information in Royal Mail’s billing systems, and shall be consistently applied across all products and services including stamped and metered mail.
31. Where it is not possible to directly allocate revenue to products and/or services, Royal Mail shall use its best endeavours to find the most appropriate and objective driver to apportion the revenue to product and to document this in the Accounting Methodology Manual.
32. Royal Mail shall report the revenue by showing the following separately—
- (a) external revenues relating to the sales of any product or service outside of the Relevant Group;
 - (b) internal revenues (resulting from transfer charges) relating to the sales of any product or service within the Relevant Group.

Volumes

33. Royal Mail shall follow National Costing Rule 13 as the sole basis for traffic measurement used in supporting the financial statements and information.

Costing

National Costing Methodology

34. Royal Mail shall ensure that the National Costing Methodology complies with the National Costing Rules set out below and Royal Mail shall document the National Costing Methodology in the Costing Manual. Royal Mail must apply the National

Costing Methodology to all the costs of the products and/or services of the Reported Business.

National Costing Rules

Rule 1: Activity Based Costing ('ABC')

- 35.** The National Costing Methodology must be based on Activity Based Costing and it must also—
- (a)** identify (i) all the Activities that the Reported Business performs as part of its Operational and Non-operational Business Processes, and (ii) all the Products and SPHCC's which the Reported Business provides;
 - (b)** calculate Activity Costs, using appropriate Resource Drivers, and ensure that the costs of the resources which each Activity consumes are attributed to that Activity; and
 - (c)** assign Activity Costs, using appropriate Activity Drivers, to all the Products and SPHCC's which are provided as a result of, or are supported by, that particular Activity. The assignment of Activity Costs must be undertaken in one of the following two ways—
 - (i) attributing, where a direct causal link between an Activity and the relevant Products and SPHCC's can be identified and used as the basis for assigning costs; or
 - (ii) allocating, where no direct causal link can be identified between an Activity and the relevant Products and SPHCC's, and instead a reasonable assumption needs to be made to assign the Activity Costs to the relevant Products and SPHCC's.

Rule 2: Operational reality

- 36.** As far as practicable, the National Costing Methodology must reflect the trading operations of Royal Mail as they are undertaken with the exception of Rule 3 below concerning Class costing, but subject to the additional requirements of the Zonal Costing Rules.

Rule 3: Class costing

First Class mail

- 37.** Class costing must be applied to all avoidable First Class costs which meet the following criteria—
- (a)** the costs would be avoided, if Royal Mail were not to offer First Class products, but the current operational specifications of all other Products were to remain unchanged³; and
 - (b)** the costs exclude any incremental costs which would be incurred, if all Second Class items using the First Class Activities were to be processed alongside other Second Class items.

³For example, that Second Class mail would continue to be collected and delivered six days a week.

Avoidable First Class Costs

- 38.** All Avoidable First Class Costs must be attributed only to First Class products. Avoidable First Class Costs may include, but is not limited to, the following Cost Types—
- (a) accommodation;
 - (b) shift pay allowance; and
 - (c) plant & machinery non-running time costs.

Second Class mail

- 39.** Class costing must be applied to all Avoidable Second Class costs which meet the following criteria—
- (a) the costs would be avoided, if Royal Mail were not to offer First or Second Class products, but the current operational specifications of Third Class products were to remain unchanged; and
 - (b) the costs exclude any incremental costs which would be incurred, if all Third Class items using the First or Second Class Activities were to be processed alongside other Third Class items.

Avoidable Second Class Costs

- 40.** All Avoidable Second Class Costs must be attributed only to Second Class products. Avoidable Second Class Costs may include, but is not limited to, the following Cost Types—
- (a) accommodation;
 - (b) shift pay allowance; and
 - (c) plant and machinery non-running time costs.

Rule 4: General Ledger costs and Cost Types

- 41.** The relevant categories of costs recorded in Royal Mail's financial records (including the financial statements and information required by the Condition), including the General Ledger cost accounts for the Reported Business, may be aggregated into a set of Cost Types before attributing those costs to Activities. Cost Types must be selected such that each represents the costs of a single key resource being utilised (e.g. staff, machines, accommodation, vehicles).

Rule 5: Activities

- 42.** Where appropriate (and to the extent possible), Business Processes must be divided into Activities.

Rule 6: Resource Drivers

43. All costs aggregated into Cost Types must be attributed to the Activities which cause those costs to be incurred. Where a Cost Type is incurred as a result of more than one Activity, Resource Drivers must be used to attribute an appropriate share of the Cost Type to each Activity.
44. The Resource Driver for each Cost Type must be—
 - (a) based on the resource consumption giving rise to the Cost Type (e.g. staff hours, machine hours, accommodation footprint, vehicle hours); and
 - (b) quantified based on appropriate operational and financial data (including the prior year's costs).

Rule 7: Products and SPHCC's

45. Where applicable, each Product, or a group of similar Products, must be divided into a range of SPHCC's which identifies, and differentiates between, all the applicable and relevant measured characteristics which affect how processing an item of that Product, or group of Products, incurs costs. The measuring characteristics should, as a minimum include the following—
 - (a) format (e.g. letter, flat, packet, etc.);
 - (b) class (e.g. First, Second, Third, etc.);and
 - (c) payment method (e.g. stamped, metered, account, PPI, etc.);and
 - (d) handling(e.g. mechanised versus manual, etc.).
46. The National Costing Methodology must cost the whole range of SPHCC's. For the avoidance of doubt, Royal Mail may useadditional measuring characteristics.

Rule 8: Activity Costs

47. The National Costing Methodology must assign an appropriate share of each Activity Cost to each of the relevant SPHCC's as set out below. To determine how an Activity Cost is to be assigned to the relevant SPHCC's, it must first be determined into which one of the following categories the Activity Cost falls—
 - (a) **Attributable Operational Costs:** Costs of Activities within a single Operational Business Process which have a direct causal link to the processing of some or all of the SPHCC's;
 - (b) **Attributable Non-operational Costs:** Costs of Activities which are directly related to certain Products, but are not part of the Operational Business Processes and
 - (c) **Aggregate Costs:** Activity Costs, or a proportion of an Activity Cost, which are assigned in aggregate to notional SPHCC's and not incorporated into the unit costs of the SPHCC's, produced commercially for the following reasons—
 - (i) the costs do not follow the handling characteristics which are used to define SPHCC's (see Rule 7); or

- (ii) the costs relate to Activities carried out on behalf of other Royal Mail business units for products and services that do not result in external revenues attributed to the Reported Business , and do not relate to any of the Products of the Reported Business. These costs must be included in the costing covered by the National Costing Methodology to ensure reconciliation of costs and data integrity.
- (d) Overheads, which are to be classed as either—
 - (i) Pipeline Overheads: Costs of Activities related to one or more Operational Business Processes which do not have a direct causal link to any of the SPHCC's being processed; or
 - (ii) General Overheads: Costs of Activities related to Non-operational Business Processes.

Rule 9: Activity Drivers

48. The assignment of Activity Costs to SPHCC's must be undertaken using appropriate Activity Drivers which are identified and quantified based on the following rules—
- (a) each Activity Cost must be assigned to all the SPHCC's which that Activity directly contributes to, or indirectly supports; and
 - (b) Activity Drivers must reflect the relative proportions of the workload which the totality of all the units of each SPHCC creates for the related Activity.
49. Three types of Activity Drivers shall be used—
- (a) **Weighted Volume Drivers**(see Rule10): Weighted SPHCC traffic volumes represent the relative workload of processing all the units of each SPHCC taking into account the proportion of the total number of units which consume the relevant Activity;
 - (b) **Other Drivers**(see Rule11): These are used for costs which are directly linked to a factor other than mail traffic in the pipeline (e.g. certain network distribution costs which depend on vehicle runs); and
 - (c) **EPMU**(see Rule 12): Equi-Proportional Mark-Up methods which allocate costs based on the relative proportions of the costs which have already been assigned to the relevant SPHCC's.
50. **Table 7** below shows how each type of Activity Cost is to be assigned to SPHCC (which is illustrated by a tick in the Table).

Table 7: Activity Cost assignment to SPHCC

	Attributable Costs	Overheads (Pipeline and General)	Non-operational Direct Costs & Aggregate Costs
Weighted Volume Drivers	✓		
Other Drivers	✓		✓
EPMU Drivers		✓	

Rule 10: Weighted Volume Drivers

51. Weighted Volume Drivers must incorporate two types of factors for each relevant attributable Activity Cost—
 - (a) proportional factors, which represent the proportion of the total volume of each SPHCC which uses the related Activity; and
 - (b) weighting factors, which represent the relative proportions of workload that units of each SPHCC require from the related Activity.

52. Proportional factors must be based on operational data collected using representative measurements of total volumes (including statistical sampling techniques where necessary).

53. Depending on the nature of the Activity, one or more of the following variables may be used as a determinant of the workload to calculate the Weighting Factors—
 - (a) **time** (needed to carry out the Activity): where appropriate, industrial engineering studies must be carried out in accordance with relevant ISO standards;
 - (b) **weight**: appropriate operational data must be used; and
 - (c) **size**: appropriate operational data must be used.

54. Annual reviews must be conducted to ascertain which proportional factors and weighting factors need to be reviewed and, if necessary, updated to ensure that they continue to reflect operational reality accurately.

55. To identify the proportional factors and weighting factors which may need adjusting, the changes during the year in the following areas must at least be considered—
 - (a) working practices;
 - (b) technology; and
 - (c) SPHCC's mix (relative volumes).

56. Ad hoc event-driven reviews and updates may be carried out as and when necessary.

Rule 11: Other Drivers

57. Other Drivers shall be used for costs (certain Attributable Operational Costs and all Attributable Non-operational Direct Costs and Aggregate Costs) which are directly linked to a factor other than mail traffic in the Pipeline.
58. Other Drivers must be defined in a way which appropriately reflects the causal link with that factor.

Rule 12: Equi-Proportional Mark-Up ('EPMU')

59. EPMU must be used for allocating Overheads (Pipeline and General). Overheads must be allocated to all, and only, those SPHCC's which they support—
- (a) Pipeline Overheads must be allocated to all, and only, those SPHCC's which are processed by that element of the Pipeline; and
 - (b) General Overheads must be allocated to all SPHCC's which are processed through the Pipeline taking into account the Pipeline Overheads already allocated as set out above.
60. EPMU must be applied for each of the Activity Costs within Overheads separately, and be based only on the proportions of all the Attributable Costs once they have been attributed. EPMU applications should take account of any other costs already allocated using EPMU ("nested" approach).

Rule 13: Traffic measurement

61. Royal Mail must use the Revenue derived basis of traffic measurement, whereby the Product traffic volume is calculated by dividing the total Product revenue by the average Product unit price, in its National Costing Methodology.
62. The measurement method used for each SPHCC must be applied consistently within the National Costing Methodology and over time.

Rule 14: Operational data and sampling

63. All operational data used by the National Costing Methodology must be regularly reviewed and, where necessary, updated to ensure the accuracy of costing and its consistency with the operational reality (see Rule 2).
64. All sampling used by the National Costing Methodology must be based on statistical techniques regarded as appropriate and applied by qualified professional statisticians.

Rule 15: Data integrity

65. The integrity of financial and operational data used for the National Costing Methodology must be preserved by adequate checks and controls, which must include reconciliation of total cost data at appropriate points in the National Costing Methodology.

66. The total amount of input costs relating to any element of the National Costing Methodology must be equal to the total amount of output costs relating to that element. In particular, the following total figures must be reconciled to each other—
- (a) total costs as per the Reported Business General Ledger accounts;
 - (b) total Activity Costs; and
 - (c) total costs of all SPHCC's.

Zonal Costing Methodology

67. Royal Mail shall ensure that the Zonal Costing Methodology complies with the Zonal Costing Rules set out below and Royal Mail shall document the Zonal Costing Methodology in the Costing Manual. Royal Mail must apply the Zonal Costing Methodology where Royal Mail notifies or publishes on a geographic basis prices of products and/or services of the Reported Business that are subject to USP Conditions. .

Zonal Costing Rules

Rule 1: Activity Based Costing ('ABC')

68. The National Costing Rule1 shall apply and be read accordingly.

Rule 2: Operational reality

69. The National Costing Rule 2shall apply and be read accordingly.

Rule 3: Class costing

70. The National Costing Rule 3shall apply and be read accordingly.

Rule 4.Zonal General Ledger costs and Cost Types

71. The National Costing Rule 4shall apply. In addition,Delivery Office non-staff costs must be broken down by Cost Type, and geographic differences in these Cost Types shall be reflected in the Zonal Costing Methodology.

Rule 5: Activities

72. The National Costing Rule 5shall apply and be read accordingly.

Rule 6: Resource Drivers

73. The National Costing Rule 6shall apply and be read accordingly.

Rule 7:Zonal Products and SPHCC's

74. Where applicable, each Product, or a group of similar Products, must be divided into a range of SPHCC's which identify, and differentiate between, all the applicable and relevant measured characteristics (including zonal differentiations, where material) which affect how processing an item of that Product, or group of Products, incurs costs. The measuring characteristics should, as a minimum include the following—

- (a) format(e.g. letter, flat, packet, etc.);
- (b) class(e.g. First, Second, Third, etc.); and
- (c) paymentmethod (e.g. stamped, metered, account, PPI, etc.); and
- (d) handling(e.g. Mechanised versus Manual, etc.); and
- (e) zonal variations to national costs.

75. The Zonal Costing Methodology must cost those SPHCC's of the Reported Business related to products the prices of which are not geographically uniform. For the avoidance of doubt, Royal Mail may use additional measuring characteristics.

Rule 8: Activity Costs

76. The National Costing Rule 8 shall apply and be read accordingly..

Rule 9: Activity Drivers

77. The National Costing Rule 9 shall apply and be read accordingly.

Rule 10: Weighted Volume Drivers

78. The National Costing Rule 10 shall apply and be read accordingly.

Rule 11: Other Drivers

79. The National Costing Rule 11 shall apply and be read accordingly.

Rule 12: Equi-proportional Mark-up ('EPMU')

80. The National Costing Rule 12 shall apply and be read accordingly.

Rule 13: Zonal Traffic measurement

81. The National Costing Rule 13 shall apply and be read accordingly.

82. In addition, MCS sampling to estimate postcode sector traffic must comply with Rule 14. The MCS sampling used for estimating zonal downstream service costs must reflect the delivered volumes associated with those downstream services.

Rule 14: Zonal Operational data and sampling

83. The National Costing Rule 14 shall apply and be read accordingly.

84. In addition, zonal cost estimates must be reviewed at least every Financial Year and, where necessary, updated to ensure their consistency with—

- (a) the updated values of the explanatory variables of the postcode sector cost function (e.g. postcode sector number of delivery points, postcode sector area, volume delivered per delivery point and proportion of business delivery);

- (b) the updated postcode sector cost functions (updated variable coefficients);
 - (c) the updated mapping of postcode sectors to zones; and
 - (d) the updated geographical cost differentials arising from pay rate and other input cost differentials.
- 85. Where regressions are used to estimate postcode sector costs, the validity of the relevant regressions must be demonstrated by providing the relevant statistical indicators in the Costing Manual. Such regressions must be derived by qualified professional econometricians using data in accordance with these Zonal Costing Rules.
- 86. The estimation of postcode sector volumes and volumes per delivery point must be based on sound sampling techniques. The statistical indicators relevant to the sampling must be included in the Costing Manual.

Rule 15: Zonal Data integrity

- 87. The National Costing Rule 15 shall apply and be read accordingly.
- 88. In addition, Royal Mail shall ensure that the following figures are reconciled to each other—
 - (a) estimated postcode sector costs for each Delivery Office must be reconciled with the total relevant costs of that Delivery Office;
 - (b) estimated total and unit postcode sector costs must be reconciled with the total and unit relevant national costs derived as per the National Costing Rule 15; and
 - (c) geographically de-averaged costs used for zonal cost estimates that are not estimated at postcode sector level must be reconciled with the corresponding national costs derived as per the National Costing Rule 15.

Rule 16: Geographic cost reflectivity

- 89. Zonal cost estimates must objectively and accurately reflect all material geographical cost differentials of zones for all activities relevant for zonally costed products in the Zonal Costing Methodology, including those arising from drivers of postcode sector cost estimates as well as those arising from pay rate and other input cost differentials.

Rule 17: Postcode sector cost estimation

- 90. As far as possible, actual postcode sector data must be used to derive postcode sector cost estimates when these postcode sector cost estimates are used for the derivation of zonal cost estimates.

Rule 18: Definition of zones

- 91. Different zones must not be defined where the estimated unit costs per zone are not derived, to standard levels of statistical confidence, to be materially different, and zones must be defined for costing purposes by grouping postcode sectors with similar estimated unit costs in the same zone. In any event, the number of such

zones defined in the first Financial Year shall be no more than four. Zone boundaries shall be reviewed at least annually based on estimated unit postcode sector costs.

Rule 19: Reconciliation of zonal and national cost estimates

92. Changes in estimated zonal costs must be reviewed at least once every Financial Year to ensure that, for each format for which a zonal unit cost estimate is prepared, the estimated total postcode sector volumes and estimated total zonal volumes both equal the total national volumes derived as per the National Costing Rule 15, and the average zonal unit costs derived with these volumes remains equal to the corresponding national average unit costs derived as per the National Costing Methodology.

Exceptional Costs

93. All exceptional costs arising from the trading operations of Royal Mail relevant to the Reported Business which are not already included in the National Costing Methodology must also be accounted for in the income financial statements and information of the Reported Business. Examples of such exceptional costs are the costs of Royal Mail's "Colleague Share" share scheme, redundancy and restructuring costs. Exceptional costs must be allocated to the Reported Business using an appropriate underlying driver. The basis of the allocation concerned must be set out in the Accounting Methodology Manual.

Transfer Charges

94. Royal Mail must ensure that one of the following two types of Transfer Charges are used—
- (a) Transfer Charges between the Reported Business and the rest of Royal Mail; or
 - (b) Transfer Charges between the Four FREs within the Reported Business, in line with the transfer pricing rules set out in Section 8.

For both **sub-paragraphs (a) and (b)**, a Transfer Charge must be calculated on an arm's length basis for each service provided.

Transfer Charges between the Reported Business and the rest of Royal Mail

95. A Transfer Charge must be set for the provision of each product or service between the Reported Business and the Relevant Group.
96. The income statement of the Reported Business must only take into account the Transfer Charges between Royal Mail and the Reported Business. The Transfer Charges between the Four FREs must not be considered at the Reported Business level.
97. To comply with the requirement in **paragraph 94(a)** in calculating a Transfer Charge on an arm's length basis, Royal Mail must comply with the following—

- (a) if the product or service provided is also provided to customers outside the group, the transfer price must be equivalent to the price charged to an external customer;
 - (b) if the product is also provided by third parties, the price paid must be in line with the price offered by the third party for a similar product/service; and
 - (c) if the product or service is externally marketed, as it is not provided or offered by any third party, the transfer price must be cost reflective, including an appropriate mark-up to provide a return on the capital employed by the business, given the relevant risks associated with the service provision concerned.
98. A Statement of Transfer Charges shall be provided as part of the notes to the financial statements and information. That Statement must set out each major transfer charge separately. In particular the following Transfer Charges must be separately disclosed—
- (a) Transfer Charges between each legal entity in the Royal Mail group and the Reported Business; and
 - (b) Transfer Charges between other parts of Royal Mail Group Limited and the Reported Business.
99. A detailed description of the approach and the assumptions used for the calculation of the transfer charges must be disclosed within the Accounting Methodology Manual.

Balance Sheet Statement

Introduction

100. Royal Mail shall ensure that the preparation of the balance sheet financial statement and information for the Reported Business complies with the rules set out below.
101. The balance sheet must include operational assets and net working capital (net value of current assets and current liabilities).
102. All the assets and liabilities which are wholly related to the operations and trading of products and services of the Reported Business must be included in the balance sheet.
103. Those assets and liabilities which are partly related to the operations and trading of products and services of the Reported Business must be apportioned to the Reported Business in compliance with the rules set out below.

Non-current assets

104. At a minimum, the non-current assets set out below must be disclosed in the balance sheet.

Fixed assets (property, plant and equipment)

105. The value of the fixed assets must be based on the historical costs and depreciation records kept in the Fixed Asset Register ('FAR').

106. In addition, the value of the fixed assets must be consistent with the values reported in the statutory accounts and the depreciation costs calculated by the National Costing Methodology.
107. A note to the balance sheet must detail the breakdown of the total fixed asset NBV by main asset classes which must include, at a minimum, "land and buildings", "plant and machinery", "vehicles" and "fixture and equipment". The total depreciation for each of these classes must also be disclosed.
108. The allocation of fixed assets which are wholly or partly used by the products and services of the Reported Business must be based on the relative extent to which those assets are used by the products and services concerned, where applicable consistent with the allocation of corresponding depreciation charges in the National Costing Methodology. .
109. If a Transfer Price is charged to the Reported Business by the rest of Royal Mail for the use of a fixed asset, then that fixed asset must be excluded from the balance sheet of the Reported Business.
110. Any transfer of fixed assets from the Reported Business to the rest of Royal Mail, and the consequential Transfer Prices charged to the Reported Business for the use of those fixed assets, must not affect the EBIT of the Reported Business. Any internal transfer of fixed assets must be disclosed in the notes to the balance sheet financial statements.

Intangible assets

111. The categorisation of intangible assets in the Reported Business must be consistent with the categorisation in the Royal Mail's statutory accounts.
112. Goodwill must be excluded.
113. The allocation of software, master franchise licences and customer listing assets must be based on the relative extent to which such assets are used by the products and services of the Reported Business.

Other non-current assets

114. Other non-current assets may be reported in aggregate.
115. However, a note to the accounts must be provided detailing the main items included within this category. The allocation of this reported item between the Reported Business and the rest of Royal Mail must be based on the characteristics of the most material items in the category.

Current assets

116. At a minimum, the current assets set out below must be disclosed in the balance sheet.

Trade and other receivables

117. Trade and other receivables must include prepayments to third parties.

118. Trade receivables must be allocated based on the revenues of the products or services to which they relate.
119. Prepayments must be allocated based on an analysis of the costs of the products and services provided by the associated third parties, and to the extent to which those products and services are used by the Reported Business relative to the rest of Royal Mail.
120. A note to the accounts must be provided detailing the amount of any bad debt provisions posted against trade receivables.
121. Other items in other receivables may be reported in aggregate, but a note to the accounts must be provided detailing the main items included within this category.

Cash and cash equivalent

122. This category must include cash and cash equivalents that are maintained for the purpose of financing business operations and to enable trading of the products and services in the Reported Business.

Cash equivalents have the same meaning as used in Royal Mail's statutory accounts.

123. Overdrafts must be netted off against cash and cash equivalents.
124. Cash and cash equivalents that are managed centrally within the Relevant Group must be allocated to the Reported Business to identify the cash requirements for the purpose of financing the operations and trading of the products and services of the Reported Business.
125. The cash requirements of the Reported Business must be determined based on the operating cash flows and capital expenditure commitments identified to the Reported Business by the rules in this RAG.
126. The cash requirements of the Reported Business may be estimated based on the relevant actual operating and capital expenditures in the previous Financial Year.
127. A note to the accounts must be provided setting out the breakdown of the cash and cash equivalent amounts by main category.

Other current assets

128. Other items in other current assets may be reported in aggregate, in which case the allocation between the Reported Business and the rest of Royal Mail must be based on the most material items in the category. A note to the accounts must be provided detailing the main items included within this category.

Current liabilities

129. At a minimum, the following current liabilities categories must be disclosed:

Trade and other payables

130. The allocation of trade payables between the Reported Business and the rest of Royal Mail must be based on the allocation of the costs of the activities or products or services to which they relate.

131. Trade and other payables must include deferred income. The allocation of deferred income between the Reported Business and the rest of Royal Mail must be based on the allocation of the corresponding income.
132. Other items in other payables may be reported in aggregate, but in which case the allocation between the Reported Business and the rest of Royal Mail must be based on the most material items in the category. A note to the accounts must be provided detailing the main items included within this category.

Financial liabilities

133. Financial liabilities must include interest bearing loans (with less than a year maturity), leases and derivative financial liabilities.
134. The allocation of financial liabilities between the Reported Business and the rest of the Relevant Group must be carried out as follows—
 - (a) An analysis of the loans must be undertaken to identify whether the loans have been obtained in relation to a specific asset or group of assets, in which case, the loan must be allocated based on the allocation of the corresponding asset or group of assets. If the loan does not relate to a specific asset or group of assets, then it must be allocated to the Reported Business using the same basis used for the allocation of cash and cash equivalents; and
 - (c) Allocation of lease liabilities to the Reported Business must be based on the allocation of the assets to which the associated leases relate.
135. A note to the accounts must be provided describing the details of the facilities (for example, due date, interest rates, etc.).

Provisions and other current liabilities

136. The allocation of provisions and other current liabilities to the Reported Business must be based on the costs and activities to which those provisions and other current liabilities relate.
137. Where possible, allocation of provisions and other current liabilities to the Reported Business must be based on the allocation of related costs and activities to the Reported Business.
138. Provisions and other current liabilities may be reported in aggregate, but a note to the accounts must be provided detailing the main items included within this category.

Cash Flow Sheet Statement

Introduction

139. Royal Mail shall ensure that the cash flow statement of the Reported Business is prepared in compliance with the rules set out below.
140. The allocation of cash flow items to the Reported Business must be consistent with the allocation of corresponding costs and revenues in the relevant income statement of the Reported Business.

Operating profit

141. Operating profit before exceptional items must be disclosed and reconciled to the relevant income statement.

Depreciation

142. Depreciation must be added back to the operating profit. The value and the allocation of depreciation costs must be consistent with the income statement of the Reported Business.

Pension charge

143. The allocation of pension charge cash flows must be consistent with the allocation of the corresponding pension charges via the National Costing Methodology in the income statement of the Reported Business, Share of profits of joint venture and associates
143. Cash and non-cash items in this category must be excluded from the financial statements and information of the Reported Business.

Movements in working capital

144. The allocation of movements in working capital must be consistent with the allocation of the corresponding balance sheet items to the Reported Business.

Purchase of intangibles and other fixed asset investments

145. The allocation of cash spent on the purchase of intangible and other fixed asset investments must be consistent with the allocation of the corresponding assets in the balance sheet of the Reported Business.

Purchase of property, plants and equipment

146. The allocation of cash spent on the purchase of property, plants **and equipment** must be based on the allocation of the corresponding assets in the balance sheet of the Reported Business.

Disposal of property, plants and equipment

147. The allocation of cash received on the disposal of property, plants and equipment must be based on the allocation of the corresponding assets in the balance sheet of the Reported Business.

Cash flows from other investment activities

148. The allocation of cash flows from other investment activities must be based on the allocation of the corresponding investments in the balance sheet of the Reported Business.

Exceptional cash flows

149. The allocation of exceptional cash flows to the Reported Business must be consistent with the allocation of corresponding costs and revenues to the income statement of the Reported Business.

Financing cost paid

- 150.** The allocation of financing costs paid must be consistent with the allocation of the corresponding costs to the income statement of the Reported Business.

Section 9: Separation Methodology

Introduction

151. Royal Mail must ensure that its Regulatory Accounting Methodology complies with the detailed rules set out in this Section, which relate to the separation, allocation and apportionment of costs, revenues, assets and cash flows between the Four FREs and product groups within the Reported Business.

Income Statement

152. Royal Mail must ensure that its preparation of any income statement for the Four FRE's to the level of EBIT required under the Condition complies with the rules set out below.

Apportionment of revenues

153. References to "revenue" in this Section have the meaning as set out in **paragraph 28** of these guidelines
154. Revenues must be directly allocated to products and reported in the relevant entities following the product mappings for lines A and C set out in Appendix 2.
155. Revenues associated with the provision of access services to external customers must be allocated to Downstream Services along with notional revenues associated with Transfer Charges by Downstream Services entity to the USO Products and the Non-USO Products entities.

Apportionment of costs

156. Costs must be allocated across the Four FREs within the Reported Business as follows—
- (a) All SPHCC's in the National Costing Methodology must be mapped to one or more of the Four FREs;
 - (b) The costs which are within the scope of the National Costing Methodology must be allocated to the Four FREs in line with the outputs of the National Costing Methodology. Where SPHCCs are mapped to more than one of the Four FREs, the basis of the allocation of the SPHCC costs concerned must be included in the National Costing Methodology and set out in the Costing Manual; and
 - (c) The costs which are not within the scope of the National Costing Methodology (e.g. the costs of Royal Mail's "Colleague Share" share scheme, redundancy and restructuring costs) must be allocated to the Four FREs using an appropriate underlying driver. The basis of the allocation concerned must be set out in the Accounting Methodology Manual.

Transfer pricing between separated entities

- 157.** Where one of the Four FREs provides a product or service to one or more other of the Four FREs, Royal Mail shall determine a Transfer Price for that product or service.

Transfer pricing across Line A

- 158.** Where products or services within the USO Products Entity use services provided by the End-to-end Products Entity, the Transfer Price must be determined by applying a mark-up of 10% to the FAC costs of the services concerned of the End-to-end Products Entity.

Transfer pricing across Line B

- 159.** Where products or services within the USO Products Entity and the Non-USO Products Entity use the services provided by Downstream Services Entity, the Transfer Prices must be determined in compliance with the principles set out below.

Equivalence pricing

- 160.** Where there are appropriate comparable access products and services provided by Royal Mail to external customers, equivalence pricing must be applied to determine the Transfer Prices.
- 161.** Equivalence pricing requires the open market or regulated prices of those appropriate comparable access products and services to be used as the basis of the Transfer Prices.
- 162.** Royal Mail must adopt the following approach to equivalence pricing—
- (a)** An appropriate comparable access product or service must be identified for the internal product or service for which the Transfer Price is to be determined;
 - (b)** The operational and activity differences between the internal product or service for which the Transfer Price is to be determined, and the appropriate comparable product or service must be identified;
 - (c)** The FAC differences of the operational and activity differences referred to in sub-paragraph (b) above must be identified in a manner consistent with the National Costing Methodology; and
 - (c)** The Transfer Price must be determined as the sum of the price of the appropriate comparable access product or service, the FAC differences referred to in sub-paragraph (c), and a mark-up of 10% on those FAC differences.

- 163.** Transfer Prices for retail products in D+1 markets must be calculated by using broadly comparable 2nd class access products.

Cost-plus pricing

- 164.** Where there are no appropriate comparable access products and services provided by Royal Mail to external customers, Royal Mail must apply cost-plus pricing. Cost-

plus pricing requires that the Transfer Prices are determined by applying a mark-up of 10% to the FAC costs of the internal product or service for which the Transfer Price is to be determined.

Grouping

- 165.** Single Transfer Prices may be applied to groups of internal products or services, if the grouping meets the following requirements—
- (a)** firstly, distinct Transfer Prices must be determined for internal products or services supporting retail products or services in distinct markets, as defined in the following market studies;
 - (i)** Market study decisions on wholesale & packets markets published in November 2010⁴;
 - (ii)** Market study proposals on retail markets published in March 2011⁴;
 - (iii)** Market study proposals on international outbound mail market published in May 2011
 - (b)** secondly, within the above distinct categories, distinct Transfer Prices must be determined for the internal products or services of the Reported Business which are used to support retail products or services with materially different handling characteristics as defined in the National Costing Methodology; and
 - (c)** finally, within the above distinct categories, as applicable, distinct Transfer Prices must be determined where different ex-ante regulatory safeguards have been imposed by Ofcom (for example, for specific universal service products or services).

Balance Sheet Statement

- 166.** Royal Mail must ensure that the preparation of the balance sheets of the Four FREs complies with the rules set out below.
- 167.** The format of the balance sheet for the Four FREs must be the same as that for the balance sheet provided for the Reported Business as a whole.
- 168.** The allocation of the balance sheet items to the Four FREs must be consistent with the corresponding allocation of costs and revenues in the relevant income statements of the Four FREs. Subject to this, the allocation of balance sheet items to the Four FREs must where appropriate also be consistent with the allocation of balance sheet items to the Reported Business as a whole.

⁴<http://www.nationalarchives.gov.uk/webarchive/communications-media.htm>

Non-current assets

- 169.** The following non-current assets must be disclosed in the balance sheet of each of the Four FREs:

Fixed assets (property, plant and equipment)

- 170.** The allocation of each fixed asset to the Four FREs must be consistent with the extent to which the fixed asset is used by the activities, products and services identified to each of the Four FREs. If a fixed asset is used solely by the activities, products and services identified to one of the Four FREs, the fixed asset must be allocated to that entity. Where a fixed asset is used by activities, products and services identified to more than one of the Four FREs, the value of the fixed asset concerned must be apportioned between the relevant FREs using an appropriate basis which is consistent with the basis for apportioning depreciation costs in the National Costing Methodology.
- 171.** The basis of allocation of fixed assets to the Four FREs must also be consistent with the basis of allocation of fixed assets to the Reported Business as a whole.
- 172.** Royal Mail must provide a note to the balance sheets of the Four FREs which details the breakdown by main asset class of the total Net Book Value of the fixed assets allocated to each of the Four FREs.
- 173.** The total depreciation for each of these classes must also be disclosed. Main asset classes should include, at a minimum, “land and buildings”, “plant and machinery”, “vehicles” and “fixture and equipment”.

Intangible assets

- 174.** The categorisation of intangibles for the Four FREs must be consistent with the categorisation used in the balance sheet of the Reported Business as a whole.
- 175.** The basis of allocation of intangible assets to the Four FREs must be consistent with the basis of allocation of intangible assets to the Reported Business as a whole.

Other non-current assets

- 176.** The basis of reporting and allocation of non-current assets to the Four FREs must be consistent with the basis of reporting and allocation of non-current assets to the Reported Business as a whole.

Current assets

- 177.** At a minimum, the following current asset categories must be disclosed in the balance sheets of the Four FREs:

Trade and other receivables

- 178.** Trade and other receivables must include prepayments to third parties. Trade receivables must be allocated to the Four FREs based on the revenues of the products or services to which they relate.
- 179.** Prepayments must be allocated to the Four FREs based on an analysis of the costs of the products or services provided by the associated third parties, and to the extent

those products and services are used by activities identified to each of the Four FREs in the National Costing Methodology.

- 180.** The basis of allocation to the Four FREs of other items in other receivables must be consistent with the basis of allocation of trade and other receivables to the Reported Business as a whole.

Cash and cash equivalent

- 181.** Overdrafts must be netted off against cash and cash equivalents.
- 182.** The allocation of cash and cash equivalent to the Four FREs must be based on the cash requirements of each of the Four FREs.
- 183.** The cash requirements of each of the Four FREs must be determined based on the operating cash flows and capital expenditure commitments assigned to each of the Four FRE's.
- 184.** The cash requirements of each of the Four FREs may be estimated based on the actual operating and capital expenditure allocated to each of the Four FREs .

Other current assets

- 185.** The basis of allocation of other current assets to the Four FREs must be consistent with the basis of allocation of other current assets to the Reported Business as a whole.

Current liabilities

- 186.** The following current liabilities must be disclosed in the balance sheets of the Four FREs.

Trade and other payables

- 187.** The allocation of trade payables must be based on the allocation of the costs of the activities or products or services to which they relate.
- 188.** Trade and other payables must include deferred income. The allocation of deferred income must be based on the allocation of the corresponding income.
- 189.** The basis of allocation to the Four FREs of other items in other payables must be consistent with the basis of allocation of other payables to the Reported Business as a whole.

Financial liabilities

- 190.** Financial liabilities must include interest bearing loans (with less than a year maturity), leases and derivative financial liabilities. The allocation of financial liabilities must be based on the following—
- (a)** An analysis of the loans must be undertaken to identify whether the loans have been obtained in relation to a specific asset or asset group, in which case the loan must be allocated to the Four FREs based on the allocation of the corresponding asset or asset group to the Four FREs. If the loan relates to the Reported Business as a whole, then it must be allocated to all the Four

FRE's using the same basis used for the allocation of cash and cash equivalents;

- (b) A note must be provided describing the details of the facilities (for example, due date, interest rates, etc.); and
- (c) The allocation of lease liabilities to the Four FREs must be based on the allocation of the assets to which the associated leases relate.

Provisions and other current liabilities

- 191. The allocation of provisions to the Four FREs must be based on the costs and activities to which the provisions relate. An analysis of the main provisions must be undertaken to understand the activity to which the provisions relate, and these separate provisions must each be allocated using appropriate drivers.
- 192.
- 193. The basis of allocation of other current liabilities to the Four FREs must be consistent with the basis of allocation of other current liabilities to the Reported Business as a whole.

Cash Flow Sheet Statement

- 194. Royal Mail shall ensure that the cash flow statements of the Four FREs are prepared in compliance with the rules set out below.
- 195. The format of the cash flow statements for the Four FREs must be the same as that for the cash flow statements provided for the Reported Business as a whole.
- 196. The allocation of cash flow items to the Four FREs must also be consistent with the allocation of cash flow items to the Reported Business as a whole.

Operating profit

- 197. Operating profit before exceptional items must be disclosed for each of the Four FREs, and be reconciled to the relevant income statements.

Depreciation

- 198. Depreciation must be added back to the operating profit. The value and the allocation of depreciation costs must be consistent with the income statements of the Four FREs.

Pension charge

- 199. The basis of allocation of pension charge cash flows must be consistent with the basis of allocation of the corresponding pension charges in the income statements of the Four FREs.

Share of profits of joint venture and associates

- 1.2 Cash and non-cash items in this category must be removed for the calculation of the cash flows.

Movements in working capital

200. The basis of allocation of movements in working capital must be consistent with the basis of allocation of the corresponding balance sheet items to the Four FREs.

Purchase of intangibles and other fixed asset investments

201. The allocation of cash spent on the purchase of intangibles and other fixed asset investments must be consistent with the allocation of the corresponding assets in the balance sheets of the Four FREs.

Purchase of property, plants and equipment

202. The allocation of cash spent on the purchase of property, plants and equipment must be consistent with the allocation of the corresponding assets in the balance sheets of the Four FREs.

Disposal of property, plants and equipment

203. The allocation of cash received on the disposal of property, plants and equipment must be consistent with the allocation of the corresponding assets in the balance sheets of the Four FREs.

Cash flows from other investment activities

204. The allocation of cash flows from other investment activities must be consistent with the allocation of the corresponding investments in the balance sheets of the Four FREs.

Exceptional cash flows

205. Where possible, the allocation of exceptional cash flows to the Four FREs must be consistent with the allocation of corresponding costs and revenues in the relevant income statements of the Four FREs. The allocation of exceptional cash flow items to the Four FREs must also be consistent with the allocation of exceptional cash flow items to the Reported Business as a whole.

Financing cost paid

206. The allocation of financing cost paid charges must be consistent with the allocation of corresponding costs in the income statements of the Four FREs.

Section 10: Auditing

207. For the purpose of **paragraph 8** of the Condition, Royal Mail shall secure an appropriate audit opinion by a Qualified Independent Auditor in respect of the financial statements and information specified in **Column 1 of Table 8** on the basis specified in **Column 2 of that Table**.

Table 8: Auditing bases for the purpose of paragraph 7 of the Condition

<i>Column 1: Financial statement/information referred to in paragraph 5 of the Condition</i>		<i>Column 2: Auditing basis</i>
5(a)	Consolidated income statement	PPIA
5(b)	Consolidated balance sheet statement	PPIA
5(c)	Consolidated cash flow statement	PPIA
5(f)	Reconciliation of consolidated income, balance sheet and cash flow statements with the consolidated accounts of RMH plc	PPIA

208. For the purpose of **paragraph 17** of the Condition, Royal Mail shall secure an appropriate audit opinion by a Qualified Independent Auditor in respect of the financial statements and information specified in **Column 1 of Table 9** on the basis specified in **Column 2 of that Table**.

Table 9: Auditing bases for the purpose of paragraph 17 of the Condition

<i>Column 1: Financial statement/information referred to in paragraph 14 of the Condition</i>		<i>Column 2: Auditing basis</i>
14(a)	Annual income statement	PPIA
14(d)	Annual reconciliation of statements/information specified in paragraph 14(d) of the Condition	PPIA
14(e)	Annual balance sheet statement	PPIA
14(f)	Annual reconciliation of statements/information specified in paragraph 14(f) of the Condition	PPIA
14(g)	Annual cash flow statement	PPIA

209. For the purpose of **paragraph 28** of the Condition, Royal Mail shall secure an appropriate audit opinion by a Qualified Independent Auditor in respect of the financial statements and information specified in **Column 1 of Table 10** on the basis specified in **Column 2 of that Table**.

Table 10: Auditing bases for the purpose of paragraph 28 of the Condition

<i>Column 1: Financial statement/information referred to in paragraph 23 of the Condition</i>		<i>Column 2: Auditing basis</i>
23(a)	Annual income statement	PPIA
23(d)	Annual extended end to end income statement	PPIA
23(f)	Annual balance sheet statement	PPIA
23(g)	Annual cash flow sheet statement	PPIA
23(h)	Annual product profitability statements	PPIA

Appendix 1

Pro-formas

Figure 1: Consolidated income statement and reconciliation to RMH consolidated accounts

The income statement shall include notes which set out detail at the same level of, and are consistent with, the income financial statements and information for the Reported Business and shall include notes disclosing a breakdown and explanations of any material items. These notes must also reconcile the consolidated income statement of Royal Mail and the Relevant Group to the income statement for the Reported Business as set out in **paragraph 8** of these guidelines. In addition this consolidated income statement for the Relevant Group must be reconciled to the Royal Mail Strategic Business Plan.

Consolidated income statement (annual)

	Relevant Group	POL and other reconciling items	RMH
Continuing operations			
Turnover	xxx	xxx	xxx
Network Subsidy Payment	xxx	xxx	xxx
Revenue	xxx	xxx	xxx
People costs excluding ColleagueShare and restructuring costs	xxx	xxx	xxx
Distribution and conveyance operating costs	xxx	xxx	xxx
Other operating costs	xxx	xxx	xxx
Share of post tax profit from joint ventures and associates	xxx	xxx	xxx
Operating profit before exceptional items	xxx	xxx	xxx
Modernisation costs – operating exceptional items	xxx	xxx	xxx
ColleagueShare – ‘share’ scheme value	xxx	xxx	xxx
dividend	xxx	xxx	xxx
business transformation	xxx	xxx	xxx
Restructuring costs	xxx	xxx	xxx
Impairments	xxx	xxx	xxx
Operating profit after modernisation costs before other operating exceptional items	xxx	xxx	xxx
Other operating exceptional items	xxx	xxx	xxx
Operating (loss)/profit	xxx	xxx	xxx
Profit on disposal of property, plant and equipment	xxx	xxx	xxx
Profit on disposal of associate company	xxx	xxx	xxx
Profit before financing and taxation	xxx	xxx	xxx
Finance costs	xxx	xxx	xxx
Finance income	xxx	xxx	xxx
Net pensions interest	xxx	xxx	xxx
Loss before taxation	xxx	xxx	xxx
Taxation charge	xxx	xxx	xxx
Loss for the financial year from continuing operations	xxx	xxx	xxx
(Loss)/profit attributable to:			
Equity holder of the parent company	xxx	xxx	xxx
Non-controlling interest	xxx	xxx	xxx

Figure 2: Consolidated balance sheet statement and reconciliation to RMH consolidated accounts

This balance sheet statement shall include notes which set out detail at the same level of, and are consistent with, the balance sheet financial statements and information for the Reported Business and shall include notes disclosing a breakdown and explanations of any material items. These notes must also reconcile the consolidated balance sheet statements of Royal Mail and the Relevant Group to the balance sheet financial statements and information for the Reported Business as set out in **paragraph 8** of these guidelines. In addition this consolidated balance sheet statement for the Relevant Group should be reconciled to the Royal Mail Strategic Business Plan.

Consolidated balance sheet statement (annual)

	Relevant Group	POL and other reconciling items	RMH
Non-current assets			
Property, plant and equipment	xxx	xxx	xxx
Leasehold land payment	xxx	xxx	xxx
Goodwill	xxx	xxx	xxx
Intangible assets	xxx	xxx	xxx
Investments in joint ventures and associates	xxx	xxx	xxx
Financial assets – pension escrow investments	xxx	xxx	xxx
investments	xxx	xxx	xxx
derivatives	xxx	xxx	xxx
Other receivables	xxx	xxx	xxx
Deferred tax assets	xxx	xxx	xxx
	xxx	xxx	xxx
Non-current assets held for sale	xxx	xxx	xxx
Current assets			
Inventories	xxx	xxx	xxx
Trade and other receivables	xxx	xxx	xxx
Income tax receivable	xxx	xxx	xxx
Financial assets - investments	xxx	xxx	xxx
derivatives	xxx	xxx	xxx
Cash and cash equivalents	xxx	xxx	xxx
	xxx	xxx	xxx
Total assets	xxx	xxx	xxx
Current liabilities			
Trade and other payables	xxx	xxx	xxx
Financial liabilities – interest bearing loans and borrowings	xxx	xxx	xxx
obligations under finance lease and hire purchase contracts	xxx	xxx	xxx
derivatives	xxx	xxx	xxx
Income tax payable	xxx	xxx	xxx
Provisions	xxx	xxx	xxx
	xxx	xxx	xxx
Non-current liabilities			
Financial liabilities - interest bearing loans and borrowings	xxx	xxx	xxx
obligations under finance lease and hire purchase contracts	xxx	xxx	xxx
derivatives	xxx	xxx	xxx
Provisions	xxx	xxx	xxx
Retirement benefit obligation – pension deficit	xxx	xxx	xxx
Other payables	xxx	xxx	xxx
Deferred tax liabilities	xxx	xxx	xxx
	xxx	xxx	xxx
Total liabilities	xxx	xxx	xxx
Net liabilities	xxx	xxx	xxx
Equity			
Share capital			
Share premium	xxx	xxx	xxx
Retained earnings	xxx	xxx	xxx
Reserves	xxx	xxx	xxx
Equity attributable to equity holder of parent company	xxx	xxx	xxx
Non-controlling interest	xxx	xxx	xxx
Total equity	xxx	xxx	xxx

Figure 3: Consolidated cash flow statement and reconciliation to RMH consolidated accounts

The cashflow statement shall include notes which set out detail at the same level of, and are consistent with, the cash flow financial statements and information for the Reported Business and shall include notes disclosing a breakdown and explanations of any material items. These notes must also reconcile the consolidated cash flow statement of Royal Mail and the Relevant Group to the cash flow financial statements and information for the Reported Business as set out in **paragraph 8**. In addition this consolidated cash flow statement for the Relevant Group should be reconciled to the Royal Mail Strategic Business Plan.

Consolidated cash flow statement (annual)

	Relevant Group	POL and other reconciling items	RMH
Cash flow from operating activities			
Operating profit before exceptional items	xxx	xxx	xxx
Adjustment for:	xxx	xxx	xxx
Depreciation and amortisation	xxx	xxx	xxx
Share of post tax profit from joint ventures and associates	xxx	xxx	xxx
Working capital and other non-cash movements:	xxx	xxx	xxx
Increase in inventories	xxx	xxx	xxx
Decrease in receivables	xxx	xxx	xxx
Decrease in payables	xxx	xxx	xxx
Increase in client receivables	xxx	xxx	xxx
Increase/(decrease) in client payables	xxx	xxx	xxx
Net increase in derivative assets	xxx	xxx	xxx
Increase in non-exceptional provisions	xxx	xxx	xxx
Cash paid in respect of retirement benefit obligations in excess of that charged in operating profit	xxx	xxx	xxx
Cash payments in respect of operating exceptional items (see note (a) below):	xxx	xxx	xxx
ColleagueShare/business transformation payments	xxx	xxx	xxx
Other	xxx	xxx	xxx
Cash outflow from operations	xxx	xxx	xxx
Income tax paid	xxx	xxx	xxx
Net cash outflow from operating activities	xxx	xxx	xxx
Cash flows from investing activities	xxx	xxx	xxx
Dividends received from joint ventures and associates	xxx	xxx	xxx
Finance income received	xxx	xxx	xxx
Proceeds from sale of property, plant and equipment	xxx	xxx	xxx
Proceeds from disposal of associate company	xxx	xxx	xxx
Purchase of property, plant and equipment	xxx	xxx	xxx
Acquisition of businesses	xxx	xxx	xxx
Purchase of intangible assets	xxx	xxx	xxx
Payment of deferred consideration in respect of prior years' acquisitions	xxx	xxx	xxx
Net sale/(purchase) of financial assets investments (non-current)	xxx	xxx	xxx
Net proceeds from financial assets investments (current)	xxx	xxx	xxx
Net cash inflow/(outflow) from investing activities	xxx	xxx	xxx
Net cash outflow before financing activities	xxx	xxx	xxx
Cash flows from financing activities	xxx	xxx	xxx
Finance costs paid	xxx	xxx	xxx
Payment of capital element of obligations under finance lease contracts	xxx	xxx	xxx
Cash received on sale and leasebacks	xxx	xxx	xxx
New loans	xxx	xxx	xxx
Repayment of borrowings	xxx	xxx	xxx
Net cash inflow from financing activities	xxx	xxx	xxx
Net increase/(decrease) in cash and cash equivalents	xxx	xxx	xxx
Effect of exchange rates on cash and cash equivalents	xxx	xxx	xxx
Cash and cash equivalents at the beginning of the period	xxx	xxx	xxx
Cash and cash equivalents at the end of the period	xxx	xxx	xxx

Figure 5: Annual and quarterly income statement to EBIT

The annual and quarterly income statement to EBIT shall include notes disclosing a breakdown and explanations of any material items. In addition these notes shall include a statement of Transfer Charges setting out each material Transfer Charge separately.

Income statement

	USO	Non USO	Total upstream	Downstream	Total excluding end-to-end competitive products	End-to-End competitive products	Total Reported Business
External Revenues	xx	xx	xx	xx	xx	xx	xx
Internal Revenues (transfer charges) from upstream				xx	xx		xx
Operating costs	xx	xx	xx	xx	xx	xx	xx
People costs	xx	xx	xx	xx	xx	xx	xx
Depreciation, amortisation and impairments	xx	xx	xx	xx	xx	xx	xx
Net operating cost	xx	xx	xx	xx	xx	xx	xx
Transfer charges to downstream business	xx	xx	xx		xx		
Operating profit before exceptional charges	xx	xx	xx	xx	xx	xx	xx
Operating exceptional items	xx	xx	xx	xx	xx	xx	xx
Modernisation costs	xx	xx	xx	xx	xx	xx	xx
Other	xx	xx	xx	xx	xx	xx	xx
Operating profit	xx	xx	xx	xx	xx	xx	xx
EBIT as % of total revenues	x%	x%	x%	x%	x%	x%	x%
Volumes	xx	xx	xx	xx	xx	xx	xx

Figure 6: Annual extended end to end income statement to EBIT

The annual extended end to end income statement to EBIT shall include notes disclosing a breakdown and explanations of any material items.

Income statement end to end

	USO Mail	Non USO Mail	Non mail	Total Reported Business
External Revenues	xx	xx	xx	xx
Operating costs	xx	xx	xx	xx
People costs	xx	xx	xx	xx
Depreciation, amortisation and impairments	xx	xx	xx	xx
Net operating cost	xx	xx	xx	xx
Operating profit before exceptional charges	xx	xx	xx	xx
Operating exceptional items	xx	xx	xx	xx
Modernisation costs	xx	xx	xx	xx
Other	xx	xx	xx	xx
Operating profit	xx	xx	xx	xx
EBIT as % of total revenues	x%	x%	x%	x%
Volumes	xx	xx	xx	xx

Figure 7: Reconciliation of the annual income statement to EBIT to the Relevant Group

The reconciliation of the annual income statement to EBIT shall include notes describing any material reconciliation differences.

Income statement Reconciliation

	Total Reported Entity	Other operations	UKLPI	Other units, eliminations and recharges	Relevant Group
External Revenues	xx	xx	xx	xx	xx
Operating costs	xx	xx	xx	xx	xx
People costs	xx	xx	xx	xx	xx
Depreciation, amortisation and impairments	xx	xx	xx	xx	xx
Net operating cost	xx	xx	xx	xx	xx
Operating profit before exceptional charges	xx	xx	xx	xx	xx
Operating exceptional items	xx	xx	xx	xx	xx
Modernisation costs	xx	xx	xx	xx	xx
Other	xx	xx	xx	xx	xx
Operating profit	xx	xx	xx	xx	xx
Volumes	xx	xx	xx	xx	xx

Figure 8: Annual balance sheet statement

The annual balance sheet statement shall include notes disclosing a breakdown and explanations of any material items. In addition these notes shall detail the breakdown of the total fixed asset Net Book Value allocated to the Reported Business as a whole and each of the Four FREs, by main asset classes.

Balance Sheet

	USO	Non USO	Total upstream	Downstream	Total excluding end-to-end competitive products	End-to-End competitive products	Total Reported Business
Assets	xx	xx	xx	xx	xx	xx	xx
Fixed assets	xx	xx	xx	xx	xx	xx	xx
Tangible assets	xx	xx	xx	xx	xx	xx	xx
Goodwill and Intangible assets	xx	xx	xx	xx	xx	xx	xx
Other non current assets	xx	xx	xx	xx	xx	xx	xx
Current assets	xx	xx	xx	xx	xx	xx	xx
Trade and other receivables	xx	xx	xx	xx	xx	xx	xx
Cash and cash equivalents	xx	xx	xx	xx	xx	xx	xx
Other current assets	xx	xx	xx	xx	xx	xx	xx
Current liabilities							
Trade and other payables	xx	xx	xx	xx	xx	xx	xx
Financial liabilities	xx	xx	xx	xx	xx	xx	xx
Provisions and other current liabilities	xx	xx	xx	xx	xx	xx	xx
Total assets less current liabilities	xx	xx	xx	xx	xx	xx	xx
Long term liabilities	xx	xx	xx	xx	xx	xx	xx
Financial liabilities	xx	xx	xx	xx	xx	xx	xx
Retirement benefit obligations	xx	xx	xx	xx	xx	xx	xx
Others	xx	xx	xx	xx	xx	xx	xx
Shareholder funds	xx	xx	xx	xx	xx	xx	xx

Figure 9: Reconciliation of the balance sheet statement to the Relevant Group

The reconciliation of the annual balance sheet statement to EBIT shall include notes describing any material reconciliation differences. In addition these notes shall include an explanation regarding the long term debt and financing costs.

Balance Sheet Reconciliation

	Total Reported Entity	Other operations	UKLPI	Other units, eliminations and recharges	Relevant Group
Assets	xx	xx	xx	xx	xx
Fixed assets	xx	xx	xx	xx	xx
Tangible assets	xx	xx	xx	xx	xx
Goodwill and Intangible assets	xx	xx	xx	xx	xx
Other non current assets	xx	xx	xx	xx	xx
Current assets	xx	xx	xx	xx	xx
Trade and other receivables	xx	xx	xx	xx	xx
Cash and cash equivalents	xx	xx	xx	xx	xx
Other current assets	xx	xx	xx	xx	xx
Current liabilities					
Trade and other payables	xx	xx	xx	xx	xx
Financial liabilities	xx	xx	xx	xx	xx
Provisions and other current liabilities	xx	xx	xx	xx	xx
Total assets less current liabilities	xx	xx	xx	xx	xx
Long term liabilities	xx	xx	xx	xx	xx
Financial liabilities	xx	xx	xx	xx	xx
Retirement benefit obligations	xx	xx	xx	xx	xx
Others	xx	xx	xx	xx	xx
Shareholder funds	xx	xx	xx	xx	xx

Figure 10: Annual cash flow statement

The annual cash flow statement shall include notes disclosing a breakdown and explanations of any material items.

Cash flow

	USO	Non USO	Total upstream	Downstream	Total excluding end-to-end competitive products	End-to-End competitive products	Total Reported Business
Operating profit before exceptional items	xx	xx	xx	xx	xx	xx	xx
Add back non cash costs							
Depreciation	xx	xx	xx	xx	xx	xx	xx
Pension Charge	xx	xx	xx	xx	xx	xx	xx
Share of profit of joint venture and associates	xx	xx	xx	xx	xx	xx	xx
Operating earnings before non-cash costs	xx	xx	xx	xx	xx	xx	xx
Less cash outflows							
Working capital and other non cash movements							
Trade and other receivables	xx	xx	xx	xx	xx	xx	xx
Cash and cash equivalents	xx	xx	xx	xx	xx	xx	xx
Other current assets	xx	xx	xx	xx	xx	xx	xx
Trade and other payables	xx	xx	xx	xx	xx	xx	xx
Financial liabilities	xx	xx	xx	xx	xx	xx	xx
Provisions and other current liabilities	xx	xx	xx	xx	xx	xx	xx
Pension cash contribution							
Ongoing	xx	xx	xx	xx	xx	xx	xx
Net cash outflow from operating activities	xx	xx	xx	xx	xx	xx	xx
Purchase of intangibles and fixed asset investments	xx	xx	xx	xx	xx	xx	xx
Purchases of property, plant and equipment	xx	xx	xx	xx	xx	xx	xx
Proceeds from disposals of property, plant and equipment	xx	xx	xx	xx	xx	xx	xx
Cash flows from other investment activities	xx	xx	xx	xx	xx	xx	xx
Net cash outflow from operating and investment activities	xx	xx	xx	xx	xx	xx	xx
Exceptional cash flow	xx	xx	xx	xx	xx	xx	xx
Net cash outflow after exceptional items and financing costs	xx	xx	xx	xx	xx	xx	xx

11: Reconciliation of the annual cash flow statement to the Relevant Group

The reconciliation of the annual cash flow statement shall include notes describing any material reconciliation differences.

Cash flow reconciliation

	Total Reported Entity	Other operations	UKLPI	Other units, eliminations and recharges	Relevant Group
Operating profit before exceptional items	xx	xx	xx	xx	xx
Add back non cash costs					
Depreciation	xx	xx	xx	xx	xx
Pension Charge	xx	xx	xx	xx	xx
Share of profit of joint venture and associates	xx	xx	xx	xx	xx
Operating earnings before non-cash costs	xx	xx	xx	xx	xx
Less cash outflows					
Working capital and other non cash movements					
Trade and other receivables	xx	xx	xx	xx	xx
Cash and cash equivalents	xx	xx	xx	xx	xx
Other current assets	xx	xx	xx	xx	xx
Trade and other payables	xx	xx	xx	xx	xx
Financial liabilities	xx	xx	xx	xx	xx
Provisions and other current liabilities	xx	xx	xx	xx	xx
Pension cash contribution					
Ongoing	xx	xx	xx	xx	xx
Net cash outflow from operating activities	xx	xx	xx	xx	xx
Purchase of intangibles and fixed asset investments	xx	xx	xx	xx	xx
Purchases of property, plant and equipment	xx	xx	xx	xx	xx
Proceeds from disposals of property, plant and equipment	xx	xx	xx	xx	xx
Cash flows from other investment activities	xx	xx	xx	xx	xx
Net cash outflow from operating and investment activities	xx	xx	xx	xx	xx
Exceptional cash flow	xx	xx	xx	xx	xx
Net cash outflow after exceptional items and financing costs	xx	xx	xx	xx	xx

Figure 12: Annual and quarterly product profitability statement

The annual and quarterly product profitability statements shall include notes disclosing a breakdown and explanations of any material items.

Product Profitability Statement - split by Line B

	Product X		Total
	Upstream	Downstream	Product X
External Revenues	xx	xx	xx
Operating costs	xx	xx	xx
People costs	xx	xx	xx
Depreciation, amortisation and impairments	xx	xx	xx
Net operating cost	xx	xx	xx
Operating profit before exceptional charges	xx	xx	xx
Operating exceptional items (FAC only)	xx	xx	xx
Other	xx	xx	xx
Operating profit	xx	xx	xx
Volumes	xx	xx	xx

Product Profitability Statement - not split by Line B

	End to end competitive product
External Revenues	xx
Operating costs	xx
People costs	xx
Depreciation, amortisation and impairments	xx
Net operating cost	xx
Operating profit before exceptional charges	xx
Operating exceptional items (FAC only)	xx
Other	xx
Operating profit	xx
Volumes	xx

Figure 13: Monthly revenue, cost and volume information statements

The monthly revenue, cost and volume information statement shall include notes disclosing a breakdown and explanations of any material items.

Financial Year	x
Financial Period	y

Please fill in all yellow cells

All £m	Period		x	YTD	
Summary Profit & loss	Actual	Budget	%Var	Prior Year	%Var
External revenue					
People & non people costs					
Interbusiness Costs					
Other					
Profit Before Exceptionals, Interest & Tax					

People	Period	x	YTD
	Actual	Prior Year	%Var
Part time employees			
Full time employees			
Full time equivalents (FTE)			

All £m	Period		x	YTD	
Cost Analysis	Actual	Budget	%Var	Prior Year	%Var
People Costs (Exc Pensions)					
People Costs Pensions					
Non People costs					
People & non people costs					
Depreciation					
Project Costs					
Other including Interbusiness					
Total Other					

External Revenue £m	y	y-1	%Var
First Class - Stamp			
First Class - Meter			
First Class - PPI			
Second Class - Stamp			
Second Class - Meter			
Second Class - PPI			
Mailsort 1			
Mailsort 2 - 70 CBC			
Mailsort 2 - 70 OCR			
Mailsort 2 - 120 CBC			
Mailsort 2 - 120 OCR			
Mailsort 2 - 700			
Mailsort 2 - 1400			
Mailsort 2 - Advertising Mail			
Mailsort 3			
Walksort			
Access 120 CBC			
Access 120 OCR			
Access 700			
Access 1400			
Access Walksort			
Access Other			
Presstream			
Special Delivery Next Day B2B			
Special Delivery Other			
Standard Parcel			
Other*			
Total Addressed Inland products			
Door to Door			
International			
Ancillary/Elections/Other			
Total			

External Volumes (Items m)	y	y-1	%Var
First Class - Stamp			
First Class - Meter			
First Class - PPI			
Second Class - Stamp			
Second Class - Meter			
Second Class - PPI			
Mailsort 1			
Mailsort 2 - 70 CBC			
Mailsort 2 - 70 OCR			
Mailsort 2 - 120 CBC			
Mailsort 2 - 120 OCR			
Mailsort 2 - 700			
Mailsort 2 - 1400			
Mailsort 2 - Advertising Mail			
Mailsort 3			
Walksort			
Access 120 CBC			
Access 120 OCR			
Access 700			
Access 1400			
Access Walksort			
Access Other			
Presstream			
Special Delivery Next Day B2B			
Special Delivery Other			
Standard Parcel			
Other*			
Total Addressed Inland products			
Door to Door			
International			
Ancillary/Elections/Other			
Total			

*Other		
Cleanmail	85	
Packetpost	166	
Mail order return	4	
Packetpost Returns	9	
Response Services	46	
Mailmedia	3	
Big Book	1	
RM Heavyweight	0	
IREED - 1225	13	
Group Centre (Security Fees) - 1166	1	
HR Services - 1309	1	
Finance (excl Property) - 1612	0	
Group Technology - 1232	0	
Group Property - 1133	0	
RMESL - 1642	0	
Devco - 1646	0	
Total Parcelforce Worldwide - 1188	172	
	502	

*Other		
Cleanmail	314	
Packetpost	147	
Mail order return	2	
	4	
Response Services	112	
Mailmedia	8	
Big Book	1	
RM Heavyweight	0	
IREED - 1225	0	
Group Centre (Security Fees) - 1166	0	
HR Services - 1309	0	
Finance (excl Property) - 1612	0	
Group Technology - 1232	0	
Group Property - 1133	0	
RMESL - 1642	0	
Devco - 1646	0	
Total Parcelforce Worldwide - 1188	27	
	615	

International	165	
Total Int S/SME	209	
	0	
	0	
	374	

International	292	
Total Int S/SME	99	
	0	
	0	
	391	

Ancillary/Elections/Other		
Bulk Surcharges	2	
Business Mail Secure	0	
Total Philatelic	22	
Total Recorded (Ancillary)	31	
RM Tracked Low Volume	13	
RM Tracked High Volume	11	
RM Tracked Next Day	4	
Total Ancillary	55	
Total Specialist Services	10	
Data	3	
Data Lead Generation	0	
Media	0	
Print & Production	0	
Total Selectapost	1	
Simply Drop	0	
Disguised Mail	0	
Mails Management Services	3	
Mail Shots Online	0	
Dialogue Mail	0	
Total Customer Services (incl AMC)	14	
Post Bus	0	
Service Delivery	0	
Total Elections	26	
Bespoke service indicator	0	
Matter Media Space	0	
CED - CIC - EVENING DELIVERY	0	
	195	

Ancillary/Elections/Other		
Bulk Surcharges	0	
Business Mail Secure	0	
Total Philatelic	0	
Total Recorded (Ancillary)	0	
RM Tracked Low Volume	5	
RM Tracked High Volume	6	
RM Tracked Next Day	1	
Total Ancillary	12	
Total Supply Chain	0	
Data	0	
Data Lead Generation	0	
Media	0	
Print & Production	0	
Total Selectapost	0	
Pouch & Courier Services	0	
Disguised Mail	0	
Mails Management Services	0	
Total Alliance & Integration	0	
Dialogue Mail	0	
Total Customer Services (incl AMC)	0	
Sales Initiatives Pot	0	
Service Delivery	0	
Total Elections	117	
Bespoke service indicator	0	
Matter Media Space	0	
CED - CIC - EVENING DELIVERY	0	
	129	0

Appendix 2

Product Allocations for Accounting Separation

Product allocations along A/C separation lines based on products as at 2010-11 year-end			
Require access to Royal Mail's core US network		Not require access to Royal Mail's core US network	
Line C	Line A		
Also separated at IMC entry point by Line B	Also separated at IMC entry point by Line B		
USO products (& Downstream services)	Non-USO products (& Downstream services)	End to end competitive products	RML's non-Mails products and services
Stamp 1c/2c	Cleanmail	Packetpost (> 2kg)	Relay
Meter 1c/2c	Cleanmail Plus	Packetsort (> 2kg)	Sameday
PPI (inc ASTLL) 1c/2c (Single piece)	Cleanmail Advanced	Packetsort Plus (> 2kg)	Deliver & Build
Special Delivery Next Day (Stamp & Meter)	Mailsort 1400 1c/2c	Bespoke Packetsort (> 2kg)	External Warehousing
Pre paid stationary 1c/2c	Mailsort 1400 3c	RM Tracked (> 2kg)	Internal Warehousing
Recorded Delivery	Mailsort 700	RM Heavyweight (> 2kg)	Pallets
Proof of Delivery	Mailsort 120	Special Delivery (All exc. for products in Box 1)	Royal Mail Parts Express (inc Call & collect)
Franking Machine Resetting	Mailsort 70	International bulk mail	Linehaul
Railway Letter Service	Walksort	Door-to-Door	Address Management Centre Products (AMC)
Perishable Biological Substances	Presstream (inc. Premium, Walksort, Direct & Residue)		British Gas Boxes
Local Collect	Packetpost (< 2kg)		LS Projects
Certificate of Posting	Packetsort (< 2kg)		Inward Customs Clearance Fees
Petitions to Queen/Parliament	Packetsort Plus (< 2kg)		Postbuses
Poste Restante	Bespoke Packetsort (< 2kg)		Postmark Slogans
RLB Postings (Belfast)	Access		Consultancy & Agency Work (BPCS)
Special Appeals/Charities	DSA		Physical to Electronic
Unofficial Redirections	RM Tracked (< 2kg)		Import Parcels
Surcharges (Social)	Tracked Signature High Volume		Know How Guide
Aerogrammes (prepaid)	Tracked High Volume		Sale of Post Boxes
Aircard	RM Heavyweight (exc. pkts > 2kg)		Rental of Post Boxes
Airmail & Surface (Letters, Postcards, Printed Papers, & Small Packets)	Sample Return Services		Data Services
Airpacks (Business)	Close UserGroup		Spring Recharge
Articles for the Blind - Air/Surface	Flatsort		Simply Drop
Consumer Airpacks	Delivery Notification		Stamps & Collectibles
International Signed for	Big Book		All intragroup income
International Signed for Plus	Freepost Name		Branch Direct
International recorded	Response Services		Dummy costs
Inward Air & Surface (Letters, Flats, Packets, Bags < 5kg & > 5kg, Insured/Registered, & PTT Access)	Postal Voting		Mailshots online
Inward Air Express	Citystream		
Inward Air Any Unsorted	BT Telemessaging Service		
Inward Surface Unsorted	Call and Collect		
Inward Returns	EDIPOST		
USO Parcels	Electronic Service Postage		
	Business Collections		
	Bespokes		
	Callers Service		
	Calling for Priority Mail		
	Franked Paid Surcharge		
	Keepsafe Social		
	Ministerial Pouch Services		
	Newspaper Registration Fee		
	Floor Fees		
	Pouch Services		
	Retention of Mail (Business Retention only)		
	Rural Carriage of Goods		
	Rural Newspaper Delivery Service		
	Rural Roadside Locked Private Letter Boxes		
	Selectapost		
	Timed Delivery		
	Miscellaneous Services		
	Courier Service (Bespoke)		
	Start Time Standard Service		
	Office to Home Service		
	Safebox		
	Pre Sorted Delivery		
	Early Extraction		
	Early Collect		
	Business Mail Secure		
	Sales related fees		
	Mailrooms		
	Articles for the Blind		
	Royal Household Mail		
	Santa Mail		
	Election Postings		
	Surcharges (Business)		
	Private Boxes		
	Diversion (Delivery at Another Address)		
	Redirection		
	Do Not Redirect		
	British Forces Mail (Outward & Inward)		
	Application of Indicia		
	Docket Completion		
	International Admail		
	IBRS Import		
	International (All products except bulk mail, Signed for, and Signed for Plus)		
	Switair		
	Swiftpacks		
	Airsure		
	Transits		
	ADEC		
	IBRS Exports		
	Direct Entry - Import		
	Three Islands (including special delivery)		
	Spring (exc. Recharge)		
	Miscellaneous Income		
	Admail		
	Large Mail Order Returns		
	MailMedia		
	POI Collect		
	COP Extraction		
	Census - Bespoke		
	Advertising mail		

Appendix 3

Material change pro-forma

Royal Mail shall provide information to Ofcom for each separate change that is material in a format that is clear and transparent using, where possible, either the pro-forma set out in **Table 11** of this Appendix for any material changes to the Regulatory Accounting Methodology or the pro-forma set out in **Table 12** of this Appendix for any material changes to income statements, balance sheet statements and cash flow sheet statements. Where it is not possible to use these pro-formas, Royal Mail shall use its best endeavours to provide similar information to Ofcom in a clear and transparent manner that is fit for purpose, and in accordance with the following requirements—

- (a) The description of the change should be explained in a manner that can be easily understood by a reader who does not have a detailed technical knowledge of Royal Mail's operations or costing systems (e.g. avoiding acronyms and technical jargon to the greatest extent possible). Where relevant, Royal Mail shall provide diagrammatic and graphical representations of the scope and nature of the change;
- (b) The date from which the change will be effective, together with a brief explanation identifying which of the financial statements and information required under the Condition will be affected by this change; and
- (c) The reasons for the change, stating the date on which the relevant information resulting in the change came into Royal Mail's possession, the financial information that it applies to, and if it affects prior periods; and
- (d) The notification should demonstrate how the change complies with the Regulatory Accounting Methodology; and
- (e) An explanation of the impact of the change, showing all items affected (activity costs, product costs and/or regulatory accounts items). This explanation shall include
 - (i) a clear explanation of the change, clearly set out (similarly to Table 11 of this Appendix);
 - (ii) the characteristics and the value of the item before the change; and
 - (iii) the characteristics and the value of the item after the change using the last set of relevant financial statements and information as required to be published or delivered to Ofcom under the Condition; and
 - (iv) the relevant items affected in the income statements, balance sheet statements and cash flow sheet statements showing the impact on these reported items before and after the change (similarly to Table 12 of this Appendix).

Table 11 Material changes to the Regulatory Accounting Methodology

Description of change:						
Date change effective from:						
Area of the costing system affected (as relevant – use diagrammatic representation where possible)						
Area of the pipeline affected (as relevant – use diagrammatic representation where possible)						
Reasons for change (including available options considered):						
Compliance with the RAG:						
Costing System:						
		(a)	(b)	(c)	(c) / (a)	
Items affected		Value before change	Value after change	Difference	% difference	Comments
Activity x cost	Total					
	USO product					
	Access product					
	Non-USO (remainder)					
Product x cost	Total					
	USO product					
	Access product					
	Non-USO (remainder)					

Table 12 Material changes to income statements, balance sheet statements and cash flow sheet statements

Income Statement material changes					
	(a)	(b)	(c)	(c) / (a)	
Reported Item	Value before change	Value after change	Difference	% difference	Comments
Item 1					
Item 2					
....					
Item x					

Balance Sheet Statement material changes					
	(a)	(b)	(c)	(c) / (a)	
Reported Item	Value before change	Value after change	Difference	% difference	Comments
Item 1					
Item 2					
....					
Item x					

Cash Flow Statement material changes					
	(a)	(b)	(c)	(c) / (a)	
Reported Item	Value before change	Value after change	Difference	% difference	Comments
Item 1					
Item 2					
....					
Item x					

Notes to the accounts: material changes	
Reported Item	Notes
Item 1	
Item 2	
....	
Item x	