

Annex 4 – USP Accounting Condition (USPAC) (changes marked up)

SCHEDULE

USP ACCOUNTING CONDITION

1.1. Application, definitions and interpretation

| | |
|---|--|
| <p>USPAC 1.1.1 <i>Application</i></p> | <p>This USP accounting condition (“USPAC Condition”) shall apply to the <u>universal service provider</u>.</p> |
| <p>USPAC 1.1.2 <i>Definitions</i></p> | <p>In this USPAC Condition—</p> <p>(a) “Access” has the meaning given to it for the purpose of section 38 of the <u>Act</u> and, in relation to giving a person access to <u>Royal Mail’s postal network</u>, includes giving a person an entitlement to use, be provided with or become a party to any services, facilities or arrangements comprised in the <u>postal network</u>;</p> <p>(b) “Accounting Methodology Manual” means the document from time to time containing all the <u>Regulatory Accounting Methodology</u> used by <u>Royal Mail</u> to comply with obligations imposed by or under this USPAC Condition, in particular the requirements in the <u>Regulatory Accounting Guidelines</u>, except for the <u>National Costing Methodology</u> and the <u>Zonal Costing Methodology</u> which are both documented in the <u>Costing Manual</u>;</p> <p>(c) “Act” means the Postal Services Act 2011 (c.5);</p> <p>(d) “Annual Financial Forecast” means the document containing such information as <u>OFCOM</u> directs from time to time in the <u>Regulatory Accounting Guidelines</u> in respect of a <u>Relevant Period</u>; “Annual Budget” means a document containing <u>Royal Mail’s budget for any Financial Year, including estimates of revenue, operating expenditure and capital expenditure for the Financial Year in question, relating to the activities undertaken by the Relevant Group</u>;</p> <p>(e) “consolidated” means the combination of the accounts of persons corporate and unincorporate that make up the <u>Relevant Group</u>, applying the same methodologies used for consolidating the consolidated accounts of <u>IDS plc RM plc</u> encompassing any of its subsidiaries (as defined by section 1159 of the Companies Act 2006), and any of its subsidiary undertakings (as defined by</p> |

section 1162 of the Companies Act 2006);

(f) “Costing Manual” means the document from time to time containing Royal Mail’s detailed description of the National Costing Methodology and the Zonal Costing Methodology and identifying all sources of data, and all supporting empirical data used for assumptions, used in the National Costing Methodology and the Zonal Costing Methodology;

(g) “Financial Month” means one of twelve consecutive periods in a Financial Year, each such period comprising four or five consecutive weeks, month comprised in a the Financial Year. Where a Financial Year comprises fifty-three consecutive weeks, any reference to the last Financial Month of that Financial Year is to be understood to comprise a period of five consecutive weeks;

(h) “Financial Quarter” means one of four consecutive periods in a Financial Year, each such period comprising of thirteen or fourteen three consecutive weeks, months comprised in the Financial Year, the first quarterly period of which begins with the first month of the Financial Year. Where a Financial Year comprises fifty-three consecutive weeks, any reference to the last quarterly period of that Financial Year is to be understood to comprise a period of fourteen consecutive weeks;

(i) “Financial Year” means any period of fifty-two or fifty-three twelve consecutive weeks months, for which the annual statutory financial statements of IDS plc RM plc are filed with Companies House prepared;

(j) “First Relevant Financial Year” means the Financial Year starting on or around the 27th day of March 2023;

(k) “Five-Yearly Financial Forecast” means the document containing such information as OFCOM directs from time to time in the Regulatory Accounting Guidelines in respect of a Relevant Period;

(l) “Guiding Principles” has the meaning given to it in USPAC 1.7.2;

(m) “IDS plc” means International Distributions Services plc, whose registered company number in England and Wales is 08680755;

(n-k) “National Costing Methodology” means the rules, procedures, methods, algorithms, assumptions and other processes used by Royal Mail for the purpose of assigning the costs of the Reported Business, which it incurs in the conduct of its business, without geographic differentiation in the United Kingdom to the products it provides in the course of that business, wherever those rules, procedures, methods, algorithms, assumptions and other processes may be set out;

(o-l) “non-Mails” means all of the products and/or services provided by the Reported Business that do not fall within the meaning of postal services, which products and/or services OFCOM may direct from time to time (in the Regulatory Accounting Guidelines or otherwise) to be treated as ‘non-Mails’ for the purpose of matters relating to this USPAC Condition;

(p n) “**non-USO**” means all of the products and/or services provided by the Reported Business that are not part of USO products and/or services;

(q n) “**PAF**” means ‘Postal Address File’, a database of all valid postal addresses and their postcodes in the United Kingdom, and the services provided by Royal Mail in relation to that database;

(r e) “**Qualified Independent Auditor**” means a person who is eligible for appointment as a statutory auditor under Part 42 of the Companies Act 2006 and, if the appointment were an appointment as a statutory auditor, would not be prohibited from acting by section 1214 of that Act (independence requirement);

(s p) “**Regulatory Accounting Guidelines**” means 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 by or under this USPAC Condition;

(t e) “**Regulatory Accounting Methodology**” means the rules, policies, procedures, methods, models (including tables, matrices, mappings, lists of accounts, codes and cost structures), calculations, algorithms, concepts, assumptions (including a description of any evidence underlying such assumptions) and any other processes, used by Royal Mail for the purpose of preparing regulatory financial statements and other regulatory financial reports;

(u n) “**Relevant Group**” comprises: (i) IDS plc; (ii) its subsidiaries and holding companies; (iii) its subsidiary undertakings and parent undertakings; and (iv) subsidiaries and subsidiary undertakings of such holding companies and of such parent undertakings (all as defined by sections 1159 and 1162 of the Companies Act 2006, as applicable) means RM plc, and any of its subsidiaries (as defined by section 1159 of the Companies Act 2006), and any of its subsidiary undertakings (as defined by section 1162 of the Companies Act 2006);

(v) “**Relevant Period**”, in respect of a Financial Year, means a period of five consecutive Financial Years comprising that Financial Year and the subsequent four Financial Years;

(w s) “**Reported Business**” means the part of Royal Mail’s business that undertakes activities for the purpose of, or in connection with, the provision of USO and non-USO (including, but not limited to, non-Mails), the fully allocated costs of which are derived by the National Costing Methodology and Zonal Costing Methodology as described in the Costing Manual. For the avoidance of doubt, those activities shall be treated to include all the activities, products and/or services which fall within the scope of the Costing Manual from time to time. The reference to fully allocated costs is a reference to a costing methodology in which all costs are allocated to the outputs of the business;

(w t) “**RM plc**” means Royal Mail plc, whose registered company number in

| | |
|--|---|
| | <p>England and Wales is 08680755;</p> <p>(x u) “Royal Mail” means Royal Mail Group Limited, whose registered company number in England and Wales is 04138203;</p> <p>(y v) “Strategic Business Plan” means the <u>Royal Mail’s</u> business plan approved by the a board of directors of the <u>Relevant Group</u> setting out <u>Royal Mail’s</u> the performance and vision for the activities undertaken by the <u>Relevant Group</u>, including a forecast of revenue, operating expenditure, capital expenditure, expectations of change in the postal market, and details of future planned initiatives (e.g. projects to improve efficiency) together with <u>Royal Mail’s</u> expectations of changes in the postal market and the wider economic environment;</p> <p>(z w) “USO” means products and/or services provided by <u>Royal Mail</u> for the purpose of complying with its universal service obligations imposed by any designated USP condition; and</p> <p>(aa x) “Zonal Costing Methodology” means the rules, procedures, methods, algorithms, assumptions and other processes used by <u>Royal Mail</u> for the purpose of assigning the costs of the <u>Reported Business</u>, which it incurs in the conduct of its business, to the products for which it sets geographically differentiated prices, wherever those rules, procedures, methods, algorithms, assumptions and other processes identify cost differentials between specific zones defined by <u>Royal Mail</u> in accordance with its obligations by or under this USPAC Condition.</p> |
| <p>USPAC</p> <p>1.1.3</p> <p><i>Interpretation</i></p> | <p>For the purpose of interpreting this USPAC Condition—</p> <p>(a) except in so far as USPAC 1.1.2 or the context otherwise requires, any word or expression shall have the same meaning as it has been ascribed for the purpose of Part 3 of the <u>Act</u>;</p> <p>(b) headings and titles shall be disregarded;</p> <p>(c) expressions cognate with those referred to in this USPAC Condition shall be construed accordingly;</p> <p>(d) the Interpretation Act 1978 (c. 30) shall apply as if this USPAC Condition were an Act of Parliament;</p> <p>(e) references to a “day” are references to a period of twenty-four hours beginning with one midnight and ending with the next, which period shall be treated to include a Saturday, a Sunday, a Bank Holiday, Christmas Day, Good Friday or other public holiday; and</p> <p>(f) references (and cognate expressions) to any financial statements, information and other regulatory financial reports to be prepared, maintained, audited, published, sent or delivered by <u>Royal Mail</u> under this USPAC Condition are references which also include, where relevant, the obligation on <u>Royal Mail</u> to procure such things to be done by the <u>Relevant Group</u>.</p> |

1.2. General obligations

| | |
|--|--|
| <p>USPAC</p> <p>1.2.1</p> <p><i>Consents etc.</i></p> | <p><u>Royal Mail</u> must act in the manner and form required by the obligations imposed by or under this USPAC Condition, except in so far as <u>OFCOM</u> may otherwise consent, approve or recommend in writing from time to time.</p> |
| <p>USPAC</p> <p>1.2.2</p> <p><i>Directions</i></p> | <p><u>OFCOM</u> may from time to time give such directions as they consider appropriate in relation to <u>Royal Mail</u>—</p> <p>(a) maintaining a separation for accounting purposes between such different matters as <u>OFCOM</u> may direct for such purposes as they 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;</p> <p>(b) complying with rules made by <u>OFCOM</u> 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 <u>OFCOM</u> in this regard;</p> <p>(c) complying with rules made by <u>OFCOM</u> 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 <u>OFCOM</u> in this regard;</p> <p>(d) securing that <u>Royal Mail</u>'s compliance with those systems is audited annually by a <u>Qualified Independent Auditor</u>, including <u>Royal Mail</u> meeting the costs of the audit; and</p> <p>(e) otherwise in relation to <u>Royal Mail</u>'s obligations under this USPAC Condition.</p> |
| <p>USPAC</p> <p>1.2.3</p> <p><i>Compliance with directions</i></p> | <p><u>Royal Mail</u> must comply with any direction given by <u>OFCOM</u> from time to time under this USPAC Condition.</p> |
| <p>USPAC</p> <p>1.2.4</p> | <p>Except in so far as <u>OFCOM</u> may otherwise consent in writing from time to time, <u>Royal Mail</u> must keep for a period of six years all the financial statements and information required by or under this USPAC Condition.</p> |

| | |
|-------------------|--|
| Records retention | |
|-------------------|--|

1.3. Obligations relating to the Relevant Group

| | |
|---|---|
| <p>USPAC</p> <p>1.3.1</p> <p><i>Financial statements and information</i></p> | <p><u>Royal Mail</u> must prepare and maintain the following—</p> <p>(a) for each <u>Financial Quarter</u>, a <u>consolidated</u> cash flow projection statement for the <u>Relevant Group</u> in respect of that <u>Financial Quarter</u> together with the five <u>Financial Quarters</u> that follow that <u>Financial Quarter</u>;</p> <p>(b) for each <u>Financial Year</u>, <u>except for a Financial Year in which a Five-Yearly Financial Forecast must be delivered under USPAC 1.3.1(c), an Annual Financial Forecast Strategic Business Plan for the Relevant Group to be updated from time to time as required under USPAC 1.3.3(c); and</u></p> <p>(c) for the <u>each First Relevant Financial Year Financial Year</u>, and at a five-year interval thereafter, a <u>the Five-Yearly Financial Forecast Annual Budget</u> for the <u>Relevant Group</u>.</p> |
| <p>USPAC</p> <p>1.3.2</p> <p><i>Accounting standards & Pro-formas</i></p> | <p><u>Royal Mail</u> must prepare the financial statements and information required under USPAC 1.3.1 applying the accounting standards and methodologies used in the statutory <u>consolidated</u> accounts of <u>IDS plc RM plc</u>, and by using the pro formas corresponding to the statement or information in question prescribed by <u>OFCOM</u> in the <u>Regulatory Accounting Guidelines</u> or otherwise as <u>OFCOM</u> may direct from time to time.</p> |
| <p>USPAC</p> <p>1.3.3</p> <p><i>Consistency standards</i></p> | <p>In complying with USPAC 1.3.1 and 1.3.6, <u>Royal Mail</u> must comply with the following—</p> <p>(a) Where a <u>Strategic Business Plan</u> has been approved in the period of 90 days immediately preceding the <u>day</u> on which an <u>Annual Financial Forecast</u> or a <u>Five-Yearly Financial Forecast</u> must be delivered to <u>OFCOM</u> under USPAC 1.3.6, as applicable, <u>Royal Mail</u> must ensure that the financial statements and information comprised in that <u>Annual Financial Forecast</u> or that <u>Five-Yearly Financial Forecast</u>, as applicable:</p> <p style="padding-left: 40px;">(i) are consistent with the financial statements and information comprised in that <u>Strategic Business Plan</u>; and</p> <p style="padding-left: 40px;">(ii) take account of the latest financial results available to <u>Royal Mail</u>;</p> <p>(b) Where no <u>Strategic Business Plan</u> has been approved in the period of 90 days immediately preceding the <u>day</u> on which an <u>Annual Financial Forecast</u> or a <u>Five-Yearly Financial Forecast</u> must be delivered to <u>OFCOM</u> under USPAC 1.3.6, as applicable, <u>Royal Mail</u> must prepare that <u>Annual Financial Forecast</u> or <u>Five Yearly Financial Forecast</u>, as applicable, taking account of the latest financial results available to <u>Royal Mail</u>;</p> |

| | |
|---|---|
| | <p>(c) Where an <u>Annual Financial Forecast</u> has been prepared in accordance with USPAC 1.3.3(b), <u>Royal Mail</u> must update that <u>Annual Financial Forecast</u> to ensure that the financial statements and information comprised in that <u>Annual Financial Forecast</u> are consistent with the financial statements and information comprised in a <u>Strategic Business Plan</u> subsequently approved by <u>Royal Mail</u> in the first <u>Financial Year</u> to which that <u>Annual Financial Forecast</u> relates.</p> |
| <p>USPAC 1.3.4 <i>Additional requirements</i></p> | <p><u>Royal Mail</u> must prepare and maintain the financial statements and information required under USPAC 1.3.1 in accordance with such additional requirements prescribed by <u>OFCOM</u> in the <u>Regulatory Accounting Guidelines</u> or otherwise as <u>OFCOM</u> may direct from time to time.</p> |
| <p>USPAC 1.3.5 <i>Publication</i></p> | <p><u>Royal Mail</u> must publish such elements of the financial statements and information required under USPAC 1.3.1(c) as <u>OFCOM</u> directs from time to time in the <u>Regulatory Accounting Guidelines</u> by placing a copy of the statements and information in a prominent place on an appropriate, publicly accessible website operated or controlled by the <u>Relevant Group</u> within 90 days from the commencement of the first <u>Financial Year</u> of the <u>Relevant Period</u> for which the statement and information have been prepared.</p> |
| <p>USPAC 1.3.6 <i>Delivery to OFCOM</i></p> | <p><u>Royal Mail</u> must deliver to <u>OFCOM</u>—</p> <p>(a) the financial statement and information required under USPAC 1.3.1(a) before the commencement of the <u>Financial Quarter</u> to which it relates;</p> <p>(b) the financial statements and information required under USPAC 1.3.1(b) by the 30th day of June immediately following the commencement of the first <u>Financial Year</u> of the <u>Relevant Period</u> to which it relates; the <u>Strategic Business Plan</u> for the <u>Relevant Group</u> required under USPAC 1.3.1(b) and the <u>Annual Budget</u> for the <u>Relevant Group</u> required under USPAC 1.3.1(c)—</p> <p>(i) in relation to each <u>Financial Year</u>, before the commencement of the <u>Financial Year</u> to which it relates; and</p> <p>(ii) in relation to any subsequent update to the financial statement and information during each <u>Financial Year</u>, when the update has been approved by <u>Royal Mail</u>.</p> <p>(c) the financial statements and information required under USPAC 1.3.1(c) by the 30th day of June immediately following the commencement of the first <u>Financial Year</u> of the <u>Relevant Period</u> to which it relates.</p> <p>(d) any updates to the statements and information required under USPAC 1.3.1(b), as required under USPAC 1.3.3(c), within 20 business days following the date on which a <u>Strategic Business Plan</u> has been approved.</p> |

1.4. Obligations relating to the Reported Business

| | |
|--|--|
| <p>USPAC</p> <p>1.4.1</p> <p><i>Financial statements and information</i></p> | <p><u>Royal Mail</u> must prepare and maintain the following—</p> <p>(a) for each <u>Financial Year</u>, an annual income statement for the <u>Reported Business</u> as a whole;</p> <p>(b) for each <u>Financial Quarter</u>, a quarterly income statement for the <u>Reported Business</u> as a whole;</p> <p>(c) for each <u>Financial Year</u>, an annual reconciliation of the income statement for the <u>Reported Business</u> as a whole in respect of the quarterly information to be provided under USPAC 1.4.1(b) with the annual information to be provided under USPAC 1.4.1(a), together with explanatory notes where appropriate;</p> <p>(d) for each <u>Financial Year</u>, an annual reconciliation of the income statement for the <u>Reported Business</u> as a whole in respect of the annual information to be provided under USPAC 1.4.1(a) with the corresponding equivalent information for the <u>Relevant Group</u>;</p> <p>(e) for each <u>Financial Year</u>, an annual capital employed statement for the <u>Reported Business</u> as a whole;</p> <p>(f) for each <u>Financial Year</u>, an annual reconciliation of the capital employed statement for the <u>Reported Business</u> as a whole in respect of the annual information to be provided under USPAC 1.4.1(e) with the corresponding information for the <u>Relevant Group</u>;</p> <p>(g) for each <u>Financial Year</u>, an annual cash flow statement for the <u>Reported Business</u> as a whole;</p> <p>(h) for each <u>Financial Year</u>, an annual reconciliation of the cash flow statement for the <u>Reported Business</u> as a whole in respect of the annual information to be provided under USPAC 1.4.1(g) with the corresponding information for the <u>Relevant Group</u>;</p> <p>(e +) for each <u>Financial Year</u>, an annual product profitability statement for the <u>Reported Business</u> as a whole for each of the products and/or services as <u>OFCOM</u> may direct from time to time;</p> <p>(f +) for each <u>Financial Quarter</u>, a quarterly product profitability statement for the <u>Reported Business</u> as a whole for each of the products and/or services as <u>OFCOM</u> may direct from time to time;</p> <p>(g k) for each <u>Financial Month</u> (except for the first <u>Financial Month</u> of the <u>Financial Year</u>), a revenue and volume information statement for the <u>Reported Business</u> as a whole for all such products and/or services as <u>OFCOM</u> may direct from time to time; and</p> <p>(h +) for each <u>Financial Quarter</u>, a revenue, cost and volume information statements for the <u>Reported Business</u> as a whole for all such products and/or</p> |
|--|--|

| | |
|--|--|
| | services as <u>OFCOM</u> may direct from time to time. |
| USPAC 1.4.2 <i>Pro-formas</i> | <u>Royal Mail</u> must prepare the financial statements and information required under USPAC 1.4.1 by using the pro formas corresponding to the statement or information in question prescribed by <u>OFCOM</u> in the <u>Regulatory Accounting Guidelines</u> or otherwise as <u>OFCOM</u> may direct from time to time. |
| USPAC 1.4.3 <i>Additional requirements</i> | <u>Royal Mail</u> must prepare and maintain the financial statements and information required under USPAC 1.4.1 in accordance with such additional requirements prescribed by <u>OFCOM</u> in the <u>Regulatory Accounting Guidelines</u> or otherwise as <u>OFCOM</u> may direct from time to time. |
| USPAC 1.4.4 <i>Auditing</i> | Except for the financial statements and information required under USPAC 1.4.1(b), (c), (f +), (g k) and (h+) <u>Royal Mail</u> must secure an appropriate audit opinion by a <u>Qualified Independent Auditor</u> in respect of each of the financial statements and information required under USPAC 1.4.1, on the basis directed by <u>OFCOM</u> from time to time. <u>Royal Mail</u> must include that audit opinion in the financial statement and information in question. |
| USPAC 1.4.5 <i>Auditing</i> | <u>Royal Mail</u> must select and appoint the <u>Qualified Independent Auditor</u> for the purpose of USPAC 1.4.4. <u>Royal Mail</u> must notify <u>OFCOM</u> in writing of the appointment of the <u>Qualified Independent Auditor</u> and the terms of the engagement as soon as the tender process to select the <u>Qualified Independent Auditor</u> has been concluded, or 60 days prior to the appointment in the absence of such a tender process. |
| USPAC 1.4.6 <i>Auditing</i> | <u>Royal Mail</u> must remunerate the <u>Qualified Independent Auditor</u> and meet the costs of the audit. |
| USPAC 1.4.7 <i>Publication</i> | <u>Royal Mail</u> must publish such elements of the financial statements and information required under USPAC 1.4.1(a), as <u>OFCOM</u> directs from time to time in the <u>Regulatory Accounting Guidelines</u> or otherwise, and each of the financial statements and information required under USPAC 1.4.1(a)(d), (e), (f), (g), (h) and (e +) by placing a copy of the statements and information in a relevant place on an appropriate, publicly accessible on any relevant website operated or controlled by the <u>Relevant Group Royal Mail</u> within 90 days after the end of the <u>Financial Year</u> for which the statement and information have been prepared. For the financial statement and information referred to in USPAC 1.4.1(e+), <u>Royal Mail</u> is required to publish information relating to <u>PAF</u> and such <u>Access</u> products and/or services as <u>OFCOM</u> may direct from time to |

| | |
|--|---|
| | time in the <u>Regulatory Accounting Guidelines</u> or otherwise. |
| USPAC 1.4.8 <i>Copy on request</i> | <u>Royal Mail</u> must send a copy of a financial statement and information required to be published under USPAC 1.4.7 to any person at that person's written request. The provision of such a copy may be subject to a reasonable charge. For the avoidance of doubt, <u>Royal Mail</u> is not required to send any requested statement and information before the corresponding date of publication prescribed by USPAC 1.4.7. |
| USPAC 1.4.8 9 <i>Delivery to OFCOM</i> | <p><u>Royal Mail</u> must deliver to <u>OF</u>COM the financial statements and information required under USPAC 1.4.1(a) and each of the financial statements and information required under USPAC 1.4.1(b), (c), (e +), (f -), (g k) and (h +)—</p> <p>(a) for the statements and information referred to in USPAC 1.4.1(b) and (f -), within 54 days after the end of the <u>Financial Quarter</u> for which the statement and information have been prepared;</p> <p>(b) for the statements and information referred to in USPAC 1.4.1(a) and (c), within 90 days after the end of the <u>Financial Year</u> for which the statement and information have been prepared;</p> <p>(c) for the statements and information referred to in USPAC 1.4.1(e +) excluding the information to be published by USPAC 1.4.7, within 90 days after the end of the <u>Financial Year</u> for which the statement and information have been prepared;</p> <p>(d) for the statements and information referred to in USPAC 1.4.1(g k) relating to the sixth and twelfth <u>Financial Month</u> of the <u>Financial Year</u> within 54 days after the end of the <u>Financial Month</u> for which the statement and information have been prepared;</p> <p>(e) for the statements and information referred to in USPAC 1.4.1(g k) relating to every <u>Financial Month</u> of the <u>Financial Year</u>, other than those referred to in USPAC 1.4.8 9 (d), within 30 days after the end of the <u>Financial Month</u> for which the statement and information have been prepared; and</p> <p>(f) for the statements and information referred to in USPAC 1.4.1(h -), within 54 days after the end of the <u>Financial Quarter</u> for which the statement and information have been prepared.</p> |

1.5. Obligations relating to the separated Reported Business

| | |
|--|---|
| USPAC 1.5.1 <i>Separated</i> | <u>Royal Mail</u> must maintain a separation for accounting purposes between the activities and products within the <u>Reported Business</u> for the purposes of preparing and maintaining the financial statements required under USPAC 1.5.2. |
|--|---|

| | |
|---|--|
| <i>accounts</i> | |
| USPAC 1.5.2 <i>Financial statements and information</i> | <u>Royal Mail</u> must prepare and maintain the following— (a) for each <u>Financial Year</u> , an annual end to end income statement in respect of <u>USO</u> , <u>non-USO</u> and <u>non-Mails</u> ; and (b) for each <u>Financial Quarter</u> , a quarterly end to end income statement in respect of <u>USO</u> , <u>non-USO</u> and <u>non-Mails</u> . |
| USPAC 1.5.3 <i>Pro formas</i> | <u>Royal Mail</u> must prepare the financial statements and information required under USPAC 1.5.2 by using the pro formas corresponding to the statement or information in question prescribed by <u>OFCOM</u> in the <u>Regulatory Accounting Guidelines</u> or otherwise as <u>OFCOM</u> may direct from time to time. |
| USPAC 1.5.4 <i>Additional requirements</i> | <u>Royal Mail</u> must prepare and maintain the financial statements and information required under USPAC 1.5.2 in accordance with such additional requirements prescribed by <u>OFCOM</u> in the <u>Regulatory Accounting Guidelines</u> or otherwise as <u>OFCOM</u> may direct from time to time. |
| USPAC 1.5.5 <i>Auditing</i> | <u>Royal Mail</u> must secure an appropriate audit opinion by a <u>Qualified Independent Auditor</u> in respect of the financial statement and information required under USPAC 1.5.2(a) on the basis directed by <u>OFCOM</u> from time to time. <u>Royal Mail</u> must include that audit opinion in the financial statement and information in question. |
| USPAC 1.5.6 <i>Auditing</i> | <u>Royal Mail</u> must select and appoint the <u>Qualified Independent Auditor</u> for the purpose of USPAC 1.5.5. <u>Royal Mail</u> must notify <u>OFCOM</u> in writing of the appointment of the <u>Qualified Independent Auditor</u> and the terms of the engagement as soon as the tender process to select the <u>Qualified Independent Auditor</u> has been concluded, or 60 <u>days</u> prior to the appointment in the absence of such a tender process. |
| USPAC 1.5.7 <i>Auditing</i> | <u>Royal Mail</u> must remunerate the <u>Qualified Independent Auditor</u> and meet the costs of the audit. |
| USPAC 1.5.8 | <u>Royal Mail</u> must publish the financial statement and information required under USPAC 1.5.2(a) by placing a copy of the statement in a prominent place on an appropriate, publicly accessible on any relevant website operated or |

| | |
|--|---|
| <p><i>Publication</i></p> | <p>controlled by <u>the Relevant Group Royal Mail</u> within 90 days after the end of the <u>Financial Year</u> for which the statement and information have been prepared. <u>Royal Mail</u> is not required to publish information prescribed as confidential by <u>OFCOM</u> in the <u>Regulatory Accounting Guidelines</u> or otherwise as <u>OFCOM</u> may direct from time to time.</p> |
| <p>USPAC 1.5.9 <i>Copy on request</i></p> | <p><u>Royal Mail</u> must send a copy of a financial statement and information required to be published under USPAC 1.5.8 to any person at that person's written request. The provision of such a copy may be subject to a reasonable charge. For the avoidance of doubt, <u>Royal Mail</u> is not required to send any requested statement and information before the corresponding date of publication prescribed by USPAC 1.5.8.</p> |
| <p>USPAC 1.5.9 10 <i>Delivery to OFCOM</i></p> | <p><u>Royal Mail</u> must deliver to <u>OFCOM</u> each of the financial statements and information required under USPAC 1.5.2(a) and (b)—</p> <p>(a) for the statements and information referred to in USPAC 1.5.2(a) within 90 days after the end of the <u>Financial Year</u> for which the statement and information have been prepared; and</p> <p>(b) for the statements and information referred to in USPAC 1.5.2(b), within 54 days after the end of the <u>Financial Quarter</u> for which the statement and information have been prepared in respect of the <u>Financial Quarter</u>.</p> <p>For this USPAC 1.5.10, references to the financial statements and information in USPAC 1.5.2 (a) are references to any confidential information that <u>Royal Mail</u> has excluded from publication by virtue of the provision in USPAC 1.5.8.</p> |

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

| | |
|--|---|
| <p>USPAC 1.6.1 <i>Costing Manual & Accounting Methodology Manual</i></p> | <p><u>Royal Mail</u> must prepare, maintain and keep up-to-date the <u>Costing Manual</u> for the <u>Reported Business</u> and the <u>Accounting Methodology Manual</u> in accordance with such requirements prescribed by <u>OFCOM</u> in the <u>Regulatory Accounting Guidelines</u> or otherwise as <u>OFCOM</u> may direct from time to time. Such requirements may include (but not limited to) pro formas which <u>Royal Mail</u> must use.</p> |
| <p>USPAC 1.6.2 <i>Updates of the Manuals</i></p> | <p><u>Royal Mail</u> must prepare and maintain the following—</p> <p>(a) for each <u>Financial Year Quarter</u>, an <u>annual quarterly</u> update of the <u>Costing Manual</u> for the <u>Reported Business</u>; and</p> <p>(b) for each <u>Financial Year Quarter</u>, an <u>annual quarterly</u> update of the <u>Accounting Methodology Manual</u>.</p> |

| | |
|---|--|
| <p>USPAC</p> <p>1.6.3</p> <p><i>Notification of material changes to updates</i></p> | <p>Royal Mail must notify OFCOM in writing of any material changes made to the information required under USPAC 1.6.2, 30 days prior to the end of the Financial Year in which the changes have been made. 7 days prior to the change being made. For the purpose of this obligation, a “material change” must be determined in the same manner as materiality is directed by OFCOM from time to time for the purpose of the Regulatory Accounting Guidelines.</p> |
| <p>USPAC</p> <p>1.6.4</p> <p><i>Auditor compliance statement</i></p> | <p>Royal Mail must secure a statement by the Qualified Independent Auditor on an annual basis setting out whether or not Royal Mail has complied with the requirements set out in USPAC 1.6.3. Royal Mail must deliver to OFCOM that statement within 90 days after the end of the Financial Year.</p> |
| <p>USPAC</p> <p>1.6.5</p> <p><i>Auditing</i></p> | <p>Royal Mail must select and appoint the Qualified Independent Auditor for the purpose of USPAC 1.6.4 upon OFCOM giving its approval to the appointment and the terms of the engagement. Royal Mail must remunerate the Qualified Independent Auditor and meet the costs for that purpose.</p> |
| <p>USPAC</p> <p>1.6.6</p> <p><i>Publication of updates to Costing Manual</i></p> | <p>Royal Mail must publish an annual a quarterly update of the Costing Manual in accordance with USPAC 1.6.2(a), within 54 days after the end of the Financial Year Quarter for which the update in question has been prepared in respect of the Financial Quarter, by placing a copy of the Costing Manual and every annual quarterly update of the Costing Manual in a prominent place on an appropriate, publicly accessible any relevant website operated or controlled by the Relevant Group Royal Mail.</p> <p>Royal Mail is not required to publish information prescribed as confidential by OFCOM in the Regulatory Accounting Guidelines or otherwise as OFCOM may direct from time to time.</p> |
| <p>USPAC</p> <p>1.6.7</p> <p><i>Copy on request</i></p> | <p>Royal Mail must send a copy of the information required to be published under USPAC 1.6.6 to any person at that person’s written request. The provision of such a copy may be subject to a reasonable charge. For the avoidance of doubt, Royal Mail is not required to send any requested information before the date of publication prescribed by USPAC 1.6.6.</p> |
| <p>USPAC</p> <p>1.6.7 &</p> <p><i>Delivery to</i></p> | <p>Royal Mail must deliver to OFCOM—</p> <p>(a) an annual quarterly update of the Accounting Methodology Manual in accordance with USPAC 1.6.2(b) that complies with the requirements by or under this USPAC Condition, within 54 days after the end of the Financial Year.</p> |

| | |
|-------|--|
| OFCOM | <p><u>Quarter</u> in respect of which the update in question has been prepared for which the update in question has been prepared in respect of the <u>Financial Quarter</u>; and</p> <p>(b) any confidential information in an <u>annual quarterly</u> update of the <u>Costing Manual</u> that <u>Royal Mail</u> has excluded from publication by virtue of the provision in USPAC 1.6.6, within 54 <u>days</u> after the end of the <u>Financial Year-Quarter</u> for which the update in question has been prepared, <u>in respect of the Financial Quarter</u>.</p> |
|-------|--|

1.7. Obligations to comply with the Guiding Principles etc.

| | |
|---|--|
| <p>USPAC</p> <p>1.7.1</p> <p><i>The Guiding Principles etc. and their hierarchy</i></p> | <p><u>Royal Mail</u> must ensure that financial statements and information required by or under this USPAC Condition comply with the <u>Guiding Principles</u> and such other requirements as <u>OFCOM</u> may direct from time to time (including in the <u>Regulatory Accounting Guidelines</u>). Where it appears to <u>Royal Mail</u> that any of these requirements conflict with each other in a particular case, <u>Royal Mail</u> must secure that the conflict is resolved as follows—</p> <p>(a) Where the requirements of any of the <u>Guiding Principles</u> conflict with each other, <u>Royal Mail</u> must give priority to them in the order in which they are set out in USPAC 1.7.2 (starting with compliance with the <u>Guiding Principle</u> concerning completeness, which must have the highest priority, and so on).</p> <p>(b) Subject to USPAC 1.7.1(c), where the requirements of any of the <u>Guiding Principles</u> set out in USPAC 1.7.2(a) to (g) conflict with other specific requirements as <u>OFCOM</u> may direct from time to time (including in the <u>Regulatory Accounting Guidelines</u>), <u>Royal Mail</u> must give priority to the latter specific requirements.</p> <p>(c) Where the requirement of the <u>Guiding Principle</u> in USPAC 1.7.2(h) concerning materiality conflict with other specific requirements as <u>OFCOM</u> may direct from time to time (including in the <u>Regulatory Accounting Guidelines</u>), <u>Royal Mail</u> must give priority to the former (i.e. the <u>Guiding Principle</u>). The only exception to giving such priority to the <u>Guiding Principle</u> in USPAC 1.7.2(h) is in relation to the identification of material changes for the purpose of complying with the requirements set out in USPAC 1.6.3, in respect of which <u>Royal Mail</u> must give priority to such other specific requirements as <u>OFCOM</u> may direct from time to time (including in the <u>Regulatory Accounting Guidelines</u>).</p> <p>(d) Where <u>Royal Mail</u> resolves a conflict in the manner set out above, <u>Royal Mail</u> must include in the affected financial statements and information a statement setting out the nature of the conflict and the manner in which <u>Royal Mail</u> has resolved it.</p> |
| USPAC | The <u>Guiding Principles</u> are— |

1.7.2

Meaning of the Guiding Principles

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

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

(i) specifications of the above products and/or services; and

(ii) operational features of, and costs associated with, the production of the above products and/or the provision of the above services.

(c) Causality, i.e. Royal Mail must ensure, wherever possible in preparing financial statements and information required by or under this USPAC Condition, that—

(i) revenues (including revenue resulting from transfer charges);

(ii) costs (including costs resulting from transfer charges);

(iii) assets;

(iv) liabilities; and

(v) cash flows,

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

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

(e) Accuracy, i.e. Royal Mail must ensure that its Regulatory Accounting Methodology maintains an adequate degree of accuracy, such that items included in the financial statements and information required by or under this USPAC Condition are free from material errors, including any double-counting. Materiality must be determined in accordance with the Guiding Principle in USPAC 1.7.2(h).

| | |
|--|--|
| | <p>(f) Compliance with the statutory accounting standards, i.e. <u>Royal Mail</u> must ensure that its <u>Regulatory Accounting Methodology</u> complies with the accounting standards applied in <u>Royal Mail's</u> statutory accounts; with the exception of any departures as <u>OFCOM</u> may direct from time to time (including in the <u>Regulatory Accounting Guidelines</u>).</p> <p>(g) Consistency, i.e. <u>Royal Mail</u> must ensure so far as is possible that its <u>Regulatory Accounting Methodology</u> is applied consistently with the <u>Guiding Principles</u> to the financial statements and information required by or under this USPAC Condition (including the <u>Regulatory Accounting Guidelines</u>). <u>Royal Mail</u> must ensure that any and all differences in application and/or changes from one period to another are justified by reference to the <u>Guiding Principles</u>.</p> <p>(h) Materiality, i.e. The <u>Guiding Principles</u> set out in USPAC 1.7.2(a) to (h) must be applied to all material items of revenue, costs, assets, liabilities and cash flows, or material changes in those items. A material item of revenue, costs, assets, liabilities or cash flows, or a material change in those items, is one which is reasonably expected to affect the views of a competent user of <u>Royal Mail's</u> regulatory financial statements and information.</p> |
|--|--|

Table of terms defined in the Act

This table is provided for information and does not form a part of this USPAC Condition. We make no representations as to its accuracy or completeness. Please refer to the Act.

| <i>Defined term</i> | <i>Section of the Act</i> |
|--------------------------------------|--|
| <i>designated USP condition</i> | <i>65(1)</i> |
| <i>OFCOM</i> | <i>90</i> |
| <i>postal network</i> | <i>38(3)</i> |
| <i>postal operator</i> | <i>65(1)</i> |
| <i>postal services</i> | <i>65(1)</i> |
| <i>universal service provider</i> | <i>65(1) and Schedule 9 paragraph 3(3)</i> |
| <i>universal service obligations</i> | <i>65(1)</i> |