

# Issue 5 of the Regulatory Accounting Guidelines (RAG)

## SCHEDULE Regulatory Accounting Guidelines (RAG) Issue 5

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Manual for the Financial Year

**Section 1: Purpose**

- 1.1** The USPAC Condition imposes on Royal Mail (as the universal service provider designated by OFCOM) various obligations under section 39 of the Act. Pursuant to powers in the USPAC Condition, OFCOM are empowered from time to time to give such directions as they consider 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 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;
  - (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 USPAC Condition.
- 1.2** Pursuant to the obligation in USPAC 1.2.3 on Royal Mail to comply with any direction given by OFCOM from time to time under it, the regulatory requirements in any direction (including in these Guidelines) are enforceable via the USPAC Condition in accordance with the relevant procedures in the Act.
- 1.3** By definition in the USPAC Condition, the “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 the USPAC Condition. Additionally to the general direction-making power referred to in §1.1 above, the USPAC 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.
- 1.4** Accordingly, OFCOM has directed that the USPAC Condition shall have effect by reference to these Guidelines.

## Section 2: Definitions & Interpretation

2.1 For the purpose of interpreting these Guidelines—

- (a) except in so far as the context otherwise requires (including where a term of art in postal sector or in accounting profession is used), words or expressions shall have the meaning assigned to them in **§2.2** and otherwise any word or expression in these Guidelines shall have the same meaning as it has been ascribed in, and for the purpose of, the USPAC Condition;
- (b) headings and titles shall be disregarded;
- (c) expressions cognate with those referred to in these Guidelines shall be construed accordingly;
- (d) the Interpretation Act 1978 (c. 30) shall apply as if these Guidelines were an Act of Parliament;
- (e) subject to **§2.1(f)**, references to “**material**”, and cognate expressions, are references to the meaning of materiality as prescribed by the Guiding Principle concerning materiality in USPAC 1.7.2(h);
- (f) in relation to the identification of material changes for the purpose of complying with the requirements set out in USPAC 1.6.3, 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/or information required by or under the USPAC Condition shall be deemed to be material if the resultant percentage difference (be it positive or negative) exceeds 5%. 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 the 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 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 £2 million. The resultant percentage difference shall be calculated by reference to the Compliance Base Value; and
  - (iii) any determination of materiality under **§2.1(f)(i) and (ii)** shall be measured by reference to the most recent annual financial statements and/or information, as applicable.

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

| Word or expression                   | Meaning   |
|--------------------------------------|---|
| “Activity Based Costing”             | A costing system used to allocate the costs recorded in the <u>General Ledger</u> , together with any sources of data (where necessary), to products, through an intermediate step of allocating <u>Activity Costs</u> .  |
| “ABC Model”                          | ‘Activity Based Costing Model’, which is the costing system that <u>Royal Mail</u> uses to allocate the costs recorded in the <u>General Ledger</u> , together with any sources of data (where necessary), to its products, through an intermediate step of allocating <u>Activity Costs</u> .                                    |
| “Activity” or “Activities”           | Activities, tasks or work (whether operational or non-operational) which are required to be carried out in order to complete a <u>Business Process</u> .  |
| “Activity Cost”                      | Total or unit costs attributed to an <u>Activity</u> .  |
| “Activity Drivers”                   | Numeric values which are used to assign <u>Activity Costs</u> to <u>SPHCCs</u> in accordance with <u>National Costing Rule 9</u> where they relate to the <u>National Costing Methodology</u> or in accordance with <u>Zonal Costing Rule 9</u> where they relate to the <u>Zonal Costing Methodology</u> .                       |
| “Aggregate Costs”                    | Has the meaning given to it by <u>National Costing Rule 8</u> where it relates to the <u>National Costing Methodology</u> or by <u>Zonal Costing Rule 8</u> where it relates to the <u>Zonal Costing Methodology</u> .  |
| “Attributable Non-operational Costs” | Has the meaning given to it by <b>§8.24(b)</b> .  |
| “Attributable Operational Costs”     | Has the meaning given to it by <b>§8.24(a)</b> .  |
| “Avoidable First Class Costs”        | Has the meaning given to it by <u>National Costing Rule 3</u> where it relates to the <u>National Costing Methodology</u> or by <u>Zonal Costing Rule 8</u> where it relates to the <u>Zonal Costing Methodology</u> .  |
| “Avoidable Second Class Costs”       | Has the meaning given to it by <u>National Costing Rule 3</u> where it relates to the <u>National Costing Methodology</u> or by <u>Zonal Costing Rule 3</u> where it relates to the <u>Zonal Costing Methodology</u> .  |
| “AEI”                                | ‘Average Earnings Index’, which is the index of average earnings per employee compiled by an agency or a public body on behalf of His Majesty’s Government or a governmental department (which is the Office for Budget Responsibility at the time of publication of these Guidelines) from time to time in respect of all items. |
| “Bulk Mail”                          | A retail service offered at a price which is subject to discounts related to volume of mail per mailing or presentation of mail, typically involving conveyance of more than 250 items per mailing.   |
| “Business Process”                   | <u>Operational Business Processes</u> and <u>Non-operational Business Processes</u> .   |
| “Class Costing”                      | The methodologies applied in the <u>National Costing Methodology</u> and the <u>Zonal Costing Methodology</u> to quantify the additional  |

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|                                   | costs of processing certain classes of mail relative to other classes of mail.   |
| <b>“Compliance Base Value”</b>    | Has the meaning given to it under <b>§2.1(f)(i)</b> of these Guidelines.   |
| <b>“Cost Centre”</b>              | The basic unit of responsibility in an organisation for which costs are accumulated, such as a production or service location, function, <u>Activity</u> or item of equipment.   |
| <b>“Cost Element”</b>             | A cost recorded in the <u>General Ledger</u> , such as basic pay, overtime pay and National Insurance payments.  |
| <b>“Cost Matrix”</b>              | A breakdown of the costs of the <u>Reported Business</u> included in the calculation of the <u>Financeability EBIT</u> as shown in <b>Figure 2, Figure 5 or Figure 15 of Appendix 1</b> of these Guidelines.   |
| <b>“Cost Type”</b>                | Cost figures obtained after rearranging the relevant categories of costs recorded in <u>Royal Mail’s</u> financial information, including the <u>General Ledger</u> , including aggregating or separating some of those costs.   |
| <b>“CPI”</b>                      | ‘Consumer Price Index’, which means the index of consumer prices compiled by an agency or a public body on behalf of His Majesty’s Government or a governmental department (which is the Office for National Statistics for reporting actual outturn and which is the Office for Budget Responsibility for forecasts at the time of publication of these Guidelines) from time to time in respect of all items.                    |
| <b>“CVE”</b>                      | ‘Cost Volume Elasticity’, which is the ratio of the variable amount of time needed to process items of mail within a given <u>Operational Business Process</u> to the total amount of time needed to process those items of mail within that <u>Operational Business Process</u> , where variable time needed to process mail items is the time which varies in direct proportion to the volume of the mail items being processed. |
| <b>“DB Pension Service Costs”</b> | Costs of service contributions <u>Royal Mail</u> makes to its defined benefits pension plans in any given period.  |
| <b>“Delivery Office”</b>          | Part of <u>Royal Mail’s postal network</u> (as defined by section 38(3) of the <u>Act</u> ) that is responsible for the final sortation, preparation and delivery of mail items to delivery points.  |
| <b>“Downstream Services”</b>      | The group of <u>Activities</u> related to the processes of final sorting in <u>Inward Mail Centres</u> , subsequent conveying, sequencing and delivery of mail to its final destination.   |
| <b>“Financeability EBIT”</b>      | ‘Earnings Before Interest and Tax’ calculated as revenue less all the costs of products and services provided and <u>Transformation Costs</u> , before the deduction of interest and tax.  |
| <b>“EPMU”</b>                     | ‘Equi-Proportional Mark-Up’, which has the meaning given to it in <u>National Costing Rule 12</u> where it relates to the <u>National Costing Methodology</u> or by <u>Zonal Costing Rule 12</u> where it relates to the <u>Zonal Costing Methodology</u> .  |
| <b>“FAC”</b>                      | ‘Fully Allocated Cost’, which is a costing methodology in which all costs (including <u>Overheads</u> but excluding any form of return, such as return on sales) are allocated to the outputs of the business.   |
| <b>“First Class”</b>              | A product and/or service that aims to deliver the next working day (including Saturday) after collection.  |
| <b>“Fixed Asset Register”</b>     | 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.

**“FTE”**

‘Full Time Equivalent’ which means staff headcount for a period which is calculated by dividing total frontline staff hours worked in that period (including temporary and agency staff hours but excluding contractors’ hours, and including overtime and scheduled attendance) by the total standard full time hours for that period; and adding the result to the average headcount of the rest of the staff in that period.

**“GDP”**

‘Gross Domestic Product’, which means a measure of economic activity that captures the value of goods and services that the UK produces during a given period.

**“General Ledger”**

The accounting ledger that contains the financial accounts used by Royal Mail for the application of the National Costing Methodology and the Zonal Costing Methodology for the Reported Business.

**“General Overheads”**

Has the meaning given to it by National Costing Rule 8 where it relates to the National Costing Methodology or by Zonal Costing Rule 8 where it relates to the Zonal Costing Methodology.

**“Gross Hours”**

Total paid hours of frontline staff working in a given Operational Business Process or Operational Business Processes in a given period.

**“Gross Hours Reduction”**

Reduction in Gross Hours in a given period compared with the period prior to that period.

**“IAS 19”**

International Accounting Standard 19 - Employee Benefits (2011), which outlines the accounting requirements for employee benefits, including short-term benefits (e.g. wages and salaries, annual leave), post-employment benefits such as retirement benefits, other long-term benefits (e.g. long service leave) and termination benefits.

**“Inward Mail Centre”**

The part of Royal Mail’s mail centres in which the activities relating to the processes of final sorting of inward mail for delivery to the final addresses take place.

**“MCS”**

‘Mails Characteristics Survey’, which is a survey conducted by Royal Mail of the mail product types and volumes within the mail traffic of the Reported Business.

**“Measured Hours”**

Worked Hours from business areas where Royal Mail is able to measure volume and/or where mail volume is the main driver of time.

**“National Costing Rule(s)”**

The requirements in these Guidelines, in paragraphs 8.11 to 8.43, for the purpose of the National Costing Methodology.

**“NBV”**

‘Net Book Value’, which is the historical cost of an asset less the associated accumulated depreciation.

**“Non-operational Business Process”**

The following business processes of the Reported Business as defined in the Costing Manual—

1. commercial;
2. support;
3. wholesale; and
4. business sustaining activities.

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| <b>“Operational Business Processes”</b> | <p>The business processes of the <u>Reported Business</u> as defined from time to time in the Costing Manual, and currently including—</p> <ol style="list-style-type: none"> <li>1. collection;</li> <li>2. outward processing;</li> <li>3. network distribution;</li> <li>4. regional distribution centres processing (RDC);</li> <li>5. inward processing;</li> <li>6. local distribution (LD);</li> <li>7. delivery – indoor;</li> <li>8. delivery – outdoor;</li> <li>9. walk bundling centre (WBC); and</li> <li>10. international operations.</li> </ol> |
| <b>“Operational Volumes”</b>            | Volume of a product going through the <u>Pipeline</u> measured by the <u>Operational Volumes Method</u> .   |
| <b>“Operational Volumes Method”</b>     | A method of measuring the volume of a product going through the <u>Pipeline</u> , by counting or sampling.  |
| <b>“Other Drivers”</b>                  | Has the meaning given to it by <b>§8.26(b)</b> , read together with <u>National Costing Rule 11</u> where it relates to the <u>National Costing Methodology</u> or by <b>§8.26(b)</b> , read together with <u>Zonal Costing Rule 11</u> where it relates to the <u>Zonal Costing Methodology</u> .  |
| <b>“Overheads”</b>                      | Costs which are either <u>General Overheads</u> or <u>Pipeline Overheads</u> have the meanings given to them by <u>National Costing Rule 8</u> where they relate to the <u>National Costing Methodology</u> or by <u>Zonal Costing Rule 8</u> where they relate to the <u>Zonal Costing Methodology</u> .   |
| <b>“Pipeline”</b>                       | All the <u>Operational Business Processes</u> involved in Royal Mail’s provision of its products and/or services from collection to final delivery of the products and/or services.   |
| <b>“Pipeline Overheads”</b>             | Has the meaning given to it by <u>National Costing Rule 8</u> where it relates to the <u>National Costing Methodology</u> or by <u>Zonal Costing Rule 8</u> where it relates to the <u>Zonal Costing Methodology</u> .  |
| <b>“Planning Values”</b>                | Number of minutes needed to process 1000 items of mail within a given <u>Operational Business Process</u> , as derived from industrial engineering methods.   |
| <b>“POL”</b>                            | ‘Post Office Limited’ whose registered company number in England and Wales is 02154540, and any of its subsidiaries (as defined by section 1159 of the Companies Act 2006) or any of its subsidiary undertakings (as defined by section 1162 of the Companies Act 2006 and for which section Post Office Limited shall be treated as the parent undertaking).   |
| <b>“PPI”</b>                            | ‘Printed Postage Impressions’, which is pre-printed postage.  |
| <b>“PPIA”</b>                           | ‘Properly Prepared In Accordance’ with these Guidelines and the <u>Guiding Principles</u> set out under USPAC 1.7.2’, which is an audit opinion that provides reasonable assurance that a financial statement and information, taken as a whole, have been prepared, in all material respects, in accordance with the detailed requirements prescribed by these Guidelines.   |
| <b>“Productivity (WIPGH)”</b>           | ‘Productivity (Weighted Items Per Gross Hour)’ which is the ratio of the <u>Workload</u> of a given <u>Operational Business Process</u> or  |

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|                                  | <u>Operational Business Processes</u> in a given period to the <u>Gross Hours</u> of that <u>Operational Business Process</u> or those <u>Operational Business Processes</u> in that period.  |
| <b>“Productivity (WIPWH)”</b>    | ‘Productivity (Weighted Items Per Worked Hour)’ which is the ratio of the <u>Workload</u> of a given <u>Operational Business Process</u> or <u>Operational Business Processes</u> in a given period to the <u>Measured Hours</u> of that <u>Operational Business Process</u> or those <u>Operational Business Processes</u> in that period.                           |
| <b>“Proportional Factors”</b>    | Factors representing the proportion of the total volume of each <u>SPHCC</u> which uses the related <u>Activity</u> and determined in accordance with the <u>National Costing Rule 10</u> where they relate to the <u>National Costing Methodology</u> or in accordance with <u>Zonal Costing Rule 10</u> where they relate to the <u>Zonal Costing Methodology</u> . |
| <b>“PVEO Analysis”</b>           | An analysis of the changes in a <u>Financial Year</u> , from the prior <u>Financial Year</u> , of all the costs of the <u>Reported Business</u> included in the calculation of the <u>Financeability EBIT</u> , between the effects of price, volume, efficiency and other factors, as shown in <b>Figures 6a and 6b of Appendix 1</b> of these Guidelines.           |
| <b>“Resource Drivers”</b>        | Numeric values which are used to attribute <u>Cost Types</u> to <u>Activities</u> and determined in accordance with <u>National Costing Rule 6</u> where they relate to the <u>National Costing Methodology</u> or in accordance with <u>Zonal Costing Rule 6</u> where they relate to the <u>Zonal Costing Methodology</u> .   |
| <b>“Revenue Derived Volumes”</b> | Volume of a product going through the <u>Pipeline</u> measured by the Revenue Derived Method.   |
| <b>“Revenue Derived Method”</b>  | A method of deriving the volume of a product going through the <u>Pipeline</u> , by dividing the revenue received for that product by the average unit price of that product, which is estimated by sampling.   |
| <b>“RM UK”</b>                   | <u>Royal Mail</u> 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) (previously referred to as United Kingdom Parcels, International and Letters ( <u>UKPIL</u> ))  |
| <b>“Second Class”</b>            | A product and/or service that aims to deliver by the second or third working day (including Saturday) after collection.   |
| <b>“Short SPHCC”</b>             | ‘Short Sales Product Handling Characteristic Combinations’, which are products and/or services sub-divided based on the relevant measured characteristics as prescribed by these Guidelines, apart from the characteristic referred to in paragraph 8.22(d) of these Guidelines.  |
| <b>“SPHCC”</b>                   | ‘Sales Product Handling Characteristic Combinations’, which are products and/or services sub-divided based on the relevant measured characteristics as prescribed by these Guidelines.  |
| <b>“Standard Hours”</b>          | Total minimum hours of frontline staff needed to process the <u>Workload</u> in a given <u>Operational Business Process</u> or <u>Operational Business Processes</u> in a given period, measured by industrial engineering methods.   |
| <b>“Third Class”</b>             | A product and/or service that aims to deliver by later than the third working day (including Saturday) after collection.  |
| <b>“Transformation Costs”</b>    | Annually recurring costs which <u>Royal Mail</u> incurs in order to restructure its business and/or operations, including redundancy costs.   |



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| <b>“Transfer Charge(s)” or “Transfer Price(s)”</b> | The 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.   |
| <b>“UKPIL”</b>                                     | ‘UK Parcels, International and Letters’, which is an operating unit of <u>Royal Mail</u> (now known as <u>RM UK</u> ).   |
| <b>“Unmeasured Hours”</b>                          | <u>Worked Hours</u> from business areas where volume measurement is not yet possible, or where volume is not the main driver of time.  |
| <b>“Upstream Services”</b>                         | The group of <u>Activities</u> related to the collection, sorting and conveying of mail to the point where <u>Downstream Services</u> begin.   |
| <b>“USPAC Condition”</b>                           | The USP accounting condition imposed on <u>Royal Mail</u> as set out in the notification published by <u>OFCOM</u> at Annex 10 to the statement entitled ‘Securing the Universal Postal Service’ dated 27 March 2012, and as modified by <u>OFCOM</u> from time to time.   |
| <b>“Weighting Factors”</b>                         | Factors representing the relative proportions of resources that units of each <u>SPHCC</u> require from the related <u>Activity</u> and determined in accordance with the <u>National Costing Rule 10</u> where they relate to the <u>National Costing Methodology</u> or in accordance with <u>Zonal Costing Rule 10</u> where they relate to the <u>Zonal Costing Methodology</u> .  |
| <b>“Weighted Volume Drivers”</b>                   | Has the meaning given to it by <u>National Costing Rule 10</u> where it relates to the <u>National Costing Methodology</u> or by <u>Zonal Costing Rule 10</u> where it relates to the <u>Zonal Costing Methodology</u> .   |
| <b>“Worked Hours”</b>                              | Total worked hours of frontline staff working in a given <u>Operational Business Process</u> or <u>Operational Business Processes</u> in a given period.   |
| <b>“Workload”</b>                                  | A measure of weighted volume calculated by using weights derived from the amount of time required for frontline staff to carry out the tasks, identified and measured by industrial engineering methods, in order to process the mail volumes presented in a given <u>Operational Business Process</u> in a given period, expressed relative to the time taken to process 1000 sequenced letters in all relevant <u>Operational Business Processes</u> . |
| <b>“Zone”</b>                                      | A part of the United Kingdom (based on postcode sectors) for which <u>Royal Mail</u> is using the same price for products and/or services falling within the <u>Reported Business</u> .  |
| <b>“Zonal Costing Rule(s)”</b>                     | The requirements in these Guidelines for the purpose of the <u>Zonal Costing Methodology</u> .   |

### Section 3: Obligations relating to the Relevant Group under USPAC 1.3

**3.1** For the purpose of USPAC 1.3.2, Royal Mail must 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 USPAC 1.3.1</i> |  | <i>Column 2: Pro forma specified in Appendix 1 of these Guidelines</i> |
|---|--|--|
| USPAC 1.3.1(a)  | <u>consolidated</u> cash flow projection statement | <i>Not applicable</i>  |
| USPAC 1.3.1(b)  | <u>Annual Financial Forecast</u>                   | <b>Figures 1, 2, 3 and 4 of Appendix 1</b>                             |
| USPAC 1.3.1(c)  | <u>Five-Yearly Financial Forecast</u>              | <b>Figure 1, 3, 5, 6a, 6b, 7, 8, 9 and 10 of Appendix 1</b>            |

**3.2** For the purpose of USPAC 1.3.4, Royal Mail must prepare each of the financial statements and information specified in **Column 1 of Table 2** in accordance with the additional requirements corresponding to the statement or information as prescribed by **Column 2 of that Table**.

**Table 2: Additional requirements for the financial statements and information for the Relevant Group**

| <i>Column 1: Financial statement/information referred to in USPAC 1.3.1</i> |  | <i>Column 2: Additional requirements in these Guidelines</i>   |
|---|--|--|
| USPAC 1.3.1(a)  | <u>consolidated</u> cash flow projection statement | <p>The rules in <b>Section 8</b> of the Guidelines shall apply.</p> <p>The <u>consolidated</u> cash flow projection statement shall include the following—</p> <ul style="list-style-type: none"> <li>a) figures projected for the <u>Financial Quarter</u>, for which the statement must be prepared, together with figures for the five <u>Financial Quarters</u> that follow that <u>Financial Quarter</u> showing the cash flows and the cash position for the <u>Relevant Group</u>, including all the relevant figures for downside scenarios which take account of the relevant risks referred to in e) below;</li> <li>b) an explanation of the key assumptions underpinning the scenarios prepared in (a) above;</li> <li>c) if <u>Royal Mail</u> changes its projections from one <u>Financial Quarter</u> to another, a reconciliation of the new projections to the previous projections, together with an explanation of the material changes;</li> <li>d) figures showing the actual cash position of the <u>Relevant Group</u> at the beginning of the <u>Financial Quarter</u> in question, including a breakdown of material balances and movements in those balances since the beginning of</li> </ul> |

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|                           |   | <p>the preceding <u>Financial Quarter</u>, together with an explanation of those material movements and differences with the projections for that preceding <u>Financial Quarter</u>;</p> <p>e) <u>Royal Mail</u>'s assessment of the financial sustainability of the <u>Relevant Group</u>, including its identification of key risks that may affect that sustainability;</p> <p>f) a statement of financing facilities available to the <u>Relevant Group</u> as at the beginning of the <u>Financial Quarter</u> in question, together with information on the extent to which these facilities have been utilised;</p> <p>g) the cash flows referred to in (a) above shall include at least the following—</p> <ol style="list-style-type: none"> <li>1) 'EBITDA', namely revenue less all the costs of products and services provided before interest, tax, depreciation and amortisation;</li> <li>2) pension costs including <u>DB Pension Service Costs</u>;</li> <li>3) working capital;</li> <li>4) dividends;</li> <li>5) investments;</li> <li>6) capital expenditure and proceeds from disposals; and</li> <li>7) <u>Transformation Costs</u> and any other operating and non-operating specific items; and</li> </ol> <p>h) if there are material presentational or methodological changes in the cash flow projections between the <u>Financial Quarter</u> in question and the preceding <u>Financial Quarter</u>, <u>Royal Mail</u> must restate the information relating to the latter together with explanatory notes. This additional requirement shall apply for the second <u>Financial Quarter</u> of the first <u>Financial Year</u> and subsequent <u>Financial Quarters</u>.</p> |
| <p>USPAC<br/>1.3.1(b)</p> | <p><u>Annual Financial Forecast</u></p> | <p>The rules in <b>Section 8</b> of the Guidelines shall apply.</p> <p>The <u>Annual Financial Forecast</u> shall include the following forecast information in relation to the <u>Relevant Group</u> based on <u>Royal Mail</u>'s latest performance objectives and expectations of changes in the postal market and the wider economic environment:</p> <ol style="list-style-type: none"> <li>a) income statement for the <u>Relevant Period</u>, and balance sheet and cash flow statement for <u>Financial Years 1 to 3</u> of the <u>Relevant Period</u>; and</li> <li>b) financial health metrics, including the metrics required by the covenants of loans and borrowing facilities, and the metrics considered in assessing and monitoring credit rating for <u>Financial Years 1 to 3</u> of the <u>Relevant Period</u>.</li> </ol> <p>The <u>Annual Financial Forecast</u> shall include a reconciliation of the income statement set out in a) above to the income statements of <u>RM UK</u> and the <u>Reported Business</u>. The reconciliation must include a reconciliation of the <u>DB Pension Service Costs</u> of the <u>Relevant Group</u>, <u>RM UK</u>, and the <u>Reported Business</u> calculated on both the cash paid basis and in accordance with <u>IAS 19</u>.</p> <p>The <u>Annual Financial Forecast</u> shall include the information set out in a) and b) above, and the above-mentioned reconciliation, for the two <u>Financial Years</u> immediately preceding the first <u>Financial Year</u> forecast by <u>Royal Mail</u> within the <u>Relevant Period</u>.</p>   |

The Annual Financial Forecast shall include the following information forecast by Royal Mail in relation to the Reported Business for the Relevant Period and where applicable, as specified in the **Figures of Appendix 1** referred to below—

- c) revenues, volumes and costs of the Reported Business showing how the Financeability EBIT is calculated;
- d) breakdown of revenues and volumes as shown in **Figure 1 of Appendix 1** and showing separately any contingencies provided against the revenues of any products or product groups;
- e) Cost Matrix as shown in **Figure 2 of Appendix 1** of these Guidelines;
- f) Gross Hours and the corresponding total pay costs (excluding pension and Employers National Insurance) broken down by normal/ordinary time, overtime, casual/temporary staff time, and any other time, as shown in **Figure 3 of Appendix 1**;
- g) Headcount and FTEs broken down between frontline, management and other staff;
- h) explanation of the main assumptions and the key drivers used by Royal Mail in its forecasts of volumes, revenues, and costs of the Reported Business, including but not limited to economic growth (including GDP), e-commerce, inflation (including CPI), e-substitution, market developments, competition, pricing, sales and marketing initiatives, efficiency initiatives as shown in **Figure 4 of Appendix 1**, Gross Hours Reduction, Workload, Productivities (WIPGH) and Productivities (WIPWH), pay and pension arrangements, taxation, legislation, depreciation, and contingencies; and
- i) a statement of changes in the forecast revenues and costs between the Annual Financial Forecast submitted by Royal Mail to OFCOM in the Financial Year in question and the most recent Annual or Five-Yearly Financial Forecast submitted by Royal Mail to OFCOM prior to that; breaking down the changes in forecast revenues between key revenue streams, and breaking down the changes in forecast costs into key cost categories; and explaining and quantifying the impact of the main drivers of the changes including but not limited to the changes in the main assumptions and key drivers set out in h) above.

The Annual Financial Forecast shall include the information set out in c), d), and e) above in relation to the Reported Business for the two Financial Years immediately preceding the first Financial Year forecast by Royal Mail.

The Annual Financial Forecast must include sensitivity analyses of the main assumptions and key drivers set out in h) above and any other relevant inputs which have a significant risk of deviating from the values assumed in the Annual Financial Forecast. These analyses must include a restatement of the relevant calculations and outputs of the Annual Financial Forecast assuming those risks materialise. These restatements must include a restatement of the Financeability EBIT for the range of reasonably likely deviations of the main assumptions and key drivers set out in h) above and any other relevant inputs which have a significant risk of deviating from the values assumed in the Annual Financial Forecast. The sensitivity analyses must also include the supporting calculations and the models used to carry out the analyses.

The Annual Financial Forecast must include downside scenarios in which potential worst outcomes for performance and/or expectations are assumed to

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|                           |  | <p>materialise. The downside scenarios must include a restatement of the affected calculations and outputs of the <u>Annual Financial Forecast</u> assuming those outcomes materialise and taking into account the impact of potential measures that would be taken by <u>Royal Mail</u> in response to mitigate the impact. The scenarios must cover outcomes such as events resulting in significant changes in volumes and revenues of letters and parcels, significant delays in efficiency initiatives and network transformation, and events related to industrial relations.</p> <p>For the <u>Financial Years</u> which comprise 53 weeks, <u>Royal Mail</u> shall provide the information as set out in c) based on both the 53-week <u>Financial Year</u> and a 52-week equivalent <u>Financial Year</u>, together with explanations of the methodologies applied to restate that information on an equivalent 52-week <u>Financial Year</u> basis.</p>  |
| <p>USPAC<br/>1.3.1(c)</p> | <p><u>Five-Yearly Financial Forecast</u></p> | <p>The rules in <b>Section 8</b> of the Guidelines shall apply.</p> <p>The <u>Five-Yearly Financial Forecast</u> shall include the following forecast information in relation to the <u>Relevant Group</u> based on <u>Royal Mail</u>'s latest performance objectives and expectations of changes in the postal market and the wider economic environment—</p> <ol style="list-style-type: none"> <li>a) income statement for the <u>Relevant Period</u>, and balance sheet and cash flow statement for <u>Financial Years 1 to 3</u> of the <u>Relevant Period</u>; and</li> <li>b) financial health metrics, including the metrics required by the covenants of loans and borrowing facilities, and the metrics considered in assessing and monitoring credit rating for <u>Financial Years 1 to 3</u> of the <u>Relevant Period</u>.</li> </ol> <p>The <u>Five-Yearly Financial Forecast</u> shall include a reconciliation of the income statement set out in a) above to the income statements of <u>RM UK</u> and the <u>Reported Business</u>. The reconciliation must include a reconciliation of the <u>DB Pension Service Costs</u> of the <u>Relevant Group</u>, <u>RM UK</u>, and the <u>Reported Business</u> calculated on both the cash paid basis and in accordance with <u>IAS 19</u>.</p> <p>The <u>Five-Yearly Financial Forecast</u> shall include the following information forecast by <u>Royal Mail</u> in relation to the <u>Reported Business</u> for the <u>Relevant Period</u> and where applicable, as specified in the <b>Figures of Appendix 1</b> referred to below—</p> <ol style="list-style-type: none"> <li>c) revenues, volumes and costs of the <u>Reported Business</u> showing how the <u>Financeability EBIT</u> is calculated;</li> <li>d) breakdown of revenues and volumes as shown in <b>Figure 1 of Appendix 1</b> and showing separately any contingencies provided against the revenues of any products or product groups;</li> <li>e) <u>Cost Matrix</u> as shown in <b>Figure 5 of Appendix 1</b> of these Guidelines;</li> <li>f) <u>PVEO Analysis</u> as shown in <b>Figures 6a and 6b of Appendix 1</b> of these Guidelines;</li> <li>g) <u>Workload</u> calculations for all <u>Operational Business Processes</u> for which <u>Royal Mail</u> carries out <u>Workload</u> calculations, including— <ol style="list-style-type: none"> <li>1) reconciliation of <u>Operational Volumes</u> to <u>Revenue Derived Volumes</u> for each relevant <u>Operational Business Processes</u> and each relevant format;</li> </ol> </li> </ol> |

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|  |  | <p>2) mapping of <u>Revenue Derived Volumes</u> used in g)1) above to <u>Revenue Derived Volumes</u> provided under d) above;</p> <p>3) mapping of the <u>Operational Volumes recorded to the Operational Volumes</u> in g)1) above;</p> <p>4) breakdown of the recorded <u>Operational Volumes</u> in g)3) above by the <u>Workload</u> weighting categories, together with the calculations carried out and the assumptions made in preparing the <u>Workload</u> weighting category breakdown;</p> <p>5) calculation of <u>Workload</u> including:</p> <p>(a) where <u>Workload</u> comprises fixed and variable <u>Workload</u> for each <u>Workload</u> weighting category, setting out the following:</p> <ul style="list-style-type: none"> <li>i. fixed and variable <u>Workload</u> weights for each <u>Operational Business Process</u>;</li> <li>ii. fixed and variable <u>Planning Values</u> for each <u>Operational Business Process</u>;</li> <li>iii. base overall <u>Planning Value</u> for a sequenced letter;</li> <li>iv. <u>CVEs</u> for each <u>Operational Business Process</u>; and</li> <li>v. number of working days;</li> </ul> <p>(b) otherwise, for each <u>Operational Business Process</u> and <u>Activity</u>, setting out the assumptions and calculation methodology, together with a description of any new <u>Operational Business Process</u>.</p> <p>6) a breakdown of all the <u>Activities</u> which are included within all relevant <u>Operational Business Processes</u> in the <u>Workload</u> calculations in 1) to 5) above; and</p> <p>h) <u>Gross Hours</u> and the corresponding total pay costs (excluding pension and Employers National Insurance) broken down by normal/ordinary time, overtime, casual/temporary staff time, and any other time, as shown in <b>Figure 3 of Appendix 1</b>;</p> <p>i) <u>Gross Hours</u> broken down by the relevant <u>Operational Business Processes</u>, each further broken down by <u>Measured Worked Hours</u>, <u>Unmeasured Worked Hours</u>, sickness absence and other absence and all other <u>Gross Hours</u> together with the corresponding <u>Standard Hours</u> as shown in <b>Figure 8 of Appendix 1</b>;</p> <p>j) <u>Gross Hours Reduction</u>, and <u>Productivity (WIPGH)</u> and <u>Productivity (WIPWH)</u> calculations, broken down by the relevant <u>Operational Business Processes</u> and format as shown in <b>Figure 7 of Appendix 1</b>;</p> <p>k) Headcount and <u>FTEs</u> broken down between frontline, management and other staff;</p> <p>l) explanation of the main assumptions and the key drivers used by <u>Royal Mail</u> in its forecasts of volumes, the <u>Workload</u>, revenues, costs, and <u>Productivities (WIPGH)</u> and <u>Productivities (WIPWH)</u> of the <u>Reported</u></p> |
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|             |                          | <p><u>Business</u>, including but not limited to economic growth (including <u>GDP</u>), e-commerce, inflation (including <u>CPI</u>), e-substitution, market developments, competition, pricing, sales and marketing initiatives, efficiency initiatives as shown in <b>Figure 9 of Appendix 1</b>, <u>Gross Hours Reduction</u>, pay and pension arrangements, taxation, legislation, depreciation, and contingencies; and</p> <p>m) a statement of changes in the forecast revenues and costs between the <u>Five-Yearly Financial Forecast</u> submitted by <u>Royal Mail</u> to <u>OFCOM</u> in the <u>Financial Year</u> in question and the most recent <u>Annual Financial Forecast</u> submitted by <u>Royal Mail</u> to <u>OFCOM</u> prior to that; breaking down the changes in forecast revenues between key revenue streams, and breaking down the changes in forecast costs into key cost categories; and explaining and quantifying the impact of the main drivers of the changes including but not limited to the changes in the main assumptions and key drivers set out in l) above.</p> <p>The <u>Five-Yearly Financial Forecast</u> must include sensitivity analyses of the main assumptions and key drivers set out in l) above and any other relevant inputs which have a significant risk of deviating from the values assumed in the <u>Five-Yearly Financial Forecast</u>. These analyses must include a restatement of the relevant calculations and outputs of the <u>Five-Yearly Financial Forecast</u> assuming those risks materialise. These restatements must include a restatement of the <u>Financeability EBIT</u> for the range of reasonably likely deviations of the main assumptions and key drivers set out in l) above and any other relevant inputs which have a significant risk of deviating from the values assumed in the <u>Annual Financial Forecast</u>. The sensitivity analyses must also include the supporting calculations and the models used to carry out the analyses.</p> <p>The <u>Five-Yearly Financial Forecast</u> must include downside scenarios in which potential worst outcomes for performance and/or expectations are assumed to materialise. The downside scenarios must include a restatement of the affected calculations and outputs of the <u>Five-Yearly Financial Forecast</u> assuming those outcomes materialise and taking into account the impact of potential measures that would be taken by <u>Royal Mail</u> in response to mitigate the impact. The scenarios must cover outcomes such as events resulting in significant changes in volumes and revenues of letters and parcels, significant delays in efficiency initiatives and network transformation, and events related to industrial relations.</p> <p>For the <u>Financial Years</u> which comprise 53 weeks, <u>Royal Mail</u> shall provide the information as set out in c) based on both the 53-week <u>Financial Year</u> and a 52-week equivalent <u>Financial Year</u>, together with explanations of the methodologies applied to restate that information on an equivalent 52-week <u>Financial Year</u> basis.</p> <p><u>Royal Mail</u> shall publish certain information related to f) and j) above in accordance with USPAC 1.3.5, as shown in <b>Figure 10 of Appendix 1</b> of these guidelines.</p> |
| USPAC 1.3.3 | Consistency requirements | <p>The information provided in the <u>Annual Financial Forecast</u> and the <u>Five-Yearly Financial Forecast</u> must be consistent with <u>Royal Mail's Strategic Business Plan</u> which has been approved by its board in the three months preceding the date by which the <u>Annual Financial Forecast</u> is required to be submitted. <u>Royal Mail</u> shall ensure, as far as possible, that the information in the <u>Annual Financial Forecast</u> and <u>Five-Yearly Financial Forecast</u> related to the forecast years included in the <u>Strategic Business Plan</u> is identical to the corresponding information in the <u>Strategic Business Plan</u>, and the information related to any further forecast <u>Financial Years</u> which are not included in the <u>Strategic Business Plan</u>, are built on the information included in the <u>Strategic Business Plan</u>.</p>  |

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|  |  | <p>If <u>Royal Mail</u> has the <u>Strategic Business Plan</u> approved by its board subsequent to the date by which the <u>Annual Financial Forecast</u> is required, then, in accordance with the USPAC 1.3.6(d), <u>Royal Mail</u> shall submit an updated <u>Annual Financial Forecast</u> to <u>Ofcom</u>, which is consistent with the approved <u>Strategic Business Plan</u> as set out above, within 20 business days of the <u>Strategic Business Plan</u> being approved.</p> <p>The information set out in the <u>Annual Financial Forecast</u> and the <u>Five-Yearly Financial Forecast</u>, as far as possible, shall take account of the financial information and statements required under the USPAC 1.4, 1.5 and 1.6 for the <u>Financial Year</u> preceding the first forecast <u>Financial Year</u>, which is available to <u>Royal Mail</u> prior to the submission of the <u>Annual Financial Forecast</u> and the <u>Five-Yearly Financial Forecast</u>.</p> |
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## Section 4: Obligations relating to the Reported Business under USPAC 1.4

**4.1** For the purpose of USPAC 1.4.2, Royal Mail must 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** (including notes disclosing a breakdown and explanations of any material items).

**Table 3: Pro formas for the financial statements and information for the Reported Business**

| <i>Column 1: Financial statement/information referred to in USPAC 1.4.1</i> |   | <i>Column 2: Pro forma specified in Appendix 1 of these Guidelines</i> |
|---|---|--|
| USPAC 1.4.1(a)  | Annual income statement   | <b>Figures 6a, 11, 12, 15, 20, 21 and 22, Appendix 1</b>               |
| USPAC 1.4.1(b)  | Quarterly income statement  | <b>Figure 12 and 15, Appendix 1</b>                                    |
| USPAC 1.4.1(c)  | Annual reconciliation of statements/information specified in USPAC 1.4.1(c) | <i>Not applicable</i>  |
| USPAC 1.4.1(d)  | Annual reconciliation of statements/information specified in USPAC 1.4.1(d) | <b>Figure 13, Appendix 1</b>   |
| USPAC 1.4.1(e)  | Annual product profitability statement                                      | <b>Figure 14, Appendix 1</b>   |
| USPAC 1.4.1(f)  | Quarterly product profitability statement                                   | <b>Figure 14, Appendix 1</b>   |
| USPAC 1.4.1(g)  | Monthly revenue and volume information statement                            | <i>Not applicable</i>  |
| USPAC 1.4.1(h)  | Quarterly revenue, cost and volume information statements                   | <b>Figures 16, 17 and 18, Appendix 1</b>                               |

**4.2** For the purpose of USPAC 1.4.3, Royal Mail must prepare the financial statements and information specified in **Column 1 of Table 4** in accordance with the additional requirements corresponding to the statement or information as prescribed by **Column 2 of that Table**.

**Table 4: Additional requirements for the financial statements and information for the separated Reported Business**

| Column 1: Financial statement/information referred to in USPAC 1.4.1 |  | Column 2: <b>Additional requirements</b> in these Guidelines  |
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| USPAC 1.4.1(a) and (b)   | Annual income statement and quarterly income statement | <p>The rules in <b>Section 8</b> of the Guidelines concerning income statements and product profitability statements shall apply.</p> <p>The annual and quarterly income statements shall include—</p> <ul style="list-style-type: none"> <li>a) <u>Cost Matrix</u> as shown in <b>Figure 15 of Appendix 1</b> of these Guidelines;</li> <li>b) a breakdown of items of revenue or cost in these statements, which <u>Royal Mail</u> categorises as other operating and non-operating specific items not included in the calculation of the <u>Financeability EBIT</u>; together with explanations as to the nature of each item and the reasons why each item arose; and</li> <li>c) adjustments made to re-state the <u>DB Pension Service Costs</u> from the basis in accordance with <u>IAS 19</u> to a cash paid basis.</li> </ul> <p>The annual income statement shall include—</p> <ul style="list-style-type: none"> <li>d) <u>PVEO Analysis</u> as shown in <b>Figure 6a and 22 of Appendix 1</b> of these Guidelines;</li> <li>e) <u>Productivity (WIPGH)</u> as shown in <b>Figures 22 of Appendix 1</b> of these Guidelines;</li> <li>f) Explanations regarding <u>Royal Mail</u>'s performance on the metrics required in d) and e) above in comparison with the forecast set for the corresponding metrics in the relevant <u>Five-Yearly Financial Forecast</u> as set out in Table 2, <u>USPAC 1.3.1(c)</u>, requirements f) and j), including: <ul style="list-style-type: none"> <li>1) the reasons for variances between the performance in the <u>Financial Year</u> and the forecasts for the same <u>Financial Year</u> set out in the relevant <u>Five-Yearly Financial Forecast</u>;</li> <li>2) the reasons for variances between the cumulative performance from the start of the first forecast <u>Financial Year</u> in the relevant <u>Five-Yearly Financial Forecast</u> and the cumulative forecasts for the same period set out in the relevant <u>Five-Yearly Financial Forecast</u>;</li> <li>3) whether <u>Royal Mail</u> expects that the cumulative performance by the end of the last <u>Financial Year</u> in the relevant <u>Five-Yearly Financial Forecast</u> will meet the cumulative forecasts set out in the relevant <u>Five-Yearly Financial Forecast</u> for the same period; and</li> <li>4) if <u>Royal Mail</u> considers that the cumulative performance referred to in f)3) above is likely to fall short the cumulative forecasts referred to in f)3), then explanations of any steps <u>Royal Mail</u> intends to take to mitigate the shortfall, including any further efficiency initiatives that it intends to take by reference to the information about efficiency initiatives set out in the <u>Annual Financial Forecast</u> for that <u>Financial Year</u>;</li> </ul> </li> </ul> |

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|                |   | <p>g) <u>Gross Hours</u> broken down by the relevant <u>Operational Business Processes</u>, each further broken down by <u>Measured Worked Hours</u>, <u>Unmeasured Worked Hours</u>, sickness absence and other absence and all other <u>Gross Hours</u> together with the corresponding <u>Standard Hours</u> as shown in <b>Figure 20 of Appendix 1</b>;</p> <p>h) Information on efficiency initiatives as shown in <b>Figure 21 of Appendix 1</b>;</p> <p>i) a reconciliation of the total costs included in the following statements and information:</p> <ol style="list-style-type: none"> <li>1) annual income statements set out in <b>Figures 11 and 12 of Appendix 1</b> of these Guidelines;</li> <li>2) annual <u>Cost Matrix</u> as shown in <b>Figure 15 of Appendix 1</b> of these Guidelines;</li> <li>3) <u>PVEO Analysis</u> as shown in <b>Figure 6a of Appendix 1</b> of these Guidelines; and</li> <li>4) Technical appendices cost data as shown in <b>Appendix 4</b> of these Guidelines.</li> </ol> <p>The quarterly income statement shall include the revenues, volumes and costs of the <u>Reported Business</u> forecast by <u>Royal Mail</u> in accordance with the <u>Annual Financial Forecast</u>, showing how the forecast <u>Financeability EBIT</u> is calculated.</p> <p>In the <u>Financial Years</u> which comprise 53 weeks, <u>Royal Mail</u> shall provide:</p> <ol style="list-style-type: none"> <li>A. the annual income statement information and the quarterly income statement information for the fourth Financial Quarter as set out in <b>Figures 11 and 12 of Appendix 1</b> of these Guidelines for the Reported Business as a whole only, based on both the 53-week Financial Year and a 52-week equivalent Financial Year;</li> <li>B. explanations of the methodologies applied to restate that information in A. on an equivalent 52-week Financial Year basis;</li> <li>C. the annual income statement information set out in a), c), d) and e) and the quarterly income statement information for the Reported Business as a whole, for the fourth Financial Quarter as set out in a) based on a 53-week Financial Year</li> <li>D. explanations of the appropriate methodologies to restate that information set out in C. on an equivalent 52-week Financial Year basis.</li> </ol> <p><u>Royal Mail</u> shall publish certain information related to b), c), d), e) and f)2) above in accordance with USPAC 1.4.7, with the information relating to b) as shown in <b>Figure 11 of Appendix 1</b> of these Guidelines and the information relating to d), e) and f)2) as shown in <b>Figure 22 of Appendix 1</b> of these Guidelines.</p> |
| USPAC 1.4.1(c) | Annual reconciliation of statements/information specified in USPAC 1.4.1(c) | <p>The rules in <b>Section 8</b> of the Guidelines concerning income statements and product profitability statements shall apply.</p> <p>The annual reconciliation shall set out each of the quarterly financial statements and information to be prepared for USPAC 1.4.1(b) and then reconcile the combined total of these four statements with the financial statement and information to be prepared for USPAC 1.4.1(a). Where there are any reconciling differences, <u>Royal Mail</u> must provide accompanying notes and explanations to describe these reconciling differences.</p>  |

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| USPAC<br>1.4.1(d) | Annual reconciliation of statements/information specified in USPAC 1.4.1(d) | <p>The rules in <b>Section 8</b> of the Guidelines concerning income statements and product profitability statements shall apply.</p> <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 <b>Figure 13 of Appendix 1</b> of these Guidelines—</p> <ul style="list-style-type: none"> <li>a) a reconciliation between the <u>Reported Business</u> and <u>RM UK</u>; and</li> <li>b) a reconciliation between <u>RM UK</u> and the <u>Relevant Group</u>.</li> </ul> <p>In addition, <u>Royal Mail</u> must provide in the accompanying notes the detail of the material reconciling differences in the annual reconciliation.</p> |
| USPAC<br>1.4.1(e) | Annual product profitability statement                                      | <p>The rules in <b>Section 8</b> of the Guidelines concerning income statements and product profitability statements shall apply.</p> <p><u>Royal Mail</u> must prepare and maintain separate annual product profitability statements for each of the products specified in <b>Column 3 of Table 5</b>.</p> <p>Each of these statements shall only include the costs covered in the <u>National Costing Methodology</u>.</p> <p>In the <u>Financial Years</u> which comprise 53 weeks, <u>Royal Mail</u> shall provide the product profitability statement for the 53-week <u>Financial Year</u> together with explanations of the appropriate methodologies to restate that statement on an equivalent 52-week <u>Financial Year</u> basis.</p>                         |
| USPAC<br>1.4.1(f) | Quarterly product profitability statement                                   | <p>The rules in <b>Section 8</b> of the Guidelines concerning income statements and product profitability statements shall apply.</p> <p><u>Royal Mail</u> must prepare and maintain separate quarterly product profitability statements for each of the products specified in <b>Column 2 of Table 5</b>.</p> <p>Each of these statements shall only include the costs covered in the <u>National Costing Methodology</u>.</p>  |
| USPAC<br>1.4.1(g) | Monthly revenue and volume information statement                            | Not applicable   |
| USPAC<br>1.4.1(h) | Quarterly revenue, cost and volume information statements                   | <p>The rules in <b>Sections 8 and 9</b> of the Guidelines shall apply.</p> <p>Quarterly revenue, volume and cost information statement shall include (except for items c)6), c)7), and c)10) which are only required to be included in the statement for the last <u>Financial Quarter</u> of each <u>Financial Year</u>)—</p> <ul style="list-style-type: none"> <li>a) actual and budgeted revenue and volume information for groups of products sold in each <u>Financial Quarter</u>, in the form set out in <b>Figure 16 of Appendix 1</b> of these Guidelines;</li> <li>b) actual and budgeted cost metrics information for each <u>Financial Quarter</u>, in the form set out in <b>Figure 17 of Appendix 1</b> of these</li> </ul>                               |

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|  |  | <p>Guidelines. <u>Royal Mail</u> shall provide an explanation of the variances included in the cost metrics report;</p> <p>c) <u>Workload</u> calculations for all <u>Operational Business Processes</u> for which <u>Royal Mail</u> carries out <u>Workload</u> calculations, including—</p> <ol style="list-style-type: none"> <li>1) reconciliation of <u>Operational Volumes</u> to <u>Revenue Derived Volumes</u> for each relevant <u>Operational Business Processes</u> and each relevant format;</li> <li>2) mapping of <u>Revenue Derived Volumes</u> used in c)1) above to <u>Revenue Derived Volumes</u> provided under a) above and d) below;</li> <li>3) mapping of the <u>Operational Volumes</u> recorded to the <u>Operational Volumes</u> in c)1) above;</li> <li>4) breakdown of the recorded <u>Operational Volumes</u> in c)3) above by the <u>Workload</u> weighting categories, together with the calculations carried out and the assumptions made in preparing the <u>Workload</u> weighting category breakdown;</li> <li>5) calculation of <u>Workload</u> including: <ul style="list-style-type: none"> <li>(a) where <u>Workload</u> comprises fixed and variable <u>Workload</u> for each <u>Workload</u> weighting category, setting out the following: <ol style="list-style-type: none"> <li>i. fixed and variable <u>Workload</u> weights for each <u>Operational Business Process</u>;</li> <li>ii. fixed and variable <u>Planning Values</u> for each <u>Operational Business Process</u>;</li> <li>iii. base overall <u>Planning Value</u> for a sequenced letter;</li> <li>iv. <u>CVEs</u> for each <u>Operational Business Process</u>; and</li> <li>v. number of working days;</li> </ol> </li> <li>(b) otherwise, for each <u>Operational Business Process</u> and <u>Activity</u>, setting out the assumptions and calculation methodology, together with a description of any new <u>Operational Business Process</u>.</li> </ul> </li> <li>6) information in c)3) to c)5) above covering the results for the <u>Financial Year</u> as a whole, recalculated using the assumptions and categories adopted in the most recent <u>Five-Yearly Financial Forecast</u>, together with a mapping of the categories of the recorded <u>Operational Volumes</u> in c)3) above to the categories of the recorded <u>Operational Volumes</u> used in the most recent <u>Five-Yearly Financial Forecast</u>;</li> <li>7) a reconciliation of the total <u>Workload</u> calculated in accordance with c)1) to c)5) above to the total <u>Workload</u> calculated in accordance with 6) above, covering the results for the <u>Financial Year</u> as a whole, breaking down the difference into the differences caused by the following changes: <ol style="list-style-type: none"> <li>i. changes in the <u>Workload</u> calculation methodology including</li> </ol> </li> </ol> |
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|  |  | <p>changes in measurement and sampling methodology;</p> <ul style="list-style-type: none"> <li>ii. changes in the <u>Activities</u> within the <u>Operational Business Processes</u> and <u>Non-operational Business Processes</u>;</li> <li>iii. changes in the standing data (e.g. container fills and distances) as a result of new measurements carried out using current measurement methodologies; and</li> <li>iv. changes in the scope of the <u>Workload</u> calculation with respect to the <u>Operational Business Processes</u> which are included in the calculation;</li> </ul> <p>8) <u>Gross Hours</u> and the corresponding total pay costs (split by basic pay, pension and Employers National Insurance) broken down by normal/ordinary time, overtime, casual/temporary staff time, and any other time, as shown in <b>Figure 19 of Appendix 1</b>;</p> <p>9) <u>Gross Hours Reduction</u>, and <u>Productivity (WIPGH)</u> and <u>Productivity (WIPWH)</u> calculations, broken down by the relevant <u>Operational Business Processes</u> and format as shown in <b>Figure 17 of Appendix 1</b>; and</p> <p>10) <u>Gross Hours Reduction</u>, and <u>Productivity (WIPGH)</u> and <u>Productivity (WIPWH)</u> calculations provided under 9) above, covering the results for the <u>Financial Year</u> as a whole, restated where relevant, based on the definitions in the latest <u>Five-Yearly Financial Forecast</u>;</p> <p>d) actual revenue, cost, and volume information for <u>Short SPHCCs</u>, and <u>Transfer Prices</u> between <u>Upstream Services</u> and <u>Downstream Services</u> for the products set out in <b>Appendix 2</b> to these Guidelines, for each <u>Financial Quarter</u>, in the form set out in <b>Figure 18 of Appendix 1</b> of these Guidelines;</p> <p>e) reconciliations of the total revenues and volumes included in the following statements and information—</p> <ul style="list-style-type: none"> <li>1) quarterly income statement set out in <b>Figure 12 of Appendix 1</b> of these Guidelines;</li> <li>2) quarterly revenues and volumes information set out in <b>Figure 16 of Appendix 1</b> of these Guidelines; and</li> <li>3) quarterly revenue, cost, and volume information for <u>Short SPHCCs</u>, in the form set out in <b>Figure 18 of Appendix 1</b> of these Guidelines; and</li> </ul> <p>f) reconciliations of the total costs included in the following statements and information—</p> <ul style="list-style-type: none"> <li>1) quarterly income statement set out in <b>Figure 12 of Appendix 1</b> of these Guidelines;</li> <li>2) quarterly <u>Cost Matrix</u> set out in <b>Figure 15 of Appendix 1</b> of these Guidelines; and</li> <li>3) quarterly revenue, cost, and volume information for <u>Short SPHCCs</u>,</li> </ul> |
|--|--|---|

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|--|--|--|
|  |  | in the form set out in <b>Figure 18 of Appendix 1</b> of these Guidelines. |
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**Table 5: Product profitability statements**

| <i>Column 1:<br/>Statement<br/>number</i> | <i>Column 2: Products specified by OFCOM to be<br/>contained in the quarterly product profitability<br/>statement</i> | <i>Column 3: Products specified by OFCOM to be<br/>contained in the annual product profitability<br/>statement</i> |
|---|---|--|
| 1   | <u>Access</u> products D+2 and later letters and large letters  |  |
| 2   | Other <u>Access</u> products  |  |
| 3   |   | <u>Access</u> products   |
| 4   |   | <u>PAF</u>   |

- 4.3** For the purpose of interpreting the full meaning of the products specified in **Columns 2 and 3** of **Table 5**, words or expressions shall be interpreted in accordance with **Section 2** of these Guidelines.

## Section 5: Obligations relating to the separated Reported Business under USPAC 1.5

**5.1** For the purpose of USPAC 1.5.3, Royal Mail must prepare the financial statements and information specified in **Column 1 of Table 6** 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 6: Pro formas for the financial statements and information for the separated Reported Business**

| <i>Column 1: Financial statement/information referred to in USPAC 1.5.2</i> |  | <i>Column 2: Pro forma specified in Appendix 1 of these Guidelines</i>   |
|---|--|--|
| USPAC 1.5.2(a)  | Annual end to end income statement in respect of <u>USO</u> , <u>non-USO</u> and <u>non-Mails</u>    | <b>Figure 11, Appendix 1</b> (for statements to be published by USPAC 1.5.8); and<br><b>Figure 12, Appendix 1</b> (for statements to be delivered to <u>OFCOM</u> by USPAC 1.5.9). |
| USPAC 1.5.2(b)  | Quarterly end to end income statement in respect of <u>USO</u> , <u>non-USO</u> and <u>non-Mails</u> | <b>Figure 12, Appendix 1</b>   |

**5.2** For the purpose of USPAC 1.5.4 and USPAC 1.6.1, Royal Mail must prepare the financial statements and information specified in **Column 1 of Table 7** in accordance with the additional requirements corresponding to the statement or information as prescribed by **Column 2 of that Table**.

**Table 7: Additional requirements for the financial statements and information for the separated Reported Business**

| <i>Column 1: Financial statement/information referred to in USPAC 1.5.2</i> |  | <i>Column 2: Additional requirements in these Guidelines</i>   |
|---|--|--|
| USPAC 1.5.2(a)  | Annual end to end income statement in respect of <u>USO</u> , <u>non-USO</u> and <u>non-Mails</u>    | The rules in <b>Section 8</b> of the Guidelines concerning income statements and product profitability statements and the rules in <b>Section 9</b> of the Guidelines shall apply. |
| USPAC 1.5.2(b)  | Quarterly end to end income statement in respect of <u>USO</u> , <u>non-USO</u> and <u>non-Mails</u> | The rules in <b>Section 8</b> of the Guidelines concerning income statements and product profitability statements and the rules in <b>Section 9</b> of the Guidelines shall apply. |



## Section 6: Obligations relating to the Costing Manual and the Accounting Methodology Manual under USPAC 1.6

- 6.1** For the purpose of USPAC 1.6.1, Royal Mail must 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 6** concerning the Costing Manual and the Accounting Methodology Manual, respectively.

### The Costing Manual

#### General requirements

- 6.2** Royal Mail must comply with the rules in **Section 8** of the Guidelines concerning the National Costing Rules and the Zonal Costing Rules.
- 6.3** Subject to **§6.4**, Royal Mail must prepare, maintain and keep up-to-date the Costing Manual to a comprehensive level of detail to demonstrate compliance with the rules referred to in **§6.2**.
- 6.4** Royal Mail must prepare and present the Costing Manual in a manner that contains the level of detail necessary to allow a competent user of the Costing Manual with a reasonable degree of professional skill to reproduce the results of the National Costing Methodology and the Zonal Costing Methodology without the need for further instruction or interpretation.
- 6.5** Royal Mail must provide information to OFCOM for each material change to the Costing Manual, including the impact of all changes, using the pro forma set out in **Appendix 3** of these Guidelines. The impact of a change shall be calculated as the difference between the costs which Royal Mail have provided in the financial information and statements for the preceding Financial Year and the restated value of those costs if Royal Mail had applied that change in the preceding Financial Year.

#### Technical appendices

- 6.6** OFCOM hereby direct that—
- (a) for the purpose of USPAC 1.6.1, Royal Mail must include in the technical appendices of the Costing Manual the information prescribed in, and the manner required by the pro forma specified in, **Appendix 4** of these Guidelines; and
  - (b) for the purpose of USPAC 1.6.6, the technical appendices of the Costing Manual that contain commercially confidential information to Royal Mail is prescribed as confidential for that purpose.

### The Accounting Methodology Manual

- 6.7** Royal Mail must 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.
- 6.8** Royal Mail must prepare, maintain and keep up-to-date the Accounting Methodology Manual in accordance with **§6.9** and to a comprehensive level of detail to demonstrate compliance with its

obligation referred to in §6.7. Without prejudice to the generality of that obligation to include a comprehensive level of detail in the Accounting Methodology Manual, Royal Mail must include—

- (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; and
- (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, capital employed statement and cash flow statements, and including—
  - (i) a description of the data sources used to calculate inputs and allocations; and
  - (ii) the methodology and calculations used by Royal Mail to determine that the Transfer Charges are presented in sufficient detail to enable OFCOM to ensure that the calculated Transfer Charges follow the requirements in these Guidelines.

**6.9** Royal Mail must prepare and present the Accounting Methodology Manual in a manner that contains the level of detail necessary to allow a competent user of the Accounting Methodology 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 USPAC Condition have been prepared without the need for further instruction or interpretation.

**6.10** Royal Mail must provide information to OFCOM for each material change to the Accounting Methodology Manual, including the impact of all changes using the pro forma as set out in **Appendix 3** of these Guidelines. The impact of a change shall be calculated as the difference between the financial information items (e.g. revenues) which Royal Mail have provided in the financial information and statements for the preceding Financial Year and the restated value of those financial information items if Royal Mail had applied that change in the preceding Financial Year.

## Section 7: Product Allocations for Accounting Separation

- 7.1** For the purpose of USPAC 1.4.7, OFCOM hereby direct that, in relation to product profitability statements in **Column 1** of **Table 5** in **Section 4** of these Guidelines, Royal Mail is only required to publish the combined figures for Access products < 2kg and Access products > 2kg.
- 7.2** Royal Mail must specify in the Accounting Methodology Manual every product and service that falls into each product profitability statement in **Column 1** of **Table 5** in **Section 4** of these Guidelines and every product and service that falls into each product group required by USPAC 1.5.2(a) and 1.5.2(b).
- 7.3** For the avoidance of doubt, any changes Royal Mail may make to the product and service allocations referred to in **§7.2**, for any Financial Year to which the USPAC Conditions apply, shall be treated as a change subject to the obligation referred to in **§6.10**.

## Section 8: Regulatory Accounting Methodology

- 8.1** Royal Mail must ensure that the Regulatory Accounting Methodology complies with the detailed rules set out in this **Section 8**, which relate to the allocation and apportionment of costs, revenues, assets and cash flows for the Reported Business.

## Income statements and product profitability statements

### Introduction

- 8.2** Royal Mail must ensure that its preparation of any income statement or product profitability statement for the Reported Business required by or under the USPAC Condition complies with the rules set out below.

### Levels of preparation

- 8.3** Royal Mail must ensure, for the purposes of USPAC 1.4.1(a), (d), and (e), that annual income statements, annual reconciliations of such income statements, and annual product profitability statements are prepared to the level of Financeability EBIT, and EBIT as defined in the statutory financial statements of IDS plc.
- 8.4** Royal Mail must ensure, for the purposes of USPAC 1.4.1(b), (c), and (f) that quarterly income statements, annual reconciliations of such income statements, and quarterly product profitability statements are prepared to the level of Financeability EBIT, and EBIT as defined in the statutory financial statements of IDS plc.

### Revenue Accounting

- 8.5** References to “revenue” in this **Section 8** are references to external and internal turnover used in the preparation of any income statement or product profitability statement. External and internal turnover shall consist of income for products and/or services arising from the fair value of the consideration received or receivable for products and/or services provided as part of the operational trading of the Reported Business.
- 8.6** To recognise revenue, Royal Mail must follow the revenue recognition accounting policies adopted by IDS plc as part of their compliance with the accounting standards used in producing its audited annual statutory accounts.
- 8.7** Revenue shall be assigned directly to the appropriate products and/or services using the relevant information in Royal Mail’s billing systems, and shall be consistently applied across all products and/or services, including stamped and metered mail.
- 8.8** Where it is not possible to directly allocate revenue to products and/or services, Royal Mail must use its best endeavours to find the most appropriate and objective driver to apportion the revenue to product and to document this apportionment of revenue in the Accounting Methodology Manual.
- 8.9** Royal Mail must 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; and
- (b) internal revenues (resulting from Transfer Charges) relating to the sales of any product or service within the Relevant Group.

## Volumes

**8.10** Royal Mail must follow National Costing Rule 13 as the sole basis for traffic measurement used in the financial statements and information.

## Costing

### National Costing Methodology

**8.11** Royal Mail must—

- (a) ensure that the National Costing Methodology complies with the National Costing Rules set out in this **Section 8**;
- (b) document the National Costing Methodology in the Costing Manual; and
- (c) apply the National Costing Methodology to all the costs of the products and/or services of the Reported Business.

## National Costing Rules

### National Costing Rule 1: Activity Based Costing ('ABC')

**8.12** The National Costing Methodology shall—

- (a) be based on Activity Based Costing;
- (b) identify—
  - (i) all the Activities that the Reported Business performs as part of its Operational Business Processes and Non-operational Business Processes;
  - (ii) all the products and/or services and SPHCCs which the Reported Business provides;
- (c) 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
- (d) assign Activity Costs, using appropriate Activity Drivers, to all the products and/or services and SPHCCs which are provided as a result of, or are supported by, that particular Activity. The assignment of Activity Costs shall be undertaken in one of the following two ways—
  - (i) attributing, where a direct causal link between an Activity and the relevant products

and/or services and SPHCCs 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/or services and SPHCCs, and instead a reasonable assumption shall be made to assign the Activity Costs to the relevant products and/or services and SPHCCs.

### National Costing Rule 2: Operational reality

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

### National Costing Rule 3: Class Costing

#### **First Class mail**

**8.14** Class Costing shall 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, but the current operational specifications of all other products and/or services were to remain unchanged<sup>1</sup>; and
- (b) the costs exclude any incremental costs which would be incurred, if all Second Class using the First Class Activities were to be processed alongside other Second Class.

#### **Avoidable First Class Costs**

**8.15** All Avoidable First Class Costs shall be attributed only to First Class. Avoidable First 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.

#### **Second Class mail**

**8.16** Class Costing shall 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 Class or Second Class, but the current operational specifications of Third Class were to remain unchanged; and
- (b) the costs exclude any incremental costs which would be incurred, if all Third Class using First Class or Second Class Activities were to be processed alongside other Third Class.

#### **Avoidable Second Class Costs**

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<sup>1</sup> For example, that Second Class mail would continue to be collected and delivered six days a week.

**8.17** All Avoidable Second Class Costs shall be attributed only to Second Class. 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.

#### National Costing Rule 4: General Ledger costs and Cost Types

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

#### National Costing Rule 5: Activities

**8.19** Where appropriate (and to the extent possible), Business Processes shall be divided into Activities. When identifying an Activity, consideration must be given to the Cost Types used by that Activity to ensure those Cost Types are caused, in accordance with the Guiding Principle of Causality, by the SPHCCs to which the Activity Cost is allocated.

#### National Costing Rule 6: Resource Drivers

**8.20** All costs aggregated into Cost Types shall 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 shall be used to attribute an appropriate share of the Cost Type to each Activity.

**8.21** The Resource Driver for each Cost Type shall 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, using actual data containing the necessary granularity.

Only where such actual data is unavailable or lacks the necessary components for cost allocation, Royal Mail may use modelled or theoretical data, provided that this data is—

- (c) based on sampling or industrial engineering studies; and
- (d) prepared in accordance with relevant statistical sampling techniques and ISO standards (see National Costing Rule 14).

For the avoidance of doubt, where Royal Mail uses either actual, modelled or theoretical data under this **§8.21**, Royal Mail must ensure the integrity of the data in accordance with National Costing Rule

15.

### National Costing Rule 7: Products and SPHCCs

**8.22** Where applicable, each product and/or service, or a group of similar products and/or services, shall be divided into a range of SPHCCs which identifies, and differentiates between, all the applicable and relevant measured characteristics which affect how processing an item of that product and/or service, or group of products and/or services, incurs costs. The measuring characteristics shall, as a minimum, include the following—

- (a) format (e.g. letter, large letter, packet, etc.);
- (b) class (e.g. First Class, Second Class, Third Class, etc.);
- (c) payment method (e.g. stamped, metered, account, PPI, etc.); and
- (d) handling (e.g. mechanised versus manual, etc.).

**8.23** The National Costing Methodology shall apply a cost to the whole range of SPHCCs. For the avoidance of doubt, Royal Mail may use additional measuring characteristics.

### National Costing Rule 8: Activity Costs

**8.24** The National Costing Methodology shall assign an appropriate share of each Activity Cost to each of the relevant SPHCCs as set out below. To determine how an Activity Cost shall be assigned to the relevant SPHCCs, it shall first be determined into which one of the following categories the Activity Cost falls—

- (a) **Attributable Operational Costs:** Activity Costs within a single Operational Business Process which have a direct causal link to the processing of some or all of the SPHCCs;
- (b) **Attributable Non-operational Costs:** Activity Costs which are directly related to certain products and/or services, 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 SPHCCs and not incorporated into the unit costs of other SPHCCs, for the following reasons—
  - (i) the costs do not follow the handling characteristics which are used to define SPHCCs (see National Costing Rule 7); or
  - (ii) the costs relate to Activities carried out on behalf of other Royal Mail business units for products and/or services that do not result in external revenues attributed to the Reported Business, and do not relate to any of the products and/or services of the Reported Business. These costs shall be included in the costing covered by the National Costing Methodology to ensure reconciliation of costs and data integrity.
- (d) Overheads, which shall be classed either—



- (i) if the Activity Costs relate to one or more Operational Business Processes which do not have a direct causal link to any of the SPHCCs being processed, as Pipeline Overheads; or
- (ii) if the Activity Costs relate to Non-operational Business Processes which do not have a direct causal link to any of the SPHCCs being processed, as General Overheads.

National Costing Rule 9: Activity Drivers

**8.25** The assignment of Activity Costs to SPHCCs shall be undertaken using appropriate Activity Drivers which shall be identified and quantified based on the following rules—

- (a) each Activity Cost shall be assigned to all the SPHCCs which that Activity directly contributes to, or indirectly supports; and
- (b) Activity Drivers shall reflect the relative proportions of the amount of work which the totality of all the units of each SPHCC creates for the related Activity.

**8.26** Three types of Activity Drivers shall be used—

- (a) **Weighted Volume Drivers** (see National Costing Rule 10): These drivers represent the relative amount of work 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 National Costing Rule 11): These drivers shall be 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).
- (c) **EPMU** (see National Costing Rule 12): EPMU methods which allocate costs based on the relative proportions of the costs which have already been assigned to the relevant SPHCCs.

**8.27** **Table 8** below shows how each type of Activity Cost shall be assigned to SPHCC (which is illustrated by a tick in the Table).

**Table 8: Activity Cost assignment to SPHCC**

|                                | <u>Attributable Operational Costs and Attributable Non-operational Costs</u> | <u>Overheads</u> | <u>Aggregate Costs</u> |
|--------------------------------|--|------------------|------------------------|
| <u>Weighted Volume Drivers</u> | ✓  |                  |                        |
| <u>Other Drivers</u>           | ✓  |                  | ✓                      |
| <u>EPMU</u>                    |  | ✓                |                        |

National Costing Rule 10: Weighted Volume Drivers

**8.28** Weighted Volume Drivers shall incorporate two types of factors for each relevant attributable Activity Cost, namely—

- (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 amount of work that units of each SPHCC require from the related Activity, when compared to a different SPHCC using the same Activity.

**8.29** Proportional Factors referred to in **§8.28(a)** shall be based on operational data collected using representative measurements of total volumes (including statistical sampling techniques where necessary, see National Costing Rule 14).

**8.30** Depending on the nature of the Activity, one or more of the following variables may be used as a determinant of the amount of work to calculate the Weighting Factors—

- (a) time (needed to carry out the Activity);
- (b) weight (of an item); and
- (c) size (or physical dimensions of an item),

provided that each variable used by Royal Mail to calculate each Weighting Factor is quantified based on appropriate operational data using actual data containing the necessary granularity.

Only where such actual data is unavailable or lacks the necessary components for cost allocation, Royal Mail may use modelled or theoretical data, provided that this data is—

- (d) based on sampling or industrial engineering studies; and
- (e) prepared in accordance with relevant statistical sampling techniques and ISO standards (see National Costing Rule 14).

For the avoidance of doubt, where Royal Mail uses either actual, modelled or theoretical data under this **§8.30**, Royal Mail must ensure the integrity of the data in accordance with National Costing Rule 15.

**8.31** Royal Mail must carry out for each Financial Year a review to ascertain which Proportional Factors and Weighting Factors need to be reviewed and, if necessary, must update them to ensure that they continue to reflect operational reality accurately.

**8.32** To identify the Proportional Factors and the Weighting Factors which may need adjusting referred to in **§8.31**, Royal Mail must consider what (if any) changes have occurred during the Financial Year in question in the following areas—

- (a) working practices;
- (b) SPHCCs mix (relative volumes).

**8.33** Royal Mail may carry out ad hoc event-driven reviews and updates if necessary.

#### National Costing Rule 11: Other Drivers

**8.34** Other Drivers shall be used for costs (certain Attributable Operational Costs and all Attributable Non-operational Costs and Aggregate Costs) which are directly linked to a factor other than mail traffic in the Pipeline.

**8.35** Other Drivers shall be quantified based on appropriate operational data using actual data containing the necessary granularity which reflects the causal link to that factor.

Only where such actual data is unavailable or lacks the necessary components for cost allocation, Royal Mail may use modelled or theoretical data, provided that this data is—

- (a) based on sampling or industrial engineering studies; and
- (b) prepared in accordance with relevant statistical sampling techniques and ISO standards (see National Costing Rule 14).

For the avoidance of doubt, where Royal Mail uses either actual, modelled or theoretical data under this **§8.35**, Royal Mail must ensure the integrity of the data in accordance with National Costing Rule 15.

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

**8.36** EPMU shall be used for allocating Overheads (see National Costing Rule 8) by treating them in the following manner—

- (a) Pipeline Overheads shall be allocated to all, and only, those SPHCCs which are processed by that element of the Pipeline; and
- (b) General Overheads shall be allocated to all SPHCCs which are processed through the Pipeline.

**8.37** EPMU shall be applied for each of the Activity Costs within Overheads separately, and be based only on the proportions of the Attributable Operational Costs and the Attributable Non-operational Costs, once they have been attributed. EPMU applications shall not take account of any other costs already allocated using EPMU ("non-nested" approach).

#### National Costing Rule 13: Traffic measurement

**8.38** Royal Mail must use the Revenue Derived Method of traffic measurement, whereby the traffic volume for products and/or services is calculated by dividing the total revenue of the products and/or services by the average unit price of them, in the National Costing Methodology.

**8.39** The measurement method used for each SPHCC shall be applied consistently within the National Costing Methodology and over time.

#### National Costing Rule 14: Data and sampling

- 8.40** All operational data —whether actual, modelled or theoretical data— used by the National Costing Methodology shall be regularly reviewed and, where necessary, updated to ensure the accuracy of costing and its consistency with the operational reality (see National Costing Rule 2). In so doing, for the avoidance of doubt, Royal Mail must ensure the integrity of all the data in accordance with National Costing Rule 15.
- 8.41** Royal Mail must ensure that all sampling used by the National Costing Methodology is applied by a qualified professional statistician as such sampling must be based on statistical techniques regarded as appropriate for such purposes. The reference to a “qualified professional statistician” is a reference to a person with the relevant statistical knowledge and expertise, who shall have a qualification in statistics from a recognised professional body, such as the Royal Statistical Society in the United Kingdom.

#### National Costing Rule 15: Data integrity

- 8.42** **Definition:** Data Integrity is the maintenance of and, so far as is possible, the assurance of the accuracy and consistency of any data over time, and the data includes (but is not limited to) inputs, models and outputs.

In light of that definition, Royal Mail shall ensure that—

- (a) the Data Integrity of financial and operational data —whether actual, modelled or theoretical data— used for the National Costing Methodology shall be preserved by adequate checks and controls on the data for the same period as well as adequate checks and controls on the development of data from one period to another;
- (b) those checks and controls include (but are not limited to) reconciliation of total cost data at appropriate points in the National Costing Methodology; and
- (c) any and all changes to data sources and methodologies from one period to another are justified by reference to relevant requirements in the RAG and the Guiding Principles in the USPAC Condition.

- 8.43** The total amount of input costs relating to any element of the National Costing Methodology shall be equal to the total amount of output costs relating to that element. In particular, the following total figures shall be reconciled to each other—

- (a) the total costs in the General Ledger;
- (b) the total Activity Costs; and
- (c) the total costs of all SPHCCs.

#### Zonal Costing Methodology

**8.44** Royal Mail must—

- (a) ensure that the Zonal Costing Methodology complies with the Zonal Costing Rules set out in this **Section 8**;
- (b) document the Zonal Costing Methodology in the Costing Manual; and
- (c) apply the Zonal Costing Methodology where Royal Mail uses different prices for products and/or services falling within the Reported Business for different parts of the United Kingdom, but only where the provision of such products and/or services are subject to obligations under regulatory conditions (as defined by section 28(2) of the Act).

## **Zonal Costing Rules**

### Zonal Costing Rule 1: Activity Based Costing ('ABC')

**8.45** The National Costing Rule 1 shall apply and the reference in that Rule to the National Costing Methodology is to be read as a reference to Zonal Costing Methodology.

### Zonal Costing Rule 2: Operational reality

**8.46** The National Costing Rule 2 shall apply and references in that Rule to—

- (a) the National Costing Methodology is to be read as a reference to Zonal Costing Methodology; and
- (b) National Costing Rule 3 is to be read as a reference to Zonal Costing Rule 3.

### Zonal Costing Rule 3: Class costing

**8.47** The National Costing Rule 3 shall apply.

### Zonal Costing Rule 4: Zonal General Ledger costs and Cost Types

**8.48** Non-staff costs attributed to the Delivery Office shall be broken down by Cost Type. (For the avoidance of doubt, any differences relating to a geographic area in these Cost Types shall be included in the Zonal Costing Methodology in accordance with Zonal Costing Rule 16.) Subject to that qualification, the National Costing Rule 4 shall apply.

### Zonal Costing Rule 5: Activities

**8.49** The National Costing Rule 5 shall apply.

### Zonal Costing Rule 6: Resource Drivers

**8.50** The National Costing Rule 6 shall apply.

### Zonal Costing Rule 7: Zonal Products and SPHCCs

**8.51** Royal Mail must attribute costs to products and/or services falling within the Reported Business referred to in **§8.44(c)** by sub-dividing them into SPHCCs in accordance with the following measured characteristics—

- (a) format (e.g. letter, flat, packet, etc.);
- (b) class (e.g. First Class, Second Class, Third Class, etc.); and
- (c) payment method (e.g. stamped, metered, account, PPI, etc.); and
- (d) handling (e.g. mechanised versus manual, etc.).

**8.52** For the avoidance of doubt, Royal Mail may use additional measuring characteristics, provided that the measured characteristics referred to in **§8.51** are used.

### Zonal Costing Rule 8: Activity Costs

**8.53** The National Costing Rule 8 shall apply and references in that Rule to—

- (a) the National Costing Methodology is to be read as a reference to Zonal Costing Methodology; and
- (b) National Costing Rule 3 is to be read as a reference to Zonal Costing Rule 7.

### Zonal Costing Rule 9: Activity Drivers

**8.54** The National Costing Rule 9 shall apply and references in that Rule to—

- (a) the National Costing Methodology is to be read as a reference to Zonal Costing Methodology;
- (b) National Costing Rule 10 is to be read as a reference to Zonal Costing Rule 10;
- (c) National Costing Rule 11 is to be read as a reference to Zonal Costing Rule 11; and

- (d) National Costing Rule 12 is to be read as a reference to Zonal Costing Rule 12.

#### Zonal Costing Rule 10: Weighted Volume Drivers

- 8.55** The National Costing Rule 10 shall apply.

#### Zonal Costing Rule 11: Other Drivers

- 8.56** The National Costing Rule 11 shall apply.

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

- 8.57** The National Costing Rule 12 shall apply.

#### Zonal Costing Rule 13: Zonal Traffic measurement

- 8.58** The National Costing Rule 13 shall apply and references in that Rule to the National Costing Methodology are to be read as references to Zonal Costing Methodology.

- 8.59** With the commencement of the second Financial Quarter of the first Financial Year, Royal Mail must ensure that any MCS sampling used for estimating costs in relation to Zones for downstream services must include all volumes associated with the downstream services. References to downstream services for that purpose are references to services relating to the final sortation conducted at the Inward Mail Centre and Delivery Offices, and the conveyance of mail items from the Inward Mail Centre to final delivery destination.

#### Zonal Costing Rule 14: Zonal Operational data and sampling

- 8.60** Subject to ~~§§8.61-8.63~~, the National Costing Rule 14 shall apply and references in that Rule to—

(a) the National Costing Methodology is to be read as a reference to Zonal Costing Methodology; and

(b) National Costing Rule 2 is to be read as a reference to Zonal Costing Rule 2.

- 8.61** Royal Mail must review its operational data for the estimation of costs of products and/or services falling within the Reported Business referred to in **§8.44(c)**. In addition, Royal Mail must update its estimation of such costs to ensure that it is consistent with—

- (a) the updated values of the explanatory variables<sup>2</sup> of the relevant cost functions (e.g. postcode sector volumes, number of delivery points, area, volume delivered per delivery point and proportion of business delivery);
- (b) the updated variable coefficients<sup>3</sup> of the relevant cost functions (updated variable coefficients<sup>4</sup>);
- (c) the updated mapping of postcode sectors, Delivery Offices, and Inward Mail Centres to Zones; and
- (d) the updated differentials in costs for each Zone arising from geographic differentials in pay rates and other input costs.

Except for the first Financial Year, Royal Mail must comply with these obligations before the start of every Financial Year. In relation to the first Financial Year, Royal Mail must comply with these obligations by the end of that Financial Year.

**8.62** Where regressions<sup>5</sup> are used to estimate the costs referred to in **§8.61**, Royal Mail must include in the Costing Manual information demonstrating that the regressions<sup>6</sup> are statistically valid. Royal Mail must ensure that such regressions are derived by a qualified professional econometrician using data in accordance with the Zonal Costing Rules. The reference to a “qualified professional econometrician” is a reference to a person with the relevant knowledge and expertise in econometrics, who is qualified in the application of mathematics and statistical methods to economic data.

**8.63** Royal Mail must ensure that all sampling used for the estimation of costs referred to in **§8.61** is applied by a qualified professional statistician as such sampling must be based on statistical techniques regarded as appropriate for such purposes. The reference to a “qualified professional statistician” is a reference to a person with the relevant statistical knowledge and expertise, who shall have a qualification in statistics from a recognised professional body, such as the Royal Statistical Society in the United Kingdom. Royal Mail must include in the Costing Manual information demonstrating that the sampling is statistically valid.

#### Zonal Costing Rule 15: Zonal Data consistency

**8.64** The National Costing Rule 15 shall apply and references in that Rule to the National Costing Methodology are to be read as references to Zonal Costing Methodology.

**8.65** Royal Mail must also ensure that the following figures are reconciled to each other—

<sup>2</sup> The reference to an explanatory variable is a reference to a variable which is used to explain or to predict changes in the value of another variable.

<sup>3</sup> The reference to a variable coefficient is a reference to figure multiplied with a variable or an unknown quantity in an algebraic formula.

<sup>4</sup> *Ibid.*

<sup>5</sup> The reference to a regression is a reference to a relationship between the mean value of a random variable and the corresponding values of one or more independent variables.

<sup>6</sup> *Ibid.*



- (a) any estimated costs for the postcode sectors served by each Delivery Office shall be reconciled with the total relevant costs of that Delivery Office; and
- (b) geographically de-averaged costs used for estimating costs in relation to Zones shall be reconciled with the corresponding costs to be derived under National Costing Rule 15.

#### Zonal Costing Rule 16: Geographic cost reflectivity

**8.66** Royal Mail must ensure that its estimation of costs in relation to Zones includes all material differences between costs that vary by each geographical area encompassed by the Zone in question.

#### Zonal Costing Rule 17: Postcode sector cost estimation

**8.67** Royal Mail must, where it uses estimates of costs in relation to postcode sectors as inputs for estimating costs in relation to Zones, use actual postcode sector data.

#### Zonal Costing Rule 18: Amendment of Zones

**8.68** Royal Mail must comply with the following rules in relation to defining and amending Zones—

- (a) for the first Financial Year, the total number of Zones shall not exceed four; and
- (b) Royal Mail must review the boundaries of Zones and Royal Mail may define new or additional Zones, provided that Zones having the similarly estimated unit costs shall always be treated as part of the same Zone.

Except for the first Financial Year, Royal Mail must comply with the obligation in **§8.68(b)** before the start of every Financial Year. In relation to the first Financial Year, Royal Mail must comply with that obligation by the end of that Financial Year.

#### Zonal Costing Rule 19: Reconciliation of zonal and national cost estimates

**8.69** Royal Mail must review changes in its estimation of costs in relation to Zones to ensure that—

- (a) in deriving each unit cost estimate, the estimated total postcode sector volumes and estimated total volumes in relation to Zones both equal the total national volumes derived under National Costing Rule 15, and
- (b) the average unit costs in relation to Zones derived from the volumes referred to in **§8.69(a)** remains equal to the corresponding average unit costs derived under the National Costing Methodology.

Except for the first Financial Year, Royal Mail must comply with these obligations before the start of every Financial Year. In relation to the first Financial Year, Royal Mail must comply with these obligations by the end of that Financial Year.

## Transformation Costs

- 8.70** Royal Mail must account for all Transformation Costs arising from the trading operations of Royal Mail relevant to the Reported Business which are not already included in the National Costing Methodology. Royal Mail must account for Transformation Costs in the income statements and product profitability statements for the Reported Business.
- 8.71** Royal Mail must allocate the Transformation Costs referred to in **§8.70** to the Reported Business by using an appropriate cost driver. The basis of the allocation concerned shall be set out in the Accounting Methodology Manual.

## Transfer Charges

- 8.72** Royal Mail must ensure that Transfer Charges between the Reported Business and the rest of the Relevant Group are applied in compliance with the rules set out in **§8.73-§8.80**.
- 8.73** For **§8.72**, a Transfer Charge shall be calculated on an arm's length basis for each product and/or service provided.
- 8.74** Royal Mail must set a Transfer Charge for the provision of each product and/or service between the Reported Business and the rest of the Relevant Group.
- 8.75** All income statements for the Reported Business shall include the Transfer Charges between the Reported Business and the rest of Relevant Group.
- 8.76** Subject to **§§8.77-78**, Royal Mail must calculate a Transfer Charge on an arm's length basis in accordance with **§8.72** by securing that—
- (a) if the product and/or service provided is provided to persons other than the Relevant Group, the Transfer Price shall be equivalent to the price charged to those persons;
  - (b) if the product and/or service is provided to the Relevant Group by other persons, the Transfer Price shall be equivalent to the price charged by those persons; and
  - (c) if the product and/or service does not fall within **§8.76(a) or (b)**, the Transfer Price shall be equal to the FAC of that product and/or service plus an appropriate return.
- 8.77** Royal Mail is not required to set a Transfer Price for the services provided by central finance, human resources, and purchasing and customer management services which are used by RM UK and are managed centrally.

- 8.78** Royal Mail must apply the rule referred to in **§8.76(c)** in relation to any use of its vehicles, where the use of vehicles is shared between the Reported Business and the rest of the Relevant Group.
- 8.79** Royal Mail must provide a statement setting out all Transfer Charges as part of the notes to the annual and quarterly income statements.
- 8.80** Royal Mail must include in the Accounting Methodology Manual a detailed description of the approach and the assumptions used for the calculation of the Transfer Charges.

### **Cost Matrix**

- 8.81** The cost lines included in the Cost Matrix must be provided in accordance with the guidance given in the notes to **Figures 2, 5 and 15 of Appendix 1** of these Guidelines.
- 8.82** When changes to the mapping of the Cost Matrix to the General Ledger are necessary, the Cost Matrix shall include the details and the impact of those changes and the reasons for those changes.

### **PVEO Analysis**

- 8.83** The PVEO Analysis for a Financial Year in question shall be prepared in compliance with the following rules:
- (a)** Price related cost changes in the Financial Year in question from the prior Financial Year must be calculated by multiplying the costs in the prior Financial Year (excluding all non-recurring items captured by **§8.83(c)**) by the percentage change in an appropriate inflation index during the Financial Year in question from the prior Financial Year, using AEI for people costs as set out in **Figures 6a and 6b of Appendix 1** of these Guidelines, and CPI for all other costs.
  - (b)** Volume related cost changes in the Financial Year in question from the prior Financial Year must be calculated as the sum of the following changes:
    - (i)** the cost changes related to the changes in the Workload in the Financial Year in question from the prior Financial Year, calculated by multiplying the percentage change in the Workload in the Financial Year in question from the prior Financial Year by the relevant costs in the prior Financial Year excluding non-recurring items (captured by **§8.83(c)**) and subsequently inflated using the inflation index used in **§8.83(a)**;
    - (ii)** the changes in the Financial Year in question from the prior Financial Year in all the costs related to POL and international terminal dues; and

- (iii) any other cost changes in the Financial Year in question from the prior Financial Year related to changes in mail volume.
- (c) The volume related cost changes referred to in (b)(i) above, for the purposes of PVEO Analysis required for an actual Financial Year, must be calculated using Workload changes calculated on the basis of the same assumptions and categories adopted in the most recent Five-Yearly Financial Forecast.
- (d) Other cost changes must encompass all the cost changes related to non-recurring items in the Financial Year in question and the prior Financial Year which are outside Royal Mail's control.
- (e) With respect to each and every cost change referred to in (d) above, Royal Mail must provide the reasons why that change meets the criteria set out in (d) above.
- (f) Efficiency related cost changes shall be the remaining change in the cost in the Financial Year in question from the prior Financial Year, after all the cost changes in **§8.83(a), (b) and (d)** have been deducted from the total change in costs in the Financial Year in question from the prior Financial Year.

#### **Pension costs**

- 8.84** Any pension contributions made by Royal Mail to its pension schemes, including DB Pension Service Costs, which is included in the income statement, the PVEO Analysis, and Cost Matrix shall be measured on a cash paid basis.

## Section 9: Separation Methodology

### Introduction

- 9.1** Royal Mail must ensure that the Regulatory Accounting Methodology complies with the detailed rules set out in this **Section 9**, which relate to the separation, allocation and apportionment of costs, revenues, assets and cash flows between any product groups within the Reported Business.

### Income statements

- 9.2** Royal Mail must ensure that its preparation of any income statement for any product groups complies with the rules set out in **§§9.3-9.13**.

### Levels of preparation

- 9.3** Royal Mail must ensure, for the purposes of USPAC 1.5.2(a), that annual end to end income statements in respect of USO, non-USO and non-Mails are prepared to the level of Financeability EBIT.
- 9.4** Royal Mail must ensure, for the purposes of USPAC 1.5.2(b), that quarterly end to end income statements in respect of USO, non-USO and non-Mails are prepared to the level of Financeability EBIT.

### Apportionment of revenues

- 9.5** References to “revenue” in this **Section 9** are references to external and internal turnover used in the preparation of any income statement. External and internal turnover shall consist of income for products and/or services arising from the fair value of the consideration received or receivable for products and/or services provided as part of the operational trading of the Reported Business.
- 9.6** Revenues shall be allocated to products and/or services in accordance with **Section 7** of these Guidelines.

### Apportionment of costs

- 9.7** Costs shall be allocated across any product groups within the Reported Business as follows—
- (a) The costs which are within the scope of the National Costing Methodology shall be allocated to product groups in accordance with the National Costing Methodology. Where SPHCCs are mapped to more than one product group, the basis of the allocation of the SPHCC costs concerned shall be included in the National Costing Methodology and set out in the Costing Manual.

- (b) Transformation Costs referred to in **§8.70** shall be allocated to product groups using an appropriate underlying driver. The basis of the allocation concerned shall be set out in the Accounting Methodology Manual.

### **Transfer Pricing between Upstream Services and Downstream Services**

- 9.8** Transfer Prices between the Upstream Services and the Downstream Services shall be determined in compliance with the rules set out in **§§9.9-9.13**.

#### *Equivalence pricing*

- 9.9** Where there are appropriate comparable Access products and/or services provided by Royal Mail to external customers, Royal Mail must apply the equivalence pricing approach referred to **§9.10** in determining Transfer Prices.

- 9.10** The equivalence pricing approach means—

- (a) An appropriate comparable Access product and/or service shall be identified for the internal product and/or service for which the Transfer Price is to be determined.
- (b) The operational and Activity differences between the internal product and/or service for which the Transfer Price is to be determined, and the appropriate comparable product or service shall be identified.
- (c) The FAC differences of the operational and Activity differences referred to in **§9.10(b)** above shall be identified in a manner consistent with the National Costing Methodology.
- (d) The Transfer Price shall be determined as the sum of the price of the appropriate comparable Access product and/or service, the FAC differences referred to in **§9.10(c)** plus an appropriate return.

- 9.11** Royal Mail may use prices for First Class Access products and/or services, provided that the equivalence pricing approach referred to **§9.10** is followed and that they have—

- (a) sufficient sales volumes to form a statistically valid basis for the calculation of the FAC of the product and/or service in question; and
- (b) material sales volumes.

Where Royal Mail wishes to use prices for First Class Access products and/or services but is unable to satisfy **§9.11(a) and (b)**, Royal Mail must use the price for the most comparable Second Class Access products and/or services.

### *Cost-plus pricing*

**9.12** Where there are no appropriate comparable Access products and/or services, Royal Mail must set the Transfer Price as equal to the FAC of the product and/or service in question plus an appropriate return.

### *Grouping*

**9.13** Single Transfer Prices may be applied to groups of products and/or services, provided that all of the following requirements are met—

- (a)** in determining such groups, Royal Mail must only include products and/or services in a group that fall within the same market definition as out in the following market studies—
  - (i)** Market study decisions on wholesale & packets markets published in November 2010<sup>7</sup>.
  - (ii)** Market study proposals on retail markets published in March 2011<sup>8</sup>.
  - (iii)** Market study proposals on international outbound mail market published in May 2011<sup>9</sup>.
- (b)** in determining such groups, Royal Mail must not include in a group products and/or services that have materially different handling characteristics as defined in the Costing Manual.
- (c)** in determining such groups, Royal Mail must not include in a group products and/or services that are subject to different obligations under regulatory conditions (as defined by section 28(2) of the Act).

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<sup>7</sup> <http://www.nationalarchives.gov.uk/webarchive/communications-media.htm>

<sup>8</sup> *Ibid*

<sup>9</sup> *Ibid*

**Section 10: Auditing**

**10.1** For the purpose of USPAC 1.4.4, Royal Mail must 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 directed for the purpose of USPAC 1.4.4**

| <i>Column 1: Financial statement/information referred to in USPAC 1.4.1</i> |  | <i>Column 2: Auditing basis</i> |
|---|--|---------------------------------|
| USPAC 1.4.1(a)  | Annual income statement in <b>Figure 11 of Appendix 1</b> (excluding the Non USO Mail and Non Mails split in <b>Figure 12 of Appendix 1</b> , <u>Cost Matrix</u> , <u>PVEO Analysis</u> , <u>Productivity (WIPGH)</u> , <u>Productivity (WIPWH)</u> , <u>Gross Hours</u> breakdown and efficiency initiatives information) | <u>PPIA</u>                     |
| USPAC 1.4.1(b)  | Quarterly income statement   | <i>Not applicable</i>           |
| USPAC 1.4.1(c)  | Annual reconciliation of statements/information specified in USPAC 1.4.1(c)  | <i>Not applicable</i>           |
| USPAC 1.4.1(d)  | Annual reconciliation of statements/information specified in USPAC 1.4.1(d)  | <u>PPIA</u>                     |
| USPAC 1.4.1(e)  | Annual product profitability statement   | <u>PPIA</u>                     |
| USPAC 1.4.1(f)  | Quarterly product profitability statement  | <i>Not applicable</i>           |
| USPAC 1.4.1(g)  | Monthly revenue and volume information statement   | <i>Not applicable</i>           |
| USPAC 1.4.1(h)  | Quarterly revenue, cost and volume information statements  | <i>Not applicable</i>           |

**10.2** For the purpose of USPAC 1.5.5, Royal Mail must secure an appropriate audit opinion by a Qualified Independent Auditor in respect of the financial statements and information specified in **Column 1 of Table 11** on the basis specified in **Column 2 of that Table**.

**Table 11: Auditing bases directed for the purpose of USPAC 1.5.5**

| <i>Column 1: Financial statement/information referred to in USPAC 1.5.2</i> |   | <i>Column 2: Auditing basis</i> |
|---|---|---------------------------------|
| USPAC 1.5.2(a)  | Annual end to end income statement in respect of <u>USO</u> , <u>non-USO</u> and <u>non-Mails</u> in <b>Figure 12 of Appendix 1</b> | <i>Not applicable</i>           |



|                   |   |                       |
|-------------------|---|-----------------------|
| USPAC<br>1.5.2(b) | Quarterly end to end income statement in respect of <u>USO</u> ,<br><u>non-USO</u> and <u>non-Mails</u> | <i>Not applicable</i> |
|-------------------|---|-----------------------|

## Appendix 1

### Pro formas

Please find below the pro formas set out in the same order as the legal requirements.

#### Pro formas relating to the Annual Financial Forecast

Figure 1: Revenue and Volume forecast

|  | Forecast USO<br>vol/Total vol<br>% USO vol | Volume m      |               |               |               |               | Revenue £m    |               |               |               |               | AUR €         |               |               |               |               |
|--|--|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
|  |  | F'cast<br>Yr1 | F'cast<br>Yr2 | F'cast<br>Yr3 | F'cast<br>Yr4 | F'cast<br>Yr5 | F'cast<br>Yr1 | F'cast<br>Yr2 | F'cast<br>Yr3 | F'cast<br>Yr4 | F'cast<br>Yr5 | F'cast<br>Yr1 | F'cast<br>Yr2 | F'cast<br>Yr3 | F'cast<br>Yr4 | F'cast<br>Yr5 |
| <b>Parcels</b>                                       |  |               |               |               |               |               |               |               |               |               |               |               |               |               |               |               |
| Domestic Account Parcels                             | x%   | xx            | xx            | xx            |               |               | xx            | xx            | xx            |               |               | x.xx          | x.xx          | x.xx          |               |               |
| Domestic Account Parcels (Amazon)                    | x%   | xx            | xx            | xx            |               |               | xx            | xx            | xx            |               |               | x.xx          | x.xx          | x.xx          |               |               |
| RM 24/48 Large Letters                               | x%   | xx            | xx            | xx            |               |               | xx            | xx            | xx            |               |               | x.xx          | x.xx          | x.xx          |               |               |
| Tracked and Tracked returns                          | x%   | xx            | xx            | xx            |               |               | xx            | xx            | xx            |               |               | x.xx          | x.xx          | x.xx          |               |               |
| Special Delivery - Non USO                           | x%   | xx            | xx            | xx            |               |               | xx            | xx            | xx            |               |               | x.xx          | x.xx          | x.xx          |               |               |
| Other Domestic Account Parcels                       | x%   | xx            | xx            | xx            |               |               | xx            | xx            | xx            |               |               | x.xx          | x.xx          | x.xx          |               |               |
| Network Access Parcels                               | x%   | xx            | xx            | xx            |               |               | xx            | xx            | xx            |               |               | x.xx          | x.xx          | x.xx          |               |               |
| <b>Account Parcels</b>                               | x%   | xx            | xx            | xx            | xx            | xx            | xx            | xx            | xx            | xx            | xx            | x.xx          | x.xx          | x.xx          | x.xx          | x.xx          |
| Stamped Parcels                                      | x%   | xx            | xx            | xx            |               |               | xx            | xx            | xx            |               |               | x.xx          | x.xx          | x.xx          |               |               |
| USO Account and Metered Parcels                      | x%   | xx            | xx            | xx            |               |               | xx            | xx            | xx            |               |               | x.xx          | x.xx          | x.xx          |               |               |
| Special Delivery - USO                               | x%   | xx            | xx            | xx            |               |               | xx            | xx            | xx            |               |               | x.xx          | x.xx          | x.xx          |               |               |
| <b>Consumer &amp; Small Business Parcels</b>         | x%   | xx            | xx            | xx            | xx            | xx            | xx            | xx            | xx            | xx            | xx            | x.xx          | x.xx          | x.xx          | x.xx          | x.xx          |
| International Import Parcels                         | x%   | xx            | xx            | xx            |               |               | xx            | xx            | xx            |               |               | x.xx          | x.xx          | x.xx          |               |               |
| Non-Revenue Generating Parcels                       | x%   | xx            | xx            | xx            |               |               |               |               |               |               |               |               |               |               |               |               |
| <b>RM Parcels (For Delivery in the UK)</b>           | x%   | xx            | xx            | xx            | xx            | xx            | xx            | xx            | xx            | xx            | xx            | x.xx          | x.xx          | x.xx          | x.xx          | x.xx          |
| International Export Parcels                         | x%   | xx            | xx            | xx            | xx            | xx            | xx            | xx            | xx            | xx            | xx            | x.xx          | x.xx          | x.xx          | x.xx          | x.xx          |
| Specialist services                                  | x%   | xx            | xx            | xx            | xx            | xx            | xx            | xx            | xx            | xx            | xx            | x.xx          | x.xx          | x.xx          | x.xx          | x.xx          |
| Less: eCourier o/s RB                                |  |               |               |               |               |               | xx            | xx            | xx            |               |               |               |               |               |               |               |
| Parcel contingency                                   | x%   | xx            | xx            | xx            | xx            | xx            | xx            | xx            | xx            | xx            | xx            |               |               |               |               |               |
| <b>Reported Business Parcels inc RM 24/48 LL (A)</b> | x%   | xx            | xx            | xx            | xx            | xx            | xx            | xx            | xx            | xx            | xx            | x.xx          | x.xx          | x.xx          | x.xx          | x.xx          |
| <b>Letters</b>                                       |  |               |               |               |               |               |               |               |               |               |               |               |               |               |               |               |
| Retail Addressed Advertising Letters                 | x%   | xx            | xx            | xx            |               |               | xx            | xx            | xx            |               |               | x.xx          | x.xx          | x.xx          |               |               |
| Unaddressed Advertising Letters                      | x%   | xx            | xx            | xx            | xx            | xx            | xx            | xx            | xx            | xx            | xx            | x.xx          | x.xx          | x.xx          | x.xx          | x.xx          |
| Network Access Advertising Letters                   | x%   | xx            | xx            | xx            |               |               | xx            | xx            | xx            |               |               | x.xx          | x.xx          | x.xx          |               |               |
| <b>Advertising Letters</b>                           | x%   | xx            | xx            | xx            | xx            | xx            | xx            | xx            | xx            | xx            | xx            | x.xx          | x.xx          | x.xx          | x.xx          | x.xx          |
| Retail Bulk Business Mail Letters                    | x%   | xx            | xx            | xx            |               |               | xx            | xx            | xx            |               |               | x.xx          | x.xx          | x.xx          |               |               |
| Network Access Business Mail Letters                 | x%   | xx            | xx            | xx            |               |               | xx            | xx            | xx            |               |               | x.xx          | x.xx          | x.xx          |               |               |
| <b>Business Mail Letters</b>                         | x%   | xx            | xx            | xx            | xx            | xx            | xx            | xx            | xx            | xx            | xx            | x.xx          | x.xx          | x.xx          | x.xx          | x.xx          |
| USO Account and Metered Letters                      | x%   | xx            | xx            | xx            |               |               | xx            | xx            | xx            |               |               | x.xx          | x.xx          | x.xx          |               |               |
| Stamped Letters                                      | x%   | xx            | xx            | xx            |               |               | xx            | xx            | xx            |               |               | x.xx          | x.xx          | x.xx          |               |               |
| <b>Consumer &amp; Small Business</b>                 | x%   | xx            | xx            | xx            | xx            | xx            | xx            | xx            | xx            | xx            | xx            | x.xx          | x.xx          | x.xx          | x.xx          | x.xx          |
| International Import Letters                         | x%   | xx            | xx            | xx            | xx            | xx            | xx            | xx            | xx            | xx            | xx            | x.xx          | x.xx          | x.xx          | x.xx          | x.xx          |
| Elections  | x%   | xx            | xx            | xx            |               |               | xx            | xx            | xx            |               |               | x.xx          | x.xx          | x.xx          |               |               |
| Non-Revenue Generating Letters                       | x%   | xx            | xx            | xx            |               |               | xx            | xx            | xx            |               |               | x.xx          | x.xx          | x.xx          |               |               |
| Other  | x%   | xx            | xx            | xx            |               |               | xx            | xx            | xx            |               |               | x.xx          | x.xx          | x.xx          |               |               |
| <b>Royal Mail Letters (For Delivery in the UK)</b>   | x%   | xx            | xx            | xx            | xx            | xx            | xx            | xx            | xx            | xx            | xx            | x.xx          | x.xx          | x.xx          | x.xx          | x.xx          |
| International Export Letters                         | x%   | xx            | xx            | xx            | xx            | xx            | xx            | xx            | xx            | xx            | xx            | x.xx          | x.xx          | x.xx          | x.xx          | x.xx          |
| Letter contingency                                   | x%   | xx            | xx            | xx            | xx            | xx            | xx            | xx            | xx            | xx            | xx            |               |               |               |               |               |
| Philatelic   | x%   | xx            | xx            | xx            |               |               | xx            | xx            | xx            |               |               | x.xx          | x.xx          | x.xx          |               |               |
| Data & Innovations                                   | x%   | xx            | xx            | xx            |               |               | xx            | xx            | xx            |               |               | x.xx          | x.xx          | x.xx          |               |               |
| Central Group Income                                 | x%   | xx            | xx            | xx            |               |               | xx            | xx            | xx            |               |               | x.xx          | x.xx          | x.xx          |               |               |
| Revenue Earned from POL                              | x%   | xx            | xx            | xx            | xx            | xx            | xx            | xx            | xx            | xx            | xx            | x.xx          | x.xx          | x.xx          | x.xx          | x.xx          |
| <b>Total Letters (B)</b>                             | x%   | xx            | xx            | xx            | xx            | xx            | xx            | xx            | xx            | xx            | xx            | x.xx          | x.xx          | x.xx          | x.xx          | x.xx          |
| <i>Plus: inter-business charge to PFW</i>            |  |               |               |               |               |               | xx            | xx            | xx            | xx            | xx            |               |               |               |               |               |
| <i>Plus: inter-company charges</i>                   |  |               |               |               |               |               | xx            | xx            | xx            | xx            | xx            |               |               |               |               |               |
| <b>Total Reported Business Mail</b>                  | x%   | xx            | xx            | xx            | xx            | xx            | xx            | xx            | xx            | xx            | xx            | xx            | xx            | xx            | xx            | xx            |
| <b>Reconciliation to RMUK</b>                        |  |               |               |               |               |               |               |               |               |               |               |               |               |               |               |               |
| Parcelforce  |  | xx            | xx            | xx            | xx            | xx            | xx            | xx            | xx            | xx            | xx            | x.xx          | x.xx          | x.xx          | x.xx          | x.xx          |
| eCommerce Acquisitions                               |  | xx            | xx            | xx            | xx            | xx            | xx            | xx            | xx            | xx            | xx            |               |               |               |               |               |
| Plus: eCourier                                       |  | xx            | xx            | xx            | xx            | xx            | xx            | xx            | xx            | xx            | xx            |               |               |               |               |               |
| <b>Other Royal Mail Parcels (C)</b>                  | x%   | xx            | xx            | xx            | xx            | xx            | xx            | xx            | xx            | xx            | xx            | x.xx          | x.xx          | x.xx          | x.xx          | x.xx          |
| <b>Romec (D)</b>                                     | x%   | xx            | xx            | xx            | xx            | xx            | xx            | xx            | xx            | xx            | xx            | x.xx          | x.xx          | x.xx          | x.xx          | x.xx          |
| <b>Royal Mail UK (A+B+C+D)</b>                       | x%   | xx            | xx            | xx            | xx            | xx            | xx            | xx            | xx            | xx            | xx            | x.xx          | x.xx          | x.xx          | x.xx          | x.xx          |
| <b>Addressed Letters (excl. Elections)</b>           | x%   | xx            | xx            | xx            | xx            | xx            | xx            | xx            | xx            | xx            | xx            | x.xx          | x.xx          | x.xx          | x.xx          | x.xx          |
| Inland Addressed Letters                             | x%   | xx            | xx            | xx            | xx            | xx            | xx            | xx            | xx            | xx            | xx            | x.xx          | x.xx          | x.xx          | x.xx          | x.xx          |
| Addressed UK Delivered Letters                       | x%   | xx            | xx            | xx            | xx            | xx            | xx            | xx            | xx            | xx            | xx            | x.xx          | x.xx          | x.xx          | x.xx          | x.xx          |
| Total Addressed Letters                              | x%   | xx            | xx            | xx            | xx            | xx            | xx            | xx            | xx            | xx            | xx            | x.xx          | x.xx          | x.xx          | x.xx          | x.xx          |
| <b>Total Royal Mail Letters (excl. Elections)</b>    | x%   | xx            | xx            | xx            | xx            | xx            | xx            | xx            | xx            | xx            | xx            | x.xx          | x.xx          | x.xx          | x.xx          | x.xx          |

**Figure 2: Cost Matrix forecast**

|  | Yr1       | Yr2       | Yr3       | Yr4       | Yr5       |
|--|-----------|-----------|-----------|-----------|-----------|
|  | £m        | £m        | £m        | £m        | £m        |
| <i>Frontline - Processing</i>  | xx        | xx        | xx        |           |           |
| <i>Frontline - Regional Logistics</i>                                      | xx        | xx        | xx        |           |           |
| <i>Frontline - Delivery &amp; Collections</i>                              | xx        | xx        | xx        |           |           |
| <i>Frontline - RDC Operation</i>   | xx        | xx        | xx        |           |           |
| <i>Frontline - Other people costs</i>                                      | xx        | xx        | xx        |           |           |
| <b>Sub-total Frontline</b>   | <b>xx</b> | <b>xx</b> | <b>xx</b> | <b>xx</b> | <b>xx</b> |
| Network Road Operations  | xx        | xx        | xx        |           |           |
| Other/Managers   | xx        | xx        | xx        | xx        | xx        |
| <b>Total Operations</b>  | <b>xx</b> | <b>xx</b> | <b>xx</b> | <b>xx</b> | <b>xx</b> |
| <i>Other people - Commercial</i>   | xx        | xx        | xx        |           |           |
| <i>Other people - Technology</i>   | xx        | xx        | xx        |           |           |
| <i>Other people - Property</i>   | xx        | xx        | xx        |           |           |
| <i>Other people - Central Admin</i>  | xx        | xx        | xx        |           |           |
| <b>Sub-total Other People</b>  | <b>xx</b> | <b>xx</b> | <b>xx</b> | <b>xx</b> | <b>xx</b> |
| Centrally Held (see Note 1)  | xx        | xx        | xx        |           |           |
| <b>Total people costs</b>  | <b>xx</b> | <b>xx</b> | <b>xx</b> | <b>xx</b> | <b>xx</b> |
| Conveyance Charges - Domestic (see Note 2)                                 | xx        | xx        | xx        | xx        | xx        |
| Conveyance Charges - International (see Note 2)                            | xx        | xx        | xx        | xx        | xx        |
| Other Distribution costs (see Note 2)                                      | xx        | xx        | xx        | xx        | xx        |
| International Terminal Dues (see Note 3)                                   | xx        | xx        | xx        | xx        | xx        |
| Vehicle Fleet  | xx        | xx        | xx        | xx        | xx        |
| Fuel   | xx        | xx        | xx        | xx        | xx        |
| <b>Total Distribution &amp; Conveyance Costs</b>                           | <b>xx</b> | <b>xx</b> | <b>xx</b> | <b>xx</b> | <b>xx</b> |
| Property   | xx        | xx        | xx        |           |           |
| Romec FM Costs   | xx        | xx        | xx        |           |           |
| IT & Communication   | xx        | xx        | xx        | xx        | xx        |
| Depreciation & Amortisation  | xx        | xx        | xx        | xx        | xx        |
| <b>Total Infrastructure Costs</b>  | <b>xx</b> | <b>xx</b> | <b>xx</b> | <b>xx</b> | <b>xx</b> |
| POL costs  | xx        | xx        | xx        | xx        | xx        |
| Staff & Agents Related Costs & Consumables                                 | xx        | xx        | xx        | xx        | xx        |
| <i>Other costs - Low Value Assets, Other Outsourcing, Stamp Production</i> | xx        | xx        | xx        |           |           |
| <i>Other costs - Bad Debts and Bank Charges</i>                            | xx        | xx        | xx        |           |           |
| <i>Other costs - Audit, Assurance, Consulting, Marketing &amp; Legal</i>   | xx        | xx        | xx        |           |           |
| <i>Other costs - Compensation</i>  | xx        | xx        | xx        |           |           |
| <i>Other External Costs</i>  | xx        | xx        | xx        |           |           |
| <b>Sub-total Other costs</b>   | <b>xx</b> | <b>xx</b> | <b>xx</b> | <b>xx</b> | <b>xx</b> |
| <i>Internal recharge - Property</i>  | xx        | xx        | xx        | xx        | xx        |
| <i>Internal recharge - PFW</i>   | xx        | xx        | xx        | xx        | xx        |
| <i>Internal recharge - Other</i>   | xx        | xx        | xx        | xx        | xx        |
| <b>Sub-total Internal recharges</b>  | <b>xx</b> | <b>xx</b> | <b>xx</b> | <b>xx</b> | <b>xx</b> |
| Budget Contingency   | xx        | xx        | xx        | xx        | xx        |
| <b>Total Other Operating Costs</b>   | <b>xx</b> | <b>xx</b> | <b>xx</b> | <b>xx</b> | <b>xx</b> |
| <b>Total non-people costs</b>  | <b>xx</b> | <b>xx</b> | <b>xx</b> | <b>xx</b> | <b>xx</b> |
| <b>Total Costs before transformation</b>                                   | <b>xx</b> | <b>xx</b> | <b>xx</b> | <b>xx</b> | <b>xx</b> |
| Project Specific costs   | xx        | xx        | xx        |           |           |
| <i>Voluntary redundancy - Frontline</i>                                    | xx        | xx        | xx        |           |           |
| <i>Voluntary redundancy - Management</i>                                   | xx        | xx        | xx        |           |           |
| <i>Voluntary redundancy - Other staff</i>                                  | xx        | xx        | xx        |           |           |
| <b>Sub-total Voluntary redundancy</b>                                      | <b>xx</b> | <b>xx</b> | <b>xx</b> | <b>xx</b> | <b>xx</b> |
| Business Transformation payments   | xx        | xx        | xx        |           |           |
| Other Transformation costs   | xx        | xx        | xx        |           |           |
| <b>Transformation Costs</b>  | <b>xx</b> | <b>xx</b> | <b>xx</b> | <b>xx</b> | <b>xx</b> |
| <b>Total costs after Transformation Costs</b>                              | <b>xx</b> | <b>xx</b> | <b>xx</b> | <b>xx</b> | <b>xx</b> |

**Figure 3: Gross Hours by time category - forecast**

| <b>Frontline</b>                     | <b>Yr1</b> | <b>Yr2</b> | <b>Yr3</b> | <b>Yr4</b> | <b>Yr5</b> |
|--------------------------------------|------------|------------|------------|------------|------------|
|                                      | <b>k</b>   | <b>k</b>   | <b>k</b>   | <b>k</b>   | <b>k</b>   |
| Ordinary/Normal (Full and part time) | xx         | xx         | xx         | xx         | xx         |
| <i>Ordinary Casuals/Temporary</i>    | xx         |            |            |            |            |
| <i>Agency Casuals/Temporary</i>      | xx         |            |            |            |            |
| <b>Total Casuals/Temporary</b>       | xx         | xx         | xx         | xx         | xx         |
| <i>Overtime - contractual</i>        | xx         |            |            |            |            |
| <i>Overtime - non contractual</i>    | xx         |            |            |            |            |
| <b>Total Overtime</b>                | xx         | xx         | xx         | xx         | xx         |
| ...                                  | xx         |            |            |            |            |
| <b>Total Gross Hours</b>             | <b>xx</b>  | <b>xx</b>  | <b>xx</b>  | <b>xx</b>  | <b>xx</b>  |

| <b>Salary costs - including related pay</b> | <b>Yr1</b> | <b>Yr2</b> | <b>Yr3</b> | <b>Yr4</b> | <b>Yr5</b> |
|---|------------|------------|------------|------------|------------|
| (excl employers NI & Pension costs)         | <b>£m</b>  | <b>£m</b>  | <b>£m</b>  | <b>£m</b>  | <b>£m</b>  |
| Ordinary/Normal (Full and part time)        | xx         | xx         | xx         | xx         | xx         |
| <i>Ordinary Casuals/Temporary</i>           | xx         |            |            |            |            |
| <i>Agency Casuals/Temporary</i>             | xx         |            |            |            |            |
| <b>Total Casuals/Temporary</b>              | xx         | xx         | xx         | xx         | xx         |
| <i>Overtime - contractual</i>               | xx         |            |            |            |            |
| <i>Overtime - non contractual</i>           | xx         |            |            |            |            |
| <b>Total Overtime</b>                       | xx         | xx         | xx         | xx         | xx         |
| ...   | xx         |            |            |            |            |
| <b>Total Salaries</b>                       | <b>xx</b>  | <b>xx</b>  | <b>xx</b>  | <b>xx</b>  | <b>xx</b>  |

Figure 4: Efficiency initiatives including related cost information forecast

| Cost movement           | Business Unit * | Efficiency initiatives/ Cost Saving Programmes   | Forecast | Forecast | Forecast | Forecast | Forecast |
|-------------------------|-----------------|--|----------|----------|----------|----------|----------|
|                         |                 |  | Yr 1     | Yr 2     | Yr 3     | Yr 4     | Yr 5     |
|                         |                 |  | £m       | £m       | £m       | £m       | £m       |
| <b>Costs Savings</b>    | ...             | ...  | (xx)     | (xx)     | (xx)     |          |          |
|                         |                 | <b>1. Hours Cost Savings - Projects</b>          | (xx)     | (xx)     | (xx)     | (xx)     | (xx)     |
|                         | ...             | ...  | (xx)     | (xx)     | (xx)     |          |          |
|                         |                 | <b>2. Hours Cost Savings - Other</b>             | (xx)     | (xx)     | (xx)     | (xx)     | (xx)     |
|                         | ...             | ...  | (xx)     | (xx)     | (xx)     |          |          |
|                         |                 | <b>3. Hours Pay Cost Savings - Projects</b>      | (xx)     | (xx)     | (xx)     | (xx)     | (xx)     |
|                         | ...             | ...  | (xx)     | (xx)     | (xx)     |          |          |
|                         |                 | <b>4. Non Hours Cost Savings - Projects</b>      | (xx)     | (xx)     | (xx)     | (xx)     | (xx)     |
|                         | ...             | ...  | (xx)     | (xx)     | (xx)     |          |          |
|                         |                 | <b>5. Non Hours Cost Savings - Other</b>         | (xx)     | (xx)     | (xx)     | (xx)     | (xx)     |
| <b>(1), (3) and (4)</b> |                 | <b>Total Cost Savings - Projects</b>             | (xx)     | (xx)     | (xx)     | (xx)     | (xx)     |
| <b>(2) and (5)</b>      |                 | <b>Total Cost Savings - Other</b>                | (xx)     | (xx)     | (xx)     | (xx)     | (xx)     |
|                         |                 | <b>6. Total Cost Savings</b>                     | (xx)     | (xx)     | (xx)     | (xx)     | (xx)     |
| <b>Cost Pressures</b>   | ...             | ...  | xx       | xx       | xx       |          |          |
|                         |                 | <b>7. Hours &amp; Pay Related Cost Pressures</b> | xx       | xx       | xx       | xx       | xx       |
|                         | ...             | ...  | xx       | xx       | xx       |          |          |
|                         |                 | <b>8. Other Cost Pressures</b>                   | xx       | xx       | xx       | xx       | xx       |
| <b>(7) +(8)</b>         |                 | <b>9. Total Cost Pressures</b>                   | xx       | xx       | xx       | xx       | xx       |
| <b>(9) - (6)</b>        |                 | <b>Net Cost (savings)/pressures</b>              | (xx)/xx  | (xx)/xx  | (xx)/xx  | (xx)/xx  | (xx)/xx  |

Reconcile to total cost movements in EBIT submission Check

\* Business Unit - Secondary organisational area of the business, e.g. Operations.

## Pro formas relating to the Five Yearly Financial Forecast

**Figure 5: Cost Matrix– Reported Business**

|  | Yr1 | Yr2 | Yr3 | Yr4 | Yr5 |
|--|-----|-----|-----|-----|-----|
|  | £m  | £m  | £m  | £m  | £m  |
| <i>Frontline - Processing</i>  | XX  | XX  | XX  | XX  | XX  |
| <i>Frontline - Regional Logistics</i>                                      | XX  | XX  | XX  | XX  | XX  |
| <i>Frontline - Delivery &amp; Collections</i>                              | XX  | XX  | XX  | XX  | XX  |
| <i>Frontline - RDC Operation</i>   | XX  | XX  | XX  |     |     |
| <i>Frontline - Other people costs</i>                                      | XX  | XX  | XX  |     |     |
| <b>Sub-total Frontline</b>   | XX  | XX  | XX  | XX  | XX  |
| Network Road Operations  | XX  | XX  | XX  |     |     |
| Other/Managers   | XX  | XX  | XX  | XX  | XX  |
| <b>Total Operations</b>  | XX  | XX  | XX  | XX  | XX  |
| <i>Other people - Commercial</i>   | XX  | XX  | XX  |     |     |
| <i>Other people - Technology</i>   | XX  | XX  | XX  |     |     |
| <i>Other people - Property</i>   | XX  | XX  | XX  |     |     |
| <i>Other people - Central Admin</i>  | XX  | XX  | XX  | XX  | XX  |
| <b>Sub-total Other People</b>  | XX  | XX  | XX  | XX  | XX  |
| Centrally Held (see Note 1)  | XX  | XX  | XX  | XX  | XX  |
| <b>Total people costs</b>  | XX  | XX  | XX  | XX  | XX  |
| Conveyance Charges - Domestic (see Note 2)                                 | XX  | XX  | XX  | XX  | XX  |
| Conveyance Charges - International (see Note 2)                            | XX  | XX  | XX  | XX  | XX  |
| Other Distribution costs (see Note 2)                                      | XX  | XX  | XX  | XX  | XX  |
| International Terminal Dues (see Note 3)                                   | XX  | XX  | XX  | XX  | XX  |
| Vehicle Fleet  | XX  | XX  | XX  | XX  | XX  |
| Fuel   | XX  | XX  | XX  | XX  | XX  |
| <b>Total Distribution &amp; Conveyance Costs</b>                           | XX  | XX  | XX  | XX  | XX  |
| Property   | XX  | XX  | XX  |     |     |
| Romec FM Costs   | XX  | XX  | XX  |     |     |
| IT & Communication   | XX  | XX  | XX  | XX  | XX  |
| Depreciation & Amortisation  | XX  | XX  | XX  | XX  | XX  |
| <b>Total Infrastructure Costs</b>  | XX  | XX  | XX  | XX  | XX  |
| POL costs  | XX  | XX  | XX  | XX  | XX  |
| Staff & Agents Related Costs & Consumables                                 | XX  | XX  | XX  | XX  | XX  |
| <i>Other costs - Low Value Assets, Other Outsourcing, Stamp Production</i> | XX  | XX  | XX  |     |     |
| <i>Other costs - Bad Debts and Bank Charges</i>                            | XX  | XX  | XX  |     |     |
| <i>Other costs - Audit, Assurance, Consulting, Marketing &amp; Legal</i>   | XX  | XX  | XX  |     |     |
| <i>Other costs - Compensation</i>  | XX  | XX  | XX  |     |     |
| <i>Other External Costs</i>  | XX  | XX  | XX  |     |     |
| <b>Sub-total Other costs</b>   | XX  | XX  | XX  | XX  | XX  |
| <i>Internal recharge - Property</i>  | XX  | XX  | XX  | XX  | XX  |
| <i>Internal recharge - PFW</i>   | XX  | XX  | XX  | XX  | XX  |
| <i>Internal recharge - Other</i>   | XX  | XX  | XX  | XX  | XX  |
| <b>Sub-total Internal recharges</b>  | XX  | XX  | XX  | XX  | XX  |
| Budget Contingency   | XX  | XX  | XX  | XX  | XX  |
| <b>Total Other Operating Costs</b>   | XX  | XX  | XX  | XX  | XX  |
| <b>Total non-people costs</b>  | XX  | XX  | XX  | XX  | XX  |
| <b>Total Costs before transformation</b>                                   | XX  | XX  | XX  | XX  | XX  |
| Project Specific costs   | XX  | XX  | XX  | XX  | XX  |
| <i>Voluntary redundancy - Frontline</i>                                    | XX  | XX  | XX  | XX  | XX  |
| <i>Voluntary redundancy - Management</i>                                   | XX  | XX  | XX  |     |     |
| <i>Voluntary redundancy - Other staff</i>                                  | XX  | XX  | XX  |     |     |
| <b>Sub-total Voluntary redundancy</b>                                      | XX  | XX  | XX  | XX  | XX  |
| Business Transformation payments   | XX  | XX  | XX  |     |     |
| Other Transformation costs   | XX  | XX  | XX  | XX  | XX  |
| <b>Transformation Costs</b>  | XX  | XX  | XX  | XX  | XX  |
| <b>Total costs after Transformation Costs</b>                              | XX  | XX  | XX  | XX  | XX  |

### Guidance

1. All pay related costs in this category, including pension costs, must be re-allocated to pay cost categories above it.
2. This must exclude 'International Terminal Dues' shown separately in the line below it.
3. This shall comprise delivery charges from foreign postal and delivery companies for delivery of mail exported from the UK.

**Figure 6a: PVEO analysis Year 1 to 3**

(One grid for each forecast financial year: Years 1 to 3)

|  | Prior Financial Year (DB Pension Service Costs on cash paid basis) | Prior Financial Year non-occurring items | Prior Financial Year underlying costs (DB Pension Service Costs on cash paid basis) | Price related Changes (P) | Prior Financial Year Inc. Price related changes | Volume related changes (V) | Efficiency related changes (E) | Current Year non-recurring items (O) | Current Financial Year (DB Pension Service Costs on cash paid basis) |
|--|--|--|---|---------------------------|---|----------------------------|--------------------------------|--------------------------------------|--|
|  | £m   | £m                                       | £m  | £m                        | £m  | £m                         | £m                             | £m                                   | £m   |
| <i>Frontline - Processing</i>  | xx   | xx                                       | xx  | xx                        | xx  | xx                         | xx                             | xx                                   | xx   |
| <i>Frontline - Regional Logistics</i>                                      | xx   | xx                                       | xx  | xx                        | xx  | xx                         | xx                             | xx                                   | xx   |
| <i>Frontline - Delivery &amp; Collections</i>                              | xx   | xx                                       | xx  | xx                        | xx  | xx                         | xx                             | xx                                   | xx   |
| <i>Frontline - RDC Operation</i>   | xx   | xx                                       | xx  | xx                        | xx  | xx                         | xx                             | xx                                   | xx   |
| <i>Frontline - Other people costs</i>                                      | xx   | xx                                       | xx  | xx                        | xx  | xx                         | xx                             | xx                                   | xx   |
| <b>Sub-total Frontline</b>   | <b>xx</b>  | <b>xx</b>                                | <b>xx</b>   | <b>xx</b>                 | <b>xx</b>                                       | <b>xx</b>                  | <b>xx</b>                      | <b>xx</b>                            | <b>xx</b>  |
| Network Road Operations  | xx   | xx                                       | xx  | xx                        | xx  | xx                         | xx                             | xx                                   | xx   |
| Other/Managers   | xx   | xx                                       | xx  | xx                        | xx  | xx                         | xx                             | xx                                   | xx   |
| <b>Total Operations</b>  | <b>xx</b>  | <b>xx</b>                                | <b>xx</b>   | <b>xx</b>                 | <b>xx</b>                                       | <b>xx</b>                  | <b>xx</b>                      | <b>xx</b>                            | <b>xx</b>  |
| <i>Other people - Commercial</i>   | xx   | xx                                       | xx  | xx                        | xx  | xx                         | xx                             | xx                                   | xx   |
| <i>Other people - Technology</i>   | xx   | xx                                       | xx  | xx                        | xx  | xx                         | xx                             | xx                                   | xx   |
| <i>Other people - Property</i>   | xx   | xx                                       | xx  | xx                        | xx  | xx                         | xx                             | xx                                   | xx   |
| <i>Other people - Central Admin</i>  | xx   | xx                                       | xx  | xx                        | xx  | xx                         | xx                             | xx                                   | xx   |
| <b>Sub-total Other People</b>  | <b>xx</b>  | <b>xx</b>                                | <b>xx</b>   | <b>xx</b>                 | <b>xx</b>                                       | <b>xx</b>                  | <b>xx</b>                      | <b>xx</b>                            | <b>xx</b>  |
| Centrally Held (see Note 1)  | xx   | xx                                       | xx  | xx                        | xx  | xx                         | xx                             | xx                                   | xx   |
| <b>Total people costs</b>  | <b>xx</b>  | <b>xx</b>                                | <b>xx</b>   | <b>xx</b>                 | <b>xx</b>                                       | <b>xx</b>                  | <b>xx</b>                      | <b>xx</b>                            | <b>xx</b>  |
| Conveyance Charges - Domestic (see Note 2)                                 | xx   | xx                                       | xx  | xx                        | xx  | xx                         | xx                             | xx                                   | xx   |
| Conveyance Charges - International (see Note 2)                            | xx   | xx                                       | xx  | xx                        | xx  | xx                         | xx                             | xx                                   | xx   |
| Other Distribution costs (see Note 2)                                      | xx   | xx                                       | xx  | xx                        | xx  | xx                         | xx                             | xx                                   | xx   |
| International Terminal Dues (see Note 3)                                   | xx   | xx                                       | xx  | xx                        | xx  | xx                         | xx                             | xx                                   | xx   |
| Vehicle Fleet  | xx   | xx                                       | xx  | xx                        | xx  | xx                         | xx                             | xx                                   | xx   |
| Fuel   | xx   | xx                                       | xx  | xx                        | xx  | xx                         | xx                             | xx                                   | xx   |
| <b>Total Distribution &amp; Conveyance Costs</b>                           | <b>xx</b>  | <b>xx</b>                                | <b>xx</b>   | <b>xx</b>                 | <b>xx</b>                                       | <b>xx</b>                  | <b>xx</b>                      | <b>xx</b>                            | <b>xx</b>  |
| Property   | xx   | xx                                       | xx  | xx                        | xx  | xx                         | xx                             | xx                                   | xx   |
| Romec FM Costs   | xx   | xx                                       | xx  | xx                        | xx  | xx                         | xx                             | xx                                   | xx   |
| IT & Communication   | xx   | xx                                       | xx  | xx                        | xx  | xx                         | xx                             | xx                                   | xx   |
| Depreciation & Amortisation  | xx   | xx                                       | xx  | xx                        | xx  | xx                         | xx                             | xx                                   | xx   |
| <b>Total Infrastructure Costs</b>  | <b>xx</b>  | <b>xx</b>                                | <b>xx</b>   | <b>xx</b>                 | <b>xx</b>                                       | <b>xx</b>                  | <b>xx</b>                      | <b>xx</b>                            | <b>xx</b>  |
| POL costs  | xx   | xx                                       | xx  | xx                        | xx  | xx                         | xx                             | xx                                   | xx   |
| Staff & Agents Related Costs & Consumables                                 | xx   | xx                                       | xx  | xx                        | xx  | xx                         | xx                             | xx                                   | xx   |
| <i>Other costs - Low Value Assets, Other Outsourcing, Stamp Production</i> | xx   | xx                                       | xx  | xx                        | xx  | xx                         | xx                             | xx                                   | xx   |
| <i>Other costs - Bad Debts and Bank Charges</i>                            | xx   | xx                                       | xx  | xx                        | xx  | xx                         | xx                             | xx                                   | xx   |
| <i>Other costs - Audit, Assurance, Consulting, Marketing &amp; Legal</i>   | xx   | xx                                       | xx  | xx                        | xx  | xx                         | xx                             | xx                                   | xx   |
| <i>Other costs - Compensation</i>  | xx   | xx                                       | xx  | xx                        | xx  | xx                         | xx                             | xx                                   | xx   |
| <i>Other External Costs</i>  | xx   | xx                                       | xx  | xx                        | xx  | xx                         | xx                             | xx                                   | xx   |
| <b>Sub-total Other costs</b>   | <b>xx</b>  | <b>xx</b>                                | <b>xx</b>   | <b>xx</b>                 | <b>xx</b>                                       | <b>xx</b>                  | <b>xx</b>                      | <b>xx</b>                            | <b>xx</b>  |
| <i>Internal recharge - Property</i>  | xx   | xx                                       | xx  | xx                        | xx  | xx                         | xx                             | xx                                   | xx   |
| <i>Internal recharge - PFW</i>   | xx   | xx                                       | xx  | xx                        | xx  | xx                         | xx                             | xx                                   | xx   |
| <i>Internal recharge - Other</i>   | xx   | xx                                       | xx  | xx                        | xx  | xx                         | xx                             | xx                                   | xx   |
| <b>Sub-total Internal recharges</b>  | <b>xx</b>  | <b>xx</b>                                | <b>xx</b>   | <b>xx</b>                 | <b>xx</b>                                       | <b>xx</b>                  | <b>xx</b>                      | <b>xx</b>                            | <b>xx</b>  |
| Budget Contingency   | xx   | xx                                       | xx  | xx                        | xx  | xx                         | xx                             | xx                                   | xx   |
| <b>Total Other Operating Costs</b>   | <b>xx</b>  | <b>xx</b>                                | <b>xx</b>   | <b>xx</b>                 | <b>xx</b>                                       | <b>xx</b>                  | <b>xx</b>                      | <b>xx</b>                            | <b>xx</b>  |
| <b>Total non-people costs</b>  | <b>xx</b>  | <b>xx</b>                                | <b>xx</b>   | <b>xx</b>                 | <b>xx</b>                                       | <b>xx</b>                  | <b>xx</b>                      | <b>xx</b>                            | <b>xx</b>  |
| <b>Total Costs before transformation</b>                                   | <b>xx</b>  | <b>xx</b>                                | <b>xx</b>   | <b>xx</b>                 | <b>xx</b>                                       | <b>xx</b>                  | <b>xx</b>                      | <b>xx</b>                            | <b>xx</b>  |
| <b>Transformation Costs</b>  | <b>xx</b>  | <b>xx</b>                                | <b>xx</b>   | <b>xx</b>                 | <b>xx</b>                                       | <b>xx</b>                  | <b>xx</b>                      | <b>xx</b>                            | <b>xx</b>  |
| <b>Total costs after Transformation Costs</b>                              | <b>xx</b>  | <b>xx</b>                                | <b>xx</b>   | <b>xx</b>                 | <b>xx</b>                                       | <b>xx</b>                  | <b>xx</b>                      | <b>xx</b>                            | <b>xx</b>  |

**Guidance**

1. All pay related costs in this category, including pension costs, must be re-allocated to pay cost categories above it.
2. This must exclude 'International Terminal Dues' shown separately in the line below it.
3. This shall comprise delivery charges from foreign postal and delivery companies for delivery of mail exported from the UK.

**Figure 6b: PVEO analysis Year 4 to 5**

(One grid for each forecast financial year: Years 4 & 5)

|  | Prior Financial Year (DB Pension Service Costs on cash paid basis) | Prior Financial Year non-occurring items | Prior Financial Year underlying costs (DB Pension Service Costs on cash paid basis) | Price related Changes (P) | Prior Financial Year Inc. Price related changes | Volume related changes (V) | Efficiency related changes (E) | Current Year non-recurring items (O) | Current Financial Year (DB Pension Service Costs on cash paid basis) |
|--|--|--|---|---------------------------|---|----------------------------|--------------------------------|--------------------------------------|--|
|  | £m   | £m                                       | £m  | £m                        | £m  | £m                         | £m                             | £m                                   | £m   |
| <i>Frontline - Processing</i>  | xx   | xx                                       | xx  | xx                        | xx  | xx                         | xx                             | xx                                   | xx   |
| <i>Frontline - Regional Logistics</i>                                      | xx   | xx                                       | xx  | xx                        | xx  | xx                         | xx                             | xx                                   | xx   |
| <i>Frontline - Delivery &amp; Collections</i>                              | xx   | xx                                       | xx  | xx                        | xx  | xx                         | xx                             | xx                                   | xx   |
| <i>Frontline - RDC Operation</i>   |  |  |   |                           |   |                            |                                |                                      |  |
| <i>Frontline - Other people costs</i>                                      |  |  |   |                           |   |                            |                                |                                      |  |
| <b>Sub-total Frontline</b>   | <b>xx</b>  | <b>xx</b>                                | <b>xx</b>   | <b>xx</b>                 | <b>xx</b>                                       | <b>xx</b>                  | <b>xx</b>                      | <b>xx</b>                            | <b>xx</b>  |
| Network Road Operations  |  |  |   |                           |   |                            |                                |                                      |  |
| Other/Managers   | xx   | xx                                       | xx  | xx                        | xx  | xx                         | xx                             | xx                                   | xx   |
| <b>Total Operations</b>  | <b>xx</b>  | <b>xx</b>                                | <b>xx</b>   | <b>xx</b>                 | <b>xx</b>                                       | <b>xx</b>                  | <b>xx</b>                      | <b>xx</b>                            | <b>xx</b>  |
| <i>Other people - Commercial</i>   |  |  |   |                           |   |                            |                                |                                      |  |
| <i>Other people - Technology</i>   |  |  |   |                           |   |                            |                                |                                      |  |
| <i>Other people - Property</i>   |  |  |   |                           |   |                            |                                |                                      |  |
| <i>Other people - Central Admin</i>  | xx   | xx                                       | xx  | xx                        | xx  | xx                         | xx                             | xx                                   | xx   |
| <b>Sub-total Other People</b>  | <b>xx</b>  | <b>xx</b>                                | <b>xx</b>   | <b>xx</b>                 | <b>xx</b>                                       | <b>xx</b>                  | <b>xx</b>                      | <b>xx</b>                            | <b>xx</b>  |
| Centrally Held (see Note 1)  | xx   | xx                                       | xx  | xx                        | xx  | xx                         | xx                             | xx                                   | xx   |
| <b>Total people costs</b>  | <b>xx</b>  | <b>xx</b>                                | <b>xx</b>   | <b>xx</b>                 | <b>xx</b>                                       | <b>xx</b>                  | <b>xx</b>                      | <b>xx</b>                            | <b>xx</b>  |
| Conveyance Charges - Domestic (see Note 2)                                 | xx   | xx                                       | xx  | xx                        | xx  | xx                         | xx                             | xx                                   | xx   |
| Conveyance Charges - International (see Note 2)                            | xx   | xx                                       | xx  | xx                        | xx  | xx                         | xx                             | xx                                   | xx   |
| Other Distribution costs (see Note 2)                                      | xx   | xx                                       | xx  | xx                        | xx  | xx                         | xx                             | xx                                   | xx   |
| International Terminal Dues (see Note 3)                                   | xx   | xx                                       | xx  | xx                        | xx  | xx                         | xx                             | xx                                   | xx   |
| Vehicle Fleet  | xx   | xx                                       | xx  | xx                        | xx  | xx                         | xx                             | xx                                   | xx   |
| Fuel   | xx   | xx                                       | xx  | xx                        | xx  | xx                         | xx                             | xx                                   | xx   |
| <b>Total Distribution &amp; Conveyance Costs</b>                           | <b>xx</b>  | <b>xx</b>                                | <b>xx</b>   | <b>xx</b>                 | <b>xx</b>                                       | <b>xx</b>                  | <b>xx</b>                      | <b>xx</b>                            | <b>xx</b>  |
| Property   |  |  |   |                           |   |                            |                                |                                      |  |
| Romec FM Costs   |  |  |   |                           |   |                            |                                |                                      |  |
| IT & Communication   | xx   | xx                                       | xx  | xx                        | xx  | xx                         | xx                             | xx                                   | xx   |
| Depreciation & Amortisation  | xx   | xx                                       | xx  | xx                        | xx  | xx                         | xx                             | xx                                   | xx   |
| <b>Total Infrastructure Costs</b>  | <b>xx</b>  | <b>xx</b>                                | <b>xx</b>   | <b>xx</b>                 | <b>xx</b>                                       | <b>xx</b>                  | <b>xx</b>                      | <b>xx</b>                            | <b>xx</b>  |
| POL costs  | xx   | xx                                       | xx  | xx                        | xx  | xx                         | xx                             | xx                                   | xx   |
| Staff & Agents Related Costs & Consumables                                 | xx   | xx                                       | xx  | xx                        | xx  | xx                         | xx                             | xx                                   | xx   |
| <i>Other costs - Low Value Assets, Other Outsourcing, Stamp Production</i> |  |  |   |                           |   |                            |                                |                                      |  |
| <i>Other costs - Bad Debts and Bank Charges</i>                            |  |  |   |                           |   |                            |                                |                                      |  |
| <i>Other costs - Audit, Assurance, Consulting, Marketing &amp; Legal</i>   |  |  |   |                           |   |                            |                                |                                      |  |
| <i>Other costs - Compensation</i>  |  |  |   |                           |   |                            |                                |                                      |  |
| <i>Other External Costs</i>  |  |  |   |                           |   |                            |                                |                                      |  |
| <b>Sub-total Other costs</b>   | <b>xx</b>  | <b>xx</b>                                | <b>xx</b>   | <b>xx</b>                 | <b>xx</b>                                       | <b>xx</b>                  | <b>xx</b>                      | <b>xx</b>                            | <b>xx</b>  |
| <i>Internal recharge - Property</i>  | xx   | xx                                       | xx  | xx                        | xx  | xx                         | xx                             | xx                                   | xx   |
| <i>Internal recharge - PFW</i>   | xx   | xx                                       | xx  | xx                        | xx  | xx                         | xx                             | xx                                   | xx   |
| <i>Internal recharge - Other</i>   | xx   | xx                                       | xx  | xx                        | xx  | xx                         | xx                             | xx                                   | xx   |
| <b>Sub-total Internal recharges</b>  | <b>xx</b>  | <b>xx</b>                                | <b>xx</b>   | <b>xx</b>                 | <b>xx</b>                                       | <b>xx</b>                  | <b>xx</b>                      | <b>xx</b>                            | <b>xx</b>  |
| Budget Contingency   | xx   | xx                                       | xx  | xx                        | xx  | xx                         | xx                             | xx                                   | xx   |
| <b>Total Other Operating Costs</b>   | <b>xx</b>  | <b>xx</b>                                | <b>xx</b>   | <b>xx</b>                 | <b>xx</b>                                       | <b>xx</b>                  | <b>xx</b>                      | <b>xx</b>                            | <b>xx</b>  |
| <b>Total non-people costs</b>  | <b>xx</b>  | <b>xx</b>                                | <b>xx</b>   | <b>xx</b>                 | <b>xx</b>                                       | <b>xx</b>                  | <b>xx</b>                      | <b>xx</b>                            | <b>xx</b>  |
| <b>Total Costs before transformation</b>                                   | <b>xx</b>  | <b>xx</b>                                | <b>xx</b>   | <b>xx</b>                 | <b>xx</b>                                       | <b>xx</b>                  | <b>xx</b>                      | <b>xx</b>                            | <b>xx</b>  |
| <b>Transformation Costs</b>  | <b>xx</b>  | <b>xx</b>                                | <b>xx</b>   | <b>xx</b>                 | <b>xx</b>                                       | <b>xx</b>                  | <b>xx</b>                      | <b>xx</b>                            | <b>xx</b>  |
| <b>Total costs after Transformation Costs</b>                              | <b>xx</b>  | <b>xx</b>                                | <b>xx</b>   | <b>xx</b>                 | <b>xx</b>                                       | <b>xx</b>                  | <b>xx</b>                      | <b>xx</b>                            | <b>xx</b>  |

**Guidance**

1. All pay related costs in this category, including pension costs, must be re-allocated to pay cost categories above it.
2. This must exclude 'International Terminal Dues' shown separately in the line below it.
3. This shall comprise delivery charges from foreign postal and delivery companies for delivery of mail exported from the UK.



**Figure 7: Cost metrics forecast**

|  | Yr1  | Yr2  | Yr3  | Yr4  | Yr5  |
|--|------|------|------|------|------|
| <b>Delivery &amp; Collections</b>            |      |      |      |      |      |
| Volumes (operational) (m) <sup>(9)</sup>     | xx   | xx   | xx   | xx   | xx   |
| Workload (m)                                 | xx   | xx   | xx   | xx   | xx   |
| Worked Hours (k)                             | xx   | xx   | xx   | xx   | xx   |
| Gross Hours (k) <sup>(7)</sup>               | xx   | xx   | xx   | xx   | xx   |
| Workload % change <sup>(11)</sup>            | x.x% | x.x% | x.x% | x.x% | x.x% |
| Worked Hours % change                        | x.x% | x.x% | x.x% | x.x% | x.x% |
| Gross Hours % change <sup>(11)</sup>         | x.x% | x.x% | x.x% | x.x% | x.x% |
| WIPWH % change                               | x.x% | x.x% | x.x% | x.x% | x.x% |
| WIPGH % change <sup>(11)</sup>               | x.x% | x.x% | x.x% | x.x% | x.x% |
| <b>Processing</b>                            |      |      |      |      |      |
| Volumes (operational) (m) <sup>(10)</sup>    | xx   | xx   | xx   | xx   | xx   |
| Workload (m)                                 | xx   | xx   | xx   | xx   | xx   |
| Worked Hours (k)                             | xx   | xx   | xx   | xx   | xx   |
| Gross Hours (k) <sup>(7)</sup>               | xx   | xx   | xx   | xx   | xx   |
| Workload % change <sup>(11)</sup>            | x.x% | x.x% | x.x% | x.x% | x.x% |
| Worked Hours % change                        | x.x% | x.x% | x.x% | x.x% | x.x% |
| Gross Hours % change <sup>(11)</sup>         | x.x% | x.x% | x.x% | x.x% | x.x% |
| WIPWH % change                               | x.x% | x.x% | x.x% | x.x% | x.x% |
| WIPGH % change <sup>(11)</sup>               | x.x% | x.x% | x.x% | x.x% | x.x% |
| <b>Head of Logistics Processing (RDC)</b>    |      |      |      |      |      |
| Volumes (operational) (m)                    | xx   | xx   | xx   | xx   | xx   |
| Workload (m)                                 | xx   | xx   | xx   | xx   | xx   |
| Worked Hours (k)                             | xx   | xx   | xx   | xx   | xx   |
| Gross Hours (k) <sup>(7)</sup>               | xx   | xx   | xx   | xx   | xx   |
| Workload % change <sup>(11)</sup>            | x.x% | x.x% | x.x% | x.x% | x.x% |
| Worked Hours % change                        | x.x% | x.x% | x.x% | x.x% | x.x% |
| Gross Hours % change <sup>(11)</sup>         | x.x% | x.x% | x.x% | x.x% | x.x% |
| WIPWH % change                               | x.x% | x.x% | x.x% | x.x% | x.x% |
| WIPGH % change <sup>(11)</sup>               | x.x% | x.x% | x.x% | x.x% | x.x% |
| <b>Logistics (Regional Logistics)</b>        |      |      |      |      |      |
| Volumes (operational) (m)                    | xx   | xx   | xx   | xx   | xx   |
| Workload (m) <sup>(6)</sup>                  | xx   | xx   | xx   | xx   | xx   |
| Worked Hours (k)                             | xx   | xx   | xx   | xx   | xx   |
| Gross Hours (k) <sup>(7)</sup>               | xx   | xx   | xx   | xx   | xx   |
| Workload % change <sup>(11)</sup>            | x.x% | x.x% | x.x% | x.x% | x.x% |
| Worked Hours % change                        | x.x% | x.x% | x.x% | x.x% | x.x% |
| Gross Hours % change <sup>(11)</sup>         | x.x% | x.x% | x.x% | x.x% | x.x% |
| WIPWH % change                               | x.x% | x.x% | x.x% | x.x% | x.x% |
| WIPGH % change <sup>(11)</sup>               | x.x% | x.x% | x.x% | x.x% | x.x% |
| <b>Other</b>                                 |      |      |      |      |      |
| Volumes (operational) (m)                    | xx   | xx   | xx   | xx   | xx   |
| Workload (m)                                 | xx   | xx   | xx   | xx   | xx   |
| Worked Hours (k)                             | xx   | xx   | xx   | xx   | xx   |
| Gross Hours (k) <sup>(7)</sup>               | xx   | xx   | xx   | xx   | xx   |
| Workload % change <sup>(11)</sup>            | x.x% | x.x% | x.x% | x.x% | x.x% |
| Worked Hours % change                        | x.x% | x.x% | x.x% | x.x% | x.x% |
| Gross Hours % change <sup>(11)</sup>         | x.x% | x.x% | x.x% | x.x% | x.x% |
| WIPWH % change                               | x.x% | x.x% | x.x% | x.x% | x.x% |
| WIPGH % change <sup>(11)</sup>               | x.x% | x.x% | x.x% | x.x% | x.x% |
| <b>Total <sup>(1)</sup></b>                  |      |      |      |      |      |
| Volumes (operational) (m) <sup>(8)</sup>     | xx   | xx   | xx   | xx   | xx   |
| Workload (m)                                 | xx   | xx   | xx   | xx   | xx   |
| Worked Hours (k)                             | xx   | xx   | xx   | xx   | xx   |
| Gross Hours (k) <sup>(7)</sup>               | xx   | xx   | xx   | xx   | xx   |
| Workload % change <sup>(11)</sup>            | x.x% | x.x% | x.x% | x.x% | x.x% |
| Worked Hours % change                        | x.x% | x.x% | x.x% | x.x% | x.x% |
| Gross Hours % change <sup>(11)</sup>         | x.x% | x.x% | x.x% | x.x% | x.x% |
| WIPWH % change                               | x.x% | x.x% | x.x% | x.x% | x.x% |
| WIPGH % change <sup>(11)</sup>               | x.x% | x.x% | x.x% | x.x% | x.x% |
| <b>Number of working days <sup>(5)</sup></b> | xx   | xx   | xx   | xx   | xx   |

<sup>(5)</sup> Working days relates to operational working days

<sup>(6)</sup> Workload in logistics relates only to collections runs performed by the logistics function. We do not have a Workload measure for the majority of logistics

<sup>(7)</sup> Gross Hours % change is reported as positive when Gross Hours have reduced, and negative when Gross Hours have increased

<sup>(8)</sup> Total operational volumes is the sum of the volumes above

<sup>(9)</sup> Delivery volumes are outdoor letters and parcels. It excludes unaddressed, mail order returns and unaddressed parcels

<sup>(10)</sup> Processing volumes are outward letters and parcels. It excludes mail order returns.

<sup>(11)</sup> The percentage variance to budget for the Workload, Gross Hours and Productivity change represents an absolute variance between the expected YoY percentage movement and the actual YoY percentage movement

**Figure 8: Gross Hours by hours type forecast**

| <b>Delivery &amp; Collections</b>       | <b>Yr1<br/>k</b> | <b>Yr2<br/>k</b> | <b>Yr3<br/>k</b> | <b>Yr4<br/>k</b> | <b>Yr5<br/>k</b> |
|---|------------------|------------------|------------------|------------------|------------------|
| <b>Standard Hours</b>                   | xx               | xx               | xx               | xx               | xx               |
| Measured Worked Hours                   | xx               | xx               | xx               | xx               | xx               |
| Unmeasured Worked Hours                 | xx               | xx               | xx               | xx               | xx               |
| <b>Total Worked Hours</b>               | <b>xx</b>        | <b>xx</b>        | <b>xx</b>        | <b>xx</b>        | <b>xx</b>        |
| Sickness absence                        | xx               | xx               | xx               | xx               | xx               |
| Other absence                           | xx               | xx               | xx               | xx               | xx               |
| <b>Total absence</b>                    | <b>xx</b>        | <b>xx</b>        | <b>xx</b>        | <b>xx</b>        | <b>xx</b>        |
| <b>Total Delivery &amp; Collections</b> | <b>xx</b>        | <b>xx</b>        | <b>xx</b>        | <b>xx</b>        | <b>xx</b>        |

Note: All data represent unadjusted reported hours

| <b>Processing (Incl Regional Logistics)</b>       | <b>Yr1<br/>k</b> | <b>Yr2<br/>k</b> | <b>Yr3<br/>k</b> | <b>Yr4<br/>k</b> | <b>Yr5<br/>k</b> |
|---|------------------|------------------|------------------|------------------|------------------|
| <b>Standard Hours</b>                             | xx               | xx               | xx               | xx               | xx               |
| Measured Worked Hours                             | xx               | xx               | xx               | xx               | xx               |
| Unmeasured Worked Hours                           | xx               | xx               | xx               | xx               | xx               |
| <b>Total Worked Hours</b>                         | <b>xx</b>        | <b>xx</b>        | <b>xx</b>        | <b>xx</b>        | <b>xx</b>        |
| Sickness absence                                  | xx               | xx               | xx               | xx               | xx               |
| Other absence                                     | xx               | xx               | xx               | xx               | xx               |
| <b>Total absence</b>                              | <b>xx</b>        | <b>xx</b>        | <b>xx</b>        | <b>xx</b>        | <b>xx</b>        |
| <b>Total Processing (incl Regional Logistics)</b> | <b>xx</b>        | <b>xx</b>        | <b>xx</b>        | <b>xx</b>        | <b>xx</b>        |

Note: All data represent unadjusted reported hours

| <b>RDC Operation</b>      | <b>Yr1<br/>k</b> | <b>Yr2<br/>k</b> | <b>Yr3<br/>k</b> | <b>Yr4<br/>k</b> | <b>Yr5<br/>k</b> |
|---------------------------|------------------|------------------|------------------|------------------|------------------|
| <b>Standard Hours</b>     | xx               | xx               | xx               | xx               | xx               |
| Measured Worked Hours     | xx               | xx               | xx               | xx               | xx               |
| Unmeasured Worked Hours   | xx               | xx               | xx               | xx               | xx               |
| <b>Total Worked Hours</b> | <b>xx</b>        | <b>xx</b>        | <b>xx</b>        | <b>xx</b>        | <b>xx</b>        |
| Sickness absence          | xx               | xx               | xx               | xx               | xx               |
| Other absence             | xx               | xx               | xx               | xx               | xx               |
| <b>Total absence</b>      | <b>xx</b>        | <b>xx</b>        | <b>xx</b>        | <b>xx</b>        | <b>xx</b>        |
| <b>Total RDCs</b>         | <b>xx</b>        | <b>xx</b>        | <b>xx</b>        | <b>xx</b>        | <b>xx</b>        |

Note: All data represent unadjusted reported hours

| <b>xxx</b>                | <b>Yr1<br/>k</b> | <b>Yr2<br/>k</b> | <b>Yr3<br/>k</b> | <b>Yr4<br/>k</b> | <b>Yr5<br/>k</b> |
|---------------------------|------------------|------------------|------------------|------------------|------------------|
| <b>Standard Hours</b>     | xx               | xx               | xx               | xx               | xx               |
| Measured Worked Hours     | xx               | xx               | xx               | xx               | xx               |
| Unmeasured Worked Hours   | xx               | xx               | xx               | xx               | xx               |
| <b>Total Worked Hours</b> | <b>xx</b>        | <b>xx</b>        | <b>xx</b>        | <b>xx</b>        | <b>xx</b>        |
| Sickness absence          | xx               | xx               | xx               | xx               | xx               |
| Other absence             | xx               | xx               | xx               | xx               | xx               |
| <b>Total absence</b>      | <b>xx</b>        | <b>xx</b>        | <b>xx</b>        | <b>xx</b>        | <b>xx</b>        |
| <b>Total xxx</b>          | <b>xx</b>        | <b>xx</b>        | <b>xx</b>        | <b>xx</b>        | <b>xx</b>        |

Note: All data represent unadjusted reported hours

**Figure 9: Efficiency initiatives including related cost information**

| Cost movement         | Business Unit * | Efficiency initiatives/Cost Savings Programmes   | Yr 1           | Yr 2           | Yr 3           | Yr 4           | Yr 5           | Cost Type<br>(PVE or O) |
|-----------------------|-----------------|--|----------------|----------------|----------------|----------------|----------------|-------------------------|
|                       |                 |  | £m             | £m             | £m             | £m             | £m             |                         |
| <b>Cost Savings</b>   |                 |  |                |                |                |                |                |                         |
|                       |                 | .....  | (xx)           | (xx)           | (xx)           | (xx)           | (xx)           | x                       |
|                       |                 | <b>1. Hours Cost Savings - Projects</b>          | <b>(xx)</b>    | <b>(xx)</b>    | <b>(xx)</b>    | <b>(xx)</b>    | <b>(xx)</b>    |                         |
|                       |                 | .....  | (xx)           | (xx)           | (xx)           | (xx)           | (xx)           | x                       |
|                       |                 | <b>2. Hours Cost Savings - Other</b>             | <b>(xx)</b>    | <b>(xx)</b>    | <b>(xx)</b>    | <b>(xx)</b>    | <b>(xx)</b>    |                         |
|                       |                 | .....  | (xx)           | (xx)           | (xx)           | (xx)           | (xx)           | x                       |
|                       |                 | <b>3. Hours Pay Cost Savings - Projects</b>      | <b>(xx)</b>    | <b>(xx)</b>    | <b>(xx)</b>    | <b>(xx)</b>    | <b>(xx)</b>    |                         |
|                       |                 | .....  | (xx)           | (xx)           | (xx)           | (xx)           | (xx)           | x                       |
|                       |                 | <b>4. Non Hours Cost Savings - Projects</b>      | <b>(xx)</b>    | <b>(xx)</b>    | <b>(xx)</b>    | <b>(xx)</b>    | <b>(xx)</b>    |                         |
|                       |                 | .....  | (xx)           | (xx)           | (xx)           | (xx)           | (xx)           | x                       |
|                       |                 | <b>5. Non Hours Cost Savings - Other</b>         | <b>(xx)</b>    | <b>(xx)</b>    | <b>(xx)</b>    | <b>(xx)</b>    | <b>(xx)</b>    |                         |
|                       |                 | <b>(1), (3) and (4)</b>                          | <b>(xx)</b>    | <b>(xx)</b>    | <b>(xx)</b>    | <b>(xx)</b>    | <b>(xx)</b>    |                         |
|                       |                 | <b>(2) and (5)</b>                               | <b>(xx)</b>    | <b>(xx)</b>    | <b>(xx)</b>    | <b>(xx)</b>    | <b>(xx)</b>    |                         |
|                       |                 | <b>6. Total Savings</b>                          | <b>(xx)</b>    | <b>(xx)</b>    | <b>(xx)</b>    | <b>(xx)</b>    | <b>(xx)</b>    | <b>x</b>                |
| <b>Cost Pressures</b> |                 |  |                |                |                |                |                |                         |
|                       |                 | .....  | xx             | xx             | xx             | xx             | xx             | x                       |
|                       |                 | <b>7. Hours &amp; Pay Related Cost Pressures</b> | <b>xx</b>      | <b>xx</b>      | <b>xx</b>      | <b>xx</b>      | <b>xx</b>      |                         |
|                       |                 | .....  | xx             | xx             | xx             | xx             | xx             | x                       |
|                       |                 | <b>8. Other Cost Pressures</b>                   | <b>xx</b>      | <b>xx</b>      | <b>xx</b>      | <b>xx</b>      | <b>xx</b>      |                         |
|                       |                 | <b>(7) + (8)</b>                                 | <b>xx</b>      | <b>xx</b>      | <b>xx</b>      | <b>xx</b>      | <b>xx</b>      |                         |
|                       |                 | <b>(9) - (6)</b>                                 | <b>(xx)/xx</b> | <b>(xx)/xx</b> | <b>(xx)/xx</b> | <b>(xx)/xx</b> | <b>(xx)/xx</b> |                         |

Reconcile to total cost movements in EBIT submission Check

\* Business Unit - Secondary organisational area of the business, e.g. Operations.

**Figure 10: 5 year cumulative expectation for PVEO and Productivity – For publication**

| Efficiency metric                          | By xx/xx (5th financial year) |
|--|-------------------------------|
| PVEO expectation - absolute terms          | £xxm                          |
| PVEO expectation - percentage              | x%                            |
| Change in Productivity (WIPGH) expectation | x%                            |

## Pro formas relating to the reporting of actual performance

**Figure 11: Reported Business annual income statement – For publication**

|   | USO Mail | Other | Total Reported Business |
|---|----------|-------|-------------------------|
|   | £m       | £m    | £m                      |
| Revenues  | xx       | xx    | xx                      |
| Operating costs   | xx       | xx    | xx                      |
| People costs (with DB Pension Service Costs on cash paid basis) | xx       | xx    | xx                      |
| Depreciation, amortisation and impairments                      | xx       | xx    | xx                      |
| Other operating costs   | xx       | xx    | xx                      |
| Operating profit/(loss)   | xx       | xx    | xx                      |
| Transformation costs  | xx       | xx    | xx                      |
| Financeability EBIT   | xx       | xx    | xx                      |
| Other operating specific items                                  |          |       | xx                      |
| Non-operating specific items                                    |          |       | xx                      |
| EBIT  | xx       | xx    | xx                      |
| Financeability EBIT as % of total revenues                      | x%       | x%    | x%                      |
| Volumes (million items)   | xx       | xx    | xx                      |

**Figure 12: Reported Business quarterly and annual income statement – Confidential**

|   | USO Mail | Non USO Mail | Non Mails | Total Reported Business | Total Reported Business |
|---|----------|--------------|-----------|-------------------------|-------------------------|
|   | Actual   | Actual       | Actual    | Actual                  | Budget                  |
|   | £m       | £m           | £m        | £m                      | £m                      |
| Revenues  | xx       | xx           | xx        | xx                      | xx                      |
| Operating costs   | xx       | xx           | xx        | xx                      | xx                      |
| People costs (with DB Pension Service Costs on cash paid basis) | xx       | xx           | xx        | xx                      | xx                      |
| Depreciation, amortisation and impairments                      | xx       | xx           | xx        | xx                      | xx                      |
| Other operating costs   | xx       | xx           | xx        | xx                      | xx                      |
| Operating profit/(loss)   | xx       | xx           | xx        | xx                      | xx                      |
| Transformation costs  | xx       | xx           | xx        | xx                      | xx                      |
| Financeability EBIT   | xx       | xx           | xx        | xx                      | xx                      |
| Other operating specific items                                  |          |              |           | xx                      | xx                      |
| Non-operating specific items                                    |          |              |           | xx                      | xx                      |
| EBIT  | xx       | xx           | xx        | xx                      | xx                      |
| Financeability EBIT as % of total revenues                      | x%       | x%           | x%        | x%                      | x%                      |
| Volumes (million items)   | xx       | xx           | xx        | xx                      | xx                      |

**Figure 13: Reconciliation of the annual income statement of the Reported Business to the Relevant Group**

|   | <b>Reported Business</b> | <b>Other operations and adjustments</b> | <b>UK business</b> | <b>Other units, eliminations and recharges</b> | <b>Relevant Group</b> |
|---|--------------------------|---|--------------------|--|-----------------------|
|   | £m                       | £m                                      | £m                 | £m   | £m                    |
| Revenues  | xx                       | xx                                      | xx                 | xx   | xx                    |
| Operating costs   | xx                       | xx                                      | xx                 | xx   | xx                    |
| People costs (with DB Pension Service Costs on cash paid basis) | xx                       | xx                                      | xx                 | xx   | xx                    |
| Depreciation, amortisation and impairments                      | xx                       | xx                                      | xx                 | xx   | xx                    |
| Other operating costs   | xx                       | xx                                      | xx                 | xx   | xx                    |
| Operating profit/(loss)   | xx                       | xx                                      | xx                 | xx   | xx                    |
| Transformation costs  | xx                       | xx                                      | xx                 | xx   | xx                    |
| Financeability EBIT   | xx                       | xx                                      | xx                 | xx   | xx                    |
| Other operating specific items                                  | xx                       | xx                                      | xx                 | xx   | xx                    |
| Non-operating specific items                                    | xx                       | xx                                      | xx                 | xx   | xx                    |
| EBIT  | xx                       | xx                                      | xx                 | xx   | xx                    |
| Financeability EBIT as % of total revenues                      | x%                       | x%                                      | x%                 | x%   | x%                    |
| Volumes (million items)   | xx                       | xx                                      | xx                 | xx   | xx                    |

**Figure 14: Annual and quarterly product profitability statements**

|   | <b>Product group 1</b> | <b>Product group 2</b> | ... | <b>Product group n</b> |
|---|------------------------|------------------------|-----|------------------------|
|   | £m                     | £m                     |     | £m                     |
| Revenues  | xx                     | xx                     |     | xx                     |
| Operating costs   | xx                     | xx                     |     | xx                     |
| People costs (with DB Pension Service Costs on cash paid basis) | xx                     | xx                     |     | xx                     |
| Depreciation, amortisation and impairments                      | xx                     | xx                     |     | xx                     |
| Other operating costs   | xx                     | xx                     |     | xx                     |
| Operating profit/(loss)   | xx                     | xx                     |     | xx                     |
| Transformation costs  | xx                     | xx                     |     | xx                     |
| Financeability EBIT   | xx                     | xx                     |     | xx                     |
| Financeability EBIT as % of total revenues                      | x%                     | x%                     |     | x%                     |
| Volumes (million items)   | xx                     | xx                     |     | xx                     |



**Figure 15: Cost Matrix – actual**

|  | Prior Financial<br>Quarter or Year<br>(DB Pension<br>Service Costs on<br>IAS 19 basis) | Prior Financial<br>Quarter or Year<br>(DB Pension<br>Service Costs<br>oncash paid<br>basis) | Current<br>Financial<br>Quarter or Year<br>(DB Pension<br>Service Costs on<br>cash paid basis) | Current<br>Financial<br>Quarter or Year<br>(DB Pension<br>Service Costs on<br>IAS 19 basis) |
|--|--|---|--|---|
|  | £m   | £m  | £m   | £m  |
| <i>Frontline - Processing</i>  | xx   | xx  | xx   | xx  |
| <i>Frontline - Regional Logistics</i>                                      | xx   | xx  | xx   | xx  |
| <i>Frontline - Delivery &amp; Collections</i>                              | xx   | xx  | xx   | xx  |
| <i>Frontline - RDC Operation</i>   | xx   | xx  | xx   | xx  |
| <i>Frontline - Other people costs</i>                                      | xx   | xx  | xx   | xx  |
| <b>Sub-total Frontline</b>   | <b>xx</b>  | <b>xx</b>   | <b>xx</b>  | <b>xx</b>   |
| Network Road Operations  | xx   | xx  | xx   | xx  |
| Other/Managers   | xx   | xx  | xx   | xx  |
| <b>Total Operations</b>  | <b>xx</b>  | <b>xx</b>   | <b>xx</b>  | <b>xx</b>   |
| <i>Other people - Commercial</i>   | xx   | xx  | xx   | xx  |
| <i>Other people - Technology</i>   | xx   | xx  | xx   | xx  |
| <i>Other people - Property</i>   | xx   | xx  | xx   | xx  |
| <i>Other people - Central Admin</i>  | xx   | xx  | xx   | xx  |
| <b>Sub-total Other People</b>  | <b>xx</b>  | <b>xx</b>   | <b>xx</b>  | <b>xx</b>   |
| Centrally Held (see Note 1)  | xx   | xx  | xx   | xx  |
| <b>Total people costs</b>  | <b>xx</b>  | <b>xx</b>   | <b>xx</b>  | <b>xx</b>   |
| Conveyance Charges - Domestic (see Note 2)                                 | xx   | xx  | xx   | xx  |
| Conveyance Charges - International (see Note 2)                            | xx   | xx  | xx   | xx  |
| Other Distribution costs (see Note 2)                                      | xx   | xx  | xx   | xx  |
| International Terminal Dues (see Note 3)                                   | xx   | xx  | xx   | xx  |
| Vehicle Fleet  | xx   | xx  | xx   | xx  |
| Fuel   | xx   | xx  | xx   | xx  |
| <b>Total Distribution &amp; Conveyance Costs</b>                           | <b>xx</b>  | <b>xx</b>   | <b>xx</b>  | <b>xx</b>   |
| Property   | xx   | xx  | xx   | xx  |
| Romec FM Costs   | xx   | xx  | xx   | xx  |
| IT & Communication   | xx   | xx  | xx   | xx  |
| Depreciation & Amortisation  | xx   | xx  | xx   | xx  |
| <b>Total Infrastructure Costs</b>  | <b>xx</b>  | <b>xx</b>   | <b>xx</b>  | <b>xx</b>   |
| POL costs  | xx   | xx  | xx   | xx  |
| Staff & Agents Related Costs & Consumables                                 | xx   | xx  | xx   | xx  |
| <i>Other costs - Low Value Assets, Other Outsourcing, Stamp Production</i> | xx   | xx  | xx   | xx  |
| <i>Other costs - Bad Debts and Bank Charges</i>                            | xx   | xx  | xx   | xx  |
| <i>Other costs - Audit, Assurance, Consulting, Marketing &amp; Legal</i>   | xx   | xx  | xx   | xx  |
| <i>Other costs - Compensation</i>  | xx   | xx  | xx   | xx  |
| <i>Other External Costs</i>  | xx   | xx  | xx   | xx  |
| <b>Sub-total Other costs</b>   | <b>xx</b>  | <b>xx</b>   | <b>xx</b>  | <b>xx</b>   |
| <i>Internal recharge - Property</i>  | xx   | xx  | xx   | xx  |
| <i>Internal recharge - PFW</i>   | xx   | xx  | xx   | xx  |
| <i>Internal recharge - Other</i>   | xx   | xx  | xx   | xx  |
| <b>Sub-total Internal recharges</b>  | <b>xx</b>  | <b>xx</b>   | <b>xx</b>  | <b>xx</b>   |
| Budget Contingency   | xx   | xx  | xx   | xx  |
| <b>Total Other Operating Costs</b>   | <b>xx</b>  | <b>xx</b>   | <b>xx</b>  | <b>xx</b>   |
| <b>Total non-people costs</b>  | <b>xx</b>  | <b>xx</b>   | <b>xx</b>  | <b>xx</b>   |
| <b>Total Costs before transformation</b>                                   | <b>xx</b>  | <b>xx</b>   | <b>xx</b>  | <b>xx</b>   |
| Project Specific costs   | xx   | xx  | xx   | xx  |
| <i>Voluntary redundancy - Frontline</i>                                    | xx   | xx  | xx   | xx  |
| <i>Voluntary redundancy - Management</i>                                   | xx   | xx  | xx   | xx  |
| <i>Voluntary redundancy - Other staff</i>                                  | xx   | xx  | xx   | xx  |
| <b>Sub-total Voluntary redundancy</b>                                      | <b>xx</b>  | <b>xx</b>   | <b>xx</b>  | <b>xx</b>   |
| Business Transformation payments   | xx   | xx  | xx   | xx  |
| Other Transformation costs   | xx   | xx  | xx   | xx  |
| <b>Transformation Costs</b>  | <b>xx</b>  | <b>xx</b>   | <b>xx</b>  | <b>xx</b>   |
| <b>Total costs after Transformation Costs</b>                              | <b>xx</b>  | <b>xx</b>   | <b>xx</b>  | <b>xx</b>   |

| Average YTD VR Cash Costs £ - per head | CY        | PY        |
|--|-----------|-----------|
| Frontline and other Ops CWU grades     | xx        | xx        |
| Ops Management                         | xx        | xx        |
| Other                                  | xx        | xx        |
| <b>Overall Weighted Average</b>        | <b>xx</b> | <b>xx</b> |

**Guidance**

1. All pay related costs in this category, including pension costs, must be re-allocated to pay cost categories above it.
2. This must exclude 'International Terminal Dues' shown separately in the line below it.
3. This shall comprise delivery charges from foreign postal and delivery companies for delivery of mail exported from the UK.

**Figure 16: Quarterly Revenue and volume actual**

|  | Volume m |                 |                  |          |                      | Revenue £m |                 |                  |           |                      | AUR £    |                 |                  |          |                      |
|--|----------|-----------------|------------------|----------|----------------------|------------|-----------------|------------------|-----------|----------------------|----------|-----------------|------------------|----------|----------------------|
|  | Actual m | Prior Financial | Variance to PY % | Budget m | Variance to Budget % | Actual £m  | Prior Financial | Variance to PY % | Budget £m | Variance to Budget % | Actual £ | Prior Financial | Variance to PY % | Budget £ | Variance to Budget % |
|  |          | Year m          |                  |          |                      |            | Year £          |                  |           |                      |          |                 |                  |          |                      |
| <b>Parcels</b>   |          |                 |                  |          |                      |            |                 |                  |           |                      |          |                 |                  |          |                      |
| Domestic Account Parcels   | xx       | xx              | x.x%             | xx       | x.x%                 | xx         | xx              | x.x%             | xx        | x.x%                 | x.xx     | x.xx            | x.x%             | x.xx     | x.x%                 |
| Domestic Account Parcels (Amazon)                                    | xx       | xx              | x.x%             | xx       | x.x%                 | xx         | xx              | x.x%             | xx        | x.x%                 | x.xx     | x.xx            | x.x%             | x.xx     | x.x%                 |
| RM 24/48 Large Letters   | xx       | xx              | x.x%             | xx       | x.x%                 | xx         | xx              | x.x%             | xx        | x.x%                 | x.xx     | x.xx            | x.x%             | x.xx     | x.x%                 |
| Tracked and Tracked returns  | xx       | xx              | x.x%             | xx       | x.x%                 | xx         | xx              | x.x%             | xx        | x.x%                 | x.xx     | x.xx            | x.x%             | x.xx     | x.x%                 |
| Special Delivery   | xx       | xx              | x.x%             | xx       | x.x%                 | xx         | xx              | x.x%             | xx        | x.x%                 | x.xx     | x.xx            | x.x%             | x.xx     | x.x%                 |
| Other Domestic Account Parcels                                       | xx       | xx              | x.x%             | xx       | x.x%                 | xx         | xx              | x.x%             | xx        | x.x%                 | x.xx     | x.xx            | x.x%             | x.xx     | x.x%                 |
| Network Access Parcels   | xx       | xx              | x.x%             | xx       | x.x%                 | xx         | xx              | x.x%             | xx        | x.x%                 | x.xx     | x.xx            | x.x%             | x.xx     | x.x%                 |
| <b>Account Parcels</b>   | xx       | xx              | x.x%             | xx       | x.x%                 | xx         | xx              | x.x%             | xx        | x.x%                 | x.xx     | x.xx            | x.x%             | x.xx     | x.x%                 |
| Stamped Parcels  | xx       | xx              | x.x%             | xx       | x.x%                 | xx         | xx              | x.x%             | xx        | x.x%                 | x.xx     | x.xx            | x.x%             | x.xx     | x.x%                 |
| USO Account and Metered Parcels                                      | xx       | xx              | x.x%             | xx       | x.x%                 | xx         | xx              | x.x%             | xx        | x.x%                 | x.xx     | x.xx            | x.x%             | x.xx     | x.x%                 |
| Special Delivery - USO   | xx       | xx              | x.x%             | xx       | x.x%                 | xx         | xx              | x.x%             | xx        | x.x%                 | x.xx     | x.xx            | x.x%             | x.xx     | x.x%                 |
| <b>Consumer &amp; Small Business Parcels</b>                         | xx       | xx              | x.x%             | xx       | x.x%                 | xx         | xx              | x.x%             | xx        | x.x%                 | x.xx     | x.xx            | x.x%             | x.xx     | x.x%                 |
| International Import Parcels   | xx       | xx              | x.x%             | xx       | x.x%                 | xx         | xx              | x.x%             | xx        | x.x%                 | x.xx     | x.xx            | x.x%             | x.xx     | x.x%                 |
| Non-Revenue Generating Parcels                                       | xx       | xx              | x.x%             | xx       | x.x%                 |            |                 |                  |           |                      |          |                 |                  |          |                      |
| <b>RM Parcels (For Delivery in the UK)</b>                           | xx       | xx              | x.x%             | xx       | x.x%                 | xx         | xx              | x.x%             | xx        | x.x%                 | x.xx     | x.xx            | x.x%             | x.xx     | x.x%                 |
| International Export Parcels   | xx       | xx              | x.x%             | xx       | x.x%                 | xx         | xx              | x.x%             | xx        | x.x%                 | x.xx     | x.xx            | x.x%             | x.xx     | x.x%                 |
| Specialist services  | xx       | xx              | x.x%             | xx       | x.x%                 | xx         | xx              | x.x%             | xx        | x.x%                 | x.xx     | x.xx            | x.x%             | x.xx     | x.x%                 |
| Less: eCourier o/s RB  |          |                 |                  |          |                      | xx         | xx              | x.x%             | xx        | x.x%                 |          |                 |                  |          |                      |
| Parcel contingency   |          |                 |                  |          |                      | xx         | xx              | x.x%             | xx        | x.x%                 |          |                 |                  |          |                      |
| <b>Reported Business Parcels inc RM 24/48 LL (A)</b>                 | xx       | xx              | x.x%             | xx       | x.x%                 | xx         | xx              | x.x%             | xx        | x.x%                 | x.xx     | x.xx            | x.x%             | x.xx     | x.x%                 |
| <b>Letters</b>   |          |                 |                  |          |                      |            |                 |                  |           |                      |          |                 |                  |          |                      |
| Retail Addressed Advertising Letters                                 | xx       | xx              | x.x%             | xx       | x.x%                 | xx         | xx              | x.x%             | xx        | x.x%                 | x.xx     | x.xx            | x.x%             | x.xx     | x.x%                 |
| Unaddressed Advertising Letters                                      | xx       | xx              | x.x%             | xx       | x.x%                 | xx         | xx              | x.x%             | xx        | x.x%                 | x.xx     | x.xx            | x.x%             | x.xx     | x.x%                 |
| Network Access Advertising Letters                                   | xx       | xx              | x.x%             | xx       | x.x%                 | xx         | xx              | x.x%             | xx        | x.x%                 | x.xx     | x.xx            | x.x%             | x.xx     | x.x%                 |
| <b>Advertising Letters</b>   | xx       | xx              | x.x%             | xx       | x.x%                 | xx         | xx              | x.x%             | xx        | x.x%                 | x.xx     | x.xx            | x.x%             | x.xx     | x.x%                 |
| Retail Bulk Business Mail Letters                                    | xx       | xx              | x.x%             | xx       | x.x%                 | xx         | xx              | x.x%             | xx        | x.x%                 | x.xx     | x.xx            | x.x%             | x.xx     | x.x%                 |
| Network Access Business Mail Letters                                 | xx       | xx              | x.x%             | xx       | x.x%                 | xx         | xx              | x.x%             | xx        | x.x%                 | x.xx     | x.xx            | x.x%             | x.xx     | x.x%                 |
| <b>Business Mail Letters</b>   | xx       | xx              | x.x%             | xx       | x.x%                 | xx         | xx              | x.x%             | xx        | x.x%                 | x.xx     | x.xx            | x.x%             | x.xx     | x.x%                 |
| USO Account and Metered Letters                                      | xx       | xx              | x.x%             | xx       | x.x%                 | xx         | xx              | x.x%             | xx        | x.x%                 | x.xx     | x.xx            | x.x%             | x.xx     | x.x%                 |
| Stamped Letters  | xx       | xx              | x.x%             | xx       | x.x%                 | xx         | xx              | x.x%             | xx        | x.x%                 | x.xx     | x.xx            | x.x%             | x.xx     | x.x%                 |
| <b>Consumer &amp; Small Business</b>                                 | xx       | xx              | x.x%             | xx       | x.x%                 | xx         | xx              | x.x%             | xx        | x.x%                 | x.xx     | x.xx            | x.x%             | x.xx     | x.x%                 |
| International Import Letters   | xx       | xx              | x.x%             | xx       | x.x%                 | xx         | xx              | x.x%             | xx        | x.x%                 | x.xx     | x.xx            | x.x%             | x.xx     | x.x%                 |
| Elections  | xx       | xx              | x.x%             | xx       | x.x%                 | xx         | xx              | x.x%             | xx        | x.x%                 | x.xx     | x.xx            | x.x%             | x.xx     | x.x%                 |
| Non-Revenue Generating Letters                                       | xx       | xx              | x.x%             | xx       | x.x%                 |            |                 |                  |           |                      |          |                 |                  |          |                      |
| Other  | xx       | xx              | x.x%             | xx       | x.x%                 | xx         | xx              | x.x%             | xx        | x.x%                 | x.xx     | x.xx            | x.x%             | x.xx     | x.x%                 |
| <b>Royal Mail Letters (For Delivery in the UK)</b>                   | xx       | xx              | x.x%             | xx       | x.x%                 | xx         | xx              | x.x%             | xx        | x.x%                 | x.xx     | x.xx            | x.x%             | x.xx     | x.x%                 |
| International Export Letters   | xx       | xx              | x.x%             | xx       | x.x%                 | xx         | xx              | x.x%             | xx        | x.x%                 | x.xx     | x.xx            | x.x%             | x.xx     | x.x%                 |
| Letter contingency   | xx       | xx              | x.x%             | xx       | x.x%                 | xx         | xx              | x.x%             | xx        | x.x%                 | x.xx     | x.xx            | x.x%             | x.xx     | x.x%                 |
| Philatelic   | xx       | xx              | x.x%             | xx       | x.x%                 | xx         | xx              | x.x%             | xx        | x.x%                 | x.xx     | x.xx            | x.x%             | x.xx     | x.x%                 |
| Data & Innovations   | xx       | xx              | x.x%             | xx       | x.x%                 | xx         | xx              | x.x%             | xx        | x.x%                 | x.xx     | x.xx            | x.x%             | x.xx     | x.x%                 |
| Central Group Income   | xx       | xx              | x.x%             | xx       | x.x%                 | xx         | xx              | x.x%             | xx        | x.x%                 | x.xx     | x.xx            | x.x%             | x.xx     | x.x%                 |
| Revenue Earned from POL  | xx       | xx              | x.x%             | xx       | x.x%                 | xx         | xx              | x.x%             | xx        | x.x%                 | x.xx     | x.xx            | x.x%             | x.xx     | x.x%                 |
| <b>Total Letters (A)</b>   | xx       | xx              | x.x%             | xx       | x.x%                 | xx         | xx              | x.x%             | xx        | x.x%                 | x.xx     | x.xx            | x.x%             | x.xx     | x.x%                 |
| <i>Plus: inter-business charge to PFW</i>                            |          |                 |                  |          |                      | xx         | xx              | x.x%             | xx        | x.x%                 |          |                 |                  |          |                      |
| <i>Plus: inter-company charges</i>                                   |          |                 |                  |          |                      | xx         | xx              | x.x%             | xx        | x.x%                 |          |                 |                  |          |                      |
| <b>Total Reported Business Mail</b>                                  | xx       | xx              | x.x%             | xx       | x.x%                 | xx         | xx              | x.x%             | xx        | x.x%                 | x.xx     | x.xx            | x.x%             | x.xx     | x.x%                 |
| <b>Reconciliation to RMUK</b>  |          |                 |                  |          |                      |            |                 |                  |           |                      |          |                 |                  |          |                      |
| Parcelforce  | xx       | xx              | x.x%             | xx       | x.x%                 | xx         | xx              | x.x%             | xx        | x.x%                 | x.xx     | x.xx            | x.x%             | x.xx     | x.x%                 |
| eCommerce Acquisitions   | xx       | xx              | x.x%             | xx       | x.x%                 | xx         | xx              | x.x%             | xx        | x.x%                 | x.xx     | x.xx            | x.x%             | x.xx     | x.x%                 |
| Plus: eCourier   | xx       | xx              | x.x%             | xx       | x.x%                 | xx         | xx              | x.x%             | xx        | x.x%                 | x.xx     | x.xx            | x.x%             | x.xx     | x.x%                 |
| <b>Other Royal Mail Parcels (C)</b>                                  | xx       | xx              | x.x%             | xx       | x.x%                 | xx         | xx              | x.x%             | xx        | x.x%                 | x.xx     | x.xx            | x.x%             | x.xx     | x.x%                 |
| <b>Romec (D)</b>   | xx       | xx              | x.x%             | xx       | x.x%                 | xx         | xx              | x.x%             | xx        | x.x%                 | x.xx     | x.xx            | x.x%             | x.xx     | x.x%                 |
| <b>Total Parcels and Letters (including International) (A+B+C+D)</b> | xx       | xx              | x.x%             | xx       | x.x%                 | xx         | xx              | x.x%             | xx        | x.x%                 | x.xx     | x.xx            | x.x%             | x.xx     | x.x%                 |
| <b>Addressed Letters (excl. Elections)</b>                           | xx       | xx              | x.x%             | xx       | x.x%                 | xx         | xx              | x.x%             | xx        | x.x%                 | x.xx     | x.xx            | x.x%             | x.xx     | x.x%                 |
| <b>Inland Addressed Letters</b>                                      | xx       | xx              | x.x%             | xx       | x.x%                 | xx         | xx              | x.x%             | xx        | x.x%                 | x.xx     | x.xx            | x.x%             | x.xx     | x.x%                 |
| <b>Addressed UK Delivered Letters</b>                                | xx       | xx              | x.x%             | xx       | x.x%                 | xx         | xx              | x.x%             | xx        | x.x%                 | x.xx     | x.xx            | x.x%             | x.xx     | x.x%                 |
| <b>Total Addressed Letters</b>                                       | xx       | xx              | x.x%             | xx       | x.x%                 | xx         | xx              | x.x%             | xx        | x.x%                 | x.xx     | x.xx            | x.x%             | x.xx     | x.x%                 |
| <b>Total Royal Mail Letters (excl. Elections)</b>                    | xx       | xx              | x.x%             | xx       | x.x%                 | xx         | xx              | x.x%             | xx        | x.x%                 | x.xx     | x.xx            | x.x%             | x.xx     | x.x%                 |

**Figure 17: Quarterly cost metrics – actual**

| Financial Year  |                   |                    |                            |  |                                       |                         |                   |             |               |             |  |
|---|-------------------|--------------------|----------------------------|--|---------------------------------------|-------------------------|-------------------|-------------|---------------|-------------|--|
| Financial Quarter   |                   |                    |                            |  |                                       |                         |                   |             |               |             |  |
|   | Financial Quarter |                    |                            |  |                                       | Financial Year to date  |                   |             |               |             |  |
|   | Actual            | Prior year         | % Variance                 | Budget                                   | % Variance                            | Actual                  | Prior year        | % Variance  | Budget        | % Variance  |  |
| <b>Delivery and Collections</b>   |                   |                    |                            |  |                                       |                         |                   |             |               |             |  |
| Volumes (operational) (m) <sup>(9)</sup>  | xx                | xx                 | x.x%                       | xx                                       | x.x%                                  | xx                      | xx                | x.x%        | xx            | x.x%        |  |
| Workload (m)  | xx                | xx                 | x.x%                       | xx                                       | x.x%                                  | xx                      | xx                | x.x%        | xx            | x.x%        |  |
| Measured Worked Hours (k)   | xx                | xx                 | x.x%                       | xx                                       | x.x%                                  | xx                      | xx                | x.x%        | xx            | x.x%        |  |
| Gross Hours (k) <sup>(7)</sup>  | xx                | xx                 | x.x%                       | xx                                       | x.x%                                  | xx                      | xx                | x.x%        | xx            | x.x%        |  |
| Workload % change <sup>(11)</sup>   | x.x%              | x.x%               |                            | x.x%                                     | x.x%                                  | x.x%                    | x.x%              |             | x.x%          | x.x%        |  |
| Measured Worked Hours % change  | x.x%              | x.x%               |                            | x.x%                                     | x.x%                                  | x.x%                    | x.x%              |             | x.x%          | x.x%        |  |
| Gross Hours % change <sup>(11)</sup>  | x.x%              | x.x%               |                            | x.x%                                     | x.x%                                  | x.x%                    | x.x%              |             | x.x%          | x.x%        |  |
| WIPWH % change  | x.x%              | x.x%               |                            | x.x%                                     | x.x%                                  | x.x%                    | x.x%              |             | x.x%          | x.x%        |  |
| WIPGH % change <sup>(11)</sup>  | x.x%              | x.x%               |                            | x.x%                                     | x.x%                                  | x.x%                    | x.x%              |             | x.x%          | x.x%        |  |
| <b>Process</b>  |                   |                    |                            |  |                                       |                         |                   |             |               |             |  |
| Volumes (operational) (m) <sup>(10)</sup>   | xx                | xx                 | x.x%                       | xx                                       | x.x%                                  | xx                      | xx                | x.x%        | xx            | x.x%        |  |
| Workload (m)  | xx                | xx                 | x.x%                       | xx                                       | x.x%                                  | xx                      | xx                | x.x%        | xx            | x.x%        |  |
| Measured Worked hours (k)   | xx                | xx                 | x.x%                       | xx                                       | x.x%                                  | xx                      | xx                | x.x%        | xx            | x.x%        |  |
| Gross Hours (k) <sup>(7)</sup>  | xx                | xx                 | x.x%                       | xx                                       | x.x%                                  | xx                      | xx                | x.x%        | xx            | x.x%        |  |
| Workload % change <sup>(11)</sup>   | x.x%              | x.x%               |                            | x.x%                                     | x.x%                                  | x.x%                    | x.x%              |             | x.x%          | x.x%        |  |
| Measured Worked Hours % change  | x.x%              | x.x%               |                            | x.x%                                     | x.x%                                  | x.x%                    | x.x%              |             | x.x%          | x.x%        |  |
| Gross Hours % change <sup>(11)</sup>  | x.x%              | x.x%               |                            | x.x%                                     | x.x%                                  | x.x%                    | x.x%              |             | x.x%          | x.x%        |  |
| WIPWH % change  | x.x%              | x.x%               |                            | x.x%                                     | x.x%                                  | x.x%                    | x.x%              |             | x.x%          | x.x%        |  |
| WIPGH % change <sup>(11)</sup>  | x.x%              | x.x%               |                            | x.x%                                     | x.x%                                  | x.x%                    | x.x%              |             | x.x%          | x.x%        |  |
| <b>Head of Logistics Processing (RDC)</b>   |                   |                    |                            |  |                                       |                         |                   |             |               |             |  |
| Volumes (operational) (m)   | xx                | xx                 | x.x%                       | xx                                       | x.x%                                  | xx                      | xx                | x.x%        | xx            | x.x%        |  |
| Workload (m)  | xx                | xx                 | x.x%                       | xx                                       | x.x%                                  | xx                      | xx                | x.x%        | xx            | x.x%        |  |
| Measured Worked Hours (k)   | xx                | xx                 | x.x%                       | xx                                       | x.x%                                  | xx                      | xx                | x.x%        | xx            | x.x%        |  |
| Gross Hours (k) <sup>(7)</sup>  | xx                | xx                 | x.x%                       | xx                                       | x.x%                                  | xx                      | xx                | x.x%        | xx            | x.x%        |  |
| Workload % change <sup>(11)</sup>   | x.x%              | x.x%               |                            | x.x%                                     | x.x%                                  | x.x%                    | x.x%              |             | x.x%          | x.x%        |  |
| Measured Worked Hours % change  | x.x%              | x.x%               |                            | x.x%                                     | x.x%                                  | x.x%                    | x.x%              |             | x.x%          | x.x%        |  |
| Gross Hours % change <sup>(11)</sup>  | x.x%              | x.x%               |                            | x.x%                                     | x.x%                                  | x.x%                    | x.x%              |             | x.x%          | x.x%        |  |
| WIPWH % change  | x.x%              | x.x%               |                            | x.x%                                     | x.x%                                  | x.x%                    | x.x%              |             | x.x%          | x.x%        |  |
| WIPGH % change <sup>(11)</sup>  | x.x%              | x.x%               |                            | x.x%                                     | x.x%                                  | x.x%                    | x.x%              |             | x.x%          | x.x%        |  |
| <b>Logistics</b>  |                   |                    |                            |  |                                       |                         |                   |             |               |             |  |
| Volumes (operational) (m)   | xx                | xx                 | x.x%                       | xx                                       | x.x%                                  | xx                      | xx                | x.x%        | xx            | x.x%        |  |
| Workload (m) <sup>(6)</sup>   | xx                | xx                 | x.x%                       | xx                                       | x.x%                                  | xx                      | xx                | x.x%        | xx            | x.x%        |  |
| Measured Worked Hours (k)   | xx                | xx                 | x.x%                       | xx                                       | x.x%                                  | xx                      | xx                | x.x%        | xx            | x.x%        |  |
| Gross Hours (k) <sup>(7)</sup>  | xx                | xx                 | x.x%                       | xx                                       | x.x%                                  | xx                      | xx                | x.x%        | xx            | x.x%        |  |
| Workload % change <sup>(11)</sup>   | x.x%              | x.x%               |                            | x.x%                                     | x.x%                                  | x.x%                    | x.x%              |             | x.x%          | x.x%        |  |
| Measured Worked Hours % change  | x.x%              | x.x%               |                            | x.x%                                     | x.x%                                  | x.x%                    | x.x%              |             | x.x%          | x.x%        |  |
| Gross Hours % change <sup>(11)</sup>  | x.x%              | x.x%               |                            | x.x%                                     | x.x%                                  | x.x%                    | x.x%              |             | x.x%          | x.x%        |  |
| WIPWH % change  | x.x%              | x.x%               |                            | x.x%                                     | x.x%                                  | x.x%                    | x.x%              |             | x.x%          | x.x%        |  |
| WIPGH % change <sup>(11)</sup>  | x.x%              | x.x%               |                            | x.x%                                     | x.x%                                  | x.x%                    | x.x%              |             | x.x%          | x.x%        |  |
| <b>Other</b>  |                   |                    |                            |  |                                       |                         |                   |             |               |             |  |
| Volumes (operational) (m)   | xx                | xx                 | x.x%                       | xx                                       | x.x%                                  | xx                      | xx                | x.x%        | xx            | x.x%        |  |
| Workload (m)  | xx                | xx                 | x.x%                       | xx                                       | x.x%                                  | xx                      | xx                | x.x%        | xx            | x.x%        |  |
| Measured Worked Hours (k)   | xx                | xx                 | x.x%                       | xx                                       | x.x%                                  | xx                      | xx                | x.x%        | xx            | x.x%        |  |
| Gross Hours (k) <sup>(7)</sup>  | xx                | xx                 | x.x%                       | xx                                       | x.x%                                  | xx                      | xx                | x.x%        | xx            | x.x%        |  |
| Workload % change <sup>(11)</sup>   | x.x%              | x.x%               |                            | x.x%                                     | x.x%                                  | x.x%                    | x.x%              |             | x.x%          | x.x%        |  |
| Measured Worked Hours % change  | x.x%              | x.x%               |                            | x.x%                                     | x.x%                                  | x.x%                    | x.x%              |             | x.x%          | x.x%        |  |
| Gross Hours % change <sup>(11)</sup>  | x.x%              | x.x%               |                            | x.x%                                     | x.x%                                  | x.x%                    | x.x%              |             | x.x%          | x.x%        |  |
| WIPWH % change  | x.x%              | x.x%               |                            | x.x%                                     | x.x%                                  | x.x%                    | x.x%              |             | x.x%          | x.x%        |  |
| WIPGH % change <sup>(11)</sup>  | x.x%              | x.x%               |                            | x.x%                                     | x.x%                                  | x.x%                    | x.x%              |             | x.x%          | x.x%        |  |
| <b>Total <sup>(8)</sup></b>   |                   |                    |                            |  |                                       |                         |                   |             |               |             |  |
| Volumes (operational) (m) <sup>(8)</sup>  | xx                | xx                 | x.x%                       | xx                                       | x.x%                                  | xx                      | xx                | x.x%        | xx            | x.x%        |  |
| Workload (m)  | xx                | xx                 | x.x%                       | xx                                       | x.x%                                  | xx                      | xx                | x.x%        | xx            | x.x%        |  |
| Measured Worked Hours (k)   | xx                | xx                 | x.x%                       | xx                                       | x.x%                                  | xx                      | xx                | x.x%        | xx            | x.x%        |  |
| Gross Hours (k) <sup>(7)</sup>  | xx                | xx                 | x.x%                       | xx                                       | x.x%                                  | xx                      | xx                | x.x%        | xx            | x.x%        |  |
| Workload % change <sup>(11)</sup>   | x.x%              | x.x%               |                            | x.x%                                     | x.x%                                  | x.x%                    | x.x%              |             | x.x%          | x.x%        |  |
| Measured Worked Hours % change  | x.x%              | x.x%               |                            | x.x%                                     | x.x%                                  | x.x%                    | x.x%              |             | x.x%          | x.x%        |  |
| Gross Hours % change <sup>(11)</sup>  | x.x%              | x.x%               |                            | x.x%                                     | x.x%                                  | x.x%                    | x.x%              |             | x.x%          | x.x%        |  |
| WIPWH % change  | x.x%              | x.x%               |                            | x.x%                                     | x.x%                                  | x.x%                    | x.x%              |             | x.x%          | x.x%        |  |
| WIPGH % change <sup>(11)</sup>  | x.x%              | x.x%               |                            | x.x%                                     | x.x%                                  | x.x%                    | x.x%              |             | x.x%          | x.x%        |  |
| <b>Number of working days <sup>(5)</sup></b>  |                   |                    |                            |  |                                       |                         |                   |             |               |             |  |
|   | xx                | xx                 |                            |  |                                       |                         |                   |             |               |             |  |
|   |                   |                    |                            |  |                                       |                         | xxx               | xxx         |               |             |  |
| <b>Reported Business Headcount Bridge for the Financial Quarter (no. of people)</b> | <b>Joiners</b>    | <b>Leavers; VR</b> | <b>Leavers; Ill-Health</b> | <b>Leavers; Attrition <sup>(2)</sup></b> | <b>Other (inc. timing, transfers)</b> | <b>Actual Headcount</b> | <b>Prior Year</b> | <b>%Var</b> | <b>Budget</b> | <b>%Var</b> |  |
| Fixed Term Full Time  | xx                | xx                 | xx                         | xx                                       | xx                                    | xx                      | xx                | x.x%        |               |             |  |
| Fixed Term Part Time  | xx                | xx                 | xx                         | xx                                       | xx                                    | xx                      | xx                | x.x%        |               |             |  |
| Permanent Full Time   | xx                | xx                 | xx                         | xx                                       | xx                                    | xx                      | xx                | x.x%        |               |             |  |
| Permanent Part Time   | xx                | xx                 | xx                         | xx                                       | xx                                    | xx                      | xx                | x.x%        |               |             |  |
| <b>Total</b>  | xx                | xx                 | xx                         | xx                                       | xx                                    | xx                      | xx                | x.x%        | xx            | x.x%        |  |

<sup>(1)</sup> Total productivity prior year YoY values are as reported, prior year absolutes are comparative

<sup>(2)</sup> Retirement is included in Other (inc. timing, transfers) - there is not a separate classification for those who retire.

<sup>(5)</sup> Working days relates to operational working days

<sup>(6)</sup> Workload in logistics relates only to collections runs performed by the logistics function. We do not have a workload measure for the majority of logistics

<sup>(7)</sup> Gross Hours % Change is reported as positive when Gross Hours have reduced, and negative when Gross Hours have increased.

<sup>(8)</sup> Total operational volumes is the sum of the volumes above

<sup>(9)</sup> Delivery volumes are outdoor letters and parcels. It excludes unaddressed, mail order returns and unaddressed elections.

<sup>(10)</sup> Processing volumes are outward letters and parcels. It excludes mail order returns.

<sup>(11)</sup> The percentage variance to budget for the Workload, Gross Hours and Productivity change represents an absolute variance between the expected YoY percentage movement and the actual YoY percentage movement

**Figure 18: Short SPHCC revenues, cost and volumes data extract file**

|   | Short SPHCC 1 |                | Short SPHCC 2 |                | ... | Short SPHCC n |                |
|---|---------------|----------------|---------------|----------------|-----|---------------|----------------|
|   | YTD Actual    | YTD Prior Year | YTD Actual    | YTD Prior Year |     | YTD Actual    | YTD Prior Year |
| Format  | xx            | xx             | xx            | xx             |     | xx            | xx             |
| Weight Step   | xx            | xx             | xx            | xx             |     | xx            | xx             |
| Class   | xx            | xx             | xx            | xx             |     | xx            | xx             |
| Payment method  | xx            | xx             | xx            | xx             |     | xx            | xx             |
| Scorecard category  | xx            | xx             | xx            | xx             |     | xx            | xx             |
| Product Group   | xx            | xx             | xx            | xx             |     | xx            | xx             |
| Sales product   | xx            | xx             | xx            | xx             |     | xx            | xx             |
| V4 category   | xx            | xx             | xx            | xx             |     | xx            | xx             |
| Volume  | xx            | xx             | xx            | xx             |     | xx            | xx             |
| Revenue £   | xx            | xx             | xx            | xx             |     | xx            | xx             |
| People costs, £   | xx            | xx             | xx            | xx             |     | xx            | xx             |
| Depreciation, amortisation and impairments, £                             | xx            | xx             | xx            | xx             |     | xx            | xx             |
| Other operating costs, £  | xx            | xx             | xx            | xx             |     | xx            | xx             |
| Total operating costs, £  | xx            | xx             | xx            | xx             |     | xx            | xx             |
| Transformation costs, £   | xx            | xx             | xx            | xx             |     | xx            | xx             |
| Total operating costs inc. Transformation costs, £                        | xx            | xx             | xx            | xx             |     | xx            | xx             |
| Separated/Non-separated (see Appendix 2 for Short SPHCCs to be separated) | xx            | xx             | xx            | xx             |     | xx            | xx             |
| Transfer price (From Downstream services to Upstream services), £         | xx            | xx             | xx            | xx             |     | xx            | xx             |
| Upstream revenue, £   | xx            | xx             | xx            | xx             |     | xx            | xx             |
| Upstream total operating costs, £   | xx            | xx             | xx            | xx             |     | xx            | xx             |
| Upstream operating costs inc. Transformation costs, £                     | xx            | xx             | xx            | xx             |     | xx            | xx             |
| Downstream revenue, £   | xx            | xx             | xx            | xx             |     | xx            | xx             |
| Downstream total operating costs, £                                       | xx            | xx             | xx            | xx             |     | xx            | xx             |
| Downstream operating costs inc. Transformation costs, £                   | xx            | xx             | xx            | xx             |     | xx            | xx             |

**Figure 19: Quarterly Gross Hours by time category – actual**

| Total Frontline                      | Actual  |         |         |         |          | Budget  |         |         |         |          | Bud Var |         |         |         |          | Bud Var (%) |      |      |      |       |
|--------------------------------------|---------|---------|---------|---------|----------|---------|---------|---------|---------|----------|---------|---------|---------|---------|----------|-------------|------|------|------|-------|
|                                      | Q1 '000 | Q2 '000 | Q3 '000 | Q4 '000 | YTD '000 | Q1 '000 | Q2 '000 | Q3 '000 | Q4 '000 | YTD '000 | Q1 '000 | Q2 '000 | Q3 '000 | Q4 '000 | YTD '000 | Q1 %        | Q2 % | Q3 % | Q4 % | YTD % |
| Ordinary/Normal (Full and part time) | xx      | xx      | xx      | xx      | xx       | xx      | xx      | xx      | xx      | xx       | xx      | xx      | xx      | xx      | xx       | x.x%        | x.x% | x.x% | x.x% | x.x%  |
| Ordinary Casuals/Temporary           | xx      | xx      | xx      | xx      | xx       | xx      | xx      | xx      | xx      | xx       | xx      | xx      | xx      | xx      | xx       | x.x%        | x.x% | x.x% | x.x% | x.x%  |
| Agency Casuals/Temporary             | xx      | xx      | xx      | xx      | xx       | xx      | xx      | xx      | xx      | xx       | xx      | xx      | xx      | xx      | xx       | x.x%        | x.x% | x.x% | x.x% | x.x%  |
| Total Casuals/Temporary              | xx      | xx      | xx      | xx      | xx       | xx      | xx      | xx      | xx      | xx       | xx      | xx      | xx      | xx      | xx       | x.x%        | x.x% | x.x% | x.x% | x.x%  |
| Overtime - contractual               | xx      | xx      | xx      | xx      | xx       | xx      | xx      | xx      | xx      | xx       | xx      | xx      | xx      | xx      | xx       | x.x%        | x.x% | x.x% | x.x% | x.x%  |
| Overtime - non contractual           | xx      | xx      | xx      | xx      | xx       | xx      | xx      | xx      | xx      | xx       | xx      | xx      | xx      | xx      | xx       | x.x%        | x.x% | x.x% | x.x% | x.x%  |
| Total Overtime                       | xx      | xx      | xx      | xx      | xx       | xx      | xx      | xx      | xx      | xx       | xx      | xx      | xx      | xx      | xx       | x.x%        | x.x% | x.x% | x.x% | x.x%  |
| ...                                  |         |         |         |         |          |         |         |         |         |          |         |         |         |         |          |             |      |      |      |       |
| Total Gross Hours                    | xx      | xx      | xx      | xx      | xx       | xx      | xx      | xx      | xx      | xx       | xx      | xx      | xx      | xx      | xx       | x.x%        | x.x% | x.x% | x.x% | x.x%  |

Note: All data represent unadjusted reported hours

| Total Frontline                      | Actual  |         |         |         |          | Actual Prior Year |         |         |         |          | YoY     |         |         |         |          | YoY (%) |      |      |      |       |
|--------------------------------------|---------|---------|---------|---------|----------|-------------------|---------|---------|---------|----------|---------|---------|---------|---------|----------|---------|------|------|------|-------|
|                                      | Q1 '000 | Q2 '000 | Q3 '000 | Q4 '000 | YTD '000 | Q1 '000           | Q2 '000 | Q3 '000 | Q4 '000 | YTD '000 | Q1 '000 | Q2 '000 | Q3 '000 | Q4 '000 | YTD '000 | Q1 %    | Q2 % | Q3 % | Q4 % | YTD % |
| Ordinary/Normal (Full and part time) | xx      | xx      | xx      | xx      | xx       | xx                | xx      | xx      | xx      | xx       | xx      | xx      | xx      | xx      | xx       | x.x%    | x.x% | x.x% | x.x% | x.x%  |
| Ordinary Casuals/Temporary           | xx      | xx      | xx      | xx      | xx       | xx                | xx      | xx      | xx      | xx       | xx      | xx      | xx      | xx      | xx       | x.x%    | x.x% | x.x% | x.x% | x.x%  |
| Agency Casuals/Temporary             | xx      | xx      | xx      | xx      | xx       | xx                | xx      | xx      | xx      | xx       | xx      | xx      | xx      | xx      | xx       | x.x%    | x.x% | x.x% | x.x% | x.x%  |
| Total Casuals/Temporary              | xx      | xx      | xx      | xx      | xx       | xx                | xx      | xx      | xx      | xx       | xx      | xx      | xx      | xx      | xx       | x.x%    | x.x% | x.x% | x.x% | x.x%  |
| Overtime - contractual               | xx      | xx      | xx      | xx      | xx       | xx                | xx      | xx      | xx      | xx       | xx      | xx      | xx      | xx      | xx       | x.x%    | x.x% | x.x% | x.x% | x.x%  |
| Overtime - non contractual           | xx      | xx      | xx      | xx      | xx       | xx                | xx      | xx      | xx      | xx       | xx      | xx      | xx      | xx      | xx       | x.x%    | x.x% | x.x% | x.x% | x.x%  |
| Total Overtime                       | xx      | xx      | xx      | xx      | xx       | xx                | xx      | xx      | xx      | xx       | xx      | xx      | xx      | xx      | xx       | x.x%    | x.x% | x.x% | x.x% | x.x%  |
| ...                                  |         |         |         |         |          |                   |         |         |         |          |         |         |         |         |          |         |      |      |      |       |
| Total Gross Hours                    | xx      | xx      | xx      | xx      | xx       | xx                | xx      | xx      | xx      | xx       | xx      | xx      | xx      | xx      | xx       | x.x%    | x.x% | x.x% | x.x% | x.x%  |

Note: All data represent unadjusted reported hours

**People cost report**

| Total Frontline                      | Q1        |       |            | Q2        |       |            | Q3        |       |            | Q4        |       |            | YTD       |       |            |
|--------------------------------------|-----------|-------|------------|-----------|-------|------------|-----------|-------|------------|-----------|-------|------------|-----------|-------|------------|
|                                      | £m Salary | £m NI | £m Pension | £m Salary | £m NI | £m Pension | £m Salary | £m NI | £m Pension | £m Salary | £m NI | £m Pension | £m Salary | £m NI | £m Pension |
| Ordinary/Normal (Full and part time) | xx        | xx    | xx         | xx        | xx    | xx         | xx        | xx    | xx         | xx        | xx    | xx         | xx        | xx    | xx         |
| Ordinary Casuals/Temporary           | xx        | xx    | xx         | xx        | xx    | xx         | xx        | xx    | xx         | xx        | xx    | xx         | xx        | xx    | xx         |
| Agency Casuals/Temporary             | xx        | xx    | xx         | xx        | xx    | xx         | xx        | xx    | xx         | xx        | xx    | xx         | xx        | xx    | xx         |
| Total Casuals/Temporary              | xx        | xx    | xx         | xx        | xx    | xx         | xx        | xx    | xx         | xx        | xx    | xx         | xx        | xx    | xx         |
| Overtime - contractual               | xx        | xx    | xx         | xx        | xx    | xx         | xx        | xx    | xx         | xx        | xx    | xx         | xx        | xx    | xx         |
| Overtime - non contractual           | xx        | xx    | xx         | xx        | xx    | xx         | xx        | xx    | xx         | xx        | xx    | xx         | xx        | xx    | xx         |
| Total Overtime                       | xx        | xx    | xx         | xx        | xx    | xx         | xx        | xx    | xx         | xx        | xx    | xx         | xx        | xx    | xx         |
| ...                                  |           |       |            |           |       |            |           |       |            |           |       |            |           |       |            |
| Total frontline costs                | xx        | xx    | xx         | xx        | xx    | xx         | xx        | xx    | xx         | xx        | xx    | xx         | xx        | xx    | xx         |

**Figure 20: Annual Gross Hours by hours type – actual**

| <b>Delivery &amp; Collections</b>       | <b>Actual FY '000</b> | <b>FYFF Yr x FY '000</b> | <b>Var '000</b> | <b>Var (%) %</b> |
|---|-----------------------|--------------------------|-----------------|------------------|
| Workload (Same as Cost metrics)         | xx                    | xx                       | xx              | x.x%             |
| <b>Standard Hours</b>                   | xx                    | xx                       | xx              | x.x%             |
| Measured Worked Hours                   | xx                    | xx                       | xx              | x.x%             |
| Unmeasured Worked Hours                 | xx                    | xx                       | xx              | x.x%             |
| <b>Total Worked Hours</b>               | <b>xx</b>             | <b>xx</b>                | <b>xx</b>       | <b>x.x%</b>      |
| Sickness absence                        | xx                    | xx                       | xx              | x.x%             |
| Other absence                           | xx                    | xx                       | xx              | x.x%             |
| <b>Total absence</b>                    | <b>xx</b>             | <b>xx</b>                | <b>xx</b>       | <b>x.x%</b>      |
| <b>Total Delivery &amp; Collections</b> | <b>xx</b>             | <b>xx</b>                | <b>xx</b>       | <b>x.x%</b>      |

Note: All data represent unadjusted reported hours

| <b>Processing (Incl Regional Logistics)</b>    | <b>Actual FY '000</b> | <b>FYFF Yr x FY '000</b> | <b>Var '000</b> | <b>Var (%) %</b> |
|--|-----------------------|--------------------------|-----------------|------------------|
| Workload (Same as Cost metrics)                | xx                    | xx                       | xx              | x.x%             |
| <b>Standard Hours</b>                          | xx                    | xx                       | xx              | x.x%             |
| Measured Worked Hours                          | xx                    | xx                       | xx              | x.x%             |
| Unmeasured Worked Hours                        | xx                    | xx                       | xx              | x.x%             |
| <b>Total Worked Hours</b>                      | <b>xx</b>             | <b>xx</b>                | <b>xx</b>       | <b>x.x%</b>      |
| Sickness absence                               | xx                    | xx                       | xx              | x.x%             |
| Other absence                                  | xx                    | xx                       | xx              | x.x%             |
| <b>Total absence</b>                           | <b>xx</b>             | <b>xx</b>                | <b>xx</b>       | <b>x.x%</b>      |
| <b>Total Processing (incl Regional logist)</b> | <b>xx</b>             | <b>xx</b>                | <b>xx</b>       | <b>x.x%</b>      |

Note: All data represent unadjusted reported hours

| <b>RDC Operation</b>            | <b>Actual FY '000</b> | <b>FYFF Yr x FY '000</b> | <b>Var '000</b> | <b>Var (%) %</b> |
|---------------------------------|-----------------------|--------------------------|-----------------|------------------|
| Workload (Same as Cost metrics) | xx                    | xx                       | xx              | x.x%             |
| <b>Standard Hours</b>           | xx                    | xx                       | xx              | x.x%             |
| Measured Worked Hours           | xx                    | xx                       | xx              | x.x%             |
| Unmeasured Worked Hours         | xx                    | xx                       | xx              | x.x%             |
| <b>Total Worked Hours</b>       | <b>xx</b>             | <b>xx</b>                | <b>xx</b>       | <b>x.x%</b>      |
| Sickness absence                | xx                    | xx                       | xx              | x.x%             |
| Other absence                   | xx                    | xx                       | xx              | x.x%             |
| <b>Total absence</b>            | <b>xx</b>             | <b>xx</b>                | <b>xx</b>       | <b>x.x%</b>      |
| <b>Total RDC Operations</b>     | <b>xx</b>             | <b>xx</b>                | <b>xx</b>       | <b>x.x%</b>      |

Note: All data represent unadjusted reported hours

| <b>xxx</b>                      | <b>Actual FY '000</b> | <b>FYFF Yr x FY '000</b> | <b>Var '000</b> | <b>Var (%) %</b> |
|---------------------------------|-----------------------|--------------------------|-----------------|------------------|
| Workload (Same as Cost metrics) | xx                    | xx                       | xx              | x.x%             |
| <b>Standard Hours</b>           | xx                    | xx                       | xx              | x.x%             |
| Measured Worked Hours           | xx                    | xx                       | xx              | x.x%             |
| Unmeasured Worked Hours         | xx                    | xx                       | xx              | x.x%             |
| <b>Total Worked Hours</b>       | <b>xx</b>             | <b>xx</b>                | <b>xx</b>       | <b>x.x%</b>      |
| Sickness absence                | xx                    | xx                       | xx              | x.x%             |
| Other absence                   | xx                    | xx                       | xx              | x.x%             |
| <b>Total absence</b>            | <b>xx</b>             | <b>xx</b>                | <b>xx</b>       | <b>x.x%</b>      |
| <b>Total xxx</b>                | <b>xx</b>             | <b>xx</b>                | <b>xx</b>       | <b>x.x%</b>      |

Note: All data represent unadjusted reported hours

| <b>Actual FY '000</b> | <b>PY FY '000</b> | <b>YoY '000</b> | <b>YoY (%) %</b> |
|-----------------------|-------------------|-----------------|------------------|
| xx                    | xx                | xx              | x.x%             |
| xx                    | xx                | xx              | x.x%             |
| xx                    | xx                | xx              | x.x%             |
| xx                    | xx                | xx              | x.x%             |
| xx                    | xx                | xx              | x.x%             |
| xx                    | xx                | xx              | x.x%             |
| xx                    | xx                | xx              | x.x%             |
| xx                    | xx                | xx              | x.x%             |
| xx                    | xx                | xx              | x.x%             |

| <b>Actual FY '000</b> | <b>PY FY '000</b> | <b>YoY '000</b> | <b>YoY (%) %</b> |
|-----------------------|-------------------|-----------------|------------------|
| xx                    | xx                | xx              | x.x%             |
| xx                    | xx                | xx              | x.x%             |
| xx                    | xx                | xx              | x.x%             |
| xx                    | xx                | xx              | x.x%             |
| xx                    | xx                | xx              | x.x%             |
| xx                    | xx                | xx              | x.x%             |
| xx                    | xx                | xx              | x.x%             |
| xx                    | xx                | xx              | x.x%             |
| xx                    | xx                | xx              | x.x%             |

| <b>Actual FY '000</b> | <b>PY FY '000</b> | <b>YoY '000</b> | <b>YoY (%) %</b> |
|-----------------------|-------------------|-----------------|------------------|
| xx                    | xx                | xx              | x.x%             |
| xx                    | xx                | xx              | x.x%             |
| xx                    | xx                | xx              | x.x%             |
| xx                    | xx                | xx              | x.x%             |
| xx                    | xx                | xx              | x.x%             |
| xx                    | xx                | xx              | x.x%             |
| xx                    | xx                | xx              | x.x%             |
| xx                    | xx                | xx              | x.x%             |
| xx                    | xx                | xx              | x.x%             |

| <b>Actual FY '000</b> | <b>PY FY '000</b> | <b>YoY '000</b> | <b>YoY (%) %</b> |
|-----------------------|-------------------|-----------------|------------------|
| xx                    | xx                | xx              | x.x%             |
| xx                    | xx                | xx              | x.x%             |
| xx                    | xx                | xx              | x.x%             |
| xx                    | xx                | xx              | x.x%             |
| xx                    | xx                | xx              | x.x%             |
| xx                    | xx                | xx              | x.x%             |
| xx                    | xx                | xx              | x.x%             |
| xx                    | xx                | xx              | x.x%             |
| xx                    | xx                | xx              | x.x%             |

**Figure 21: Efficiency initiative including related cost information – actual**

| Cost movement   | Business Unit * | Efficiency initiatives/Cost Savings Programmes   | FYFF<br>Yr xx/xx<br>£m | Actual<br>Yr xx/xx<br>£m | Variance<br>Yr xx/xx<br>£m | Cost type<br>PVE or O |
|---|-----------------|--|------------------------|--------------------------|----------------------------|-----------------------|
| <b>Cost Savings</b>   |                 |  |                        |                          |                            |                       |
|   |                 | .....  | (xx)                   | (xx)                     | (xx)                       | x                     |
|   |                 | <b>1. Hours Cost Savings - Projects</b>          | <b>(xx)</b>            | <b>(xx)</b>              | <b>(xx)</b>                |                       |
|   |                 | .....  | (xx)                   | (xx)                     | (xx)                       | x                     |
|   |                 | <b>2. Hours Cost Savings - Other</b>             | <b>(xx)</b>            | <b>(xx)</b>              | <b>(xx)</b>                |                       |
|   |                 | .....  | (xx)                   | (xx)                     | (xx)                       | x                     |
|   |                 | <b>3. Hours Pay Cost Savings - Projects</b>      | <b>(xx)</b>            | <b>(xx)</b>              | <b>(xx)</b>                |                       |
|   |                 | .....  | (xx)                   | (xx)                     | (xx)                       | x                     |
|   |                 | <b>4. Non Hours Cost Savings - Projects</b>      | <b>(xx)</b>            | <b>(xx)</b>              | <b>(xx)</b>                |                       |
|   |                 | .....  | (xx)                   | (xx)                     | (xx)                       | x                     |
|   |                 | <b>5. Non Hours Cost Savings - Other</b>         | <b>(xx)</b>            | <b>(xx)</b>              | <b>(xx)</b>                |                       |
| <b>(1), (3) and (4)</b>                                     |                 | <b>Total Cost Savings - Projects</b>             | <b>(xx)</b>            | <b>(xx)</b>              | <b>(xx)</b>                |                       |
| <b>(2) and (5)</b>  |                 | <b>Total Cost Savings - Other</b>                | <b>(xx)</b>            | <b>(xx)</b>              | <b>(xx)</b>                |                       |
|   |                 | <b>6. Total Savings</b>                          | <b>(xx)</b>            | <b>(xx)</b>              | <b>(xx)</b>                |                       |
| <b>Cost Pressures</b>                                       |                 |  |                        |                          |                            |                       |
|   |                 | .....  | xx                     | xx                       | xx                         | x                     |
|   |                 | <b>7. Hours &amp; Pay Related Cost Pressures</b> | <b>xx</b>              | <b>xx</b>                | <b>xx</b>                  |                       |
|   |                 | .....  | xx                     | xx                       | xx                         | x                     |
|   |                 | <b>8. Other Cost Pressures</b>                   | <b>xx</b>              | <b>xx</b>                | <b>xx</b>                  |                       |
| <b>(7) +(8)</b>   |                 | <b>9. Total Pressures</b>                        | <b>xx</b>              | <b>xx</b>                | <b>xx</b>                  |                       |
| <b>(9) - (6)</b>  |                 | <b>Net Cost (savings)/pressures</b>              | <b>(xx)/xx</b>         | <b>(xx)/xx</b>           | <b>(xx)/xx</b>             |                       |
| <i>Reconcile to total cost movements in EBIT submission</i> |                 | <i>Check</i>                                     | -                      | -                        | -                          |                       |

\* Business Unit - Secondary organisational area of the business, e.g. Operations.

**Figure 22: Annual cumulative and in year WIPGH and PVEO performance – Confidential/Published**

**Actual (cumulative performance from yr 1 of FYFF)**

| <b>Efficiency metric</b>           | <b>Progress</b> |
|------------------------------------|-----------------|
| <i>Year x of 5year expectation</i> |                 |
| PVEO - absolute terms              | £xxm            |
| PVEO - percentage                  | x.x%            |
| Change in Productivity (WIPGH)     | x.x%            |

**Commentary - Published**

**Commentary - Confidential**

Performance in year - *yr x of FYFF*

Assessment of in year efficiency performance - *yr x of FYFF*

Assessment vs final expectation - *yr 5 of FYFF*

**Reconciliation of FY WIPGH to Q4 YTD WIPGH - Confidential**

Published change in Productivity (WIPGH) x.x%

Q4 YTD change in Productivity (WIPGH) - submission to Ofcom x.x%

Diff x.x.%



## Appendix 2: Products subject to upstream/downstream separation

|   |  |  |   |
|---|--|--|---|
| <p>Business Collections<br/>Mailrooms<br/>Bespoke Collection<br/>Swapshot<br/>Mail Collect<br/>Safebox Special Delivery<br/>Return to Sender Non USO<br/>Sales Agents Response Services 1st<br/>Sales Agents Response Services 2nd<br/>Sales Agents Royal Mail 24<br/>Sales Agents Royal Mail 48<br/>Sales Agents Royal Mail 24 (sort 8)<br/>Sales Agents Royal Mail 48 (sort 8)<br/>Sales Agents Royal Mail 48 Presort Flat Rate<br/>Sales Agents Misc ABB Services<br/>Sales Agents Advertising Mail High Sort 1st<br/>Sales Agents Advertising Mail High Sort 2nd<br/>Sales Agents Advertising Mail High Sort Economy<br/>Sales Agents Sustainable Advertising Mail Intermediate Low Sort 2C<br/>Sales Agents Advertising Mail Low Sort Economy<br/>Sales Agents Business Mail High Sort 1st<br/>Sales Agents Business Mail High Sort 2nd<br/>Sales Agents Business Mail High Sort Economy<br/>Sales Agents Business Mail Low Sort 2nd<br/>Sales Agents Business Mail Low Sort Economy<br/>Sales Agents Business Mail Unsorbed 1st<br/>Sales Agents Business Mail Unsorbed 2nd<br/>Sales Agents Publishing Mail High Sort 1st<br/>Sales Agents Publishing Mail High Sort 2nd<br/>Sales Agents Sustainable Advertising Mail Low Sort Economy<br/>Sales Agents Advertising Mail Low Sort OCR 1st<br/>Sales Agents Advertising Mail Low Sort CBC 2nd<br/>Sales Agents Business Mail Unsorbed Advance OCR 1st<br/>Sales Agents Advertising Mail Unsorbed 1st<br/>Sales Agents Advertising Mail Unsorbed 2nd<br/>Sales Agents Advertising Catalogue Mail<br/>Advertising Mail High Sort 1st Direct<br/>Advertising Mail High Sort 1st Residue<br/>Advertising Mail High Sort 2nd Direct<br/>Advertising Mail High Sort Economy Direct<br/>Advertising Mail High Sort Economy Residue<br/>Advertising Mail Low Sort BC 1st<br/>Advertising Mail Low Sort BC 2nd<br/>Advertising Mail Low Sort BC Economy<br/>Advertising Mail Low Sort OCR 1st<br/>Advertising Mail Low Sort OCR 2nd<br/>Advertising Mail Low Sort OCR Economy<br/>Advertising Mail Multi Stage<br/>Advertising Mail Unsorbed 1st<br/>Advertising Mail Unsorbed 2nd<br/>Advertising Mail Unsorbed OCR 1st<br/>Advertising Mail Unsorbed OCR 2nd<br/>Advertising Mail Unsorbed Barcode 1st<br/>Advertising Mail Unsorbed Barcode 2<sup>nd</sup></p> | <p>Advertising Mail Unsorbed Plus Barcode 1st<br/>Advertising Mail Unsorbed Plus Barcode 2nd<br/>Advertising Mail Unsorbed Plus OCR 1st<br/>Advertising Mail Unsorbed Plus OCR 2nd<br/>Advertising with Response<br/>Advertising Mail High Sort With Response Economy<br/>Direct<br/>Advertising Mail Response<br/>Business Mail High Sort 1st Direct<br/>Business Mail High Sort 1st Residue<br/>Business Mail High Sort 2nd Direct<br/>Business Mail High Sort 2nd Residue<br/>Business Mail High Sort Economy Direct<br/>Business Mail High Sort Economy Residue<br/>Business Mail Low Sort BC 1st<br/>Business Mail Low Sort BC 2nd<br/>Business Mail Low Sort BC Economy<br/>Business Mail Low Sort OCR 1st<br/>Business Mail Low Sort OCR 2nd<br/>Business Mail Low Sort OCR Economy<br/>Business Mail Unsorbed OCR 1st<br/>Business Mail Unsorbed OCR 2nd<br/>Business Mail Unsorbed BC 1st<br/>Business Mail Unsorbed BC 2nd<br/>Business Mail Unsorbed Plus Barcode 1st<br/>Business Mail Unsorbed Plus Barcode 2nd<br/>Business Mail Unsorbed Plus OCR 1st<br/>Business Mail Unsorbed Plus OCR 2nd<br/>Business Mail Unsorbed 1st<br/>Business Mail Unsorbed 2nd<br/>Business Mail Unsorbed Advance OCR 1st<br/>Business Mail Unsorbed Advance OCR 2nd<br/>Publishing Mail High Sort 1st Direct<br/>Publishing Mail High Sort 1st Residue<br/>Publishing Mail High Sort 2nd Direct<br/>Publishing Mail High Sort 2nd Residue<br/>Publishing Mail Low Sort 1st<br/>Publishing Mail Low Sort 2nd<br/>Publishing Premium<br/>Sustainable Advertising Mail High Sort Entry 1st Direct<br/>Sustainable Advertising Mail High Sort Entry 1st Residue<br/>Sustainable Advertising Mail High Sort Entry 2nd Direct<br/>Sustainable Advertising Mail High Sort Entry 2nd Residue<br/>Sustainable Advertising Mail High Sort Entry Economy<br/>Direct<br/>Sustainable Advertising Mail High Sort Entry Economy<br/>Residue<br/>Sustainable Advertising Mail High Sort Intermediate 1st<br/>Direct<br/>Sustainable Advertising Mail High Sort Intermediate 1st<br/>Residue<br/>Sustainable Advertising Mail High Sort Intermediate 2nd<br/>Direct<br/>Sustainable Advertising Mail High Sort Intermediate 2nd<br/>Residue<br/>Sustainable Advertising Mail High Sort Intermediate<br/>Economy Direct<br/>Sustainable Advertising Mail High Sort Intermediate<br/>Economy Residue<br/>Sustainable Advertising Mail Low Sort Entry BC 1st<br/>Sustainable Advertising Mail Low Sort Entry BC 2nd<br/>Sustainable Advertising Mail Low Sort Entry BC Economy<br/>Sustainable Advertising Mail Low Sort Entry OCR 1st<br/>Sustainable Advertising Mail Low Sort Entry OCR 2nd</p> | <p>Sustainable Advertising Mail Low Sort Entry OCR<br/>Economy<br/>Sustainable Advertising Mail Low Sort Intermediate BC<br/>1st<br/>Sustainable Advertising Mail Low Sort Intermediate BC<br/>2nd<br/>Sustainable Advertising Mail Low Sort Intermediate BC<br/>Economy<br/>Sustainable Advertising Mail Low Sort Intermediate OCR<br/>1st<br/>Sustainable Advertising Mail Low Sort Intermediate OCR<br/>2nd<br/>Sustainable Advertising Mail Low Sort Intermediate OCR<br/>Economy<br/>Business Sorted Bespoke<br/>Advertising Mail Low Sort EIB 1c<br/>Advertising Mail Low Sort Mailmark 2nd<br/>Business Mail Low Sort Mailmark 1st<br/>Business Mail Unsorbed Mailmark 1st<br/>Business Mail Unsorbed Mailmark 2nd<br/>Advertising Mail Unsorbed Mailmark 2nd<br/>Business Mail Low Sort Mailmark 2nd<br/>Business Mail Low Sort Mailmark Economy<br/>Sustainable Advertising Mail Low Sort Intermediate<br/>Mailmark 1c<br/>Sustainable Advertising Mail Low Sort Intermediate EIB<br/>2C<br/>Sustainable Advertising Mail Low Sort Intermediate<br/>Mailmark Economy<br/>Publishing Mail Low Sort Mailmark 1c Direct<br/>Publishing Mail Low Sort 1C EIB<br/>Publishing Mail Low Sort Mailmark 2nd<br/>Advertising Mail Unsorbed Mailmark 1st<br/>Sustainable Advertising Mail Low Sort Entry EIB 1c<br/>Sustainable Advertising Mail Low Sort Entry Mailmark<br/>2nd<br/>Sustainable Advertising Mail Low Sort Entry Mailmark<br/>Economy<br/>Advertising Mail Low Sort Mailmark Economy<br/>Business Mail 1st Class Advanced Mailmark Letters<br/>Business Mail 2nd Class Advanced Mailmark Letters<br/>Advertising Mail Unsorbed 1C<br/>Advertising Mail Unsorbed 2C<br/>Business Mail Low Sort 2C Mailmark ND<br/>Advertising Mail Catalogue High Sort Economy<br/>Advertising Mail Catalogue High Sort Economy Residues<br/>Admail<br/>Bespokes<br/>Calling for Priority Mail<br/>Diversion (Del at Another Address)<br/>Freepost Name<br/>Government Postage General Election<br/>Election Streetsort<br/>Election Sort<br/>Large User Priority Response Services<br/>Large User Response Barcode<br/>Large User Response Services<br/>ilroom Management<br/>Royal Mail 24 Daily Rate<br/>Royal Mail 48<br/>Royal Mail 24 Flat Rate<br/>Royal Mail 48 Flat Rate<br/>Floor Fees<br/>Pouch Services<br/>Priority Response Services<br/>Private Boxes Delivery to Normal Address 12 Months<br/>Private Boxes Delivery to Normal Address 6 Months</p> | <p>Private Boxes Early Collection 12 Months<br/>Private Boxes Locked 12 Months<br/>Private Boxes Standard Service 12 Months<br/>Private Boxes Standard Service 6 Months<br/>Private Boxes Transfer to PO Box 12 Months<br/>Private Boxes Transfer to PO Box 6 Months<br/>Private Boxes Standard Service Monthly<br/>Private Boxes Delivery to Normal Address<br/>Monthly<br/>Private Boxes Transfer to PO Box Monthly<br/>Response Service Barcode<br/>Response Services Standard<br/>Retention of Mail (Business only)<br/>Rural Carriage of Goods<br/>Rural Newspaper Delivery Service<br/>Rural Roadside Locked P Letter Boxes<br/>Selectapost<br/>Surcharges (Business)<br/>Surcharges (Mailmark)<br/>Timed Delivery<br/>Poll Card Mailing Option<br/>Do Not Redirect<br/>Courier Service (Bespoke)<br/>Royal Mail 24 (sort 8) Flat Rate<br/>Royal Mail 48 (sort 8) Flat Rate<br/>Royal Mail 48 (sort 8) Daily Rate<br/>Royal Mail 48 (sort 8) Daily Rate<br/>Priority Response Services Licence<br/>Freepost Name Licence<br/>Priority Services Registered Plus Licence 1500<br/>Large Priority Response Licence<br/>Royal Mail 24 (presorted)<br/>Royal Mail 48 (presorted)<br/>Santa Mail<br/>Collection from Private PO Box<br/>Safebox<br/>Royal Mail Tracked Returns 24<br/>Royal Mail Tracked Returns 48<br/>Tracked Returns Enhancements 1c<br/>Tracked Returns Enhancements 2c<br/>Postal Voting<br/>Pre Sorted Delivery<br/>Early Extraction<br/>Early Collect<br/>Response Services Plus<br/>Business Mail Secure<br/>Sales Related Fees<br/>Response Service Licence<br/>Market Reach</p> |
|---|--|--|---|

### Guidance

For the avoidance of doubt, all the Short SPHCCs within the products included in the above table are subject to the requirements for upstream/downstream separation.

## Appendix 3

### Material change pro formas

Royal Mail must use the pro forma set out in **Table A** of this **Appendix 3** in relation to any material change and the cumulative effect of all changes to the Costing Manual and the Accounting Methodology Manual.

In using the pro forma, Royal Mail must ensure that—

- (a) the description of the change is 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 and systems (e.g. avoiding acronyms and technical jargon to the greatest extent possible);
- (b) in giving reasons for the change, a brief explanation of the available options for change and Royal Mail's assessment of those options are provided; and
- (c) in stating the compliance with these Guidelines, a reference to the relevant obligations in these Guidelines and an explanation of how Royal Mail considers that the change complies with these obligations.

For the avoidance of doubt, the pro forma referred to above must be notified to OFCOM at least 30 days prior to the end of the Financial Year. Royal Mail must ensure that it maintains adequate records at SPHCC and Activity level to be able to provide to Ofcom upon request-(USPAC 1.6.3).

**Table A: Annual statement of combined effect of all material changes to the Costing and Accounting Methodology Manuals**

| Costs (incl transformation)             | Notes                 | Total Reported Business | Costs of products and/or services |        |         |           | Pipeline Costs    |                     |
|---|-----------------------|-------------------------|-----------------------------------|--------|---------|-----------|-------------------|---------------------|
|   |                       |                         | USO                               | Access | Non-USO | Non-Mails | Upstream services | Downstream services |
| £m                                      | inc reason for change |                         | (remainder)                       |        |         |           |                   |                     |
| <b>Actual Published figure</b>          |                       | xx                      | xx                                | xx     | xx      | xx        | xx                | xx                  |
| Material Changes - listed               |                       |                         |                                   |        |         |           |                   |                     |
| Material Change 1                       |                       | xx                      | xx                                | xx     | xx      | xx        | xx                | xx                  |
| Material Change 2                       |                       | xx                      | xx                                | xx     | xx      | xx        | xx                | xx                  |
| ...                                     |                       | xx                      | xx                                | xx     | xx      | xx        | xx                | xx                  |
| <b>Cumulative impact of all changes</b> |                       | xx                      | xx                                | xx     | xx      | xx        | xx                | xx                  |
| <b>Restated on new methodologies</b>    |                       | xx                      | xx                                | xx     | xx      | xx        | xx                | xx                  |

| Revenue                                 | Notes                 | Total Reported Business | Revenues of products and/or services |        |         |           |
|---|-----------------------|-------------------------|--------------------------------------|--------|---------|-----------|
|   |                       |                         | USO                                  | Access | Non-USO | Non-Mails |
| £m                                      | inc reason for change |                         | (remainder)                          |        |         |           |
| <b>Actual Published figure</b>          |                       | xx                      | xx                                   | xx     | xx      | xx        |
| Material Changes - listed               |                       |                         |                                      |        |         |           |
| Material Change 1                       |                       | xx                      | xx                                   | xx     | xx      | xx        |
| Material Change 2                       |                       | xx                      | xx                                   | xx     | xx      | xx        |
| ...                                     |                       | xx                      | xx                                   | xx     | xx      | xx        |
| <b>Cumulative impact of all changes</b> |                       | xx                      | xx                                   | xx     | xx      | xx        |
| <b>Restated on new methodologies</b>    |                       | xx                      | xx                                   | xx     | xx      | xx        |

| EBIT                                    | Notes                 | Total Reported Business | EBIT of products and/or services |        |         |           |
|---|-----------------------|-------------------------|----------------------------------|--------|---------|-----------|
|   |                       |                         | USO                              | Access | Non-USO | Non-Mails |
| £m                                      | inc reason for change |                         | (remainder)                      |        |         |           |
| <b>Actual Published figure</b>          |                       | xx                      | xx                               | xx     | xx      | xx        |
| Material Changes - listed               |                       |                         |                                  |        |         |           |
| Material Change 1                       |                       | xx                      | xx                               | xx     | xx      | xx        |
| Material Change 2                       |                       | xx                      | xx                               | xx     | xx      | xx        |
| ...                                     |                       | xx                      | xx                               | xx     | xx      | xx        |
| <b>Cumulative impact of all changes</b> |                       | xx                      | xx                               | xx     | xx      | xx        |
| <b>Restated on new methodologies</b>    |                       | xx                      | xx                               | xx     | xx      | xx        |

**Appendix 4: Annual information to be included in the pro formas for the technical appendices of the Costing Manual for the Financial Year**

**Data Template A**

Scope: all SPHCCs with a non-zero FAC or traffic volume in the year

Significant digits: to minimise the impact of rounding errors please provide all data to the maximum number of significant figures allowed by the RM system

|             |            |                   |                                |                | RDT Volume | Total FAC (£) | Unit FAC (p) |
|-------------|------------|-------------------|--------------------------------|----------------|------------|---------------|--------------|
| SPHCC Group | SPHCC Code | SPHCC Description | Sales Product Code Description | Mon-mails Flag | FY         | FY            | FY           |

**Data Template B**

Scope: all Activities with a non-zero value in the year

Significant digits: to minimise the impact of rounding errors please provide all data to the maximum number of significant figures allowed by the RM system

|               |                      |                  |                       | Cost (£) |
|---------------|----------------------|------------------|-----------------------|----------|
| Activity Code | Activity Description | Pipeline Segment | Attribute Description | FY       |

**Data Template C**

Scope: all Activities whose cost is allocated by the application of PFs and WFs (excluding "class activities")

Significant digits: to minimise the impact of rounding errors please provide all data to the maximum number of significant figures allowed by the RM system

|               |            | PF % | WF |
|---------------|------------|------|----|
| Activity Code | SPHCC Code | FY   | FY |

**Data Template D**

Scope: all "class activities" whose PFs and WFs are assigned by reference to another "source activity" on the basis of class

Significant digits: to minimise the impact of rounding errors please provide all data to the maximum number of significant figures allowed by the RM system

|                                 |                                  |       |  |  |
|---------------------------------|----------------------------------|-------|--|--|
|                                 |                                  |       | Should Class adopt PF of source Activity | Should Class adopt WF of source Activity |
| Activity Code of Class Activity | Activity Code of Source Activity | Class | Yes = 1, No = 1                          | Yes = 1, No = 1                          |

**Data Template E**

Scope: list all activities whose cost is allocated on an EPMU basis

|               |
|---------------|
| Activity Code |
| e.g. HD0104XX |

**Data Template F**

Scope: all SPHCC x Activity combinations with a non-zero total FAC in any quarter

Significant digits: to minimise the impact of rounding errors please provide all data to the maximum number of significant figures allowed by the RM system

|               |            |         |
|---------------|------------|---------|
|               |            | FAC (£) |
| Activity Code | SPHCC Code | FY      |

**Data Template G**

Scope: all Cost Types whose cost is allocated to outdoor delivery Activities by the application of Planning Values or theoretical or modelled operational data

Significant digits: to minimise the impact of rounding errors please provide all data to the maximum number of significant figures allowed by the RM system

|  |                      |                             |  |             |             |
|--|----------------------|-----------------------------|--|-------------|-------------|
|  |                      | Cost Type Account           |  |             |             |
|  |                      | Cost Type Description       |  |             |             |
|  |                      | Resource Driver Description |  |             |             |
| Activity Code                          | Activity Description | Pipeline Segment            | <i>This row has been deliberately left blank</i> |             |             |
|  |                      |                             | FY%  | FY%         | FY%         |
| <b>All outdoor delivery Activities</b> |                      |                             | <b>100%</b>                                      | <b>100%</b> | <b>100%</b> |