



Royal Mail

Interim Application Report – summary extract

Royal Mail's Quarterly Review and Interim Application to the Postal Services Commission for relief from the impact of Industrial Action on achievement of Condition 4 Scheduled Standards and Standardised Measures (Quarter 2 2007/08)

Royal Mail Version 2.1, 24 January 2008

KPMG LLP
28 April 2008



1 Summary report

1.1 Addressees

This report is addressed to Directors of Royal Mail Group Ltd ('Royal Mail' or 'the Addressees').

Our report is intended to be for the information of the Addressees only and should not be quoted or referred to, in whole or in part, without our prior written consent. The Addressees will publish their own report to the Postal Services Commission (Postcomm).

We will not accept responsibility to any other party to whom the report may be shown or who may acquire a copy of the report who have not agreed to accept the terms and conditions of our engagement letter.

1.2 Introduction

Royal Mail have submitted for Postcomm's consideration an interim application for relief, the "Royal Mail's Quarterly Review and Interim Application to the Postal Services Commission for relief from the impact of Industrial Action on achievement of Condition 4 Scheduled Standards and Standardised Measures (Quarter 2 2007/08)" (the "Quarter 2 Claim").

KPMG were appointed by Royal Mail, after consultation by Postcomm, in September 2007 as independent assessors to perform specific procedures over the Quarter 2 Claim.

In accordance with the terms of our engagement letter dated 13 September 2007 as varied by our variation letter dated 10 March 2008, we have performed the specific procedures defined below in our Scope section.

The directors of Royal Mail are responsible for the preparation, methodologies, assumptions and contents of the Quarter 2 Claim. We are responsible for planning and performing certain review procedures, and reporting to you on that basis in respect of the specific defined procedures set out in our scope of work.

The procedures we used to perform the work set do not constitute an audit made in accordance with any generally accepted auditing standards or company law. Had we performed additional procedures or had we performed an audit or review in accordance with generally accepted auditing standards or company law, other matters might have come to our attention that would have been reported to you.

The data used by us in the course of this engagement is full year forecast data estimated by the Royal Mail at the end of Quarter 2. The Royal Mail will update this data for the full year claim once actual performance and revenue results are known.



1.3 Scope

The key areas covered by this review were as follows:

- a) Unadjusted and Adjusted Results for Scheduled Standards in Table 1.1 of the Quarter 2 Claim:
 - Gaining an understanding of how the results have been calculated;
 - Obtaining from Royal Mail or from other relevant sources the relevant datasets used in calculations;
 - Re-performing the calculation of the Unadjusted and Adjusted Results as per the methodologies described in Annex 7.
- b) Unadjusted and Adjusted Results for Standardised Measures in Table 1.1 of the Quarter 2 Claim:
 - Gaining an understanding of how the results have been calculated;
 - Obtaining from Royal Mail or from other relevant sources the relevant datasets used in calculations;
 - Re-performing the calculation of the Unadjusted and Adjusted Results as per the methodologies described in Annex 6.

In addition, we also undertook procedures in relation to aspects of the claim identified by Royal Mail as providing supporting, but not primary, evidence:

- c) Tail of mail performance results by product in Annex 24 of the Quarter 2 Claim.
- d) Quality of Service by day of posting in Annex 22 of the Quarter 2 Claim.

- e) Unadjusted and Adjusted Results for Scheduled Standards and Standardised Measures in Table 1.2 of the Quarter 2 Claim.
- f) With and Without Relief compensation and c-factor in Table 1.3 of the Quarter 2 Claim.

1.4 Findings

The main findings for the key areas covered were as follows:

- a) Re-performance of the calculation of the Unadjusted and Adjusted Results as per the methodologies described in Annex 7 (section 3.1.1) produced results that are materially consistent, within $\pm 0.1\%$, to the Scheduled Standards contained in Annex 8.
- b) Re-performance of the calculation of the Unadjusted and Adjusted Results as per the methodologies described in Annex 6 (section 3.2.1) produced results that are materially consistent, within $\pm 0.01\%$, to the Standardised Measures contained in Annex 8.

Our detailed findings are set out in Sections 3 and 4 of this report.

Our work was limited to the matters set out above and accordingly do not include, for the avoidance of doubt, any form of review of the following, and accordingly we have not reported on: the commercial merits or compliance with applicable legislation of the Quarter 2 Claim; whether the information contained in the Quarter 2 Claim is relevant or forms a sufficient basis for a claim for relief from the impact of Industrial Action on achievement of Condition 4 Scheduled Standards and Standardised Measures; the accuracy, validity or completeness of datasets supplied by Royal Mail in relation to the Universal Service Obligations; and the validity, appropriateness or completeness of any assumptions used by Royal Mail.