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GENERAL NOTICE

NOTICE 156 OF 2011**IN RESPECT OF THE ACCOUNTING SEPARATION REGULATIONS FOR RESERVED
POSTAL SERVICES****INDEPENDENT COMMUNICATIONS AUTHORITY OF SOUTH
AFRICA**

The Independent Communications Authority of South Africa, in terms of Section 8 and Section 30 of the Postal Services Act No. 124 of 1998.

I, Stephen Sipho Mncube, Chairperson of the Independent Communications Authority of South Africa ("ICASA") hereby approve and publish the regulations in the schedule made by the Independent Communications Authority of South Africa under section 8 read with section 30 of the Postal Services Act, 1998 (Act No. 124 of 1998).



**DR STEPHEN MNCUBE
CHAIRPERSON**

DATE: 10/03/2011

Schedule

1 DEFINITIONS

In these regulations, any word or expression shall have the same meaning assigned to it in the Act, unless the context indicates otherwise.

"the Act"	means the Postal Services Act, 1998 (Act No. 124 of 1998);
"Agent"	means a person that has concluded a commercial agreement or similar instrument with the Licensed Operator to provide postal services on behalf of the Licensed Operator;
"Arms length"	means a transaction between two related or affiliated parties that is conducted as if they were unrelated, so that there is no conflict of interest;
"Attributable Cost"	means a cost which can be allocated to a business, cost centre, product or service on a causal basis;
"the Authority"	means the Independent Communications Authority of South Africa established in terms of section 3 of the Independent Communication Authority of South Africa Act, 2000 (Act No. 13 of 2000);
"Business Units"	means the Consumer Services and the Mail Business of the Licensed Operator;
"Common costs"	means costs related non-network elements shared to several services. The resource usage cannot be measurable. Common costs can be allocated to services according to fixed parameters.
"Consumer Services"	means a subset of the Regulated Segment that comprises all revenues, costs, and assets associated with the sale and provision of postal services to end-users either directly or through the consumer service provider sales and distribution channel;
"Corporate Entity"	means a company registered in terms of the Companies Act, 1973 (Act No 61 of 1973) of South Africa or other legal entity that is regulated by the Authority and which includes the Regulated Segment;
"Directly Attributable Cost"	means costs that can be directly related to a specific service;
"Fully Allocated Cost"	means a basis of accounting whereby all of an entity's costs are attributed fully to products and services and/or segments;
"Indirectly Attributable Cost"	means costs that cannot be directly assigned to a specific good or service;

"Joint costs"	means costs related to the usage of shared network elements. The network usage by services should be measurable on the base of technical drivers.
"Licensed Operator"	means a holder of a licence issued in terms of section 15 of the Act;
"Mail Business"	means the subset of the Licensed Operator's Corporate Entity that provides postal services;
"Operator's Procedure Manual"	means the detailed methodologies and processes implemented and documented by the Licensed Operator, to comply with the accounting and reporting practices defined in the Accounting Manual;
"Regulated Segments"	means all segments related to the provision of Postal Services in accordance with a Licence issued under the Act. The Regulated Segments refer to the Consumer Services, Postal Business, and their respective subsets;
"Regulatory Financial Statements"	means the audited regulatory financial reports that Licensed Operator is required to submit to the Authority on a prescribed basis;
"Segment"	means subsets of the Corporate Entity and may comprise groups of services, products, groups of customers, and/or combinations thereof;
"Unattributable Costs"	means costs which cannot be allocated to a business, cost centre, product or service on a causal basis;
"Unregulated Segment"	means the segment of a Corporate Entity that does not provide regulated services.

2 PURPOSE OF THESE REGULATIONS

- (1) The purpose of accounting separation is to provide an analysis of information derived from financial records to reflect, as closely as possible, the performance of different segments of the business, as if they were operating as separate businesses.
- (2) The purpose of these regulations is to:-
 - a) Set out a structured accounting and regulatory reporting framework for the Licensed Operator; and
 - b) Set out guidelines for the Licensed Operator in preparing Regulatory Financial Statements ("RFS");
- (3) These regulations apply to the Licensed Operator.

3 LEVEL OF DISAGGREGATION

- (1) **Revenues, costs and assets for regulated services** are to be disaggregated into business segments and cost centres as follows:
 - a) **Consumer Services Centre** comprises costs and assets that are directly associated with the provision and maintenance of retail operations and facilities and its proportionate share of joint, common fixed costs that are incurred by the total Corporate Entity.
 - b) **Transportation Services Centre** comprises costs and assets that are directly associated with the provision and maintenance of transport-related operations and facilities and its proportionate share of joint, common fixed costs that are incurred by the total Corporate Entity.
 - c) **Processing Services Centre** comprises costs and assets that are directly associated with the provision and maintenance of mail and parcel processing operations and facilities and its proportionate share of joint, common fixed costs that are incurred by the total Corporate Entity.
 - d) **Collection and Delivery Services Centre** comprises costs and assets that are directly associated with the provision and maintenance of operations and facilities employed to collect and deliver mail and parcels and its

proportionate share of joint, common fixed costs that are incurred by the total Corporate Entity.

- e) **Regulated Postal Services Business ("Postal business")** comprises revenues, costs and assets that are directly associated with the sale of reserved and unreserved postal services to consumers, agents and franchisees of the Licensed Operator and international operators.

4 REGULATED POSTAL SERVICES BUSINESS

- (1) The Regulated Mail Business is disaggregated into product/service segments as follows.

- a) **Reserved Postal Services** as contemplated in Schedule 1 of the Act.

Reserved services are to be disaggregated into the following product/service segments:

- i. **Domestic Unsorted Mail up to 1 kg** which includes both incoming and outgoing reserved mail that is received through national retail and collection points and delivered through the national postal network to public, private and commercial residents of South Africa.
- ii. **Domestic Pre-sorted Mail up to 1 kg** which includes mail that has had a portion of its work content completed by the customer or a mail house on the customers' behalf.
- iii. **Domestic Business Reply Mail up to 1 kg** which includes mail that is pre-addressed and postage prepaid by sender/mail house on behalf of the recipient or a mail house on the customers' behalf.
- iv. **International Unsorted Mail up to 1 kg** which includes both incoming and outgoing mail that is inducted through the international Universal Postal Union governed postal stream as well as terminal dues paid/received by the Licensed Operator.
- v. **International Pre-sorted Mail up to 1 kg** which includes both incoming and outgoing mail that is inducted through the international Universal Postal Union governed postal stream as well as terminal dues paid/received by the Licensed Operator.
- vi. **Registered Mail** includes letters, packets or other postal documents considered valuable and need a chain of custody that provides more control than regular mail.

- vii. **Small Parcels up to 1kg** includes both incoming and outgoing reserved parcels that are received through national retail and collection points and delivered through the national postal network.
- viii. **Post Office Box Rentals** entails the rental of a physical box by the general public members or businesses.
- ix. **Philatelic Sales** are postage stamps that collectors purchase for personal interest purposes.

b) **Unreserved Services** as contemplated in the Schedule 2 of the Act.

Unreserved Services are to be disaggregated into the following product/service segments:

- i. **Domestic Unsorted Mail over 1 kg** which includes both incoming and outgoing reserved mail that is received through national retail and collection points and delivered through the national postal network to public, private and commercial residents of South Africa.
- ii. **Domestic Pre-sorted Mail over 1 kg** which includes both incoming and outgoing reserved mail that is received through national retail and collection points and delivered through the national postal network to public, private and commercial residents of South Africa.
- iii. **International Unsorted Mail over 1 kg** which includes both incoming and outgoing mail that is inducted through the international Universal Postal Union governed postal stream as well as terminal dues paid/received by the Licensed Operator.
- iv. **International Pre-sorted Mail over 1 kg** which includes both incoming and outgoing mail that is inducted through the international Universal Postal Union governed postal stream as well as terminal dues paid/received by the Licensed Operator.
- v. **Unaddressed Info Mail** which includes business to consumer, and business to business mail which is not addressed to a specific individual or entity that is delivered through the national postal network to public, private and commercial residents of South Africa.
- vi. **Courier Services** which are time-sensitive items that are tracked for customers to know precisely or approximately where they are in the delivery value stream.

- vii. **Other Parcels** which comprise all other parcels that do not fit within the ambit of the parameters specified in the Act.

5 REPORTING REQUIREMENTS

- (1) The Licensed Operator must submit the following four categories of Regulatory Financial Statements: Entity Reports, Segment Reports, Reconciliation Reports, and Administrative Reports.
- (2) **Entity reports** provide summarised financial information of the total Licensed or Regulated Entity for which regulatory information is required. The Licensed Operator is required to submit the following Entity Reports:
- a) **Report 1.1: Unconsolidated Balance Sheet for the Corporate Entity;**
 - b) **Report 1.2: Unconsolidated Income Statement for the Corporate Entity;**
 - c) **Annual Audited Financial Statements which include:**
 - i. **Report 2.1: Balance Sheet,**
 - ii. **Report 2.2: Income Statement,**
 - iii. **Report 2.3: Cash Flow Statement,**
 - iv. **Report 2.4: Notes to the Financial Statements, and**
 - v. **Report 2.5: Audit Opinion;**
- (3) **Segment Reports** provide detailed information by business, cost centre and product or service. The Licensed Operator must submit the following Segment Reports:
- a) **Report 3.1: Business and Cost Centre Report; and**
 - b) **Report 4.1: Postal Product and Service Profit and Loss Statements.**
- (4) **Reconciliation and Administrative Reports** provide the Authority with objective and verifiable data that discloses the variances between information reported on the Regulated Entity and information published to external shareholders (namely Audited Financial Reports). The Licensed Operator must submit the following reports:

- a) **Report 5.1: Reconciliation Statement;**
 - b) **Report 6.1: Cost of Capital Report; and**
 - c) **Report 7.1: Audit Report.**
- (5) Illustrative formats of the regulatory templates are provided in Annexure 1.
- (6) These report formats specify the minimum level of detail to be provided, the structure, content and format of the reports.
- (7) The reports referred to in regulation 5(2) to 5(4) of these regulations do not seek to fully define all information that the Authority may require to fulfil its regulatory objectives. Further information may be requested by the Authority in terms of section 7.6.6 of the Postal Licence. The Licensed Operator must submit reports in both hard and electronic copies.

6 REPORTING DEADLINES

- (1) Regulatory Financial Statements, referred to in regulation 5(1) of these regulations must be independently audited and submitted to the Authority within six (6) months after the operator's financial year-end.
- (2) The Licensed Operator may request in writing for an extension of submission of the Regulatory Financial Statements referred to in regulation 6(1) of these regulations, and must provide reasons for such a request three (3) months prior to the scheduled deadline.

7 GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

- (1) Regulatory Financial Statements must employ the same accounting policies used for the preparation of statutory financial statements, together with the principles of accounting separation;
- (2) The Licensed Operator's statutory financial statements must be based upon Generally Accepted Accounting Practice in the Republic of South Africa ("SA GAAP");
- (3) In the absence of a Statement of Accounting Practice under SA GAAP, the Licensed Operator must adopt the relevant International Accounting Standards ("IAS") Committee's standard;
- (4) All accounting policies and bases adopted by the Licensed Operator in the preparation of RFS must be described in the Operator's Procedure Manual;

- (5) To the extent that an operator adopts accounting policies that differ from regulation 6(4) of these regulations, the Licensed Operator must prominently disclose the deviation from SA GAAP or IAS, and the reason for such deviation, in the Operator's Procedure Manual.
- (3) The General Accepted Accounting Principles that the Licensed Operator must adhere to are as follows:
- a) **Basis of Accounting** (i.e. reporting of financial transactions) must be in South African Rand.
 - b) All **Related Party Transactions** must be identified, disclosed and treated at an arm's length value.
 - c) All material Related Party Transactions must be documented in the Operator's Procedure Manual, as follows:
 - i. The party with whom the transaction occurs ;
 - ii. A description of the transaction including nature of the products/services received/provided;
 - iii. The bases of recording the transactions in the accounting ledgers; and
 - iv. The bases of re-valuing transactions.

8 ACCOUNTING SEPARATION PRINCIPLES

- (1) Accounts must be prepared on a Fully Allocated Cost basis, whereby all the revenues, costs, assets and liabilities are allocated to segments according to the accounting separation principles specified in this section of the Accounting Manual.
- (2) The Licensed Operator must ensure that the accounting separation methodology adheres to the key principles of causality, objectivity, consistency, transparency, and sampling.
- a) **Causality** refers to the attribution of revenues, costs, assets and liabilities to segments on the basis of how those segments cause the revenues to be earned, costs to be incurred or assets to be acquired. Where it is not possible to attribute revenues, costs, assets and liabilities in accordance with the preceding paragraph, the attribution must be such as to reasonably present the revenues, costs, assets and liabilities accounted for by the segments, and to present a reasonable comparison between the segments

- b) The attribution must be **objective** and not intended to benefit the Licensed Operator or any other operator, business or service.
- c) There must be **consistency** of treatment of revenues, costs and assets from year to year. Where there are material changes to the basis and method of revenue, cost, asset or liability attributions, the operator must restate those parts of the previous year's Regulatory Financial Statements affected by the changes, to the extent that prior period financial and non-financial data is available.
- d) The attribution methods used must be **transparent**. Revenues, costs, assets and liabilities attributed to cost pools must be traceable back to their source in the Licensed Operators' accounting records.
- e) Where **sampling** is used to derive the attribution of revenues, costs, assets and liabilities, it must be based either on generally accepted statistical techniques or other methods that should result in the reasonable attribution of revenues, costs, assets and liabilities.
- f) Where **spare capacity** occurs in circumstances when the Licensed Operator provides for more retail outlets or expand operations to accommodate anticipated growth in operations, the cost of such spare capacity must be allocated to segments in the same proportion as used capacity.
- g) Where single revenue is **bundled** for a group of products and services (two or more services combined into a packaged offering) e.g. large business contracts, or E-post at a bundled price, such a price must be unbundled and allocated to respective segments in relation to the costs associated with the individual elements comprising the bundled revenue stream.

9 ACCOUNTING SEPARATION METHODOLOGY

- (1) Revenues, costs and assets must be reported by business, cost centre and product/service segment and must be transparent and non-discriminatory.
- (2) Revenues from the provision of services must be recorded in the Licensed Operator's accounts at a detailed enough level to enable direct allocation to services. Where revenues are not sufficiently unbundled to allow direct allocation, they should be attributed using the causation principle.
- (3) Revenues must be reported gross of discounts and other cost of sales line items. Direct costs such as volume discounts, agent commissions, etc, are to be reported separately.

- (4) Terminal fees and dues must be reported separately, where terminal fees are to be classified as revenues and terminal dues are to be classified as direct costs.
- (5) Operating costs and capital employed are drawn from accounting records and must be categorised into one of the following :
- a) **Directly attributable costs.**
 - b) **Indirectly attributable costs.**
 - c) **Unattributable costs.**
- (6) The Licensed Operator must prepare profit/loss statements by business segment, cost centre and product/service segment. The following items are to be excluded from profit/loss statements and to be replaced by a cost of capital:
- a) Interest charges;
 - b) Corporate tax charges; and
 - c) Extraordinary items.
- (7) The Weighted Average Cost of Capital ("WACC") is to be applied to each business segment, cost centre and product/service segment based on their proportionate share of non-current assets and net working capital.
- (8) WACC is calculated by estimating the cost of each source of funds and weighting them to form a weighted average cost of capital as follows:

$$WACC = \left[\text{Proportion of Equity} \times \text{Cost of Equity} \right] + \left[\text{Proportion of Debt} \times \text{Cost of Debt} \times \left(1 - \frac{\text{Corporate Tax Rate}}{\text{Tax Rate}} \right) \right]$$

- (9) The Licensed Operator must estimate the pre-tax WACC, which is relevant for determining transfer charges from cost centres, where:

$$\text{Pre-tax WACC} = \text{After Tax WACC} \times \left(1 - \frac{\text{Corporate Tax Rate}}{\text{Tax Rate}} \right)$$

- (10) The Licensed Operator must provide the Authority with information detailing the methods, values and source of all variables used in WACC calculations, including any assumptions made.

- (11) The Authority reserves the right to require amendment to the WACC applied by the Licensed Operator.
- (12) The Authority may only require such amendment to the WACC if done so in writing, supported by evidence and calculations of its own estimate of the Licensed Operator's WACC or elements thereof.
- (13) In the absence of compelling evidence in support of an alternative method, which must be provided to and agreed by the Authority, the Licensed Operator should adopt the capital asset pricing model ("CAPM") for the estimation of cost of equity.
- (14) The WACC is to be applied to the net book value ("NBV") of assets which should equal the total amount of the assets required for regulated operations less the amount of the liabilities related to regulated operations, other than interest bearing debt.
 - a) Accounts payable should be deducted in arriving at NBV. These amounts represent funding provided by an entity's suppliers and reduce the amount of funding that the regulated entity must provide (i.e. through debt or equity)
 - b) Where it is assumed that an entity collects deferred taxes through allowed rates as the taxes are normally expensed, the amount of its deferred taxes should be deducted in arriving at NBV. In such a case, the deferred taxes represent amounts that the entity is expected to have collected from its customers for a cost that it has not yet had to pay out. In this situation available cash is cleared to reduce the amount of funding which must be provided by the regulated entity.

10 COST CENTRE COST POOLS

- (1) Costs are to be accumulated by the major cost pool groups within each cost centre.
- (2) Costs within the **Consumer Cost Centre** are to be allocated to the following major cost pools -
 - (a) **Mail Box Rentals** includes the combination of expenses and assets that are used to provide mail box rentals. Expenses include labour, materials, depreciation and associated facility costs. This segment includes all mailboxes rented to end consumers only and not where mailboxes are provided free of charge as the primary means of delivery;
 - (b) **Receiving Mail For Domestic Services Up To 1 Kg** includes the combination of expenses and assets related to the collection of letters already having postage affixed on them and non-stamped mail. Expenses include the mail receptacle and any labour associated with the collection;

- (d) **Receiving Small Parcels** includes the combination of expenses and assets related to the receipt of small parcels for delivery, including the completion of labels or affixing postage, weighing and/or measuring the item, scanning, registering or logging, and receiving compensation for the small parcel item;
- (e) **Receiving Courier Packages** includes the combination of expenses and assets related to the receipt of courier packages for delivery, including the completion of labels, weighing and/or measuring the package, scanning, registering or logging, and receiving compensation for the courier item;
- (f) **Receiving Other Parcels** includes the combination of expenses and assets related to the receipt of other parcels for delivery, including the completion of labels or affixing postage, weighing and/or measuring the parcel, scanning, registering or logging, and receiving compensation for the parcel item;
- (g) **Delivering Mail** includes the combination of expenses and assets for delivering mail items in postal boxes or delivering over the counter, such as general delivery items;
- (h) **Delivering Small Parcels and Packages** includes the combination of expenses and assets for delivering parcels and packages items in postal boxes or delivering over the counter, such as general delivery items. Feature-related activities are also included here, such as collecting money when the item is "cash on delivery", obtaining signatures when required, scanning when required, and any other feature-related service;
- (i) **Delivering Courier Packages** includes the combination of expenses and assets for delivering courier packages items over the counter. Feature-related activities are also included, such as collecting money when the item is "cash on delivery", obtaining signatures when required, scanning when required, and any other feature-related service;
- (j) **Delivery and Acceptance For Registered Items** includes the combination of expenses and assets specific to activities required for registered mail delivery;
- (k) **Selling Postage Stamps** includes the combination of expenses and assets related to the sale of postage;
- (l) **Selling Philatelic Products** includes the combination of expenses and assets related to the selling of philatelic products. Some estimate should be made as to what extent of this activity is for collector purposes versus postage method of payment on mail;
- (m) **Selling Other Reserved Services** includes the combination of expenses and assets related to selling activities for other reserved area services;

- (n) **Selling Other Unreserved Services** includes the combination of expenses and assets related to selling activities for unreserved area services;
 - (o) **Conducting Customer Service Activities** includes the combination of expenses and assets related to the conduct of customer service activities, such as receiving and/or resolving customer complaints, answering questions of customers and potential customers, and engaging in goodwill activities with customers and communities; and
- (3) Costs within the **Transport Cost Centre** are to be allocated to the following major cost pools --
- a) **Transport between Major Processing Centres** includes the combination of expenses and assets related to transporting mail from one major processing centre to another. The service may be owned or rented and may include road, rail, air, or marine transportation modes.
 - b) **Transport to International** includes the combination of expenses and assets related to transporting mail related to transporting mail sent from a South African gateway to a foreign destination. The service may be owned or rented.
 - c) **Transport to Delivery Centre** includes the combination of expenses and assets related to transporting mail related to receiving mail sent from a South African processing centre to a delivery centre. The service may be owned or rented. These services are almost always by road.
- (4) Costs within the **Processing Cost Centre** are to be allocated to the following major cost pools -
- a) **Processing Standard Letter Mail** includes the combination of expenses and assets related to the receipt and despatch of letter mail items, containers, and pallets (dock activities), bypass handling for pre-sorted mail, electronic scanning/encoding of envelopes, the culling and facing of mail items, revenue verification procedures, sortation to local and forward destinations, sortation to delivery route, border handling, and possibly sortation to delivery sequence. It also includes added costs of address correction, verification, or handling for inadequately addressed items. Expenses and assets will include plant, equipment, labour, supervision, maintenance, and repairs.
 - b) **Processing Small Parcels** includes the combination of expenses and assets related to the receipt and despatch of small parcel items, containers, and pallets (dock activities), revenue verification, operational bar coding, the manual or mechanized sortation to local and forward destinations, border

handling, and the sortation to delivery route. Expenses and assets will include plant, equipment, labour, supervision, maintenance, and repairs.

- c) **Processing Courier Packages** includes the combination of expenses and assets related to the receipt and dispatch of courier items, containers, and pallets (dock activities), revenue verification, operational bar coding, the manual or mechanized sortation to local and forward destinations, border handling, security handling, scanning and general tracking, and the sortation to delivery route. It will also include any interchange with other owned or unowned courier operations. Expenses and assets will include plant, equipment, labour, supervision, maintenance, and repairs.
- d) **Processing Other Parcels** includes the combination of expenses and assets related to the receipt and dispatch of other parcel items than listed previously herein or associated containers and pallets (dock activities), revenue verification, operational bar coding, the manual or mechanized sortation to local and forward destinations, border handling, and the sortation to delivery route. Expenses and assets will include plant, equipment, labour, supervision, maintenance, and repairs.
- e) **Processing Electronic/Hybrid Mail Items** includes the combination of expenses and assets related to the electronic receipt and sortation to central or geographically decentralized print and pack centres, where print orders are scheduled, prepared, run, validated, "packed" in envelopes, addressed, and inducted into the public mail stream for delivery.
- f) **Processing Other Reserved Services** includes the combination of expenses and assets related to processing reserved area products not previously listed (for example, sorting advertising mail bundles or pieces).
- g) **Processing Other Unreserved Services** includes the combination of expenses and assets related to processing unreserved area products not previously listed.

(5) **Collection and Delivery** cost centre costs are to be allocated to the following major cost pools:

- a) **Collecting Letter-mail** includes the combination of expenses and assets related to collecting Letter-mail which is be cleared from postal collection boxes/receptacles or picked up from large mailers. Direct receipt of mail from mailers is to be included as an activity in the Processing Cost Centre.
- b) **Delivering Letter-mail** includes the combination of expenses and assets related to inside (delivery facility) and outside activities for delivery agents. These activities include the preparation of mail, a travel "stem" time (getting to

and from the delivery route itself), the basic core delivery activity (which can in turn through various formulae be broken down into a volume-related non-volume related component), product-dependent activities carried out at time of delivery (collection of funds and/or signature, scanning or other tracking activities, notification of delivery attempt), and return of miss-sorted items into the postal stream. To facilitate accounting separation this cost pool may be further disaggregated into:

- i. **Post Office Box Delivery** includes the combination of expenses and assets related to deliveries to post office boxes;
 - ii. **Consumer Outlets Delivery** includes the combination of expenses and assets related to deliveries to retail outlets;
 - iii. **Residential Delivery** includes the combination of expenses and assets related to deliveries to destination addresses;
 - iv. **Parcel Delivery** includes the combination of expenses and assets related to parcel deliveries to destination addresses;
 - v. **Courier Delivery** includes the combination of expenses and assets related to courier deliveries to destination addresses;
- c) **Other Collection Services** includes the combination of expenses and assets related to other collection activities that are not listed in these regulations.
 - d) **Other Delivery Activities** includes the combination of expenses and assets related to other delivery activities that are not listed in these regulations.

11 BUSINESS ACTIVITY COST POOLS

- (1) Costs are to be accumulated by the following major cost pool groups within each business:
 - a) **Customer Service activity costs** represent a broad category of expenditure items and activities related to the provision of customer service. These activities may support a business level of brand and community interface (such as overall corporate branding, complaints not specific to any segment, corporate correspondence on governance etc.) while others are segment specific (responding to product questions or tracking a specific product in the mail stream. Customer Service costs are to be accumulated by the following major cost pool groups:
 - b) **Tracking packages** includes the combination of expenses and assets related to assisting customers (senders or receivers) to locate mail items in transit.

This activity includes the receipt of questions and complaints on late or missing items even if the item cannot be physically tracked.

- c) **Handling Open or Undeliverable Items** includes the combination of expenses and assets related to handling mail items which have been damaged, opened, or cannot be delivered due to inadequate or incorrect addressing.
 - d) **Insurance, Guarantee, or Settlement Costs and Fees** includes the combination of expenses and assets related to payment of insurance for lost, damaged, or late items; guarantees such as on-time delivery, or general settlement or goodwill payments for problems in the delivery system or operations generally.
 - e) **Handling complaints, goodwill, and community involvement** includes the combination of expenses and assets related to goodwill-building and general good relations with customers and the public.
- (3) **Sales and Marketing activity costs** encapsulate business development, brand development, product management, pricing strategy, advertising, order-taking, and customer relationship processes of the postal operator. Sales and marketing costs are to be accumulated by the following major cost pool groups:
- a) **Advertising and brand awareness** includes the combination of expenses and assets related to advertising and brand awareness. These costs may be related to the overall postal brand or focused on specific products or segments.
 - b) **Product management and pricing** includes the combination of expenses and assets related to the focused effort on specific products or product groups to ensure the appropriate product offering, product promotion, product engineering, and product pricing.
 - c) **Receipt of customer orders** includes the combination of expenses and assets related to recording of customer orders to begin the overall order fulfillment of their needs.
 - d) **Managing customer relationships** include the combination of expenses and assets related to the management of specific customer relationships, customer contracts, discounting, and customer specific arrangements. The customer relationship process includes billing and accounts receivable from customers.
- (4) **Support activities and costs** include the broad range of business management activities to conduct the overall operations of the Licensed Operator. These

activities and costs may be oriented to supporting the overall business, may have a causal relationship to scale (i.e., the more services offered or the larger the entity, the more support required), or may be complexity-driven (i.e., where simple systems become more costly and complex due to the overall complexity of the business and/or the product mix). These costs may be allocated to other cost centres and businesses or may be treated as unattributable costs.

- a) **Managing Human Resources** includes the combination of expenses and assets related to the human resources management and development processes such as training, employee records management, labour relations, payroll, and benefits.
- b) **Providing Information Technology Support** includes the combination of expenses and assets related to providing information technology services and support to various segments of the business.
- c) **Maintaining Financial Records and report financial performance** includes the combination of expenses and assets related to all aspects of financial management.
- d) **Other Business Supporting Administrative Services** includes all other administrative services such as executive management, legal and regulatory support, business strategy, internal communications, support, and others.

12 ATTRIBUTION STEPS

- (1) All revenues, costs and assets are to be attributed to businesses, cost centres and product / service segments on the basis of causality.
- (2) The Licensed Operator must specify the detailed methodologies that an operator adopts, based on respective plant configurations, transport network, retail outlet classifications, operating practices and information capabilities, and must describe them in the Procedures Manual.
- (3) The broad attribution steps are as follows:

All revenues, costs and assets, including the cost of capital, that are recorded in the operator's financial records are allocated to businesses and cost centres and then subsequently allocated to other cost pools on a common basis.

- a) Revenues are allocated or assigned to products and services based on accounting records or sampling.

- b) Support activity costs are indirectly attributed to cost centres, businesses and unregulated services using the most reasonable cost driver available. For example, human resource costs may be attributed to primary activities using the number of staff performing each of the activities.
 - c) Business and Cost centre activities are allocated to individual products and services using the most reasonable cost driver available. For example, collection costs may be attributed to postal services using mail collection volumes.
 - d) Revenues and costs are accumulated by product/service to derive profit /loss statements by product/service.
- (4) The attribution approach is a tiered attribution process beginning with the identification of directly attributable costs and progressively attributing indirect costs on the basis of cost driver relationships.

13 MEASUREMENT OF THE NET AVOIDABLE COST OF UNIVERSAL SERVICE

- (1) The measurement of the net avoidable cost of universal service comprises the net cost of serving uneconomic areas.
- (2) The net avoidable cost of universal service comprises costs that would be avoided and revenues that would be foregone if an operator did not have a universal service obligation.
- (3) Accordingly, the measurement of net costs would embody the following two elements which must be measured for each geographic segment, as identified in the Licensed Operator's licence:
 - a) Revenues and costs for outgoing mail and small parcels which would be foregone if that area were to no longer exist; and
 - b) Revenues and costs for incoming mail and small parcels which would be foregone if that area were to no longer exist.

14 AUDIT OF REGULATORY FINANCIAL STATEMENTS ("RFS")

- (1) RFS must be prepared and audited on an annual basis. They must be submitted to the Authority within six months after the operator's financial year end.
- (2) The Licensed Operator must appoint an independent auditor to audit the annual RFS and must be a member of the Public Accountants and Auditors Board or the Auditor General.

- (3) The Licensed Operator must grant the auditor, or any person authorised by the Operator, the right of access at any reasonable time to the accounting and other records of the operator, and to require from an officer of the operator such information and explanation as he/she desires for the reasonable purposes of the audit.
- (4) The regulatory audit is to be conducted in accordance with the South African Institute of Chartered Accountants' Generally Accepted Auditing Standards. Materiality is to be set by the independent auditor in the context of each segment reported to the Authority.
- (5) All audit costs are to be borne by the operator.
- (6) The auditor shall, in his auditor's report, express an opinion on the following:
 - a) Whether the RFS for the year ended have been properly prepared in accordance with the Accounting Manual and the Operator's Procedure Manual (that has been approved by the Authority); and
 - b) Whether all changes to the Operator's Procedure Manual that materially affect the RFS for the year ended have been filed with, and approved by, the Authority.
- (7) The auditor shall also state in his auditor's report:
 - a) Failure to obtain from the Licensed Operator all information and explanations that he/she requires and the Corporate Entity audited statutory financial statements being subject to a qualification by the auditor;
 - b) Any material non-compliance with the Accounting Manual or Operator's Procedure Manual pertaining to the RFS, and the impact thereof; and
 - c) Any other deficiency or failure, or such other matters arising from the audit as he/she considers should be reported, in respect of matters relating to the RFS.
- (8) The auditor's report must be attached to the RFS for the purposes of submission to the Authority.
- (9) The Authority may request meetings with the auditor to discuss the auditor's work, and the operator shall ensure that this is provided for in the letter of engagement or contract with its auditor. Where the Authority wishes to meet with the auditor, notice shall be given to the operator in writing detailing the matters to be discussed.

15 OPERATOR'S PROCEDURE MANUAL

- (1) The Licensed Operator must document the methodologies and processes it has implemented to comply with the Accounting Manual in an Operator's Procedure Manual, which must be approved by the Authority.
- (2) The draft Procedure Manual must be submitted to the Authority at least six months prior to the deadline for the submission of the RFS.
- (3) The draft Procedure Manual must be submitted each year where there has been any change to the Procedure Manual and must be highlighted.
- (4) The Authority shall review the operator's draft Procedure Manual and may request that the Licensed Operator make presentations pertaining to the Operator's Procedure Manual.
- (5) The Authority shall provide written notification to the Licensed Operator of its approval or non-approval, reasons for non-approval and requests for modification within two (2) months of submission of the Procedure Manual.
- (6) The Licensed Operator must take all reasonable steps to implement the changes requested by the Authority for inclusion in the submission of the RFS.
- (7) The final Operator's Procedure Manual must be submitted to the Authority together with the audited RFS.
- (8) Material changes between the draft Procedure Manual and the final Operator's Procedure Manual must be prominently highlighted.

16 PROCEDURE MANUAL CONTENT

- (1) The Operator's Procedure Manual must be sufficiently detailed to enable the Authority or an independent auditor to reasonably interpret the methodologies that have been used in preparing the RFS.
- (2) The Operator's Procedure Manual must also enable both the Authority and the auditor to verify that:
 - a) the methodologies actually applied by the Licensed Operator are consistent with those defined in their respective Procedure Manuals, and
 - b) the results from the application of the methodologies are reconcilable to Corporate Entity statutory financial statements.

- (3) The Operator's Procedure Manual must contain a comprehensive and complete written statement of the policies, principles and methodologies that the Licensed Operator will follow in preparing its RFS required pursuant to these regulations.
- (4) Any changes to the Operator's Procedures Manual proposed by the Licensed Operator must be filed with the Authority and are subject to the Authority's approval prior to implementation.
- (5) Proposed changes should be accompanied by a statement of the reasons for the change and estimates of the financial impact of the proposed change, where relevant and reasonably practicable, should be estimated.
- (6) The Authority may request the Licensed Operator to provide further information for the purposes of its consideration of the proposed change.
- (7) The Authority will consider the proposed changes and notify the Licensed Operator of its approval or non-approval within fifty (50) days of having received notification of the proposed change.
- (8) The proposed amendments will be deemed approved if the Authority does not provide such notification within the said two (2) months.
- (9) Where the Authority does not approve the proposed change, the Authority must provide written explanations for such non-approval.

17 REVIEW AND AMENDMENTS TO THE REGULATIONS

- (1) The Authority may review and amend these regulations periodically to take account of changes in the Authority's regulatory responsibilities and information requirements, changes in the operator's business practices; and introduction of new services and technologies.
- (2) **Prior Year Restatement**
 - a) Where there has been a change to the Operator's Procedure Manual or these regulations that has a material effect on prior year numbers, the prior year numbers in the RFS must be restated.
 - b) Restatement is not required if the change does not have a material impact on the RFS or the data/information required to restate the prior year numbers is not available. Such fact and the reasons thereof must be stated in the RFS.

18 RECORDS

- (1) The Licensed Operator must maintain detailed records supporting any submissions to the Authority.
- (2) These records should be kept for a minimum of five (5) years and should be readily accessible for examination by the Authority or its representative, should the need arise.

19 CONFIDENTIALITY

The confidentiality clause contained in Section 8(3) of the Act, shall apply.

20 PENALTY

The Authority may impose a minimum fine of five hundred thousand Rands (R500,000) on the recommendation of the Complaints and Compliance Committee in terms of section 17E(2) of the Independent Communications Authority of South Africa Act 2000, where the said Committee has found a contravention of these regulations by the Licensed Operator.

Annexure 1: Regulatory Financial Statement ("RFS") Templates

The following regulatory reports are as follows.

Report	Submission Frequency
Entity Reports	
• Report 1.1: Unconsolidated Balance Sheet for the Corporate Entity	Annual
• Report 1.2: Unconsolidated Income Statement for the Corporate Entity	Annual
Annual Audited Financial Statements which include:	
• Report 2.1: Balance Sheet	Annual
• Report 2.2: Income Statement	Annual
• Report 2.3: Cash Flow Statement	Annual
• Report 2.4: Notes to the Financial Statements	Annual
• Report 2.5: Audit Opinion	Annual
Segment Reports	
• Report 3.1: Business and Cost Centre Report; and	Annual
• Report 4.1: Postal Product and Service Profit and Loss Statements	Annual
Administrative and Reconciliation Report	
• Report 5.1: Cost of Capital Report	Annual
• Report 6.1: Reconciliation Statement	Annual
• Report 7.1: Audit Report	Annual

Name of Licensed Reserved Postal Services Operator
UNCONSOLIDATED BALANCE SHEET
 As at dd-mm-yyyy

	CURRENT YEAR				PRIOR YEAR			
	R				R			
	Postal Operations	Postbank Business	Unregulated Business	Total Corporate Entity	Postal Operations	Postbank Business	Unregulated Business	Total Corporate Entity
ASSETS								
CURRENT ASSETS								
Cash and Cash Equivalents								
Marketable Securities								
Receivables and Prepayments								
.								
.								
Total Current Assets								
NON-CURRENT ASSETS								
Property, Plant and Equipment								
.								
.								
Total Non-current Assets								
TOTAL ASSETS								
LIABILITIES								
CURRENT LIABILITIES								
Trade and Other Payables								
.								
.								
Total Current Liabilities								
NON-CURRENT LIABILITIES								
Interest Bearing Borrowings								
.								
.								
Total Non-current Liabilities								
TOTAL LIABILITIES								
CAPITAL AND RESERVES								
Share Capital								
.								
.								
Revaluation and Other Reserves								
TOTAL CAPITAL AND RESERVES								
TOTAL LIABILITIES, CAPITAL AND RESERVES								

Name of Licensed Reserved Postal Services Operator
UNCONSOLIDATED INCOME STATEMENT
 For the period ending dd-mm-yyyy

	CURRENT PERIOD			PRIOR PERIOD		
	R			R		
	Regulated Business	Unregulated Services	Total Corporate Entity	Regulated Business	Unregulated Services	Total Corporate Entity
REVENUE						
Other operating income						
TOTAL REVENUE						
EXPENDITURES						
Direct Costs						
Operating Expenditures						
TOTAL OPERATING EXPENDITURES						
OPERATING PROFIT BEFORE EMPLOYMENT BENEFITS						
Post-retirement Medical Benefits						
OPERATING PROFIT						
Finance Income						
Finance Costs						
PROFIT BEFORE TAXATION						
Taxation						
PROFIT						
Extraordinary Items						
NET INCOME						
Notes	1 Postal business includes provision of reserved and non-reserved services that are provided by licensed and registered operators.					

Entity Report

Name of Licensed Operator
AUDITED FINANCIAL STATEMENTS
As at dd-mm-yyyy

Report 2.1: Balance Sheet

Report 2.2: Income Statement

Report 2.3: Cash Flow Statement

Report 2.4: Notes to the Financial Statements

Report 2.5: Audit Opinion

Business and Cost Centre Report

Name of Licensed Reserved Postal Services Operator
POSTAL BUSINESS SEGMENT REVENUE AND COST STATEMENT
 As at dd-mm-yyyy

Report 3.1

	CURRENT YEAR							Regulated Entity (Note 1)
	Cost Centres				Business Costs			
	Retail Operations	Processing Operations	Transportation Operations	Collection and Delivery Operations	Postal Business	Post Bank Business	Joint, Common Fixed Costs	
REVENUES	Note 2: Not applicable							
Postal Services								
Money Transfer Services								
Agency Services								
Post bank Ledger Fees								
Sundry income								
Rental Income								
Interest Received								
							Note 3	
REVENUES								
EXPENDITURES								
Staff Expenses								
Travel Expenses								
Material and Services								
Accommodation								
Transport								
International Charges								
Insurance Costs								
Provisions and Write-offs								
Communication Services								
Security Services								
Audit, Bank and Directors Fees								
Agent and Legal Costs								
Currency Adjustments								
Depreciation								
Service Contractors								
Marketing								
Sundry Expenses								
OPERATING EXPENDITURES								
OPERATING PROFIT								Note 4
Cost of Capital								Note 5
BUSINESS COST/ INCOME								
ASSETS EMPLOYED								
AVERAGE NETBOOK VALUE								
WORKING CAPITAL								
TOTAL ASSETS EMPLOYED								
STATISTICS								
Employees								
Postal Outlets								
Notes:								
1 Regulated Entity is equal to the sum of direct revenues and costs reported in the Cost Centres and Business Units.								
2 Cost Centres are not expected to earn revenues.								
3 Revenues must reconcile to Revenues reported for Regulated Business in Report 1.2.								
4 Operating profit must reconcile to Operating Profit reported for the Regulated Business in Report 1.2 after adjustments for interest expense.								
5 Cost of Capital is imputed based on calculations presented in Report 3.1.								

Product / Service Report

Name of Licensed Reserved Postal Service Operator
 POSTAL PRODUCT AND SERVICE REVENUE AND COST STATEMENT
 As at dd-mm-yyyy

Report 4.1

	CURRENT YEAR										Regulated Entity (Note 1)
	Reserved Postal Services					Non-Reserved Postal Services			Total Postal Services	Postbank Services	
	Domestic Mail	International Mail	Pre-sorted Mail	***	Total Reserved	Courier Services	***	Total Non-reserved			
REVENUES											
Airmail											
Surface Mail											
Value Added Services											
Terminal Fees											
Other Fees and Services											
Rental Income											
Interest Received											
TOTAL REVENUES											
DIRECT COSTS											
Volume Discounts											
Agency Fees and Commissions											
Terminal Dues											
Total Cost of Sales											
BUSINESS EXPENDITURES											
Retail Operations											
Mail Box Rentals											
Receiving Mail, Parcels and Courier Packages											
Delivering Mail, Parcels and Courier Packages											
Postage Sales											
Philatelic and Retail Product Sales											
Customer Services											
Postbank Services											
Total Retail Operations											
Transport Operations											
Tot from Major Processing Centres											
Tot from International Processing From											
Tot from Delivery Centres											
Total Transport Operations											
Processing Operations											
Processing Mail, Parcels and Courier Packages											
Processing Electronic / Hybrid Mail Items											
Other Processing											
Total Processing Operations											
Collection and Delivery Operations											
Collecting Letter mail											
Post Office Box Delivery											
Retail Outlet Delivery											
Residential Delivery											
Rural Delivery											
Courier Delivery											
Other Collection Services											
Other Delivery Services											
Total Collection and Delivery Operations											
Service Operations											
Track Packages											
Handle Open or Undeliverable Items											
Process Insurance and Settlement Claims											
Other Service Operations											
Total Service Operations											
Sales and Marketing											
Advertising and Brand Awareness											
Product Management and Pricing											
Customer Order Processing											
Customer Relationship Management											
Total Sales and Marketing											
Corporate Support Functions											
Licence Fees											
Information Technology Support											
Human Resource Management											
Finance and Accounting											
Administrative Support											
Executive Management											
Legal and Regulatory Support											
Other Corporate Support Functions											
Total Corporate Support Functions											
PROFIT / LOSS PER SEGMENT											
ACTIVITY VOLUMES											
Incoming Volumes											
Outgoing Volumes											
Notes											
1 Profit/Loss must reconcile to Business Cost / Income reported for the Regulated Business in Report 4.1.											

Reconciliation Report

Report 5.1

Name of Licensed Reserved Postal Services Operator
RECONCILIATION STATEMENT
 For the xx period ending dd-mm-yyyy

	CURRENT YEAR					
	Regulated Entity (R)	Adjustments	Corporate Entity (R)	Adjustments	Annual Audited Report (R)	Reference
BALANCE SHEET						
Assets						
Current Assets						
Non-current Assets						
Total Assets						
Liabilities, Capital and Reserves						
Current Liabilities						
Non-current Liabilities						
Total Liabilities, Capital and Reserves						
Income Statement						
Revenue						
Expenditures						
Operating Profit						
Finance Income						
Finance Costs						
Profit Before Taxation						
Taxation						
Profit Before Taxation						
Profit From Discontinued Operations						
Net Income						
Explanatory Notes						
Reference						
1 ...						
2 ...						
3 ...						
4 ...						
5 ...						

Report 5.1

Entity Report

Report 6.1

Name of Licensed Reserved Postal Services Operator
COST OF CAPITAL REPORT
 As at dd-mm-yyyy

<u>Determination of Cost of Capital</u>		<u>Information Source:</u>	
Cost of Debt			
Proportion of Debt			
Weighted Cost of Debt		<u>a</u>	
Cost of Equity			
Proportion of Equity			
Weighted Cost of Equity		<u>b</u>	
Weighted Average Cost of Capital (%)		<u>c = a + b</u>	
		<u>Net Book Value</u>	
	<u>Beginning Balance</u>	<u>Ending Balance</u>	<u>Average Balance</u>
<u>Application of Cost of Capital</u>			
Property Plant and Equipment			
Buildings			
Equipment			
Vehicles			
.			
.			
.			
			<u>d</u>
	<u>Beginning Balance</u>	<u>Ending Balance</u>	<u>Average Balance</u>
Net Working Capital			
Current Assets			
Current Liabilities			
Net Working Capital			<u>e</u>
Net Book Value plus Net Working Capital			<u>f = d + e</u>
COST OF CAPITAL			<u>g = c x f</u>

Administrative Report

Report 7.1

Name of Licensed Reserved Postal Services Operator
AUDIT REPORT
Name of Independent Auditor

We have audited the annual financial statements of (entity name) and have reported thereon at (date). We have also audited the Regulatory Financial Statements which have been prepared on the basis of the Postal Accounting Manual and have been submitted to the Independent Communications Authority of South Africa. These financial statements are the responsibility of the Company's Directors. Our responsibility is to report on the statements.

We conducted our audit in accordance with generally accepted auditing standards. We consider that our audit procedures were appropriate in the circumstances to express our opinion presented below. In our opinion:

- These financial statements have been prepared in all material aspects in accordance with the Operator's Procedure Manual which has been filed and approved by the Authority; and
- These financial statements fairly present, on the bases set out in the approved Operator's Procedures Manual, the allocation of the Operator's net investment between entities and segments of the Operator as of (date) and the allocation of its revenue and expenditure between these entities and segments for the year ended.

Signed and dated

Note:

1. The auditor's opinion stated above is intended to provide an illustrative example of the scope and type of audit opinion that the Authority expects. A modified version of this report may be submitted by Operators and their Independent Auditors for the Authority's approval.

Annexure 2: Procedures Manual Content

Introduction	
Group Structure	List of the entities covered by the Regulatory Financial Statements and the relationships between the entities, where the information relates to more than one entity.
Organisational Overview	Background information on the structure of the Licensed Operator's organisation, business activities/broad lines of business and network architecture.
Accounting and Operational Systems	Details of the financial, accounting and operational systems used by the reporting organisation for the capture and generation of the Regulatory Financial Statements (overview of functionality).
Accounting Principles and Practices	
General Accounting Principles And Policies	Accounting Principles Details of the accounting policies used by the operator in preparing the Regulatory Financial Statements. For property, plant and equipment, provide procedures outlining preparation of information on asset lives, labour, overhead, interest capitalisation and depreciation methods.
Deviations from SA GAAP or IAS	If the accounting policies and bases used in the preparation of the Regulatory Financial Statements differ from SA GAAP or IAS, full disclosure of the policies and bases adopted should be prominently disclosed here. Licensed Operator should also document the reason for adopting accounting policies or bases that differ from SA GAAP or IAS.
Related Party Transaction Disclosures	The party with whom the transaction occurs, the type of transaction, the bases of recording the transactions in the accounting ledgers and the bases of revaluing transactions
Accounting Separation	
Segments	A list of segments and a mapping to tariffs lodged for specific services that fall within each segment.
Accounting Separation Systems	Overview of accounting separation systems used, including inputs outputs and functionality of system.
Allocation Overview	An overview of the revenue, cost, asset and liability allocations adopted by the Licensed Operator.

Detailed Allocations	The detailed allocations adopted by the Licensed Operator and a mapping of the general ledger to the initial cost pools. Details of any studies, surveys or models that are used for allocation purposes. The Procedures Manual should provide worked examples of all of the allocation methods that are used including sample size, frequency of sampling, sampling method, etc.
WACC calculation	Details of the assumptions made, methods, values and sources of all variables used to calculate the WACC.
Administrative Framework	
Procedures Manual Maintenance Procedures	Details of the procedures for maintenance and updating of the Procedures Manual and associated internal controls.
Glossary	Definition of terms used in the Procedures Manual.
