POSTAL ACCOUNTING SEPARATION FRAMEWORK
(with effect from 1 June 2010)

Definitions

1. In this framework, unless otherwise stated or the context otherwise requires:

(a) "Affiliate", in relation to a Dominant Licensee, means another Licensee;

(i) that has an attributable interest in the Dominant Licensee of 5% or more (*parent*);

(ii) in which the Dominant Licensee, has an attributable interest of 5% or more (*subsidiary*); or

(iii) in which any parent of the Dominant Licensee, has an attributable interest of 5% or more (*sibling*), provided that a Licensee will not be deemed an Affiliate of the Dominant Licensee based solely on the fact that both the Licensee's and the Dominant Licensee's ultimate parent has a passive interest in both;

(In determining a relevant party's attributable interest, the Info-communications Media Development Authority (hereinafter referred to as the "**Authority**") will use the "sum-the-percentages" methodology[1]. This methodology will be applied successively at each level of the ownership chain.)

(b) "Basic Letter" means a Letter, other than a Direct Mail or an Express Letter, of up to 500 grams in weight;

(c) "Dominant Licensee" means a Licensee that the Authority has classified as dominant, in one or more Basic Letter Services markets, pursuant to one or more of the criteria specified in Section 2.2 of the Postal Competition Code 2008 ("**PCC**"), and which is subject to the special obligations applicable to Dominant Licensees when it provides service in that market;

(d) "Express Letter" means a local express letter or an international express letter, or both;

(e) "Letter" means any communication in written form on any kind of physical medium to be conveyed and delivered (otherwise than electronically) to a particular addressee or address indicated by the Sender on the Letter itself or on its wrapping, and includes a postal

[1] For example, if the relevant party has legal or beneficial ownership of 100 per cent of the voting shares of Entity A, and Entity A has legal or beneficial ownership of 50 per cent of the voting shares of Entity B, and Entity B has legal or beneficial ownership of 50 per cent of the voting shares of Entity C, then the relevant party will be deemed to have a 25 per cent attributable interest in Entity C. In this case, Entity C will be deemed to be an "Affiliate" of the relevant party. Correspondingly, where a party is said to be "affiliated" with another party, the first party is an "Affiliate" of the second party

article containing such communication, but excludes any book, catalogue, newspaper or periodical;

(f) "Licensee" means:

(i) any entity to which the Authority has granted a licence under section 6 of the Postal Services Act for the provision of a Basic Letter Service; or

(ii) any entity who is deemed to have been granted a class licence under the Postal Services (Class Licence) Regulations 2005;

(g) "Reporting Licensee" means any Dominant Licensee and its Affiliates, subject to Section 4 of this framework.

Objectives

2. This Accounting Separation Framework ("**ASF**") prescribes the minimum requirements necessary to provide a structured regulatory reporting framework to enable the Authority to:

(a) ensure that services that are provided internally by Dominant Licensees to their downstream operations or to their Affiliates, are provided on similar terms to equivalent services provided to other unrelated Licensees;

(b) monitor Dominant Licensees" compliance with the cross-subsidisation provisions under the PCC; and

(c) establish and maintain objective reference points for evaluating information provided by Licensees in relation to specific studies which may occur from time to time such as costing studies and investigation of potential predatory pricing, price squeezes, discrimination and other anti-competitive conduct.

3. The framework also serves to:

(a) provide a structured approach for a Reporting Licensee's adherence when submitting required Accounting Separation ("**AS**") information to the Authority; and

(b) ensure that the Reporting Licensee submit required AS information to the Authority on a timely, consistent and accurate basis.

Application of Accounting Separation Framework to Dominant Licensees

4. This ASF applies to all Licensees that are classified as Dominant Licensees pursuant to Section 2.2 of the PCC. In addition, the Authorityreserves the right to subject Affiliates of Dominant Licensees to this ASF, if the Authorityconcludes that this is necessary for the achievement of the objectives specified in Sections 2 and 3 above.

General Accounting Principles and Policies

5. Accounting practices and policies adopted for the purposes of submission to the Authorityshould conform to the accounting policies used by the Reporting Licensee in its statutory financial reports and should be consistent with the Singapore Financial Reporting Standards. However, from time to time, the Authority may require the Reporting Licensee to adopt particular accounting practices for the purpose of compliance with this framework.

6. The Reporting Licensee shall apply the same practices consistently from year to year to afford meaningful comparisons of submitted AS information over time. Whenever changes are made to accounting practices and policies, the Reporting Licensee is required to give a detailed explanation for the change, and illustrate the financial impact of the changes on reports to be submitted to the Authority. Submissions to the Authority for the previous one year will also have to be restated, using the new practices and policies. However, the Authority shall reserve the right to request for more information should the need arise. Waivers to prescribed accounting practices are permitted in cases where the adoption of an alternative practice is not material to the context of the Authority's review of the Reporting Licensee's compliance with the PCC.

Cost Basis and Costing Standard

7. Separate accounts should be prepared on a historical cost accounting basis, in accordance with the basis for preparation of the Reporting Licensee's statutory financial statements, subject to variations allowed or directed by the Authority.

8. A fully distributed cost allocation basis should be followed. This means that all of the Reporting Licensee's costs, including corporate costs, should be fully apportioned among the Reporting Licensee's products and services.

9. Insofar as in-house products/services are used by the Reporting Licensee in the provision of other product/services, the Reporting Licensee should ensure that its cost allocation system charges transfer prices at the same rate as that imposed on external operators or customers using those products/services.

General Allocation Principles

10. Revenue and costs should be allocated to the products/services by means of causation or using an activity-driven approach. That is, costs and revenue should be allocated to those services or products that cause the cost or revenue to arise. In particular, the following process should be followed:

    (a) Review each cost and revenue item;

(b) Identify the driver, i.e. the process that caused the cost to be incurred or the revenue to be earned; and

(c) Use the driver to attribute the cost or revenue to the relevant product or service, and accordingly, to the appropriate AS segment.

Cost Attribution

11. Wherever possible, costs should be attributed directly to a product/service. Costs may be attributed according to the following categories:

(a) Direct cost: Costs which are solely generated by a particular service/product, and are recorded in the accounts against the relevant product/service.

(b) Directly attributable costs: Costs which are solely generated by a particular product/service but are not recorded in the accounts against the relevant product/service.

(c) Indirectly attributable costs: Costs which are part of a pool of common costs but which can be attributed to a particular service/product through a non-arbitrary and verifiable cause and effect relationship. There is no requirement for this to be a one-to-one relationship and it may be multi-step.

(d) Unattributable costs: Costs which are part of a pool of common costs and cannot be identified to a particular service/ product through a non-arbitrary and verifiable cause and effect relationship. The amount of unattributable costs should be kept to a minimum.

12. The bases and assumptions used to attribute costs should be reasonable, and should, when necessary, be substantiated by time studies, historical data and usage patterns, sampling techniques or other analyses.

Types of Cost

13. The Reporting Licensee is required to separately identify the categories of costs into Fixed Costs and Variable Costs, where:

(d) Fixed Costs are costs which do not vary with the volume of output of an activity, product or service. Such costs are associated with fixed factors of production and cannot be avoided unless all contributory output is ceased; and

(e) Variable Costs are costs which vary with the volume of output of an activity, product or service. Such costs are associated with variable factors of production.

Procedures and Cost Allocation Manual

14. Cost attribution bases and assumptions must be consistently applied by the Reporting Licensee in the preparation of ASF submissions, i.e. the same bases should be used from year to year to ensure comparability.

15. The Reporting Licensee is to document in detail, the methodology to be used for allocating costs in a Procedures and Cost Allocation Manual ("**PCAM**"). This manual must prescribe the use of existing accounting and other internal reporting systems, as far as is relevant and practicable, to achieve the objectives of this framework. Each Reporting Licensee's PCAM is subject to the Authority's approval, and a copy of the PCAM shall be provided to the Authority in hardcopy.

16. The Reporting Licensee's PCAM shall contain a comprehensive and complete written statement of the policies, principles and methodologies that the Reporting Licensee will follow in preparing its AS statements. It must be sufficiently detailed to enable an external party or an external auditor to understand the methodologies that have been used in preparing such statements. It should include audit control procedures and trails used in data preparation to assist in an audit review. In particular, the PCAM should include the following information:

Organisational structure	Background information on the structure of a Reporting Licensee's organisation and its broad lines of business. This should include details of the business units within the organisation and the relationships between support units and the main business streams.
Group structure	List of the entities covered by the reporting and the relationships between the entities, where the information relates to more than one entity.
Accounting systems	Details of the financial, accounting and operational systems used by the Reporting Licensee for the capture and generation of the AS information.
Accounting policies	Details of the accounting policies used by the Reporting Licensee in preparing the AS statements.
PCAM maintenance procedures	Details of the procedures for maintenance and updating of the PCAM and associated internal controls.
Reporting requirements	Description of each of the statements required.
Product definitions	Definitions of each of the product/services and details of how the Reporting Licensee's services map to such.
Allocation principles	As set out in the ASF, but with additional detail for those allocation principles that are not specified in the framework.
Allocation procedures	Details of any studies, surveys or models that are used for allocation purposes. In this regard, the PCAM should provide working examples of all of the allocation methods that are used.
Detailed General Ledger ("**GL**") mapping and allocation	For each GL line used by the Reporting Licensee, the following information should be provided: - GL account number and description - Allocation principle (i.e. Direct, attributable or unattributable); - Allocation method (i.e. For all indirectly attributable and unattributable costs and

	revenues, this would be a description of the model or survey used as the allocation basis) and the details of the allocation techniques, assumptions made and cross references to the file/data for audit purposes; - Allocation drivers (e.g. Floor space, number of staff, minutes of usage, etc).
Glossary	Definition of terms used in the PCAM.

Modifications of Procedures and Cost Allocation Manual for Compliance with Accounting Separation Framework

17. Any changes to the PCAM proposed by the Reporting Licensee must be filed with the Authority and are subject to the Authority's approval, for compliance with this framework, prior to implementation.

18. Proposed changes should be accompanied by a statement of reasons justifying the changes, and the financial impact of the proposed changes should be illustrated.

19. The Authority may request the Reporting Licensee to provide further information for the purposes of its consideration of the proposed changes.

20. The Authority will consider the proposed changes and notify the Reporting Licensee of its approval as soon as practicable.

21. The Authority may require the Reporting Licensee to amend its procedures for compliance with this framework from time to time. A requirement for amendment to the procedures will be notified in writing to the Reporting Licensee.

22. The Authority may require an amendment to the procedures to be effected within a certain time period.

23. For the purposes of illustrating the effect of the changes, the Reporting Licensee should submit reporting statements for the previous one financial year upon obtaining The Authority's approval to implement the changes. However, the Authority reserves the right to request for additional information if the need arises.

Level of Disaggregation

24. To monitor Reporting Licensees' compliance with the prohibitions in the PCC against abuse of Dominant Position and unfair methods of competition, it is crucial for the Authority to understand the profitability of the product/services of Reporting Licensees on an individual or separate basis, rather than as reported on an aggregate basis as adopted in statutory reports. For this reason, the Reporting Licensee is to adopt the level of disaggregation along the following service segments when preparing their ASF submissions:

<u>Domestic Basic Letters</u>

- All local Basic Letter services, except those provided on bulk rates

International Basic Letters

- All international Basic Letter services, except those provided on bulk rates

Domestic Bulk Letters

- All local Basic Letter services provided on bulk rates
- These services should be further disaggregated into:
    - Self-use (i.e. services provided by the Reporting Licensee to itself)
    - Services provided to other Postal Service Operators ("**PSO**"s)
    - Services provided to other entities

International Bulk Letters

- All international Basic Letter services provided on bulk rates
- To be further disaggregated into:
    - Self-use
    - Services provided to other PSOs
    - Services provided to other entities

Other Mail Services

All other mail or mail related value added services, excluding all types of Basic Letter services (e.g. Express Letter Services, Direct Mail, Letters above 500g, Printed Papers etc.)

Others

- All other services, products, businesses not covered in the segments above (e.g. property-related services, advertising services etc.)

Please refer to **Annex A** for an illustrative table.

Reporting Requirements

25. The Reporting Licensee must prepare and submit the following statements on an annual basis, with the information submitted within four months after the end of each of the Reporting Licensee's full financial year, in accordance with the procedures and allocations set out in the PCAM.

(a) Segment Income Statement

A separate Segment Income Statement must be prepared for each of the segments that the Reporting Licensee is required to disaggregate to. Each Segment Income Statement must report:

i) The revenues for each segment, with separate identification of revenues from external sources; revenues from the Reporting Licensee's internal businesses; and revenues from Affiliates.

ii) The costs for each segment, with separate identification of fixed and variable costs.

A suggested format that the Reporting Licensee may use for submission of the Segment Income Statement is illustrated in **Annex B1**.

(b) Reconciliation of Consolidated Income Statement

Where the Reporting Licensee provides services in more than one segment as a single entity, it must prepare and submit a Reconciliation of Consolidated Income Statement consolidating the segments provided by the entity. This is to ensure that the figures used in the ASF statements are traceable and reconcilable to the Reporting Licensee's Group statutory accounts and the accounting records that underlie its Group statutory accounts. This statement should report:

i) A summary of revenues, operating costs and return for each segment;

ii) Consolidated adjustments, with separate identification of each adjustment item; and

iii) Reconciliation to the Reporting Licensee's audited Income Statement.

A suggested format that the Reporting Licensee may use for submission of the Reconciliation of Consolidated Income Statement is illustrated in **Annex B2**.

(c) Statement of Transactions with Affiliates

This statement is to be provided, in relation to paragraph 25(a), where details of the intra-company and inter-company transactions that the Reporting Licensee has conducted between itself and its affiliates need to be reflected. A suggested format for this statement is illustrated in **Annex C**.

(d) Auditor's Report

Audit and Compliance

26. An independent auditor is required to provide an audit report to the Authority, on all information and reports submitted by the Reporting Licensee under the requirements of the ASF. The aim of the audit is to ensure that information submitted to the Authority is reliable and that the Reporting Licensee has complied with the requirement of the ASF.

27. The independent auditor must be a member of the Institute of Certified Public Accountants of Singapore and shall conduct his audit in accordance with the Singapore Standards on Auditing.

28. The independent auditor shall be appointed by the Reporting Licensee, and responsibility for completion of the audit lies with the Reporting Licensee. However, the Authority may request meetings with the Reporting Licensee's independent auditor to discuss the auditors" work and the Reporting Licensee shall ensure that this is provided for in the Letter of Engagement or contract with its independent auditor.

29. If the Authority is not satisfied that an independent audit will be or has been conducted properly, the Authority may appoint another independent auditor to conduct the audit. All external audit costs, whether appointed by the Reporting Licensee or the Authority, are to be borne by the Reporting Licensee.

30. The Reporting Licensee shall grant the independent auditor, or any person authorised by him, the right of access at any reasonable time to the accounting and other records of the Reporting Licensee, and to require from any officer of the Reporting Licensee such information and explanations as he desires for the purposes of the audit.

31. The independent auditor shall, in the Auditor's Report, express an opinion on:

    (a) whether the AS statements for the year ended have been properly drawn up in accordance with the Reporting Licensee's PCAM that has been approved by the Authority, and so as to present fairly in all material respects the information contained in: and

    (b) whether all changes to the PCAM that materially affect the AS statements for the year ended have been filed with, and approved by the Authority.

32. The independent auditor shall also state in the Auditor's report, or make a reference in the Auditor's report, to any special report as may appear to him to be necessary, on:

    (a) any material non-compliance with the PCAM pertaining to those AS statements, and the impact thereof; and

    (b) any other deficiency or failure, or such other matters arising from the audit as he considers should be reported, in respect of matters relating to the AS statements. These include, but are not limited to, failure to obtain from the Reporting Licensee all information and explanations that he requires, and the audited statutory financial statements being subject to a qualification by the auditor.

33. The Auditor's Report to the Reporting Licensee shall be attached to the AS statement for the purposes of submission to the Authority.

Confidentiality

34. As information in the ASF reports provided by the Reporting Licensee to the Authority may be of a commercially sensitive nature, the Authority will:

    (a) in general, limit the disclosure of such information to the Authority's staff, legal advisers and consultants <u>only on a need to know basis and only to the</u> <u>extent that is necessary</u> to enable the Authority to fulfil its statutory duties and functions; and

    (b) use the information only for the Authority's regulatory statement and duties.

35. The Authority will disclose the information to external third parties only if the Authority considers such disclosure to be necessary in the pursuit of the Government's info-communications policy, its objectives or resolution of a dispute. The Authority will give the Reporting Licensee a reasonable opportunity to make representations on the proposed disclosure before the Authority makes a final decision whether to disclose the information.

Modification of Accounting Separation Framework

36. This framework may be updated and revised from time to time to cater for changes in practices, standards and the level of competition in the Basic Letter Services market, the introduction of new products and technologies and the need to refine practices and principles.

37. In general, a change to this framework will be effective six months after the change is notified by the Authority, unless the Authority considers it necessary to require a change to be implemented at an earlier or later date. In determining the timeframe for implementation of changes to this framework, the Authority will consider the nature of the change and the likely impact of the change on the Reporting Licensee's reporting procedures.

Annex A

Level of Disaggregation for Accounting Separation Framework

Domestic Basic Letters	**International Basic Letters**	**Others**
- Standard/non-standard Basic Letter services	- Standard/non-standard Basic Letter services	Examples: - Redemption service - Remittance service - Retail of postal paraphernalia - Payment services (e.g. Bills, town council charges, government services) - Financial services - Sales outlet (i.e. air tickets) - Courier services - Other parcels and packages delivery services - Lettershopping services - Any other non-mail, services (e.g., Advertising or property services)
Domestic Bulk Mail	**International Bulk Mail**	**Other Mail Services**
- Standard/non-standard Basic Letter services - To be further separated into: o Self-use purposes o Provided to other PSOs o Provided to other entities	- Standard/non-standard Basic Letter services - To be further separated into: o Self-use purposes o Provided to other PSOs o Provided to other entities	*Examples:* - Letters above 500g/Printed Papers - Express Letter services - Direct Mail services - Digital mail services - Business reply service - Registered mail/article - Mail redirection service - Mail retention service - Mailroom solutions - Postmarking - Pre-processing - P.O. Boxes

Annex B1

Format for Segment Income Statement Reporting

Income Statement for [*please indicate relevant service segment] for the year ended 31 Mar 2009**

	Notes	2009 $	2008 $
Revenue from Reporting Licensee's internal businesses	(1)		
Revenue from Affiliates	(2)		
Revenue from other entities			
Total Revenue			
Operating costs			
Direct and directly attributable costs			
Variable costs			
Transfer charges paid to internal businesses	(3)		
Charges paid to Affiliates	(4)		
Charges paid to other PSOs			
Others			
Fixed costs			
Transfer charges paid to internal businesses			
Charges paid to Affiliates			
Charges paid to other PSOs			
Others			
Indirectly attributable costs			
Variable costs			
Transfer charges paid to internal businesses			
Charges paid to Affiliates			
Charges paid to other PSOs			
Others			
Fixed costs			
Transfer charges paid to internal businesses			
Charges paid to Affiliates			
Charges paid to other PSOs			
Others			
Allocated unattributable costs			
Total Operating Costs			
Return			

Notes:

1. Revenue received from internal businesses must be separately identified by internal business.

2. Revenue received from Affiliates must be separately identified by entity.

3. Transfer charges paid to the internal businesses must be separately identified by internal business.

4. Charges paid to Affiliates must be separately identified by Affiliate.

* A separate Segment Income Statement must be prepared for each of the service segments that the Reporting Licensee is required to disaggregate to. E.g. Domestic Basic Letters, International Basic Letters, Domestic Bulk Letters etc.

Annex B2

Format for Reconciliation of Consolidated Income Statement Reporting

Reconciliation of Consolidated Income Statement to Audited Income Statement for the year ended 31 Mar 2009

	Notes	2009 Revenue	2009 Operating Cost	2009 Return	2008 Revenue	2008 Operating Cost	2008 Return
Domestic Basic Letters							
International Basic Letters							
Domestic Bulk Letters - Self-use - Services provided to other PSOs - Services provided to other entities							
International Bulk Letters - Self-use - Services provided to other PSOs - Services provided to other entities							
Other Mail Services							
Others							
Total							
Adjustments: Elimination of internal business transactions Unallocated revenues (costs)	 (1) (2)						
Per audited income statements							

Notes:

1. Adjustments will include transactions relating to internal business transactions.

2. Unallocated items should be specified individually. These items will include any costs and revenues which relate to the business as a whole and are therefore not allocated to particular product/service.

Annex C

Format for Statement of Transactions with Affiliates

Statement of Transactions with Affiliates for the year ended 31 Mar 2009

Services provided by the Reporting Licensee

Transaction Type*	Affiliate	Value	Valuation Method	Chart of Accounts Category and Account

Services provided to the Reporting Licensee

Transaction Type*	Affiliate	Value	Valuation Method	Chart of Accounts Category and Account

Note:

* Transactions between the Reporting Licensee and Affiliates are to be reported according to the level of disaggregation listed in Annex A above.