Welcome to our call to discuss our decisions and proposals that we announced this morning in respect of the UK postal sector. Now full details of the decisions and the proposals including an accompanying press release are available on our main website within the Analyst Relations section.

Throughout this call we will be referring and walking through a slide presentation, which if you have not already done so you can download from the Presentations tab of the Analyst Relations section of our website.

As the introducer noted, the call is being recorded and we will make a replay and transcript available after we have concluded this morning.

Finally, once we’ve run through the presentation there will of course be an opportunity to ask questions.

With that, let me turn to the presentation which hopefully you will all have. I’ll just begin on Page 1, where we just remind you of what our duties are in post:-

Our primary duty is of course to secure a universal postal service, but we note that we have to do so having regard for it to be financially sustainable but also for it to become efficient in a reasonable period and for it to continue to be efficient. The Third Postal Services Directive required that UK markets be open to completion, and we also have a general duty to further the interests of citizens and consumers by promoting competition. We note that in the event of a conflict of our general duties, our duty to secure the Universal Postal Service does take precedence.

Moving on, we of course introduced in March 2012 a new framework where we removed the vast majority of retail and wholesale price controls. We removed the requirement for Royal Mail to maintain a guaranteed margin between retail and access prices and we provided significant greater commercial and operational freedom for Royal Mail. We put in place that framework for seven years until 2019 in order to establish a framework which provided regulatory certainty and stability for all participants in the market. We did put in place key safeguards, a cap on the price of 2nd class stamp letters and parcels up 2kg, ongoing monitoring of performance and indeed market conditions and of course competition in the mail market.
Just a quick word on how of course competition in post works. You will probably all understand this, but just to make sure we are all talking about the same thing. The two key forms of competition, access mail, which has led to substantial competition in bulk mail, and direct delivery, where operators also rely on access mail in order to serve the whole country but who do deliver directly in certain areas. I just want to note that in relation to both of those forms of competition we have ensured that Royal Mail is able to make a fair return on all of those services.

Over the page we just give a graphical illustration of how competition in letters works. I won’t dwell on this, it should be pretty familiar I think to everybody on the call, but we just try and illustrate the relationship between both access and direct delivery.

So, over the page onto Page 5. What is the current impact of competition? And what you see in this bar chart on the left-hand-side is letter volumes and on the right-hand-side letter revenues. What we have done is divided up between Royal Mail, its own end-to-end revenues, Royal Mail revenues associated with access, and access operator revenues in green, and the thin sliver at the top which is other operator end-to-end revenues. And again this data will be broadly familiar. I think the key point is to note that the current impact of competition at the aggregate level, certainly in relation to direct delivery, is very, very modest indeed. So Royal Mail delivered 99.4% of total letter volumes and retained 95.9% of letter revenues. And in terms of direct delivery, competitors delivered only 0.6% and took only 0.4% of revenues.

Moving on. Of course the parcels market is more competitive, and we have just set out here how we see the domestic parcel revenue market share at the moment - and again, this data should be broadly familiar to all of you. Royal Mail with about a third of the market, but a substantial number of other operators and a lot of developments in that market, though we would note that Royal Mail’s position is still stronger for smaller and non-express parcels and that some parcels are in the Universal Postal Service but of course were never, ever originally part of the monopoly.

So, moving on to the conclusions and proposals that we have set out this morning, perhaps a bit of background context first:-

So, in June 2014, June of this year, we received a major submission from Royal Mail on the threat that it believed direct delivery competition posed to the universal service. We also around the same time as a result of that received submissions from other parties. Royal Mail, as I think everybody knows, asked us to bring forward our review and indeed to impose conditions on the direct delivery competitors. In the event, as a result of these very, very substantial submissions, we have in effect undertaken a detailed and forward-looking assessment of the potential impact of direct delivery competition on the sustainability of the universal service. We’ve done that by basing an analysis on a clear understanding of Royal Mail’s business plan which was provided to us in July, but also of Whistl’s business plan from December 2013 and a range of data and information from other market operators as well. I should emphasise of course that a lot of that is confidential information which we have sight of which obviously others do not.

We have also considered Royal Mail’s potential commercial responses to direct delivery competition and a range of different outcomes that might transpire in order to allow for uncertainties in the predictions that we’re basing our views upon. All of that work, and it has been a very, very
considerable body of work, has been carefully considered by the Ofcom Board over the last few months.

As a result of that, we have carried out a review of the impact of direct delivery on competition, and on the basis of the review that we have undertaken, we find that at this point in time direct delivery competition does not pose a threat to the universal service. However, we consider that there are other issues that may have an impact on the future sustainability of the universal service in addition to direct delivery competition, and as a result of that, because of our primary duty to secure the universal service, we intend to widen the scope of our work to look at one or two other factors. These will include firstly the impact of developments in the parcels market, which we touched on earlier, and secondly Royal Mail’s progress on improving its efficiency. Now efficiency is of course absolutely critical to the long-term sustainability of the USO. Alongside those additional pieces of work, we will continue to monitor the market and of course direct delivery competition in particular, and if we need to respond quickly to protect the universal service, we will of course do so.

With that backdrop, I think it’s worth observing that, as with other businesses, competition in general is very positive and it does provide a further incentive for Royal Mail to maintain a focus on efficiency, to constrain pricing in the interests of consumers and businesses and of course to innovate in service delivery. We note that in parcels, competition has already led in many ways to greater choice for consumers, for example Sunday deliveries and delivery to neighbour, and also major changes to the processes inside Royal Mail, and we think that direct delivery competition potentially offers similar benefits.

So, moving on to Slide 10, we thought it would be worth just highlighting the so-called cherry-picking argument which in our view is more complex than is often presented. Let me run through a few points on that:

Royal Mail has suggested that cherry-picking entry in high-density and low-cost areas undermines the cost subsidies needed to support the universal service. I think there are three interesting points here: First is that the notion that competitors are only entering in certain areas, in other words the so-called cherry-picking areas. There are a couple of points arising. The first is that the zonal pricing actually means that competitors pay a fair and indeed profitable price to Royal Mail for delivering in higher-cost areas, and secondly, that high-density is not always associated with low-cost. Indeed we would observe that London is in fact Royal Mail’s highest cost zone and yet that is precisely one of the areas where direct delivery competition is beginning. That seems fundamentally at odds with the conventional notion of cherry-picking. The second point is that competitors are indeed of course delivering fewer days per week but Royal Mail is not actually required to deliver bulk mail six days a week - bulk mail being the key point there. Royal Mail of course does derive significant cost advantages from using the same network for universal service and bulk mail, and could offer a lower frequency bulk mail delivery service if it felt that that was commercially attractive. The third point is about the impact on universal service cost subsidies. Direct delivery competition affects bulk mail, not universal service volumes, and in fact universal service mail is profitable in its own right. There is much more we could talk about in that area but I think it’s important to demonstrate that the notion of cherry-picking in this context in this industry is in fact quite complicated.

If we move on to Slide 11, we now turn to the issue of Royal Mail’s access prices.
In January 2014, Royal Mail announced changes to its access pricing and terms. Those changes included a 1.2% price differential between the two national price plans, only one of which is suitable for direct delivery operators, and secondly substantial cuts to changes to the charges in competitive geographic zones such as the London zone which I mentioned a moment ago, and increases in charges in non-competitive zones. We received a complaint by Whistl. We opened an investigation into these price changes on 21st February and at that point Royal Mail then suspended those proposed changes.

On 9th April, we announced that investigation would be taken forward under the Competition Act, and separately launched a review of the regulation on access pricing. On the Competition Act, we expect to conclude the investigation in 2015, and we will have a ‘state of play’ meeting with Royal Mail between now and Christmas.

In relation to the access prices more generally, let me state our concern in the first instance. Royal Mail has incentive in relation to these access prices to price high where there is no competition and to price low where there is competition, and clearly that kind of approach can inhibit entry by direct delivery competitors who partly rely on those access services. In particular, proposed zonal charges would increase prices to operators using access for delivering suburban and rural areas, delivering themselves in urban areas, and the proposed national discount appears to give access-only operators a price advantage over those who are competing through a combination of direct delivery and access.

So, our priorities in this area are I think the following:

The first is to intervene in the least intrusive way. We don’t want to make a business of micromanaging any industry, we try very hard to be selective and very focused in our regulatory interventions and only make them where we believe they are necessary.

Second is that we want to ensure that Royal Mail retains the ability for prices to reflect user demand, and its own costs, of course. We want to ensure that Royal Mail has the incentive to compete through innovation and efficiency, that is very important. But, we also want to allow the potential for effective direct delivery competition.

Our proposals on access prices, on Slide 13, allow Royal Mail the necessary commercial freedom to achieve reasonable returns while limiting its ability to set prices in a way which actually deters or inhibits competition. Under the new proposals, Royal Mail remains free to set the absolute level of charges separately for each type of product, thereby allowing them to respond in price to differences in demand, to set price to reflect risk and complexity and of course to maximise their returns subject to demand and competition.

So we propose – and I want to emphasise these are our proposals, they are for consultation and we will listen carefully to responses from all participants – but we propose that for zonal access contracts, the differences in charges between zones should be aligned with the difference in the costs of delivery in each zone. And secondly, for national average prices that the national access charge for a mailing item should be equal to the weighted average of the zonal access charges for
that item. So two fairly simple proposals which I think are designed to meet the objectives that I set out a few moments ago.

So, by way of conclusion let me just highlight some next steps:-

We are consulting on these proposed access price rules. That consultation will close on 24th February next year, and we will make a statement on our decisions which we expect to be in the summer of next year.

Our further review in relation to USO issues will seek to understand Royal Mail’s position in the parcels market and developments in the parcels market generally so we can connect those developments to our duty in relation to the USO, and secondly in relation to the progress being made on efficiency.

Alongside all of that, we will continue to monitor developments in the sector very, very carefully as we have done ever since we assumed responsibility in this area.

And finally, we will move forward with our investigation under the Competition Act of the Whistl complaint - and as I said earlier, we expect to conclude that next year.

That concludes our introduction. I am joined on the call by Chris Rowsell who is the Policy Director in charge of this area and by Katie Curry who is our Director of Economics in this area, and we will be happy to take any questions at this point.

Question and Answer Session

Operator: Ladies and gentlemen your question and answer session will now begin. If you wish to ask a question, please key star then one on your telephone, then press the hash or the pound key. If you decide to withdraw your question simply key star two. All questions will be answered in the order received and you will be advised when to ask your question. Just a reminder, to ask a question please key star then one on your telephone then press the hash or the pound key.

The first question is from the line of Joel Spungin from Merrill Lynch. Please go ahead.

Joel Spungin (Bank of America Merrill Lynch): Yes good morning, thanks for the opportunity to ask questions. Just a quick one. On your proposals for access pricing you were talking I think about aligning the charge for access with the cost in each zone. I'm just trying to understand the logic behind that. Maybe you could just explain that? Does that actually mean that prices, I mean you mentioned that London was a higher cost zone, does that mean that prices in areas like London would actually be higher so actually that would increase the incentive for someone to use a direct delivery competitor? Is that the right way to see it?

Ed Richards (Ofcom): Okay, I'm just going to ask Katie to answer that please.

Katie Curry (Ofcom): Our concern with regard to general pricing was that Royal Mail had flexibility previously to set charges very low in areas that were potentially open to competition and then recover all of its fixed costs in areas that were less likely to be open to competition, and we were concerned that it could do that in a way that would discourage entry even by someone who was as
efficient as Royal Mail in an entry area. What we’re going to do is require that Royal Mail applies the same percentage mark-up over its zonal costs in each zone. That doesn’t necessarily mean that prices in London will have to increase, that really depends on what Royal Mail chooses to do with its overall level of mark-up. If it were to choose to keep its current national mark-up at existing levels, then our estimates do suggest that prices in London may increase by a small amount, but it’s open to Royal Mail to use its commercial flexibility to set a lower mark-up in order to respond to competition. So in answer to your question about whether our proposals are likely increase the incentives for customers to use the direct delivery entrant, the answer is really what Royal Mail decides to do with its pricing.

Ed Richards (Ofcom): I think the key point is that there is still flexibility in this for participants to respond, that’s exactly what we would hope to create, we don’t want to micromanage and set everything in detail, we’re expecting people to respond to this environment. But it’s important to emphasise that these are proposals at this point in time and therefore we will want to make sure that we understand in discussion with the players exactly whether they will work in the way that we intend them to.

Joel Spungin (Bank of America Merrill Lynch): Understood. Thank you so much.

Operator: Thank you. The next question is from the line of Damian Brewer from the Royal Bank of Canada. Please go ahead.

Damian Brewer (Royal Bank of Canada): Good morning and thank you for the call. Three questions please.

The first one on clarification. I just want to understand, when you talk about areas like London being high cost is that high absolute cost or was that on a cost per unit sent and delivered basis? I just want to understand the basis of that cost assessment. And also, relating to cost clarification again, when you talk about a weighted average across the zonal access zones, what are you proposing that is weighted by, is that by households, population or volume sent?

The second question is really I’m just trying to understand the symmetry in your assessment. In one of the documents it suggests that in the business plans you looked at you effectively discounted or removed Royal Mail’s assessment of end-to-end competition but appear to have taken Whistl’s at face value. Can you tell us a little bit more why you seem to place more probability on Whistl’s business plan, who have an incentive obviously to low-ball the effect to get a regulatory decision and direction, how you sort of adjust for that?

And then the very final----

Ed Richards (Ofcom): Let me just pick up the third question I think and then we’ll reverse into the first and the second.

The notion that we have treated Whistl’s plans in a different way to Royal Mail’s is completely wrong; we have treated them both with a sceptical eye, as I think would be expected, but we have treated it completely evenly and on exactly the same basis. It’s important to say that we’ve had access to Board papers from both parties which we have asked for and secured under our information-gathering powers. So I am confident that we have both taken an even-handed approach
to both participants in that debate and that secondly we have had access to the right kind of information to give us insight and full visibility on what we expect to happen from both players. So I don’t think you need to worry at all on that front. I think there are incentives of the kind that you describe working from both directions, and they are incentives that we are very familiar with and very comfortable with uncovering and working out in our view what the position is.

Chris, would you like to pick up the first question?

**Chris Rowsell (Ofcom):** Yes. Just to add a point to that, technically what we were doing in that was replacing Royal Mail’s estimate based on their modelling and what they could find out of the market with things that we actually knew about from the Board papers and the information we formally requested, as Ed has just described.

On the first two points:-

The reference to London being higher cost, that is the unit cost of delivery in London which is the highest of the four zones. In order of hierarchy the most expensive is London followed by rural, followed by suburban, followed by urban. The causes of that are primarily higher labour costs for Royal Mail in London, there’s also some demographic issues such as degree of high rise in London, congestion in London and property prices in London.

On the second point, weighted average, we are weighting per volume delivered by zone, so the national price is based on the weighted average of the volumes in each zone over the total volume.

**Katie Curry (Ofcom):** The key idea behind our proposal is to make sure that operators using the national plan and the zonal plan are able to procure access services on similar terms. So in order to make the national price plans comparable, we propose to construct it by weighting the zonal charge in each area by the volume that Royal Mail delivers into each area, and that should mean that the national charge approximately corresponds to what Royal Mail itself would pay if it were on a zonal price plan.

**Damian Brewer (Royal Bank of Canada):** Okay, thank you.

**Operator:** Thank you for your question. The next question is from the line of Christopher Combe from JPMorgan. Please go ahead.

**Christopher Comber (JPMorgan):** Good morning. Just two questions. The first is a follow-up.

You made reference to a uniform mark-up. Can you tell us what the basis is for determining the base level of cost and how frequently that will be assessed and by whom?

And then the second question, on Slide 10, you talked about some of the complexities [inaudible] discuss around cherry-picking and the profitability of standalone universal service mail. How did you go about assessing the profitability of universal service volumes alone, given the share cost base with the bulk, and is the point of the cherry-picking argument not that there is limited variable cost flexibility?

Thank you.
Ed Richards (Ofcom): Okay, Katie is going to deal with the first question, and I'm going to ask David Brown who works in our Competition Finance Team to address the second question.

Katie Curry (Ofcom): In terms of the bases of cost that were [inaudible] used for assessing compliance, Royal Mail already submits regulatory accounts in accordance with our guidelines on an annual basis, and the cost data that we use will be taken from that.

David Brown (Ofcom): And a similar answer to the second question about assessing the profitability of the USO, and again it's using submissions from Royal Mail, using [inaudible] provided by Royal Mail.

Christopher Combe (JPMorgan): Okay, thank you.

Operator: Thank you. The next question is again from Damian Brewer from the Royal Bank of Canada. Please go ahead.

Damian Brewer (Royal Bank of Canada): Good morning again. I just have one further question which is, just going through the document can you tell us a little bit more about how you thought about quality and ensuring the industry is on a sort of level playing field in terms of quality, particularly given its effect where typically as a receiver you don’t tend to choose who your end-to-end deliver, or indeed for that matter access mail utiliser, is, but that gets chosen for you by the sender. How did you think about the trade-off between profitability and quality as you came to your initial thoughts here?

Chris Rowsell (Ofcom): Okay. I think one important point to note is that there is no quality of service regulation on bulk mail in the same way there is on universal service mail. I mean it’s quite a competitive market in the access side of things, so access operators competing against each other and Royal Mail for bulk mail contracts, the major companies, you know, like banks and utilities. You know, largely a lot of the development in bulk mail about better information and high quality for customers, i.e. these large businesses, has come about through the competition in access mail, and these companies are very, very aware of the quality they are getting from their companies. And the same then applies in direct delivery, because direct delivery has grown out of access mail, with Whistl being one of the largest access mail operators. So as part of a proposition of these companies is providing better traceability, better tracking of, and information and quality on access mail. And when we speak to the large senders of mail, they’re very happy with the developments and quality of service since there’s been competition in bulk mail.

Ed Richards (Ofcom): And I guess none of that should really surprise us since in all the other markets that we look after we have to consider the trade-offs or certainly the balances that are struck by different players in price and quality of service. And I think particularly for business users that is something they monitor very carefully and they tend to know far more about than anybody else, and it seems to work pretty successfully in that respect in most other markets.

So I think a lot of that will look after itself, but obviously given our responsibilities we’ll keep an eye on developments in general.
Damian Brewer (Royal Bank of Canada): Okay, but just to be clear, unlike telecoms and other areas of media, effectively what you’re saying is it’s up to the market, the senders to decide how this all sort of levels out effectively?

Chris Rowsell (Ofcom): Well I think you’ve got to remember the bulk mail customers are the senders of mail, they are the people paying for mail and they are the people who [inaudible] mail typically, are typically their customers who they want to keep happy. I think that is why there is a competitive advantage for some players in the market in providing high-quality services. For example, Whistl have a traceability service with a GPS barcode scanner on every item of bulk mail that they supply, which is one of the innovations we refer to that competition can deliver. Also in the letters market and the mail market, we have mail integrity obligations that relate to the security of mail, you know making sure that letter companies, letter delivery companies do everything they can to make sure mail is not interfered with, not stolen, doesn’t go missing, and those rules apply to all delivery companies delivering letters.

Ed Richards (Ofcom): So don’t think we’re saying we’re not, we’re indifferent to it. Of course it’s something that we will keep an eye on, but there are reasons to believe that particularly in the business market the incentives for the customer there are aligned with the provider, and secondly the whole thing has a backstop security derived from the mail integrity obligations which do fall upon all suppliers.


Operator: Thank you. The next question is again from Christopher Combe from JPMorgan. Please go ahead.

Christopher Combe (JPMorgan): Yes hello, just one more question regarding the broader scope of your review. You’ve mentioned including consideration of the parcels market development and also efficiencies. If we think of a scenario where you do see some sort of growing onerous impact from parcel competition, what is the scope of remedy that you could provide since that market is in fact unregulated? Thanks.

Ed Richards (Ofcom): Well, the remedy, the purpose of looking in those areas is because we take our duty in relation to the universal service very, very seriously. We have done a review of the specific question of the impact of direct delivery, and as I think we set out, we have both facts about the impact of direct delivery today, which as I think are clear, are fairly marginal, we also have full visibility about the likely development and impact of direct delivery in the coming years. So we have made a decision about that issue at this point in time. But, because our duty is to secure the USO we need to think about it in a broader context than just that issue. And it’s very clear I think that the really big developments taking place are in the parcels market, and therefore we do need to be alert to any impact and any consequences in that area, but the second, and probably the biggest factor is that we need to ensure that there is continued progress on efficiency because if the USO is to be sustainable in the longer term it has to be efficient.

So those are the two areas of focus. In terms of what we might do should issues arise, I think it is just too early to get into that territory, but should one arrive at that point in the future actually you’re into the range of measures that are set out in the Act through which we can intervene to
secure the universal service, and they are varied, so we would have to look at that in due course should we believe that a problem existed.

Christopher Combe (JPMorgan): Okay, thank you.

Operator: Thank you. The next question is from the line of Hugo Turner from Credit Suisse. Please go ahead.

Ed Richards (Ofcom): Hello Hugo.

Hugo Turner (Credit Suisse): Hi, sorry, yes, my question has actually just been answered at the moment. Thank you.

Ed Richards (Ofcom): Okay. Thank you very much.

Operator: Thank you. The next question is from the line of Sylvia Foteva from Deutsche Bank London. Please go ahead.

Sylvia Foteva (Deutsche Bank): Hi, good morning. I just wanted to ask what measures will you be considering in terms of the efficiency monitoring you’ll be starting now please? Thank you.

Chris Rowsell (Ofcom): In our annual monitoring report also published today we set out some of the ways we are measuring efficiency and the metrics we are using there. These include some fairly simple unit measurements but also developments [inaudible] looking at real unit operating costs and also the use of cost bridges to understand the impact of efficiency in Royal Mail’s costs. Part of the review that we’re going to be looking at going forward is as very much as Ed described with regard to the parcels sector, this is clearly a major issue for Royal Mail’s future – or rather you know the sustainability of the universal postal service, so therefore it deserves some detailed and considered thought from us on how we will measure this. We will be looking at a range of issues over the coming year, and looking also at Royal Mail’s business plan, internal benchmarking and working on the marginality of Royal Mail’s costs, i.e. how those costs change in relation to volume.

Operator: Thank you for your question Sylvia. Ladies and gentlemen if you wish to ask a question please key star then one on your telephone then press the hash or the pound key. If you decide to withdraw this question, simply key star two. Thank you.

We have a further question from the line of John Lawson from Investec. Please go ahead.

Jonh Lawson (Investec): Good morning. Can I just ask one question around your two proposals on access pricing where you talk about the zonal access and also the national access. Just perhaps a hypothetical question maybe, but if I was say a Whistl who was delivering in London, Manchester and Liverpool, would I be charged zonal pricing for London and the urbans or would I be able to get a zonal average, a weighted average price - a national average charge should I say? Just trying to get some sense around that.

Katie Curry (Ofcom): The difference between the zonal and the national pricing plans as currently operated by Royal Mail is in order to qualify for the national price plan you have to have a mailing profile which quite closely corresponds to Royal Mail’s own profile, and that means that access-only operators who don’t deliver their own mail tend to qualify for the national pricing plan, whereas an
end-to-end operator who is sending a significant proportion of its own mail through its own network would have a profile that deviated sufficiently from Royal Mail's so it would face the zonal pricing plan rather than the national pricing plan, and it would then be charged in accordance with the zonal charges depending on where it was sending mail.

**Jonh Lawson (Investec):** Just a follow up, so your proposals [inaudible] remain consistent to that policy?

**Katie Curry (Ofcom):** It would be open to Royal Mail [inaudible] to set the terms of its contracts. What we’re requiring is that for every product that Royal Mail makes available in its access services, that product is available on a zonal basis. The rest is up to Royal Mail.

**Jonh Lawson (Investec):** Okay. Thank you very much.

**Operator:** Thank you for your question. We have a further question from Damian Brewer from the Royal Bank of Canada. Please go ahead.

**Damian Brewer (Royal Bank of Canada):** Thank you. Just one follow-up on the zonal access. I’m just wondering, could you tell us in terms of, not necessarily the pricing and the structure, but the way Royal Mail has set up the zones, that you’re entirely comfortable with the zonal structure, or do you see any issues with that, or is that something where there isn’t any issue of consultation or further review?

**Katie Curry (Ofcom):** It’s not an area that we see as causing a problem at the moment. It’s not anything that any operator has raised concerns about. We will be monitoring it as part of our ongoing monitoring of the regime as a whole.

**Damian Brewer (Royal Bank of Canada):** Okay. So just to be quite clear, say you were Whistl operating in London or some new other direct delivery competitor, if you’re only delivering in part of London, you’re under the situation you described in the response to the last question, you’d effectively still have to pay the zonal access pricing to access parts of London you didn’t deliver to. I’m just wondering whether you’d see that as an impediment to future competition, or whether if the zones are left to themselves that’s something you’re comfortable with?

**Katie Curry (Ofcom):** We think it’s important that an entrant who is entering in selective areas is paying a cost-effective price to use Royal Mail’s access services where it doesn’t have its own network, and that’s consistent with the zonal access pricing regime.

**Ed Richards (Ofcom):** I think the danger of going much into speculating about the zones and all of those sorts of things is that we then enter, we could enter an area of micromanagement which we don’t want to get into. We want to set a framework which allows the participants to compete and to operate as efficiently as we can. So there’s a judgement to be made there, but I think our instinct is to, as I said earlier, to be less intrusive rather than more where we can be.

**Damian Brewer (Royal Bank of Canada):** Okay, understood. And there was just one other which was just referring to sort of what the appropriate return on the [inaudible] generate a sustainable USO is in terms of profitability. Given that the profitability of some of the more sort of privatised
and historically more commercial peer groups have changed, do you see any reason to review that 5% to 10% or does that still stick as it is as you gather your future thoughts?

**Ed Richards (Ofcom):** Well, we said that that was an indicative range originally, and we said it pre-privatisation. We’ve got nothing to add to that today, but clearly, you know, the future is the future and we tend to look at things at various points, we tend to look at everything. So that’s the position, there’s no change on the indicative range or the right for Royal Mail to have the opportunity to earn that return, it is an opportunity to earn that return, it’s not a guarantee. But, in terms of the actual range itself that’s something we may look at in the future, but we’ve got nothing to add to it today.

**Damian Brewer (Royal Bank of Canada):** Okay, thank you.

**Operator:** Thank you. And the last question comes from the line of Hugo Turner from Credit Suisse. Please go ahead.

**Hugo Turner (Credit Suisse):** Hi, just going back on the access mail price plan that was proposed by Royal Mail. I think they broadly suggested that there was a 0.25p discount per letter if you could fulfil two criteria broadly, which was match Royal Mail’s national profile and also a commitment to volumes into the future. Have you made any comment around that commitment to volumes? Are you comfortable with that? If you could just comment on that, that would be useful, thank you.

**Ed Richards (Ofcom):** I think that would take us into the Competition Act case and therefore I think we don’t want to talk about that in any detail today. We’ll be talking to Royal Mail about the state of play with that investigation before Christmas and we will make public our views in the New Year.

**Hugo Turner (Credit Suisse):** Okay, thank you. And, sorry, just one follow-up question. Are you going to appear in front of the Business Select Committee before Christmas?

**Ed Richards (Ofcom):** I’m thoroughly looking forward to it, and I will be making that appearance, yes.

**Hugo Turner (Credit Suisse):** Thank you.

**Operator:** Thank you Ed and all speakers. Ladies and gentlemen that concludes your conference call for today, you may now disconnect. Thank you for joining, enjoy the rest of your day.