

FOR IMMEDIATE RELEASE - 9 December 2013

ROYAL MAIL AND CWU REACH AGREEMENT IN PRINCIPLE ON AN AGENDA FOR GROWTH, INDUSTRIAL STABILITY, PAY AND PROTECTIONS

Royal Mail plc (RMG.L) today announces that Royal Mail Group Ltd (Royal Mail) has agreed in principle a ground-breaking new agreement including a three-year pay offer (the Agreement) with the Communication Workers Union (CWU). The Agreement, believed to be the first of its kind in the UK, includes legally-binding terms covering industrial stability and employee protections. The Agreement will cover approximately 139,000 employees in Royal Mail¹.

This is the first time Royal Mail and the CWU have entered into an agreement of this type containing legally-binding provisions. The Agreement builds on the "Business Transformation 2010" agreement and other existing agreements to create an Agenda for Growth and build the right environment for business success. It represents a joint commitment to radically improve industrial relations and create a can-do culture in the interests of customers, employees and the company.

The Agreement underlines the importance of the continued implementation of Royal Mail's modernisation programme across its operations. Royal Mail is adapting its core network to accommodate an increasing number of parcels. This is one of the biggest transformation programmes in UK industry and it is changing every aspect of the way our people work. The Agreement emphasises that efficiency is a prerequisite for growth. New employee incentive arrangements will be developed and introduced to underpin this.

Royal Mail and CWU have committed to create an Agenda for Growth, building partnership and participation across the company. Both parties will work together to develop and implement business strategies, respond to competitive challenges and develop new approaches to improve efficiency. There will also be joint Royal Mail/CWU training programmes to deliver industrial stability.

Industrial stability and employee protections

The Agreement provides ongoing legal protections that benefit Royal Mail and employees. The industrial stability framework sets out a new approach to resolving workplace issues at a much faster pace and without disruption. Defined processes and strict timescales will be applied to resolve any disputes. New mediation procedures will introduce additional expertise and help reach agreement, with internal processes escalating automatically to independent external mediation as required.

The employee protections include: the maintenance of existing terms and conditions of employment; a commitment to retain a predominantly full-time workforce; no additional franchising or outsourcing; and an objective to continue to manage change without recourse to compulsory redundancy.

These legally-binding undertakings on industrial stability and employee protections are ongoing. The protections are subject to review - at periodic reviews starting from January 2019. Royal Mail also has the right to earlier termination of the protections in exceptional circumstances, such as a threat to the financial sustainability of the business. Under certain circumstances, including the breakdown of industrial stability, both parties have the right to earlier termination of the legally-binding undertakings.

Pay

The Agreement includes a revised three-year pay offer and an employee incentive scheme. The principal terms are:

- 1) Pay increases over three years: 3.0 per cent in FY 2013/14 backdated to April 2013, 3.0 per cent in FY 2014/15 and 2.8 per cent (subject to review if inflation is below 2.3 per cent or above 3.3 per cent) in FY2015/16. The expected three-year pay deal amounts to an overall compound base pay increase of 9.06 per cent
- 2) A £200 lump sum payment (pro-rata for part timers), paid in December 2013, in recognition of business progress to all employees in post on 1 October 2013
- 3) A new employee incentive scheme, to be developed and then introduced from April 2014

The Agreement reconfirms the amended proposal for the Royal Mail Pension Plan, which followed a consultation earlier this year. Royal Mail has also agreed to make higher employer contributions to the Royal Mail Defined Contribution Plan.

The implementation of the pay and pensions agreements does not change the financial outlook for Royal Mail plc or our medium term objectives.

The Agreement is subject to approval by the Royal Mail plc Board. The CWU Executive has said it will recommend the Agreement in a ballot of its members. The CWU has also confirmed to Royal Mail that there will be no disruption through industrial action during the ratification process of the Agreement, including the whole of the Christmas trading period.

Moya Greene, Chief Executive, Royal Mail plc, said: "I am delighted that we have reached an agreement in principle with the CWU. This will provide long term stability and certainty for Royal Mail, our employees and our customers at this pivotal time. Working together we can create a strong foundation for the continued success of our business."

Ends

Contact: Mish Tullar on 07423 524154

Notes:

- 1 The proposed agreements on pay, industrial stability and employee protections apply in respect of all CWU represented grades in Royal Mail Group Ltd, including Royal Mail Core Operations, Logistics, Engineers, Fleet Maintenance Services and Royal Mail International, with some minor variations for other employees including those in Parcelforce Worldwide.

The Agreement (subject to ballot) – key elements

1. Legally-binding contract

A Royal Mail contract with the CWU to ensure industrial stability and provide employee protections. These include:

Industrial stability⁺

- A new approach to resolving workplace issues at a much faster pace and without disruption.
- A joint commitment to radically improve industrial relations and create a can-do culture.
- Defined processes and strict timescales to resolve disputes.
- New mediation procedures will introduce additional expertise and help reach agreement. Internal processes escalating automatically to independent external mediation where a dispute cannot be resolved internally.
- Joint Royal Mail and CWU training programmes to deliver industrial stability

Employee Protections⁺

- No zero hours contracts for employees.
- Current employment model of a predominantly full-time workforce in Royal Mail core operations continues.
- No material change to current structure of the company in relation to delivery of the Universal Service.
- Maintaining the objective of delivering change without recourse to compulsory redundancy.
- No additional franchising or outsourcing.

These legally-binding undertakings on industrial stability and employee protections are ongoing. The employee protections are subject to review - at periodic reviews starting from January 2019. Royal Mail also has the right to earlier termination of the employee protections in exceptional circumstances, such as a threat to the financial sustainability of the business. Under certain circumstances, including the breakdown of industrial stability, both parties have the right to earlier termination of the legally-binding undertakings.

2. Participation

- Both parties will work together to respond to competitive challenges and develop new approaches to improve efficiency
- Royal Mail and CWU will work together to develop and implement business strategies.
- A newly created "Growth Forum". Three senior executives from both parties, including the CEO and the CWU's Deputy General Secretary, to drive change across the company.

3. Pay

A three-year pay deal:

2013-14

- 3.0% base pay increase, backdated to 1 April 2013.
- £200 lump sum payment for each full time eligible employee (pro rata for part-timers) in post on 1 October 2013, in recognition of business progress. This will be paid before Christmas in addition to any Christmas bonus.
- Additional increase in the over 10 hours overtime rate⁺⁺.
- Scheduled attendance payments during periods of annual leave will be extended⁺⁺.

2014-15

- 3% base pay increase.
- New incentive scheme to be developed and introduced by April 2014.

2015-16

- 2.8% base pay increase. Subject to review, if inflation is below 2.3% or above 3.3%.

The increases over the three year period apply to the usual allowances and overtime payments.

4. Pensions

- The Agreement reconfirms the amended proposal for the Royal Mail Pension Plan (RMPP), which followed a consultation earlier this year. Royal Mail has agreed to make higher employer contributions to the Royal Mail Defined Contribution Plan.
- No further changes to the RMPP until at least March 2018, subject to certain conditions. Any proposed changes would be discussed under a joint review process with the CWU.
- The agreement on pensions will be subject to ballot by the CWU at the same time, though separately to, the main Agreement.

+ All subject to the detailed provisions of the legally-binding agreement.

++ Applicable to employees in the Royal Mail Core Operations Network.