IR briefing

• General Managers and their teams

September 11, 2007

RUN 100% BY POSTAL WORKERS
ROYAL MAIL CHAT
WWW.ROYALMAILCHAT.CO.UK

Royal Mail
Adam
Agenda

• Introduction and welcome

• Outline of the event
  - Update on the talks
  - The offers we’ve made to CWU
  - What happens next
  - What we want you to do

• Questions

• Breakout groups
Our objectives

• Protect our reputation
• Increase the momentum behind the strategic plan
• Meeting the year one financials
• Change the relationship with the CWU
  No more negotiation on every subject at every level
  No more payment for change
  No more ‘opposition in principle’
• Change the relationship with our employees
  Mature, professional and mutually supportive
  Goals aligned - business success means individual success
  Fully flexible with continuous improvement and teamwork at heart of our ways of working.
Our principles

• Do what’s right for the future of the business - right for our customers, people, shareholder and reputation
• Our actions are legal, honest and reasonable
• Support our managers through every phase
• Maintain the dialogue with our people: don’t protect our people from the truth
• Say what we are going to do and do what we say - no shocks on business recovery
• The offer is the offer, the money is the money and the words are the words
• Maintain our professional approach to business as usual changes with the union
• Any consequence of industrial action will focus on the business recovery
Our journey
Agreeing a one year deal

• We opened negotiations on this year’s pay and flexibility on 16 March 2007

• We had 12 lengthy meetings before talks broke down and the CWU went to ballot

• They won the ballot and embarked on a series of national strikes
  
  Two one-day strikes
  
  Three rolling strikes covering five working days to ‘maximise the impact on the business’

• The CWU then offered, and we accepted, a ‘period of calm’ to 4 September to try to resolve the dispute
Seeking resolution to the dispute

- During the period of calm we held further talks with CWU assisted by TUC and ACAS
- We held off notifying people about Network 2007 including changes to start times
- The CWU went ahead with local strikes in London, Bristol and N Ireland
- There was some noise around our consequences for unofficial action
- We were clear that there was no more money on the table
- In an attempt to find a resolution we started to widen the debate and bring some other issues onto the table eg pensions and MTS F
- Overall we made little progress
Moving the business forward

- There was a meeting between Allan and me and Billy and Dave on 4 September 2007
- This led to five more days of intensive talks
- In a further attempt to settle the dispute we offered the CWU a range of solutions including two longer term deals - over 18 months or over two years
- Unfortunately, talks broke down on Sunday night
- We remain, as always, available to talk to the CWU, but as we told them on Sunday, we have to get on with running the business
- CWU has now announced fresh strikes at the end of the month - unless the dispute is resolved
- But the offer is the offer and the money remains the same
Our stakeholders

• We’ve had tremendous support from all our key stakeholders

• The Board
  “Tell your managers we are right behind them”

• Our shareholder

• Postcomm/Postwatch

• The media

• Many of our customers
Our managers

- Thank you to you and your teams for all your support
- Thank you for keeping the conversations going with your people
- Thank you for the valuable feedback that has helped to shape our tactics over the last few months
- Please keep talking to your people, listening to your people and feeding back their views
- Thank you for the hard work you and your teams have put in through the ballot and through the dispute
- Unfortunately we may need you to do it all again
Tony & Kevin
The one year offer
This year’s money

• 2.5% on basic pensionable pay
  Flowing through to allowances
• £800 ColleagueShare dividend
  £400 for meeting local budget
  £400 for hitting the Group profit target
• 50:50 productivity scheme
  For local savings over and above budget
This year’s enablers

- Network 2007 including later starts
  We have offered to give people in delivery personal rights to their own early start allowances rather than include it in a wider pay deal

- Changes to weekend working
  Starting with cessation of Sunday collections already agreed with Postcomm

- Summer staffing
  Which we need to plan in for next year and beyond

- Nights out of delivery offices
ESOS potential

- Employee Share of Savings Scheme (ESOS)
  - Commits us to sharing savings from any business case
- We have £23.5m in the ESOS pool which allows us:
  - An extra 0.5% increase in basic pensionable pay for one year only
  - To be paid from 1 April 2007 to 31 March 2008
  - The money in this scheme has been used before to settle disputes over pay
- It can be spent by agreement between Royal Mail and CWU
- We have agreed that this money can go into pay - but for only one year - UNLESS the CWU sign up to the additional major changes we need (full flexibility, pension reform, MTSF, etc) - when we would cover the ongoing cost
- We have proposed that the ESOS scheme is now closed
The longer term offer
The additional changes we need

Immediate changes

• Full flexibility, automation and new ways of working
  Allowing our managers to manage

• Support for pension reform

Future working groups - to be concluded by January 2008

• New IR Framework

• New MTS F agreement

• Single conduct, attendance, performance procedure

• Cap off Door to Door
Flexibility

• A flexible, agile business that can meet and respond to our customers changing needs

• The ability to use resources effectively and efficiently and at pace

• People will use any new machines, technology or equipment - as long as they’ve had any necessary training - as long as it’s safe and legal

• Managers, trade unions and our people working together in a mature, responsive way

• Everyone is treated fairly and with respect
Functional flexibility

- People will cover any work that they have been trained to do in the hours they have been scheduled to work each day
  - People cover each other’s absence/leave
  - People cover each other’s duties as long as they’ve been trained
  - People come in earlier, or stay later, at relatively short notice to cover unexpected changes in the operation eg late arrivals due to bad weather
Flexible attendances

• People flex their daily attendances by up to two hours a day - with a week’s notice

• Phase 1: from October 2007

  People work different hours on different days of the week to reflect volumes in their office and different hours in winter and summer to reflect seasonal changes in volumes

  New flexible contracts up to 48 hours (seasonal/term time)

• Phase 2: from April 2008

  Once we have the appropriate systems banked or annualised hours will be phased in from April 08

  To support this, we will migrate to monthly pay by March 2008
The pension issue

- Funding deficit was valued at £3.4 billion in 2006
- Increase was due to:
  - Increasing life expectancy
  - Investment returns are expected to be lower than before
  - New regulation demands that we make more prudent assumptions on investment returns

- Cost of deficit: £268 million per year
- Cost going forwards: £583 million per year
- Total = £851 million per year
- Company contribution: 30% of salary (up from 17/18%)
Support for pension reform

• The proposal we put to the CWU:

  Royal Mail pension scheme to be closed to all new members

  Retirement age to be increased to 65 from 2010

  From April 1, 2008, pensions to be calculated on the basis of career average earnings, indexed to RPI and capped at 5% per year

  Current pension benefits accrued are ‘banked’ and indexed to RPI and capped at 5% per year

  A new defined contribution scheme to be set up for new entrants

  Note: This is not necessarily what we will consult on
To be agreed in the working groups

• New IR Framework

A strong relationship with a progressive and committed union at national level

A local, accredited rep structure that matches our organisational structure

A simpler framework where change, flexibility and efficiency are all part of business as usual

Revised union facilities and release arrangements that are more reflective of ACAS norms

We want to involve the TUC to help us develop a new IR framework based on best practice in UK business
To be agreed in the working groups

- A new MTS F process that helps us manage headcount in a commercial but sensitive way
- A single procedure for dealing with conduct, attendance and job performance in a joined-up way
- Resolution of the Door to Door and election material issues

Both items become part of normal delivery work
Remove the cap limiting the number of Door to Door items
Grow our share of the market
The money for the two year offer

• Year one remains unchanged
  But includes a 0.5% from ESOS for that year only

• Year two
  2.7% on basic pensionable pay
    - Flowing through to allowances
  £400 ColleagueShare dividend
    - £200 for meeting local budget
    - £200 for hitting the Group profit target
  50:50 productivity scheme
    - For local savings over and above budget

Plus 1.5% additional pay - on delivery of the additional changes we need to make to move the business forward
Structuring an 18 month offer

- 2.5% for year one
- 2.7% for year two (RPI)
- 1.5% additional cash for the additional changes

**TOTAL: 6.7%**

- 0.5% lump sum from ESOS (one year only)

- The 18 month offer is based on the principle of ‘cash on delivery’ ie the sooner we get the change agreed and deployed the sooner people get the cash
# Options for an 18 month offer

Remit: 2.5% ; full year 07/08; and a total 6.7% 07-09

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<tr>
<td>(5)</td>
<td>3.0% (1.50%)</td>
<td>3.7%</td>
<td>£350</td>
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** Next pay date April 09
Tom
Operational changes
This year’s enablers

• Summer efficiencies
  You need to include summer efficiencies in next year’s business plan
  Please think creatively around the staffing issues

• Night duties
  We will continue to take these out under business as usual

• Sundays and Bank Holidays
  We will issue ‘how to’ packs next week

• Stage 3s
  To be deployed as per the timetable agreed with your TD/ND

• Network 2007
Play the Runcorn DVD
Why we are introducing Network 2007

• Legislation from January 2008
• Minimise the cost of the changes
• Standardise the network
• Build tolerance into the system
• Maintain consistency of service
Network 2007

• We have already postponed the implementation of this project twice while we tried to secure a deal with CWU

• We need to get the change deployed and bedded down well before Christmas to be ready for the legislation in January 2008

• We need this time to convert our remaining vehicles

• The delivery changes including later starts will be made on 8 October 2007

• The network and mail centre changes will be made on 22 October 2007
Communicating the changes

• We are writing to CWU this afternoon notifying them of the changes
• We want all your managers to give their people formal notice of the implementation dates tomorrow
• We want your managers to give letters tomorrow to people whose scheduled attendance is changing
• There will be a letter to people’s homes going in the post Wednesday for delivery Thursday
• We are offering delivery postmen and women personal rights over their early start allowance as long as they stay in the role
• We want to give people reasonable notice so they can sort out any personal arrangements
• We need managers to have individual conversations with their people and try to accommodate any issues
Next steps
Managing the business

• We have lost six months worth of savings - since the CWU brought the shutters down on local change at the beginning of the pay talks

• We are too late for the summer efficiencies this year

• We have put Network 2007 implementation back as far as we possibly can

• We have a responsibility to run the business and that’s what we are going to do

• We will do the right thing in the right way - and we need that approach replicated right through the business
What we should be prepared for

• Renewed official strike action
• More unofficial strike action
• Work to rule
• The CWU leaking details from the longer-term offer and using them to scare our people
  
  Pensions
  Flexibility
  MTS F/VR terms

• Criticism of us from our people for not resolving the dispute
What we want you to do

• Get your managers together and talk them through the offer and the changes

• Make sure they are talking to their teams and getting them involved in how we deploy the change

• Help them to get their heads around the flexibility and the new ways of working

• Help them to think about the cultural and behavioural changes this will require - for us all - so Royal Mail can develop a flexible, co-operative working environment
Questions
Breakout session
Breakout

- Looking at the longer term offer, in particular the flexibility element, which issues will be of the greatest concern and why
  a) To your managers
  b) To your postmen and women

- How can we deal with these concerns?

- What do we need to do to prepare both groups
  a) So they understand what is needed
  b) So they are able to manage the deployment in the right way

- What support do you need from us?