

REBUILDING ROYAL MAIL - A FRAMEWORK AGREEMENT BETWEEN EP GROUP AND CWU

This Agreement is dated _____ 2024

1. Introduction – A Fresh Start

In response to the potential takeover of International Distribution Services ("IDS") and its subsidiaries, which includes the Royal Mail Group (the "RMG") (the "Transaction"), EP UK BidCo Ltd ("EP Group") and the Communication Workers Union (the "CWU") have reached this groundbreaking agreement which is conditional in its entirety upon the Transaction being successfully completed and EP Group becoming the controlling shareholder of IDS and RMG.

Underpinning every part of this agreement is a recognition and belief from both parties that the only way to rebuild trust in RMG is for a fresh start in the way the business is run, at all levels and in every workplace.

The agreement signifies a complete reset in Employee and industrial relations and is about putting customers and postal workers back at the heart of everything we do.

2. Purpose and Objectives

The purpose of this agreement is to ensure the RMG has a sustainable and successful future that benefits and aligns the interests of Employees, customers, the company and its shareholder(s).

This agreement is also designed to navigate the changes that RMG is required to undertake, if it is to adapt and grow in a fundamentally changed world of communications and a rapidly evolving postal and logistics sector.

The key objectives of the agreement are set out below:

2.1 For EP Group to provide the CWU with legally binding commitments that address the concerns of Employees over job security and the future direction of the company.

2.2 For EP Group to demonstrate to Employees that they are a responsible long-term investor who will maintain RMG as a company that adds social and economic value to the United Kingdom.

2.3 For EP Group and CWU to reset Employee and industrial relations by reaching agreement on clear principles and a timeline to resolve a range of outstanding key issues in a mutually beneficial way.

2.4 For EP Group and CWU to amend the articles of association of the company enabling the introduction of a radical new business and governance model for RMG.

2.5 For EP Group and CWU to agree to the introduction of an Employee Collective Benefit Trust, creating a meaningful stake for Employees in the future of the company, whilst delivering growth, the highest possible standards of service quality for customers and workforce efficiency.

2.6 For EP Group and CWU to agree a new plan to grow the business, alongside investment in the workforce and infrastructure of the company.

3. Job Security - Legally Binding Protections for Employees

In recognition of the need to increase Employee confidence regarding job security and the future direction of the company, EP Group and CWU have agreed a framework of legally binding and enforceable protections for Employees, as set out below:

3.1 EP Group will ensure RMG remains an end-to-end service provider and there will be no sell-off or break-up of any operational part of the existing company.

3.2 There will be no outsourcing of any CWU-represented grades or franchising of any part of the existing RMG.

3.3 EP Group confirm they will not establish a separate Royal Mail branded, or otherwise, parcel company and will pursue all growth opportunities through existing Employees and the core business.

3.4 EP Group confirm they will not operate Royal Mail as a 'gig economy' employer, there will be no recruitment of owner drivers into Royal Mail and there will be no increase in the agreed level of 25% of owner drivers in Parcelforce Worldwide.

3.5 EP Group will ensure RMG maximises full-time employment, remaining a predominantly full-time employer, whilst continuing to offer less than full-time working and reasonable levels of overtime.

3.6 The legally binding commitments set out in 3.1 to 3.5 above will be jointly reviewed in a period starting January 2028 and ending April 2028, in each case with a view to extending these, subject to a joint assessment of the overall business performance and market conditions, at that time. Additionally, both parties recognise that the nature of legally binding agreements requires a clause that protects the parties in the event circumstances were to arise that threaten the ongoing viability and very existence of RMG. Therefore, in such circumstances, EP Group reserves the right to

withdraw from the legally binding commitments set out in 3.1 to 3.5 above upon a three months notice to CWU.

Additionally, the legally binding protections outlined below in 3.7 and 3.8 are ongoing and not subject to any of the clauses set out in paragraph 3.6 above:

3.7 In addition to the pension scheme undertakings agreed between the UK Government and EP Group, for as long as EP Group is the controlling shareholder of RMG, the pension surplus in both the CARE and CASH BALANCE schemes will be allocated as follows: Subject to the agreement of the pension scheme trustee board(s), at the appropriate time, it is agreed that any pension surplus from any pension schemes will be split between investment into RMG and for the benefit of Employees, with agreed funds to be distributed into the Employee Collective Benefit Trust.

3.8 For so long as EP Group remains the controlling shareholder in RMG, EP Group is committed to improving industrial relations and abiding by all agreements between RMG, EP Group and the CWU entered into following the Transaction. Furthermore, EP Group fully respects existing agreements between RMG and CWU and will continue to support the Industrial Relations Framework and the existing facilities arrangements for recognised trade union activities. Any future changes to these arrangements will be by mutual agreement.

4. Maintaining Royal Mail Group as a key part of the UK's national infrastructure (UK Government and EP Group Contractual Deed of Undertaking)

In addition to the legally binding commitments provided to the CWU, both parties welcome the separate Deed of Undertakings reached between the UK Government and EP Group ("Deed of Undertakings"). This contractual Deed of Undertakings provides assurances to Employees and the country that Royal Mail will continue to operate in the national interest as the provider of UK postal services, including guarantees on the future of the Universal Service Obligation (USO) and the stability of the financial arrangements regarding the takeover.

A full copy of the Deed of Undertakings can be found on the UK Government website and this is summarised below.

Institutional Stability

Significant commitments from EP Group to provide certainty over Royal Mail's position as a key UK business, including:

- 1. Amending the Royal Mail Articles of Association, to ensure that HMG permission is sought before moving Royal Mail's HQ, central operations or tax residency out of the UK (by way of a 'Golden Share' owned by HMG).*
- 2. Committing to IDS retaining its HQ and tax residency in the UK for at least five years.*
- 3. Ensuring that the Secretary of State is notified prior to the onward sale of the Royal Mail Group (RMG).*
- 4. Ensuring the Royal Mail brand is protected.*
- 5. Committing to no change in the control of GLS or Royal Mail for three years.*

Financial Sustainability

Commitments from EP to maximise the chances of Royal Mail's financial success by:

- 6. Committing to prevent value extraction (subject to limited exceptions) until two tests are satisfied:*
 - o A financial test that considers the debts of RMG so that value cannot be extracted if the company is heavily indebted.*
 - o A quality test to ensure that value is not extracted unless RMG has maintained or improved its performance as against its 2023-24 quality of service performance.*
- 7. Restructuring the RMG balance sheet to remove an existing, substantial intra-group debt.*
- 8. Ensuring RMG retains ownership or control of, or access to, assets necessary to deliver the universal service obligation.*
- 9. Ensuring that Royal Mail has sufficient financial means to meet the planned capital expenditure required to implement its transformation agenda over the next three years.*

10. Other than in the context of the existing IDS bonds, ensuring that RMG does not assume liability for any non-RMG debt (including any refinancing of the acquisition debt) until such time as the value extraction criteria above are met.

Regulatory Environment

Recognising the importance of postal services to UK citizens, there are further commitments from EP to:

11. Meet the core regulatory requirements that RMG is subject to, including:

11.1. ensuring RMG is the universal service provider for as long as EP Group is in control; and

11.2. maintaining "one-price-goes-anywhere" service, with first class letters delivered six days a week.

12. Include a UK/British nationality requirement for at least two RMG directors.

13. Continue engagement, funding and participation with the Universal Postal Union (the UN Specialised Agency for international postal cooperation, which sets the rules for international mail exchanges and makes recommendations to boost mail, parcel and financial services volumes, while improving service quality).

14. If RMG were ever re-listed on a public stock exchange, commit to do so on the London Stock Exchange.

15. Consult certain Crown Dependencies & Overseas Territories on key proposals affecting their designated operators or changes to terms of service.

16. Maintain commitments for RMG to achieve net zero by 2040 and GLS to reach zero CO2 emissions by 2045, including by modernising and electrifying its fleet and cutting emissions.

17. Ensure HMG has sufficient access to RMG and information to monitor compliance with all undertakings.

Stakeholders

Royal Mail's workforce is an integral part of day-to-day life in the UK and the commitments from EP recognise this by:

18. Continuing to recognise the relevant postal-worker unions.

19. Committing to negotiate in good faith with the relevant unions and comply with any new agreements RMG enters into with those unions.

20. Not taking any amount of surplus from the Royal Mail Pension Plan out of RMG.

5. Resolving Outstanding Issues

This agreement commits EP Group and CWU to a fresh start and a complete reset in Employee and industrial relations. To facilitate this, EP Group and CWU have reached agreement to resolve a range of outstanding issues in strict accordance with the agreed principles and timelines set out in 5.1 to 5.7 below. Furthermore, EP Group will ensure that RMG will support and abide by the full terms and spirit of this agreement.

5.1 The Introduction of a New Resourcing Model

EP Group and CWU agree that there is a need to completely overhaul the existing Royal Mail resourcing model to address the ongoing concerns over Quality of Service, retention of staff and Employee motivation. Therefore, a new resourcing model will be introduced incorporating the following elements:

(a) A new career path to equalizing new entrants' pay, terms and conditions

EP Group and CWU agree that there will be a review of the new entrant grade (those who joined Royal Mail after December 2022 and going forward) and a new career path will be introduced to equalize their pay, terms and conditions, alongside ensuring the necessary flexibility to grow the business. This new career path will be based on agreed incremental steps over an agreed period of time.

The detailed negotiations to design the new career path will be concluded no later than six months post Transaction, with the first step being agreed within three months post Transaction.

(b) Reducing Reliance on Agency Workers

EP Group and CWU agree to review the level and utilisation of agency workers in the business with the objective of reducing reliance on agency workers. EP supports maximising full-time employment, limiting the use of agency workers to peak periods or other circumstances where work needs cannot be covered by RMG Employees. This review will be finalised within six months post Transaction.

(c) Review of scheduled attendance and overtime rates

CWU and EP Group agree to jointly review all overtime and scheduled attendance rates, as both parties recognise that the most efficient way to resource the company is to utilise our own staff, through an effective mix of permanent hours, scheduled attendance and overtime. This review will be finalised within six months post Transaction.

This review will also examine new ways to incentivise Employees who need additional earnings opportunities, in a way that will also assist the need to grow the business and meet changing customer requirements.

5.2 Pay from April 2025

EP Group and CWU agree the need to improve basic pay and recognize that a long term pay deal would be beneficial to Employees and the stability of RMG. If there is no agreement on pay in place from 1 April 2025, EP Group will ensure that a pay settlement is agreed and backdated within 3 months post Transaction.

5.3 A New Performance Incentive Scheme

EP Group and CWU are committed to introducing a new performance incentive scheme for all Employees, that will be based on local/plant level measures.

To establish the parameters of this scheme, there will be a joint review of existing efficiency and productivity measures and targets, with the aim of reaching an agreement on fair and equitable measures of evaluation.

Both parties are committed to fully engaging with frontline Employees on the design and development of this scheme.

5.4 Sick pay arrangements

In recognition of the significant reduction in absence levels and therefore, the cost of sick pay, current sick pay arrangements will be reviewed, with a view to reaching an improved agreement that reflects a more supportive approach for Employees by no later than three months after the completion of the Transaction.

5.5 Review of Voluntary Redundancy Terms

EP Group and CWU agree that there is a need to review the current voluntary redundancy terms, as a key measure to help avoid compulsory redundancies. Revised voluntary redundancy terms will be agreed no later than three months after the completion of the Transaction.

5.6 A New Way of Working

EP Group and CWU recognise that postal workers are one of the most trusted groups of workers in the UK and they possess the knowledge and experience to help deliver Quality of Service and grow the business.

EP Group and CWU commit to pilot new ways of working, including mechanisms to allow postal workers to have more say over day-to-day operations and management of workload. This will include, but is not limited to, piloting a more supportive way of utilising the 'My Performance' application and any performance data. The terms of the pilot will be agreed no later than two months after the completion of the Transaction.

5.7 USO Reform

Both parties recognise the value and importance of ongoing discussions between Royal Mail and the CWU regarding pilots of the proposed USO reforms. Following the outcome of the pilots, EP Group and the CWU commit to reaching a full agreement on how any changes to the USO will be implemented, in a mutually beneficial way. EP Group accept that any final agreement with the CWU on USO Reform is also conditional on progress and implementation within the agreed timelines of the issues set out in section 5 of this agreement.

As an upfront commitment, EP Group confirms that there will be no compulsory redundancies throughout the period of implementation and full deployment of any agreed USO reform. The above commitment is conditional on reaching a full agreement on the exact timeline and scope of the implementation of agreed USO reform.

At the point of full deployment of any agreed USO Reform, both parties will agree a new long term job security agreement with a view to extending the no compulsory redundancy commitment – taking into account a joint assessment of the overall business performance and market conditions at that time.

6. Rebuilding Royal Mail - A New Governance and Business model

EP Group and the CWU have agreed the most radical overhaul of governance in the company's history. The changes below will be anchored in amending Royal Mail's Articles of Association. These changes include the following:

6.1 Advisory Committee

(a) Creating a new Advisory Committee composed of representatives of EP Group and the CWU, which, as stated above, will be contractually anchored within the amended Articles of Association of Royal Mail. The Advisory Committee will meet at least on a monthly basis and operate in tandem with Royal Mail's business calendar. The purpose of the Advisory Committee is to create a mechanism by which the CWU can have meaningful influence over the future direction of the company and to enable discussions regarding any and all matters that may concern the workforce and any operational matters, including but not limited to:

- Royal Mail's business plan
- Growing Royal Mail
- Major industrial and Employee relations issues
- Capex initiatives
- Ongoing implementation of this agreement.

(b) The Advisory Committee will review and discuss any matters that require Board approval. While final decisions and responsibility will always lie with the Board of Directors, the new Advisory Committee will be entitled to comprehensively review proposals, input into the development of operational changes and ultimately, present their recommendation in advance of the Board taking a decision. The Advisory Committee shall be complementary to the existing structures and communication channels between the unions and the management, and shall not substitute them in any manner.

(c) The Advisory Committee will also not replace in any way the right of the CWU to collectively bargain and negotiate on behalf of their members.

(d) Given the Deed of Obligations agreed with the UK Government and the key role Royal Mail has as part of the national infrastructure, Government representatives will be invited on at least a twice-yearly basis to hear from the Advisory Committee on the direction of the company and the progress in implementing this agreement.

6.2 Mission Statement

Creating a new 'mission statement' which states that Royal Mail will be governed in the interest of customers, Employees and the company, rather than just the shareholder(s). The statement should also place maintaining Quality of Service and Royal Mail's important social role in communities across the UK as primary goals of the company, alongside returning to profit. The mission statement will be agreed and publicized post completion of the Transaction.

6.3 Executive Remuneration

Additionally, separate from the Articles of Association, EP Group commits to a fresh approach on executive remuneration, as follows: EP Group commits to creating a new long term incentive framework for executive remuneration, which will be subject to achieving long term goals, including improving Quality of Service, growth in Royal Mail's revenue and productivity and independent Employee and customer feedback among other things. Where appropriate, bonus criteria will be aligned between Employees and executives. While designing a management reward scheme, EP Group will prioritize long-term sustainable goals and success over short-term profits.

7. Rebuilding Royal Mail - An Employee Stake in the Success of the Business

EP Group and the CWU also recognise the importance of Employees having a meaningful stake in the success of Royal Mail. This is seen as a crucial step to rebuild trust between Employees and the company's leadership. Therefore, EP Group and the CWU have agreed the following:

(a) Creating a post-Transaction Employee Collective Benefit Trust ("ECBT"), into which 10% of dividends from operating profit generated by Royal Mail's regular business activity for the preceding year and destined for distribution up to EP Group will be contributed. This means that 10% of any dividend paid out of RMG to the EP Group will go into the ECBT. Amounts paid to the ECBT will be designated for distribution among Employees. The distribution among Employees shall be based on agreed rules among the relevant stakeholders (including Royal Mail, EP Group and the CWU). The

composition of the board of the ECBT will include representatives of CWU, EP Group and independent trustees.

(b) The full terms of the ECBT will be drawn up into a legal contract no later than twelve months post Transaction.

8. Rebuilding Royal Mail - A New Growth and Investment Strategy

EP Group and the CWU acknowledge that Royal Mail has the largest fleet of vehicles in the UK, a presence in every community and one of the most trusted workforces in the country. These resources provide a clear platform for growing the business in a sustainable way.

Both parties recognise that, in order to rebuild the company and compete in the wider market, new growth initiatives must be undertaken. Therefore, EP Group and the CWU will jointly design a new plan for growth and investment no later than six months after the completion of the Transaction.

9. Working Together

CWU and EP Group are committed to working together to deliver the terms of this agreement and the future success of Royal Mail for all stakeholders. Both parties accept that the only way Royal Mail will prosper and grow is if the words contained within this agreement are turned into actions. The responsibility for this falls upon both parties.

It is in the interest of both parties that RMG grows the business and operates in a financially self-sustainable way, generating value to be shared between shareholder and the Employees, while delivering on quality for its customers.

As an early indication of our will to work together, EP Group and the CWU also jointly commit to support for regulatory reform to create a level playing field for Royal Mail and its competitors in the relevant markets in the UK.

SIGNED by or on behalf of the parties on the date first above written:

For and on behalf of

EP UK BidCo Ltd

For and on behalf of

The Communication Workers Union