Royal Mail Group
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June 2016

Dear Colleague

Future of the Royal Mail Pension Plan

- We know how much you value the benefits your Royal Mail Pension Plan ("the Plan") membership provides. We have started to talk to our unions about the future of the Plan after March 2018 and I wanted to keep you informed of what is happening.
- You may recall that in 2013, the normal three-yearly valuation showed that the cost of building up future benefits in the Plan had increased significantly. Consequently, we agreed some changes with our unions, CWU and Unite/CMA, which allowed us to commit to keeping the Plan open until at least March 2018, subject to certain conditions. We remain committed to that. We are confident that we can still keep the Plan open until March 2018.
- The next three-yearly valuation of the Plan is currently underway, although it has not yet been completed. But the indications are that the cost of keeping the Plan open would more than double.
- This is because financial market conditions have got worse since 2013, increasing the cost of providing the Plan benefits.
- The additional contributions required to keep the Plan open mean we do not believe we can continue to run the Plan, in its current form, beyond March 2018. This is why we have started to talk to our unions.

What is happening
We have started to talk to our unions about the future of the Plan after March 2018. As you may recall, in 2013 we consulted members on changes to the Plan. Following this consultation, we confirmed that the Plan would remain open to existing members, subject to certain conditions, until at least March 2018.

Why we are discussing the future of the Plan now
It is a legal requirement to carry out a review of the financial position of the Plan every three years. As part of this review, the Trustee and the Company have to agree the amount of money the Company will need to pay into the Plan over the next five years.

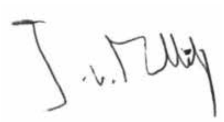
At the time of the last review, which was completed in 2013, financial market conditions for many pension schemes, like the Plan, were not favourable. Conditions have significantly worsened since then for most pension funds. This is why we do not believe the Plan can stay open, in its current form, beyond March 2018.

By this time, we expect the surplus generated in the Plan following the changes agreed in 2013 will have been exhausted. The Company already contributes around £400 million a year into the Plan. Without being able to use the surplus, it is likely this would need to increase by £500 million a year. This would mean a cost of over £900 million a year. This increase is simply unaffordable for the Company. This is significantly more than the cash we generate each year. It would mean that the Company could not invest to grow and provide secure jobs for the future.

What we are discussing with our unions
We remain committed to keeping the Plan open until at least March 2018, subject to certain conditions. We are confident that we can do so. However, we do not believe it can stay open, in its current form, beyond this date. We are working with our unions so that the situation is fully understood, and to agree a proposal about the pension benefits the Company can afford to provide after March 2018.

You do not need to do anything as a result of receiving this letter. Once the Company has a proposal we will fully consult members about any proposed changes, as we did in 2013. At that stage we will ask Plan members for their views, and we will carefully consider your feedback and discuss it with our unions before reaching any decision.

Yours faithfully



Jon Millidge
Group HR Director

What happened when we did the last Pension Reform, introduced on 1 April 2014
In 2013, we consulted Plan members, unions and other stakeholders over a Pension Reform. At the time, the cost to the Company of providing pension benefits would have increased by £300 million each year unless changes were made. The primary cause was worsening financial market conditions.

In order to keep the Plan open, changes were made to the Plan that took effect from 1 April 2014. This had the effect of producing a surplus in the Plan, which has been used to pay the additional contributions required to keep the Plan open.

Since these changes, your basic pensionable pay under the Plan has increased by RPI (up to 5%) each year, regardless of whether your actual pay has risen by more or less.

