UNITED STATES POSTAL SERVICE ®

POSTAL NEWS

FOR IMMEDIATE RELEASE
Nov. 14, 2014

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U.S. Postal Service Reports Revenue Increase, $5.5 Billion Loss in Fiscal 2014

- *Shipping and Package Services Revenue Up 9.1 Percent*
- *January 2014 Price Increase and Shipping and Packages Growth Drives Operating Revenue up $569 Million*
- *Persistent Losses Reaffirm Need for Comprehensive Legislative Reform*

WASHINGTON — Due to a cyber-security intrusion that the U.S. Postal Service announced on Nov. 10, management and external auditors are currently reviewing significant financial applications to confirm that the incident did not compromise the financial data needed to file the Postal Service's fiscal 2014 Form 10-K. There is no indication at this time that the data was compromised, but out of an abundance of caution, the Postal Service will delay filing of the 10-K—which it had planned to do today—until review procedures are complete. The review, which has already begun, is expected to take several more weeks. View the Postal Service's *cyber intrusion* statement for more information about the incident.

In the interest of transparency, however, the Postal Service presented unaudited financial results for fiscal 2014 at its open Board of Governors meeting today and will again present the unaudited financial results at a financial briefing call today at 11 a.m.

At the Board meeting, the Postal Service reported that operating revenue increased $569 million in fiscal year 2014 (Oct. 1, 2013 – Sept. 30, 2014). Excluding a one-time adjustment to revenue of $1.3 billion in 2013 resulting from a change in accounting estimate for Forever stamps, 2014 operating revenue would have increased by $1.9 billion. This revenue growth resulted from the January 2014 price increase and strong growth in the Shipping and Packages business. Offsetting this positive news, however, were legislative burdens and constraints that contributed to a $5.5 billion net loss in 2014. This eighth consecutive annual net loss underscores the need for comprehensive legislation to repair the Postal Service's broken business model.

The net loss includes $5.7 billion for the prefunding requirement of the Postal Service Retiree Health Benefit Fund and an additional $1.2 billion in non-cash workers' compensation expense, consisting of $485 million related to changes in interest rates and $697 million of other non-cash workers' compensation expense. These items are outside of management's control.

"We have grown our revenue for two years in a row, primarily through growth in our package business and price changes, and we are making strong progress in many core areas of our business — from operational performance, to data and technology use, to developing and marketing new products and services — all of which are helping to build a strong foundation for the future of the organization," said Postmaster General and CEO Patrick R. Donahoe. "While we still have major issues to resolve with regard to our business model and legislative constraints, our message today is about momentum and progress."

"In 2014 we set another record for productivity," said Chief Financial Officer and Executive Vice

President Joseph Corbett. "Even as we continued growing our package business, we reduced work hours, transportation expenses, and compensation and benefits expenses.

"The legally mandated $5.7 billion prefunding requirement for the Postal Service Retiree Health Benefit Fund contributed to our continuing losses," said Corbett. "Due to lack of sufficient cash, we were forced to default on the $5.7 billion prepayment, underscoring the need for legislative change."

The Postal Service's key legislative requirements:

- Require within the Federal Employees Health Benefit Program a set of specific health care plans that would fully integrate with Medicare and virtually eliminate the retiree health benefits unfunded liability and eliminate the need for multibillion dollar annual prefunding.
- Adjust the Federal Employee Retirement System payment amount using Postal Service specific demographic and salary growth assumptions and refund any existing surplus.
- Adjust required delivery frequency (six-day packages/five-day mail).
- Streamline governance model and eliminate duplicative oversight.
- Provide authority to expand products and services.
- Require a defined contribution retirement system for future Postal Service employees.
- Require arbitrators to consider the financial condition of the Postal Service.
- Reform workers' compensation programs.

Results of Operations
Highlights of yearly results compared to the same period last year:

- Operating revenue was $67.8 billion compared to $67.2 billion in 2013. Without the 2013 one-time adjustment as noted above, 2014 operating revenue increased by $1.9 billion over last year's revenue. As a result of growth in our package business and the price increases implemented, this is the second consecutive year of revenue growth, reversing a four-year trend of revenue declines that began in 2008.

- Total mail volume was 155.4 billion pieces compared to 158.2 billion pieces a year ago, a decrease of 2.8 billion pieces or 1.8 percent. Shipping and Package Services volume grew by 300 million pieces, an increase of 8.1 percent. First-Class Mail, our most profitable service line, and Standard Mail volume decreased by 2.2 billion and 495 million pieces, respectively.

- Operating expenses were $73.2 billion in 2014 compared to $72.1 billion in 2013. A non-cash adjustment for interest rate changes associated with workers' compensation caused $2.2 billion of the increase year over year. This was offset by a $737 million reduction in other workers' compensation expense and a $708 million reduction in compensation and benefits expenses.

- Expenses include the required $5.7 billion contribution to the retiree health care benefits fund that the Postal Service was unable to make by the due date of Sept. 30, 2014. Unless legislation reforms the retiree health care benefits program, the Postal Service will likely be forced to default on its prefunding obligations in 2015 and 2016.

- The resulting net loss for the 2014 fiscal year was $5.5 billion compared to a net loss of $5.0 billion in 2013.

Financial Briefing Fri., Nov. 14, 2014

Postmaster General & CEO Patrick R. Donahoe and Chief Financial Officer and Executive Vice President Joseph Corbett will host a telephone/web conference call at 11:00 a.m. ET, Fri., Nov. 14, 2014, to discuss the unaudited financial results. The call is open to the news media and all other interested parties.

How to Participate:

Important Notice: *To ensure your computer is set up to join the event, click on the link* *www.webex.com/lp/jointest/*

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