



POSTAL NEWS

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U.S. Postal Service Reports Fiscal Year 2016 First Quarter Results

- *Operating revenue grew 3.3 percent to \$19.3 billion*
- *Controllable income totaled \$1.3 billion; net income of \$307 million reported*
- *Postal Service benefited from exigent surcharge, which is expected to expire in April*
- *Legislative reform and careful focus on cost containment remain necessary*

WASHINGTON -- The U.S. Postal Service reported operating revenue of \$19.3 billion for the first quarter of fiscal year 2016 (October 1, 2015 - December 31, 2015), an increase of \$613 million or 3.3 percent over the same period last year. The increase was driven by the record volume of packages delivered during the 2015 holiday season. The first quarter is typically the strongest quarter of the fiscal year for the Postal Service.

"Shipping and Package revenue grew 13.5 percent over the same period last year, and was particularly strong during the holiday shipping season. We projected and delivered more than a 16 percent increase in package volume," said Postmaster General and Chief Executive Officer Megan J. Brennan. "We continue to grow our e-commerce business and remain focused on delivering the best value for our customers."

"Despite these achievements and the best efforts of our employees, our financial condition will worsen without legislative reform," said Brennan. "Our financial situation is serious but solvable through the enactment of prudent legislative reform."

Controllable income for the quarter was \$1.3 billion compared to \$1.1 billion for the same period last year. Calculation of controllable income takes into account the impact of operational expenses including compensation, benefits and work hours; but does not reflect factors such as the legally-mandated expense to prefund retiree health benefits (see Non-GAAP Financial Measures below for full description).

Net income for the quarter was \$307 million, a change of \$1.1 billion from the net loss of \$754 million for the same period last year. The change in net income was most significantly impacted by a \$1.2 billion favorable change in the workers' compensation expense as a result of interest rate changes - a factor outside of management's control.

"While net income is favorable compared to a net loss, it unfortunately does not reflect the end of our losses," said Chief Financial Officer and Executive Vice President Joseph Corbett. "Excluding the favorable impact of interest rate changes and the exigent surcharge, the organization would have actually reported a net loss of approximately \$700 million in the first quarter. Absent legislative reform, the exigent surcharge is expected to roll back in April, and our losses will increase by approximately \$2 billion per year."

Selected First Quarter 2016 Results of Operations Compared to Same Period Last Year

The following table presents certain selected results of operations for the three months ended December 31, 2015 and 2014:

(volume results in millions of pieces; financial results in \$ millions)	<u>2015</u>	<u>2014</u>	<u>Change</u>	<u>%</u>
Volume				
Standard Mail	22,092	22,767	(675)	(3.0)%
First-Class Mail	16,402	16,770	(368)	(2.2)%
Periodicals	1,455	1,507	(52)	(3.5)%
Shipping and Packages	1,447	1,245	202	16.2 %
International	302	273	29	10.6 %
Other	190	158	32	20.3 %
Total volume	41,888	42,720	(832)	(1.9)%
Operating revenue and expenses				
Operating revenue (excluding temporary exigent surcharge)	\$ 18,774	\$ 18,148	\$ 626	3.4 %
Temporary exigent surcharge	573	586	(13)	(2.2)%
Total operating revenue	\$ 19,347	\$ 18,734	\$ 613	3.3 %
Operating expenses	\$ 19,002	\$ 19,475	\$ (473)	(2.4)%
Workers' compensation expense				
Impact of discount rate changes	\$ (402)	\$ 816	\$ (1,218)	(149.3)%
Actuarial valuation of new cases and revaluation of existing cases	188	(47)	235	(500.0)%
Administrative fee	18	17	1	5.9 %
Total workers' compensation expense	\$ (196)	\$ 786	\$ (982)	(124.9)%

Non-GAAP Financial Measures

Included in this news release is controllable income, which is not calculated and presented in accordance with accounting principles generally accepted in the United States (GAAP) within the meaning of applicable SEC rules. Controllable income is a non-GAAP financial measure defined as net income subtracting operating expenses considered outside of management's control. These expenses include the mandated prefunding of retirement health benefits, actuarial revaluation of retirement liabilities and non-cash workers' compensation adjustments.

The following table reconciles GAAP net income (loss) to controllable income and illustrates the income from ongoing business activities without the impact of non-controllable items for the three months ended December 31, 2015 and 2014:

(in \$ millions)	<u>2015</u>	<u>2014</u>
Net income (loss)	\$ 307	\$ (754)
Impact of:		
PSRHBFB prefunding expense	1,450	1,425
Change in workers' compensation liability due to fluctuations in discount rates	(402)	816
Other change in workers' compensation liability ¹	(158)	(363)
Actuarial revaluation of retirement liability	60	—
Controllable income	\$ 1,257	\$ 1,124

¹ This is a net amount that includes changes in assumptions as well as the valuation of new claims and revaluation of existing claims.

Complete financial results are available in the Form 10-Q, available at <http://about.usps.com/who-we-are/financials/welcome.htm>.

Financial Briefing

Postmaster General and CEO Megan J. Brennan and Chief Financial Officer and Executive Vice President Joseph Corbett will host a telephone/Web conference call to discuss the financial results in more detail. The call will begin at 10:00 am on February 9, 2016 ET and is open to 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/jointest/*
US/Canada Attendee Dial-in: (855) 293-5496

Conference ID: 42570997

Attendee Direct URL: <https://usps.webex.com/usps/onstage/g.php?MTID=eb740828eeaddaa7f20827fb3e11ee93>

If you cannot join using the direct link above, please use the alternate logins below:

Alternate URL: <https://usps.webex.com>

Event Number: 992 721 285

The briefing will also be available on live audio webcast (listen only) at:

<http://about.usps.com/news/electronic-press-kits/cfo/welcome.htm>.

The Postal Service receives no tax dollars for operating expenses and relies on the sale of postage, products and services to fund its operations.

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