



POSTAL NEWS

FOR IMMEDIATE RELEASE

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U.S. Postal Service Reports Second Quarter 2018 Results

- *Revenue growth fueled by growing package business*
- *Decline in letter mail continues - primary source of revenue*
- *Return to financial stability requires continued management actions combined with urgently needed legislative and regulatory changes*

WASHINGTON - The U.S. Postal Service reported total revenue of \$17.5 billion for the second quarter of 2018 (January 1, 2018 - March 31, 2018), an increase of \$235 million, or 1.4 percent, compared to the same quarter last year. Shipping and Packages revenue grew by \$445 million, or 9.5 percent, while First-Class and Marketing Mail revenue fell by a combined \$181 million.

The Postal Service's results for the quarter continued to reflect multi-year trends of growth in Shipping and Packages volume and declining letter volumes, as package volume grew by 69 million pieces, or 5.0 percent, while mail volumes declined by 700 million pieces, or 2.1 percent, compared to the same quarter last year.

"Despite growth in our package business, our financial results reflect systemic trends in the marketplace and the effects of an inflexible, legislatively mandated business model that limits our ability to generate sufficient revenue and imposes costs upon us that we cannot afford," said Postmaster General and CEO Megan J Brennan. "America needs a financially strong Postal Service that can invest in its future and can continue to fulfill the needs of American businesses and consumers. With continued aggressive management and greater legal authority to respond to changes in our marketplace and to control our costs, the Postal Service can return to financial sustainability."

The controllable loss for the quarter was \$656 million, compared to controllable income of \$12 million for the same quarter last year. This change to controllable loss was driven by a \$236 million increase in the controllable portion of the normal cost of retiree health benefits due to changes in actuarial assumptions and a \$364 million increase in compensation expenses due to additional hours incurred to support the labor-intensive package business as well as contractual wage adjustments. Additionally, transportation expense grew by \$155 million due to highway contract rate inflation as well as higher fuel costs.

Total operating expenses were \$18.8 billion for the quarter, an increase of \$1.0 billion, or 5.7 percent, compared to the same quarter last year. In addition to the controllable expenses referenced above, unfunded retirement and retiree health benefits grew by a combined \$766 million due to changes in actuarial assumptions. Workers' compensation expense declined by \$658 million compared to the same quarter last year, resulting primarily from changes in interest rates.

Net loss for the second quarter totaled \$1.3 billion, compared to a net loss of \$562 million for the same period last year.

"The continued secular decline in First Class mail, rising costs and legislative and regulatory constraints resulted in larger losses this quarter," said Chief Financial Officer Joseph Corbett.

Second Quarter 2018 Operating Revenue and Volume by Service Category Compared to Prior Year

The following presents revenue and volume by category for the three months ended March 31, 2018, and 2017:

	Revenue		Volume	
	2018	2017	2018	2017
<i>(revenue in \$ millions; volume in millions of pieces)</i>				
Service Category				
First-Class Mail	\$ 6,460	\$ 6,626	14,701	15,222
Marketing Mail	3,989	4,004	18,604	18,783
Shipping and Packages	5,152	4,707	1,458	1,389
International	736	639	256	244
Periodicals	305	341	1,187	1,315
Other	854	943	68	73
Total operating revenue and volume	\$ 17,496	\$ 17,260	36,274	37,026

Selected Second Quarter 2018 Results of Operations and Controllable (Loss) Income

This news release references *controllable (loss) income*, which is not calculated and presented in accordance with accounting principles generally accepted in the United States (GAAP). Controllable (loss) income is a non-GAAP financial measure defined as net (loss) income adjusted for items outside of management's control and non-recurring items. These adjustments include workers' compensation expenses caused by actuarial revaluation and discount rate changes, and the amortization of PSRHBF, CSRS and FERS unfunded liabilities. The following table presents selected results of operations and reconciles the Postal Service's GAAP net loss to controllable (loss) income and illustrates the (loss) income from ongoing business activities without the impact of non-controllable items for the three months ended March 31, 2018, and 2017:

	2018	2017
<i>(results in \$ millions)</i>		
Operating revenue	\$ 17,496	\$ 17,260
Other revenue	7	8
Total revenue	\$ 17,503	\$ 17,268
Total operating expenses	\$ 18,806	\$ 17,787
Interest and investment income (expense), net	(32)	(43)
Net loss	\$ (1,335)	\$ (562)
PSRHBF unfunded liability amortization expense ¹	297	158
Change in workers' compensation liability resulting from fluctuations in discount rates	(557)	67
Other change in workers' compensation liability ²	(58)	(21)
CSRS unfunded liability amortization expense ³	479	62
FERS unfunded liability amortization expense ⁴	415	308
Change in normal cost of retiree health benefits due to revised actuarial assumptions ⁵	103	—
Controllable (loss) income	\$ (656)	\$ 12

¹ Expense for the accrual for the annual payment due to the PSRHBF by September 30 of the respective fiscal year, based on Postal Service estimates to OPM's preliminary calculations with updated discount rate assumptions.

² Net amounts include changes in assumptions, as well as the valuation of new claims and revaluation of existing claims, less current year claim payments.

³ Expense for the accrual for the annual payment due to OPM by September 30 of the respective fiscal year, to amortize the unfunded CSRS retirement obligation. The 2018 amounts are based on updated Postal Service estimates resulting from revised actuarial assumptions. Payments are to be made in equal installments through 2043.

⁴ Expense for the accrual for the annual payment due to OPM by September 30 of the respective fiscal year, to amortize the unfunded FERS retirement obligation. The 2018 amounts are based on updated Postal Service estimates resulting from revised actuarial assumptions. Payments are to be made in equal installments through 2047.

⁵ Represents the accrual for a portion of the estimated \$206 million increase in the annual normal cost payment due September 30, 2018, attributable to revised actuarial assumptions and discount rate changes. The total annual normal cost payment amount is estimated to be approximately \$3.7 billion, based on Postal Service updates to OPM's previous estimate provided in October 2017 of approximately \$3.5 billion.

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 Finance and Planning Vice President Luke Grossmann will host a telephone/Web conference call to discuss the financial results in more detail. The call will begin at 9:00 am ET on May 11, 2018, and is open to news media and all other interested parties.

How to Participate:

US/Canada Attendee Dial-in: 844-340-4622 Conference ID: 4288745

Attendee Direct URL: <https://usps.webex.com/usps/onstage/g.php?MTID=eb933a677a55df1f1cbb44bd005711fad>

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

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

Event Number: 992 586 597

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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