



FOR IMMEDIATE RELEASE

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

- *Net loss for quarter of \$1.6 billion*
- *Continued double-digit growth in revenue and volume in the Shipping and Packages business*
- *Enactment of postal reform legislation remains urgently needed*

WASHINGTON -- Excluding a change in accounting estimate recorded during the quarter, the U.S. Postal Service reported operating revenue of \$16.6 billion for the third quarter of fiscal year 2016 (April 1, 2016 - June 30, 2016), an increase of \$117 million, or 0.7 percent, over the same period last year (See *Selected Third Quarter 2016 Results of Operations* table below). Nevertheless, the Postal Service suffered both a controllable loss (defined below) and a net loss for the quarter. In addition, the Postal Service's revenues were approximately \$450 million less than they otherwise would have been during the quarter because of the expiration of the exigent surcharge on April 10, 2016.

The Shipping and Packages business continued its strong performance with revenue growth of \$645 million, or 18 percent. This was offset by a decline in First-Class Mail revenue of \$379 million, or 5.5 percent, due largely to the expiration of the exigent surcharge. The expiration of the surcharge will reduce revenue by an additional amount of approximately \$500 million for the fourth quarter and by almost \$2 billion annually.

"We continue to post double-digit gains in package volume and are well-positioned operationally for further growth. Our capital investments are enabling increased efficiencies across the enterprise and improving experiences for our customers," said Postmaster General and CEO Megan J. Brennan. "Despite the encouraging numbers, net losses continue to mount. Our results in the quarter further underscore the need for legislative reform that provides the organization with greater financial stability."

The controllable loss for the quarter was \$552 million compared to a controllable loss of \$197 million for the same period last year. Calculation of controllable loss takes into account the impact of operational expenses including compensation and benefits; but does not reflect factors such as the legally-mandated expense to prefund retiree health benefits or the change in accounting estimate noted above (see *Controllable Income (Loss)* below for a full description).

The net loss for the quarter was \$1.6 billion, an increase of \$981 million compared to the same period last year. The increase was most significantly impacted by a \$1.6 billion unfavorable change in workers' compensation expense as a result of interest rate changes, offset by the \$1.1 billion change in accounting estimate.

Operating expenses increased in the third quarter compared to the same period last year. In addition to the increase in workers' compensation expense, labor costs increased by \$387 million, largely due to the increase in Shipping and Packages volume, and transportation costs increased by \$97 million.

"Although the Postal Service achieved strong results in package delivery and Standard Mail volumes, only a slight increase in total revenue was recorded due to a mandated price reduction earlier this year," said Chief Financial Officer and Executive Vice President Joseph Corbett. "We incurred a net loss resulting, in part, from continued decreases in First-Class Mail volume and systemic financial imbalances associated with our retiree health benefit prefunding requirements."

Third Quarter 2016 Volume by Service Category Compared to Same Period Last Year

The following presents volume by service category for the three months ended June 30, 2016 and 2015:

<i>(in millions of pieces)</i>	2016	2015	%
Volume			
Standard Mail	19,115	18,790	1.7 %
First-Class Mail	14,624	15,133	(3.4)%
Periodicals	1,428	1,485	(3.8)%
Shipping and Packages	1,220	1,074	13.6 %
International	229	218	5.0 %
Other	117	95	23.2 %
Total volume	36,733	36,795	(0.2)%

Selected Third Quarter 2016 Results of Operations and Change in Accounting Estimate

During the three months ended June 30, 2016, the Postal Service revised the estimation technique utilized to determine its *Deferred revenue-prepaid postage* liability for a series of postage stamps. The change resulted from new information regarding customers' retention and usage habits of *Forever Stamps*, and enabled the Postal Service to update its estimate of usage and "breakage" (representing stamps that will never be used for mailing due to loss, damage or stamp collection).

As a result of this change in estimate, the Postal Service recorded a decrease in its *Deferred revenue-prepaid postage* liability as of June 30, 2016, which caused an increase in revenue and decrease in net loss of \$1.1 billion for the three months ended June 30, 2016. This change in accounting estimate resulted in a non-cash adjustment that does not impact the Postal Service's available cash or access to cash and does not affect its controllable loss.

This news release references *operating revenue before the change in accounting estimate* and *operating revenue before the temporary exigent surcharge*, which are not calculated and presented in accordance with accounting principles generally accepted in the United States (GAAP). The following reconciles these non-GAAP operating revenue calculations with GAAP net loss for the three months ended June 30, 2016, and 2015:

<i>(results in \$ millions)</i>	2016	2015	%
Operating revenue			
Operating revenue before temporary exigent surcharge	\$ 16,590	\$ 16,015	3.6 %
Temporary exigent surcharge ¹	47	505	(90.7)%
Operating revenue after exigent surcharge before change in accounting estimate	\$ 16,637	\$ 16,520	0.7 %
Change in accounting estimate ²	1,061	—	100.0 %
Total operating revenue	\$ 17,698	\$ 16,520	7.1 %
Other revenue	20	35	(42.9)%
Total revenue	\$ 17,718	\$ 16,555	7.0 %
Operating expenses	\$ 19,237	\$ 17,101	12.5 %
Other interest (income) expense, net	48	40	20.0 %
Total expenses	\$ 19,285	\$ 17,141	12.5 %
Net loss	\$ (1,567)	\$ (586)	167.4 %

¹ The temporary exigent surcharge expired on April 10, 2016.

² The Postal Service recognizes revenue for postage when a piece of mail is processed and delivered, not at the time a stamp is sold and cash is received. To reflect the difference in revenue and cash received, management estimates the amount of postage stamps sold but not yet used and this amount is recorded as a *deferred revenue-prepaid postage* liability. This update relates solely to changes in estimates of consumer behavior and, in accordance with GAAP, the adjustment is considered a change in accounting estimate.

Controllable Income (Loss)

This news release references a *controllable loss*, which is not calculated and presented in accordance with GAAP. Controllable income (loss) is a non-GAAP financial measure defined as net income (loss) adjusted for items outside of management's control and non-recurring items. These adjustments include the mandated prefunding of retirement health benefits, actuarial revaluation of retirement liabilities, non-cash workers' compensation adjustments and the change in accounting estimate.

The following reconciles GAAP net loss to controllable loss and illustrates the loss from ongoing business activities without the impact of non-controllable and non-recurring items for the three months ended June 30, 2016 and 2015:

<i>(in \$ millions)</i>	<u>2016</u>	<u>2015</u>
Net loss	\$ (1,567)	\$ (586)
PSRHBF prefunding expense	1,450	1,425
Change in workers' compensation liability due to fluctuations in discount rates	668	(950)
Other change in workers' compensation liability ¹	(102)	(86)
Actuarial revaluation of retirement liability ²	60	—
Change in accounting estimate	(1,061)	—
Controllable loss	\$ (552)	\$ (197)

¹ This is a net amount that includes changes in assumptions, as well as the valuation of new claims and revaluation of existing claims, less claim payments for the applicable periods.

² Determined by OPM in 2015 to amortize the \$3.6 billion unfunded FERS retirement obligation based on actuarial valuations and assumptions. The payments are to be made in equal installments over the next 30 years. The 2015 expense of \$241 million was recorded in full during the fourth quarter of 2015.

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 9:00 am on August 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 : [Join Test Meeting](#)

US/Canada Attendee Dial-in: 855-293-5496

Conference ID: 50364089

Attendee Direct URL: <https://usps.webex.com/usps/onstage/g.php?MTID=e27d1d175d81115ce66c680f7346dd5e6>

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

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

Event Number: 994 695 231

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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