Five-Year Business Plan

April 2013

April 16, 2013

Business Environment

This U.S. Postal Service (USPS) business plan ("Business Plan") is designed to communicate to key stakeholders the vital role that the USPS plays in the U.S. economy and important solutions required to return the Postal Service to financial and operational viability and self-sufficiency. Specifically, the document covers

- Challenges facing the organization today
- Actions USPS is planning to take to address its financial position and outlook
- Financial benefits of the identified initiatives and impact on USPS stakeholders
- Overview of continuing actions to confront revenue declines through innovation
- Legislation required to remove restrictions on our ability to address changes in the business environment
- Business Plan risks and sensitivities

Despite operational improvements which have generated significant cost savings, the financial position of the organization has become untenable

The USPS continues to endure the negative effects of electronic diversion combined with a weak economy and excessive funding obligations

While the USPS has appealed to lawmakers for help with the required changes to the business model, very limited action has been forthcoming

- Complex web of stakeholders with competing interests
- Congress must balance the interests of all stakeholders and all must contribute to achieve a solution

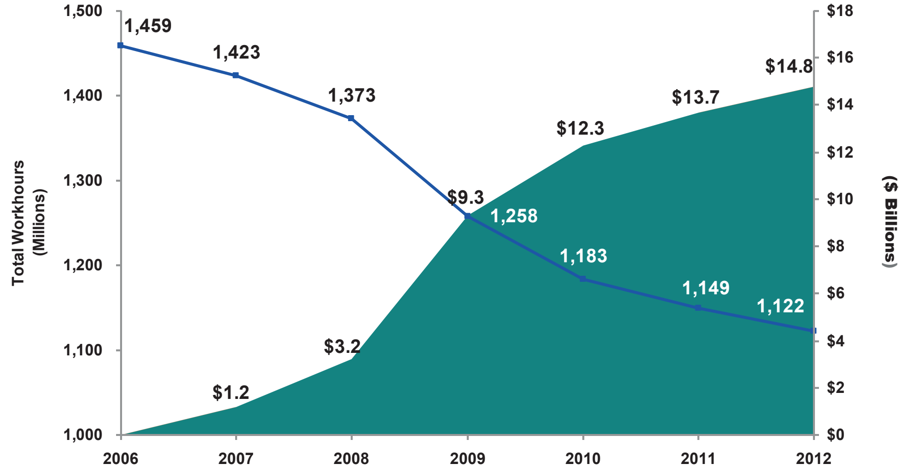
The organization's current financial position requires urgent action to ensure the near-term continuation of communication and delivery via the Postal Service, as well as long-term self-sufficiency

Continuous Efficiency Improvements Have Helped Mitigate Effects of Business Threats

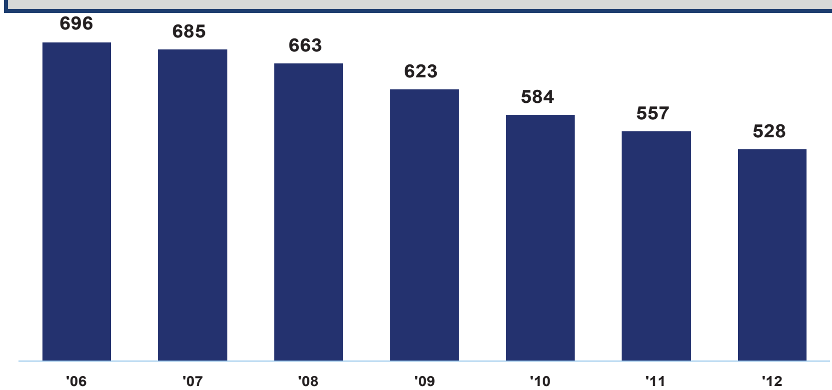
- U.S. Postal Service ranked as the most efficient postal service within the world's top 20 largest economies(1)
- The core of an $800 billion mailing industry in the U.S. that employs approximately 8 million people
- Delivers ~40% of world's mail

(1) Oxford Strategic Consulting report issued December 15, 2011

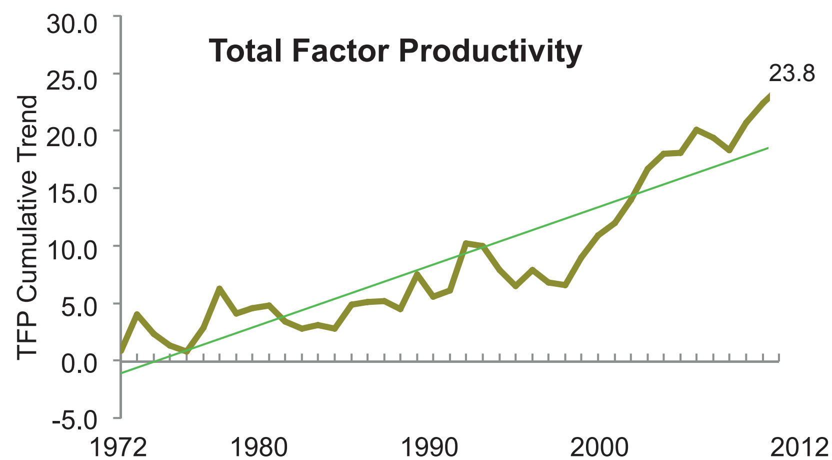
$15 Billion of Annualized Savings in the past six fiscal years with workhours reduced 23%



Career Employees – Reduced by 168,000 (24%) during last six fiscal years, without layoffs

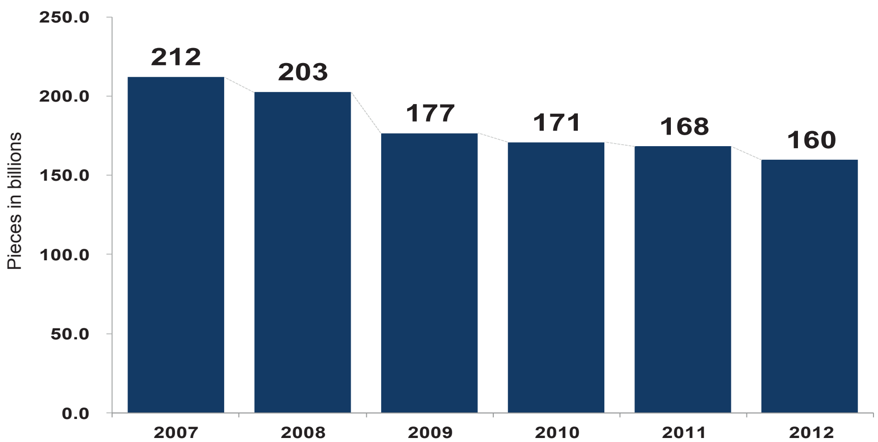


Postal Service is More Efficient Than Ever

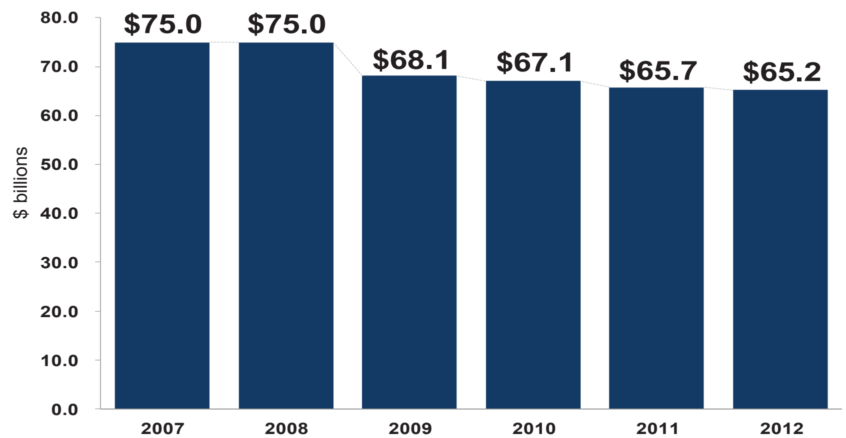


USPS Financial Position has Deteriorated in Recent Years

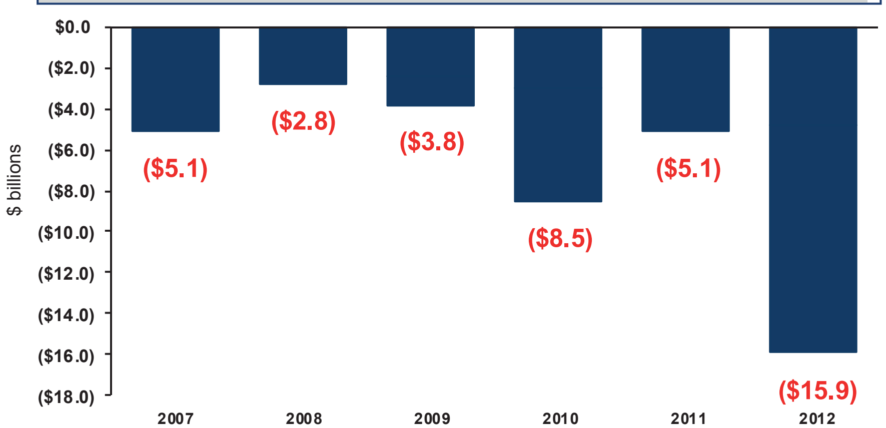
Mail Volume Decline: 25% from 2007 to 2012



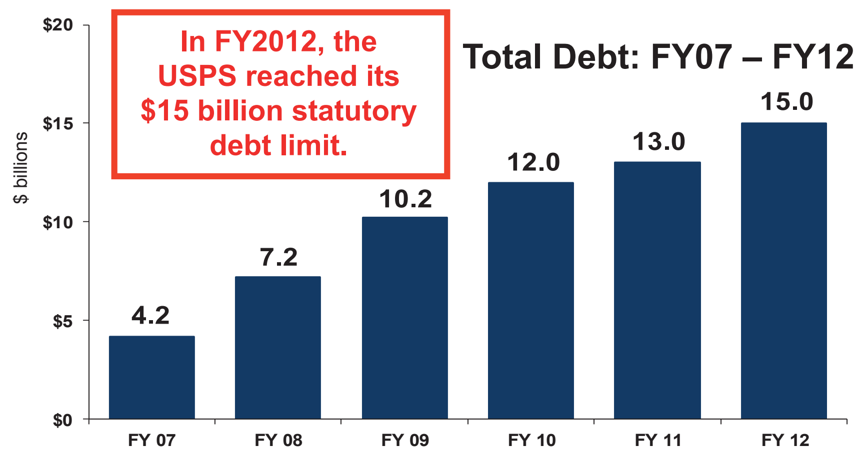
Revenue Down $10B (13%) from '07 to '12



$41B of Net Losses

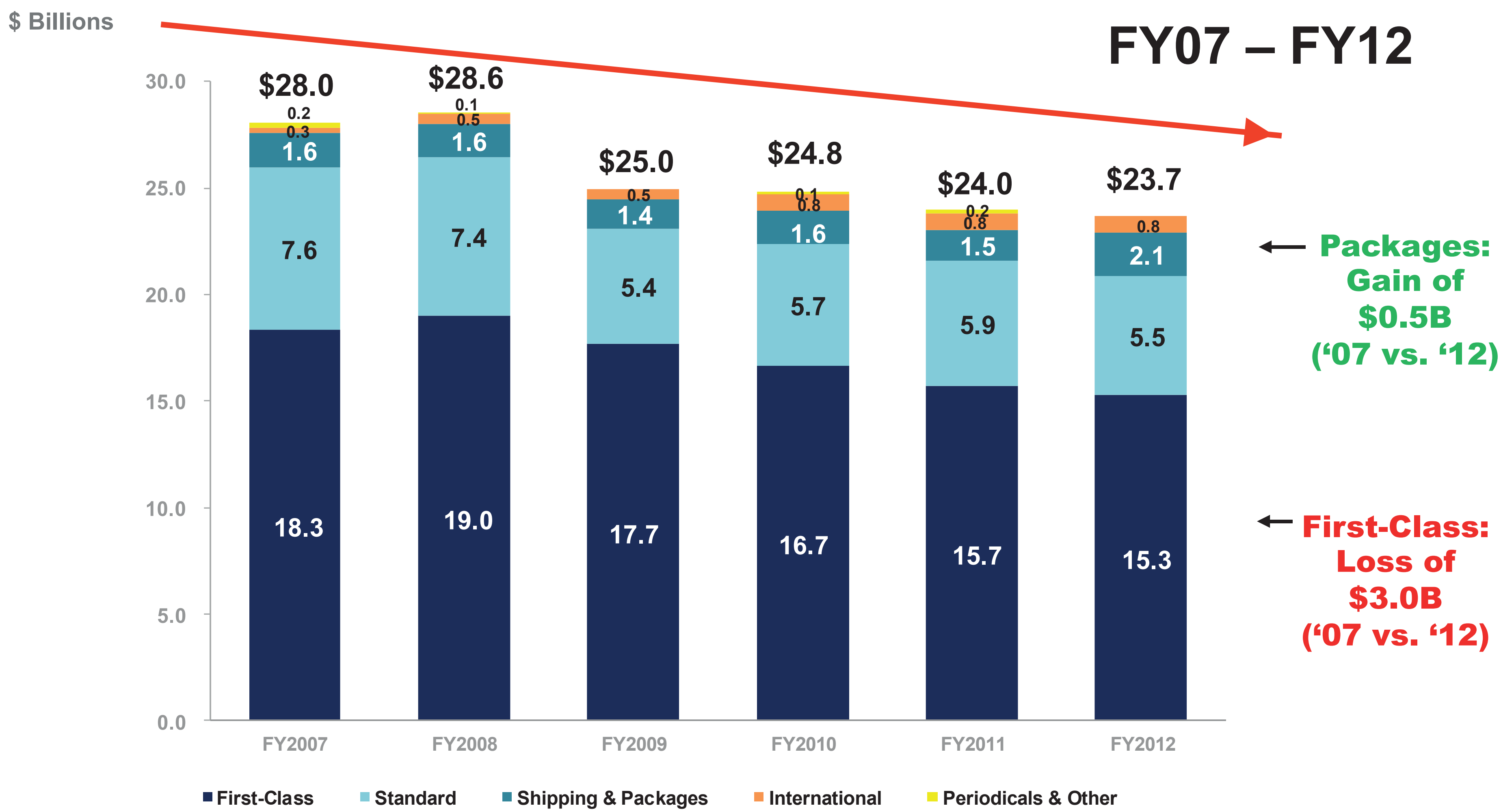


Borrowing Reserves Fully Used



Dire financial position requires urgent action to ensure continued mail delivery and to restore long-term self sufficiency.

Profit Margins Decreasing Driven by Loss of First-Class Mail



Profit Margin equals revenue less direct labor and non-personnel costs. It does not include institutional / fixed costs.

Many Factors Contribute to Continuing Financial Problems

Volume

Declining steadily

- Mail volume declining due to electronic diversion
- Advertising mail is subject to more substitution options
- Mail volume highly sensitive to economic changes
- Packages are growing – but much lower profit margins
- Scope of products / services limited by law

Universal Service Obligation

Fixed cost base

- Consistent pricing and service for all 50 states plus territories
- Postal network costs driven by:
  - Delivery points
  - Retail locations
  - Sortation facilities
  - Delivery days & timing

These trends will continue to put pressure on USPS's ability to provide affordable universal service

Price

- Capped by inflation
- Price elasticities are in flux due to growing alternatives

Rising but capped

Labor Costs

- ~80% of total costs
- COLA increases
- Federal benefits are 48% of total labor costs
- Limited flexibility

Rising cost per hour

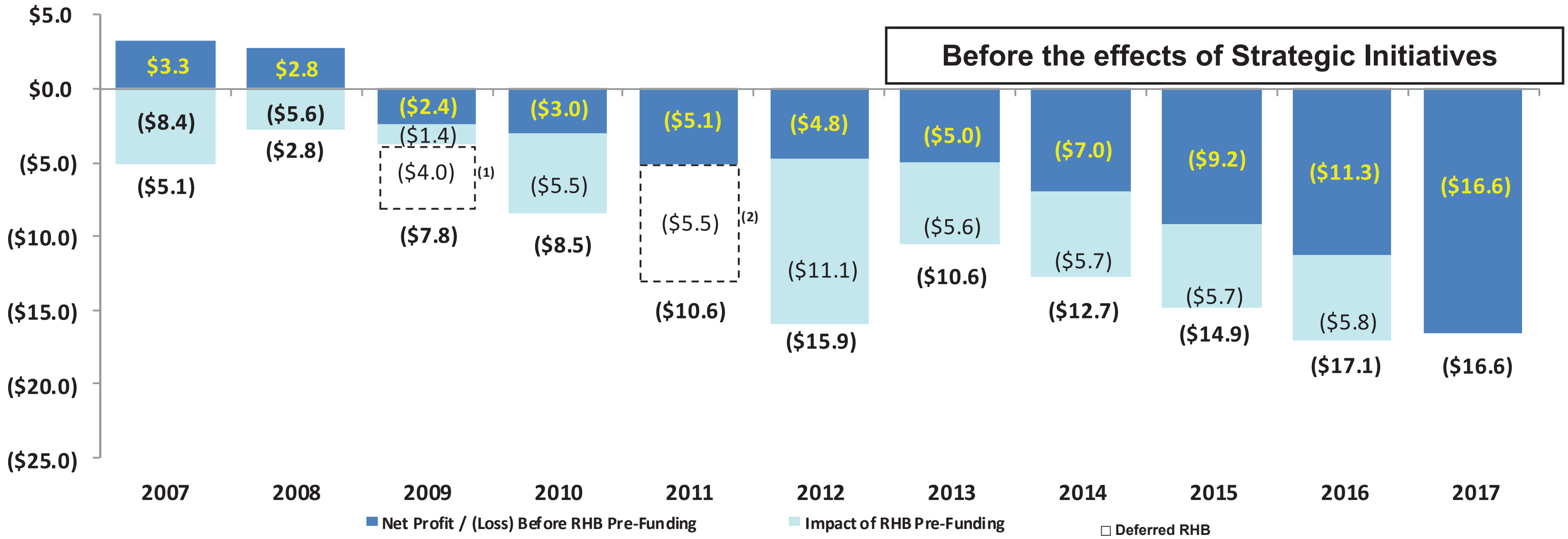
Current Financial Situation - Critical

- 25% decline in mail volume has reduced annual revenue by ~$10 billion since 2007, despite regular price increases, as permitted by law.
  - The greatest revenue loss ($7.8 billion) is in our most profitable product – First-Class Mail, which has a 53% profit margin.
- Over $41 billion of cumulative net losses in the last six fiscal years (2007-2012), since the enactment of the Postal Accountability and Enhancement Act.
- Huge losses are after the effects of productivity improvements. Work hour savings have removed over $50 billion of cumulative costs over the same six-year period.
- Borrowing has increased by $11 billion, to the $15 billion limit, since 2007, due to RHB prefunding payments ($21 billion) and operating losses.
- Forced to default on $11.1 billion of RHB pre-funding payments due in 2012.
- This negative financial picture has created a “crisis of confidence” for the Postal Service in the eyes of the market place.

USPS is Incurring Unsustainable Losses that will Worsen without Urgent Actions

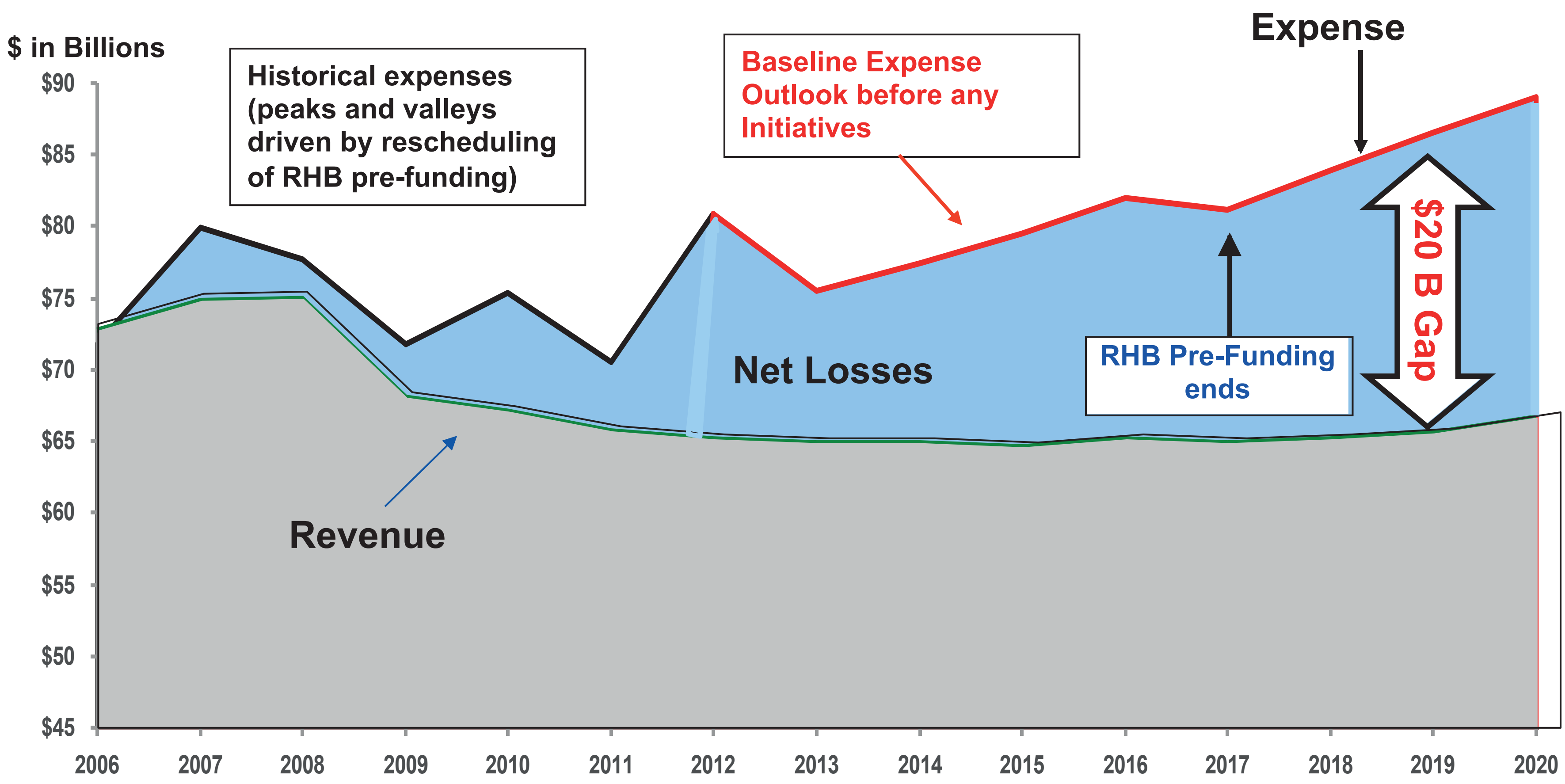
- USPS's financial losses are at unsustainable levels
- Declines in revenue are being driven by lower First-Class Mail volumes (down 28% since 2007)
- Reduced volumes are, in turn, reducing density and profit margin across the USPS network

Historical and Projected Net Profit ($ in billions)



Note: Bolded figures after 2007 represent Net Profit / (Loss) after RHB Pre-Funding
(1) In 2009, $4.0bn of RHB Pre-Funding was deferred and will be re-evaluated in 2017
(2) In September 2011, Congress rescheduled the 2011 required RHB payment of $5.5bn until August 2012. The Postal Service defaulted on the 2012 payment and anticipates that future defaults will occur, absent legislative change to the RHB prefunding obligation.

Expenses Exceed Revenue and the Gap is Growing



Debt (1)	$4	$7	$10	$12	$13	$15	$18	$25	$31	$37	$48	$61	$77	$93
Debt (2)	$4	$7	$10	$12	$13	$15	$33	$45	$57	$70	$82	$95	$111	$127

(1) Assumes no USPS initiatives and **no** RHB prefunding paid in 2012 – 2017 ($34B).
(2) Assumes no USPS initiatives but with RHB prefunding paid 2012 – 2017 ($34B).

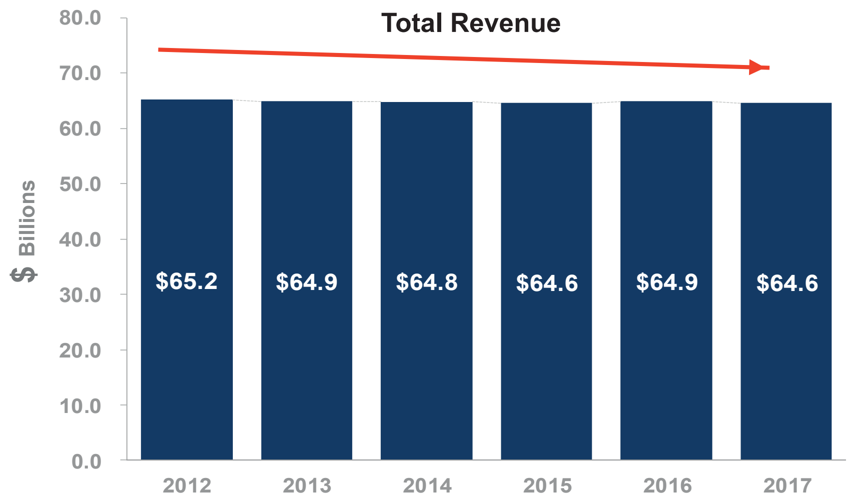
Restructuring Objectives

USPS's Business Plan continues to be based upon key restructuring objectives that benefit stakeholders:

- Preserve the ability to provide and finance secure, reliable and affordable universal delivery service
- Further economic growth and enhance commerce
- Implement comprehensive transformation for a long-term sustainable financial future
- Protect U.S. taxpayers (avoid Federal funding and appropriations)
- Maintain fairness to employees and customers

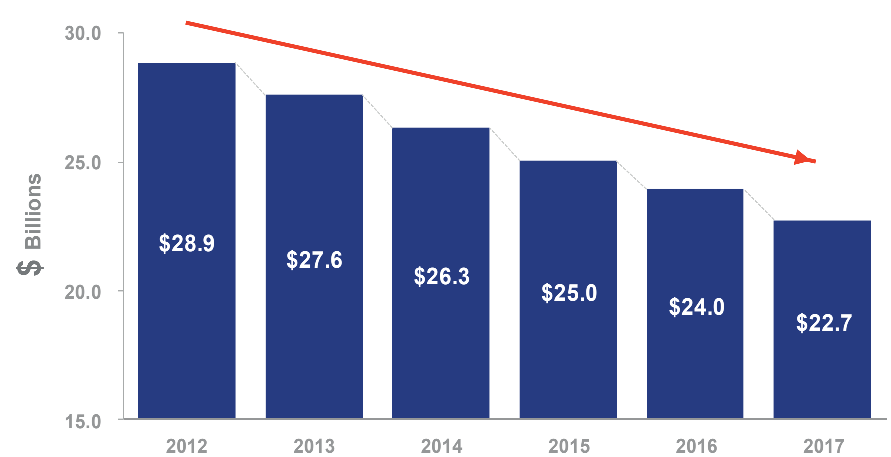
First-Class Mail Declines Will Continue
Shipping & Packages Will Grow

Flat Revenue from 2012 to 2017

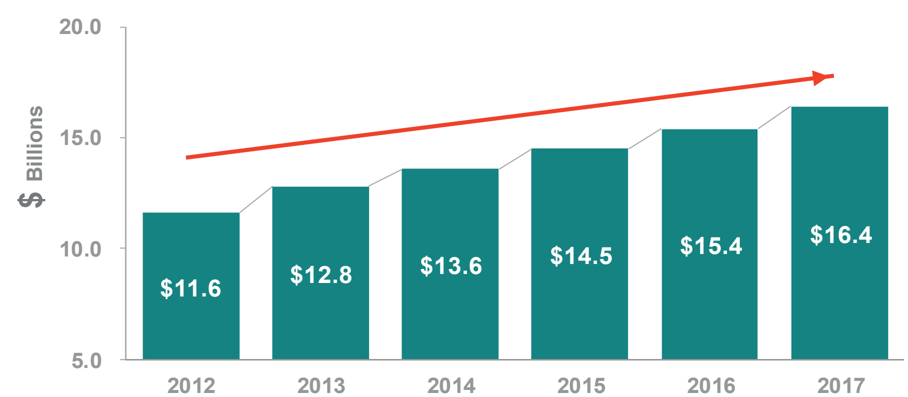


- Flat total revenue over next 5 years, net of volume declines and price changes.
- Loss of another $6 billion of First-Class revenue – results in loss of $3 billion of profit margin (at 53%) in 2017.
- Gain of $5 billion of Shipping/Package revenue provides $0.9 billion of profit margin (at 18%) in 2017.
- Decrease in profit margin in 2017 from these two major items results in loss of $2 billion in annual profitability.
- Volume/revenue changes in other mail classes have an insignificant effect on total profit margin.

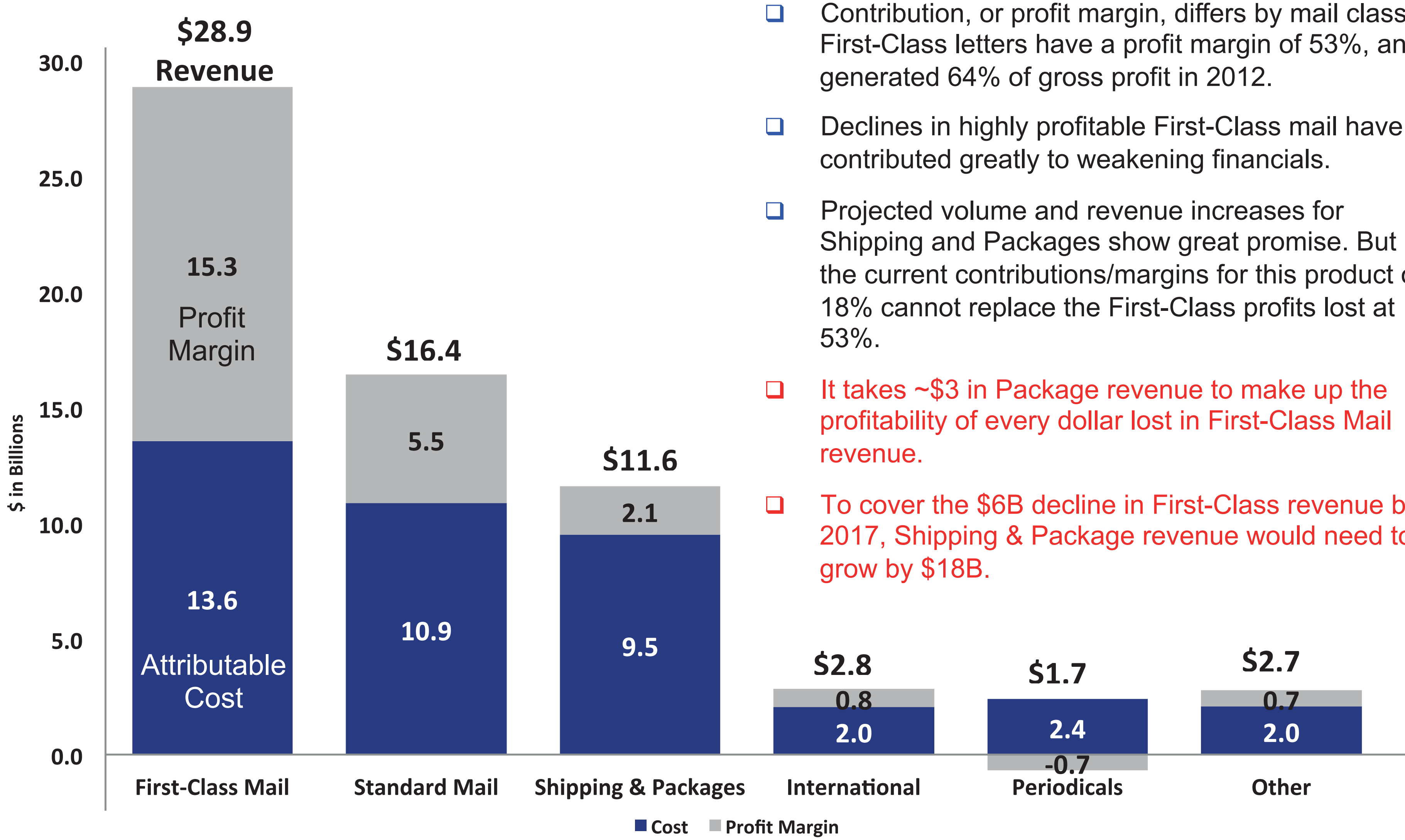
First-Class Decline: $6.2B from 2012 to 2017



Shipping / Packages Increase: $4.8B from 2012 to 2017



Shipping & Packages Profit Margin 1/3 of First-Class Mail in 2012



- Contribution, or profit margin, differs by mail class. First-Class letters have a profit margin of 53%, and generated 64% of gross profit in 2012.
- Declines in highly profitable First-Class mail have contributed greatly to weakening financials.
- Projected volume and revenue increases for Shipping and Packages show great promise. But the current contributions/margins for this product of 18% cannot replace the First-Class profits lost at 53%.
- It takes ~$3 in Package revenue to make up the profitability of every dollar lost in First-Class Mail revenue.
- To cover the $6B decline in First-Class revenue by 2017, Shipping & Package revenue would need to grow by $18B.

Cost Reductions & Legislative Action Needed for USPS to Regain Financial Self-Sufficiency

Loss of Contribution from First-Class Mail is Driving Continuing Trend of Operating Losses

- Growth in Shipping and Packages is not sufficient to replace First-Class Mail profits
- 53% contribution from First-Class Mail revenue cannot be replaced with 18% contribution from Shipping & Packages revenue

To remain viable, the Postal Service must continue to cut costs and improve efficiency

- Labor costs represent 79% of the Postal Service total cost base
- 49% of labor costs are devoted to delivery
- 48% of labor costs are devoted to benefits
- 18% of total cost base is devoted to Health Care

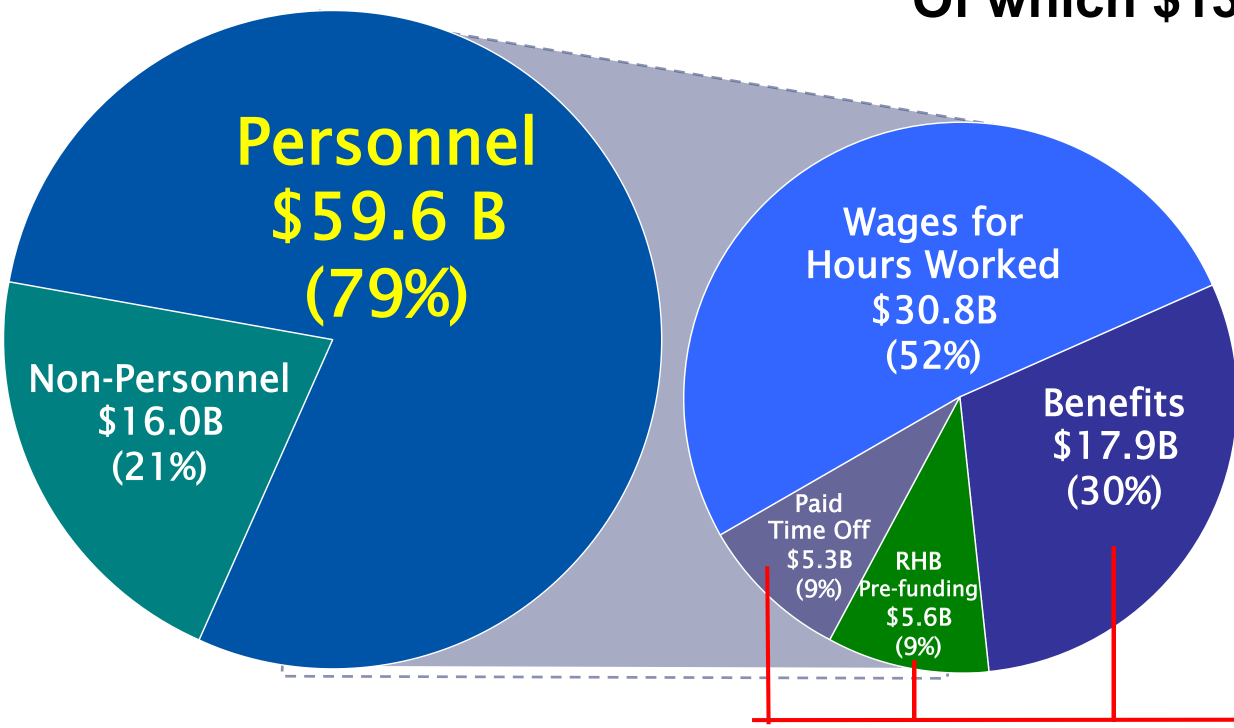
Legislative action is also required to give Postal Service authority to generate new revenue and adapt to changing business conditions

- Scope of products and services limited by law
- Cost of federal benefits programs for health care, retirement and other benefits
- Reform governance model

Benefits Costs Contribute to High Personnel Costs

Baseline* FY2012 Total Costs: $75.6B

Of which $13.4B (18%) is Healthcare



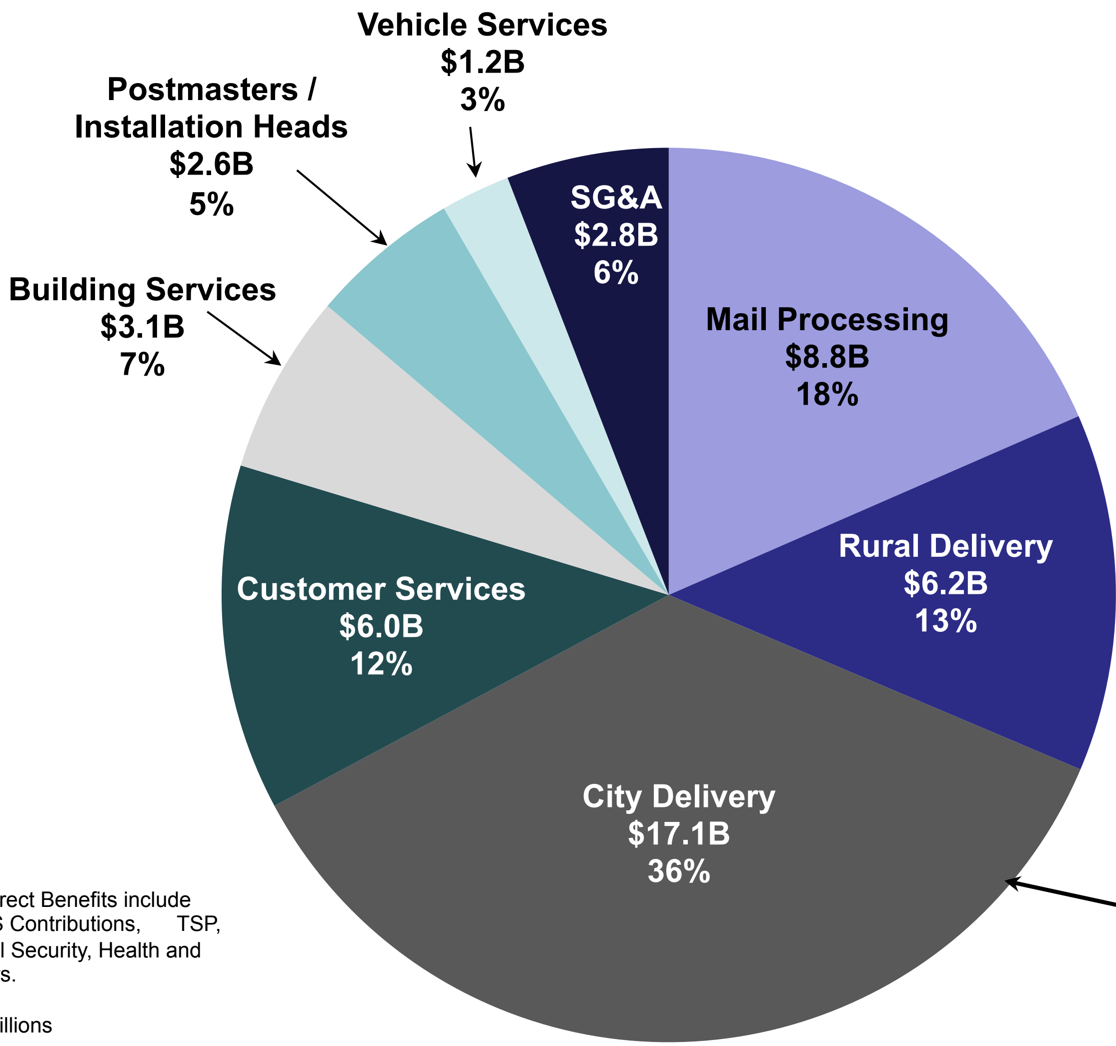
Paid Time Off, Benefits & RHB:	
•FERS Contributions	$3.0B
•Thrift Saving Plan	1.0
•Social Security	1.9
•Health Insurance & Medicare	5.2
•RHB Premiums (Current Retirees)	2.6
•RHB Prefunding	5.6
•Paid Time Off	5.3
•Workers' Comp	3.7
•Other	0.5
Total	**$28.8B**

$13.4B

*** Includes only the expense of the FY2012 RHB pre-funding ($5.6B) and not the second RHB pre-funding carried-over from FY2011.**

Cost Structure – By Employee Activity

FY2012 Employee Wages & Direct Benefits[(1)] = $47.7B



Career Employees (Sept 2012):		
NALC:	City Delivery	177K
NRLCA:	Rural Delivery	67K
NPMHU:	Mail Processing	42K
APWU:	Multiple Functions	186K
Postmasters & Installation Heads		17K
All Other Employees		39K
TOTAL		**528K**

Career Employees (March 2013)	**498K**

49 Percent of Personnel costs directly attributable to Delivery.

(1) Direct Benefits include FERS Contributions, TSP, Social Security, Health and Others.

$ in billions

Executing on Identified Initiatives is Core to Addressing USPS's Financial Challenges

- **USPS needs to save up to $20 billion annually over the next five years, of which nearly half requires legislative action**
- **Each of the Strategic Initiatives is essential in order to restore the Postal Service to financial viability**

Key Items for Consideration	
Healthcare	❑ USPS-sponsored health insurance is significantly more cost effective and yields equivalent or better coverage for the vast majority of annuitants and current employees ❑ The Postal Service projects approximately $8 billion of annual savings from the adoption of a new USPS-administered healthcare program (including elimination of prefunding and transfer of retirees into USPS Plan) • RHB Pre-Funding elimination of ~$5.7bn annually plus reduced healthcare costs of ~$2bn annually
Reduced Network Density from Volume Declines	❑ Network costs are fixed and too high relative to mail volumes and reduced density • USPS needs flexibility as well as cost reduction ❑ Better align network size with volumes • Mail processing facilities are being streamlined and consolidated • Reducing the cost to serve in our retail network to align with customer evolving needs and provide expanded access to our products and services ❑ Service levels must be addressed • 6 day package delivery and 5 day mail delivery • Modify overnight service standard for First-Class Mail as part of network optimization • Expand centralization of delivery points
Revenue Management	❑ Expand scope of products and services allowable ❑ Enhance Mail experience: Digital connections to websites, social media, purchase points ❑ Targeted price changes: • Re-price for volume • Re-price to eliminate contribution losses on certain products ❑ Package Growth: Take advantage of carrier network ❑ Investments in advertising and infrastructure
Governance	❑ Governors must have authority commensurate with responsibility

Summary of Cost Initiatives in the Five-Year Business Plan

USPS has worked extensively to develop a targeted cost reduction program for the elimination of $20+ billion of annual cost from the business within the next five years

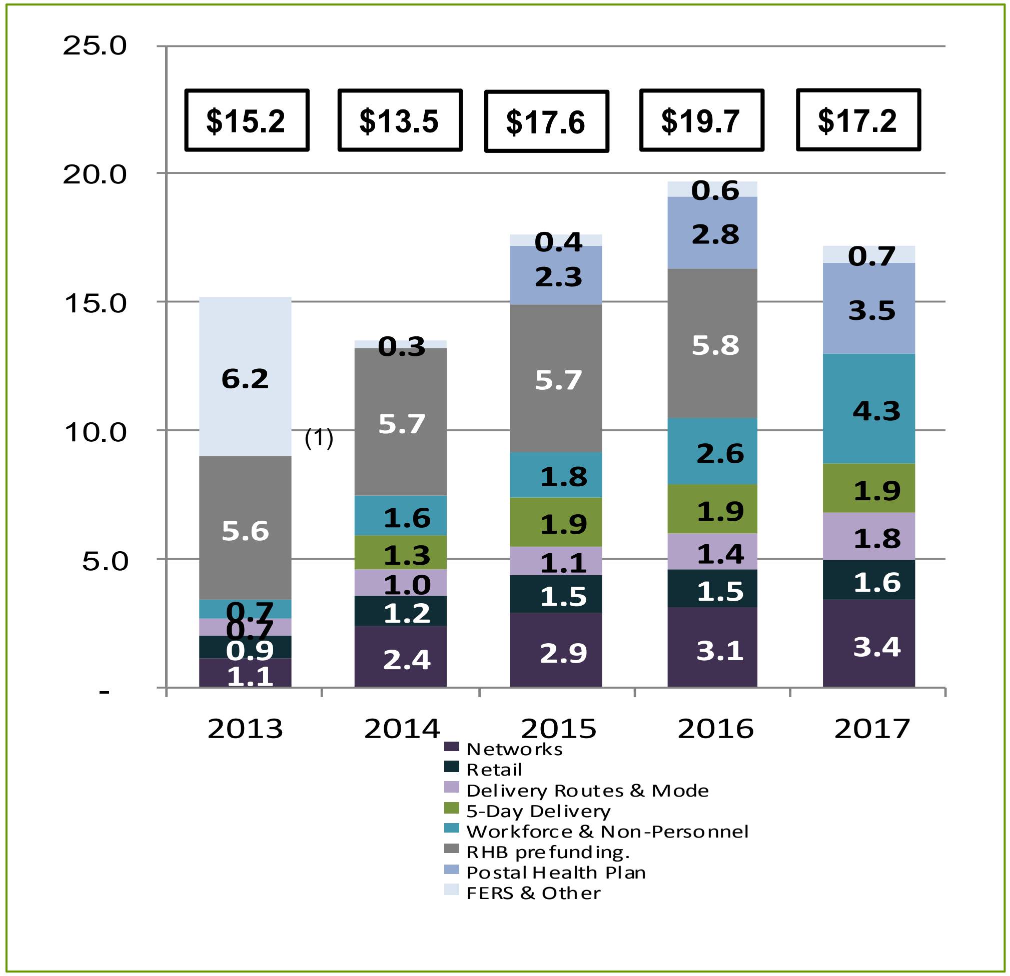
	Description	Initial Costs / Benefits	Savings
Healthcare	❑ Health benefits plan sponsored by the Postal Service	❑ Accounting methodology & non-cash adjustments TBD	❑ ~$5.7bn from elimination of RHB Pre-Funding ❑ $2bn from Postal Health Plan for retirees and employees
FERS	❑ Reduction in FERS obligation and "normal cost" contribution, based on USPS-specific assumptions & demographics	❑ $6B refund of overfunding	❑ $0.3bn annually
Network	❑ Rationalize service standards ❑ Consolidation of mail processing facilities ❑ Relocation of equipment ❑ Capture of reduced volume workload	❑ $120mm Opex ❑ $265mm Capex	❑ $2.4 bn in 2014, growing to $3.4bn in 2017 ❑ Includes workload
Retail	❑ Reducing cost of service ❑ Simplifying product offering to enhance customer experience ❑ Optimizing levels of services based on customer demand ❑ Capture of reduced volume workload	❑ $40mm Capex ❑ $35mm Opex	❑ $1.2bn in 2014, growing to $1.6bn in 2017 ❑ Includes workload
Delivery	❑ Delivery Optimization ❑ Expand business and residential delivery to centralized boxes ❑ Capture of reduced volume workload	❑ $45mm Capex	❑ $1.0bn in 2014, growing to $1.8bn in 2017 ❑ Includes workload
6 Day Packages 5 Day Mail	❑ Packages – 6 day delivery ❑ Mail – 5 day delivery	❑ $200mm Capex ❑ $100mm Opex	❑ $1.9bn annually, when fully implemented
Workforce and Non-Personnel	❑ Reduction in total unit labor costs ❑ Non-Personnel savings ❑ Retirement plan of the future		❑ Workforce $1.8bn in 2017 ❑ Non-Personnel growing to $2.5bn in 2017

Savings by Strategic Initiatives

Strategic Initiatives ($ Billions)

		2016 Savings
Operational Initiatives		
Networks	$	3.1
Retail		1.5
Delivery		1.4
Total Operational Initiatives		**6.0**
Workforce & Non-Personnel		**2.6**
Legislative Initiatives		
5-Day Mail Del. + Saturday Pkgs		1.9
Postal Health Plan		8.6
FERS & Other		0.6
Total Legislative Initiatives		**11.1**
Total 2016 Savings	**$**	**19.7**

Savings by Strategic Initiative ($ Billions)



(1) Includes $6B estimated refund of FERS overfunding.

Savings - Operational Initiatives

$ in Billions

Operational Initiatives & Workload	2012A	2013	2014	2015	2016	2017	'13 - '17
Networks (Consolidations in '13 - '14)	0.3	1.1	2.4	2.9	3.1	3.4	12.9
Retail (Post Plan + Workload)	0.4	0.9	1.2	1.5	1.5	1.6	6.7
Delivery Optimization	0.4	0.7	1.0	1.1	1.4	1.8	6.0
Operational Initiatives & Workload Total	**1.1**	**2.7**	**4.6**	**5.5**	**6.0**	**6.8**	**25.6**

A= Actual

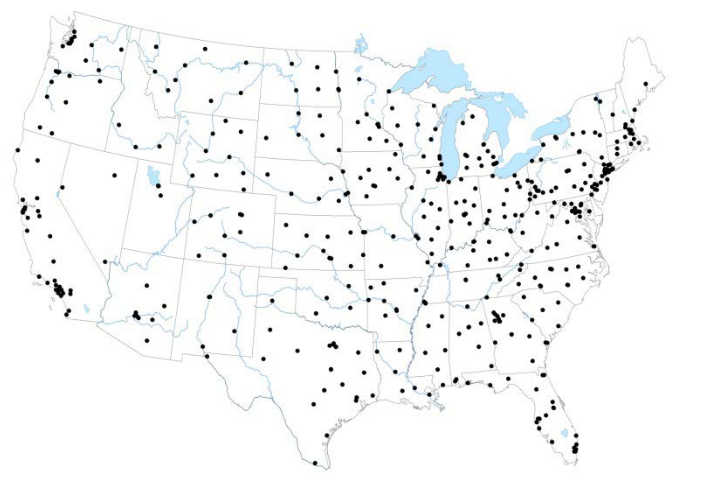
Networks	• In Summer 2012, adopted two-phase approach to approx. 200 mail processing consolidations. Phase I in Summer 2012 to Spring 2013. Phase 2 in Spring 2014. • In 2012 and 2013, approximately 22,500 employees represented by the APWU and 2,925 Mailhandlers accepted incentives to retire or resign. • In 2013, Plan was revised to accelerate portions of Phase 2 Consolidations to June-Sept '13, without impacting service standard.
Retail	• PostPlan reduces hours in 13,000 Post Offices (2-4-6 hrs/day) in 2013 and 2014. Replaces Postmasters in small offices with non-career employees. • 4,275 Postmasters accepted buy-outs in Aug 2012. Remaining savings begin in 2014 when 2-year saved Postmaster pay expires. • Self-Service Expansion – Deployed 264 self-service kiosks to 132 Post Offices in 5 markets. • Transaction shift to alternate access to create a decrease in Post Office workload
Delivery	• Delivery Unit Optimization plan consolidates 1,500 delivery (non-retail) offices by 2015. • Expand centralized delivery for both business and residential deliveries.

Strategic Initiative: Network Consolidations

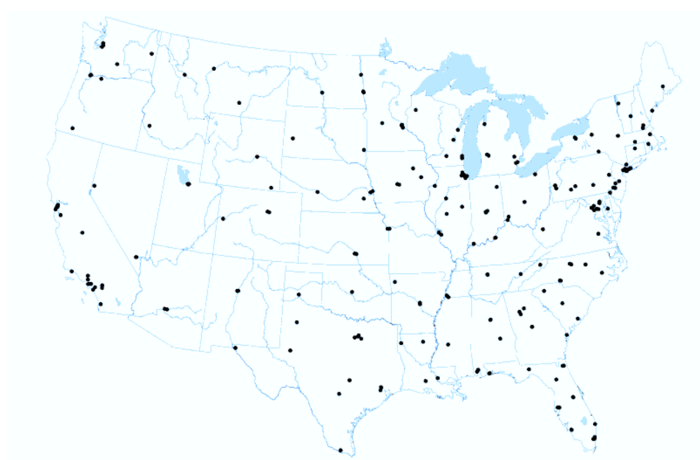
Consolidate Excess Capacity

- ❑ 417 processing facility network built to handle 250 billion pieces of mail
- ❑ Current and projected volumes call for network of <250 facilities
- ❑ 2012 Plan assumed all consolidations & service standard changes in 2012.
- ❑ In Summer 2012, adopted two-phase approach in order to allow Congress sufficient time to pass comprehensive Postal Reform legislation.
  - ❑ Phase I - Summer 2012 - Spring 2013.
  - ❑ Phase 2 - Spring 2014.
- ❑ Accelerating portions of Phase 2 Consolidations to June-Sept ’13 without impacting service standard.
- ❑ $3.4 billion savings achieved in 2017, including workload effects.

From 417 Processing Facilities



Rationalized Network of <250 Facilities



Strategic Initiatives: Retail

Retail Channel Strategies

- Transform customer experience in high traffic Post Offices by increasing the availability of self service
- Enhance customer experience through expanded retail partnerships
- Preserve retail service in rural America by modifying window service hours to match the local customer demand and establishing Village Post Offices with local businesses to provide postal services where customers shop

2017 Savings ($ in billions)

Workload Impact of Reduced Volumes	$	1.0
PostPlan		0.6
Total Retail Savings	**$**	**1.6**

Savings Detail

Volume decline of 21 billion pieces by 2017 reduces retail workload

- Increase adoption of self service at high traffic offices from 28% to 65%
- Shifting transactions to alternative access
  - Increase alternate access retail revenue from 40% to 60%
- Implement non-career staffing at 13,000 small Post Offices (level 16 and below)
- Phase in 2-4-6 hour operations throughout 2013 and 2014

Strategic Initiatives: Delivery

Expand Centralized Delivery

- Savings of $65 per year for each delivery converted from curb to central
- Savings of $190 per year for each delivery converted from door to central
- Savings will more than cover the costs associated with centralized delivery boxes:
  - Purchase cost
  - Installation cost
  - Maintenance cost
- New delivery points - centralized

2017 Savings ($ Billions)

Workload Impact of Reduced Volumes	$	0.8
Delivery Optimization		1.0
Total Delivery Savings	**$**	**1.8**

Savings Detail

- Workload Reduction
  - Volume decline of 21 billion pieces by 2017
  - Delivery workload reduction by 2017 of $0.8 billion
- Delivery Optimization Savings:
  - Delivery Unit Optimization (consolidations) – approx. 1,500 planned by 2015
  - Route Optimizations continue

Savings - Workforce and Non-Personnel Initiatives

$ in Billions

Workforce & Non-Personnel Initiatives	2012A	2013	2014	2015	2016	2017	'13 - '17
Wage Restraint + Flexibility (3 unions)	0.3	0.7	1.5	1.7	1.8	1.8	7.5
Interest Savings	-	-	0.1	0.1	0.8	2.5	3.5
Workforce & Non-Personnel Total	**0.3**	**0.7**	**1.6**	**1.8**	**2.6**	**4.3**	**11.0**

A= Actual

Wage Restraint + Flexibility	• Arbitrations with remaining 3 major unions completed in 2013 (City and Rural Carriers and Mail Handlers). • Arbitrated contracts follow similar pattern to the 2011 APWU contract, with two year pay and COLA freezes (back-dated to end of last contract), followed by modest general pay increases and resumption of COLAs. • Pay increases and COLA for APWU and NRLCA begin in 2013. Pay increases and COLA for NALC and NPMHU begin in 2014. • Savings associated with standards changes included in NRLCA contract are still being evaluated and thus are not included above. • Contracts with NALC and MH include provisions increasing the proportion of non-career employees to approx. 20%. • Contracts for APWU and NRLCA expire in 2015. Contracts with NALC and NPMHU expire in 2016. • Freezes on non-bargaining pay increases have been in effect since Jan 2011.
Interest Savings	• Higher interest savings in 2016 and 2017 due to higher projected interest rates and growing debt (up to $82 billion in 2017) in the base case.

Savings - Legislative Initiatives

$ in Billions

Legislative Initiatives	2012A	2013	2014	2015	2016	2017	'13 - '17
5-Day Mail Delivery + Saturday Pkgs (Jan 2014)	-	-	1.3	1.9	1.9	1.9	7.0
Resolve RHB prefunding (Postal Health Plan Beginning 2015)	-	5.6	5.7	5.7	5.8	-	22.8
Postal Health Plan - Actives' Premium Reductions	-	-	-	0.2	0.4	0.4	1.0
Postal Health Plan - RHB: Normal Cost vs Retiree Premiums	-	-	-	2.1	2.4	3.1	7.6
FERS Surplus Refunded	-	6.0	-	-	-	-	6.0
FERS - Reduce Biweekly Contribution Percentage	-	0.2	0.3	0.3	0.3	0.3	1.4
New Career Employee - Defined Contribution Pension Only	-	-	-	-	0.1	0.1	0.2
Workers' Compensation Reform (Equivalent to S. 1789)	-	-	-	-	0.1	0.1	0.2
Non-Postal Products and Services	-	-	-	0.1	0.1	0.2	0.4
Legislative Initiatives Total	**-**	**11.8**	**7.3**	**10.3**	**11.1**	**6.1**	**46.6**

A= Actual

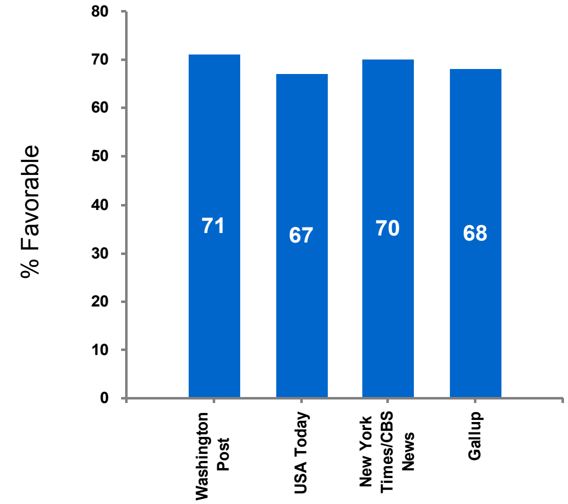
Delivery Schedule	• 6-day package delivery and 5-day mail delivery begins in Jan 2014. • Reduced workload from 5-day mail delivery. Noncareer flexibility used for Saturday packages
RHB Prefunding	• Requesting Congress to require Postal Health Plan for both active employees and retirees beginning January 2015. • Eliminates need for prefunding in 2013 and beyond.
Postal Health Plan (Active Employees)	• Requires union agreement under current law. • Requesting Congress to require Postal Health Plan, beginning January 2015.
Postal Health Plan (Retirees)	• Market Postal Health Plan to retirees while continuing to pay FEHBP premiums (pay-as-you-go) through 2014. • Requesting Congress to require Postal Health Plan for retirees, beginning January 2015. • Postal Health Plan will reduce costs, providing for a fully funded RHB, therefore only paying annual “normal cost” in 2015 and beyond.
FERS Refund & Biweekly Contribution Percentages	• Estimated values using Postal-specific assumptions (primarily pay increases and demographics), versus the government-wide assumptions currently used by OPM.
New Career Employee	• Savings from changing from defined benefit pension to defined contribution plan (TSP) for employees hired beginning in 2015. • Savings don’t begin until 2016 because of minimal number of new hires.
Workers’ Comp Reform	• Assumes enactment of reforms from Senate Bill passed in April 2012.
Non-Postal Products & Services	• Includes estimated financial benefit of shipping beer and wine and providing services on behalf of federal and local government agencies.

Strategic Initiative: 6-Day Package Delivery / 5-Day Mail Delivery

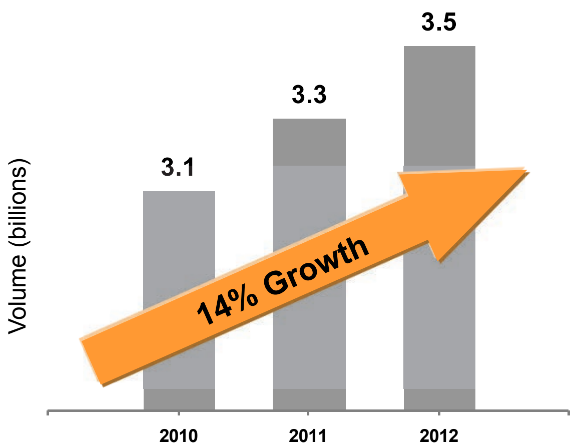
Saturday Package Delivery

- Continue Saturday package delivery, which is a competitive advantage
  - Supports on-line purchases
  - Continues 6-day delivery of commercial packages, such as prescription medicines
- Eliminates mail delivery on Saturday, which is generally the lowest volume day
  - Many businesses are closed Saturdays
- Does not affect service to PO Boxes
- Post Offices with Saturday hours will remain open
- ~$2 billion annual savings

Public Support for Five Day Mail



Supports Package Growth



USPS Health Plan Generates Significant Savings

Current Position

- Postal Service does not control its health care benefit program
- Current federal programs exceed the private sector comparability standard in terms of cost and coverage
- Current programs do not align benefit value with cost or reflect USPS demographics
- Retiree Health Benefit obligation of $94B, of which $46B (49%) was funded (as of Sept 2012)

Postal Health Plan

- Three distinct categories of participants – annuitants, current employees and new hires
- Tiered program appropriate to the varying coverage needs of participants
- Adopt best practices in private sector – pharmacy benefit management, wellness incentives, etc.
- Maintain benefit choices with consistent alignment between value and cost
- Simplify plan structure and self insure
- Establish incentives for Medicare-eligible retirees to fully participate in Medicare benefits
- **Result:** ~$8B of annual cost savings through 2016

Key Legislative Goals To Regain Financial Self-Sufficiency

- Require USPS Health Care Plan
  - Resolves RHB Prefunding Issue
- Refund FERS Overpayment
- Adjust Delivery Frequency (6-Day Packages, 5-Day Mail)
- Streamline Governance Model
- Authority to Expand Products and Services
- Require Defined Contribution System for Future Postal Employees
- Instructions to Arbitrator
- Reform Workers' Compensation
- Right to Appeal EEOC Class Action Decisions

2013 Business Plan Financial Projections

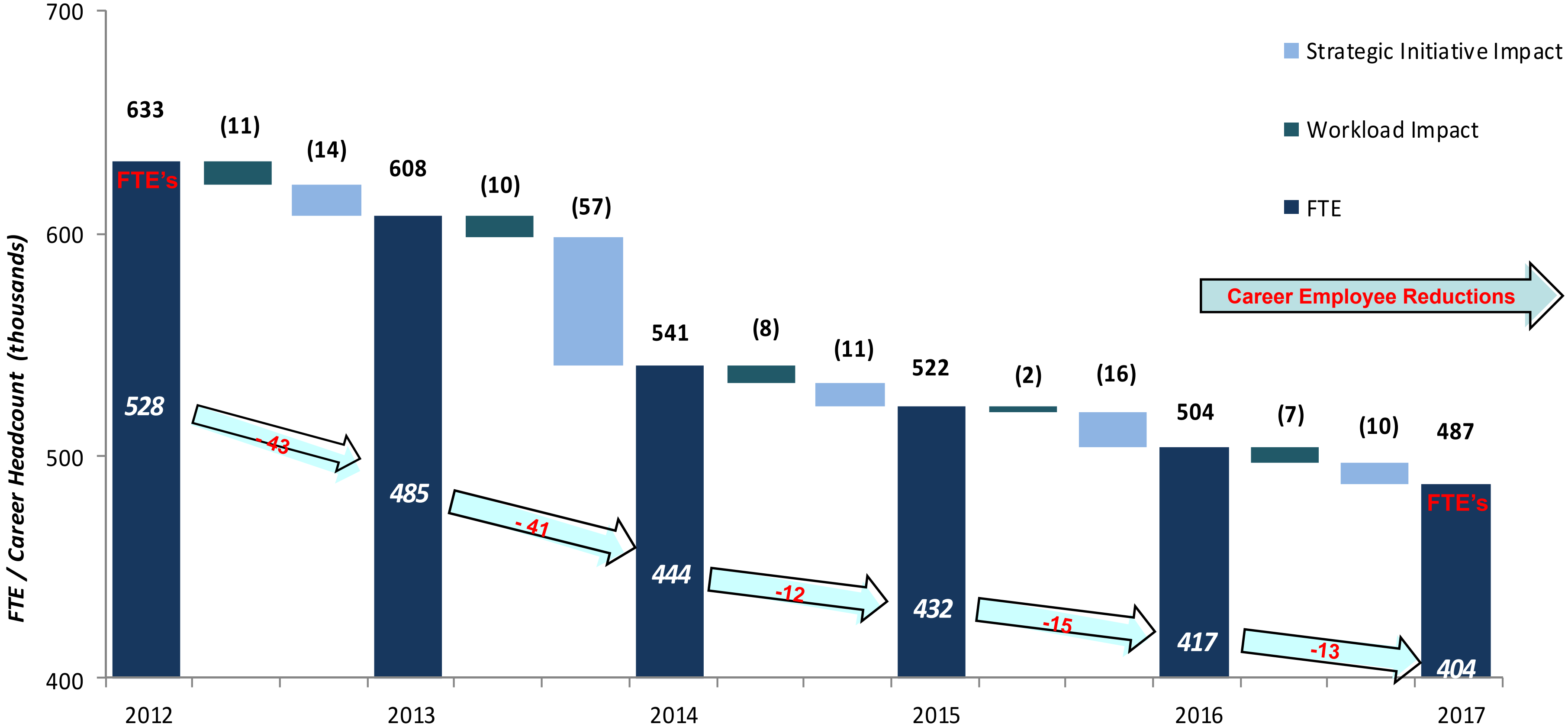
($ in billions)	Projected					
	2012A	2013	2014	2015	2016	2017
Total Revenue	$ 65.2	$ 64.9	$ 64.8	$ 64.6	$ 64.9	$ 64.6
Operating Expenses (Before Initiatives) (1)	68.9	69.9	71.8	73.8	76.2	81.2
Operating Income (Before Initiatives) (1)	**(3.7)**	**(5.0)**	**(7.0)**	**(9.2)**	**(11.3)**	**(16.6)**
RHB Pre-Funding	(11.1)	(5.6)	(5.7)	(5.7)	(5.8)	-
Net Income/(Loss) (Before Initiatives) (1)	**(14.8)**	**(10.6)**	**(12.7)**	**(14.9)**	**(17.1)**	**(16.6)**
Operational Initiatives	1.1	2.7	4.6	5.5	6.0	6.8
Workforce + Non-Personnel Initiatives (2)	0.3	0.7	1.6	1.8	2.6	4.3
Legislative Initiatives	-	11.8	7.3	10.3	11.1	6.1
Total Contribution from Strategic Initiatives	**1.4**	**15.2**	**13.5**	**17.6**	**19.7**	**17.2**
Restructuring/Separation Costs	(0.1)	(0.3)	(0.5)	-	-	-
Revised Operating Expenses (1)	**78.7**	**60.6**	**64.5**	**61.9**	**62.3**	**64.0**
Updated Net Income / (Loss) (1)	**$ (13.5)**	**$ 4.3**	**$ 0.3**	**$ 2.7**	**$ 2.6**	**$ 0.6**
Capital Outlays		**$ (0.8)**	**$ (1.5)**	**$ (2.1)**	**$ (2.1)**	**$ (1.9)**
Net (Debt) / Cash	**$ (12.9)**	**$ (7.4)**	**$ (6.7)**	**$ (4.2)**	**$ (1.4)**	**$ (0.5)**

A= Actual

(1) Excludes non-cash adjustments to workers' compensation.
(2) Effect of contract negotiations, workforce flexibility, non-personnel initiatives and interest.

Strategic Initiatives will Reduce Workload and Staffing Needs

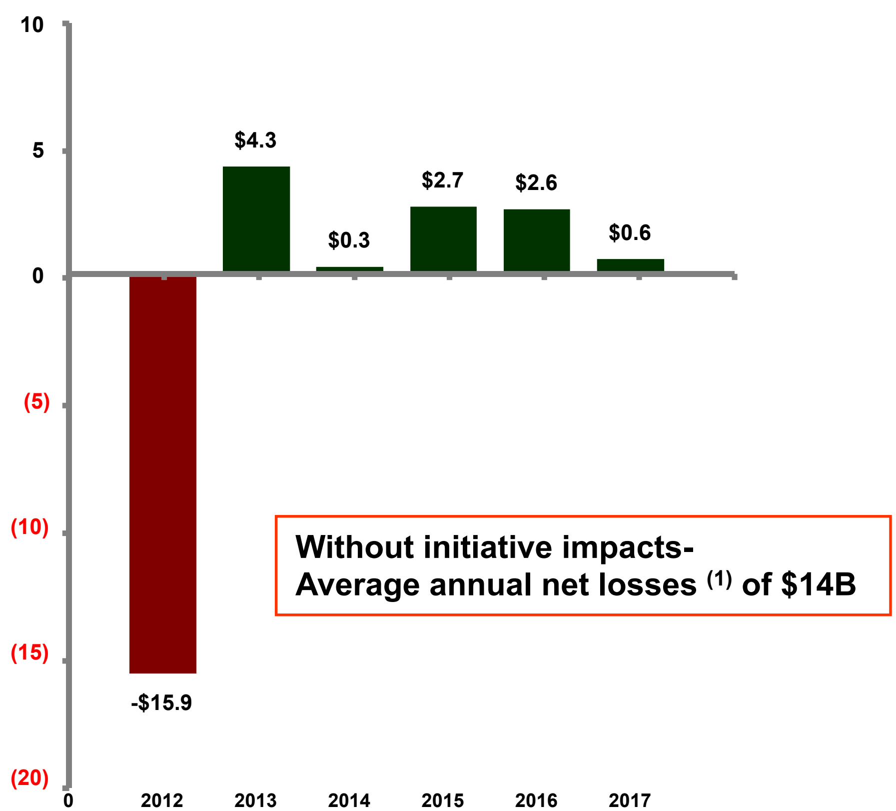
The Postal Service anticipates a reduction of ~146K Career and Non-Career Full-Time-Equivalent Employees (FTE's) by 2017



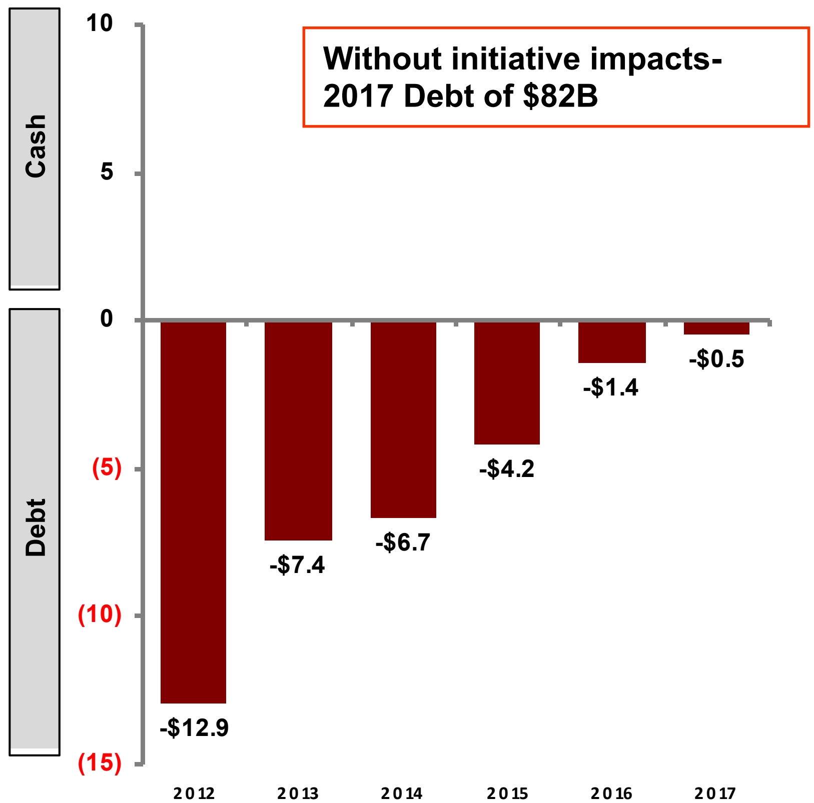
Financial Projections after Strategic Initiatives Achieved

Achieving the Business Plan will produce reasonable profits that will allow for debt repayment. This requires full realization of all the Strategic Initiatives.

Net Profit [1] ($ in billions)



Net Debt ($ in billions) eliminated



(1) Excludes impacts of non-cash adjustments (if any) to workers' compensation liability in 2013 - 2017.

Revenue Growth Initiatives Will Accompany Cost & Efficiency Improvements

Enhance Mail - Create a multi-sensory experience

- ❑ Mobile on mail that interacts with consumers
- ❑ Mail with Audio/Visual features
- ❑ Hardcopy to digital that connects consumers to:
  - ❑ Website
  - ❑ Social media or
  - ❑ Purchase point

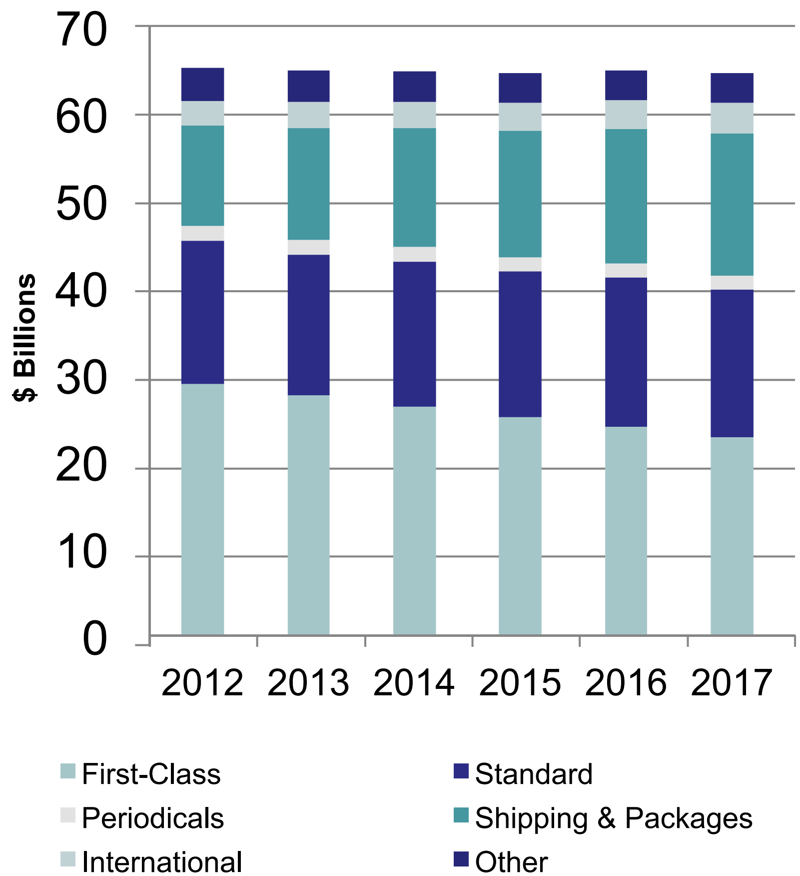
Package Growth

- ❑ Close competitive gaps to level the playing field:
  - ❑ Competitive pricing
  - ❑ New Priority Mail Features: Day-Certain and Insurance
- ❑ Build advantages by targeting new solution for ecommerce
  - ❑ Speedier service
  - ❑ Improved access that enables customers and consumers to use USPS services easier and more effectively.

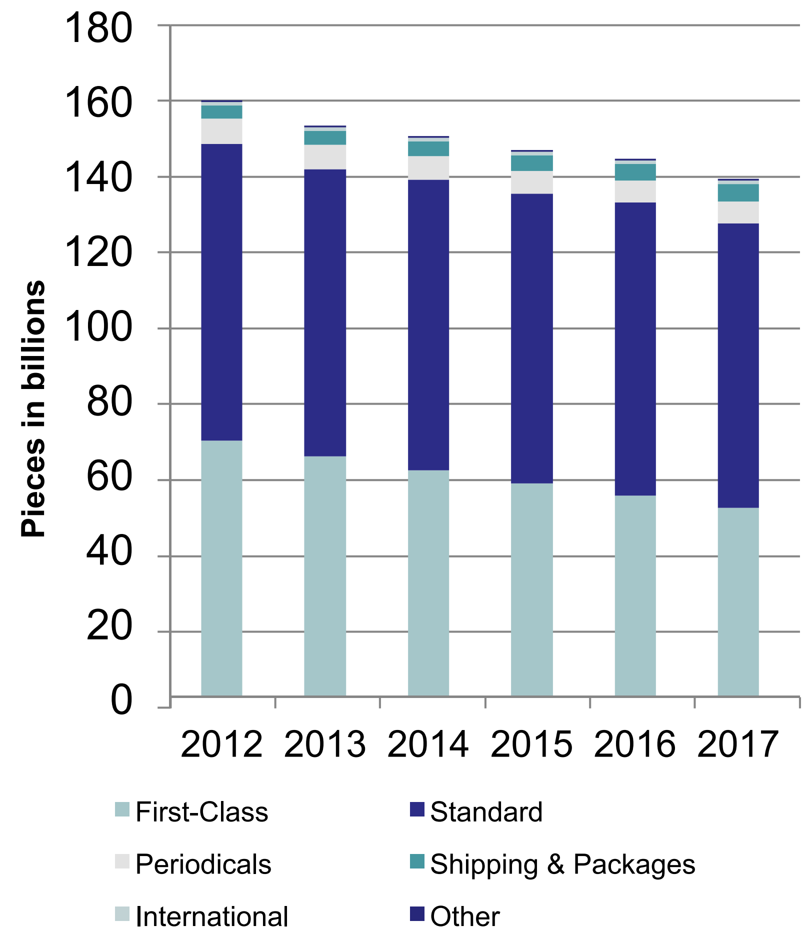
Digital Products - extend the USPS's current technology and data platform in ways that help better support the mailing industry and the American public

Revenue & Volume Forecasts

Revenue Forecasts



Volume Forecasts



April 16, 2013

Analysis of Revenue & Volume Forecasts

First-Class Mail

- Projected annual volume declines of 5% - 6%
- Price increases offset some of volume loss, but revenues expected to drop 4% - 5% annually
- Revenue expected to drop to $22.7 billion (36% of total revenue) in 2017, compared to 45% in 2012

Standard Mail

- Volumes and revenues projected to remain relatively flat through 2017, as the advertising market remains highly competitive

Shipping and Packages

- Projected volume growth between 5% - 6% per year
- Revenue growth of 6% - 7% annually
- Expected to make up $16.4 billion or 26% of 2017 total revenue, compared to 18% in 2012

Periodicals

- Volumes and revenue continue to slowly decline consistent with historical and societal trends

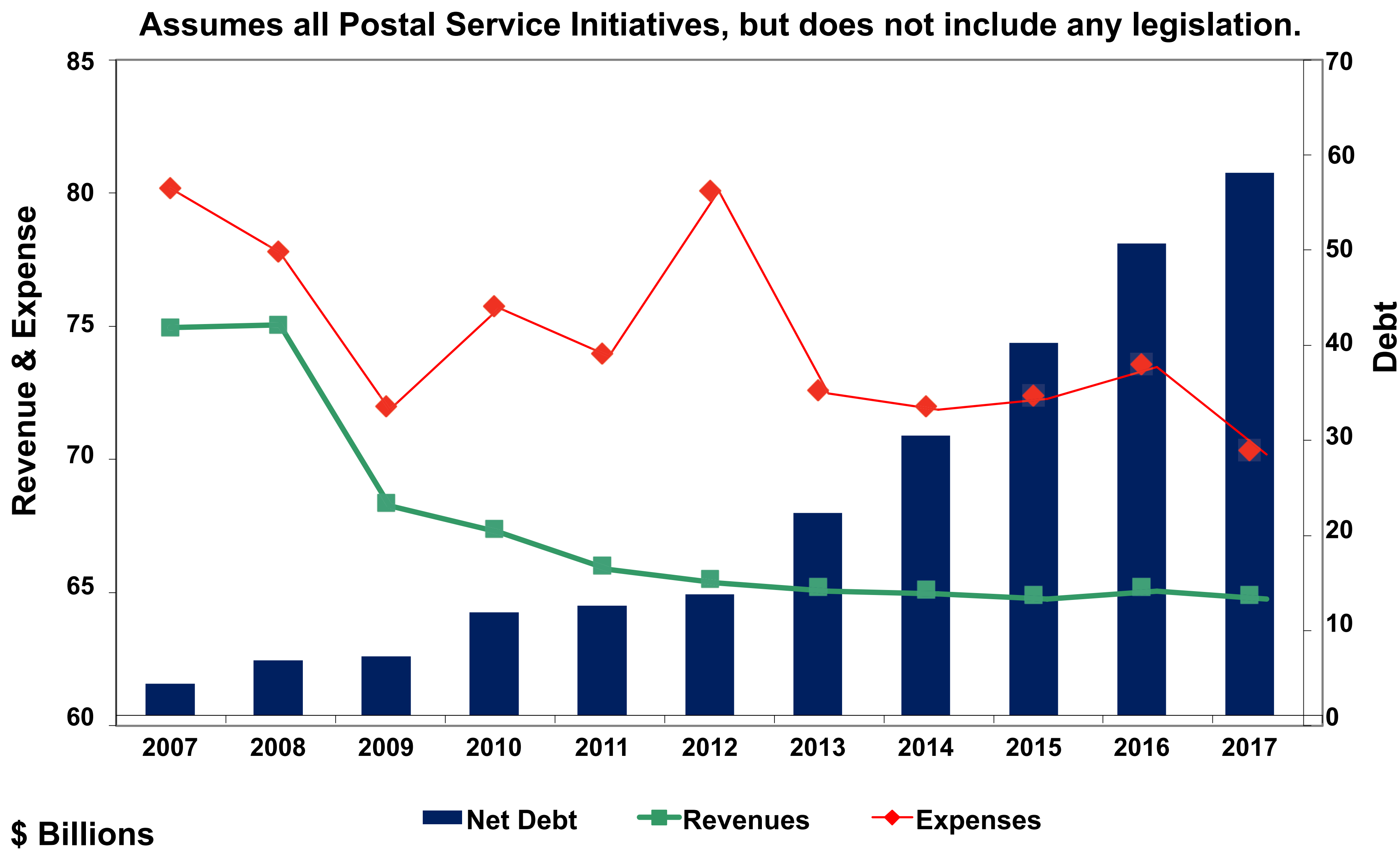
International

- Revenues are projected to grow modestly on slightly decreasing volume

Sensitivity Analysis / Risks

- Legislative reform must be enacted
  - Require Postal Health Plan for employees and retirees
  - Without legislative reform, debt would need to climb to $58 billion in 2017
  - Risk of less-than-optimal legislation
- Economic risk – further economic slowdown or recession could worsen electronic diversion of First-Class Mail and slow growth of Standard Mail and Packages
- Further delays in implementing all elements of the Plan have cumulative financial effects

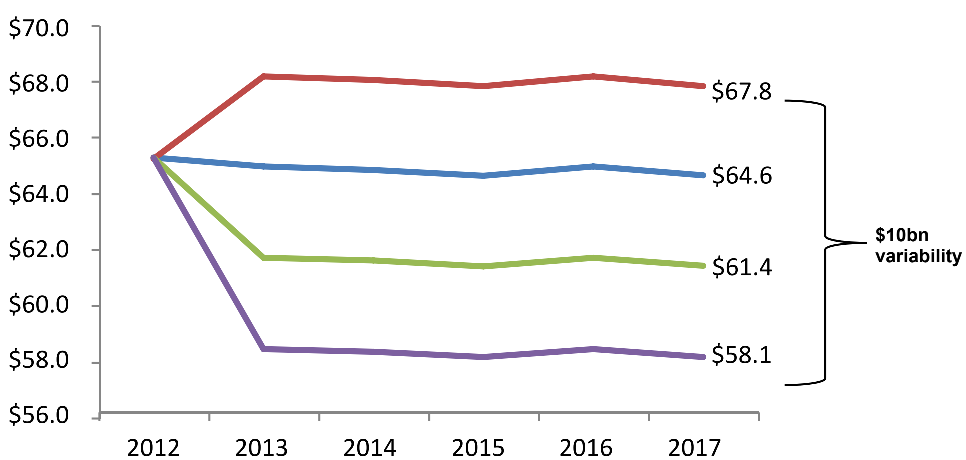
Losses Continue Without Legislation Debt Continues to Grow



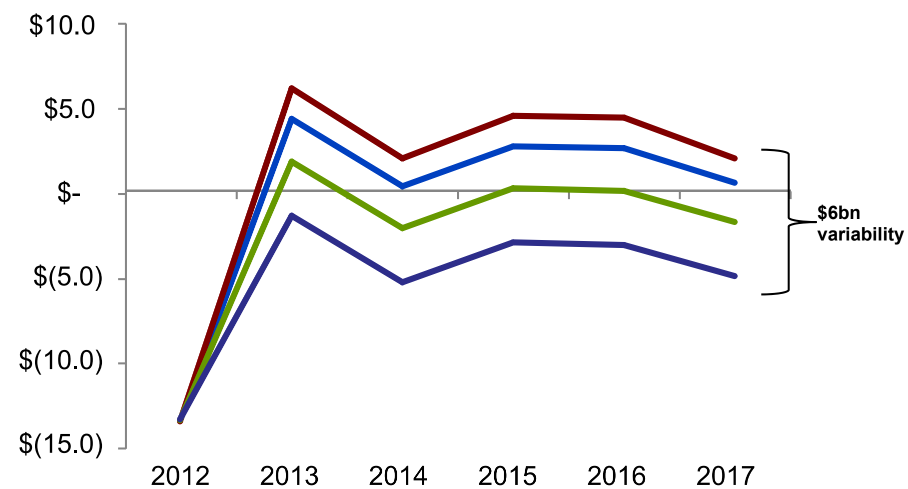
Forecast Sensitivity to Mail Volume Changes

UNITED STATES POSTAL SERVICE

Revenue ($ in billions)



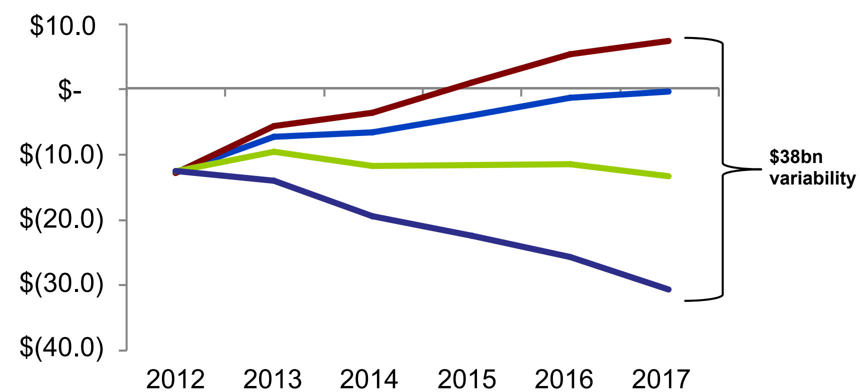
Revised Net Income (Loss) ($ in billions)



Economic Sensitivity

- If economic conditions or electronic diversion changes so that annual mail volume increases by 5%, then net income and cash are positively impacted
- In comparison, the 2007 – 2009 recession resulted in a reduction of approx. 10% of revenue, which is consistent with the purple line in each graph.
- For declines in mail volume due to economic conditions or accelerated electronic diversion, only ½ of workload effects are captured. This is due to the aggressive Plan and continued large cost reductions. The result is annual net losses and increasing debt.

Net Cash (debt) ($ in billions)



Volume 5% Higher | USPS Plan | Volume 5% Lower | Volume 10% Lower

April 16, 2013

All Elements of Plan Must be Implemented to Provide for Long-Term Financial Stability

- The challenges facing USPS are both economic and structural
  - Decline of high contribution First-Class Mail
  - Inflexible business model, including high-cost retirement and health benefits programs
- The Postal Service's 5-Year Plan
  - Continue to generate new revenues, particularly in the Package business where our delivery network and schedule are a competitive advantage
  - Re-structure the USPS network
  - Achieve requisite legislative changes
  - Adopt the USPS healthcare program for employees and retirees
  - Implement 6-days-per-week package delivery schedule and 5-days-per-week mail delivery
- The Plan enables the USPS and all of its stakeholders to:
  - Preserve the Postal Service's mission to provide secure, reliable and affordable universal delivery service
  - Make the Postal Service economically self-sustaining
- **Successful restoration of Postal Service financial stability requires implementation of <u>ALL</u> aspects of the Plan**