UNITED STATES POSTAL SERVICE®

Fiscal Year 2014
Integrated Financial Plan

2014 Operating Plan | 2014 Capital Plan | 2014 Financing Plan

A Deep Financial Hole (as of September 2013)

- **Liabilities exceed assets by approx. $40 billion**
- **The USPS has only 35 cents of assets to cover each dollar of its liabilities**

ASSETS		LIABILITIES	
Unrestricted Cash	$ 2.3B	Retiree Health Benefits	$16.8B
Buildings & Equipment, net of depreciation	$ 17.5B	Workers' Compensation	$17.2B
		Debt	$15.0B
Other assets	$ 1.8B	Accrued Compensation, benefits and leave	$ 3.5B
		Deferred Revenue[1]	$ 3.6B
		Other	$ 5.4B
Total Assets	**$21.6B**	**Total Liabilities[2]**	**$61.5B**

[1] Newly available data on forever stamp usage resulted in a $1.3B reduction in Deferred Revenue – Prepaid Postage
[2] Under multi-employer accounting rules, there are approximately $51B in obligations not shown on the balance sheet.

➢ Significant profits over years and legislation are needed to recover.

The table to the left describes the extent of the financial challenge facing the Postal Service as of the end of fiscal year (FY) 2013. Liabilities exceed assets by approximately $40 billion. There are also close to $51 billion in additional obligations for retiree health benefits (RHB) and pensions at the end of FY2013 that under multi-employer accounting rules are not recorded on our balance sheet. Annual financial losses have continued to add to the deficiency between our assets and liabilities. It will take legislative reforms and years of profitability to rebalance our assets and liabilities and to eliminate the accumulated net deficiency from the past 7 years.

The Postal Service continues to look for ways to improve profitability through product growth and innovation, product pricing, and managing and reducing costs within our control. The fiscal year (FY) 2014 Integrated Financial Plan (IFP) demonstrates the Postal Service's commitment towards a stable and financially healthy organization. However, legislation will still be needed to augment the Postal Service's efforts to reduce the financial hole in which the Postal Service finds itself.

The FY2014 IFP assumes that both our CPI price increase and our exigent price increase will be approved by the PRC. On this basis, we project Operating Income of $1.1 billion (as shown on the table to the right), versus an Operating Loss of $1.0 billion in FY2013, excluding a FY2013 change in accounting estimate for prepaid postage, RHB pre-funding and non-cash adjustments to workers' compensation. Newly available data on forever stamp usage resulted in a $1.3 billion reduction in Deferred Revenue-Prepaid Postage in FY2013. All operating revenue and operating income comparisons to FY2013 in this document will be defined as shown in the table on the right, and will exclude this accounting estimate change, since it is non-cash and not likely to recur at this level.

Statements of Operations

In Billions	2013 Actual	2014 Plan
		CPI + Exigent + Competitive
Revenue[1]	$ 66.0	$ 67.9
Expenses	66.7	66.8
Separation Costs	0.3	-
Operating Income (Loss)[2]	**$ (1.0)**	**$ 1.1**
Changes in Accounting Est.[3]	1.3	-
RHB Pre-funding	(5.6)	(5.7)
Workers' Compensation Adj.[4]	0.3	TBD
Net Income (Loss)	**$ (5.0)**	**$ (4.6)**
Mail Volume	**158.4**	**154.0**

[1] 2013 revenue excludes $1.3B change in accounting estimate for Deferred Revenue - Prepaid Postage; 2014 revenue includes CPI (1.6%) + exigent (4.3%) + competitive (average 2.4%) price increases.
[2] Before accounting estimate change, RHB pre-funding, and non-cash adjustments to workers' compensation liabilities.
[3] New data on forever stamp usage resulted in a $1.3B reduction in Deferred Revenue – Prepaid Postage.
[4] Workers' comp. non-cash impacts of discount rate and actuarial valuations.

The FY2014 planned operating income reflects continuing efforts to increase revenue and reduce costs. As a consequence of continuing uncertainty regarding postal reform legislation, the Board of Governors authorized the Postal Service to request an exigent price increase of 4.3 percent, in addition to the 1.6 percent CPI price increase and price increases on Competitive Products averaging 2.4 percent. These price increases are expected to be implemented on January 26, 2014 and are included in the 2014 revenue plan. The IFP also includes an aggressive reduction of 36 million work hours, which holds the operating expense increase to only $0.1 billion.

The FY2014 net loss is forecasted to be $4.6 billion, including $5.7 billion of legally mandated pre-funding for retiree health benefits, but before the expense associated with adjustments to long-term workers' compensation liabilities. These workers' compensation adjustments are heavily influenced by changes in interest rates and actuarial estimations and are too volatile to reliably forecast.

Once again, we will not have sufficient liquidity to make the $5.7 billion pre-funding payment for retiree health benefits due by September 30, 2014. Even after defaulting on the $11.1 billion of pre-funding payments for FY2012 and the $5.6 billion pre-funding payment for FY2013, we ended FY2013 with an unrestricted cash balance of only $2.3 billion and had no remaining borrowing capacity. The additional revenues generated by the exigent price increase will improve our liquidity position, but not enough to afford the pre-funding payment.

The Postal Service continues to aggressively pursue revenue growth, improve productivity, and reduce costs in areas within our control. The FY2014 IFP includes significant cost reductions and efficiency improvements intended to rightsize the organization to reflect current and future expected mail volumes. These measures include the consolidation of mail processing facilities and delivery units, along with changes to Post Office operations and transportation networks. These cost reductions, totaling $2.1 billion annually, require an aggressive work hour savings target of 36 million, plus savings from maximizing non-career employee utilization in accordance with our collective bargaining agreements. These cost reductions mitigate inflationary cost increases and result in nearly flat operating expenses as compared to FY2013.

Although our cost-reduction and revenue-generation initiatives are expected to positively impact cash flow in FY2014 and beyond, they will not, in the aggregate, be sufficient to fund needed investments, pre-fund RHB, or pay down debt in the long-term. Many of the structural reforms needed to ensure long-term financial viability, such as the resolution of our excessive RHB pre-funding payment schedule and changes to delivery frequency, can only be achieved with legislation.

There can be no assurance that Congress will enact legislation that will impact the Postal Service in 2014 or future years. Accordingly, the IFP does not reflect any benefits associated with potential legislative changes.

Note that all further references to years refer to fiscal years beginning October 1 and ending September 30.

1. MAJOR ASSUMPTIONS

A. The Economy

The protracted recovery from the "Great Recession", unlike most previous recessions has been characterized by a very slow decline in the unemployment rate. This has adversely impacted consumer confidence, caused unprecedented shifts in mailer behavior and increased economic risk. The Federal Government shutdown for the first sixteen days of 2014, the automatic spending cuts (or "sequester") and the looming budget and debt ceiling debates are adding more risk to an already uncertain economy. Growth in online shopping, emerging technologies, an expected increase in housing starts and household formation, and large amounts of cash in the hands of business could have a positive influence on economic growth in 2014. The Postal Service's business, financial position and results of operations will continue to be impacted by economic growth.

In developing the IFP forecast, we consider factors such as multi-year trends in our product sales (with greater weight on more recent trends), expected market growth and market share growth, changes in prices and marketing programs, the expected rate of migration of hard copy mail to digital transmissions, and the expected state of the overall economy. As in prior years, the macroeconomic outlook underlying our revenue and volume projections was developed by IHS Global Insight, Inc., an independent economic forecasting firm. For 2014, IHS Global Insight anticipates that the US economy will continue to move ahead at a very measured pace and that economic growth will pick up modestly compared to 2013, though not at pre-recession rates.

Gross Domestic Product is projected to increase by 2.3 percent, up from 1.6 percent in 2013, reflecting consumers' spending helped by the wealth effect and business spending. However, this is below the rate of growth generally associated with a robust economic recovery. Despite anticipated GDP growth, retail sales growth is expected to slow from 3.1 percent in 2013 to 2.2 percent in 2014.

Economic Drivers		
	2013 Estimated	2014 Estimated
Gross Domestic Product	1.6%	2.3%
Retail Sales	3.1%	2.2%
Consumer Price Index for All Urban Consumers	1.6%	1.5%
Consumer Price Index for Wage Earners	1.6%	1.4%
Employment Cost Index	1.8%	2.1%
Healthcare	3.0%	4.0%
Employment	2.0%	2.1%
Investment	3.4%	7.1%

With low levels of inventory and an expected increase in consumer demand, business spending is expected to increase. Global Insight is expecting investment to increase from 3.4 percent in 2013 to 7.1 percent in 2014.

Although employment will continue to grow, the pace of this growth is expected to remain relatively constant with the slow growth experienced in 2013.

Although the economy is expected to improve modestly in 2014, the positive effect of economic growth will not be strong enough to overcome the negative impact on mail volumes from forces brought about by the Great Recession, including shifts in consumer and business attitudes and behaviors that affect their need for and use of the mail. However, with the CPI + exigent price increase (1.6 percent + 4.3 percent) for Market Dominant products and services expected to be implemented in January 2014, and with a 2.4 percent average price increase in Competitive Products, operating revenues are expected to increase by $1.9 billion compared to 2013.

B. Mail Volume and Revenue

The 2014 IFP projects that total mail volume will decrease by 4.4 billion pieces, or 2.8 percent, from 2013 levels. First-Class Mail volume is expected to decline by 6.4 percent, reflecting the accelerated migration towards electronic communication and other trends emerging from the Great Recession, offset only partially by slow economic growth. Standard Mail volume is expected to decrease by 0.2 percent, largely due to the exigent price increase; however Standard Mail revenues are expected to increase by 4.9 percent.

A significant growth opportunity in Shipping and Packages is provided by the continued expansion of e-commerce. New services and successful marketing campaigns will allow the Postal Service to capture a growing share of this market. Accordingly, Shipping and Packages volume is projected to grow 10.1 percent in 2014 with Competitive Products projected to increase 12.6 percent. In comparison, Shipping and Packages volume increased 6.0 percent in 2013 with Competitive Products increasing 8.9 percent.

Operating revenue for 2014 is expected to show a net increase of $1.9 billion from 2013. This increase incorporates the impact of the recently announced CPI + exigent price increases (1.6 percent + 4.3 percent) for Market Dominant products and services and the 2.4 percent average price increase for Competitive Products, to be effective in January 2014.

2. 2014 OPERATING PLAN – MAIL VOLUME AND REVENUE

A. Volume

The 2014 IFP projects total mail volume of 154.0 billion pieces, a decline of 4.4 billion pieces, or 2.8 percent from 2013. For First-Class Mail, the IFP projects a decline of 4.2 billion pieces or 6.4 percent from 2013. This reflects the accelerated migration of communications and transactions out of First-Class Mail, and other trends triggered by the Great Recession. Standard Mail is expected to decrease by 0.1 billion pieces, or 0.2 percent, reflecting the impact of the CPI + exigent price increase of (1.6 percent + 4.3 percent).

Volume		
Billion pieces	2013 Actual	2014 Plan
		CPI + Exigent + Competitive
First-Class Mail	65.8	61.6
Standard Mail	80.9	80.8
Shipping and Packages	3.7	4.1
International	0.9	0.9
Periodicals	6.4	6.1
Other	0.7	0.5
Total Volume[1]	**158.4**	**154.0**

[1] 2014 vol. includes impact of CPI (1.6%) + exigent (4.3%) + competitive (average 2.4%) price increases.

Shipping and Packages volume is expected to grow 10.1 percent to 4.1 billion pieces in 2014, with Competitive Products projected to grow 12.6 percent, led by the strong year-over-year growth in e-commerce. The rebranding of Priority Mail, with day-certain delivery and free insurance is expected to provide a healthy boost to Priority Mail -- the flagship of Shipping Services.

The remaining products and services are expected to decline from 8 billion pieces in 2013 to 7.5 billion pieces in 2014, driven primarily by a decline of 0.3 billion pieces in Periodicals. Periodicals volume is not expected to return, as electronic content continues to grow in popularity with the public.

B. Revenue

Revenue				
in Billions		2013 Actual		2014 Plan
				CPI + Exigent + Competitive
First-Class Mail	$	28.1	$	27.5
Standard Mail		16.9		17.7
Shipping and Packages		12.5		14.1
International		3.0		3.2
Periodicals		1.7		1.7
Other		3.8		3.7
Operating Revenue[1]	**$**	**66.0**	**$**	**67.9**

[1] 2013 revenue excludes $1.3B change in accounting estimate for Deferred Revenue - Prepaid Postage; 2014 revenue includes CPI (1.6%) + exigent (4.3%) + competitive (average 2.4%) price increases.

Operating revenue for 2014 is expected to increase by $1.9 billion. This incorporates the impact of the recently announced CPI + exigent price increases of (1.6 percent + 4.3 percent) for Market Dominant products and services and the 2.4 percent average price increase for Competitive Products, effective in January 2014.

First-Class Mail revenue is projected to decline by $0.6 billion, an improvement compared to the $0.7 billion decline in 2013, as a result of the CPI + exigent price increase, while Standard Mail revenue is expected to increase by $0.8 billion, also due primarily to the price increases.

Revenues from Shipping and Packages are projected to increase by approximately $1.6 billion in FY2014. Although Shipping and Packages revenue is expected to show double digit growth, the fastest growing products within Shipping Services generally have relatively low contribution margins.

3. 2014 OPERATING PLAN – EXPENSES

Total work hours were 1,110 million in 2013, and represented a 12 million work hour decline, or 1.1 percent, compared to 2012. The plan forecasts total work hours of 1,074 million in 2014 and a work hour reduction target of 36 million, or 3.3 percent. This includes 9 million work hours expected to be saved with the implementation of phase II of our network consolidation, planned to begin in February 2014. This projected work hour savings also reflects continued savings from network consolidation phase I, delivery consolidations, and reduced retail window hours at designated post offices (POSt Plan) which began in 2013. Success in meeting this aggressive work hour reduction goal will be required to achieve the $2.1 billion in total planned cost reductions and efficiency improvements for 2014.

Operating Expenses before RHB Pre-funding, non-cash adjustments to the Workers' Compensation liability and Separation Costs are projected to increase by just $0.1 billion, or 0.2 percent, in 2014. Compensation and benefits expense is expected to decrease by $0.5 billion, driven by a 36 million work hour reduction and savings from an entire year's deployment of non-career employees at current contractually-authorized levels. These savings are partially offset by contractually-required wage increases and cost-of-living adjustments for the majority of our bargaining employees. Non-personnel expenses are expected to grow, as we invest in information systems and communications software to support our growth initiatives. There are also increases in non-personnel costs associated with the continued rightsizing of the network to achieve the operational savings discussed previously. Transportation costs are expected to remain flat in 2014, as savings from our new air cargo contract and surface transportation cost-reduction initiatives are offset by costs associated with the network consolidations, additional package volume, and inflation.

Operating Expenses

in Billions		2013 Actual		2014 Plan
				CPI + Exigent + Competitive
Compensation and Benefits	$	50.6	$	50.1
Transportation		6.7		6.7
Depreciation		1.9		2.0
Supplies & Services		2.4		2.7
Rent & Utilities		1.6		1.6
Vehicle/Maintenance, Interest & Other		3.5		3.7
Operating Expenses	**$**	**66.7**	**$**	**66.8**
Separation Costs		0.3		-
RHB Pre-funding		5.6		5.7
Non-cash Workers' Comp. Adj.[1]		(0.3)		TBD
Total Expenses [2]	**$**	**72.3**	**$**	**72.5**

[1] Non-cash effects of discount rate and actuarial valuations.

[2] 2014 expenses reflect workload impact of CPI (1.6%) + exigent (4.3%) + competitive (avg. 2.4%) price increases.

Expenses associated with non-cash Workers' Compensation adjustments result from changes in interest rates and changes in the estimated cost of long-term workers' compensation claims and are too volatile to reliably forecast. These expenses are therefore not included in the IFP for 2014.

4. 2014 CAPITAL PLAN

A. Capital Commitments

The 2014 capital commitment plan of $1.2 billion reflects our continuing efforts to conserve cash. Capital commitments are mainly being targeted toward projects with high investment returns that improve the customers' experience, support key initiatives, and provide basic infrastructure needs, as well as safety and health or legal requirements.

Capital Commitments				
In Billions	5-Year Avg. ('07-'11)	2012 Actual	2013 Actual	2014 Plan
Facilities	$ 0.7	0.3	0.4	0.4
Equipment	0.4	0.1	0.2	0.4
Infrastructure and Support	0.3	0.1	0.2	0.4
Total	**$ 1.4**	**0.5**	**0.8**	**1.2**

Facilities

In 2014, commitments for facilities are planned at $0.4 billion and represent approximately 33 percent of the total plan. This investment is primarily for facility infrastructure, including building modifications that are necessary to accommodate the ongoing plant consolidations, and repairs of our aging buildings.

Equipment

The 2014 capital plan for equipment is $0.4 billion, or approximately 33 percent of the total plan. These investments are focused on improving existing equipment, vehicle purchases and projects that will improve productivity and reduce operating costs.

Infrastructure and Support

The infrastructure and support category is planned at $0.4 billion, or approximately 33 percent of the total plan. Investments in this category include network updates for customer-facing technology improvements including replacement retail terminals, mail acceptance system simplification, and enhancements to mail scanning and tracking systems.

B. Capital Cash Outlays

Capital cash outlays continue to decline from the levels of previous years as we seek to conserve cash. Cash outlays for 2014 are for similar items as described above for Commitments.

Capital Cash Outlays				
In Billions	5-Year Avg. ('07-'11)	2012 Actual	2013 Actual	2014 Plan
Facilities	$ 0.8	0.4	0.3	0.4
Equipment	0.7	0.3	0.2	0.3
Infrastructure and Support	0.3	0.1	0.2	0.3
Total	**$ 1.8**	**0.8**	**0.7**	**1.0**

5. 2014 LIQUIDITY AND FINANCING PLAN

A. Cash Flow and Debt

in Billions		2013 Actual	2014 Plan CPI + Exigent + Competitive
Net Loss	**$**	**(5.0)**	**(4.6)**
(+) RHB Pre-funding - not paid		5.6	5.7
(+) Depreciation		1.9	2.0
(-) Non-cash Workers' Compensation Adj.		(0.3)	-
(-) Changes in Accounting Estimate		(1.3)	-
(-) Capital Cash Outlays		(0.7)	(1.0)
(+) Other changes in working capital		-	0.1
Cash Provided By Operations*		**0.2**	**2.2**
Cash at Start of Year (less restricted)**		**2.1**	**2.3**
Borrowing During Year ($15 Billion Debt)		**-**	-
Cash Balance (less restricted) End of Year**	**$**	**2.3**	**4.5**

* 2014 cash from operations incl. CPI (1.6%) + exigent (4.3%) + competitive (average 2.4%) price increases.
** Restricted cash projected to decline in 2014 from $0.3 billion to $0.2 billion.

For 2014, the projected net loss of $4.6 billion includes $5.7 billion of currently required pre-funding of RHB. Our forecasted liquidity position will be insufficient to make this legally-mandated pre-funding payment, so we have excluded the $5.7 billion payment due on September 30, 2014, from projected cash flows, as well as the $11.1 billion in RHB pre-funding still outstanding for 2012 and the $5.6 billion still outstanding for 2013. The net cash expected to be provided by operations during 2014 is estimated to be $2.2 billion. With a beginning unrestricted cash balance of $2.3 billion, we expect to end the year with approximately $4.5 billion of unrestricted cash. The increase is primarily due to the favorable impact of the CPI (1.6 percent) + exigent (4.3 percent) price increases. This remains a critically low level of liquidity, as it is equivalent to approximately seventeen days of operating costs. This projection assumes that we are able to achieve our operating plan, including the significant cost reductions discussed previously, and with no unforeseen drops in revenue.

As of September 30, 2013, the Postal Service was at the statutory $15 billion debt limit, which was reached for the first time in 2012. Our significant indebtedness to the Federal Financing Bank has important consequences. It limits our flexibility in planning for, or reacting to changes in our organization, and it places us at a competitive disadvantage compared to commercial competitors that may have more liquidity and which have access to the public capital markets.

B. Liquidity

The graph on the next page plots liquidity on a monthly basis for fiscal years 2013 and 2014, along with a mid-month balance for October 2014 (first month of FY2015). Liquidity is the sum of our unrestricted cash balance plus any available borrowing capacity. We include October 2014 in our graph because it is a critical liquidity month. Each year in October we are required to remit our annual workers' compensation reimbursement to the Department of Labor of approximately $1.4 billion.

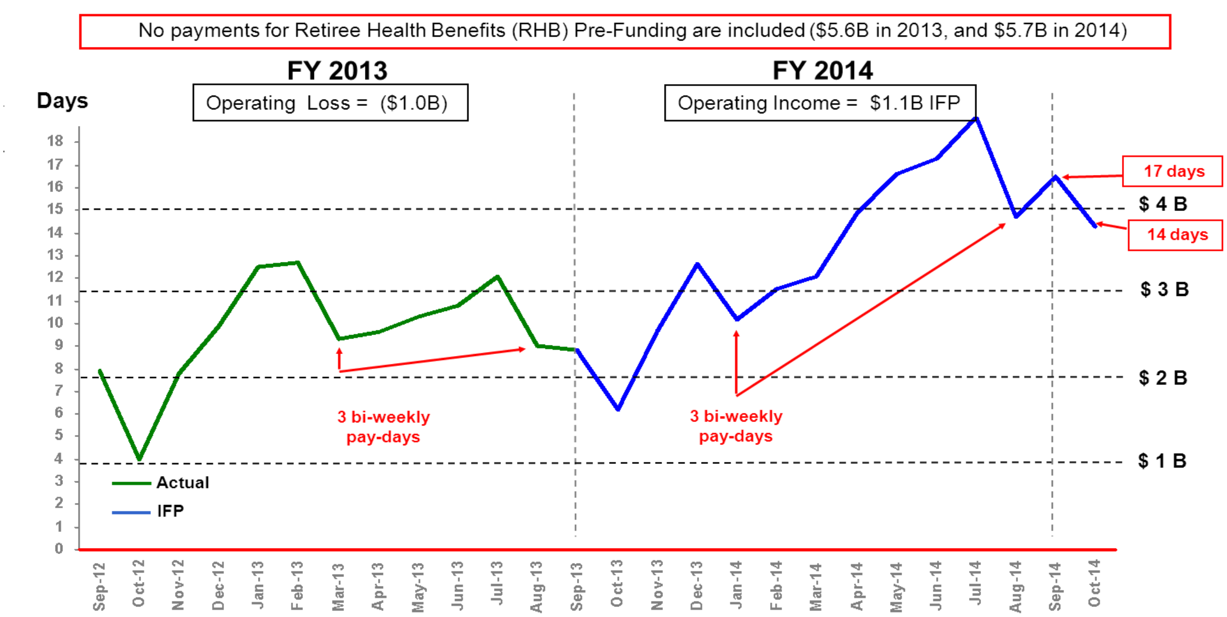
We ended 2013 with $2.3 billion of unrestricted cash and no remaining borrowing capacity on our $15 billion debt facility, after defaulting on the three legally-mandated prefunding payments for retiree health benefits totaling $16.7 billion in the last two years. Our overall unrestricted liquidity position improved by about $0.2 billion in 2013, and is expected to improve by about $2.2 billion in 2014. The improvement assumes a default of the required $5.7 billion RHB payment due in September 2014, continued modest capital cash expenditures, continuing cost reduction initiatives, and $1.9 billion in operating revenue improvement, largely through price increases. Nevertheless, liquidity remains below acceptable levels, providing little cushion for an organization of our size, operating in an uncertain economic environment.

Unless there is a fundamental change in our financial condition, we will not have sufficient liquidity to make the $5.7 billion RHB pre-funding payment due in September 2014 and we will have no ability to borrow additional funds at that date. We are projected to be at least $1 billion short of having sufficient liquidity to make the RHB pre-funding payment in FY2014 and continue operations. These conditions will exist unless Congress and the President take action on the legislative reforms that we have requested.

We continue to seek a refund of our Federal Employees Retirement System (FERS) surplus, as those funds would help alleviate some of our liquidity risks. The Office of Inspector General has determined that if Postal Service-specific assumptions were used in estimating the FERS obligation, rather than government-wide averages, the surplus would be significantly greater than the $0.9 billion calculated by the Office of Personnel Management as of September 30, 2012, the latest actual data available.

We will continue to pursue legislative changes, cost reductions, and additional ways to generate revenues in 2014. Many of the structural reforms needed to ensure long-term viability, such as adjustments to the RHB pre-funding payment schedule and changes to delivery standards, can only be achieved with legislative change.

2014 LIQUIDITY DAYS OF OPERATING CASH AVAILABLE



- Liquidity includes unrestricted cash plus available borrowing, up to $15B limit
- Days of Operating Cash – based on average operating costs disbursed per day ~$265M

CONCLUSION

The 2014 IFP reflects the Postal Service's continued strides toward financial health and stability, within the limits of current law. The revenue plan incorporates both product growth initiatives and needed price increases to achieve a growth in operating revenue of $1.9 billion. The proposed exigent (4.3 percent) plus CPI (1.6 percent) price increases for Market Dominant products, combined with an average 2.4 percent price increase on Competitive Products, will provide the revenue growth necessary to maintain a financially viable and self-sustaining Postal Service. In conjunction with the revenue growth initiatives, the Postal Service continues to rightsize its network and maximize utilization of its non-career flexible workforce to align with the changing mailing environment. The $2.1 billion in projected cost reductions offsets inflationary pressures and contractually-mandated wage increases for bargaining unit personnel resulting in nearly flat operating expenses compared to 2013.

Despite major cost reductions and revenue initiatives, the Postal Service will still have insufficient liquidity to make a meaningful reduction in debt, or make needed investments in infrastructure. Although our operating income, as shown on the Statements of Operations table on page 1, is estimated to be positive, significant risks such as negative economic developments, continued fiscal uncertainty of the U.S. government, inflation in fuel or wages, etc. could swiftly eliminate that positive operating income. Our $46 billion of net losses over the previous seven years were driven significantly by $35 billion in mandated RHB pre-funding. These losses have consumed our cash and borrowing capacity to the point where we have defaulted on our RHB pre-funding obligations the past 2 years and expect to default on RHB pre-funding payments in 2014.

We continue to inform the Administration, Congress, the Postal Regulatory Commission, and other stakeholders of the immediate and longer-term financial issues we face and the legislative changes that would help provide financial stability. Given the vital role the Postal Service plays in the U.S. economy, a financially healthy and stable Postal Service should continue to be a top priority for all stakeholders from legislative and regulatory bodies to management, employees, and customers.