UNITED STATES POSTAL SERVICE®

Fiscal Year 2016 Integrated Financial Plan

EXECUTIVE SUMMARY

A Deep Financial Hole (as of September 30, 2015)

- **Total Liabilities, including Retirement Obligations, exceed assets by $101 billion**
- **It would take RHB legislative change and decades of annual profits to remedy this level of excess liabilities and unfunded retirement obligations.**

ASSETS		LIABILITIES	
CSRS Fund Balance	$179.2B	CSRS Actuarial Liability	$199.6B
FERS Fund Balance	$107.6B	FERS Actuarial Liability	$111.3B
RHB Fund Balance	$50.3B	Retiree Health Benefits Obligation	$105.2B
Total Retirement-Fund Assets	$337.1B	Total Retirement-Related Liabilities	$416.1B
		Workers' Compensation	$18.8B
		Debt	$15.0B
Unrestricted Cash	$6.6B	Accrued Compensation, benefits, and leave	$3.9B
Land, Buildings & Equipment, net	$15.7B	Deferred Revenue	$3.3B
Other Assets	$1.7B	Other	$5.3B
Total Assets	**$361.1B**	**Total Liabilities**	**$462.4B**

- This slide includes all assets and liabilities of pension and post-retirement health benefits obligations.
- Items highlighted in yellow are not shown on our balance sheet under GAAP multi-employer rules and are the OPM's projected valuation as of September 30, 2015.

The Postal Service enters fiscal year (FY)2016 having achieved two consecutive years of controllable income and three consecutive years of revenue growth, largely as a result of package growth, the exigent price increase on Market-Dominant products initiated in January 2014 and continuing cost control initiatives. Despite these efforts to improve its financial stability, the financial challenge facing the Postal Service remains significant. At the end of FY2015, liabilities exceeded assets by approximately $101 billion. There are $51 billion in additional unfunded obligations for retiree health benefits (RHB) and pensions that under multi-employer accounting rules are not recorded on our GAAP-basis balance sheet. It will take comprehensive legislative reforms and years of sustained profitability to re-balance our assets and liabilities and eliminate the accumulated net deficiency.

The Postal Service continues to look for ways to improve profitability through product development and innovation, pricing, improving operational efficiencies and reducing costs within our control. The FY2016 Integrated Financial Plan (IFP) demonstrates the Postal Service's commitment to a financially stable organization by balancing revenue growth initiatives, cost controls and investments in the future. However, comprehensive legislation will still be needed to augment the Postal Service's efforts to reduce the financial hole in which it finds itself.

The FY2016 IFP projects controllable income of $0.1 billion (which includes $1.1 billion of temporary exigent surcharge revenue), versus a controllable income of $1.2 billion in FY2015 (which included $2.1 billion of temporary exigent surcharge revenue). Controllable income excludes RHB pre-funding, amortization of the Federal Employees' Retirement System (FERS) unfunded liability and non-cash adjustments to workers' compensation liabilities. All revenue and controllable income comparisons to FY2015 in this document will be defined as shown in the table on the right.

Statement of Operations

In Billions	2015 Actual	2016 Plan
Revenue	$ 66.8	$ 68.2
Temporary Exigent Surcharge	2.1	1.1
Total Revenue	$ 68.9	$ 69.3
Controllable Expenses [1, 2]	67.7	69.2
Controllable Income [2]	**$ 1.2**	**$ 0.1**
RHB Pre-funding	(5.7)	(5.8)
FERS Unfunded Liability Amortization	(0.2)	(0.2)
Workers' Compensation Adj.	(0.4)	-
Net Loss	**$ (5.1)**	**$ (5.9)**
Mail Volume	**154.2**	**150.9**

1- Net interest expense is included in Controllable Expenses.
2- Before RHB pre-funding, FERS unfunded liability amortization and non-cash adjustments to workers' compensation liabilities.

Under existing circumstances, the Postal Service will be required to roll-back the exigent price surcharge on Market-Dominant products that was implemented in January 2014 (we are appealing this decision). The exigent surcharge generated $2.1 billion in additional revenue in FY2015 and is expected to generate another $1.1 billion by April 2016, absent a successful appeal of one aspect of the PRC's July 2015 decision. The roll-back of the exigent price increase is the primary reason that controllable income is expected to decrease from $1.2 billion in FY2015 to $0.1 billion in FY2016. Despite the loss of $1.0 billion in revenue from the exigent roll-back, the IFP projects revenue growth of $0.4 billion, or 0.6 percent, compared to FY2015. This marks the fourth consecutive year of revenue increase.

The IFP includes a reduction of 7 million work hours, largely as a result of continued efforts to right-size the network and operating window to align with the current and projected mailing landscape. However, these savings will not be sufficient to offset inflationary and other cost increase drivers, as our total expenses are expected to grow in FY2016. The Postal Service has already made significant strides in increasing the efficiency of its operations, resulting in a reduction of 331 million work hours since 2006.

The FY2016 net loss is forecasted to be $5.9 billion, including $5.8 billion of legally mandated pre-funding for retiree health benefits and $0.2 billion of amortization expense for the FERS unfunded liability. There is no estimate included in the plan however for the non-cash portion of workers' compensation expense, as it is too volatile to reliably forecast.

Even after defaulting on retiree health benefits pre-funding payments of $11.1 billion in FY2012, $5.6 billion in FY2013, $5.7 billion in FY2014 and the $5.7 billion in FY2015, the Postal Service ended FY2015 with an unrestricted cash balance of just $6.6 billion, which equates to only approximately 24 days of operating cash. There is also no remaining borrowing capacity, as we ended the year with $15 billion in debt, which is the legally mandated ceiling. In FY2016, our liquidity is not expected to improve, and we will not likely be able to pay the pre-funding payment due in FY2016 or pay for any of the defaulted amounts from prior years.

Many of the structural reforms needed to ensure long-term financial viability, such as the resolution of our unsupportable RHB liability, can only be achieved with comprehensive legislation.

There can be no assurance that Congress will enact comprehensive legislation that will impact the Postal Service in FY2016 or future years. Accordingly, the FY2016 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. ECONOMIC ASSUMPTIONS

The economy is projected to show further improvement in 2016, driven by improvements in real disposable income and employment leading to more robust and stable Gross Domestic Product (GDP) growth, a rebounding housing market and higher investment. Growth in online shopping, emerging technologies and improved consumer confidence could have further positive influence on economic growth in 2016. However, risks remain as economic weakness overseas could spread to the U.S. and other potential factors could slow economic growth. The Postal Service's financial position and results of operations will continue to be impacted by economic growth.

Economic Drivers

	2015 Estimated	2016 Estimated
Gross Domestic Product	**2.5%**	**2.6%**
Retail Sales	**2.3%**	**2.8%**
Consumer Price Index for All Urban Consumers	**0.3%**	**1.1%**
Consumer Price Index for Wage Earners	**-0.2%**	**1.0%**
Employment Cost Index	**2.2%**	**2.1%**
Employment	**2.5%**	**2.0%**
Investment	**5.4%**	**4.6%**

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, changes in prices and marketing programs, the expected rate of migration of hard copy mail to digital transmissions, along with 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. (IHS), an independent economic forecasting firm. For 2016, IHS anticipates that the US economy will remain stable, with GDP increasing to 2.6 percent from 2.5 percent in 2015. An upward trend in employment and an increase to inflation adjusted consumer spending of 2 percent are expected to be the main drivers of economic growth. Additionally, the generally positive economic outlook centers on a rebound of the housing sector, growth in capital expenditures and strong exports.

The improving economic conditions and the elections set for early FY2017 will not be enough to offset the negative impact on First-Class Mail volumes. The Great Recession forced a shift in consumer and business attitudes and behaviors that affected their needs for and use of First-Class Mail, together with electronic diversion, First-Class Mail volumes have dropped and will likely continue to drop in 2016. While Market Dominant revenue is expected to decline in 2016, competitive products, comprising mostly of packages, are expected to grow as economic and e-commerce growth is partially driven by marketing initiatives.

2. 2016 OPERATING PLAN – MAIL VOLUME AND REVENUE

A. Volume

The 2016 IFP projects total mail volume of 150.9 billion pieces, a decline of 3.3 billion pieces, or 2.1 percent, from 2015. For First-Class Mail, the IFP projects a decline of approximately 2.1 billion pieces, or 3.2 percent, from 2015. This reflects the ongoing migration of communications and transactions out of First-Class Mail. Standard Mail is expected to decrease by 1.2 billion pieces, or 1.6 percent.

Shipping and Packages volume is expected to grow 5.7 percent to 4.8 billion pieces in 2016, led by the strong year-over-year growth in e-commerce and growth initiatives. Priority Mail, Parcel Select and First-Class Packages, the three largest Shipping and Packages categories, are all expected to continue to show growth, driven by their highly competitive prices and consistent, reliable services.

The volume for the remaining products is expected to decline from 7.2 billion pieces in 2015 to 6.9 billion pieces in 2016, 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.

Volume

Billion pieces	2015 Actual	2016 Plan
First-Class Mail	62.5	60.4
Standard Mail	80.0	78.8
Shipping and Packages	4.5	4.8
International	0.9	0.9
Periodicals	5.9	5.6
Other	0.4	0.4
Total Volume	**154.2**	**150.9**

Revenue

in Billions		2015 Actual		2016 Plan
First-Class Mail	$	28.3	$	27.2
Standard Mail		17.6		17.2
Shipping and Packages		15.1		16.9
International		2.8		3.0
Periodicals		1.6		1.5
Other		3.5		3.5
Revenue	**$**	**68.9**	**$**	**69.3**

B. Revenue

Revenue for 2016 is expected to increase by $0.4 billion. The 2016 IFP assumes that the exigent surcharge on Market Dominant products will be rolled back in early April 2016.

First-Class Mail revenue is projected to decline by $1.1 billion, or 3.9 percent, as the ongoing migration of communications and transactions out of First-Class Mail continues to cause volumes to decline. Standard Mail revenue is expected to decline by $0.4 billion, or 2.7 percent. The expected declines in revenue are partially from removing the exigent surcharge in mid-fiscal year 2016 and continuing declines in volumes.

Revenues from Shipping and Packages are projected to increase by approximately $1.8 billion in 2016. 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 compared to First-Class Mail.

3. 2016 OPERATING PLAN –WORK HOURS & EXPENSES

Total work hours were 1,128 million in 2015, and represented a 21 million work hour increase, or 1.9 percent, compared to 2014. The 2016 IFP projects total work hours of 1,121 million, a work hour reduction target of 7 million, or 0.6 percent. This is driven mainly by the savings from Phase II of Network Rationalization, and the expected continued decreases in mail volume. These savings are forecasted to be partially offset by increases in training hours, growth initiatives and the impact of an additional delivery day for Leap Year.

Operating Expenses

in Billions		2015 Actual		2016 Plan
Compensation and Benefits	$	51.8	$	52.1
Transportation		6.6		7.0
Depreciation		1.8		1.8
Supplies & Services		2.7		3.0
Rent / Utilities / Other		4.8		5.3
Controllable Expenses [1]	**$**	**67.7**	**$**	**69.2**
RHB Pre-funding		5.7		5.8
FERS Unfunded Liability Amortization		0.2		0.2
Non-cash Workers' Comp. Adj.		0.4		-
Total Operating Expenses	**$**	**74.0**	**$**	**75.2**

1- Before RHB pre-funding, FERS unfunded liability amortization, and non-cash adjustments to workers' compensation liabilities.

Postal Service initiatives and efforts to reduce costs and improve efficiency have resulted in a reduction of 331 million work hours since 2006. We continue to implement strategies to manage work hours, but as seen in 2015, the continued growth in the number of packages -- which are much more labor-intensive than letters – and the ever-growing number of delivery points, make it increasingly difficult to capture work hour savings. We will continue to innovate to drive efficiency.

Controllable expenses, which exclude RHB Pre-funding, amortization of the FERS unfunded liability and non-cash adjustments to the workers' compensation liability, are projected to increase by $1.5 billion, or 2.2 percent, in 2016.

Compensation and benefits expense is expected to increase by $0.3 billion in 2016. This is driven primarily by scheduled general wage increases, an increase in FERS contribution percentages mandated by the U.S. Office of Personnel Management (OPM), as well as higher health benefits costs. OPM increased employer FERS contribution rates for 2016, which will increase Postal Service costs by approximately $0.1 billion. Rising health care premiums for current employees and annuitants are also expected to add $0.3 billion in costs. These increases are partially offset by the 7 million work hour reduction described above.

Non-personnel expenses are expected to grow largely due to expenditures for information systems and support for our package growth initiatives. The additional cost will support the capture of the work hour savings that are planned for 2016 and enable us to provide better and more timely information to our managers and customers. Inflationary pressures, repairs to our aging vehicle fleet and additional funding for cyber security projects will also push non-personnel costs higher. Transportation costs are expected to grow in 2016 as savings from our efficiency improvement initiatives are offset by additional package growth, increased air-lift and highway transportation needs.

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. These are excluded from the 2016 IFP as they are too volatile for reliable forecasting.

4. 2016 CAPITAL PLAN

A. Capital Commitments

The 2016 capital plan calls for commitments of $1.8 billion.

Capital Commitments					
In Billions (unaudited)	5 - Year Avg. ('10-'14)	FY2014 Actual	FY2015 Plan	FY2015 Actual	FY2016 Plan
Facilities	$0.4	$0.3	$0.4	$0.4	$0.4
MP Equipment	$0.2	$0.3	$0.8	$0.6	$0.5
Vehicles	$0.0	$0.1	$0.5	$0.6	$0.2
IT & Other	$0.1	$0.2	$0.5	$0.2	$0.7
Total	**$0.7**	**$0.9**	**$2.2**	**$1.8**	**$1.8**

Facilities

In 2016, commitments for facilities are planned at $0.4 billion and represent approximately 22.5 percent of the total capital commitment plan. This investment is primarily for facility infrastructure, including building modifications that are necessary to accommodate the planned ongoing plant consolidations and repairs of our aging buildings.

Mail Processing Equipment

The 2016 capital commitment plan for mail processing equipment is $0.5 billion, or approximately 28.3 percent of the total plan. These investments are focused on improving existing equipment and projects that will improve productivity and reduce operating costs or necessary upgrades due to obsolescence. It will also support the projected increase in volume for shipping and package services estimated for 2016 and beyond.

Vehicles

For 2016, the capital commitment plan for vehicles is $0.2 billion, or approximately 12.9 percent of the total plan. These investments are focused on replacing vehicles that are well past their expected useful lives and where replacement is necessary due to high maintenance costs. The new vehicles, primarily cargo vans, will also have better fuel efficiency than those they are replacing, which results in cost savings.

IT & Other

The IT & Other category is planned to commit $0.7 billion, or approximately 36.3 percent of the total plan. Investments in this category include self-service equipment, enhancements to mail scanning and tracking systems, systems updates and hardware replacements.

B. Capital Cash Outlays

Capital cash outlays are expected to increase due to payments on vehicle commitments from 2015. Cash outlays for 2016 are for similar items as described above for capital commitments.

Capital Cash Outlays					
In Billions (unaudited)	5 - Year Avg. ('10-'14)	FY2014 Actual	FY2015 Plan	FY2015 Actual	FY2016 Plan
Facilities	$0.5	$0.4	$0.5	$0.4	$0.4
MP Equipment	$0.4	$0.3	$0.7	$0.5	$0.5
Vehicles	$0.0	$0.0	$0.4	$0.1	$0.4
IT & Other	$0.1	$0.1	$0.4	$0.2	$0.5
Total	**$1.0**	**$0.8**	**$2.0**	**$1.2**	**$1.8**

5. 2016 LIQUIDITY AND FINANCING PLAN

A. Cash Flow and Debt

in Billions (unaudited)		2015 Actual	2016 Plan
Net Loss	$	(5.1)	(5.9)
(+) RHB Pre-Funding - Not Paid		5.7	5.8
(+) Depreciation		1.8	1.8
(+) Non-cash Workers' Compensation Adj		0.4	-
(-) Purchases of PP&E		(1.2)	(1.8)
(+) PIHOP & Other Deferred Revenue		0.1	-
(+-) Other Changes in Cash		-	0.1
Cash Provided/Used	**$**	**1.7**	**-**
Cash at Start of Year (less restricted - $0.2)		4.9	6.6
Borrowing During Year		-	-
Cash at End of Year (less restricted -$0.2)	**$**	**6.6**	**6.6**

For 2016, the projected net loss of $5.9 billion includes $5.8 billion of legally-required pre-funding of RHB. Our forecasted liquidity position will be insufficient to make this pre-funding payment and maintain an adequate level of liquidity. Thus, we have excluded the $5.8 billion payment due in 2016 from cash outflows. Also excluded, are the $28.1 billion in RHB pre-funding still outstanding from prior years. We expect to end the year with approximately $6.6 billion of unrestricted cash, essentially even with 2015, which would only fund approximately 24 days of postal operations. Compared to 2015, cash provided by operations is expected to decrease by $1.7 billion. The year-over-year decline in cash provided from operations is primarily driven by the lower controllable income in 2016 and higher projected capital investments that have been deferred but are now necessary. This remains a critically low level of liquidity. This projected level of liquidity assumes that we are able to achieve all elements of our operating plan, as well as fulfilling the capital investment plan.

As of September 30, 2015, 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 changes in our organization or reacting to changes in the external environment and it places us at a competitive disadvantage compared to commercial competitors that might have liquidity.

B. Liquidity

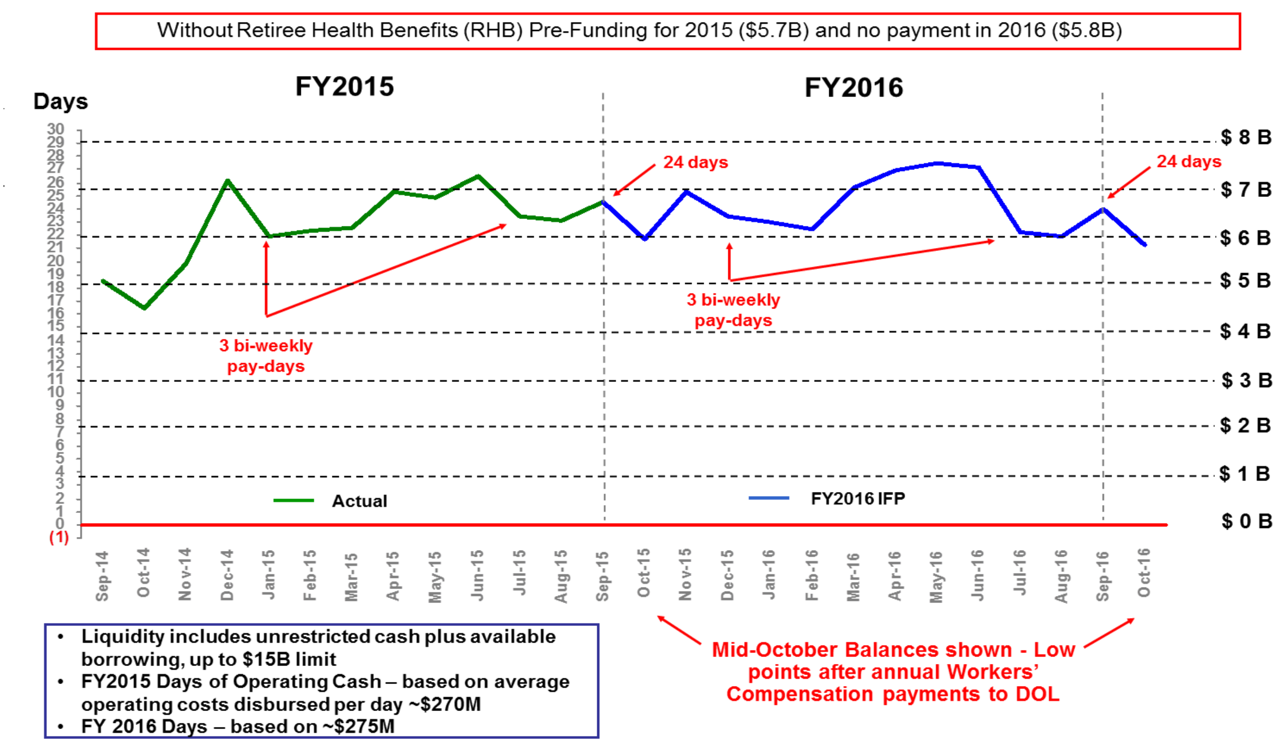
The graph below plots liquidity on a monthly basis (as measured in days of operating cash available) for fiscal years 2015 and 2016, along with a mid-month balance for October 2016 (first month of FY2017). Liquidity is the sum of our unrestricted cash balance plus any available borrowing capacity. We include October 2016 in our graph because October 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 2015 with $6.6 billion of unrestricted cash and no remaining borrowing capacity as we are at the legally mandated $15 billion debt ceiling, after defaulting on five legally mandated prefunding payments for retiree health benefits totaling $28.1 billion in the last four years. Our overall unrestricted liquidity position improved by about $1.7 billion in 2015 aided by the exigent surcharge on Market Dominant products, but is expected to remain essentially unchanged in 2016, assuming all revenue, expense and capital spending targets are met. The projection assumes a default of the required $5.8 billion RHB payment due in September 2016. Whereas, the 2015 improvement in liquidity was aided in part by a frugal capital investment plan, this factor will not be a large influence for 2016. Liquidity remains below acceptable levels, and provides 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 $5.8 billion RHB pre-funding payment due in September 2016 or pay down debt, and we will have no ability to borrow additional funds at that date. These conditions will exist unless Congress takes action on the comprehensive legislative reforms that we have requested.

We will continue to pursue comprehensive legislative changes, cost reductions and additional ways to generate revenues in 2016. 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 comprehensive legislative change.

2016 LIQUIDITY DAYS OF OPERATING CASH AVAILABLE



CONCLUSION

The 2016 IFP reflects the Postal Service's continued strides toward financial health and stability, within the limits of current law. The IFP projects growth in revenue of $0.4 billion. In conjunction with its revenue growth initiatives, the Postal Service continues to right-size its network and maximize utilization of its more flexible non-career workforce to align with the changing mailing environment.

Despite revenue growth initiatives and continued rationalization of our network, the Postal Service will still have insufficient liquidity to make the $5.8 billion RHB pre-funding payment and maintain a prudent level of liquidity or make a meaningful reduction in debt. Although our controllable income, as shown on page one, 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 controllable income. Our $57 billion of net losses over the previous nine years were driven significantly by $46 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 four years and expect to default on the RHB pre-funding payment in 2016.

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.