UNITED STATES
POSTAL SERVICE®

2011 Operating Plan **2011 Capital Plan** **2011 Financing Plan**

Fiscal Year 2011
Integrated Financial Plan

EXECUTIVE SUMMARY

Despite aggressive management actions to increase revenue and reduce expenses, the fiscal year 2011 Integrated Financial Plan (IFP) results in an Operating Plan with a net loss of $6.4 billion and a cash shortfall of $2.7 billion. The 2011 IFP also includes a Capital Plan that commits $1.4 billion toward projects that focus mostly on supporting our basic infrastructure, and requires capital cash outlays of $1.3 billion in 2011. Note that all references to years refer to fiscal years beginning October 1, and ending September 30.

Statements of Operations

In Billions	2010 Actual	2011 Plan
Revenue	$ 67.1	$ 67.7
Expenses	67.6	68.6
Operating Income (Loss)	**$ (0.5)**	**$ (0.9)**
RHB Pre-funding	5.5	5.5
Workers' Compensation Adj. *	2.5	-
Net Income (Loss)	**$ (8.5)**	**$ (6.4)**
Mail Volume	**170.6**	**172.5**

* Non-cash effects of discount rate and actuarial revaluations

After the recent economic recession, the FY2011 IFP is based on a slightly better economic outlook. It introduces new operational efficiencies and revenue initiatives to mitigate the impacts of the continuous volume loss in First Class Mail and the damage caused by the recession and diversion of communication to the internet. However, these efforts are not sufficient to bring the Postal Service to profitability in 2011. The Plan reflects an operating loss of $0.9 billion before the impact of the $5.5 billion Retiree Health Benefits (RHB) pre-funding payment and a net loss of $6.4 billion.

The Plan is based on a slow but continuous economic recovery helping to increase mail usage, the introduction of certain new and updated products, and an aggressive reduction of 49 million work hours.

.

1. MAJOR ASSUMPTIONS

A. The Economy

The macroeconomic data underlying the 2011 IFP volume and revenue forecasts were developed by Global Insight Inc., an independent economic forecasting firm. After a contraction of the economy that resulted in a -3.4 percent Gross Domestic Product (GDP) in 2009, 2010 is expected to have ended with a GDP growth of 2.1 percent. Global Insight also estimates similar growth for 2011. Retail sales and employment,

Economic Drivers

	2009 Actual	2010 Forecast	2011 Forecast
Gross Domestic Product	**-3.4%**	**2.1%**	**2.1%**
Retail Sales	**-9.0%**	**3.0%**	**3.4%**
Consumer Price Index for All Urban Consumers	**-0.3%**	**1.7%**	**1.4%**
Consumer Price Index for Urban Wage Earners	**-0.8%**	**2.1%**	**1.5%**
Employment Cost Index	**1.9%**	**1.5%**	**1.7%**
Employment	**-4.7%**	**-2.0%**	**1.0%**
Investment	**-24.0%**	**10.3%**	**5.2%**

Source: Global Insight, October 2010 Forecast both key drivers of mail volume, are expected to increase in 2011 by 3.4 percent and 1.0 percent, respectively. On the other hand, investment, another very important driver of mail volume, reflects the uncertainty that prevails in the economy and although it grows by 5.2 percent, it is lower than the growth expected for 2010.

B. Mail Volume, Revenue, and Price Increase

Changes in mail volume and revenues depend upon the demand for postal services which in turn depend on a variety of factors including economic growth, electronic diversion, and consumer preferences.

On the basis of these economic assumptions total mail volume is projected to increase by 1 percent from 2010 levels. First class mail is expected to decrease by 4 percent, reflecting the continued diversion of communications to the internet. Standard Mail and Shipping Services volumes are both expected to increase by 6 percent, reflecting the improving economy, retail sales and investment outlook.

C. Structural Changes

This Plan is based on current laws and regulations. It reflects no impacts of structural changes such as altering delivery frequency or restructuring of RHB pre-funding requirements.

2. 2011 OPERATING PLAN – MAIL VOLUME AND REVENUE

A. Volume

In 2011, we anticipate total mail volume of 172.5 billion pieces, which represents an increase of close to 2 billion pieces or 1 percent compared to 2010.

Volume		
Billion pieces	2010 Actual	2011 Plan
First Class Mail	**78.2**	**75.2**
Standard Mail	**82.5**	**87.5**
Periodicals Mail	**7.3**	**7.1**
Packages Services	**0.7**	**0.7**
Other Mailing Services	**0.5**	**0.5**
Total Mailing Services	**169.2**	**171.0**
Total Shipping Services	**1.4**	**1.5**
Total Volume	**170.6**	**172.5**

First Class Mail volume is forecasted at 75.2 billion pieces and shows a decrease of 4 percent or 3 billion pieces compared to 2010 levels. This decrease reflects the continuous shift of First Class Mail to electronic alternatives. Standard Mail mitigates this loss by increasing 5 billion pieces or 6 percent. However, it is important to note that the profit contribution of one piece of Standard Mail is only one-third of the contribution of a piece of First Class Mail. Thus, the increase in Standard Mail volume is not sufficient to fully alleviate the impact of the First Class Mail loss.

Our shipping services volume is forecasted to increase by 6 percent to a total of 1.5 billion pieces, reflecting the continued success of our product line.

B. Revenue

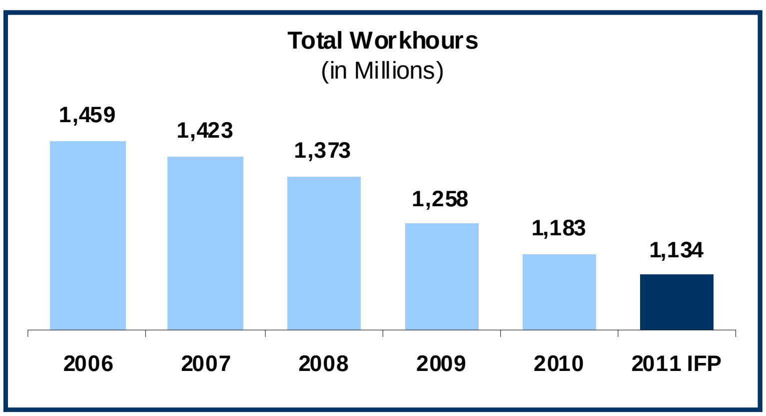
Total revenue for 2011 is planned at $67.7 billion and is $0.6 billion higher than the 2010 revenue of $67.1 billion. This variance is driven by the net increase in volume of 2 billion pieces and new revenue initiatives in both our Mailing and Shipping Services products. Additionally, Shipping Services revenue reflects the previously announced price increase effective in January 2011 on most competitive products. Standard Mail drives the planned mail volume increase. However, the additional revenue generated by this increase does not fully cover the revenue impact of the First Class Mail volume loss.

Revenue		
in Billions	2010 Actual	2011 Plan
First Class Mail	**$ 34.0**	**$ 32.8**
Standard Mail	**17.3**	**18.4**
Periodicals Mail	**1.9**	**1.8**
Packages Services	**1.5**	**1.5**
Other Mailing Services	**3.7**	**3.9**
Total Mailing Services	**$ 58.4**	**$ 58.5**
Total Shipping Services	**$ 8.7**	**$ 9.2**
Total Revenue	**$ 67.1**	**$ 67.7**

Shipping Services revenue reflects an increase of $0.5 billion and is driven mostly by new revenue initiatives.

3. 2011 OPERATING PLAN - EXPENSES

In 2010 we used 1,183 million workhours, a 75 million decline, or 6 percent, compared to 2009. In 2011, the total workhour reduction goal is 49 million or 4 percent. Achievement of this workhour target will help drive $2.0 billion in planned cost reductions for 2011. This continues the long-term trend of workhour declines shown in the table below.



Operating Expenses, excluding Retiree Health Benefits and non-cash adjustments to workers' compensation decreased 3 percent in 2010 and are projected to increase by $1 billion or 1.5 percent in 2011. The Operating Expense increase for 2011 is driven by inflationary increases in wages, benefit costs, transportation, and non-personnel expenses such as maintenance, fuel, and rent & utilities. Retiree Health

Operating Expenses			
in Billions	2009 Actual	2010 Actual	2011 Plan
Compensation and Benefits	$ 54.4	$ 52.3	$ 52.5
Transportation	6.0	5.9	5.9
Depreciation	2.3	2.5	2.5
Other Non-Personnel Costs	7.0	6.9	7.6
Sub-total Operating Expenses	**$ 69.7**	**$ 67.6**	**$ 68.6**
RHB Pre-funding	1.4	5.5	5.5
Workers Compensation Adj. *	0.7	2.5	-
Total Operating Expenses	**$ 71.8**	**$ 75.6**	**$ 74.1**

* Non-cash effects of discount rate and actuarial revaluations

Benefit costs for 2011 include $2.4 billion of retiree premiums (included in Compensation and Benefits) plus pre-funding to the RHB fund at the current statutory level of $5.5 billion. Changes in the non-cash Workers' Compensation Adjustment line will be primarily determined by changes in interest rates during 2011 and no changes are reflected as it is impossible to accurately predict interest rate changes.

4. CAPITAL PLAN

A. Capital Commitments

The 2011 capital commitment plan of $1.4 billion is well below average historical levels due to efforts to conserve cash. Capital commitments are targeted toward projects with high investment returns that improve our service, support key initiatives, and provide basic infrastructure needs.

Capital Commitments				
in Billions	5-Year Avg. ('04-'08)	2009 Actual	2010 Actual	2011 Plan
Facilities	$ 0.9	$ 0.5	$ 0.5	$ 0.6
Equipment	0.8	0.1	0.3	0.4
Infrastructure and Support	0.7	0.2	0.1	0.4
Total	**$ 2.4**	**$ 0.8**	**$ 0.9**	**$ 1.4**

Facilities

In 2011, commitments for facilities are planned as $0.6 billion and represent approximately 43 percent of the total plan. This investment is primarily for facility infrastructure and repairs of our aging buildings. There are no plans to build new facilities.

Equipment

The 2011 capital plan for equipment is $0.4 billion or approximately 29 percent of the total plan. The majority of this investment is focused on improving our package service, increasing productivity and reducing operating expenses, such as investments in scanning equipment, optical character reading capability, automation of address forwarding at origin, etc.

Infrastructure and Support

The infrastructure and support category is planned at $0.4 billion or approximately 28 percent of the total plan. Investments in this category include information/communications network updates and other system requirements.

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 2011 are for similar items as described above for Commitments.

Capital Cash Outlays								
in Billions	5-Year Avg. ('04-'08)		2009 Actual		2010 Actual		2011 Plan	
Facilities	$	0.8	$	1.0	$	0.6	$	0.6
Equipment		0.8		0.4		0.6		0.4
Infrastructure and Support		0.7		0.4		0.2		0.3
Total	**$**	**2.3**	**$**	**1.8**	**$**	**1.4**	**$**	**1.3**

5. LIQUIDITY AND FINANCING PLAN

A. Cash Flow and Debt

The net cash used to run the Postal Service during 2010 was $4.7 billion. This was driven by the net loss of $8.5 billion and the other items noted in the table. Note that we have excluded from all our cash balances approximately $200 million of restricted cash that has been collected by our Inspection Services unit, as it cannot be used for general operating purposes.

Cash Flow				
In Billions	2010 Actual		2011 Plan	
Net Loss	$	(8.5)	$	(6.4)
(+) Depreciation		2.5		2.5
(+) Non-Cash Workers' Compensation Adj.*		2.5		-
(-) 2011 Additional (27th) Pay-Day		-		(1.4)
(-) Capital Cash Outlays		(1.4)		(1.3)
(+) Other Changes in Working Capital		0.2		(0.1)
Cash Used in Operations	**$**	**(4.7)**	**$**	**(6.7)**
Cash at Start of Year		**3.9**		**1.0**
Borrowings During the Year		**1.8**		**3.0**
Cash / (Shortfall) at End of Year	**$**	**1.0**	**$**	**(2.7)**

Excludes Restricted Cash (Inspection Service's Recoveries) of approx. $200M

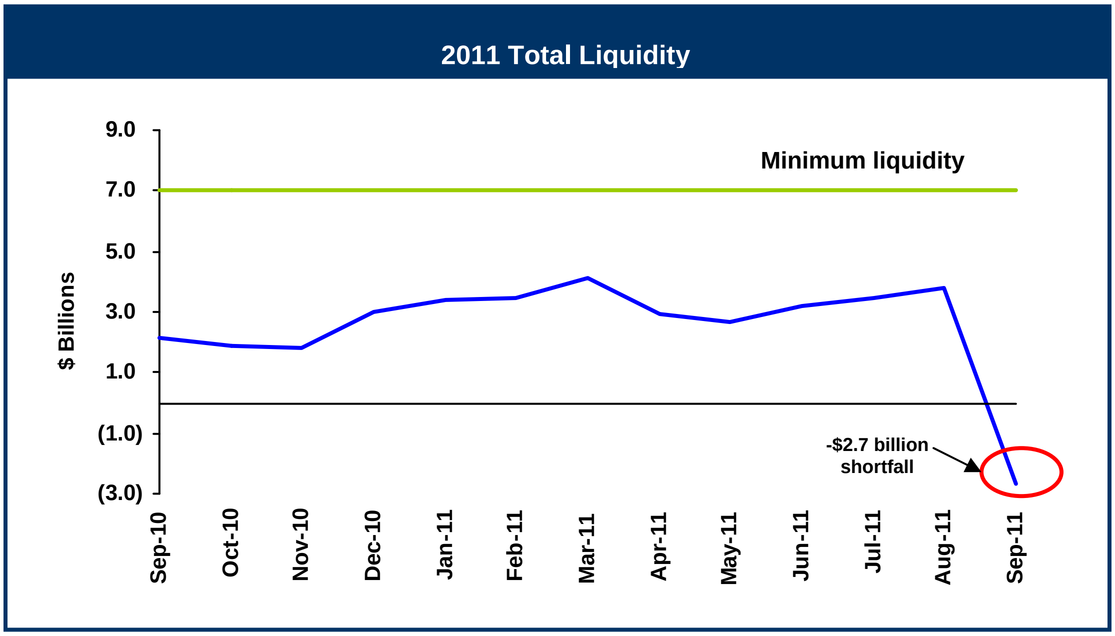
* Non-cash effects of discount rate and actuarial revaluations

Total liquidity entering 2010 was $6.9 billion and consisted of $3.9 billion in cash and the statutory authority to increase debt by up to $3.0 billion. During 2010 we borrowed $1.8 billion of the $3 billion statutory limit and ended the year with a total debt balance of $12.0 billion. The end result for 2010 was a cash balance of $1.0 billion.

Based on a projected net loss of $6.4 billion for 2011 and expected capital cash outlays of $1.3 billion, the net cash to be used in operating the Postal Service during 2011 is estimated to be $6.7 billion. With a beginning cash balance of $1.0 billion plus $3.0 billion of borrowing authority, we expect to end the year with a cash shortfall of $2.7 billion, having reached our total borrowing limit of $15.0 billion.

B. Liquidity

The graph below plots liquidity on a monthly basis for 2011, beginning with the September 30, 2010 level and ending September 30, 2011. Liquidity in this context is the sum of our cash balance plus available borrowing capacity (up to $3.0 billion annually). The graph shows that our liquidity is much lower than our monthly minimum requirement of $7 billion, which is based on the value of approximately one month of operating expenses. Assuming the 2011 Plan is met during the year, and we do not experience any unexpected situations, liquidity remains close to half of our minimum acceptable level during most of the year until the last day of the fiscal year when the $5.5 billion RHB pre-funding payment is due. We currently project that we will have insufficient cash to make the full RHB pre-funding payment. Additionally, our operations for 2012 will be at risk as we will have no further borrowing capacity having reached our statutory limit of $15 billion.



CONCLUSION

Despite major cost reductions and revenue initiatives, our financial projections show that we run out of cash at the end of 2011 thus jeopardizing our operations. Our number one priority is to meet our mission to deliver the mail. This must be achieved in a quality manner to serve the American public and to protect the value of the mail. Service problems caused by insufficient liquidity could irreparably harm the nation's postal infrastructure which is the center of a $1 trillion industry. We cannot risk this scenario, so we will continue to be more efficient, and we will continue to work with all of our stakeholders to affect structural changes to improve our financial condition. This includes such items as rationalizing the pre-funding of RHB, changing delivery frequency, increasing labor flexibility, and enhancing customer access. We will also continue to take actions to conserve cash which could include deferrals of certain large non-payroll obligations.