

**Base Case**

**The “Base Case” mail revenue assumptions are based on BCG’s forecast**

Key revenue assumptions		
Category	Annual growth assumptions <sup>1</sup>	Rationale
First-Class mail	Volume: -3.8%	<ul style="list-style-type: none"><li>▪ BCG volume assumptions less promotional mail management actions</li><li>▪ Growth at CPI for each sub-class</li></ul>
	Price: 1.9%	
Standard mail	Volume: 0.6%	<ul style="list-style-type: none"><li>▪ BCG volume assumptions less promotional mail management actions</li><li>▪ Growth at CPI</li></ul>
	Price: 1.9%	
Periodical mail	Volume: -1.2%	<ul style="list-style-type: none"><li>▪ BCG volume assumptions</li><li>▪ Growth at CPI</li></ul>
	Price: 1.9%	

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<sup>1</sup> Volume assumptions account for elasticity impact

Base Case

# The “Base Case” package revenue assumptions are based on BCG’s forecast

Key revenue assumptions		
Category	Annual growth assumptions <sup>1</sup>	Rationale
Market dominant packages <sup>2</sup>	Volume: 0.0% Price: 2.0%	<ul style="list-style-type: none"><li>▪ BCG volume assumptions</li><li>▪ Price growth at CPI</li></ul>
Domestic competitive products	Volume: [REDACTED] Price: [REDACTED]	<ul style="list-style-type: none"><li>▪ BCG volume assumptions less Flat Rate Box and NSA management actions<ul style="list-style-type: none"><li>– Implies [REDACTED] share growth</li></ul></li><li>▪ Price growth at [REDACTED] for 2011-2012 with [REDACTED] and then at [REDACTED]</li></ul>
International products	Volume: -1.2% Price: 4.1%	<ul style="list-style-type: none"><li>▪ BCG volume assumptions</li><li>▪ Growth at CPI+1% for 2011-12 with competitor rates and then at CPI</li></ul>
Special services revenue	Revenue: 1.8%	<ul style="list-style-type: none"><li>▪ Based on USPS business plan less P.O. Box and retail product management actions</li></ul>

<sup>1</sup> Volume assumptions account for elasticity impact  
<sup>2</sup> Includes First-Class Parcels, Standard Parcels and Package Services

## Base Case

# The “Base Case” assumes no incremental mgmt cost actions after FY 2010

Key cost assumptions		
Category	Key assumptions	Rationale
Labor requirements	Work hour needs change with associated drivers <ul style="list-style-type: none"> <li>▪ Plant: volume</li> <li>▪ Delivery: delivery points</li> <li>▪ Customer service: Post Offices</li> <li>▪ Admin: Constant as a percent of total labor</li> </ul>	Labor needs are based on demand-based drivers
Labor productivity	No productivity increases in any craft	Further increases to productivity will require management action
Labor mix	No assumed change in career/non-career mix	Current labor force structure is fixed
Wages	Wages per hour grow at Private Industry rate of wage inflation (1.3-2.5% from 2010-20, average 2.1%) <sup>1</sup>	Growth with inflation
Health benefits	Health benefits per FTE grow at Private Industry rate of health benefits inflation (4.7-5.2% from 2010-20, average 5.1%) <sup>1</sup>	Growth with inflation
Other benefits (incl. workers' comp)	Other benefits per FTE grow at Private Industry rate of benefits inflation (2.0-4.0% from 2010-20, average 3.4%) <sup>1</sup>	Growth with inflation
RHB	Pre-fund payments as currently mandated; Increase in premiums from \$2.2 billion in 2010 to 4.7 in 2016; additional pre-funding plus normal cost payments 2017-20 as mandated	OPM projections updated to reflect employee needs demand
Non-labor	Transportation costs change with volume and inflation, other costs (IT, supplies/services) grow at 1.4% CAGR	Growth with inflation applicable to each cost bucket
Non-operating	Losses funded by debt at 3.6% interest rate	10-yr forward T-Bill rate as of (12/15/2009)

## Base Case

# Base Case: Annual details

Volume	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Total volume (Billions)</b>		<b>176</b>	<b>166</b>	<b>167</b>	<b>162</b>	<b>162</b>	<b>159</b>	<b>156</b>	<b>153</b>	<b>150</b>	<b>148</b>	<b>147</b>	<b>146</b>
Change			-6%	0%	-3%	0%	-2%	-2%	-2%	-1%	-1%	-1%	-1%
<b>Financials (\$ Billions)</b>													
Revenue		68.1	65.8	67.1	65.7	66.5	66.6	66.7	66.8	67.3	68.3	68.5	69.3
Operating Costs		71.8	76.5	78.5	79.8	82.0	84.2	86.5	88.9	87.4	89.9	92.4	95.0
<b>Operating Income</b>		<b>(3.7)</b>	<b>(10.7)</b>	<b>(11.4)</b>	<b>(14.1)</b>	<b>(15.5)</b>	<b>(17.7)</b>	<b>(19.8)</b>	<b>(22.0)</b>	<b>(20.2)</b>	<b>(21.6)</b>	<b>(23.8)</b>	<b>(25.7)</b>
Net interest expense		(0.1)	(0.1)	(0.3)	(1.0)	(1.5)	(2.1)	(2.8)	(3.6)	(4.5)	(5.3)	(6.3)	(7.4)
<b>Net income</b>		<b>(3.8)</b>	<b>(10.8)</b>	<b>(11.8)</b>	<b>(15.1)</b>	<b>(17.0)</b>	<b>(19.8)</b>	<b>(22.6)</b>	<b>(25.6)</b>	<b>(24.6)</b>	<b>(27.0)</b>	<b>(30.1)</b>	<b>(33.1)</b>
<b>EOY Debt balance</b>		<b>6.5</b>	<b>16.6</b>	<b>27.5</b>	<b>41.8</b>	<b>58.1</b>	<b>77.3</b>	<b>99.4</b>	<b>124.5</b>	<b>148.8</b>	<b>175.4</b>	<b>205.2</b>	<b>238.0</b>
<b>Work hour reductions</b>													
Total work hours		1,258	1,240	1,246	1,239	1,244	1,242	1,241	1,239	1,239	1,240	1,242	1,245
FTEs (000's)		711	701	704	700	703	702	701	700	700	701	702	704
<b>Change in work hours</b>													
Plant Operations		(42.0)	(21.6)	1.4	(10.9)	(0.1)	(6.5)	(6.3)	(6.5)	(4.6)	(3.9)	(3.0)	(2.4)
City Delivery Operations		(9.0)	2.1	2.1	2.1	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
Rural Delivery Operations		(27.0)	2.7	2.8	2.8	2.8	2.9	2.9	3.0	3.0	3.1	3.1	3.2
Customer Services Operations		(25.0)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)
Adm. & Other Reductions		(12.0)	(1.0)	0.5	(0.5)	0.3	(0.1)	(0.1)	(0.1)	0.0	0.1	0.1	0.2
<b>Total change in work hours</b>		<b>(115.0)</b>	<b>(18.2)</b>	<b>6.3</b>	<b>(6.8)</b>	<b>4.8</b>	<b>(1.9)</b>	<b>(1.7)</b>	<b>(1.8)</b>	<b>0.2</b>	<b>1.1</b>	<b>2.1</b>	<b>2.8</b>
<b>Other key assumptions</b>													
Price increase (CPI)		-0.3%	1.6%	1.7%	2.1%	1.8%	1.8%	2.0%	2.0%	1.9%	1.9%	1.8%	1.8%
Wage increase (ECI Wages & Salary)		2.0%	1.3%	1.4%	1.4%	2.0%	2.4%	2.4%	2.4%	2.5%	2.5%	2.4%	2.4%
Interest rate for debt		1.6%	1.2%	2.0%	3.6%	3.6%	3.6%	3.6%	3.6%	3.6%	3.6%	3.6%	3.6%

## Base Case

# Base Case revenue detail

### Volume detail

Billions of pieces

Volume	2009	2020	CAGR
First Class	83.0	51.9	-4.2%
Standard	82.4	83.8	0.1%
Periodicals	7.9	6.6	-1.6%
Package Services	0.8	1.0	2.3%
Free	0.5	0.6	2.1%
Competitive	1.1	1.4	2.3%
International	0.7	0.6	-1.9%
<b>Total</b>	<b>176</b>	<b>146</b>	<b>-1.7%</b>

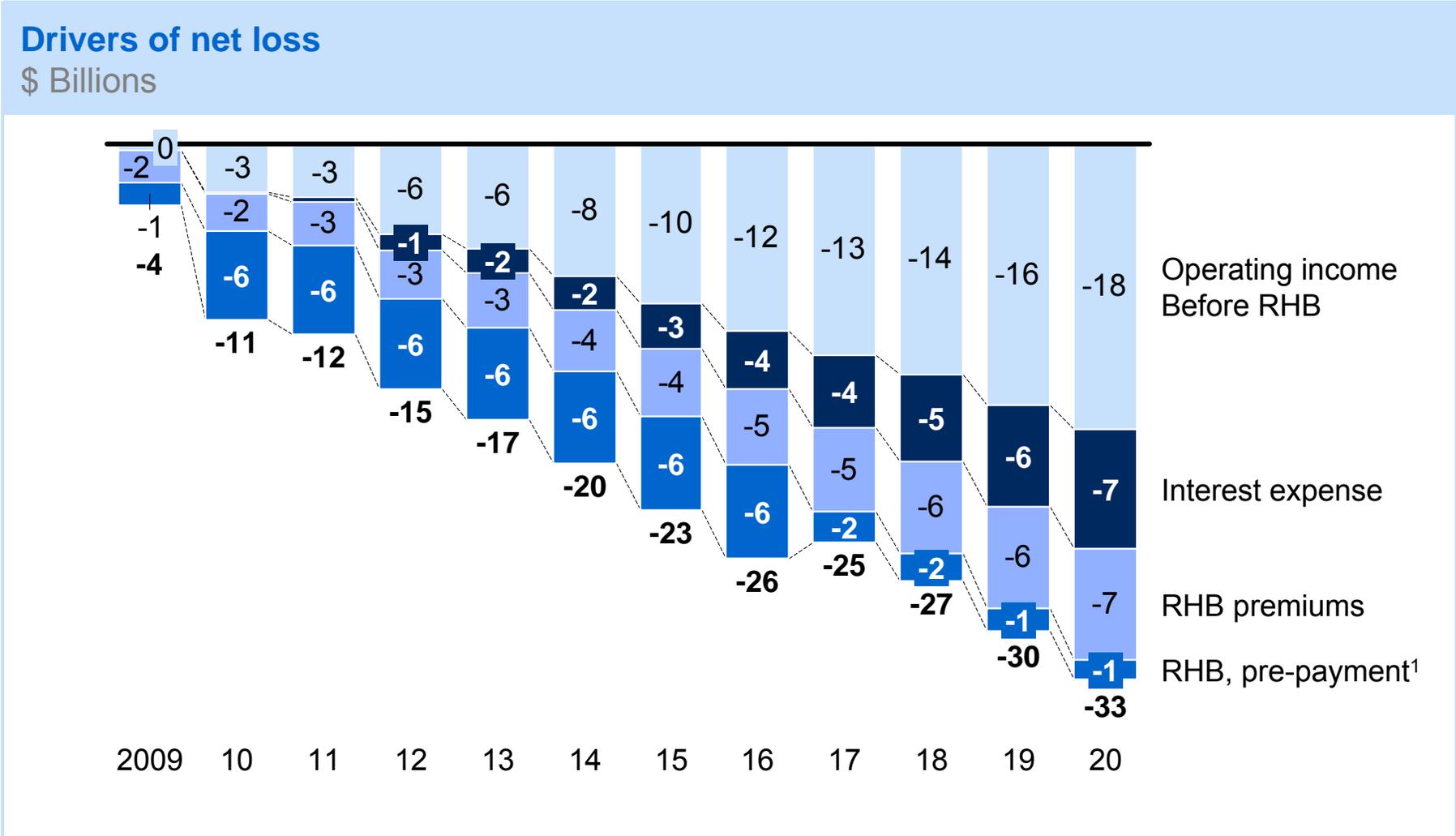
### Revenue detail

\$ Billions

Revenue	2009	2020	CAGR
First Class	34.6	25.7	-2.7%
Standard	17.2	21.5	2.0%
Periodicals	2.1	2.1	0.0%
Package Services	1.7	2.5	3.7%
Competitive	6.6	10.5	4.3%
International	2.2	2.9	2.4%
Special Services	2.8	3.3	1.5%
Other	0.8	1.0	1.4%
Adjustment	0.0	(0.1)	n/a
<b>Total</b>	<b>68.1</b>	<b>69.3</b>	<b>0.2%</b>

**Base Case**

**Under current course, RHB will continue to be a major component of losses, compounded by the cost of borrowing required**



<sup>1</sup> Pro-forma analysis, for years 2017-20, cost is for RHB expense in excess of projected premiums

## The “Actions within management control” assumes USPS management continues to take aggressive action to control costs and drive revenue

### Actions 2010 and beyond

	Net profit benefit <sup>1</sup> \$ Billions, FY 20	Key assumptions
<b>1</b> New <b>revenue initiatives</b> of ~\$4.5 B (e.g., Small Business Boost, Flat Rate Box)	1.5	<ul style="list-style-type: none"> <li>Competitive package market unit share grows from █████ in 2009 to █████ in 2020 through growing share in both B2C and B2B segments</li> <li>Mail promotions value captured based on top down valuation and grown in line with BCG volume and price projections</li> </ul>
<b>2</b> Continue <b>productivity</b> improvements to reduce work hours (e.g., six sigma, FSS, admin consolidation)	10.1	<ul style="list-style-type: none"> <li>93 million work hour reduction in 2010, as per USPS budget</li> <li>Annual productivity improvements at 1.5x historical averages                         <ul style="list-style-type: none"> <li>Plant: 0.9% annual reduction in work hours per piece</li> <li>City delivery: 0.5% annual reduction in WH per delivery pt</li> <li>Rural delivery: 1.1% annual reduction in WH per delivery pt</li> <li>Customer service: 1% annual reduction in WH per PO</li> </ul> </li> </ul>
<b>3</b> Replace natural attrition of employees with <b>non-career workers</b> up to contract limits, when necessary	0.5	Increase use of non-career up to contract caps <ul style="list-style-type: none"> <li>Plant: 9%</li> <li>Customer service: 6%</li> <li>City delivery: 4%</li> </ul>
<b>4</b> Further control costs through <b>purchasing</b> improvements	0.7	<ul style="list-style-type: none"> <li>Transportation: Improved trip utilization by 10-20%</li> <li>Transportation, supplies &amp; services, IT: 6-7% savings through continuous improvement of vendor and process management, focusing on total cost of ownership</li> </ul>

1 Relative to base case. Excludes impact of reduced interest payments due to reduced need for debt financing

## Actions within management control

# Actions within management control: Annual details

Volume	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Total volume (Billions)</b>		<b>176</b>	<b>166</b>	<b>172</b>	<b>167</b>	<b>167</b>	<b>164</b>	<b>161</b>	<b>158</b>	<b>156</b>	<b>154</b>	<b>152</b>	<b>151</b>
Change			-6%	3%	-3%	0%	-2%	-2%	-2%	-1%	-1%	-1%	-1%
<b>Financials (\$ Billions)</b>													
Revenue		68.1	65.8	68.8	68.0	69.2	69.4	70.0	70.4	71.1	72.3	72.9	73.8
Operating Costs		71.8	73.5	74.2	75.1	76.3	78.1	80.1	82.1	79.3	81.1	83.0	84.9
<b>Operating Income</b>		<b>(3.7)</b>	<b>(7.7)</b>	<b>(5.4)</b>	<b>(7.0)</b>	<b>(7.1)</b>	<b>(8.7)</b>	<b>(10.1)</b>	<b>(11.7)</b>	<b>(8.1)</b>	<b>(8.8)</b>	<b>(10.1)</b>	<b>(11.1)</b>
Net interest expense		(0.1)	(0.1)	(0.3)	(0.7)	(0.9)	(1.2)	(1.5)	(1.9)	(2.4)	(2.7)	(3.1)	(3.6)
<b>Net income</b>		<b>(3.8)</b>	<b>(7.8)</b>	<b>(5.7)</b>	<b>(7.7)</b>	<b>(8.0)</b>	<b>(9.9)</b>	<b>(11.6)</b>	<b>(13.6)</b>	<b>(10.5)</b>	<b>(11.5)</b>	<b>(13.2)</b>	<b>(14.7)</b>
<b>EOY Debt balance</b>		<b>6.5</b>	<b>13.6</b>	<b>18.4</b>	<b>25.3</b>	<b>32.7</b>	<b>42.0</b>	<b>53.1</b>	<b>66.2</b>	<b>76.4</b>	<b>87.5</b>	<b>100.5</b>	<b>114.9</b>
<b>Work hour reductions</b>													
Total work hours		1,258	1,165	1,130	1,113	1,106	1,096	1,087	1,077	1,069	1,062	1,055	1,050
FTEs (000's)		711	657	637	628	624	618	613	607	603	599	595	592
<b>Change in work hours</b>													
Plant Operations		(42.0)	(44.0)	(17.5)	(11.8)	(2.7)	(8.1)	(7.8)	(7.9)	(6.3)	(5.6)	(4.8)	(4.3)
City Delivery Operations		(9.0)	(3.0)	(0.8)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)
Rural Delivery Operations		(27.0)	(21.0)	(6.4)	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Customer Services Operations		(25.0)	(24.0)	(7.5)	(1.5)	(1.5)	(1.5)	(1.5)	(1.5)	(1.4)	(1.4)	(1.4)	(1.4)
Adm. & Other Reductions		(12.0)	(1.0)	(2.6)	(4.1)	(3.3)	(0.7)	(0.7)	(0.7)	(0.6)	(0.5)	(0.4)	(0.4)
<b>Total change in work hours</b>		<b>(115.0)</b>	<b>(93.0)</b>	<b>(34.8)</b>	<b>(17.0)</b>	<b>(7.1)</b>	<b>(10.0)</b>	<b>(9.6)</b>	<b>(9.7)</b>	<b>(7.9)</b>	<b>(7.2)</b>	<b>(6.3)</b>	<b>(5.7)</b>
<b>Other key assumptions</b>													
Price increase (CPI)		-0.3%	1.6%	1.7%	2.1%	1.8%	1.8%	2.0%	2.0%	1.9%	1.9%	1.8%	1.8%
Wage increase (ECI Wages & Salary)		2.0%	1.3%	1.4%	1.4%	2.0%	2.4%	2.4%	2.4%	2.5%	2.5%	2.4%	2.4%
Interest rate for debt		1.6%	1.4%	2.0%	3.6%	3.6%	3.6%	3.6%	3.6%	3.6%	3.6%	3.6%	3.6%

## Actions within management control revenue detail

### Volume detail

Billions of pieces

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First Class	83.0	52.3	-4.1%
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<b>Total</b>	<b>176</b>	<b>151</b>	<b>-1.4%</b>

### Revenue detail

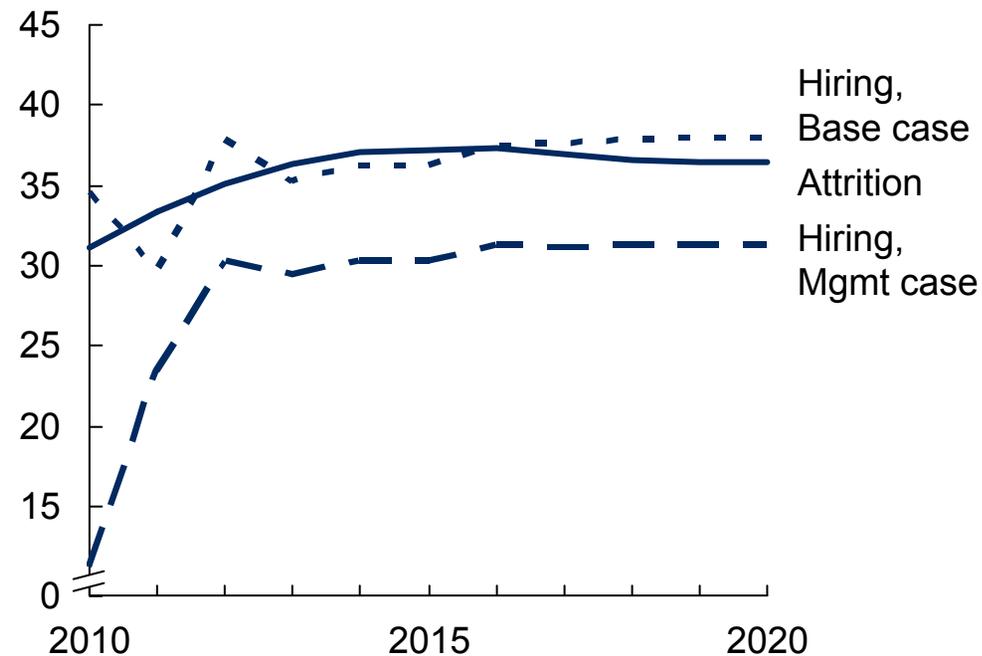
\$ Billions

Revenue	2009	2020	CAGR
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Package Services	1.7	2.5	3.7%
Competitive	6.6	13.6	6.8%
International	2.2	2.9	2.4%
Special Services	2.8	3.3	1.6%
Other	0.8	1.0	1.4%
Adjustment	0.1	0.5	n/a
<b>Total</b>	<b>68.1</b>	<b>73.8</b>	<b>0.7%</b>

# Significant hiring will need to occur in both the “Base Case” and “Actions within management control” case

## Attrition and hiring

Thousands of FTEs



## Implications

- Under the base case, USPS will need to hire to replace attrition beginning in 2012
- Significant hiring will still need to occur under the management case due to limited ability to decrease work hours under current constraints