UNITED STATES
POSTAL SERVICE

Integrated Financial Plan
FY2012

The new reality

EXECUTIVE SUMMARY

Statements of Operations		
In Billions	2011 Actual	2012 Plan
Revenue	$ 65.7	$ 64.0
Expenses	67.9	67.0
Operating Income (Loss)	**$ (2.2)**	**$ (3.0)**
RHB Pre-funding	-	(11.1)
Restructuring Charge	-	TBD
Workers' Compensation Adj. *	(2.9)	TBD
Net Income (Loss)	**$ (5.1)**	**$ (14.1)**
Mail Volume	**167.9**	**158.0**

* Non-cash effects of discount rate, actuarial valuations, and contingency.

The fiscal year 2012 Integrated Financial Plan (IFP) has an Operating Plan with a projected Operating Loss of $3.0 billion, versus a loss of $2.2 billion in 2011, despite efforts to increase revenue and reduce costs. The 2012 net loss is forecast to be $14.1 billion, after $11.1 billion of pre-funding for retiree health benefits currently legislated for 2012 ($5.5 billion deferred from September 2011, and now scheduled for December 2011, plus $5.6 billion scheduled for September 2012).

The IFP shows that there will be insufficient liquidity to make the pre-funding payments for retiree health benefits as we will have a liquidity shortfall of approximately $10.5 billion, under current legislation. Excluding the $11.1 billion of pre-funding payments, we will end FY2012 with a cash balance of only $0.6 billion. Liquidity at the end of October 2012, after our annual workers' compensation payment to the Department of Labor, is forecast to be as low as $0.1 billion. These are dangerously low levels of liquidity as we spend an average of $0.2 billion per day.

The FY2012 IFP is based on a weak economic outlook. It assumes total revenue of $64 billion and expenses of $67 billion, after cost reductions of $2.5 billion which are driven by a reduction of 58 million workhours in the year. These cost reductions mitigate inflationary increases and drive a $900 million net reduction in expenses as compared to FY2011. The cost reductions are not sufficient to compensate for reduced revenue which is tied to continued migration to electronic communications and weakness in the overall economy.

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

1. MAJOR ASSUMPTIONS

A. The Economy

The macroeconomic outlook underlying our revenue and volume projections was developed by IHS Global Insight, Inc., an independent economic forecasting firm. Global Insight anticipates that growth in the economy will be slow through FY2012. Gross Domestic Product is forecasted to grow only 1.6 percent, down from 2.1 percent in 2010 and 2011. Consumers' reluctance to spend is a key component of this weakness. Retail sales growth is expected to slow from 5.7 percent in 2011 to 2.7 percent in 2012.

Economic Drivers			
	2010 Actual	2011 Forecast	2012 Forecast
Gross Domestic Product	**2.1%**	**2.1%**	**1.6%**
Retail Sales	**2.8%**	**5.7%**	**2.7%**
Consumer Price Index for All Urban Consumers	**1.7%**	**2.6%**	**1.9%**
Consumer Price Index for Wage Earners	**2.1%**	**2.9%**	**2.0%**
Employment Cost Index	**1.5%**	**1.7%**	**1.8%**
Employment	**-2.3%**	**1.4%**	**1.5%**
Investment	**10.1%**	**6.1%**	**4.4%**

Source: Global Insight - August 2011

Businesses are not expected to fill the spending void. Global Insight is expecting investment growth to decelerate from 10.1 percent in 2010, to 6.1 percent in 2011, and then to 4.4 percent in 2012. Although employment is expected to continue growing, the pace of that growth will be little different from the lethargic growth that we have experienced in 2011, increasing from 1.4 percent to 1.5 percent.

It is increasingly evident that the recent recession and its aftermath will have lingering adverse effects on the economy for the next several years. Global Insight does not expect employment, for instance, to reach its pre-recession peak until 2015.

B. Mail Volume and Revenue

Changes in mail volume and revenue 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 decrease by 5.9 percent from 2011 levels. First-Class Mail volume is expected to decrease by 8.6 percent, reflecting the continued diversion of communications to the Internet. Standard Mail volume is expected to decrease by 3.7 percent, and Shipping Services volume is projected to remain stable at approx 1.5 billion pieces.

Total revenue for 2012 is expected to decrease by $1.7 billion, after consideration of the previously announced price increase for Mailing Services of 2.1 percent in January 2012. Prices for Shipping Services are also assumed to increase by a competitive amount in January 2012.

C. Structural Changes

This plan is based on current laws and regulations. It does not reflect the potential impacts of proposed legislation or altering delivery frequency.

2. 2012 OPERATING PLAN – MAIL VOLUME AND REVENUE

A. Volume

In 2012, we anticipate total mail volume of 158.0 billion pieces, a decline of 9.9 billion pieces or 5.9 percent from 2011. First-Class Mail volume is expected to decline 6.3 billion pieces or 8.6 percent from 2011 levels. This decrease reflects the continuing loss of First-Class Mail to electronic alternatives. Standard Mail is expected to decrease by 3.2 billion pieces, or 3.7 percent, reflecting reduced economic growth. Volume of the remaining Mailing Services products will decline from 8.2 billion pieces in 2011 to 7.8 billion pieces in 2012.

Volume		
Billion pieces	2011 Actual	2012 Plan
First-Class Mail	**73.5**	**67.2**
Standard Mail	**84.7**	**81.5**
Periodicals Mail	**7.1**	**6.7**
Package Services	**0.7**	**0.6**
Other Mailing Services	**0.4**	**0.5**
Total Mailing Services	**166.4**	**156.5**
Total Shipping Services	**1.5**	**1.5**
Total Volume	**167.9**	**158.0**

Shipping Services volume is expected to remain stable at approximately 1.5 billion pieces in 2012, but with some changes in the mix of mail volume.

B. Revenue

Total revenue for 2012 is expected to decrease by $1.7 billion. This assumes the 2.1 percent price increase in January 2012 for Mailing Services.

Revenue from First-Class and Standard Mail are both projected to decrease by $2.0 billion and $0.2 billion, respectively, reflecting declining volumes and the effects of price changes.

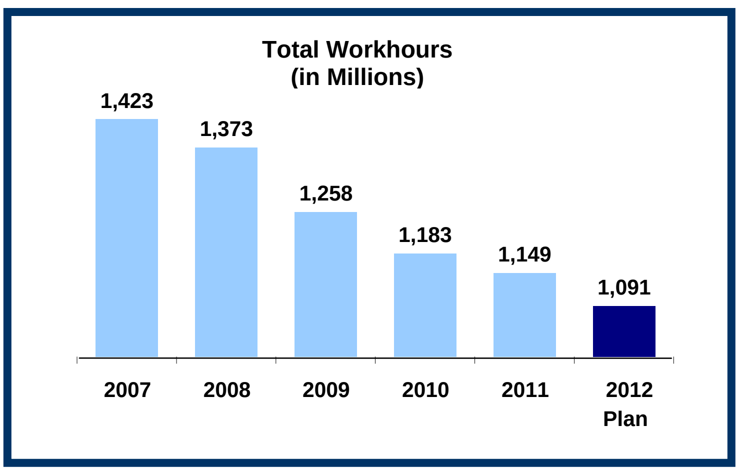
Revenue from Shipping Services is expected to increase by approximately $0.3 billion in 2012.

Revenue				
in Billions		2011 Actual		2012 Plan
First-Class Mail	$	32.2	$	30.2
Standard Mail		17.8		17.6
Periodicals Mail		1.8		1.8
Package Services		1.6		1.6
Other Mailing Services		3.3		3.5
Total Mailing Services	$	56.7	$	54.7
Total Shipping Services	$	9.0	$	9.3
Total Revenue	$	65.7	$	64.0

Please note: For comparability purposes, the FY2012 volume and revenue projections above have been categorized to be consistent with FY2011 and have not been adjusted to reflect the recent and proposed reclassifications of certain products from Mailing Services to Shipping Services.

3. 2012 OPERATING PLAN – EXPENSES

In 2011 we used 1,149 million workhours, a 34 million hour decline, or 2.9 percent, compared to 2010. In 2012, the total workhour reduction goal is 58 million, or 5.0 percent. Achievement of this aggressive workhour target will drive $2.5 billion in planned cost reductions for 2012. It will also continue the long-term trend of significant workhour reductions which will total 23 percent over five years.



Operating Expenses (which exclude pre-funding of Retiree Health Benefits, any needed restructuring charges, and any non-cash adjustments to workers' compensation) are projected to decrease by $0.9 billion or 1.3 percent in 2012. The Operating Expense decrease for 2012 is driven by a net reduction of approximately $1 billion in compensation costs which is tied to the reduction in workhours net of inflationary increases. Other costs move slightly in 2012 as a result of the effects of inflation and cost saving measures.

Operating Expenses		
in Billions	2011 Actual	2012 Plan
Compensation and Benefits	$ 52.0	$ 51.2
Transportation	6.4	6.3
Depreciation	2.3	2.2
Other Non-Personnel Costs	7.2	7.3
Sub-total Operating Expenses	**$ 67.9**	**$ 67.0**
RHB Pre-funding	-	11.1
Restructuring Charge [1]	-	TBD
Non-cash Workers' Comp. Adj. [2]	2.9	TBD
Total Operating Expenses	**$ 70.8**	**$ 78.1**

[1] Equipment and facilities impairments, unemployment, and VERAs.

[2] Non-cash effects of discount rate, actuarial valuations and contingency.

Restructuring charges may occur during 2012 as a result of consolidating facilities (which could require non-cash impairment charges for certain property and equipment) and costs associated with decreasing our workforce (incentives, unemployment or workers' compensation).

Costs associated with Non-cash Workers' Compensation adjustments will be determined by changes in interest rates and increases in long-term workers' compensation claims during 2012.

4. CAPITAL PLAN

A. Capital Commitments

The 2012 capital commitment plan of $0.9 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 the customers' experience, support key initiatives, and provide basic infrastructure needs.

Capital Commitments				
in Billions	5-Year Avg. ('05-'09)	2010 Actual	2011 Actual	2012 Plan
Facilities	$ 0.8	0.5	0.5	0.4
Equipment	0.8	0.3	0.2	0.1
Infrastructure and Support	0.5	0.1	0.1	0.4
Total	**$ 2.1**	**0.9**	**0.8**	**0.9**

Facilities

In 2012, commitments for facilities are planned at $0.4 billion and represent approximately 44 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 2012 capital plan for equipment is $0.1 billion or approximately 11 percent of the total plan. The majority of these investments are focused on improving existing equipment 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 44 percent of the total plan. Investments in this category include network updates for IT and communications along with enhancements to 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 2012 are for similar items as described above for Commitments.

Capital Cash Outlays					
in Billions		5-Year Avg. ('05-'09)	2010 Actual	2011 Actual	2012 Plan
Facilities	$	0.8	0.6	0.6	0.4
Equipment		0.9	0.6	0.4	0.3
Infrastructure and Support		0.5	0.2	0.2	0.4
Total	**$**	**2.2**	**1.4**	**1.2**	**1.1**

5. LIQUIDITY AND FINANCING PLAN

A. Cash Flow and Debt

in Billions		2011	2012
Net Loss (current law for RHB pre-funding)	**$**	**(5.1)**	**(14.1)**
(+) RHB Pre-funding - rescheduling or default		-	11.1
(+) Depreciation		2.3	2.2
(+) Non-cash Workers' Compensation Adj.		2.9	-
(-) 2011 Additional (27th) Pay Day		(1.3)	-
(+) FERS Withholding / (Payment)		0.9	(0.9)
(-) Capital Cash Outlays		(1.2)	(1.1)
(+) Increase in Pre-Paid Postage		0.9	0.2
(+) Other changes in working capital		(0.1)	(0.1)
Cash Used in Operations		**(0.7)**	**(2.7)**
Cash at Start of Year (less restricted - $0.2)		**1.0**	**1.3**
Borrowing During Year		**1.0**	**2.0**
Cash Balance / (Shortfall) at End of Year		**1.3**	**0.6**
Unused borrowing (below $15B cap)		2.0	-
Total Liquidity (Cash plus Unused Borrowing)	**$**	**3.3**	**0.6**

The net cash used to run Postal operations during FY2011 was $0.7 billion, as shown in the table above. This amount was driven by the year's net loss and two significant actions taken during FY2011. First, in June 2011, a cash preservation measure was implemented to ensure sufficient short-term liquidity. This took the form of withholding employer contributions to the already over-funded Federal Employees Retirement System (FERS). This saved approximately $0.9 billion through the end of FY2011. Secondly, legislation was implemented at the end of FY2011 to defer the scheduled $5.5 billion pre-funding payment to the Retiree Health Benefit (RHB) fund from FY2011 into FY2012 (now scheduled for December 16, 2011). Note that even with the cash preservation measure associated with the FERS withholding, our total liquidity at the end of FY2011 was still at least $2.2 billion short of being sufficient to make the previously scheduled RHB pre-funding payment of $5.5 billion in FY2011.

For FY2012, the projected net loss of $14.1 billion includes $11.1 billion of currently required pre-funding of RHB. Our liquidity position is well short of being able to make the pre-funding payments, so we have excluded the full $11.1 billion of payments. We plan to pay the FERS contributions that have been withheld since June 2011 and resume regular payments for 2012. The resulting net cash to be used in operating the Postal Service during 2012 is estimated to be $2.7 billion. With a beginning cash balance of $1.3 billion and $2.0 billion in additional borrowing authority, we expect to end the year with only $0.6 billion of cash. This is a dangerously low level of liquidity as it is equivalent to only three days of operating costs. It also assumes we are able to achieve our operating plan with significant cost reductions and no unforeseen drops in revenue.

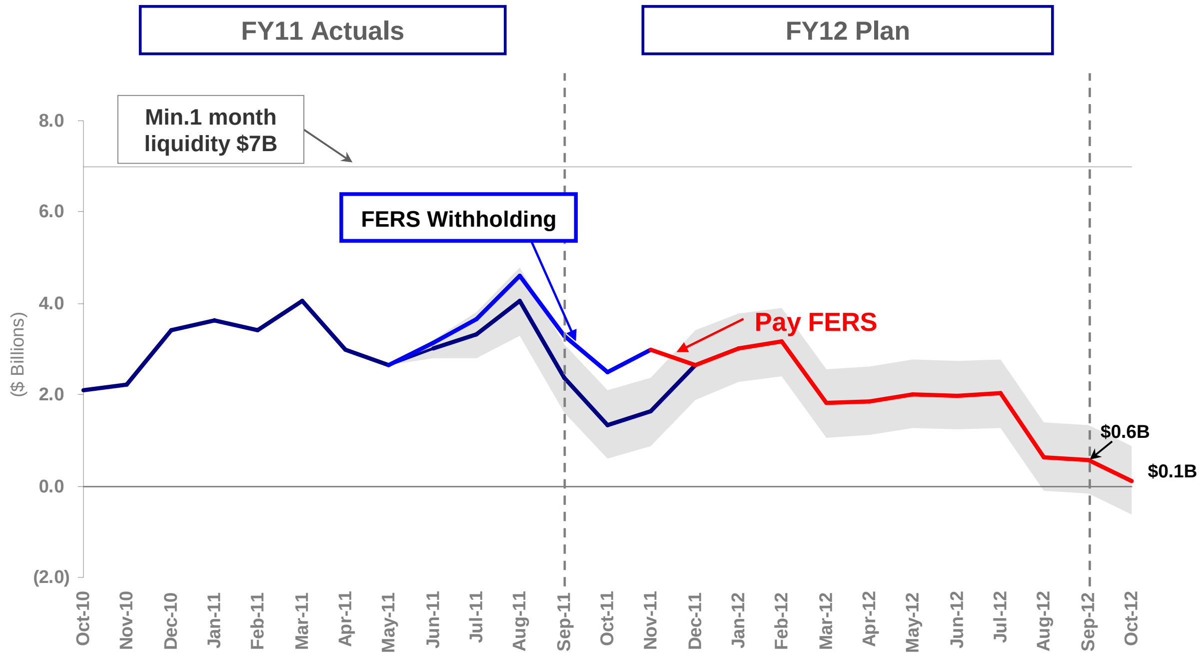
B. Liquidity

The graph on page 7 plots liquidity on a monthly basis for fiscal years 2011 and 2012, along with an ending balance for October 31, 2012 (start of FY2013). Liquidity is the sum of our unrestricted cash balance plus available borrowing capacity. During 2012, we can borrow up to $2.0 billion before we reach our $15 billion debt limit. We include October of the next fiscal year in our graph as 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 $1.3 billion. The graph also shows the liquidity impact of the planned lump sum repayment in December 2011 for the FERS withholding that commenced in June 2011. This withholding generated cash savings of $0.9 billion through the end of 2011, plus approximately $0.5 billion of additional withholdings for October and November. Normal FERS contributions will also resume each pay date beginning in December. The line that branches downward on the graph, from June until December, shows the liquidity impact that would have resulted had we not taken action to preserve liquidity by withholding the FERS contributions.

The liquidity graph demonstrates our projections of insufficient liquidity to make the $5.5 billion RHB pre-funding payment deferred from FY2011 (now scheduled for December 2011) or the similar $5.6 billion payment due in September 2012. We are at least $10.5 billion short of having sufficient cash or liquidity to make the RHB pre-funding payments in FY2012 and continue operations.

Even without the RHB pre-funding payments, our liquidity during 2012 is mostly in the $2 to $3 billion range, well below the minimum level of $7 billion which is equivalent to approximately 32 days of operations at our average cost of $220 million per operating day. By the end of FY2012, we forecast our cash balance at only $0.6 billion, or less than three days of operating costs. Entering FY2013, we will have a dangerously low level of cash, no additional borrowing authority, and face a workers' compensation payment of approximately $1.3 billion in October. Liquidity at the end of October 2012 could be as low as $0.1 billion, assuming no variances against our operating plans. It is for these reasons that we continue to pursue legislative changes that include a refund of the overpayments into FERS, estimated to be $11.4 billion at the end of FY2011, and a long-term resolution to the funding of RHB.

2012 Total Liquidity



Assumes: No RHB pre-funding in 2011 or 2012
Pay FERS amounts withheld and resume contributions in December

CONCLUSION

Despite major cost reductions and revenue initiatives, we project an operating loss of $3.0 billion for 2012. Our $25 billion of net losses over the previous five years, driven significantly by pre-funding $21 billion of RHB, has consumed our cash and borrowing capacity to the point where we will barely fund operations in 2012, let alone $11.1 billion of currently required pre-funding payments for RHB. The continuing electronic migration of First-Class Mail, which provides nearly half our revenue, underscores the need to urgently streamline our infrastructure and significantly update our business model. The Postal Service can become profitable again, but only if Congress passes comprehensive legislation to provide us with a more flexible business model that reflects the changing marketplace. To return to profitability, we must reduce our annual operating costs by $20 billion by 2015. We will continue to take aggressive cost-cutting actions in areas under our control and urgently need Congress to do its part for the remaining items.