United States Postal Service FY2016 Annual Report to Congress

FY2016 Annual Performance Report and FY2017 Performance Plan
FY2016 Comprehensive Statement on Postal Operations

UNITED STATES POSTAL SERVICE®

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The Year in Review

Financial Highlights

	Years ended Sept 30			Percent change from preceding year	
	FY2016	FY2015	FY2014	FY2015-16	FY2014-15
(in millions)					
Total revenue	$ 71,498	$ 68,928	$ 67,830	3.7%	1.6%
Total operating expenses	$ 76,899	$ 73,826	$ 73,178	4.2%	0.9%
Interest, net	$ (190)	$ (162)	$ (160)		
Net loss	$ (5,591)	$ (5,060)	$ (5,508)		
Purchases of capital property and equipment	$ 1,428	$ 1,222	$ 781	16.9%	56.5%
Debt	$ 15,000	$ 15,000	$ 15,000		
Capital contributions of U.S. Government	$ 3,132	$ 3,132	$ 3,132		
Deficit since 1971 reorganization	$ (59,114)	$ (53,523)	$ (48,463)		
Total net deficiency	$ (55,982)	$ (50,391)	$ (45,331)		
(in actual units indicated, unaudited)					
Number of career employees	508,908	491,863	488,300	3.5%	0.7%
Number of non-career employees	130,881	129,974	129,577	0.7%	0.3%
Mail volume (pieces in millions)	154,323	154,322	155,532	0.0%	(0.8)%
New delivery points served	1,142,352	1,059,852	971,543	7.8%	9.1%

Note: Numbers for certain mail categories for the years FY2016, FY2015 and FY2014 have been reclassified subsequent to the Postal Service's filing its Form 10-K with the PRC on November 15, 2016; therefore slight differences from the 10-K exist, which the Postal Service considers immaterial for financial reporting purposes. The reclassifications did not impact Total Operating Revenue amount.

Ready Now → Future Ready

The United States Postal Service has been connecting people and communities, binding the nation together, for more than 240 years. Our mission — established by law and solidified in our commitment to our customers — is to provide reliable, efficient, trusted and affordable service to connect America and help businesses grow.

As the nation has evolved, so have we. We've always been a leader in adopting the newest technologies, from automation to barcodes to augmented reality. We view advances in technology not as disruptive — but as an advantage. If they help us deliver better service to our customers, we're there.

And we're making sure we'll always be there for you.

It's about you.

Our customers are at the center of everything we do. Whether you do business with us at your local

Post Office or by using mobile technologies, our goal is to deliver a positive experience. We want to provide you with the best shipping and mailing solutions. We're playing a larger role in enabling the growth in e-commerce, especially as more and more consumers and businesses rely on us for package delivery.

And more.

Want to track your package from drop-off to delivery? You got it. What can we help you find? We're launching new information sources that are easy to navigate and can help you save time. Don't want to wait in line? Try one of our kiosks. How about getting advance notice on

that mobile device of the mail you'll receive that day? We know how many times you check your smartphone every day. About 150. Maybe more. We're making mail part of your daily, digital routines.

It's about our employees.

Our employees are our most valuable assets. We're in your communities every day — where we live and work too. When we take care of our employees, our employees take care of our customers.

We're equipping our workforce with the tools, training and resources they need to serve you even better. We're surrounded by data and information about our operations. We're sharing this knowledge with our employees so they better understand how their efforts help keep our customers doing business with us.

We've had a longtime commitment to being an "employer of choice". We understand that an engaged workforce is critical to our success, especially in a rapidly changing marketplace.

It's about innovating to deliver value.

We are speeding the pace of innovation. We are developing mobile and digital tools to play a larger role in the daily digital lives of our customers. We're identifying opportunities for innovation that will deliver value to the market, create new revenue growth opportunities, drive cost savings, retain customers and optimize operational and financial performance.

Who benefits from this effort? You do. You'll have more control over the mail you receive. It will be simpler to send. We'll merge physical mail with digital features. Everything we do will reinforce the resiliency of mail as a trusted, effective communications channel.

Our focus is on what our customers value.

It's about investing in the future.

We continue to make critical investments in our infrastructure and our network. We're adding new equipment to handle impressive increases in package volume. We're upgrading our mail processing machines. We'll continue to enhance the retail experience by adding more self-service kiosks and deploying more mobile devices to handle transactions in new ways. We'll integrate digital capabilities into mail and package delivery, such as applications that monitor status and performance.

By investing in new capabilities, we can meet the rapidly changing needs of our customers — households and businesses — for e-commerce and digital solutions. We plan to remain an essential part of keeping America connected for decades to come.

We are Ready Now → Future Ready.

Letter from the Board of Governors' Chairman and the Postmaster General

On a typical day, more than 600,000 men and women of the United States Postal Service ensure that hundreds of millions of pieces of mail are delivered to 156 million delivery points, including more than 43 million rural businesses and residences across the country. This daily act of delivery is a cornerstone of the American economy, and it will be far into the future.

The secure, reliable and affordable delivery provided by the Postal Service enables every marketer to reach customers, and every business to conduct transactions and ship physical goods, from our smallest rural communities to our largest urban areas. From delivering holiday cheer through letters and packages to veterans stationed overseas to birthday greetings and college acceptance letters, the Postal Service binds the nation together and powers its commerce.

The Postal Service had a remarkable 2016. We delivered over 154 billion pieces of mail, and we grew revenue to $71.5 billion in FY2016—a 3.7 percent revenue increase. These results helped us achieve controllable income of $610 million. Excluding the impact of a $5.8 billion mandated Retiree Health Benefits prepayment, the Postal Service would have recorded net income for the year. And operationally, we improved performance in all major service categories and delivered record achievement in many categories.

Despite these exceptional achievements, the Postal Service faces significant financial headwinds that threaten our ability to serve the American public if they are not addressed. We self-finance our operations through the sale of postal products and services instead of relying on taxpayer funds, so we compete for customers in a competitive communications and delivery marketplace. We are also obligated to provide universal service—and to maintain the significant processing, transportation and delivery infrastructure that providing universal service requires. Paying for that infrastructure, which continues to rise in cost every year as delivery points continue to grow, is becoming increasingly challenging as our most profitable mail product (First-Class Mail) continues to decline, and as other mandated costs also continue to rise. These problems are exacerbated by statutory pricing constraints and product and service constraints which limit our ability to generate enough revenue to pay our bills.

Among the mandated costs, the Postal Service operates with a requirement to prefund retiree health benefits, but that requirement is unaffordable unless those benefits are fully integrated with Medicare. Additionally, our pension obligations are calculated based on federal government demographics and economic assumptions, which makes them more expensive than they would be if they were appropriately calculated based on postal demographics and wage-growth assumptions.

The Postal Service is also subject to a rigid price cap not faced by private companies. That cap is limited solely to the changes in consumer inflation, which does not reflect the financial realities of our business. This price cap severely limits our ability to raise necessary revenue to cover the rising costs of universal service, which continue to be incurred even as First-Class Mail volume declines.

The Postal Service has responded aggressively to these constraints and long-term trends, reducing our annual cost base by $14 billion since 2008. In that time period, we consolidated our processing, delivery and retail operations; reduced the size of our workforce; and, dramatically improved productivity. Nevertheless, the Postal Service cannot overcome its long-term financial challenges without legislative reform and pricing-system changes.

America needs a financially strong Postal Service to rapidly bring the best technologies and solutions to the marketplace, and to find new and better ways of serving our customers and communities. This is an important goal that we continually pursue by working with Congress. Importantly, it is a very achievable goal with the enactment of the prudent, measured reform legislation that has broad stakeholder support and that is already pending before Congress.

While we continue to seek postal reform legislation and an appropriate pricing system, we are fully committed to our responsibility to operate efficiently, manage costs, and generate profitable revenues. In every American community, we deliver reliable, predictable, secure, and affordable service, and we compete for customers every day by delivering positive experiences at every touch point.

Thank you for taking the time to review our "FY2016 Annual Report to Congress." We're proud to serve you and all of the American public.

Megan J. Brennan
Postmaster General
and Chief Executive Officer

James H. Bilbray
Chairman,
Postal Service Board of Governors

The Board of Governors

As the governing body of the United States Postal Service, the Board of Governors has responsibilities comparable to the board of directors of a publicly held corporation. The Board normally consists of up to nine Governors appointed by the President of the United States with the advice and consent of the Senate, with no more than five Governors as members of the same political party.

The other two members of the Board are the Postmaster General and the Deputy Postmaster General. The Governors appoint the Postmaster General, who serves at their pleasure without a specific term of office. The Governors, together with the Postmaster General, appoint the Deputy Postmaster General.

As of November 2014, the Governors issued a resolution regarding the exercise of those powers conferred by law solely to the Governors as distinguished from the full Board, which include the appointment and removal of the Postmaster General and the establishment of prices and classifications for our services. The Governors determined that their ability to exercise those powers reserved to the Governors' was not impacted by the loss of a Board quorum. In FY2016, the Board has been operating under authority delegated to the Temporary Emergency Committee (TEC), which includes one Governor, the Postmaster General, and the Deputy Postmaster General.

The TEC will continue in existence until the Board is again able to assemble a quorum.

James H. Bilbray

Chairman of the Board of Governors. Member of the Compensation and Management Resources Committee and the Audit & Finance Committee. Attorney at a law firm in Las Vegas, NV. Former member, U.S. House of Representatives from Nevada. Former member, Nevada State Senate. Former Deputy District Attorney in Clark County, NV. Member of 2005 Defense Base Closure and Realignment Commission. At the end of our fiscal year, September 30, 2016, Gov. Bilbray was serving a hold over year that expired Dec. 8, 2016. While by law the Board should include nine Governors, due to the lack of Senate confirmation we no longer have any appointed Governors on the Board.

Megan J. Brennan

74th Postmaster General of the United States and the Chief Executive Officer, and a member of the Board of Governors since Feb. 1, 2015. Chief Operating Officer and Executive Vice President of the Postal Service from December 2010 through January 2015. Vice President of the Eastern Area Operations from April 2005 through December 2006, and Vice President of the Northeast Area Operations from December 2006 through December 2010. Started her career as a letter carrier in 1986, and is the first female Postmaster General for the Postal Service.

Ronald A. Stroman

20th Deputy Postmaster General and member of the Board of Governors since Apr. 2, 2011. Served as Minority Staff Director, Committee on Oversight and Government Reform at the U.S. House of Representatives from 2009 to April 2011. Prior to this, served as Managing Director, Office of Opportunity and Inclusiveness, U.S. Government Accountability Office, from 2001 to 2009.

The Executive Leadership Team

The Executive Leadership Team (ELT) of the United States Postal Service is a decision-making body whose members serve as senior advisors to the Postmaster General. The ELT considers and sets the strategic agenda.

Megan J. Brennan

Postmaster General and Chief Executive Officer

Ronald A. Stroman

Deputy Postmaster General and Chief Government Relations Officer

David E. Williams, Jr.

Chief Operating Officer and Executive Vice President

Kristin A. Seaver

Chief Information Officer and Executive Vice President

Joseph Corbett

Chief Financial Officer and Executive Vice President

James P. Cochrane

Chief Marketing and Sales Officer and Executive Vice President

Thomas J. Marshall

General Counsel and Executive Vice President

Jeffrey C. Williamson

Chief Human Resources Officer and Executive Vice President

Other Officers of the U.S. Postal Service*

Michael J. Amato
Vice President, Engineering Systems

Susan M. Brownell
Vice President, Supply Management

Robert Cintron
Vice President, Network Operations

Joshua D. Colin
Vice President, Area Operations (Eastern)

Guy J. Cottrell
Chief Postal Inspector

Gregory S. Crabb
A/Chief Information Security Officer and Vice President, Digital Solutions

Isaac S. Cronkhite
Vice President, Enterprise Analytics

Dean J. Granholm
Vice President, Area Operations (Pacific)

Gregory G. Graves
Vice President, Area Operations (Western)

Luke T. Grossmann
Vice President, Finance and Planning

Jeffrey C. Johnson
Vice President, Information Technology

Linda M. Malone
Vice President, Area Operations (Capital Metro)

Kevin L. McAdams
Vice President, Delivery Operations

Maura A. McNerney
Vice President, Controller

Pritha N. Mehra
Vice President, Mail Entry and Payment Technology

Julie S. Moore
Secretary of the Board of Governors

Shaun E. Mossman
Vice President, Area Operations (Southern)

James A. Nemec
Vice President, Consumer and Industry Affairs

Sharon D. Owens
Vice President, Pricing and Costing

Edward F. Phelan, Jr.
Vice President, Area Operations (Northeast)

Gary C. Reblin
Vice President, New Products and Innovation

Nancy L. Rettinhouse
Vice President, Employee Resource Management

Donald W. Ross
A/Vice President and Managing Director, Global Business

Cliff Rucker
Vice President, Sales

Tom A. Samra
Vice President, Facilities

Gary Shapiro
Judicial Officer

Kelly M. Sigmon
Vice President, Retail and Customer Service Operations

Jacqueline K. Strako
Vice President, Area Operations (Great Lakes)

Douglas A. Tulino
Vice President, Labor Relations

Janice D. Walker
Vice President, Corporate Communications

**As of September 30, 2016.*

PART 1

FY2016 Annual Performance Report and FY2017 Annual Performance Plan

U.S. Postal Service FY2016 Results and FY2017 Targets for Corporate-wide Goals

Deliver High-Quality Service

Provide Excellent Customer Experiences

Ensure a Safe Workplace and Engaged Workforce

Sustain Controllable Income

Key Financial and Operating Statistics

People
Communities
Commerce

We make the connection.

Our Mission: Provide reliable, efficient, trusted and affordable universal delivery service that binds the nation together, as it has for more than 240 years.

The United States Postal Service shall operate as a basic and fundamental service provided to the people by the Government of the United States, authorized by the Constitution, and created by an Act of Congress. The Postal Service shall have as its basic function the obligation to provide postal services to bind the nation together through the personal, educational, literary and business correspondence of the people. It shall provide prompt, reliable and efficient services to patrons in all areas and shall render postal services to all communities. The costs of establishing and maintaining the Postal Service shall not be apportioned to impair the overall value of such service to the people. The Postal Service shall provide a maximum degree of effective and regular postal services to rural areas, communities and small towns where Post Offices are not self-sustaining. — Title 39 U.S.C.

Our Vision: We envision a Postal Service that enables all citizens to connect, businesses to grow and communities to thrive in a digital world. Our vision includes serving those individuals who are currently digitally disconnected or underserved.

Report Purpose and Structure

The Postal Service is dedicated to transparency and effectively communicating to our numerous stakeholders. Key among these stakeholders are the commercial and residential customers whom we serve, legislators and regulators who provide oversight and ensure transparency and performance and employees who deliver world-class service.

In addition to communicating performance to our stakeholders, this report satisfies the public reporting requirements contained in Title 39 U.S.C. § 2401(e), § 2402, § 2803 and § 2804, along with the Postal Accountability and Enhancement Act (PAEA) of 2006 Section 3652. These regulations require the Postal Service to provide an Annual Report to Congress, an Annual Performance Report, an Annual Performance Plan and a Comprehensive Statement of Postal Operations. This report covers Postal Service performance for the 2016 fiscal year (Oct. 1, 2015, to Sept. 30, 2016) and reviews the Postal Service's plans for the 2017 fiscal year (Oct. 1, 2016, to Sept. 30, 2017).

The *FY2016 Annual Performance Report* and *FY2017 Annual Performance Plan* present an array of metrics the Postal Service uses to measure performance across the organization. These metrics provide visibility across the following critical functions: delivery service, financial performance, workplace environment and customer experience.

The FY2016 Comprehensive Statement on Postal Operations provides a more detailed description of the key organizational

developments during the last fiscal year and the key initiatives underway that support the corporate goals for the next fiscal year.

Related Reporting Requirements

The Postal Service is among the most transparent organizations in the world. Legislation and regulation require the Postal Service to disclose operational and financial information beyond that demanded of federal government agencies and private sector companies.

The Postal Service is not a reporting company under the Securities Exchange Act of 1934 (the Exchange Act), as amended, and is not subject to regulation by the Securities and Exchange Commission (SEC). However, the Postal Service is required under PAEA to file with the Postal Regulatory Commission (PRC) certain financial reports containing information prescribed by the SEC under Section 13 of the Exchange Act. These reports include annual reports on Form 10-K (which are audited by an Independent Registered Public Accounting Firm), quarterly reports on Form 10-Q and current reports on Form 8-K. These reports are available at *about.usps.com/who-we-are/financials/welcome.htm*.

Title 39 of the United States Code and the PRC mandate further disclosures of the Postal Service, its operations and finances. These requirements include Cost and Revenue Analysis, Revenue, Pieces and Weight reports and financial and strategic plans. These disclosures are reviewed by the PRC but are outside the scope of our Independent Registered Public Accounting Firm. These can be found online at *about.usps.com*.

FY2016 Results and FY2017 Targets for Corporate-Wide Goals

The Postal Service has established an enduring set of performance outcome goals that enable management and stakeholders to measure the success of our corporate strategies, operations and continuous improvement efforts over time:

- Deliver High-Quality Service
- Provide Excellent Customer Experiences
- Ensure a Safe Workplace and Engaged Workforce
- Sustain Controllable Income

These four corporate performance outcome goals and associated metrics are based on a balanced scorecard assessment of postal stakeholder needs and make up the framework of our National Performance Assessment (NPA) system. NPA enables our managers to monitor corporate-wide performance on a monthly basis related to each corporate performance target and to track associated performance indicators down to a scorecard for each Area of operation, District and business unit. The NPA performance scoring system is integrated into the annual Performance Evaluation System (PES) for all non-bargaining employees and serves as the basis for their annual Pay for Performance (PFP) program.

The NPA process also enables our managers to continuously monitor performance against these metrics to identify specific opportunities to improve operations and the workplace environment. The Postal Service annually evaluates the NPA metrics and measurement systems and assesses the need to make refinements necessary to adapt to changing customer expectations and business environment, or to adopt best practices.

FY2017 Performance Targets are aligned to the U.S. Postal Service Future Ready Five-Year Strategic Plan

Our mission to bind the nation together by providing affordable universal delivery services has been the foundation for Postal Service operations for more than 240 years. Our vision for the next five years (FY2017 to FY2021) is a Postal Service that helps people connect, businesses grow and communities to thrive in the digital economy. To realize this vision, the Postmaster General has established four strategic areas of focus, what we call our "Ready Now → Future Ready" strategies:

- Deliver a World-Class Customer Experience
- Equip, Empower and Engage Employees
- Innovate Faster to Deliver Value
- Invest in our Future Platforms

These four strategies will drive everything we do and are aimed at yielding the best outcomes for the foreseeable future. We believe that a focus on the customer experience — delivered by an equipped, empowered and engaged workforce — will enable us to innovate faster and invest strategically in our future to best provide customers and communities the value they desire and deserve. The Postal Service's *Future Ready Five-Year Strategic Plan* is located on the web at *http://about.usps.com/strategic-planning/five-year-strategic-plan-2017-2021.pdf*.

The following sections provide a detailed description of each of the four corporate performance categories. The performance report contains the following information for each NPA performance category:

- A description of the supporting metrics and measurement systems used to evaluate performance during FY2016;
- A discussion of the success in achieving the related performance targets for the fiscal year; and
- Where a performance target was not achieved, a discussion of the root causes.

The performance plan contains the following information for each NPA performance category:

- A description of the metrics and target level of performance to be achieved during FY2017;
- A description of the material changes to operational processes, technologies, information systems or human resources required to meet the fiscal year performance target;
- A description of how the measures will be verified and validated; and
- Where a performance measurement system has changed, a description of the changes and the reasons to why the changes were selected.

A summary of the U.S. Postal Service's FY2016 performance results and FY2017 performance targets for each NPA performance goal is listed in the following table.

U.S. Postal Service FY2016 Results and FY2017 Targets for Corporate-wide Goals

Goal	Measure	FY2017 Target	FY2016 Actual	FY2016 Target	FY2015 Actual	FY2015 Target	FY2014 Actual	FY2014 Target	FY2013 Actual	FY2013 Target
Deliver High-Quality Service (% on-time)	Single-Piece First-Class Mail									
	Overnight[1]	N/A	N/A	N/A	95.55	96.80	96.00	96.80	96.14	96.70
	Two-day	96.50	94.66	96.50	93.28	96.50	94.90	96.50	95.26	95.10
	Three-to-Five-day	95.25	83.66	95.25	76.56	95.25	87.70	95.25	91.60	95.00
	Presort First-Class Mail									
	Overnight	96.80	96.16	96.80	95.74	96.80	97.00	96.80	97.20	96.70
	Two-day	96.50	95.05	96.50	93.56	96.50	96.40	96.50	97.00	95.10
	Three-to-Five-day	95.25	91.68	95.25	87.78	95.25	92.20	95.25	95.10	95.00
	First-Class Composite[2]	N/A	93.00	96.00	89.64	96.00	94.11	96.00	N/A	N/A
	First-Class Mail Letter & Flat (FCLF) Composite[3]	96.00	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	Standard & Periodical Composite[4]	91.00	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	Standard Composite[5]	N/A	92.97	91.00	89.58	91.00	90.09	91.00	N/A	N/A
Provide Excellent Customer Experiences (%)[6]	CEM Composite (2011–2013)	N/A	N/A	N/A	N/A	N/A	CEM Sunset	CEM Sunset	78.40	82.50
	Residential (2011–2013)	N/A	N/A	N/A	N/A	N/A	CEM Sunset	CEM Sunset	82.00	85.00
	Small/Medium Business (2011–2013)	N/A	N/A	N/A	N/A	N/A	CEM Sunset	CEM Sunset	76.40	81.00
	Customer Insights Composite[7]	89.00	87.62	86.70	85.73	86.70	Baseline	Baseline	N/A	N/A
	Business Service Network (BSN)	N/A	95.13	N/A	94.32	N/A	Baseline	Baseline	N/A	N/A
	Point of Sale (POS)	N/A	86.38	N/A	86.28	N/A	Baseline	Baseline	N/A	N/A
	Delivery	N/A	76.26	N/A	77.49	N/A	Baseline	Baseline	N/A	N/A
	Customer Care Center	N/A	85.18	N/A	76.00	N/A	Baseline	Baseline	N/A	N/A
Ensure a Safe Workplace and Engaged Workforce	OSHA Illness and Injury Rate[8]	N/A	6.25	6.05	6.85	5.10	6.75	5.10	6.05	5.20
	Total Accidents Rate[9]	15.00	16.01	15.0	N/A	N/A	N/A	N/A	N/A	N/A
	Voice of the Employee Survey (%)	N/A	N/A	N/A	N/A	65.10	65.01	65.10	64.70	64.95
Sustain Controllable Income[10]	Deliveries per Hour (calculated rate)[11]	N/A	N/A	N/A	41.50	42.40	42.00	42.90	41.60	42.70
	Deliveries per Total Work Hours % SPLY[12]	0.6	0.1	1.2	N/A	N/A	N/A	N/A	N/A	N/A
	Controllable Income (Loss) ($ in billions)	0.10	0.61	0.10	1.19	1.10	1.35	1.10	(1.00)	(2.00)

[1]In FY2016, the service performance target for Overnight Single-Piece First-Class Mail was removed due to the service standard changes of FY2015.
[2]For FY2015, the service performance target was a combination of Single-Piece First-Class and Commercial First-Class performance for an aggregate of overnight, two-day and three-day service.
[3]This is a new NPA measure for FY2017, focused on measuring First-Class letters and flats service performance.
[4]This is a new NPA measure for FY2017, focused on measuring standard letters and standard/periodical flats.
[5]For FY2015, there was a service performance target that is a combination of Standard Mail destination entry for Sectional Center Facility (SCF) letters and National Distribution Center (NDC) letters and flats.
[6]In FY2013, the Customer Experience Measurement (CEM) was replaced with Customer Insights (CI) as the key measure of customer experience for our NPA system and PES. FY2014 served as the baseline measure for this metric and compensable targets were established for FY2015.
[7]Customer Insights Composite is a corporate approved and compensated composite performance measure. Targets for the four subcomponent categories of Customer Insights (BSN, POS, Delivery, and Customer Care Centers) are set and compensated at the unit level. In FY2017, the Customer Insights Composite will also include an Electronic Customer Care (eCC) component.
[8]Injury and illness rate is calculated using an industry-wide formula recommended by OSHA: Total number of OSHA injuries and illnesses (multiplied by 200,000 hours divided by the number of exposure hours worked by all employees). The 200,000 hours represent 100 employees working 2,000 hours per year. It provides the standard base for calculating incidence rates.
[9]This is a new NPA measure for FY2017 and will replace the OSHA I&I rate as a measure of employee safety.
[10]FY2014 targets adjusted to reflect deferral of Network Rationalization, Phase 2.
[11]Starting in FY2017, this measure will be replaced by the new NPA measure of Deliveries per Total Work Hours % SPLY.
[12]Name changed from Total Deliveries per Hour % SPLY to Deliveries per Total Work Hours % SPLY in FY2017. Total Deliveries per Hour % SPLY was introduced in FY2016.
For more information regarding FY2017 performance measures, please refer to the Annual Performance Plan included in this report.

Deliver High-Quality Service

The Postal Service measures service performance in terms of speed and reliability as part of our commitment to deliver high-quality service to our customers. We have contracted with an independent third-party company since 1990 to objectively measure performance for Single-Piece First-Class Mail via the External First-Class Mail (EXFC) system. This external sampling system measures the time it takes from when mail is deposited in a collection box or lobby chute to when it's delivered at a home or business. Performance is measured in 892 ZIP Codes for Single-Piece First-Class Mail cards, letters and flat envelopes. Service performance for Single-Piece First-Class Mail parcels, which is measured using an internal Postal Service system, is combined with EXFC performance to generate overall Single-Piece First-Class Mail results.

Similarly, Presort First-Class Mail in FY2016 was measured through a hybrid measurement approach that combined Full-Service Intelligent Mail data from commercial mailers and relied on data collection by an external entity. This process measured the time from mail acceptance to final processing, which involved the collection of data on transit time from final processing to mail processing equipment and through to delivery. The processing and delivery data were aggregated, combined and reviewed by the external entity to measure overall commercial mail performance.

Of particular focus are Two-Day and Three-to-Five-Day services, which are widely used mail categories. Individual consumers, small businesses and larger commercial firms all depend on First-Class Mail, which relies upon nearly all parts of the Postal Service's operations and supply chain, from collection boxes and retail counters to final delivery. In FY2016, the Postal Service continued to measure service performance through a combination of both Single-Piece First-Class Mail and Commercial First-Class performance for an aggregate of Overnight, Two-Day and Three-to-Five-Day services. Single-Piece First-Class Mail International provides a measure of the domestic leg of travel for Single-Piece International mail.

FY2016 Performance Report – For FY2016, the Postal Service significantly rebounded from service challenges in FY2015 and improved service performance in all composite categories including all-time high performance in Priority Mail. We continued to significantly exceed our Standard Mail performance targets across the nation, achieving record-breaking service for our business customers. First-Class Mail Single-Piece performance for the three-to-five day category continued to provide opportunities for improvement as we balanced the air and surface transportation network due to the growth in package mail.

Scanning performance also continued to improve significantly as the Postal Service focused on scanning every trailer, container and tray to provide maximum visibility within our networks. New visualization dashboards developed in FY2016 offered robust performance and diagnostics tools that provided greater insight into mail as it moved through the mailstream and identified inefficiencies and points of failures within the mailstream to help improve performance and service offerings. The Postal Service continued to drive service performance by focusing on reducing cycle times, last mile and vital few opportunities and ensuring employee and industry engagement.

For more information regarding the service performance results and trends of the Postal Service's market dominant products at the national and district levels, visit *http://about.usps.com/what-we-are-doing/service-performance/welcome.htm*.

FY2017 Performance Plan – The Postal Service will continue to use the principles of continuous improvement and data analytics to drive service performance and to enhance customer experience. These efforts have helped drive substantial improvements in FY2016 and will be used to sustain these improvements while identifying additional opportunities. Network Operations Control Centers (NOCC) will be deployed in each Area to monitor and react to processing and transportation events in near real time. We will also continue to examine our network requirements, both in terms of facilities and transportation, to identify opportunities to improve service capabilities. Improved transportation modeling will provide insights into potential transportation capacity issues allowing for the execution of alternative plans to ensure service continuity. The Postal Service will continue to strategically invest in facilities, equipment and vehicles to foster and support new growth opportunities. (See table on page 15 for FY2017 service performance targets.)

First-Class Mail Packages performance will be measured using a composite score of commercial and retail two-day and three-to-five day. First-Class Mail Letters & Flats (FCLF) performance will be measured using a composite score of overnight, two-day, and three-to-five day. The Standard and Periodicals Composite performance will be measured using a composite score of All Entry Type Standard Letters and All Entry Type Standard/Periodical Flats.

For more information regarding the 2017 Operating Plan of the Postal Service, see the USPS Integrated Financial Plan for FY2017 at: *about.usps.com/who-we-are/financials/welcome.htm*.

Provide Excellent Customer Experiences

The Postal Service is dedicated to providing excellent customer experiences. The Customer Insights (CI) measurement system provides a comprehensive view of the customer experience across the most frequently used customer contact channels. Touch points of customer contact are:

- Business Service Network (BSN) – The BSN survey is event based and measures the customer's level of satisfaction with their BSN account representative.
- Point of Sale (POS) – The POS survey is event based and measures the customer's experience at retail locations.
- Delivery – The delivery (receiving) survey is a hybrid relational/event-based measurement of the level of satisfaction with how residential and small/medium business customers receive their mail.
- Customer Care Center (CCC) – This live agent survey is event-based and measures the customer's satisfaction with dealing with a CCC agent.

Customer experience is measured across four touch points, then weighted and aggregated to create a national composite CI score. The modular components and flexible design of the national composite CI score allow expansion and inclusion of additional points of contact to meet the quickly changing customer landscape. To support the Postal Service's mission of delivering excellent customer service, the CI composite score is a component of the NPA system which links the CI performance score and the employee PFP system. This emphasizes that each and every employee is responsible for ensuring our customers receive exceptional service.

FY2016 Performance Report – Customer Insights ended the fiscal year achieving a composite score of 87.62 percent compared to its target of 86.70 percent. Through increased employee focus and effort, the Postal Service was able to exceed its target by nearly 1 percentage point while driving substantial improvements in the response rates of various CI components (See table below). For example, the response rate for the retail POS survey continues to exceed previous years. Training our retail employees to ask customers for their feedback by circling the URL address on their receipts has been a key to driving the response rate. We also rolled out training that focused on improving key elements of our retail customers' visits. By using Quick Response (QR) codes and interactive voice response systems, and fostering an environment of effortless accessibility, we've been able to make notable strides in capturing additional customer insights. Expanding the ways customers could respond to both the POS and delivery surveys has increased opportunities for customers to share their experiences.

FY2017 Performance Plan – In the next fiscal year, the Postal Service will build on its cross-functional collaboration with stakeholders from all customer contact channels to further improve customer focus and drive performance. The CI program will continue to be used to measure performance and drive improvements at our customer touch points. (See table on page 15 for FY2017 CI target.)

Our CCCs are well-positioned to improve FY2017 performance by addressing the three key drivers of customer satisfaction — accessibility, knowledge and professionalism. The call centers will make even better use of our agent quality program, enhanced agent refresher training, technological advances in integrated voice recognition software and immediate agent coaching.

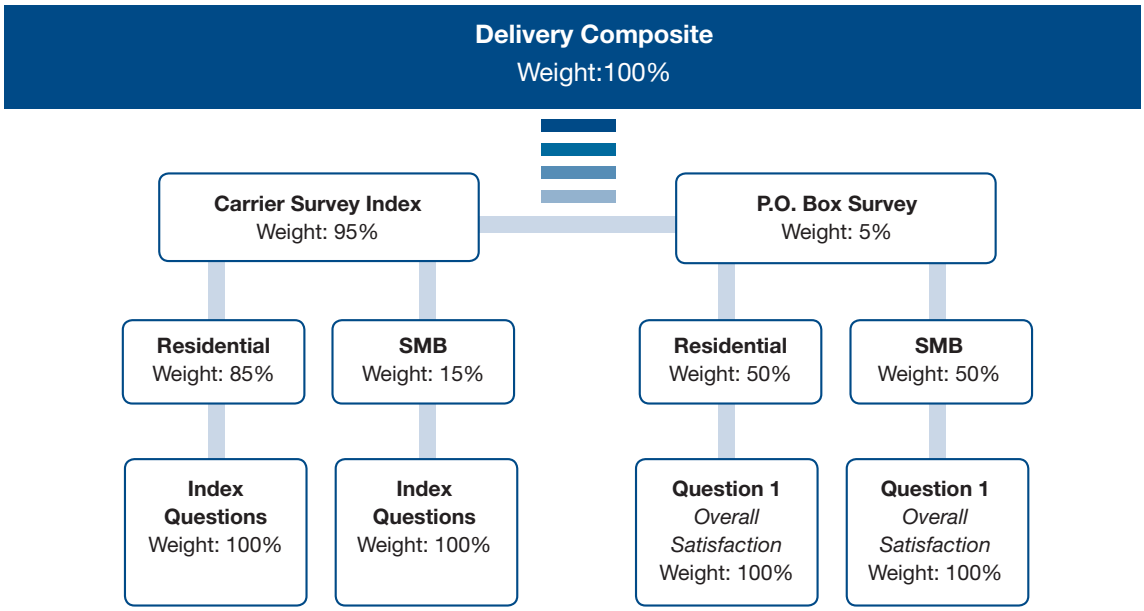
Goal	Measure	FY2016 Actual (%)	FY2016 Target (%)	FY2016 Total Surveys Initiated (actual numbers, unaudited)	FY2016 Total Surveys Returned (actual numbers, unaudited)
	Customer Insights Composite	**87.62**	**86.70**	**N/A**	**N/A**
	Business Service Network (BSN)	95.13	N/A	28,306	5,138
Provide Excellent Customer Experiences	Point of Sale (POS)	86.38	N/A	11,053,060,580*	1,353,553
	Delivery (Combined)	76.26	N/A	5,746,862	71,159
	Delivery (Residential)	79.93	N/A	2,147,867	35,675
	Delivery (Small/Medium Businesses)	72.60	N/A	3,598,995	35,484
	Customer Care Center (CCC)	85.18	N/A	954,378	287,680

**Represents total POS financial transactions.*

Note: *Customer Insights is a corporate-approved and compensated composite performance measure. Targets for the four subcomponent categories of Customer Insights (BSN, POS, Delivery and Customer Care Centers) are set and compensated at unit level.*

The delivery survey is undergoing some changes that will affect the way it's scored. The FY2016 survey is scored by measuring only the "overall satisfaction" question, which doesn't account for the other questions that are asked. In FY2017, the delivery survey is changing to a delivery index score that will be comprised of both a carrier survey and a PO Box survey. The carrier survey score will be the sum of four weighted questions for both residential and small/medium business (SMB) customers. In addition, two new questions are being introduced, which will provide more visibility into the customer's experience with mail delivery so we can better address possible carrier-related issues and identify areas for improvement. (See the following chart on Delivery Composite methodology.)

We'll continue to develop videos, publications, service talks and training for employees to provide education and highlight elements of our customers' visits that matter most to them. We'll continue to work to improve response rates to our surveys.



Index questions	Weight
Overall Satisfaction with Letter Carrier	25%
Delivered to the correct address	25%
Delivered in good condition	25%
Carrier friendly and courteous	25%
Total	**100%**

Ensure a Safe Workplace and Engaged Workforce

Keeping employees safe is a priority of the Postal Service, and we track two metrics as an indication of our performance in ensuring a safe workplace and an engaged workforce. The first metric is the Occupational Safety and Health Administration (OSHA) Illness and Injury (I&I) rate and the second is the Postal Pulse survey.

OSHA Illness and Injury Rate

FY2016 Performance Report – OSHA requirements are designed to protect Postal Service and contract employees from safety and health hazards in the workplace. All private and public sector employers are subject to OSHA regulations; however, the Postal Service is the only independent federal establishment that can be assessed penalties and fines for noncompliance. The Postal Service measured OSHA safety performance on two levels. The first was by establishing a target injury and illness frequency rate and the second was by establishing performance improvements over the prior year. In FY2016, the OSHA I&I frequency rate for the Postal Service as reported to NPA was 6.25 — nearly an 9 percent decrease over the revised actual rate reported for FY2015. The FY2015 performance reported as of September 30, 2015, was 6.55 which was later restated to 6.85 due to employee claims filed after the close of the fiscal year. Although we did not meet our NPA target in FY2016, the Postal Service continued to reduce accidents and improve performance.

The decrease in the OSHA I&I rate, year over year, was due primarily to a comprehensive training and communication effort aimed at all employees with a focus on new, at-risk employees. In FY2016, our communication and training campaigns addressed the most frequent hazards of the workplace, such as dog bites, extreme heat, distracted driving, proper lifting and reaching and providing a focus on the importance of leadership in maintaining a culture of safety. In addition, we implemented a new program designed to focus on our most at risk employees. This program (CARE — Counseling at Risk Employees) created an open dialogue between employees and their supervisors designed to address safety concerns or unsafe behaviors. A safety statistical dashboard continued to provide targeted data to our field leadership that enabled them to quickly identify the top causes of accidents at a facility level. This data provided direction for creating a tailored safety program.

FY2017 Performance Plan – The Postal Service will add additional focus on prevention strategies and a more proactive approach to employee safety. This focus will be on total accidents, regardless of severity or OSHA record-keeping requirements, and will place additional emphasis on employees considered to be at higher risk for accidents. Our safety initiatives for the next year will assist the field in establishing effective accident reduction plans, enlisting the cooperation and support of our employee partners and taking steps to address the increase in motor vehicle accidents through a redesigned driver training program. We'll also continue programs to acknowledge leaders who demonstrate exceptional commitment to creating a safe work environment. The OSHA I&I rates measurement will be replaced by Total Accidents Rate in FY2017. This indicator is a rate established by taking the total count of all accidents per exposure hour and the year-to-date total accidents compared to SPLY. (See table on page 15 for FY2017 targets.)

Postal Pulse Survey/Employee Engagement

FY2016 Performance Report – Continuing to improve employee engagement is a top priority for the organization. The Postal Service is committed to creating a dynamic, highly engaged workplace where employees perform at consistently high levels and work in environments

that promote development, recognition and learning. This helps increase productivity and customer satisfaction while simultaneously decreasing safety incidents, turnover and absenteeism.

Employee engagement is measured through the Postal Pulse survey, which was conducted during the second quarter of FY2016. The survey, distributed to all employees by mail or email, identified key business opportunities related to employee well-being, profitability, customer service, accident reduction and employee retention.

In FY2016, we accomplished the following:

- Maintained executive level oversight of the national employee engagement strategy.
- Built on baseline results from the inaugural Postal Pulse survey in FY2015.
- Established a core team in each area and headquarters to administer training related to understanding, implementing and creating an engaged workforce.
- Encouraged employee feedback through additional channels, including dedicated email address, 1-800 number and USPS intranet suggestion box.
- Developed more than 18,000 "State of the Team" conversations and action plans to achieve engagement goals.
- Designed and delivered employee engagement information to all segments of the organization.
- Provided officers, executives, managers and supervisors training and access to a robust reporting platform for assessing and acting on survey results.

FY2016 results:

- Selected team members to support the efforts of the executive director of employee engagement who reports directly to the chief human resources officer.
- Delivered the Postal Pulse survey to 600,000 career and non-career employees. Thirty-two percent of employees completed and returned the survey. The grand mean engagement score result increased from 3.16 to 3.24 on a scale of 1 to 5.
- Identified, trained and certified 26 ambassadors to deliver training to supervisors and managers in all areas and headquarters (on two-year assignments).
- Provided training to more than 6,000 supervisors and managers, an increase from 400 in 2015.
- Continued to leverage the talent of previously trained engagement leaders and champions.

FY2017 Performance Plan – The Employee Engagement team will continue to provide targeted training to executives, managers and supervisors so they can take concrete actions to create and sustain more engaged work environments. The team will partner with other functions — such as Safety, Health and Wellness, and Learning and Development — to create a sustainable approach to engagement in multiple aspects of the organization.

Working with the Corporate Communications group, we will increase awareness about the importance of employee engagement across the organization and ensure our message is aligned to organizational strategy and overall Human Resources objectives. Employee Engagement will continue to research the most effective methods to administer the survey, including focus groups, post-event evaluations and multilevel delivery methods.

The Employee Engagement team will continue to share knowledge related to the successful implementation of engagement techniques and best practices. In conjunction with the Learning and Development function, team members will continue to provide expert facilitation within

targeted leadership development programs. We'll also provide updated materials and information to Learning and Development managers and ensure employee engagement is included in new and existing training programs.

One of the most significant contributions will continue to be the "State of the Team" process to create action plans and goals for improved employee engagement, and aligning the efforts of supervisors, managers and executives to meet these objectives. A metric used to determine the number of action plans created will also capture information about the plans in an electronic database. Improving interaction and engaging employees more effectively translates into better business results and increased levels of productivity.

Sustain Controllable Income

The Postal Service tracks three metrics for NPA purposes as an indication of our financial performance. The first is Deliveries per Hour (DPH), which summarizes the effectiveness of productivity improvement efforts. The indicator is relevant, especially as the organization manages a declining volume workload over time with a constantly increasing universal delivery network. The second is Deliveries per Total Work Hours as a percent of the same period last year (SPLY), and the third metric is Controllable Income.

Deliveries per Hour

FY2016 Performance Report – In FY2016, the target for DPH was an increase of 1.2 percent over the actual result. The actual result was an increase of 0.1 percent, a difference of 1.1 percent. We did not achieve the stretch target due to a growth in work hours, but we did have an increase over SPLY. Factors driving work hour growth include a delay in plant consolidations, not capturing all of Network Rationalization phase 2 savings, utilization of additional work hours to improve service and additional hours from hiring, training and turnover rates for the non-career workforce. Our non-career workforce provides much needed flexibility and reduces salary and benefit costs based on lower wage rates. However, the additional work hour usage has a negative impact on the DPH metric.

The Postal Service calculates the incremental workload impact that is due to the workload content of packages increasing, and letters and flats decreasing. Packages grew strongly in FY2016, and the workload content of packages is significantly higher than that of letters and flats which are decreasing. This net weighted volume impact is a sizable increase in work hours in FY2016. These additional hours are earned from volume and are now accounted for within the DPH equation by removing them from the denominator to compare years strictly on a productivity basis.

FY2017 Performance Plan – Achievement of the FY2017 DPH target is based on capturing work hour reductions from operational initiatives. The Postal Service does not intend to make any modifications in the methods used to forecast delivery points for the 2017 DPH target. (See table on page 15 for FY2017 target.)

Controllable Income

FY2016 Performance Report – FY2016 had total revenue of $71.5 billion and total expenses of $77.1 billion, resulting in a net loss of $5.6 billion.

Our financial results are impacted by items that are not under our control and are not reflective of our normal operations. These items include the annual legally mandated Postal Service Retiree Health Benefits Fund (PSRHBF) prefunding expense and the non-cash expenses related to changes in the liability for participation in the federal workers' compensation program, which included fluctuations in workers' compensation expenses caused by actuarial revaluation and discount rate changes, and the amortization of the unfunded liability for our portion of the Federal Employees Retirement System (FERS).

The FERS amortization expense is calculated by the Office of Personnel Management based on government-wide demographics and pay assumptions and is not reflective of what we believe our FERS liability would be if it were calculated using Postal-specific demographics and pay assumptions. Because these items are not under management's control, we believe that analyzing operating results without the impact of these charges provides a more meaningful insight into our financial results. In FY2016, we also excluded a $1.1 billion one-time, non-cash adjustment resulting from a change in an accounting estimate in deferred revenue-prepaid postage, to arrive at controllable income.

We recognize revenue for postage at the time a piece of mail is processed and delivered, not when we receive cash for the sale of postage. We estimate the amount of postage that we have sold, but customers have not yet used, and include this amount as a liability in our balance sheets as deferred revenue-prepaid postage. The majority of this liability consists of our estimate of sold, but unused, Forever Stamps, the non-denominated postage stamps we introduced in 2007. Since their introduction through September 30, 2016, we sold approximately $48 billion in Forever Stamps to the public.

During 2016, we revised the estimation technique utilized to estimate our deferred revenue-prepaid postage liability for Forever Stamps. The change resulted from new information regarding customer's retention and usage habits of applicable postage, and enabled us to update our estimate of stamps that will never be used for mailing. As a result of this change, deferred revenue-prepaid postage was decreased by nearly $1.1 billion. In accordance with accounting principles generally accepted in the U.S. ("GAAP"), the change was accounted for as a change in accounting estimate, and was reflected in operating results as an increase to revenue and a decrease in net loss by the same amount in the year ended September 30, 2016.

When the impact of the required PSRHBF prefunding expense, FERS amortization, non-cash expenses for workers' compensation and one-time change in accounting estimate are excluded, controllable income was $610 million. (See Financial Performance Results table on Page 25.)

For the fourth year in a row, revenue increased compared to the prior year, primarily due to an increase in Shipping and Packages revenue, which benefited from a strong calendar year 2015 holiday season. This increase in operating revenue was partially offset by the expiration of the temporary exigent surcharge on market-dominant products that was implemented beginning in January 2014 and was in effect until April 10, 2016. We estimate that the expiration of the exigent surcharge reduced revenues by approximately $1 billion, compared to what it would have been if it was in effect through the entire year.

Total expenses of $77.1 billion in FY2016 increased 4.2 percent, from $74 billion in FY2015. We had an increase for the year in compensation and benefits expense of $1.2 billion, attributable to contractually obligated salary escalations, and an increase in labor hours primarily resulting from higher Shipping and Packages volume. There was also a net $922 million increase in our workers' compensation expense, mainly the result of changes in actuarial assumptions and the revaluation of existing workers compensation cases.

Although total mail volume remained flat in FY2016, First-Class Mail decreased by 1.4 billion pieces, or 2.2 percent from FY2015.

Revenue in Shipping and Packages increased by 15.7 percent over the same period last year on volume growth of 13.7 percent, while Standard Mail revenue decreased slightly on a 1.1 percent volume increase. Overall, volume increased by 1 million pieces.

The number of career employees increased by 17,045 in FY2016, compared to the year before.

The Postal Service held approximately $8.1 billion of unrestricted cash entering FY2017. This is an increase of approximately $6 billion from the reported low in FY2012. This improvement in the Postal Service's cash position would not have occurred had the Board of Governors' TEC — in the interest of maintaining sufficient levels of liquidity — made the decision to defer our legally mandated PSRHBF prefunding payment due on Sept. 30, 2016, to ensure achievement of our statutory obligations, including the continuation of universal mail service to the nation. Aside from the prefunding deferral, the improvement is largely attributable to the temporary exigent surcharge which generated approximately $4.6 billion in incremental revenue from January 2014 through April 10, 2016.

For more information and analysis of each program activity in the Postal Service budget and regarding the financial results of the Postal Service, see the USPS Form 10-K for FY2016 at: *http://about.usps.com/who-we-are/financials/welcome.htm*.

FY2017 Performance Plan – The expiration of the exigent surcharge and the ongoing decline in First-Class Mail volumes, coupled with contractual wage increases and higher benefits costs, are the primary reason that controllable income is expected to decrease from $0.6 billion in FY2016 to $0.1 billion in FY2017.

The Postal Service projects revenue growth of $0.2 billion, or 0.3 percent, compared to FY2016 despite the loss of approximately $1 billion in revenue from the expiration of the exigent surcharge, due to continued growth in Shipping and Packages volume, partially offset by continued decreases in First-Class Mail. Shipping and Packages revenue is forecast to increase $1.8 billion through an expected volume increase of 7.6 percent as economic and e-commerce growth is extended through marketing initiatives.

Controllable operating expenses (a non-GAAP measure which excludes PSRHBF amortization, amortization of unfunded retirement liabilities and non-cash adjustments to workers' compensation liabilities) are expected to increase $0.7 billion in FY2017 from both personnel and other non-personnel cost increases. Personnel cost increases are largely driven by scheduled general wage increases for two of our major unions, and higher health benefits costs. Higher non-personnel costs are forecast due to investments in information systems and support for package growth initiatives.

For more information regarding the financial performance plan of the Postal Service, see the USPS Integrated Financial Plan for FY2017 at: *http://about.usps.com/who-we-are/financials/welcome.htm*.

Key Financial and Operating Statistics

Financial Performance Results

(in millions)

Controllable income *(unaudited)*[1]	FY2016	FY2015	FY2014
Net loss	$ (5,591)	$ (5,060)	$ (5,508)
PSRHBF prefunding expense	5,800	5,700	5,700
Discount rate changes related to workers' compensation liability	1,026	809	485
Other non-cash changes in workers' compensation liability[2]	188	(502)	673
Actuarial revaluation of retirement liability[3]	248	241	7
Change in accounting estimate[4]	(1,061)	—	—
Controllable income	$ 610	$ 1,188	$ 1,357

[1]Controllable income should not be considered a substitute for net income and other reporting measures under generally accepted accounting principles.
[2]This is a net amount that includes changes in assumptions, as well as the valuation of new claims and revaluation of existing claims, less current year claim payments.
[3]Determined by OPM in 2015 to amortize the $3.6 billion unfunded FERS retirement obligation based on actuarial valuations and assumptions. Payments are to be made in equal installments through 2046.
[4]Please see the discussion on page 23 regarding the change in accounting estimate for more information.

Financial History Summary

(in millions, unaudited)

	FY2016	FY2015	FY2014
Operating results			
Total revenue	$ 71,498	$ 68,928	$ 67,830
Operating expenses			
Compensation and benefits	48,689	47,519	46,000
Retiree health benefits	9,105	8,811	8,685
Workers' compensation	2,682	1,760	2,554
Transportation	6,992	6,579	6,586
All other operating expenses	9,431	9,157	9,353
Loss from operations	(5,401)	(4,898)	(5,348)
Interest, net	(190)	(162)	(160)
Net loss	$ (5,591)	$ (5,060)	$ (5,508)
Financial position			
Cash and cash equivalents*	$ 8,077	$ 6,634	$ 4,906
Property and equipment, net	15,296	15,686	16,338
All other assets	1,846	1,694	1,718
Total assets	$ 25,219	$ 24,014	$ 22,962
Accrued retiree health benefits	$ 33,900	$ 28,100	$ 22,417
Workers' compensation liability	20,039	18,811	18,422
Debt	15,000	15,000	15,000
All other liabilities	12,262	12,494	12,454
Total liabilities	$ 81,201	$ 74,405	$ 68,293
Total net deficiency	$ (55,982)	$ (50,391)	$ (45,331)

**Cash and Cash Equivalents are Unrestricted.*

Revenue, Pieces and Weight Statistics

(in millions of units indicated, unaudited)

	FY2016	FY2015	FY2014
First-Class Mail[1]			
Revenue	$ 27,496	$ 28,411	$ 28,416
Number of pieces	61,219	62,599	63,849
Weight, pounds	3,057	3,166	3,165
Standard Mail[2]			
Revenue	$ 17,622	$ 17,646	$ 17,426
Number of pieces	80,885	80,030	80,308
Weight, pounds	7,960	7,974	8,100
Shipping and Packages services[3]			
Revenue	$ 17,425	$ 15,062	$ 13,549
Number of pieces	5,161	4,539	3,970
Weight, pounds	9,343	7,739	6,486
International Mail			
Revenue	$ 2,695	$ 2,702	$ 2,909
Number of pieces	1,006	913	875
Weight, pounds	484	459	444
Periodicals			
Revenue	$ 1,507	$ 1,589	$ 1,625
Number of pieces	5,586	5,838	6,045
Weight, pounds	2,042	2,168	2,275
U.S. Postal Service[4]			
Number of pieces	421	357	439
Weight, pounds	117	114	111
Free matter for the blind[4]			
Number of pieces	45	46	46
Weight, pounds	19	19	21
Other services revenue[3]	$ 3,623	$ 3,380	$ 3,839
Deferred Revenue – Prepaid Postage[5]	$ 1,061	$ —	$ —
Postal Service totals			
Operating revenue	$ 71,429	$ 68,790	$ 67,764
Number of pieces	154,323	154,322	155,532
Weight, pounds	23,022	21,639	20,602

Note: Numbers for certain mail categories for the years FY2016, FY2015 and FY2014 have been reclassified subsequent to the Postal Service's filing its Form 10-K with the PRC on November 15, 2016; therefore slight differences from the 10-K exist, which the Postal Service considers immaterial for financial reporting purposes. The reclassifications did not impact Total Operating Revenue amount.

[1]Excludes First-Class Mail Parcels.

[2]Excludes Standard Mail Parcels.

[3]See Shipping and Packages Services and Other Services Statistics table on page 27.

[4]Includes the U.S. Postal Service's mail and free mail provided to certain groups.

[5]The Postal Service recognizes revenue for postage when a piece of mail is processed and delivered, not at the time a stamp is sold and cash is received. To reflect the difference in revenue and cash received, management estimates the amount of postage stamps sold but not yet used and this amount is recorded as a deferred revenue-prepaid postage liability. This update relates solely to changes in estimates of consumer behavior and, in accordance with GAAP, the adjustment is considered a change in accounting estimate.

Shipping and Packages Services and Other Services Statistics

(in millions of units indicated, unaudited)

	FY2016	FY2015	FY2014
Priority Mail Express			
Revenue	$ 809	$ 779	$ 760
Number of pieces	33	36	36
Weight, pounds	35	38	37
First-Class Packages[1]			
Revenue	$ 2,787	$ 2,294	$ 2,004
Number of pieces	1,030	933	847
Weight, pounds	377	320	283
Priority Mail[2]			
Revenue	$ 8,202	$ 7,689	$ 7,237
Number of pieces	1,028	1,007	934
Weight, pounds	2,466	2,370	2,162
Parcel Select Mail			
Revenue	$ 4,661	$ 3,363	$ 2,597
Number of pieces	2,415	1,937	1,549
Weight, pounds	5,014	3,601	2,623
Parcel Return Service Mail			
Revenue	$ 169	$ 152	$ 139
Number of pieces	64	60	56
Weight, pounds	188	171	171
Package Services			
Revenue	$ 797	$ 785	$ 812
Number of pieces	591	566	548
Weight, pounds	1,263	1,239	1,210
Total shipping and packages services			
Revenue	$ 17,425	$ 15,062	$ 13,549
Number of pieces	5,161	4,539	3,970
Weight, pounds	9,343	7,739	6,486
Other services			
Certified Mail			
Revenue	$ 670	$ 669	$ 673
Number of articles	198	200	208
Return Receipts			
Revenue	$ 359	$ 374	$ 362
Number of articles	154	158	154
USPS Tracking			
Revenue	$ 1	$ 41	$ 84
Number of articles	4,318	3,550	2,931
PO Box Services revenue	$ 951	$ 924	$ 902
Money Orders			
Revenue	$ 153	$ 159	$ 164
Number of articles	90	93	97
Insurance			
Revenue	$ 77	$ 90	$ 92
Number of articles	15	19	20
Shipping and mailing supplies			
Revenue	$ 109	$ 111	$ 119
Number of articles	54	55	60
Other services revenue	$ 1,303	$ 1,012	$ 1,443
Total other services revenue	$ 3,623	$ 3,380	$ 3,839

Note: Numbers for certain mail categories for the years FY2016, FY2015 and FY2014 have been reclassified subsequent to the Postal Service's filing its Form 10-K with the PRC on November 15, 2016; therefore slight differences from the 10-K exist, which the Postal Service considers immaterial for financial reporting purposes. The reclassifications did not impact Total Operating Revenue amount.

[1]Includes First-Class Mail Parcels and First-Class Package Services.

[2]Includes Retail Ground which is a retail-only product classified as Market-Dominant. Retail Ground is priced identically to Priority Mail for Zones 1–4 and is functionally equivalent to Priority for those Zones.

Post Office and Delivery Points

(in actual units indicated, unaudited)

	FY2016	FY2015	FY2014
Post Offices, stations and branches			
Postal-managed			
Post Offices	26,611	26,615	26,669
Classified stations, branches and carrier annexes	4,974	4,991	4,993
Total Postal-managed	31,585	31,606	31,662
Contract Postal Units	2,458	2,504	2,660
Village Post Offices	877	874	767
Community Post Offices	503	536	560
Total offices, stations and branches	35,423	35,520	35,649
Residential delivery points			
City delivery	82,411,214	82,020,625	81,650,586
Rural	42,065,134	41,378,300	40,750,668
PO Box	15,926,420	15,894,358	15,858,668
Highway contract	2,880,500	2,827,085	2,774,213
Total residential delivery	143,283,268	142,120,368	141,034,135
Business delivery points			
City delivery	7,664,927	7,633,285	7,592,773
Rural	1,614,185	1,584,916	1,554,422
PO Box	3,452,198	3,535,563	3,634,467
Highway contract	79,602	77,696	76,179
Total business delivery	12,810,912	12,831,460	12,857,841
Total delivery points	156,094,180	154,951,828	153,891,976
Change in delivery points	1,142,352	1,059,852	971,543

USPS Employees

(actual numbers, unaudited)

	FY2016	FY2015	FY2014
Headquarters and HQ related employees			
Headquarters	3,098	2,916	2,934
Headquarters — field support units	3,640	3,710	3,618
Inspection service — field	2,411	2,379	2,376
Inspector general	1,134	1,142	1,132
Total HQ and HQ related employees	10,283	10,147	10,060
Field employees			
Area offices	821	851	818
Postmasters/installation heads	14,398	14,506	16,538
Supervisors/managers	24,832	23,754	23,035
Professional administration and technical personnel	4,526	4,468	4,353
Clerks/nurses	130,178	125,609	118,925
Mail handlers	39,405	38,046	38,910
City delivery carriers	170,885	164,378	164,626
Motor vehicle operators	7,723	6,658	6,603
Rural delivery carriers — full-time	68,261	67,044	66,373
Building and equipment maintenance personnel	32,307	31,136	32,807
Vehicle maintenance employees	5,289	5,266	5,252
Total field employees	498,625	481,716	478,240
Total career employees	508,908	491,863	488,300
Noncareer employees			
Casuals	1,633	1,727	1,658
Postal support employees	26,368	29,312	24,781
Nonbargaining temporary	355	367	276
Rural part-time: subs/RCA/RCR/AUX	53,183	50,640	48,099
Postmaster relief and leave replacements	3,626	4,839	13,207
City carrier assistant (CCA)	40,436	37,767	36,081
Mail handler assistant (MHA)	5,280	5,322	5,475
Total noncareer employees	130,881	129,974	129,577
Total employees	639,789	621,837	617,877

Robotics
Containerization
System
RCS 2
ABB

PART 2

FY2016 Comprehensive Statement on Postal Operations

Improving Customer Experience

Engaging and Empowering Employees to Better Serve Customers

Investing in Future Platforms

Working Together with America's Businesses

Accelerating the Pace of Innovation

Connecting Communities

Maintaining Focus and Accelerating Growth

Improving Customer Experience

Our customers are at the center of everything we do. We're dedicated to making sure every interaction with the Postal Service is a positive experience. Americans depend on us to provide reliable, dependable and economical products and services, and we're delivering on that promise in new and exciting ways.

Informed Visibility – The Postal Service is committed to providing customers with more information about their mail and packages, from the moment we receive them to the time we deliver them to homes and businesses. We're focused on using technology to provide real-time visibility for our products as they move through the postal system. One of the technologies we're investing in is Informed Visibility (IV). This solution will provide comprehensive, near real-time, data-driven service performance measurement and diagnostics, mail inventory and predictive workloads and end-to-end tracking and reporting for all mail. For the Postal Service, it means access to valuable business and operational intelligence to help make us more efficient in what we do. IV also will help reduce our operational costs and lay the foundation for enterprise analytics.

For our customers, IV will help the Postal Service provide consistent, reliable and predictable service. In addition, it will add new value to mail, providing customers with long-needed, near real-time mail visibility, tracking and performance metrics necessary to help them plan their mailings, measure success of each mailing campaign and efficiently staff their operations.

In FY2016, we expanded the IV application by providing internal reports, tools and visualizations to Operations. These tools help monitor scan compliance and manage service performance. We also began development of mail inventory and predictive workloads, which will provide Operations with greater insight into managing workloads and resources. Additionally, we began piloting the new mail tracking and reporting application to support visibility for mailers in September 2016.

Informed Delivery – With the growth of digital and mobile communications, we have an opportunity to transform how consumers view mail and make it more accessible and convenient. We are testing Informed Delivery, which provides customers with a scanned image of the outside of letter-sized mailpieces that they will be receiving later that day. Customers have access to the images through an online dashboard via the MyUSPS platform on usps.com as well as through the MyUSPS application for smart phones, or they can opt to receive an email notification.

The Postal Service first tested Informed Delivery in Northern Virginia in 2014 and expanded it to areas of New York and Connecticut in 2015. A national launch is planned for spring 2017. As the test expands, new features will be implemented, including the ability to access interactive content associated with mail images. The insights and data gathered demonstrate that Informed Delivery notification service has a strong value.

Usps.com and the Postal Store – Our customers enthusiastically embrace the ease and convenience of online shipping and mailing through our website, usps.com. In FY2016, there were over 1.7 billion visits to usps.com — an increase of 11 percent compared to the prior year. With an average of 4 million daily visits to our site, our digital footprint continues to expand. As an e-commerce platform, usps.com generated just over $1 billion in revenue with more than 55 million purchase transactions, which represents more than 53 million unique users in the United States and worldwide.

Due to the significant increases in online traffic and revenue, a new web analytics platform was implemented in late FY2016. This new platform will help us measure and analyze website growth while providing important insights to help improve

the customer experience. Data from the analytics platform will also be integrated into a new user experience testing tool. Both tools will provide usps.com the ability to conduct and analyze user experience testing to continually improve the website experience.

During FY2016, we focused on continued optimization to improve and align the customer experience across all digital touch points including mobile, desktop and retail kiosks. Our goal is to provide our customers with a state-of-the-art e-commerce experience while growing revenue, strengthening our brand, increasing customer satisfaction and decreasing call volume to our Customer Care Centers.

A highlight of this effort was the development of a digital style guide to create consistency across all digital platforms. The style guide provides design and development teams with a standardized style, elements for a unified approach and consistent voice across the usps.com domain and other microsites for the Postal Service. This effort will help build our brand, save development time and money and provide a seamless customer experience.

We continue to expand and utilize the data that we receive from our customer feedback tools. We frequently update our customer satisfaction survey to ensure the questions being asked are relevant and provide actionable data. We also use a customer experience replay tool, which enables us to visualize customer activity on the site. During FY2016, we also developed page-level surveys to gather customer feedback for specific content areas and applications on the site. Customer responses from these tools helped us identify opportunities to improve the customer experience. Customer feedback helped us to update content on our website, such as enhancing our frequently asked questions section and Hold Mail Service on usps.com.

For FY2016, we led redesign efforts for Customer Registration, usps.com homepage and USPS Tracking as well as changing the user interface for Hold Mail Service. We conducted user experience reviews for our redesign efforts and used the recommendations that resulted from the reviews to ensure a "friction-free" user experience. The creative development work for many of these efforts was addressed in FY2016, with scheduled launch in FY2017.

Total revenue for the online Postal Store grew 4 percent in FY2016 compared to the previous year, with total revenue of more than $280 million. Significant enhancements were made to the Postal Store to improve the customer experience and grow revenue. In the second quarter, PayPal was implemented as an alternative payment option for online desktop and mobile Postal Store transactions, with almost $7.55 million in PayPal revenue and an estimated $450,000 savings as a result of reduced merchant credit card fees.

To improve the usps.com search functionality, changes were made in the third quarter of FY2016 to the existing online search function to help customers find relevant information, services and products more quickly and seamlessly. In FY2017, a new search feature will be added to the Postal Store to allow customers to quickly filter through relevant items, collectibles, shipping supplies and retail merchandise.

My USPS.com – My USPS.com is an online customer portal that aggregates information about a household's mail and shipments, communicates delivery status and provides functionality to control delivery. It provides eligible residential customers with a single, comprehensive dashboard solution with the ability to track and manage incoming USPS domestic packages online. With the integration of Informed Delivery, the portal also serves as a way to navigate between package and mail views for customers enrolled in both services.

USPS Mobile – Mobile solutions are essential to providing information and real-time data for Postal Service customers. We offer a set of our most popular features on our mobile website (m.usps.com) as well as Android and iPhone mobile applications. Users are able to track packages, log on to My USPS, create Priority Mail shipping labels, buy stamps, calculate shipping prices, find USPS locations and ZIP Codes, schedule a pickup, hold mail and change an address — all from the convenience of their mobile phones. Over 55 million users accessed our mobile website in 2016. The Postal Service continues to enhance the mobile website to provide a seamless experience for our customers.

Delivering an Excellent Retail Experience

A visit to the Post Office has been a shared experience by Americans for nearly 240 years. Ensuring that visit is effective, efficient and meets customer expectations requires a focused commitment and ongoing effort by the Postal Service.

Customer Satisfaction – Retail performance is measured by two programs, the Retail Customer Experience (RCE) program and the Point of Sale (POS) Survey. The RCE program uses private "mystery shoppers" to conduct mailing transactions at over 7,700 of our large retail outlets. Data from these transactions is analyzed and evaluated, and feedback is provided to help improve the customer experience. With the POS Survey, a URL and QR code are printed at the bottom of the customer receipt. We encourage customers to provide their feedback on a short 6-question web-based survey.

In FY2016, the Postal Service made several changes to the survey to better inform us of key aspects of a customer's visit. The overall retail experience score from the RCE mystery shops was 90.76 percent versus the previous year score of 92.63, a reduction of 1.87 percentage points. One key measure of a customer's retail experience is the time spent waiting in line, and the service standard for this attribute is "Five Minutes or Less." For FY2016, the national wait time in line average was 2 minutes, 48 seconds versus the prior year of 2 minutes, 36 seconds, an increase of 12 seconds.

	FY2016	FY2015	Variance
Average Wait (mm:ss)	2:48	2:36	0:12
Overall Retail Experience*	90.76%	92.63%	(1.87%)

**Source: Retail Data Mart, Retail Customer Experience Program.*

Mobile Point of Sale – Technology is changing and improving the way we conduct business with our customers at our retail locations. The mPOS solution — Mobile Point of Sale — is an example of how the Postal Service is doing just that. The device consists of an Apple iPod Touch, integrated barcode scanner and credit card reader, wireless receipt printer and wireless label printer. The Postal Service continues to add new applications to mPOS. One such application that was added this past year — "In Person Proofing" (IPP) — gives the Postal Service a means of helping its customers validate their personal information for several different applications.

The mPOS made its debut in 2014 at 68 Post Offices. By 2015, more than 6.7 million transactions had been conducted on the mPOS generating more than $17 million dollars in revenue. At the end of FY2016, there were more than 2,900 mPOS sites across the nation with over 26 million transactions being conducted and more than $92 million dollars being generated in revenue. This represents approximately a 284 percent increase in transactions and a 427 percent increase in sales from the prior year.

Our customers and the Postal Service have seen the benefits of mPOS. Customers have enjoyed the "swipe and go" convenience of being able to conduct transactions quickly and efficiently without waiting in line. Whether they're

picking up a package or dropping off a prepaid mailpiece, customers are experiencing extra convenience at the retail counter through the use of mPOS. Using this innovative technology, Sales and Service Associates have the ability to process many of the simpler transactions in the lobby. Customers can get either a paper or email receipt, an option that also reduces paper costs for the Postal Service as well as supports its "go green" efforts.

Alternate Retail Access Points – We also provide our customers with convenient alternate access options to our products and services. Customers can choose to use our self-service kiosks, online mailing or our shipping and mobile applications. They can likewise opt to utilize our Approved Postal Provider network where they can purchase stamps, mail a letter or ship a package. These contracted and licensed retailers generate additional incremental revenue for the Postal Service by offering our products and services in places where our customers live, work and shop and at times that are convenient for them. The Approved Postal Provider network includes Contract Postal Units (CPUs), Contract Post Offices (CPOs), Village Post Offices (VPOs) and Approved Shippers (AS). In FY2016, the Approved Postal Provider network consisted of nearly 12,000 locations nationwide.

The Postal Service periodically reviews the characteristics of our products and services and how customers are using them. In FY2016, we reviewed the PC Postage channel. The review uncovered that key characteristics of this channel had changed since 2008. As a result, the Postal Service changed how it categorized PC Postage from retail to commercial revenue. This impacted the metrics that we have traditionally used to measure alternate access. With this change, retail window brick and mortar now represents 76 percent of our total retail revenue.

Making it Easier to Mail and Receive Mail

What do customers want? They want to save time. They want convenience and simplicity. They want options on how and where they do business with the Postal Service. We're meeting those expectations.

Mail Forwarding and Change of Address – The Postal Service processes approximately 37 million change-of-address requests each year. We make the process as simple as possible for customers. A visit to the Post Office isn't necessary — customers can change their address online at usps.com. To modify an original Change of Address Order, they can go to *managemymove.usps.com*. Customers also can use a credit or debit card with a billing address that's different from either the old or new addresses. This feature is particularly useful for customers whose card is associated with a PO Box or work billing address, or for those filling out a request for an elderly or deceased relative.

Retail Revenue by Channel

Services *(unaudited)*	FY2016 retail revenue ($ millions)	FY2016 percent share of total retail revenue	FY2016 share difference from FY2015	FY2015 retail revenue ($ millions)	FY2015 percent share of total retail revenue	FY2015 share difference from FY2014	FY2014 retail revenue ($ millions)	FY2014 percent share of total retail revenue
Retail window brick and mortar	$10,244	76%	21.72%	$10,430	54.28%	(1.98)%	$10,706	56.26%
Expanded access	$ 3,232	24%	(21.72)%	$ 8,785	45.72%	1.98%	$ 8,325	43.74%
Total retail revenue	$13,476	100%	—	$19,215	100%	—	$19,031	100%

Premium Forwarding Service – Premium Forwarding Service Residential (PFS-R) provides customers the option of temporarily forwarding their mail once a week by paying the application fee and weekly shipment fees. The customer's PFS-R mail is shipped via Priority Mail service with USPS Tracking. An online version of PFS-R is available, offering customers the convenience of applying for and managing their accounts at usps.com. PFS-R online continues to help grow revenue and create efficiencies by increasing the portion of transactions conducted online. Overall, PFS-R revenue grew 2.7 percent in FY2016, and PFS-R online revenue already represents over 28 percent of all PFS-R revenue.

Providing a Seamless Experience for Commercial Mailers

Our use of information and technology enables us to compete more effectively and deliver greater predictability and value to our customers, especially commercial mailers. We're streamlining and simplifying systems, improving access to information and providing rich data and analytics to business mailers.

RIBBS – RIBBS (Rapid Information Bulletin Board System) is an important online source of information for both industry and USPS users, providing service alerts, technical updates, product webinars and more. A redesign of the website is underway to create a more intuitive experience for users. The Postal Service is working closely with the Mailers' Technical Advisory Committee in this effort. Our focus is to improve search functionality, make the site compliant with accessibility requirements and better enable mailers to stay up-to-date and informed. After debuting the redesign at the National Postal Forum, a test site called PostalPro will allow for customer feedback while keeping the old RIBBS accessible.

Business Solution Center – The Business Solution Center (BSC), formerly referred to as the Premier Business Mail Entry Unit (BMEU), is administered by the Mail Entry and Payment Technology group. The mission of the BSC is to provide world-class, one-stop, solution-oriented customer service by identifying the best solutions for commercial mailing needs. The center offers consultation, diagnostics, research, recommendations and hands-on assistance. BMEUs obtain this level of service by meeting set requirements that include completing 30 hours of training, implementing a Lean Six Sigma process at the unit and offering the latest mailing tools and technology to its customers.

Mail Preparation, Addressing and Commercial Acceptance

Our continued adoption of Intelligent Mail and Full-Service technologies, which rely on the use of smart barcodes, has enabled continuous improvements in the way we accept and verify commercial business mailings. We are working to reduce reliance on manual processes and move into a digitized process flow with programs such as Full-Service Intelligent Mail, Seamless Acceptance, eInduction, Electronic Verification System and payment modernization. These evolving capabilities empower customers with a suite of tools enabling payment flexibility, preparation simplicity, multiple access points for account management and deeper visibility into mailing status.

Full-Service – Full-Service uses Intelligent Mail barcodes on mail containers, handling units (trays, sacks) and mailpieces to provide end-to-end visibility of the mailstream. As of September 2016, overall Full-Service adoption is at 90.43 percent of all eligible Full-Service mail. Information provided in electronic documentation allows for verification of key elements such as proper by/for identification and barcode uniqueness. Results of these verifications are available by viewing the Mailer Scorecard (see Mailer Scorecard on next page). Assessments began in November 2016 based on October 2016 verifications.

eInduction – The electronic induction process, better known as eInduction, simplifies the induction of drop shipments and expedited plant load mailings. It enables the use of electronic documentation, Intelligent Mail container barcodes and handheld scanner technologies to verify the payment and preparation of commercial mail containers. eInduction eliminates the need for paper forms and manual reconciliation at the entry facility. Nearly 65 percent of all containers are shipped through eInduction. Results of these verifications are displayed in the Mailer Scorecard.

Seamless Acceptance – This program automates the verification of commercial mailings by leveraging electronic documentation, Intelligent Mail container barcodes, Intelligent Mail tray barcodes, Intelligent Mail barcodes and information collected from both handheld sampling devices and mail processing equipment scans. Seamless Acceptance answers two critical questions: has every piece of mail been paid for and was every piece of mail paid for at the correct rate. Results of these verifications are available by viewing the Mailer Scorecard.

Over 18 percent of all commercial volume is entered through Seamless Acceptance. The Postal Service delayed adding new mailers to Seamless Acceptance while we continue to work with the mailing industry to address concerns on resolving and validating undocumented mailpieces and sampling data and the Mailer Scorecard. Once these issues are resolved, the program will be opened up to all mailers.

Move Update – The Move Update program is designed to keep mailing address lists current. We're proposing to update the verification of Move Update compliance from sampling to a census verification approach using mail process equipment scan data. This census method approach will be for any mailer submitting Full-Service mail volume. Results of these verifications are displayed in the Mailer Scorecard. The industry will be engaged in validation and testing of the Mailer Scorecard prior to notification of assessments. In December 2014, the Postal Service published an advance notice in the *Federal Register* announcing a census method approach for Move Update verification. Based on mailer feedback from the initial posting, another notice was published in July 2016. Implementation of this approach is pending regulatory approvals.

Mailer Scorecard – A Mailer Scorecard provides a dashboard view of the mail quality verification results of letter and flat mailing activity over a calendar month. Results of verifications can be viewed by the mail owner or mail preparer. Today, mail quality is established on individual mailings through manual verification processes. The results of the manual verifications, including any additional postage charges, are communicated to the mailer prior to the acceptance of the mail, allowing the mailer the opportunity to dispute or accept additional postage charges prior to induction. The key initiatives mentioned previously — Full-Service, Move Update, eInduction and Seamless Acceptance — transition mailers from the current process to a trend-based process where verification results and additional postage amounts are aggregated over an entire calendar month.

This change has mailers concerned about post-induction assessment processes and with performance and functionality of the Mailer Scorecard. Working with the mailing industry through the Mailers' Technical Advisory Committee, we completed Mailer Scorecard testing for Full-Service, Move Update, Seamless Acceptance and eInduction. The industry testers represented a well-rounded group of mailers with a comprehensive set of mailing scenarios. Results of this testing were positive. USPS announced an assessment date of November on October data for Full-Service verifications. The Postal Service continues to work with the mailing

industry to resolve concerns with misshipped logic for eInduction and undocumented and sampling logic for Seamless Acceptance.

A new publication, *Streamlined Mail Acceptance for Letters and Flats*, contains policies and processes for verification of eligible business mailings using tools provided by Full-Service Intelligent Mail, Move Update, eInduction and Seamless Acceptance. The Postal Service has sought industry feedback on the publication. The publication contains an explanation of each verification program, detailed participation requirements for each program, descriptions of USPS verifications, mail quality error thresholds and postage assessment calculations.

Automated Package Verification – This revenue assurance program is designed to collect shortpaid revenue for packages created through PC Postage or packages entered into the system through retail channels. It automates the validation of weight and rate elements of packages as they are processed in plants to ensure correct postage was paid. In February 2016, a *Federal Register* notice was published requiring PC Postage vendors and resellers to collect shortpaid postage effective Dec. 31, 2016.

Streamlining Customer Payment and Account Management Processes

Several initiatives in FY2016 improved our ability to manage customer incentives, contract pricing and loyalty tracking. At the same time, we gained deeper insights into how our customers use our products and their revenue contribution. New technical specifications, namely "Intelligent Mail Indicia Performance Criteria," were published for PC Postage and meter vendors that will provide the Postal Service with improved product usage information. Improvements in payment and account management will reduce the current burden experienced by mailers in opening permits and managing accounts.

Payment Modernization – This initiative will replace current product-centric payment systems with a single, secure centralized payment and account management system. Accounts will be created and managed online, eliminating the need for hard copy forms and simplifying account setup and management. Commercial mailers will be able to use a single national account to pay for a variety of products and services (including permit mailings and commercial PO Boxes), view enterprise spending through integrated reporting and allow multiple users secure access to payment information using unique login credentials. Deployed in a phased approach, this initiative is expected to launch in FY2017.

Collaborating with Industry

The input and feedback of our industry partners are essential as we introduce new products and services. The Postal Service works closely with its mailing industry partners through many venues. We share a common goal — a strong and vibrant mailing industry that will continue to be an engine of economic growth for the nation.

National Postal Forum – Since 1968, the National Postal Forum (NPF) has been the leading mailing industry conference, bringing together the Postal Service and its major customers. The goal of the NPF, a not-for-profit educational corporation, is to bring industry professionals together to interact with Postal Service management and learn about existing and future USPS products and services. In 2016, the NPF was held in Nashville, TN, with Postmaster General Megan Brennan as the keynote speaker. On average, the forum attracts approximately 3,000 large and small business customers from across the country.

The four-day NPF annually showcases the latest in technology and innovation, providing a unique opportunity for mailers to network with each other as well as talk to potential vendors and suppliers. It also features educational workshops on topics ranging from marketing to operations, general sessions with senior postal leadership, certification courses, focus group sessions and

other activities. Attendees hear how the Postal Service and industry are collaborating to develop and deliver solutions to service issues, share the latest information on logistics and operations and strengthen the relationship between the mailing and shipping industries.

Mailers' Technical Advisory Committee – The Postmaster General's Mailers' Technical Advisory Committee (MTAC) is another venue for the Postal Service to share technical information with mailers and receive advice and recommendations from them on matters concerning postal products and services. MTAC comprises nearly 175 executives and representatives who represent 50 associations and mailers. MTAC's list of accomplishments highlight successful collaborations on issues ranging from barcoding improvements to implementing drop shipping changes to modifying business mail entry processes.

To better serve the mailing community, MTAC is organized into four key focus areas: Mail Preparation, Entry and Operations; Enterprise Analytics and Data Usage; Emerging Technology and Product Innovation; and Payment and Acceptance and Education. Each of these areas focus on customers' specific needs and further supports the mission of providing exceptional customer service.

Postal Customer Councils – Postal Customer Councils (PCCs) consist of Postal Service leaders and business mailers who work together at the local level to promote the value of mail, address mailing concerns and exchange ideas. The goal is to maximize the benefits of our products, programs, services and procedures. Through regular meetings, educational programs and seminars, PCC members learn about the latest Postal Service products and services that will help them grow their businesses. There are more than 155 active PCCs nationwide.

Each year the importance of PCCs and their contributions to the success of the Postal Service are celebrated during National PCC Week, which features a state-of-the-business address by the Postmaster General. Events were held Sept. 19–23 with more than 100 PCCs participating. Our leadership spoke at more than 80 events, with an estimated 12,000 customers in attendance.

Taking Care of Customers

Our Consumer and Industry Affairs group is responsible for Postal Service customer interaction and support for individual consumers, small businesses, large corporations and commercial mailers. The Office of Consumer Advocate and Customer Relations serves to confirm the "voice of the customer" is accurately represented to the organization and is focused on ensuring that each and every customer has a positive customer experience. The primary objective is to improve customer interactions with the Postal Service and position "the value of the mail" in a consumer and business environment. In addition, the group develops a strategic direction, policy improvements, program enhancements and standardized expectations to field consumer and industry contact operations.

Consumer and Industry Affairs reaffirms the importance of customer service and shares customer insights through monthly videos, weekly messaging, training, tools and resources that inform and engage employees. We're continuously working to improve our standardized complaint handling and resolution process, which provides guidelines encompassing initial contact through resolution. A better resolution process for the customer increases their overall satisfaction. We want to improve processes and enhance systems in ways that support timely and thorough resolution of customer concerns and inquiries.

Customer Care Centers – Our four Customer Care Centers are staffed by Postal Service employees. In FY2016, the centers received nearly 49 million calls, of which 33 million were

handled through the self-service interactive voice response system. Nearly 16 million callers, about 52,000 per day, requested additional assistance from an agent.

Business Service Network – The national Business Service Network (BSN) is dedicated to providing the best customer experience to over 20,000 of the Postal Service's largest customers. The BSN encourages a proactive approach that fosters a one-on-one relationship with our customers and serves as the essential link between them and Postal Service operations. By understanding our customers and translating their business needs, the Postal Service not only meets but continuously exceeds expectations by providing excellent service, communications and information to our most valuable customers.

Security Comes with a Stamp

Despite the many changes to the Postal Service since its inception, there is this constant held by our customers: Americans have the right to mail and receive letters and packages with every expectation that no one will tamper with or steal their mail. The Postal Inspection Service, the federal law enforcement, crime prevention and security arm of the Postal Service, helps deliver on that expectation.

The Postal Inspection Service ensures the safety, security and integrity of the U.S. Mail. Their mission is to support and protect the Postal Service and its employees, infrastructure and customers; enforce the laws that defend the nation's mail system from illegal or dangerous use; and ensure public trust in the mail. The Postal Inspection Service completes this mission with a workforce comprising Postal Inspectors; uniformed Postal Police Officers; contract security providers; and a cadre of professional, technical and administrative employees.

Our Postal Inspectors investigate a wide range of postal-related crimes, such as mail theft, identity theft, dangerous mail, threatening letters, mail bombs, assaults on our employees and postal-related robberies and burglaries. And they protect against the use of the mail to launder drug money, defraud customers, traffic in illegal drugs and exploit children.

The Postal Inspection Service also maintains a state-of-the-art National Forensic Laboratory, comprising highly trained forensic scientists and technical specialists who play a key role in identifying, apprehending, prosecuting and convicting individuals responsible for postal-related criminal offenses. They provide scientific and technical expertise to the criminal and security investigations of the Postal Inspection Service.

Carrying out that mission also means ensuring that our employees, customers and some 32,000 Postal Service facilities are safe from criminal attack and the nation's mail system is protected from criminal misuse. Whether dealing with mail thieves in colonial times, stagecoach robbers in the 1800s, gangsters in the 1930s, Wall Street insider traders in the 1980s, the Unabomber in the 1980s and 1990s, or, in this century, anthrax mailings and cybercrimes — the Postal Inspection Service has been there.

If it has anything to do with safeguarding the safety, security and integrity of the nation's mail system from criminal misuse, they do it. And they've been doing it successfully since Benjamin Franklin appointed William Goddard the first surveyor, the precursor of today's Postal Inspector on Aug. 7, 1775.

Engaging and Empowering Employees to Better Serve Customers

For the first time in history, there are five generations in the workforce. Understanding these generational differences is a key factor in how we as an organization will adapt internally and externally to serve the needs of our customers. The face of the Postal Service is represented by every employee who touches any facet of the mail. By taking steps to better engage and empower our employees, we'll strengthen our commitment to delivering excellent customer service for the nation, now and for the future.

Investing in Leadership and Employee Growth

The Postal Service is now operating in the most complex and competitive business environment in our history, one that's marked by uncertainty and change. Despite the difficulties this business environment presents, we've withstood every challenge because of strong leadership and committed employees.

Leadership Readiness – Similar to most federal agencies, a large number of our managers and senior leaders are eligible for retirement. To plan for the significant risk this poses, in FY2016 we implemented a new assessment process for Corporate Succession Planning (CSP) to enable us to gauge leadership potential, allowing us to better identify critical experiences needed to build a robust leadership pipeline. We administered our operations-focused leadership programs such as New Supervisor Program (NSP), Managerial Essentials for Field Leadership (MEFL) and Postmaster Essentials (PME) to ensure that our managers and supervisors are job ready. During the year, we offered more classes than originally planned to meet the increased demands of the organization.

Also, our Executive Leadership Team demonstrated an unwavering commitment to employee engagement and invested in utilizing our engagement leaders and champions throughout the organization to conduct engagement leader training for employees at all Executive and Administrative Schedule (EAS) levels within the organization. Altogether, these efforts improve leadership readiness and support culture changes necessary for long-term success.

Our leadership development programs achieved important outcomes in FY2016, including:

- The new CSP assessment process helped us identify 1,600 potential successors to leadership positions and has been incorporated into the CSP nomination process for new potential successors.
- Eighty-eight percent of critical Postal Career Executive Service (PCES) positions now have at least one "ready now" potential successor, and 158 new potential successors were added to CSP. To support individual development planning, 75 percent of CSP potential successors have an active plan (i.e., completion of one activity every six months).
- In February 2016, we introduced a streamlined process for EAS leadership development open season for area and district employees. Program eligibility was expanded to EAS-16 employees to allow supervisors to begin development for managerial-level positions in the district. A two-year strategic plan has been established for each area and district, which includes structured opportunities to enhance the growth and development of EAS Leadership Development (ELD) program participants.
- The ELD program grew by 4,934 new participants. To support individual

development planning, 63 percent of ELD program participants have an active plan (i.e., completion of one activity every six months). Once the pending manager review and approval occurs, there will be an additional 27 percent of ELD program participants that have active individual development plans.

- Ten leadership development programs were offered to both headquarters and field EAS high-potential employees to develop our bench strength. In addition, there were six programs for executive-level employees. Leadership programs continue to focus on critical business challenges and maximizing the creativity, innovation and strategic thinking of our high-potential employees to recommend new solutions and strategies.

To prepare employees for career advancement, learning opportunities are available for officers, senior executives, executives, managers and supervisors. The following list summarizes participants by program:

Leadership Programs	Participants
Advanced Leadership Program	54
Executive Foundations	51
Executive Leadership	96
Managerial Leadership Program	186
New Supervisor Program	2,568
Managerial Essentials for Field Leadership	873
Postmaster Essentials	1,846

Data Source: EDW Learning Management System and Rosters for Leadership Programs

A total of 15 officers and high-potential executives have completed the Senior Executive Assessment and Development Center program, designed to accelerate development for senior executive-level positions. Eighty percent of participants in the program have an active executive development plan.

Impactful Training Programs – In FY2016, the Postal Service invested in pilot training programs for new employees in field operations. These onboarding programs serve two purposes — prepare new employees to be job ready and improve retention.

- Field Onboarding. A redesigned orientation for newly hired letter carriers, custodians, mail handlers and other craft employees. Based on a root cause analysis, the orientation addressed 19 elements of turnover, from training to feeling welcomed and supported by supervisors. Piloted in the Northern Virginia District during peak mailing season, the integrated program resulted in productive employees and decreased turnover by 22 percent. The Postal Service is launching the program nationwide at the start of FY2017.
- Holiday Employee Orientation. A redesigned one-day orientation for newly hired temporary employees who work three pay periods during peak season. The Postal Service is launching "train the trainer" in early FY2017 and plans to deploy the program nationwide to support an anticipated hiring of more than 37,000 employees.
- Assistant Rural Carrier. Program for a new class of carriers who primarily deliver packages Sundays and holidays. Leveraging content from the Field Onboarding program, the Assistant Rural Carrier program contains an accelerated self-study, new hire orientation and a condensed, hands-on academy focused on package delivery. The Postal Service is launching the program in early FY2017.

Functional and technical skills were other areas of focus for pilot training programs in FY2016. Small Package Sorting System and Vehicle Maintenance Fleet programs include essential machinery and maintenance training to keep the mail moving efficiently. In addition, the Postal Service piloted a blended learning program called Respectful Communications targeted at EAS and PCES. Its goal is to increase effective communication in the workplace and improve work environments. The Postal Service will offer the course nationwide at the start of FY2017.

Protecting Employees' Information – The Postal Service made significant progress in FY2016 to improve its ability to defend against advanced threats and cyber intrusions. Over the next few years, the Postal Service will continue making major investments to enhance its defense capabilities and ensure the security of its data assets. Protecting the privacy of customer, employee, supplier and corporate information has been - and will always be - a priority for the Postal Service.

In FY2016, the Postal Service focused on building comprehensive cybersecurity capabilities through technology, people and processes. These capabilities included defending against threats, monitoring systems for possible unauthorized access and eradicating intruders. Moving forward, the Postal Service will enhance its cyber security infrastructure by continuing to invest in the development and maintenance of a robust information security organization.

CyberSafe at USPS – In FY2016, the Postal Service's awareness and training initiative continued to foster a cybersecurity culture among postal community members through monthly awareness campaigns, annual training courses and online resources. Efforts increased both internally and externally to provide our employees, suppliers and customers with the knowledge and skills needed to protect critical USPS information.

In FY2016, the CyberSafe at USPS initiative deployed 12 themed, monthly awareness campaigns to our employees and suppliers that included numerous articles on information security topics such as password security, insider threats, safe social media use, how to avoid phishing attempts, how to safeguard mobile devices and how to protect systems from malware. The initiative managed two internal websites, providing employees with guidance on how to perform key information security processes associated with their job roles. A customer-facing CyberSafe at USPS website launched on Sept. 30, 2016, with the goal of providing customers with the cybersecurity knowledge to protect individuals, families and small businesses. The Postal Service also continues its strategic partnership with the Department of Homeland Security's "Stop. Think. Connect." campaign, further demonstrating our commitment to serving as a leader in cybersecurity among government organizations.

In addition to awareness activities in FY2016, CyberSafe at USPS continued organization-wide training efforts. The initiative re-released its cornerstone training, CyberSafe 101: Password and Phishing, and launched CyberSafe 201: Data Protection to USPS employees in January 2016. CyberSafe 101 received a 99 percent completion rate from its 200,000 enrolled USPS employees, as did CyberSafe 201 from its 55,000 enrolled employees. The initiative developed two additional web-based training courses in FY2016 that focused on computer workstation safety and protecting systems and devices from malware. These will be released to USPS employees and suppliers in FY2017. The CyberSafe at USPS training strategy focuses on providing USPS employees and suppliers with the knowledge and skills to perform their job functions while protecting USPS information assets.

The CyberSafe at USPS initiative will continue its efforts to improve the information security of consumers and businesses that rely on the Postal Service. In pursuit of this goal, the initiative will expand to include a role-based training curriculum for those who have access to the USPS network, increase awareness messaging and training for suppliers and customers and continue to bolster customer-facing online resources.

Keeping Postal Employees Safe and Secure

The Postal Service values our employees, and keeping them safe is a top priority. Members of the Postal Inspection Service work closely with our managers in the field to develop prevention measures and provide guidance to employees on strategies to improve their safety while on the job. These measures include:

- Training employees in risk-avoidance practices at USPS-sponsored events and engaging employees through personal interactions in their workplace.
- Developing and reviewing security policies and ensuring local compliance.
- Supporting the Postal Service's zero tolerance policy for workplace violence.
- Monitoring our facilities 24/7 through the National Law Enforcement Communication Center.
- Investigating reports of threats and assaults related to postal employees.
- Coordinating state and local law enforcement resources to investigate and solve crimes committed against our employees.

On a more targeted level, the Postal Inspection Service created an employee security campaign called "Deliver Yourself Home - The Safe and Secure Campaign." The program is separated into four parts that are delivered by Postal Inspectors to different target audiences.

- Letter Carrier Safety provides carriers with robbery and assault prevention tips.
- Workplace Violence focuses on employee-on-employee violence and provides tips on handling assaults and threats in the workplace.
- General Security focuses on employee safety inside a facility.
- Active Shooter focuses on options available to an employee in the event of an active shooter incident.

Managing the Changing Face of our Organization

Many factors impact our employees, from operations-related changes to the challenges of managing multiple generations in the workplace. As our employee population transforms, we'll continue to implement employee-centered Human Resources programs that focus on addressing our changing workforce environment.

Shifts in the ratios of career to non-career employees reflect our efforts to contain costs and respond to the growing need for on-demand shipping, which requires a more flexible workforce. In FY2016, the Postal Service hired more than 130,000 non-career employees in all flexible workforce categories, including postal support employee (PSE), city carrier assistant (CCA), mail handler assistant (MHA), rural carrier associate (RCA), casual and Postmaster relief (PMR).

In order to recruit candidates for these critical positions during FY2016, the Postal Service had a presence at 157 career fairs. The diversity at these events was broad yet strategic and included, among others, African Americans, persons with disabilities, Hispanic, LGBT, veterans and women. We also participated in career events to recruit for targeted positions where there's a major hiring need, such as operations industrial engineers (OIEs), CCAs, PSEs and MHAs. In addition to attending targeted career fairs, advertisement materials were developed to be used in a recruiting texting campaign, newspaper advertisements and bus advertisements. We also continued to enhance innovative strategies to develop and retain our workforce, including a monthly lunch and learn series, while exploring diversity and inclusion themes.

The Postal Service career workforce has an average tenure of about 17 years of service and an average age of 53. Currently 33 percent of employees are eligible to retire. As our average age continues to rise, identifying successors will be critical to filling voids created by retiring employees. Furthermore, an aging workforce will increase the need for knowledge management and alternative career paths.

Diversity – During FY2016, the Diversity and Inclusion program maintained its prominence at the Postal Service. While diversity and inclusion have always been a shared value across the organization, strengthening support for an inclusive workplace is a focal point for the organization. To advance these efforts, Diversity and Inclusion implemented several initiatives during the year:

- Lunch and learn series. Held monthly, these sessions highlighted wellness, employee engagement, employee benefits and professional development.
- Multicultural Awareness Day. Developed a platform for employees to host exhibit booths, showcasing the pride of their culture, customs, values, etc. These cultural awareness days were hosted in eight districts this year.
- Executive Diversity Council (EDC). Revived the EDC, including a multi-tiered approach from the Postmaster General extending to district-level advisory councils. Extensive demographic data on our workforce has been reviewed. Subcommittees have been developed to analyze the data in detail and to develop target areas for the EDC to focus on in FY2017.
- Diversity and Inclusion summit. Development platform for area and district Diversity and Inclusion professionals. The headquarters diversity team has worked closely with area and district diversity teams to ensure that Management Directive 715 (MD 715) data is accurate and is being utilized to develop a diverse and inclusive workforce. (MD 715, issued by the Equal Employment Opportunity Commission, requires federal agencies to ensure employment decisions are free from discrimination.)
- Diversity resources. In partnership with Learning and Development, training was developed to expand diversity efforts while addressing topics such as unconscious bias and generation, gender and cultural sensitivity. Other notable resources include monthly heritage resource kits and a quarterly book club designed to engage employees.
- In a cross-functional working group with Operations on retention, a tool was developed that will be utilized in the new field orientation program. The "Your Future in the USPS" guide will be presented to every new employee both career and non-career. The presentation is designed to increase the new employee awareness of long-term career benefits and to decrease turnover.

Equal Employment Opportunity – The Postal Service is committed to providing equal employment opportunity for all employees. This is a critical component in our efforts to recruit, develop and retain a diverse workforce. The Postal Service does not tolerate harassment of any type and holds managers responsible for preventing it.

The Postal Service provides high-quality and timely complaint processing in accordance with Equal Employment Opportunity Commission regulations. As of September 30, 2016, a total of 13,610 informal complaints were filed and timely addressed. For the same time period, 4,131 formal complaints were filed and also timely addressed. The Postal Service utilizes

interagency agreements to provide EEO services to 26 federal agencies including counseling and mediation services, investigations and final agency decisions.

During FY2016, the Postal Service continued its EEO training efforts in support of our commitment to prevent complaints and provide a work environment free of harassment. Two USPS areas were offered the eight-hour course, Addressing Workplace Harassment. Eighty human resources and labor relations managers received this training on understanding, investigating and preventing harassment in the workplace. Additionally, 130 Inspection Service participants received training on workplace harassment during the annual national leadership meeting.

A mandatory course entitled, Notification and Federal Employee Antidiscrimination and Retaliation Act (No FEAR Act), was made available to career and non-career employees. This course provides information on EEO rights and remedies under federal anti-discrimination laws and provides scenarios to aid employees in recognizing circumstances and behaviors that could give rise to unlawful harassment. Nationally, 615,429 employees have completed this course, as of September 30, 2016.

In collaboration with the Law Department and Field Labor Relations, EEO Compliance and Appeals conducted national training on non-bargaining employees' disciplinary and adverse action appeals process. A total of 340 employees attended the various training sessions.

Disability Program – This program provides support for managers, supervisors and employees in understanding the reasonable accommodation process, and it promotes disability employment awareness and inclusion. This effort is managed at headquarters and includes disability specialists domiciled at each area office. Team members provide direction, education and consultative services to key reasonable accommodation decision makers, as well as Human Resources, Law Department and other Postal Service functions.

Disability Program teams also serve as subject matter expert contributors to policy guidance and service talks, as well as classroom and web-based training materials covering various disability-related topics.

In FY2016, the Disability Program team launched the first National Disability Employment Awareness Month online resource kit to commemorate the 25th anniversary of the enactment of the Americans with Disabilities Act. This resource kit includes overviews of disability employment policy, technology assistance for employees with disabilities and links to educational sites. The kit is readily available to employees on the Postal Service intranet.

To ensure employees with disabilities enjoy equal opportunities to succeed in the workplace, the Disability Program team provides guidance to management and employees on assistive and adaptive technology solutions. The program funds and oversees all sign language interpreting services for installations across the country. As such, team members work closely with Purchasing and Supply Management, as well as our Video Remote Interpreting supplier, to provide the most effective communication accommodations to employees and job applicants who are deaf or hard of hearing.

Compensation and Benefits – In FY2016, non-bargaining employees, including officers and executives, received pay and/or bonuses under the Pay for Performance program, which is designed to provide financial incentives for meeting specific performance targets. Postal Service management has multiple systems in place to monitor employee performance. Employees set goals annually and individual performance is reviewed at mid-fiscal year and end of fiscal year. The Postal Service continues to actively monitor and control compensation and benefits expenditures, including health care costs for employees and retirees.

Executive Compensation: Total Compensation in Excess of Federal Executive Level 1 Compensation ($203,700 in last full Calendar Year 2015). In Calendar Year 2015, salary includes one additional pay period of earnings due to a 27th payday which occurred on December 31, 2015.

Executive name	CY2015 amount in excess of Level 1 Compensation of the Executive Schedule *(unaudited)*
Drew T. Aliperto	$30,245
Megan J. Brennan	$78,622
Susan M. Brownell	$7,639
Kevin A. Calamoneri	$11,252
Robert Cintron	$9,893
James P. Cochrane	$56,331
Joshua D. Colin	$24,817
Joseph Corbett	$63,638
Guy J. Cottrell	$13,227
Jo Ann Feindt	$16,325
Dean J. Granholm	$25,115
Linda M. Malone	$8,231
Thomas J. Marshall	$71,037
Maura A. McNerney	$9,457
Pritha Mehra	$1,655
Randy S. Miskanic	$24,882
Julie S. Moore	$12,425
Shaun E. Mossman	$4,454
James A. Nemec	$8,817
Edward F. Phelan, Jr.	$16,635
Gary C. Reblin	$4,305
Nancy L. Rettinhouse	$17,799
William C. Rucker III	$14,294
Tom A. Samra	$7,639
Kristin A. Seaver	$29,817
Kelly M. Sigmon	$971
Jacqueline K. Strako	$23,617
Ronald A. Stroman	$70,306
Douglas A. Tulino	$7,639
Richard P. Uluski	$31,246
Giselle E. Valera	$355
David E. Williams, Jr.	$48,658
Jeffrey C. Williamson	$56,331

Note: Provided in compliance with Title 39, Section 3686(d) which requires compensation in last full calendar year.

Investing in Future Platforms

Everything we do at the Postal Service, from fine-tuning our networks to purchasing new vehicles to enhancing tracking and visibility, has impact beyond our organization. The mailing industry depends on the Postal Service. According to the 2015 EMA Mailing Industry Job Study, the mailing industry provides 6 percent of the nation's jobs — 7.5 million — and contributes to the economy with $1.4 trillion in revenue, an increase of 9.5 percent from 2011. The study reports that 73 percent of mail industry jobs depend on the delivery infrastructure at which USPS is the center. Our efforts to ramp up our investments in optimizing our retail, delivery, network, digital and enterprise platforms are crucial to deliver world-class service, improve efficiency and prepare our organization to meet future customer needs.

New Package Processing Technology

The Postal Service continues to invest in equipment and processes to efficiently handle the growth in e-commerce. To improve our handling of packages, the Postal Service recently installed 25 new Small Parcel Sortation Systems and expanded the capacity of existing Automated Packaged Processing Systems and the Automated Parcel and Bundle Sorter. We also installed a new sorter system, the High Throughput Parcel Sorter in our Denver plant. This machine has the highest capacity of any machine in the fleet and we plan to deploy similar machines in key locations in the coming years. Due to the increased size and variation of e-commerce mail, we are also deploying new Universal Sorting Systems to handle larger packages. We also have invested in new software and systems that share information across multiple systems allowing all packages to be sorted using the best information available, which reduces the need for manual handling and data entry. The Postal Service continues to invest in the research and development of new sortation machines and technologies to continue to expand the processing capacity and efficiency of the package network.

Full-Service Simplification and Promotion

Full-Service Intelligent Mail barcodes set the stage for achieving end-to-end visibility in the mailstream — and revolutionizing the way we do business with our commercial mailers. Building on existing technology, we're moving away from a manual, paper-driven process of accepting and verifying commercial mailings to a digitized process with programs such as eInduction, Seamless Acceptance and payment modernization. This shift in business processes will provide mailers with payment flexibility, preparation simplicity, ease of entry and induction, multiple access points for account management and greater visibility into their mailing status and quality. As of September 2016, 90.43 percent of all eligible Full-Service volume was being prepared as Full-Service.

Enhanced Tracking and Visibility

Package tracking is one of the most important customer touch points for the Postal Service. Nearly 70 percent of all visitors to usps.com come to track a package, and a similar proportion of call volume to our Customer Care Center revolves around package status. The Postal Service is committed to improving the package tracking experience for our customers and is enhancing the language, design and functionality of usps.com, My USPS and our mobile interface to provide a truly world-class platform.

In addition to improving the user experience, we're also developing innovative tools and technologies to improve the visibility into and performance of our shipping and mailing solutions. Collectively, these improvements will benefit the Postal Service, the mailing and shipping community and everyday consumers.

Internal Service Performance Measurement Sampling – In FY2016, the Postal Service implemented the internal Service Performance Measurement (SPM) sampling component of Informed Visibility. USPS employees use

handheld scanners to scan live mailpieces at randomly selected collection and delivery points, reducing reliance on external vendor support for service performance measurement and providing valuable insight into the first and last mile. In FY2016, we enhanced the program by providing reports and tools to help monitor scan compliance and manage service performance. We reported results from the internal SPM system to the Postal Regulatory Commission for the second and third quarters of FY2016. We continue to run the new system in parallel with the legacy systems.

Bundle Visibility – Bundle Visibility was rolled out nationwide in 2016 and will provide a transparent and consistent view into the mailstream. Bundle Visibility assists in tracking mail volume as it travels through the Postal Service processing and delivery network. The business and operational intelligence created is of great benefit to the Postal Service and is a necessity to controlling costs and implementing operational efficiencies in mail processing and delivery.

Transition to the Intelligent Mail Barcode – Conversion from older barcode formats to the Intelligent Mail barcode (IMb) set the foundation for mailers to participate in the Full-Service Intelligent Mail option. Unique barcoding coupled with data reporting requirements of the Full-Service program provide the Postal Service with 100 percent visibility into the mailstream. Using Full-Service IMb information, a suite of service performance diagnostic tools was developed for use by field managers to analyze and improve service performance. These tools provide field managers with timely and meaningful information on potential service impacts, allowing corrective action to be taken to eliminate potential service failures.

The ability to see diagnostic data supports efforts to improve mail processing. For example, field managers are able to measure and reduce cycle time to consistently meet service targets. In addition, through container and individual mailpiece scans, field managers gain visibility into the elapsed time between each operational step in the process. As a result, incorrect mail flows and mishandlings are identified and corrected.

In FY2016, the volume of mail in measurement grew by 21 percent compared to FY2015. This was accomplished through enhanced business logic and improvement in scan compliance. Several new enhancements were added to the service performance diagnostics tool which provides greater operational visibility to field managers. These enhancements give new insight on service issues, enabling the field to systematically identify the root cause of top impacts.

Diagnostic reports allow mailers to uncover mail or documentation issues, which, when resolved, facilitate service improvements for their mail. Through the Full-Service option, mailers have access to the lowest automation rates, address correction for Full-Service mailpieces and visibility into their own mailings. The IMb planning tool, available on RIBBS, shows mailers, by induction facility, how many days it takes to accept, process and deliver their mail. It also explains service variance, allowing mailers to track on-time delivery performance and see the elapsed duration (in hours) between entry time and the first automated scan. Mailers use this IMb information to better manage their customer expectations about when the mail should be delivered and make informed marketing, financial and operational decisions.

Full-Service adoption increased in FY2016. Out of the 90 percent of IMb volume potentially eligible for participation in Full-Service, 90.43 percent was Full-Service as of September 2016 compared with 88.22 percent in September 2015. Between September 2015 and 2016, among the major mail products, First-Class flats experienced the highest increase in adoption rate (5 percent), from 72 percent to 77 percent. Full-Service adoption continues to be the highest for Presorted First-Class Mail letters/cards,

increasing by 2 percent, from 91 percent to 93 percent. Full-Service Standard Mail letters increased by 3 percent, from 88 percent to 91 percent. Full-Service Periodicals increased by 1 percent, from 84 percent to 85 percent.

Through the use of service performance diagnostics tools, USPS continues to improve processes and reduce variance on service. The FY2016 commercial mail scores and the one-day service variance scores are as follows:

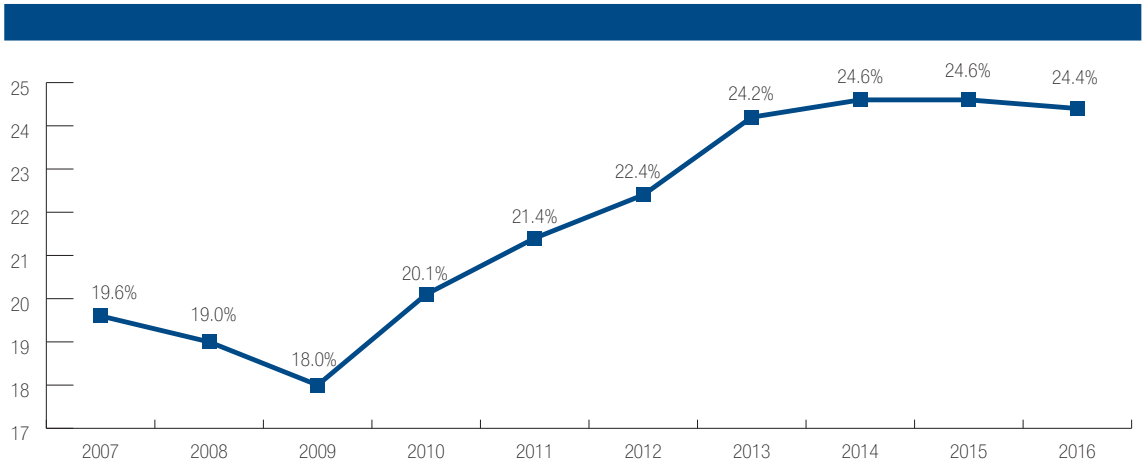
- Presort First-Class Mail overnight ended the fiscal year at 96.16 percent, with mail delivered at 99.10 percent within one day of the service standard;
- Presort First-Class Mail 2-Day ended the fiscal year at 95.05 percent, with mail delivered at 98.65 percent within one day of the service standard;
- Presort First-Class Mail 3-5 Day ended the fiscal year at 91.68 percent, with mail delivered at 97.65 percent within one day of the service standard;
- Standard Mail Destination Entry ended the fiscal year at 92.33 percent, with mail delivered at 97.38 percent within one day of the service standard;
- Standard Mail End-to-End ended the fiscal year at 65.92 percent, with mail delivered at 79.35 percent within one day of the service standard; and
- Periodicals ended the fiscal year at 80.07 percent, with mail delivered at 90.66 percent within one day of the service standard.

Creating Operational Efficiencies

From acceptance to delivery, we're focused on enhancing our operational performance and increasing customer value. At the same time, we're preparing to meet future customer needs.

Total Factor Productivity (TFP) – TFP is an index that measures how efficiently the Postal Service uses resources (inputs) to handle all aspects of our workload. An increase in the TFP index indicates that the ratio of work being completed is increasing compared to the resources used and that the Postal Service is operating more efficiently. Workload consists of three primary components: delivery points, mail volume weighted by product type and miscellaneous

Total Factor Productivity
(Cumulative improvements compared to 1972 baseline)



Note: *Prior year results are updated based on most current data. All years shown are fiscal years.*

Number of Routes, by Type of Delivery *(see page 52)*

(in actual units indicated, unaudited)

Route	FY2016	FY2015	FY2014	FY2013
City	144,571	143,051	141,271	142,073
Rural	74,724	73,818	73,166	73,089
Highway contract route	9,809	9,908	9,928	9,990
Total	229,104	226,777	224,365	225,152

Postal Vehicle Inventory *(see page 52)*

(in actual units indicated, unaudited)

Vehicle type	FY2016	FY2015	FY2014	FY2013
Delivery and collection (½–2½ tons)	203,853	193,489	189,750	190,104
Mail transport (tractors and trailers)	5,511	5,620	5,751	5,850
Mail transport (3–9 tons)	2,100	2,112	2,133	2,139
Administrative and other	6,357	6,414	6,249	6,449
Service (maintenance)	7,191	4,565	4,599	4,613
Inspection Service and law enforcement	2,884	2,733	2,782	2,529
Total	227,896	214,933	211,264	211,684

Real Estate Inventory *(see pages 54)*

(in actual units indicated, unaudited)

Real estate inventory	FY2016	FY2015	FY2014	FY2013
Owned properties	8,484	8,524	8,583	8,598
Owned interior square feet	192,521,396	194,220,092	195,617,292	196,956,774
Leased properties	23,214	23,314	23,649	23,814
Leased interior square feet	78,735,195	78,144,453	77,838,427	79,045,620
GSA/other government properties	285	286	296	297
GSA/other government interior square feet	1,885,956	1,902,726	2,001,667	2,005,330

Real Estate Inventory Actions *(see pages 54)*

(in actual units indicated, unaudited)

Inventory actions	FY2016	FY2015	FY2014	FY2013
Lease actions (alternate quarters, new leases and renewals)	5,050	6,206	5,282	3,487
Property disposals[1]	27	16	30	44
New construction (AQ, NCL, NCO and expansion)[2]	52	22	70	29
Repair and alteration projects (expense)	53,466	51,584	46,961	45,040
Repair and alteration expense totals	$ 245,000,000	$ 215,000,000	$ 159,000,000	$ 156,000,000
Repair and alteration projects (capital)	5,102	6,981	6,431	4,178
Repair and alteration capital totals	$ 314,000,000	$ 347,000,000	$ 226,000,000	$ 195,000,000

[1] *Total partial and complete property sales (does not include non-property sales such as right-of-ways/easements, sale of rights, defaults, installment payments, etc.).*

[2] *Includes the build-out of pre-existing non-postal spaces (Alternate Quarters [AQ]), the new construction of leased (NCL) or owned (NCO) space and the expansion of postal-owned space (Expansion).*

output (e.g., passports). Resource usage is based on the constant dollar amounts (i.e., the costs adjusted for changes in prices) of the labor, capital and materials used by the Postal Service.

The chart on page 50 starts with the cumulative TFP improvement from 1972 to 2007 and then reflects the cumulative score each year since then. TFP declined slightly in FY2016. Labor productivity was positive as the weighted mail volume growth was higher than the labor resources used, however this was outweighed by the additional transportation used to improve service.

Delivery Optimization – With the exception of packages, mail volume continues to decline over time while the number of addresses we deliver to steadily increases. Because of this, there's a need to continuously revamp the delivery infrastructure through route reviews and adjustments, focus on increasing centralized delivery and use technology to leverage comprehensive delivery applications. This includes the delivery management system and volume arrival profile. Local Operations Centers (LOCs) were deployed in every area and district office to improve delivery and customer service by providing real-time insight into street delivery operations. These LOCs are being used to monitor and mitigate daily delivery unit conditions with possible customer service impacts.

In the past year, the Postal Service completed the deployment of over 276,000 Mobile Delivery Devices (MDDs) to 24,666 delivery units in 19,472 postal facilities. The MDD with its innovative functionalities improves the Postal Service's ability to provide customers with real-time scanning and predictive delivery. MDD deployment provides new functionalities to all of USPS delivery routes including 144,000-plus city routes and over 74,000 rural routes.

Mode Conversions – The Postal Service continues to provide consistent and reliable service in an efficient manner by converting deliveries to a more centralized mode. Mode conversions also enable the Postal Service to reduce transportation costs. As a result of our communication and outreach efforts with our customers, in FY2016, the Postal Service achieved a total of 98,439 voluntary conversions: 74,227 residential conversions and 24,212 business conversions.

Route Evaluations and Adjustments – Field management continues to inspect, evaluate and adjust delivery routes as necessary to control costs while improving service. During FY2016, the total number of routes increased by 2,327 from 226,777 to 229,104, while growing 1,142,352 additional delivery points.

Investing in the Delivery Fleet – In FY2016, the Postal Service invested $221.7 million in our delivery fleet. This includes 3,339 RAM ProMaster extended capacity delivery vehicles, purchased for $105.4 million to replace our aging fleet of 2006 minivans. We also purchased 2,446 service vehicles for $76.9 million replacing our vehicle maintenance vehicles with a mean age of 15.7 years. In addition, 1,688 administrative vehicles will be purchased for $39.4 million to replace administrative vehicles with a mean age of 12 years.

Network and Transportation Optimization – In FY2016, the Postal Service continued its self-imposed deferment on consolidations to focus on continued improvements to service performance. While improving service, the Postal Service also aligned its inventory of processing equipment to reflect the continuing changes in public mailing habits. By focusing on improvements in machine utilization and reducing fixed overhead costs, the Postal Service is operating with 6.1 percent fewer letter sorting machines or Delivery Bar Code Sorters (DBCS) than last fiscal year. The Postal Service continues to repurpose available processing space to support the growth in package processing, without the need to invest in new facility assets.

The continued use of Lean Principles and analytical tools has also resulted in a more balanced transportation network, better aligning carrier capacities with processing realities. The result of these improvements can be seen in the record service performance of Priority Mail and Standard mail.

Lean Mail Processing (LMP) – Mail processing facilities and delivery units nationwide, continue to build on LMP principles. Sites nationwide are now focusing on Customer to Customer Value Stream for different product types. They are identifying pain points in the value stream and utilizing Lean Six Sigma tools, to improve operational efficiency and reduce cycle times. Utilizing these tools help reduce waste and create an organized workspace with standardized roles and responsibilities. LMP principles will continue to use key performance indicators to drive improvements in mail processing operations, which result in better service for our customers and better budget outcomes for USPS.

Air Cargo Optimization – During FY2016, there was a significant focus on improving our air network modeling capability and accuracy. New modeling technology was deployed consisting of multiple models, one focused on forecasting future air demand and one dedicated to allocating the demand across the various air networks. The new allocation model increases the opportunity to use lower cost carrier capacity by maximizing the allocation of air demand to the appropriate air network based on service standards and contract terms.

Ground Transportation Optimization – Highway transportation expenses for FY2016 were $3.8 billion. This is an increase of 5 percent over FY2015. The increase resulted in large part due to package volume growth, strategically moving some lanes from Air-to-Surface, increase in rate per mile due to legislation in California as well as a nationwide shortage of drivers, and the expanded Peak Season ground network in FY2016 to handle package growth. These increased transportation costs were buffered by a reduction in fuel prices and our efficiency measures to remove redundant transportation from the network.

International Operations Optimization – The Postal Service continues to focus on improving customer service performance and reducing cost through increased visibility for international civilian, DOD (Military mail) and Department of State (DOS) volume using customs data to improve operational processes. In collaboration with DOD and DOS, the USPS has enabled enhanced customer visibility and tracking of Air/Army Post Office (APO), Fleet Post Office (FPO) and Diplomatic Post Office (DPO) mailpieces being dispatched to/from select high-volume locations: Europe, Middle East and Asia. USPS also continues to leverage additional scan events on outbound international civilian items by integrating air carrier data and additional foreign post scan events into its tracking platforms. USPS is piloting the “Green Lane” initiative at JFK Airport to expedite the customs processing of inbound packages using electronic customs declaration data so “targeted” volume is sent to customs and the balance of the volume “by-passes” customs and gets to the recipient sooner. Based on the results of the JFK pilot, the plan is to select an additional pilot location in early FY2017. The double-digit growth of inbound international e-commerce volume over the last four years is requiring a more aggressive strategy for the expansion of foreign post partners providing Advanced Electronic Data (AED) which will be the framework for future initiatives to expedite inbound international civilian and military sorting within the domestic network.

Facilities Management

Our facilities are the primary place of interaction with many of our customers. We're focused on developing innovative solutions to improve that customer experience and provide world-class service. Our real estate portfolio of approximately 32,000 buildings includes 273 million square feet of interior space. It's vital that we manage and adapt our building portfolio to align with customer and organizational needs at a sustainable cost. The Facilities team provides appropriate facilities for Postal Service needs to ensure proper stewardship and management of real estate inventory and related resources.

Facilities performs strategic planning through "node studies" analyzing the processing, delivery and retail use of existing facilities, and current and future local service needs. This identifies communities that can benefit from additional or modified capacity and locations where capacity exceeds the needs of the Postal Service, representing potential opportunities for savings and revenue generation. The 64 node studies approved in FY2016 represent $116.5 million in net present value in potential savings.

We executed over 5,000 leases in FY2016, ensuring USPS operations could continue at these properties. Despite increases in lease rates driven by the recovering economy, lease rates were negotiated at 10.1 percent below market value aggregately. The sale and leasing of excess rental real property generated $285.7 million in gross receipts. This trend is slowing as economic conditions shift and opportunities decrease.

In FY2016, the Facilities team implemented portfolio modification projects ranging from emergency replacements to planned infrastructure changes supporting organizational and network initiatives. Facilities completed 52 new construction projects and 42 projects to consolidate or repurpose space within existing owned or leased buildings. These projects enable the Postal Service to provide enhanced services, maintain or restore operations after catastrophic events, and combine multiple facilities into fewer or smaller locations when appropriate. It also allows us to take advantage of less costly space, sell large underutilized properties or move to smaller, more efficient space.

To meet the continual need to maintain our buildings, in FY2016, we completed over 58,500 repair, alteration and replacement projects along with 387 upgrades for the Premier Post Office program. We also finished 182 upgrades to maintain customer access in locations impacted by POStPlan, the strategy to modify retail window hours to match customer use. These measures ensure safety, security and serviceability of Postal Service buildings as we maintain and right-size our network to provide a positive customer experience.

The current industry trend of consumer migration away from brick-and-mortar shopping to e-commerce, and the resultant growth in our package business, continue to impact our facilities portfolio management plan. However, the Facilities team continuously innovates and adapts the plan to address these marketplace developments.

Team Cleaning at USPS – As cleaning science and technology have evolved tremendously, our maintenance operations organization began researching and testing new custodial processes. The American Postal Workers Union and the Postal Service agreed on new team cleaning standards and nationwide implementation has been ongoing since June 2014.

Our employees and the environment continue to reap the rewards of team cleaning concepts that emphasize cleaning for health instead of just cleaning for appearance. New processes use a standard set of chemicals distributed in ultra-small collapsible packets designed for easy recycling.

During FY2016, much of the Team Cleaning effort has been focused in the major Processing & Distribution Centers. The Postal Service has begun to implement this new process in the smaller retail units as well. Team cleaning has now been implemented at more than 200 sites since its inception and has achieved a total savings of $45 million.

Working Together with America's Businesses

Our suppliers help us be successful in our mission of serving the American public. They provide equipment, materials and services that enable us to deliver superior products and services to our customers. Overseeing these relationships is our Supply Management organization, which supports key Postal Service programs by providing timely and lean solutions with its supply-chain partners. In FY2016, Supply Management supported many strategic initiatives including Network Optimization and World Class Package Platform activities.

As Supply Management works with our business partners to increase the efficiency of moving the mail, we're equally focused on reducing the possibility of damaged and lost mail and improving the processes around handling such items. This effort, called Project ICE (Improve Customer Experience), includes multi-organizational project teams that work to identify and correct root causes for damaged and undeliverable mail.

In addition to our commitment to serving the American public, we're also committed to implementing sustainable solutions. The Postal Service and its highway contract suppliers continue to increase the number of tractor-trailers that run on alternative fuels, which is part of the organization's broader efforts to become more sustainable. In FY2015, Postal Service suppliers used 72 tractor-trailers that run on natural gas — up from 39 such vehicles one year earlier. In fiscal 2016, we converted an additional 106 contract tractor-trailers to alternative fuels, bringing the total number of alternative fuel vehicles to 178. These increases more than doubled the number of annual miles operated by natural gas vehicles to 13.5 million miles.

Finally, while the United States accounts for 45 percent of the global market in cross-border shopping, our offerings are limited. Supply Management and Global Business are working together to bring the Global e-commerce Marketplace on line, positioning the Postal Service to become more competitive in providing these services.

Supplier Diversity – As an essential part of our procurement strategy, supplier diversity continues to strengthen the Postal Service's competitiveness in the marketplace. Supplier diversity is embedded into the routine principles and practices that govern the procurement process. This helps ensure all suppliers have access to this process and an opportunity to provide value-added products and services the Postal Service needs to maintain and increase customer satisfaction and decrease overall costs. In FY2016, our contract commitments exceeded $2.9 billion with small businesses, $379 million with minority businesses and $651 million with women-owned businesses.

During the year, the Supplier Diversity group reached over 25,000 potential suppliers by participating in congressional, federal and industry events and conferences focused on supplier diversity and development across the nation. Participation included promoting supplier registration, delivering workshops, conducting one-on-one business meetings and providing key information on doing business with the Postal Service.

Supplier Diversity maintains memberships with premier multicultural business and trade

associations, such as the National Minority Supplier Development Council, Women's Business Enterprise National Council, U.S. Hispanic Chamber of Commerce, U.S. Pan Asian American Chamber of Commerce and the National Congress of American Indians with a combined total of over 40,000 members. It also supports National Veterans Small Business Engagement activities and the Small Business Administration and is a member of the Office of Small and Disadvantaged Business Utilization.

Recently, our work has been recognized by leading publications and organizations including *FederalNewsRadio.com*, DiversityPlus magazine and *DiversityBusiness.com*, which named the Postal Service the country's top government agency for multicultural business opportunities. In addition, the Supplier Diversity program has been recognized by The Presidents' Roundtable and the PRT Reach Foundation and the U.S. Hispanic Chamber of Commerce for its significant contributions to supplier diversity and as a supporter of the Hispanic community.

Accelerating the Pace of Innovation

Innovation waits for no one. While the Postal Service always has been a leader in embracing new technologies, we recognize the pace of change is speeding up — and we're keeping pace. In fact, we're accelerating our testing of new approaches to better serve our customers' changing needs and bring mail much more deeply into their digital lives. We understand that it can be difficult to envision the prospects of mail with so many tools to utilize. We developed IRRESISTIBLE, a website and catalog that provides physical examples of printing techniques and emerging technologies that mailers can incorporate into their own campaigns.

In the pages of the IRRESISTIBLE book, customers can learn about textures, dynamic inks, augmented reality, QR codes and unique folds. All these facets culminate in a unique experience that stays with the recipient far after the lifespan of the mailpiece. On our award-winning IRRESISTIBLE website, there are even more examples of our applications, as well as case studies. We're adding more advertising to mail in a way that is both effective for the mailer, but also more enjoyable for the recipient.

To keep up with increased e-commerce purchases and deliveries, the Postal Service has developed the next generation mailbox, a larger receptacle to fit today's delivery needs. The mailbox improves the customer experience as it conveniently holds the majority of mail, so more packages get delivered to the box. Various models are available online for sale with big box retailers.

Our Mailing Business – The beauty of mail is that it's tangible and tactile. We're enhancing this distinct experience with digital facets to expand the possibilities of print. We want to drive our clients' customers to engage with brands and purchase products via seamless experiences that break down the barrier between physical and digital. The future of mail depends on this merging of the physical and the digital. We drive this merge by incenting mailers to invest in new ways to use mail and to engage their customers through annual promotions.

Stamp Program – The Postal Service continues to issue postage stamps as a convenient and secure payment method for consumers.

The "Forever" stamp concept was first introduced in April 2007 with a stamp featuring the image of the Liberty Bell and was designed for consumers' ease of use during price changes. In 2011, all domestic First-Class 1-ounce stamps became Forever stamps with the exception of stamps in coils of 3,000 and 10,000, and those formats were added to the Forever program in 2014. Forever stamps sell for the basic First-Class Mail 1-ounce price in effect at the time of sale.

In FY2016, the "Forever" stamp concept advanced one step further and extended this convenience to customers needing stamps for mailing items weighing more than 1 ounce as well as for postcards and bulky or odd-sized envelopes that require hand sorting. The new "additional-ounce" Forever stamps will always be equal in value to the applicable price for the price category printed on them at the time of use. Customers purchasing these Forever stamps can easily determine their use by the descriptions on the stamps: ADDITIONAL OUNCE, POSTCARD, NON-MACHINABLE SURCHARGE, TWO OUNCE and THREE OUNCE.

A Global Forever stamp was introduced in 2013, offering a single price for any First-Class Mail International 1-ounce letter to any country in the world. Global Forever stamps may also be used to mail a letter up to 2 ounces to Canada.

In FY2016, 42 new stamps were issued with 135 designs recognizing American history, culture, people and achievements. Some of the stamps issued — as part of the Postal Service's annual stamp program — paid tribute to individuals diverse as Richard Allen, Jaime Escalante, Shirley Temple, Sarah Vaughan and Henry James. Other stamps issued included: *Lunar New Year: Year of the Monkey*, *Botanical Art*, *Pets*, *Indiana Statehood*, *Star Trek*, *Wonder Woman*, *Pickup Trucks*, *Jack-o'-lanterns*, *Soda Fountain Favorites* and *Songbirds in Snow*; and stamps released to support the once in a decade World Stamp NY 2016 included: *World Stamp Show Folio*, *Repeal of the Stamp Act*, *Classics Forever*, *National Parks*, *Views of Our Planets*, *Pluto Explored*, *The Service Cross Medals* and *Colorful Celebrations*; and all new holiday celebrations stamps included *Holiday Windows*, *Diwali*, *Hanukkah*, *Kwanzaa*, *EID*, *Nativity*, and *Florentine Madonna and Child*.

Of the stamp issuances, National Parks proved to be the biggest selling commemorative stamp issuance for FY2016 with over 27 million stamps sold. This was followed by our *Black Heritage* stamp honoring *Richard Allen*, *Views of Our Planets*, *Legends of Hollywood's Shirley Temple* and our *Music Icons' Sarah Vaughan*, all of which sold over 10 million stamps each. Flags were by far our most purchased stamps with 1.9 billion stamps sold, followed by stamps featuring flowers and holiday themes, with each sold over 250 million each.

The Postal Service also is authorized by Congress to issue semi-postal stamps that are used to help raise funds for designated causes. The price of a semi-postal stamp pays for the First-Class Mail single-piece postage price in effect at the time of purchase and reasonable reimbursement of costs to the Postal Service, plus an additional charge. This additional charge (or "differential") helps fund causes designated by Congress, with money going to a congressionally selected executive agency or agencies. Four semi-postal stamps have been issued since the program began in 1998 resulting in the donation of $98.9 ($98.1+$0.5+$0.3) million. The two semi-postal stamps on sale in FY2016 were the *Breast Cancer Research* and *Save Vanishing Species* stamps.

The *Breast Cancer Research* stamp (1998-current) generated proceeds of approximately $500,000 in FY2016 and $83 million since it was first issued in 1998. By law, 70 percent of the amount raised is given to the National Institutes of Health and 30 percent is given to the Medical Research Program at the Department of Defense.

The *Save Vanishing Species* stamp (September 2011-current) generated proceeds of approximately $300,000 in FY2016 and $3.6 million in total since its 2011 release.

Stamp Services recognizes the importance of innovation and technology and has begun bridging the gap between digital and physical. This resulted in the development and release

of the first official USPS StampApp. This new app leverages digital technology to include both a digital reference library — the U.S. Stamp archive as well as an interactive platform for users to browse the fully illustrated Postal Service stamp library. The StampApp allows users to manage their own personal collections, create and edit their stamp wish lists and share their collections with others. This mobile app is unique because it includes a pre-populated reference library of United States Postage Stamps.

In addition, we introduced the eBook edition of the popular Postal Service Guide to U.S. Stamps. This is the first-ever eGuide to U.S. Stamps accessible on your smartphone or tablet. The eGuide to U.S. Stamps includes all the contents within the hard copy book that we publish annually — which was the 42nd edition this year. The eGuide brings the power and beauty of stamp art to the screens of laptops, tablets and phones, where collectors can experience the majesty of U.S. stamps as never before. Along with stunning high-resolution imagery of the art of the Postal Service archive, from the Postmasters Provisionals of 1845 through the final issuance of 2015.

For more information about the Postal Service stamp program, visit *www.usps.com/stamps*.

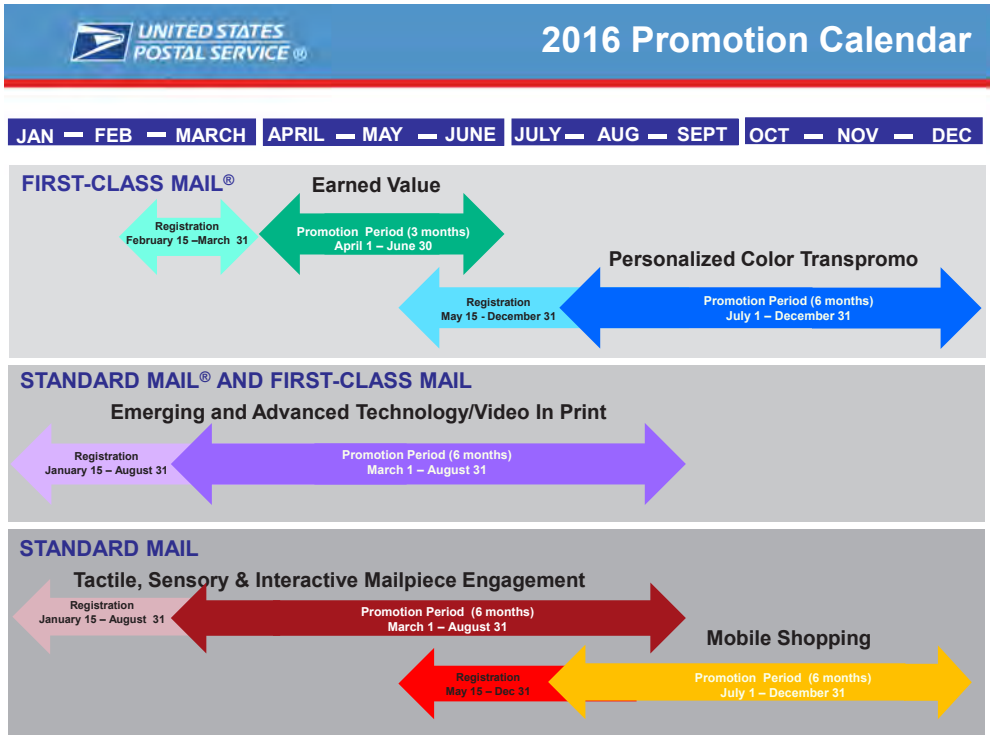
Stamps to Go and Stamps by Mail – It's never been easier to get stamps, whether at a Post Office, online at *usps.com* or at one of our retail partner locations. In FY2016, the Postal Service provided customers with access to stamps at more than 64,250 retail partner locations through the Stamps to Go program. Various marketing efforts are used to remind customers that U.S. postage is available through more than 600 partner companies. These efforts sustain stamp sales while expanding our retail footprint. The Contract Postal Unit program also continued to grow revenue and expand the reach of our stamp program through strategic partnerships. The Stamps to Go program made over $1 billion in stamp inventory available to customers through our retail partner locations in FY2016 and is one of our most cost-effective channels.

Customers, of course, can always take advantage of our Stamps by Mail program. Stamps are delivered through the U.S. Mail without delivery or handling charges. Our retail offices ordered more than 6.8 million brochures highlighting Stamps by Mail to circulate throughout their communities. This program remains popular with the elderly and disabled.

Promotions – The Postal Service encourages mailers to invest in new ways to use mail and engage their customers through annual promotions.

These promotions drive new business by encouraging companies to push the envelope on the way they deliver their direct mail messages. Over 33 billion mailpieces have been mailed through the USPS Promotions program since 2009. In calendar year 2016, the Postal Service launched several promotions designed to help marketers engage their customers by using dynamic color print mobile technology as well as traditional and innovative mail techniques.

- Earned Value Reply Mail (Apr. 1 to Jun. 30, 2016) – This promotion is designed to encourage mailers to promote First-Class Mail as a primary reply mechanism for their customers and to keep Courtesy Reply Mail/Business Reply Mail envelopes in their outgoing mailpieces by providing a financial benefit when CRM/BRM envelopes are used. Mailers who register their mailer identification information and use eligible Intelligent Mail barcodes on their reply pieces will receive a postage credit for each mailpiece that's returned to the mailer during the promotion period.
- Personalized Color Transpromo (Jul. 1 to Dec. 31, 2016) – Since 2014, USPS has provided this promotion to encourage mailers of bills and statements to use color messaging in



order to create a greater connection to and response from consumers. This promotion provides an upfront 2 percent postage discount to mailers who use dynamic/variable color print for personalized transpromotional marketing messages on their bills and statements. This approach is intended to continue to grow the value of First-Class Mail and encourage mailers to invest in color print technology.

- Emerging and Advanced Technology/Video in Print (Mar. 1 to Aug. 31, 2016) – The Postal Service continues to encourage mailers to integrate direct mail with mobile technology and now with video/print technology. Mailers can earn an upfront 2 percent postage discount on mailpieces that include the use of standard near field communications, or an "enhanced" augmented reality experience (augmented reality superimposes digital images or content over a live image of a mailpiece.) These mobile-based technologies allow the recipient to engage in innovative digital experiences triggered from their mailpiece. New for this year is the inclusion of Video in Print to generate opportunities that leverage new video technologies incorporated with a printed mailpiece.
- Tactile, Sensory and Interactive Mailpiece Engagement (Mar. 1 to Aug. 31, 2016) – Tactile, sensory and interactive mailpieces were included in the Emerging and Advanced Technology promotion in 2015. Due to its popularity, this year includes a new promotion focused solely on these applications. Advancements in paper, ink and interactive mailpiece elements provide marketers exciting new ways to enhance customer engagement opportunities. The engagement can be achieved through the innovative use of specialty inks, sensory elements, textural papers and the use of folds or other dimensional elements that the recipient can interact with and manipulate on the mailpiece. This promotion provides mailers with the opportunity to earn an upfront 2 percent

postage discount by incorporating these features.

- Mobile Shopping (Jul. 1 to Dec. 31, 2016) – This promotion provides mailers with the opportunity to earn an upfront 2 percent postage discount by integrating mobile technology with direct mail. Using technology platforms such as Quick Response Codes, Snap Tags, watermarks and other advanced technologies, the consumer is launched from the mailpiece into online shopping experiences. This year adds social media opportunities through "buy it now" features highlighted to support shopping during social media activities. This promotion encourages mailers to adopt technologies that create consumer excitement and highlight the connection between the mailpiece and the digital shopping experience.

Every Door Direct Mail – Every Door Direct Mail service is an easy, cost-effective way for marketers to reach potential customers near their businesses. Using an online mapping tool available at *usps.com*, mailers can select individual postal routes for delivery to every household on those routes. They also can select demographic data in choosing routes. With EDDM Retail, customers can pay for and enter their mail at the retail counter using simplified mailing preparation. Customers may also choose to mail from a Business Mail Entry Unit (BMEU). Since its launch in April 2011, EDDM has generated over $2.2 billion in revenue and over 13 billion mailpieces from mailers across the country.

Market-Dominant Product Pricing and Classification – Our Mailing Services, which include First-Class Mail, Standard Mail, Periodicals and certain parcel services, account for approximately 74 percent of our annual operating revenues. Price increases for these services are generally subject to a price cap by class of mail based on the Consumer Price Index for All Urban Consumers (CPI-U). Our Board of Governors sets the prices, which are reviewed by the Postal Regulatory Commission. Prices for certain Mailing Services increased an average of 1.9 percent in May 2015, 1.7 percent in January 2014 and 2.6 percent in January 2013. Due to a very small CPI, there was not an overall CPI price increase in 2016.

Price Increases – In August 2016, the PRC approved price increases for First-Class Mail retail parcel prices for 1-, 2- and 3-ounce pieces. This price change was to address migrating volume from higher priced First-Class Package Services to lower priced First-Class Mail retail parcels that resulted from the rollback of exigent prices in April 2016.

Exigent Surcharge – In December 2013, the PRC ruled that the Postal Service could collect an exigent surcharge to recoup revenues lost due to the Great Recession's impact on mail volume. The surcharge revenue is in addition to revenue that the Postal Service would generate solely from a price increase based on CPI-U. The PRC determined the value of this lost revenue to be $3.2 billion in incremental revenue, and $2.8 billion in contribution. The ruling also stated that when this revenue amount is reached the Postal Service must remove the surcharge from our prices.

As a result of the ruling, the Postal Service implemented a 4.3 percent temporary exigent surcharge on Mailing Services in January 2014. That same month, the Postal Service filed an appeal of the PRC ruling in Federal Court. In June of 2015, the Federal Appeals Court ruled in favor of the Postal Service's appeal. They remanded the case back to the PRC to review the total amount of surcharge originally awarded. In their review, the PRC determined that the Postal Service was due an additional $1.4 billion in revenue. The new total incremental revenue target number for the exigent surcharge was $4.6 billion. On April 10, 2016, in compliance

with the PRC's ruling, once $4.6 billion in surcharge revenue was collected, the Postal Service rolled back the exigent surcharge to the CPI prices approved in May 2015.

Our Shipping and Packages Business

As shipping and package volumes and revenues continue their impressive growth, the Postal Service has taken steps to simplify products, offer people more control over where, when and how they receive packages, and provide superior labeling, manifesting and payment solutions.

Priority Mail Pricing – The Postal Service increased Priority Mail prices 9.8 percent in FY2016, after three years of no net increase. This increase better aligned our offerings in the marketplace and improved contribution, while maintaining Priority Mail's popularity with customers. Unlike others in the shipping industry, the Postal Service did not implement any new dimensional weight changes. When customers ship with Priority Mail, they get free insurance, expected delivery day and Flat Rate and Regional Rate packaging options. Priority Mail is one of the Postal Service's most popular shipping products, helping to boost the Postal Service's package volume and meet customers' needs for convenience at competitive prices.

Dynamic Routing and Sunday Delivery – To continue meeting the needs of today's consumers, the Postal Service increased package delivery from six days per week to include Sunday in select ZIP Codes. During FY2016, the Postal Service has increased Sunday delivered ZIPs from 8,287 to 9,369. All totaled, USPS delivered over 111 million packages on Sunday to homes, businesses and Post Office Boxes this year.

Package Pickup – We not only deliver to every address — we also will pick up packages from those same addresses. To improve convenience, more USPS shipping products now can be picked up from customers' homes and offices through our free Package Pickup service. Customers go online to *usps.com* to request that their carriers pick up their packages during regular delivery the next business day. Additionally, we is now offering Ship from Store. Several major retailers now utilize the Postal Service to pick up their fulfillment orders from local stores for same or next day delivery. During FY2016, the Postal Service has collected and delivered approximately 1.7 million packages in this initiative.

Metro Post – The market test product, which was introduced in 2012 in San Francisco, enabled consumers to receive same-day delivery on packages ordered from participating retailers before 2 p.m. In FY2015, the Postal Service delivered nearly 162,000 Metro Post packages to consumers and businesses in the New York metro market.

The Postal Service ended the market test for Metro Post same-day delivery on Dec. 16, 2015. The market test duration was two years. Qualified customers were moved to a Negotiated Service Agreement. The new name of the service will be Priority Mail Metro Post Same Day.

Returns – In 2016, Parcel Return Service (PRS) customers were able to pick up their PRS volumes at 8,841 Return Delivery Units (RDUs). While this total represents a reduction in RDUs compared to the previous fiscal year, the Postal Service is in the process of expanding the number of RDUs based on recent requests from both existing and new PRS customers.

Parcel Lockers – We continue to better service the needs of our package receiving customers. In FY2016, we added 1,782 indoor parcel lockers to enable customers to easily pick up a package when they have PO Box delivery.

The Postal Service continues to test our outdoor keyless parcel locker, gopost, in the Northern Virginia and New York City areas. Gopost is a convenient way to receive and ship packages. Our gopost units are automated, secure, self-service parcel lockers that are placed in convenient locations, where customers can pick up or ship packages 24 hours a day, seven days a week at most locations. Customers who sign up for gopost receive user ID cards and PIN numbers which they can then use to access lockers and retrieve or send packages. In FY2016, the program added three new gopost locations in the New York City vicinity.

Other Products and Services

Passports – The Postal Service, in partnership with U.S. State Department Passport Services, makes it easy and convenient to apply for a passport. Postal Service employees accept more than 70 percent of first-time applications. Over 5,000 USPS facilities provide fee-based acceptance of first-time applications for a U.S. passport book or passport card. Over 4,500 facilities provide both passport acceptance and photo services (for a fee). Total passport revenue for FY2016 from both applications and photos was in excess of $199 million, an increase of 13.6 percent over the previous year.

A near-term goal is to improve contribution from passports by increasing efficiency, growing the number of applications accepted and improving service to meet State Department requirements. In particular, the emphasis will be to improve the percentage of passport mailings processed through automation and consolidate passport facilities. The Postal Service has implemented passport acceptance centers in larger cities to provide passport services in a separate area or location, focusing on customer service and convenience.

Post Office Box Service – At 8,400 Post Office locations, we offer competitive PO Box service, which offers enhancements similar to services offered by our competitors and at comparable prices. More than 1.1 million customers have signed up for the following services:

- Real Mail Notification - Customers receive daily emails or text messages to inform them that they have mail in their PO Boxes. In FY2016, 206,686 customers have signed up for this service.
- Street Addressing - Mail is addressed to a customer using either their PO Box or the street address of the Postal Service facility, along with the PO Box number. Over 463,000 customers used this service during FY2016.
- Signature on File - Offered for receipt of Priority Mail Express Mail, insured mail over $500, Return Receipt (electronic) and Signature Confirmation, more than 318,950 customers signed up to use this service in FY2016.

When choosing a new competitive PO Box, customers could participate in the "Baker's Dozen" — 13 months of service for a 12-month payment — and a deposit is not required for the first two keys. Many locations also offer expanded lobby access hours and earlier times when mail will be available for pickup.

PO Boxes offer the convenience of online billing and payment. Federal agencies now can link and pay for all boxes and caller services through their Official Mail Accounting System accounts.

Making the Global Connection

In FY2016, the Postal Service made progress in its role as a major international e-commerce shipping solutions provider. Leveraging our strengths in business-to-consumer delivery worldwide, 2016 initiatives supported a forward looking strategy to help U.S. businesses and consumers expand their connections globally.

Commercial Outbound ePacket – In FY2016, we signed the first International Customized Mail Agreement for Priority Mail International and Commercial ePacket hybrid solution for Canada.

Designed to meet the needs of e-commerce merchants, this option provides a way for applicable customs duties, taxes and associated fees to be charged to the sender and not collected from the addressee upon delivery.

The Postal Service introduced new commercial solutions as well. We added workshare versions of Priority Mail Express International, Priority Mail International and First-Class Package International Service for commercial customers. These presort drop shipment mailing options are now available to most countries and offer commercial customers a more cost-effective solution for their global e-commerce shipments.

Recognizing that significant opportunities exist in the cross-border e-commerce market, the Postal Service developed an experimental e-commerce solution as a market test designed to remove uncertainty and complexity risks facing U.S. merchants and their international consumers. The easy-to-use, feature-rich integrated solution connects existing web stores of U.S. merchants to consumer markets around the world.

Ongoing Bilateral Agreements – The Postal Service has taken a proactive role in strengthening its partnership strategies globally. The 2017 USPS and Canada Post Corporation bilateral agreement, negotiated in 2016, is one of the most effective in market competitiveness with regard to service performance and cost between the Postal Service and Canada Post. We continue to strengthen our alliance with Kahala Posts Group and the International Post Corporation to be more competitive and provide high-quality delivery service.

In preparation for the Universal Postal Union Congress being held in Istanbul, Turkey, in September-October 2016, the Postal Service hosted a pre-congress meeting attended by more than 40 countries. The objective of the meeting was to work collaboratively to discuss and align with other posts in support of the most significant proposals.

Enhancing Global Products – The Global Business group in 2016 examined global trends to better align our efforts to meet the growing needs of customers. We reevaluated products and services and made a number of changes. Global Express Guaranteed (GXG) was added to PC Postage platforms in FY2016, giving more customers access to this premier USPS international service. Additionally, consumers had access to GXG at Contract Postal Units nationwide.

Priority Mail Express International combined the shipping label/customs form. The new PS Form 2976-B, *Priority Mail Express International Shipping Label*, reduces paperwork and simplifies the customer's package preparation experience. In the fourth quarter, we simplified the Priority Mail International product offering by moving the Small Flat Rate Boxes and Flat Rate Envelopes over to the Priority Mail International parcel stream. This gives all Priority Mail International products the same features and benefits and makes it easier for Postal Service customers and employees to understand the value of this Postal Service brand.

A number of initiatives in FY2016 focused on improving the customer experience. At the Customer Call Centers, for example, changes were made to the inquiry and claims system to auto-populate customs data, reducing agent handling time and eliminating the need for the caller to provide information that we already have. Additionally, by modifying the process to monitor each customer inquiry to detect a scan that the package has arrived in the foreign country, we've narrowed the focus of our inquiry. If the system does not show arrival in a country, our call center agents work the inquiry without contacting the foreign administration. These inquiries are resolved quicker and reduce unnecessary back and forth communication with foreign administrations.

In FY2016, many Global Business initiatives were designed to increase awareness of the USPS international services brand. For example, additional packaging displays were placed in retail units to promote GXG service. This display also includes how to properly complete the label and shipping forms. In addition to signage elements in retail offices promoting international services, the team educated retail associates and Postmasters on how to sell international services to meet customers' needs. We showed the employees how to ask questions to learn what truly matters to the customer.

Global Business community outreach included a nationwide summer challenge promoting USPS international services with universities and small/medium businesses. Events were held at Post Offices, universities and larger venues in collaboration with Postal Service retail and small business sales teams in a coordinated effort to promote the Made in Rural America initiative.

Connecting Communities

Our employees not only are the faces of public service in communities across the nation — they give back in many ways, from collecting food for families in need to raising awareness about important issues to even helping save lives.

During the annual Stamp Out Hunger Food Drive, our letter carriers collected more than 80 million pounds of food donated by customers on their routes and destined for local food banks, pantries or shelters. It was the 12th consecutive year that more than 70 million pounds were collected and surpassed the previous record of 77 million pounds. Since the program began, more than 1.5 billion pounds of food has been collected. Stamp Out Hunger, the nation's largest single-day food drive, was launched in 1993 by the National Association of Letter Carriers and is supported by the Postal Service. Canned and non-perishable items are collected by 230,000 letter carriers and other Postal Service employees in 10,000 cities and towns in all 50 states, District of Columbia, Puerto Rico, Virgin Islands and Guam.

Each year in May, the Postal Service supports National Dog Bite Prevention Week. This public safety campaign builds awareness concerning animal attacks. Nationwide, 6,549 Postal Service employees were attacked in calendar year 2015. Of the 4.5 million Americans bitten by dogs annually, half are children, according to the Centers for Disease Control and Prevention. The Postal Service, medical community, veterinarians and insurance industry are working together to educate the public that dog bites are avoidable.

Since 1985, the Postal Service has worked in partnership with the National Center for Missing and Exploited Children and Valassis to reunite families with missing children. Valassis publishes the RedPlum circular that showcases the "Have You Seen Me?" photos.

This program — America's Looking For Its Missing Children® — is widely recognized as one of the nation's most effective public service initiatives. It is responsible for the safe recovery of 148 missing children.

The Postal Service also publishes photos and information in the *Postal Bulletin*, adding over 600,000 employees to the effort to find America's missing children.

For more information, go to *www.missingkids.com* or *http://www.valassis.com/about-us/community/missing-kids.aspx*.

Each year, Postal Service employees go beyond the call of duty, some even risking their own safety, to save the lives of the customers they serve. Hundreds have been recognized as heroes over the years. At its annual recognition event in Washington, DC, the Postal Service and the National Association of Letter Carriers (NALC) honored Rock Hill, SC, letter carrier Mark Pizzo

as the 2016 National Hero of the Year. Pizzo risked injury to save a 7-year old girl who was being mauled by a vicious dog.

The Postal Service, the National Marrow Donor Program and the Be the Match Foundation created the "Delivering the Gift of Life" campaign 18 years ago. To date, more than 58,000 Postal Service employees and their families have joined the donor registry. More than 80 have become donors, helping critically ill patients. The Postal Service has now aligned its efforts with Be the Match, focusing on individuals between the ages of 18 and 44. For more information on Be The Match and how to become a marrow donor, go to *www.bethematch.org*.

Since 1912, Postal Service employees, charities and individual and corporate volunteers have helped children and families in need experience the magic of the holiday season by answering letters to Santa. This year the Postal Service is celebrating the 104th anniversary of the Operation Santa program as it continues to fulfill the dreams of children nationwide. More than one hundred years later, our employees, volunteers and organizations remain committed to making children's Christmas wishes come true.

The Postal Service has Operation Santa sites in action around the country. In the vast number of locations, our employees respond to the letters by providing a written response signed by Santa, while other Post Offices may work with local schools, municipalities and community groups who volunteer for the joyous task.

Each year, however, in select Post Offices the general public is invited to "adopt" Santa letters. In all locations where the public may adopt letters written to Santa, strict privacy guidelines are in place. Any member of the public choosing to adopt a letter may simply respond in writing or if they choose, grant the wish, a decision that is left to the individual.

New York City's Operation Santa serves as the largest public adoption Post Office in the country. A "Big Apple" tradition that has changed very little since the 1940s and one which continues to thrive to the delight of those who visit the iconic James A. Farley building, in the heart of the Manhattan.

The Postal Service and Postal Inspection Service dedicate one week in March every year — National Consumer Protection Week — to educate consumers about identity theft and other fraud schemes and provide tools and information to combat these crimes.

Crime Prevention and Consumer Education

There are criminals out there who take things out of your mailbox and there are others who put things in your mailbox. Postal Inspectors investigate these crimes and arrest the criminals. But they can't arrest everybody. So an important part of the Postal Inspection Service's crime fighting repertoire is crime prevention and consumer awareness. They've found that educating people about scams and other crimes is the best way to prevent them from becoming a victim.

Fraud schemes continue to be a major concern, targeting the elderly and the young, the rich and the poor. Fraudsters have no regard for the age or socio-economic status of their victims. Technological innovation has extended the reach of these criminals who know no boundaries and makes law enforcement and prosecution efforts more difficult. Identity theft claims thousands of American victims each year, while businesses and consumers suffer millions of dollars in losses and untold amounts of frustration and misery recovering from these scams.

In response, the Postal Inspection Service has developed a unique approach to consumer crime prevention: the Consumer Alert News Network (CANN). Now in its fourth year, this original news series exposes fraud, identity theft

and cyber scams. Developed in partnership with Litton News Source, CANN helps educate consumers on prevention measures to avoid crimes including bogus job offers, sweepstakes swindles, foreign lottery fraud and charity scams. Each news segment is presented by the inspectors who investigated the crime and the consumers who were victimized. Since its launch in September 2012, more than 500 episodes have been produced and distributed to 120 television stations across the nation — representing a potential 3.8 million viewers per segment. Fraud-related public service announcements are also aired in conjunction with the news segments. The goal is simple: help consumers preserve their health, welfare and financial well-being.

Building off the success of CANN, Litton Entertainment, with the support and technical advice of the Postal Inspection Service, created "The Inspectors," a half hour scripted drama airing on Saturday mornings on the CBS network. The longer format programming enables a more in-depth delivery of consumer awareness and crime prevention messages on a weekly basis to the estimated 1 million weekly viewers in the target audience. The show also reaches American service members and their families overseas through the American Forces Network, an audience of an additional million viewers. In its first season, the fraud-awareness focused series garnered an Emmy award and more than 50 million viewers.

We're making a positive impact

As the face of public service in communities across the country, we recognize the importance of leading by example and nurturing a culture of social and environmental responsibility. The Postal Service regularly engages with employees, customers, suppliers and federal peers in sustainability efforts, working to improve energy efficiency, reduce water consumption and limit waste production from our operations.

Sustainability Performance

The Postal Service is committed to reporting the results of our sustainability efforts every year. Our targets are in conjunction with those established through Presidential Executive Order in terms of reductions and base years for comparison. In CY2015, we achieved the following:

- 12.4 percent total greenhouse gas emissions reduction.
- 32.1 percent decrease in facility energy usage.
- 31.8 percent decrease in water usage.
- 41 percent waste diversion from landfill.

We also track our vehicle fuel usage. Postal Service-owned vehicle transportation fuel use increased by 19 percent. The continued increase in fuel use is due to an aging fleet of delivery vehicles that we are in the process of replacing, as well as a growing number of delivery points which adds to the miles we travel.

In 2016, the Postal Service updated our commitment to reducing greenhouse gas emissions. Our new goal is to reduce Scope 1 and 2 emissions from our facilities, vehicles, purchased electricity and steam by 25 percent by 2025. We also plan to reduce our Scope 3 emissions by 30 percent by 2025. Scope 3 emissions include categories such as contracted transportation, leased facilities and employee commuting emissions.

As a sustainability leader, we report three separate greenhouse gas inventories. The first is with our federal peers through Executive Order 13693: Planning for Federal Sustainability in the Next Decade. The second is with our industry peers at the International Post Corporation, and lastly, with our business peers at The Climate Registry. In addition, we also report progress to the White House Council on Environmental Quality in the Strategic Sustainability Performance Plan and the Office of Management and Budget Scorecard. Each of these efforts furthers our transparency.

Climate Change Adaptation – Climate change could potentially disrupt our ability to provide consistent mail service. To better manage emerging risks and ensure effective operations and resiliency, the Postal Service works to incorporate climate impacts into strategies, plans, business processes and programs. In 2015, the Postmaster General reaffirmed this commitment in a memorandum. Internal steering and working groups track and manage climate change considerations in appropriate actions and policies. They also work to identify ways that long-term planning and collaboration can reduce or avoid costs associated with natural disasters, rising sea levels and temperature extremes. The groups take into account rebuilding costs, downtime, equipment loss, employee safety and other significant cascading effects resulting from climate change.

In 2016, our efforts focused on three areas:

- Creation of an analytic climate tool to help understand where and what potential impact exists.
- Updating policies to reflect our improved understanding of climate change impact.
- Improved communications to our employees on the issue of climate change.

Read our plan at: *http://about.usps.com/what-we-are-doing/green/climatechange.htm.*

Annual Sustainability Report – This year our Annual Sustainability Report incorporates Global Reporting Initiative (GRI) G4 Guidelines and focuses on a new, repeatable reporting process. We used the guidelines, including a stakeholder engagement pilot process, to solicit sustainability input from our internal stakeholder group. Through this stakeholder engagement, we consider social, economic and environmental impacts to operations while considering risks, opportunities and long-term prospects.

In a pilot test of a sustainability engagement process, we surveyed a focus group to identify areas of concern relevant to our operations. In the coming years, we will revisit the stakeholder engagement process, gradually including a larger and wider array of stakeholders to ensure we are reporting on what matters most.

Read the Annual Sustainability Report at: *http://about.usps.com/publications/sar2015/sar2015/welcome.htm.*

Environmental Compliance – Continuous improvement drives our management systems approach to environmental compliance. Several standardized national programs, including environmental compliance reviews (ECRs), facilitate compliance at Postal Service sites with environmental risk factors (e.g., vehicle maintenance and mail processing activities, regulated underground storage tanks and other significant permits/plans). Each year, we conduct approximately 200 ECRs and hundreds of other environmental compliance support site visits. Beyond assessing compliance, these visits also provide "hands on" training and assistance to sites in data management, record keeping and other vital functions, and also assist in disseminating policies, guidance and tools and collecting records and data for corporate systems.

Standardized guidance, training and record keeping are part of our electronic management systems approach to maintain compliance. The Postal Service maintains a comprehensive inventory of program guidance and implementation tools on our compliance website. Additionally, a centralized data management system provides easy access to key environmental data indicators. In FY2016, we initiated a mobile application to provide instant access to site data during environmental compliance visits.

In FY2016, the Postal Service continued implementing its underground storage tanks strategy focused on providing the Postal Service with a modern tank infrastructure that reduces

environmental risk, improves emergency fueling planning and maintains associated bulk fuel cost savings. In addition to strategically removing and replacing these tanks, the program establishes a centralized national monitoring system and provides on-site compliance support.

USPS BlueEarth Federal Recycling Program – With the knowledge gained from our own sustainability efforts, the Postal Service is committed to assisting our customers in achieving their own green objectives.

The USPS BlueEarth Federal Recycling Program for printer cartridges and electronic waste is part of a branded suite of sustainability solutions and innovations designed for our federal customers. The program provides government agencies and their employees with the ability to securely and efficiently recycle electronic devices and printer cartridges free of charge on a national level. Recycling programs help prevent e-waste from going to landfills, which can be dangerous to both the environment and human health.

Twenty-three federal agencies are currently enrolled, including the Postal Service. Federal agencies receive a recycling activity report with data to assist them in meeting Executive Order 13693 sustainability requirements. Additionally, this effort has been recognized as an example of "federal government leading by example" under the National Strategy for Electronic Stewardship.

All federal agencies can enroll in the USPS BlueEarth Federal Recycling Program to recycle electronic devices using the Postal Service network. This program makes it simple for federal agencies and their employees to properly dispose of items such as printer cartridges and obsolete small electronics. All items are shipped to a certified third-party recycling facility, which ensures they are either securely recycled or re-manufactured for resale opportunities.

Besides providing a simple, secure and cost-effective way to recycle e-waste, the USPS BlueEarth Federal Recycling Program also increases mail volume and postage revenue. For information about the program for federal agencies, visit *http://blueearth.usps.gov/*.

National Recycling Program – As previously stated, the Postal Service diverted 41 percent of its waste from landfills to recycling. We strongly believe we can significantly increase this percentage and do so in a financially beneficial way. The Postal Service generates a large amount of recyclable material, the majority of which is mixed paper. We continue to incur disposal costs to handle much of this material, which would better be turned into revenue through recycling. Just like many other organizations in the transportation, shipping and service sectors in the U.S. economy, the Postal Service is increasingly looking to leverage its existing reverse logistics capabilities into business opportunities. For the Postal Service, with its extensive nationwide transportation network, the opportunity is significant.

In FY2014, the Postal Service launched a five-year National Recycling Operation capital equipment investment initiative to expand our backhaul recycling to every part of the country. Backhauling is using the space available in trucks and mail transportation equipment to carry recyclables from Post Offices to large distribution centers and hubs on the return trip from transporting mail to Post Offices. The materials are consolidated for recycling at those hub locations, and thus no additional transportation is required for handling recyclables. To date, capital equipment has been deployed into 39 districts and 97 USPS facilities.

USPS BlueEarth Secure Destruction Mail Service Program – The USPS BlueEarth Secure Destruction Mail Service Program is another key branded and innovative sustainability solution, launched nationwide in FY2015. Designed specifically for business mailers using the Intelligent Mail barcode, the program securely shreds and recycles letter-size pieces

of undeliverable-as-addressed First-Class Mail with personal protected information that would otherwise be returned to the sender. Secure Destruction is an opt-in service that operates under the protection and supervision of the Postal Service.

Mailers enrolled in the program receive a daily electronic notice of the mailpieces sorted for Secure Destruction. These e-notifications are provided to registered mailers through the USPS Electronic Product Fulfillment customer portal website.

Mailing industry benefits of Secure Destruction:

- Reduces carbon emissions (i.e., greenhouse gases). The Postal Service estimates that for every 25,000 pieces of carrier-delivered return-to-sender (RTS) mail that's destroyed, carbon emissions are reduced by an average of 1 metric ton of CO_2 equivalent.
- The process takes place within secure USPS facilities by our employees, reducing risks of information exposure.
- All securely destroyed mail will be recycled, thus reducing the demand on natural resources.

Benefits for registered mailers:

- Reduction of in-house costs for handling and destroying RTS mail.
- Visibility into the process through daily automated notifications on the USPS Electronic Product Fulfillment website.
- Improvements in privacy protection for customers.

The SD Mail Service Program has been operational for two years now and continues to grow and attract new business mailers. In FY2016, more than 30.6 million pieces of undeliverable SD mail was captured, destroyed and recycled in-house by USPS employees. This is an improvement from FY2015 with over 5.3 million additional pieces of SD mail captured.

Metric	FY2016	FY2015
Mail Volume (pieces)	30,622,876	25,280,354
Potential GHG Reduced (metric tons CO_2 equivalent)	1,224.9	1,011.2
Paper Recycled (metric tons)	781.3	645
Capture Rate	3.53%	2.91%

Maintaining Focus and Accelerating Growth

The Postal Service has adopted a structured management process, Delivering Results, Innovation, Value and Efficiency (DRIVE), to improve business strategy development and execution against our major goals. It's sponsored by the Postmaster General with direct oversight from the Executive Leadership Team.

This process is based on a well-established methodology used by many corporations to apply strategic and financial rigor to decision-making, and to navigate through significant organizational changes. This structured approach to organizing operational and management activities facilitates cross-functional dialogue and collaboration, provides streamlined reporting and accountability and incorporates measurement, analysis and evaluation of a portfolio of strategic initiatives.

In FY2016, progress was tracked through a detailed reporting system and is reviewed every month by the Executive Leadership Team for the Postal Service. We continue to make improvements to our governance processes using industry best practice approaches to ensure successful outcomes. The DRIVE portfolio of initiatives is dynamic and changes as priorities and resources require, and as programs are completed or adjusted based on external events. These initiatives support Postal Service corporate-wide goals as shown in the FY2016

DRIVE Portfolio of Initiatives table (see page 71).

In FY2016, the Postal Service focused on the implementation of a portfolio of 15 strategic initiatives to meet its ambitious performance and financial goals. To date, the DRIVE portfolio has been able to drive significant revenue and cost-savings measures through our initiatives to make a positive impact on the Postal Service financial outlook in FY2016 and beyond. The strategic initiatives identified for FY2016 were designed to respond to the changing environment of the Postal Service moving from a solely economic model to a model focusing on change, improvement and increasing our competitiveness to increase revenue generation.

On an annual basis, the portfolio of initiatives are evaluated by the Executive Leadership Team to determine the appropriate mix of initiatives to continue into the next year, including initiatives that 1) remain a priority and will continue, 2) should be closed or refined based on organizational priorities or 3) based on business needs to add new initiatives.

FY2016 DRIVE Portfolio of Initiatives

We continue to refine and grow our initiatives to best serve the overall needs of the Postal Service. To that end, the FY2016 DRIVE Portfolio of Initiatives table demonstrates our changes to the portfolio year over year.

The changes to our initiatives can be categorized by the following six actions (see table):

1) ⊎ New — Initiative has been created in FY2015 to address an emerging business need.

2) ⇔ Continued — Initiative continued into FY2015 with minimal changes from FY2014.

3) ⊗ Closed — Initiative was closed as a result of a completed activity or change in business need.

4) ⇑ Refined — Initiative was refined to reflect the current business situation and to achieve greater alignment with organizational goals.

5) ‡ Combined — Initiative was combined with a similar DRIVE initiative(s) to more accurately reflect the current business situation and provide greater alignment organizationally.

6) ≺ Split — This initiative had been divided into smaller more discreet initiatives to provide better focus on critical programs.

FY2016 DRIVE Portfolio Initiatives

Corporate Goal	Strategies	FY2015 Initiatives	Change Year Over Year	FY2016 Initiatives
Deliver High-Quality Service	Optimize the Value of Infrastructure	Optimize Network Operations	⇑ Refined	Optimize Network Platform
		Optimize Delivery Operations	⇑ Refined	Optimize Delivery Platform
		Transform Access	⇑ Refined	Optimize Retail Platform
		Optimize Facility Footprint	⊗ Closed	
		Build a World-Class Package Platform	⇔ Continued	Build a World-Class Package Platform
		Modernize Delivery	‡ Combined	Optimize Delivery Platform
Provide Excellent Customer Experiences		Improve Customer Experience	⇑ Refined	Build a World-Class Customer Care Process
	Improve Customer Experience		⊎ New	Create a World-Class Social Media Platform
	Leverage Technology to Drive Business Value	Leverage Technology and Data to Drive Business Value	⇔ Continued	Leverage Technology and Data to Drive Business Value
Sustain Controllable Income	Grow Revenue from Innovation, Core Products and Markets	Accelerate Innovation	⇑ Refined	Accelerate Innovation to Maximize Revenue and Profit
		Customer Growth and Retention	⊗ Closed	
		International Competitiveness	‡ Combined	Accelerate Innovation to Maximize Revenue and Profit
			⊎ New	Informed Delivery
	Strengthen Financial and Risk Management Capabilities	Obtain PCI Compliance	⊗ Closed	
		Achieve 100% Customer and Revenue Visibility	⇑ Refined	Optimize Customer and Revenue Visibility
		Enhance Enterprise Risk Management Capabilities	⊗ Closed	
		Revenue Assurance	‡ Combined	Leverage Technology and Data to Drive Business Value
		Greenfield Costing	⊗ Closed	
	Advance the Legislative and Regulatory Agenda		⊎ New	Obtain PRC Approval for an Alternative Pricing Model
Ensure a Safe Workplace and Engaged Workforce				Engage and Empower Employees
				Contract Implementation and Compliance
				Corporate Succession Planning
	Build Competitive Workforce of the Future	Building the Workforce of the Future	≺ Split	Improve Safety Programs
		Building an Integrated Human Resource System	‡ Combined	Leverage Technology and Data to Drive Business Value

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The following are among the many trademarks owned by the United States Postal Service®:

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The Sonic Eagle Logo and the trade dress of the Round Top Collection Box, the Letter Carrier Uniform, USPS packaging and the LLV Mail Truck are also among the many trademarks belonging to the United States Postal Service.

Year References

All references to a specific year or "the year" refer to the Postal Service fiscal year ending Sept. 30. However, specific month and year references pertain to the calendar date.

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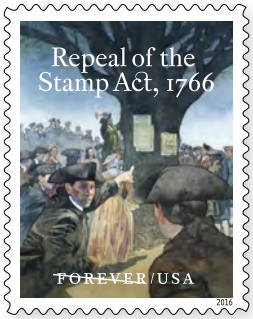
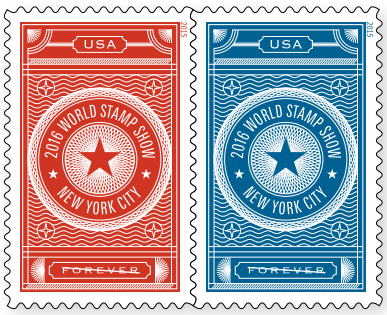
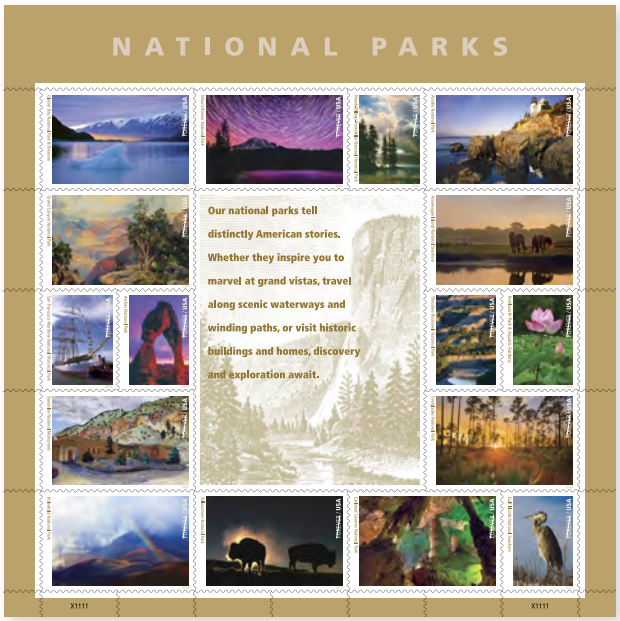


Forever Stamps

2016





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