UNITED STATES POSTAL SERVICE®

Fiscal Year 2015
Integrated Financial Plan

2015 Operating Plan | 2015 Capital Plan | 2015 Financing Plan

EXECUTIVE SUMMARY

Unaudited - A Deep Financial Hole (as of September 30, 2014)

- **Liabilities exceed assets by approximately $45 billion**
- **The USPS has only 34 cents of assets to cover each dollar of its liabilities**

ASSETS		LIABILITIES	
Unrestricted Cash	$ 4.9B	Retiree Health Benefits	$ 22.4B
Buildings & Equipment, net of depreciation	$ 16.3B	Workers' Compensation	$ 18.4B
		Debt	$ 15.0B
Other Assets	$ 1.8B		
		Accrued Compensation, benefits, and leave	$ 3.5B
		Prepaid Postage	$ 3.1B
		Other	$ 5.9B
Total Assets	**$ 23.0B**	**Total Liabilities**	**$ 68.3B**

- Under multi-employer accounting rules, there are approximately $46B in obligations not shown on the balance sheet
  - ➢Significant profits over years and legislation are needed to recover

Despite the ongoing efforts of the Postal Service to improve its financial stability using measures under its control, the extent of the financial challenge facing the Postal Service remains daunting. Liabilities exceed assets by approximately $45 billion, as determined under U.S. generally accepted accounting principles (GAAP). Further, there are approximately $46 billion in additional obligations for retiree health benefits (RHB) and pensions that under multi-employer accounting rules are not recorded on our GAAP-basis balance sheet. Annual financial losses have continued to add to the significant gap between our assets and liabilities. It will take comprehensive legislative reforms and years of sustained profitability to rebalance our assets and liabilities and eliminate the accumulated net deficiency.

The Postal Service continues to look for ways to improve profitability through product development and innovation, pricing, improving operational efficiencies and reducing costs within our control. The fiscal year (FY) 2015 Integrated Financial Plan (IFP) demonstrates the Postal Service's commitment to a stable and financially healthy organization by balancing revenue growth initiatives, cost controls, and investments in the future. However, comprehensive legislation will still be needed to augment the Postal Service's efforts to reduce the financial hole in which the Postal Service finds itself.

The FY2015 IFP projects controllable income of $0.5 billion (as shown on the table to the right), versus a controllable income of $1.4 billion in FY2014. Controllable income excludes retiree health benefits (RHB) pre-funding and non-cash adjustments to workers' compensation. All revenue and controllable income comparisons to FY2014 in this document will be defined as shown in the table on the right.

The FY2015 planned controllable income reflects continuing efforts to increase revenue and reduce costs. The IFP projects revenue growth of $1.8 billion, or 2.7 percent, compared to FY2014 and would mark the third consecutive year of revenue increase.

Statements of Operations

In Billions	2014 * Prelim		2015 Plan	
Revenue [1]	$	67.8	$	69.6
Expenses [1, 2]		66.3		69.0
Other Income (Expense), net		(0.1)		(0.1)
Controllable Income (Loss) [2]	**$**	**1.4**	**$**	**0.5**
RHB Pre-funding		(5.7)		(5.7)
Workers' Compensation Adj.		(1.2)		(0.9)
Net Income (Loss)	**$**	**(5.5)**	**$**	**(6.1)**
Mail Volume		**155.4**		**153.2**

* 2014 numbers are unaudited.
1- Revenue excludes investment income and gain on sale of assets. Expenses exclude interest expense and loss on sale of assets. These items are included in Other Income (Expense), net.
2- Before RHB pre-funding, and non-cash adjustments to workers' compensation liabilities.

The IFP includes a reduction of 5 million work hours, largely as a result of continued efforts to right-size the network and operating window to align with the current and projected mailing landscape, and ongoing PostPlan savings. However, these savings will not be sufficient to offset inflationary and other cost increases and our total expenses will grow in FY2015. The Postal Service has already made significant strides in increasing the efficiency of its operations, resulting in a reduction of 352 million hours since 2006. Without comprehensive legislation to reduce the delivery frequency of non-parcel mail and additional improvements to the outdated business model, future productivity gains will likely be incremental.

The FY2015 net loss is forecasted to be $6.1 billion, including $5.7 billion of legally mandated pre-funding for retiree health benefits and an estimated $0.9 billion of non-cash impact to the long-term workers' compensation liability. There is no estimate included in the plan however for the portion of workers' compensation liability that changes with interest rates, as it is too volatile to reliably forecast.

Even after defaulting on retiree health benefits pre-funding payments of $11.1 billion in FY2012, $5.6 billion in FY2013 and the $5.7 billion in FY2014, the Postal Service ended FY2014 with an unrestricted cash balance of just $4.9 billion, which equates to only approximately 19 days of operating cash. There is also no remaining borrowing capacity, as we ended the year with $15 billion in debt, which is the legally-mandated ceiling. Even with strong revenue growth in FY2015, our liquidity will not improve, and we will not be able to pay the pre-funding payment due in FY2015, pay for any of the defaulted amounts from prior years, or significantly pay down debt.

Many of the structural reforms needed to ensure long-term financial viability, such as the resolution of our excessive RHB pre-funding payment schedule and changes to delivery frequency, can only be achieved with comprehensive legislation.

There can be no assurance that Congress will enact comprehensive legislation that will impact the Postal Service in FY2015 or future years. Accordingly, the FY2015 IFP does not reflect any benefits associated with potential legislative changes.

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

1. ECONOMIC ASSUMPTIONS

The economy is projected to show further improvement in 2015, driven by improvements in employment and the unemployment rate, more robust and stable GDP growth, a rebounding housing market, and large amounts of cash in the hands of businesses, leading to higher investment. Growth in online shopping, emerging technologies, and improved consumer confidence could have further positive influence on economic growth in 2015. The Postal Service's financial position and results of operations will continue to be impacted by economic growth.

Economic Drivers		
	2014 Estimated	2015 Estimated
Gross Domestic Product	1.9%	2.6%
Retail Sales	2.6%	2.8%
Consumer Price Index for All Urban Consumers	1.8%	1.8%
Consumer Price Index for Wage Earners	1.7%	1.7%
Employment Cost Index	1.7%	2.1%
Employment	2.1%	2.2%
Investment	5.1%	6.7%

In developing the IFP forecast, we consider factors such as multi-year trends in our product sales (with greater weight on more recent trends), expected market growth and market share growth, changes in prices and marketing programs, the expected rate of migration of hard copy mail to digital transmissions, along with the expected state of the overall economy. As in prior years, the macroeconomic outlook underlying our revenue and volume projections was developed by IHS Global Insight, Inc., an independent economic forecasting firm. For 2015, IHS Global Insight anticipates that the US economy will improve from 2014, with Gross Domestic Product growth accelerating to approximately 2.6 percent from 1.9 percent in 2014. Real consumer spending growth outpacing 2014, brighter job prospects, and increased consumer confidence are expected to be the main drivers. Additionally, the positive outlook centers on a rebound of the housing-sector, continued employment growth, and strong exports.

The expected growth in Standard Mail from the improving economic conditions and mid-year elections will not be enough to offset the negative impact on First-Class Mail volumes, which includes forces brought about by the Great Recession. The Great Recession impact included shifts in consumer and business attitudes and behaviors that affect their need for and use of First-Class Mail and resulted in an accelerated trend of mail being replaced by electronic communications and transactions. With declining First-Class Mail and periodicals, Market Dominant revenue is expected to decline in FY2015. Competitive products, comprising mostly packages, are expected to grow as economic and e-commerce growth is augmented by marketing initiatives. As a result of these trends, revenue is expected to increase by $1.8 billion, or 2.7 percent, compared to FY2014.

2. 2015 OPERATING PLAN – MAIL VOLUME AND REVENUE

A. Volume

The 2015 IFP projects total mail volume of 153.2 billion pieces, a decline of 2.2 billion pieces, or 1.4 percent from 2014. For First-Class Mail, the IFP projects a decline of 3.3 billion pieces, or 5.2 percent from 2014. This reflects the ongoing migration of communications and transactions out of First-Class Mail. Standard Mail is expected to increase by 1.0 billion pieces, or 1.3 percent, reflecting the impact of an improving economy and the mid-term elections in November, 2014.

Volume		
Billion pieces	2014 * Prelim	2015 Plan
First-Class Mail	63.6	60.3
Standard Mail	80.3	81.3
Shipping and Packages	4.0	4.5
International	0.9	0.9
Periodicals	6.1	5.5
Other	0.5	0.7
Total Volume	**155.4**	**153.2**

* 2014 numbers are unaudited.

Shipping and Packages volume is expected to grow 13.1 percent, to 4.5 billion pieces in 2015, led by the strong year-over-year growth in e-commerce and growth initiatives. Priority Mail, Parcel Select, and First-Class Packages, the three largest Shipping and Packages categories, are all expected to grow by double-digit rates, driven by their highly competitive prices and consistent, reliable, services.

The volume for the remaining products is expected to decline from 7.4 billion pieces in 2014 to 7.0 billion pieces in 2015, driven primarily by a decline of 0.5 billion pieces in Periodicals. Periodicals volume is not expected to return, as electronic content continues to grow in popularity with the public.

B. Revenue

Revenue for 2015 is expected to increase by $1.8 billion. The 2015 IFP assumes that the 4.3 percent exigent surcharge on Market Dominant products will remain in effect throughout 2015.

Revenue		
in Billions	2014 * Prelim	2015 Plan
First-Class Mail	$ 28.4	$ 27.5
Standard Mail	17.4	18.2
Shipping and Packages	13.7	15.7
International	3.0	3.1
Periodicals	1.6	1.5
Other	3.7	3.6
Revenue [1]	**$ 67.8**	**$ 69.6**

* 2014 numbers are unaudited.
1- Revenue excludes investment income and gain on sale of assets. These items are included in Other Income (Expense), net.

First-Class Mail revenue is projected to decline by $0.9 billion, or 3.1 percent, as the ongoing migration of communications and transactions out of First-Class Mail continues to cause volumes to decline rapidly. Standard Mail revenue is expected to increase by $0.8 billion, due primarily to economic growth and election mail.

Revenues from Shipping and Packages are projected to increase by approximately $2.0 billion in FY2015. Although Shipping and Packages revenue is expected to show double digit growth, the fastest growing products within Shipping Services generally have relatively low contribution margins.

3. 2015 OPERATING PLAN –WORK HOURS & EXPENSES

Total work hours were 1,107 million in 2014, and represented a 3 million work hour decline, or 0.3 percent, compared to 2013. The 2015 IFP projects total work hours of 1,102 million and a work hour reduction target of 5 million, or 0.5 percent. This includes the savings from phase II of Network Rationalization and the continuation of the PostPlan and load leveling initiatives. However, these savings are partially offset by the expected increase in package volume and the expansion of the customer care center.

Postal Service initiatives and efforts to align with the changing economic and mailing environment have resulted in a reduction of 352 million work hours since 2006. While we continue to develop initiatives to streamline operations and reduce work hours as noted above, it will be increasingly challenging to reduce work hours at the historical pace without comprehensive legislation, as the number of delivery points continues to increase and the requirement to deliver non-parcel mail six days a week remains in place. The continued volume growth in packages, estimated at 13.1 percent in 2015, will also increase work hours. Efforts to continue to right-size the network and improve operational efficiency will continue, but the magnitude of work hour reductions diminishes as major efficiency gains have already been achieved.

Operating Expenses

in Billions	2014* Prelim	2015 Plan
Compensation and Benefits	$ 50.4	$ 52.2
Transportation	6.6	6.8
Depreciation	1.8	1.9
Supplies & Services	2.6	2.7
Rent/Utilities/Other	4.9	5.4
Controllable Expenses [1, 2]	**$ 66.3**	**$ 69.0**
RHB Pre-funding	5.7	5.7
Non-cash Workers' Comp. Adj.	1.2	0.9
Total Operating Expenses [1]	**$ 73.2**	**$ 75.6**

* 2014 numbers are unaudited.
1 - Expenses exclude interest expense and loss on sale of assets. These items are included in Other Income (Expense), net.
2- Before RHB pre-funding, and non-cash adjustments to w orkers' compensation liabilities.

Controllable expenses, which exclude RHB Pre-funding, and non-cash adjustments to the workers' compensation liability, are projected to increase by $2.7 billion, or 4.1 percent, in 2015.

Compensation and benefits expense is expected to increase by $1.8 billion in 2015. This is driven primarily by contractually-required wage increases and cost-of-living adjustments. In addition, the U.S. Office of Personnel Management increased FERS contribution rates for 2015, which will increase Postal Service costs by approximately $0.3 billion. The IFP also includes an additional $0.4 billion in costs for rising health care premiums and retiree health benefits for current annuitants. These are partially offset by the 5 million work hour reduction from the initiatives described above.

Non-personnel expenses are expected to grow, as we invest in information systems and communications software to support our growth initiatives and tracking capabilities. We must also make needed repairs to our aging vehicles and facilities. In addition, there are also some increases in non-personnel costs associated with phase II of Network Rationalization. This moderate expense growth is necessary to achieve the operational savings discussed previously. Transportation costs are expected to grow slightly in 2015, as savings from our surface transportation cost-reduction initiatives are offset by costs associated with the network consolidations, additional package volume, and inflation.

Expenses associated with non-cash workers' compensation adjustments result from changes in interest rates and changes in the estimated cost of long-term workers' compensation claims. The interest rate driven impacts are too volatile to reliably forecast and are therefore not included in the IFP for 2015.

4. 2015 CAPITAL PLAN

A. Capital Commitments

The 2015 capital commitment plan calls for commitments of $2.2 billion. The larger planned commitments are targeted toward previously deferred infrastructure investment for aged and end-of-life equipment and supporting continued growth in our shipping products. These efforts are geared towards improving operational efficiency and enhancing the customer experience. We will also invest in vehicle purchases, building repairs and alterations and continue to fulfill safety and health or legal requirements.

Capital Commitments

In Billions	5 - Year Avg. ('04-'08)	5 - Year Avg. ('09-'13)	FY2013 Actual	FY2014 * Prelim	FY2015 Plan
Facilities	$0.9	$0.5	$0.4	$0.3	$0.4
MP Equipment	$0.9	$0.2	$0.2	$0.3	$0.8
Vehicles	$0.1	$0.0	$0.0	$0.1	$0.5
CS & Support Equipment	$0.5	$0.1	$0.2	$0.2	$0.5
Total	**$2.4**	**$0.8**	**$0.8**	**$0.9**	**$2.2**

* 2014 numbers are unaudited

Facilities

In 2015, commitments for facilities are planned at $0.4 billion and represent approximately 18.6 percent of the total capital commitment plan. This investment is primarily for facility infrastructure, including building modifications that are necessary to accommodate the planned ongoing plant consolidations and repairs of our aging buildings.

Mail Processing Equipment

The 2015 capital commitment plan for mail processing equipment is $0.8 billion, or approximately 37.6 percent of the total plan. These investments are focused on improving existing equipment and projects that will improve productivity and reduce operating costs. It will also support the projected increase in volume for shipping and package services estimated for 2015 and beyond.

Vehicles

For 2015, the capital commitment plan for vehicles is $0.5 billion, or approximately 22.5 percent of the total plan. These investments are focused on replacing vehicles that are well over their useful life and where replacement is necessary due to prohibitively high maintenance costs. The new vehicles will also have better fuel efficiency, which results in additional cost savings.

Customer Service & Support Equipment

The customer service and support category is planned to commit $0.5 billion, or approximately 21.3 percent of the total plan. Investments in this category include self-service equipment, enhancements to mail scanning and tracking systems, and systems updates and hardware replacements.

B. Capital Cash Outlays

Capital cash outlays are expected to increase due to the larger commitment plan. Cash outlays for 2015 are for similar items as described above for Commitments.

Capital Cash Outlays					
In Billions	5 - Year Avg. ('04-'08)	5 - Year Avg. ('09-'13)	FY2013 Actual	FY2014 * Prelim	FY2015 Plan
Facilities	$0.8	$0.6	$0.3	$0.4	$0.5
MP Equipment	$0.8	$0.4	$0.2	$0.2	$0.7
Vehicles	$0.1	$0.0	$0.0	$0.0	$0.4
CS & Support Equipment	$0.5	$0.2	$0.2	$0.1	$0.4
Total	**$2.2**	**$1.2**	**$0.7**	**$0.7**	**$2.0**

* 2014 numbers are unaudited

5. 2015 LIQUIDITY AND FINANCING PLAN

A. Cash Flow and Debt

For 2015, the projected net loss of $6.1 billion includes $5.7 billion of legally-required pre-funding of RHB. Our forecasted liquidity position will be insufficient to make this legally-mandated pre-funding payment, so we have excluded the $5.7 billion payment due on September 30, 2015, from projected cash flows. Also excluded are, the $11.1 billion in RHB pre-funding still outstanding for 2012, the $5.6 billion still outstanding for 2013, and the $5.7 billion payment that was not made in 2014. The net cash expected to be provided by operations during 2015 is estimated to be $0.3 billion. We expect to end the year with approximately $5.2 billion of unrestricted cash, which would only fund approximately 19 days of postal operations. The year-over-year decline in cash provided from operations is primarily driven by the lower controllable income in 2015 and higher projected capital investments that have been deferred but are now deemed to be necessary. This remains a critically low level of liquidity. This projected level of liquidity assumes that we are able to achieve our operating plan, as well as fulfilling the capital investment plan.

in Billions		2014 * Prelim	2015 Plan
Net Loss	$	(5.5)	(6.1)
(+) RHB Pre-Funding - Not Paid		5.7	5.7
(+) Depreciation		1.8	1.9
(+) Non-cash Workers'Compensation Adj		1.2	0.9
(-) Purchases of PP&E		(0.8)	(2.0)
(+) PIHOP & Other Deferred Revenue		0.1	0.0
(+-) Other Changes in Cash		0.1	(0.1)
Cash Provided/Used	**$**	**2.6**	**0.3**
Cash at Start of Year (less restricted - $0.3)		2.3	4.9
Borrowing During Year		0.0	0.0
Cash at End of Year (less restricted -$0.2)	**$**	**4.9**	**5.2**

* 2014 numbers are unaudited.

As of September 30, 2014, the Postal Service was at the statutory $15 billion debt limit, which was reached for the first time in 2012. Our significant indebtedness to the Federal Financing Bank has important consequences. It limits our flexibility in planning for, or reacting to changes in our organization, and it places us at a competitive disadvantage compared to commercial competitors that may have more liquidity and which have access to the public capital markets.

B. Liquidity

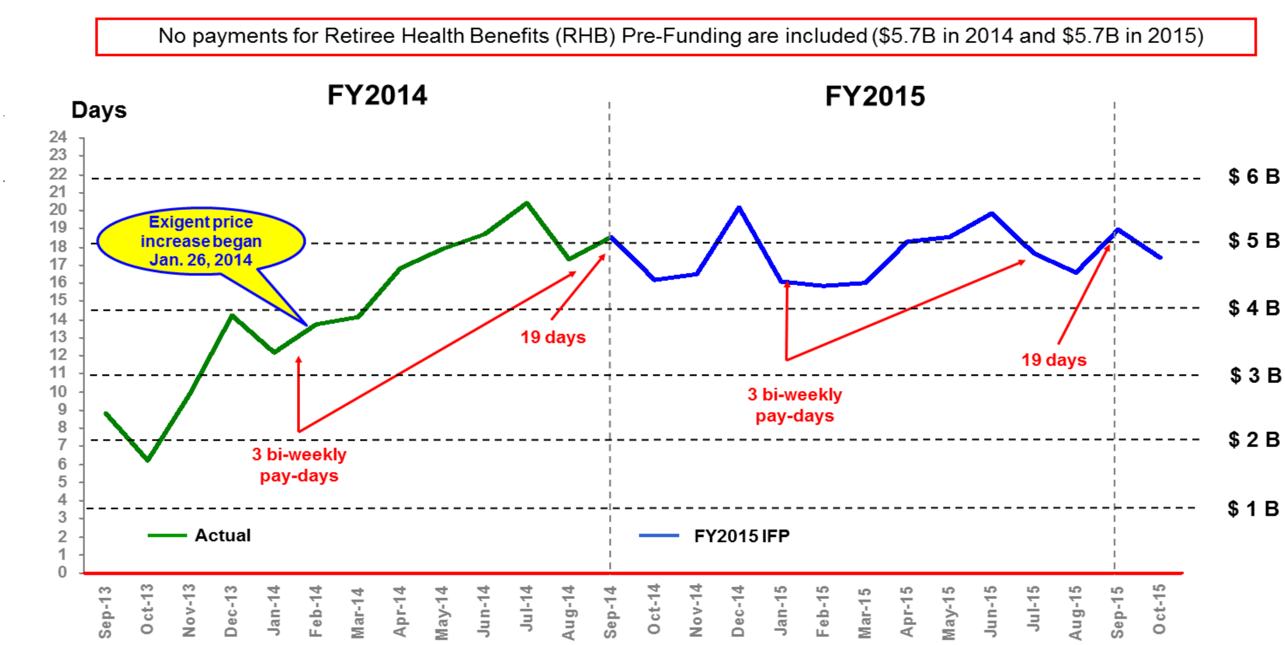
The graph below plots liquidity on a monthly basis (as measured in days of operating cash available) for fiscal years 2014 and 2015, along with a mid-month balance for October 2015 (first month of FY2016). Liquidity is the sum of our unrestricted cash balance plus any available borrowing capacity. We include October 2015 in our graph because October is a critical liquidity month. Each year in October we are required to remit our annual workers' compensation reimbursement to the Department of Labor of approximately $1.4 billion.

We ended 2014 with $4.9 billion of unrestricted cash and no remaining borrowing capacity as we are at the legally-mandated $15 billion debt ceiling, after defaulting on four legally-mandated prefunding payments for retiree health benefits totaling $22.4 billion in the last three years. Our overall unrestricted liquidity position improved by about $2.6 billion in 2014 aided by the exigent surcharge on Market Dominant products, but is expected to improve by only about $0.3 billion in 2015. The projection assumes a default of the required $5.7 billion RHB payment due in September 2015. Whereas, the 2014 improvement in liquidity was aided in part by the extremely frugal capital investment plan, this factor will not be a large influence for 2015. Liquidity remains below acceptable levels, providing little cushion for an organization of our size, operating in an uncertain economic environment.

Unless there is a fundamental change in our financial condition, we will not have sufficient liquidity to make the $5.7 billion RHB pre-funding payment due in September 2015 or pay down debt, and we will have no ability to borrow additional funds at that date. These conditions will exist unless Congress and the President take action on the comprehensive legislative reforms that we have requested.

We will continue to pursue comprehensive legislative changes, cost reductions, and additional ways to generate revenues in 2015. Many of the structural reforms needed to ensure long-term viability, such as adjustments to the RHB pre-funding payment schedule and changes to delivery standards, can only be achieved with comprehensive legislative change.

2015 LIQUIDITY DAYS OF OPERATING CASH AVAILABLE



2014 numbers are unaudited

CONCLUSION

The 2015 IFP reflects the Postal Service's continued strides toward financial health and stability, within the limits of current law. The IFP projects growth in revenue of $1.8 billion. In conjunction with its revenue growth initiatives, the Postal Service continues to right-size its network and maximize utilization of its more flexible non-career workforce to align with the changing mailing environment.

Despite revenue growth initiatives and continued rationalization of our network, the Postal Service will still have insufficient liquidity to make the $5.7 billion RHB pre-funding payment or make a meaningful reduction in debt. Although our controllable income, as shown on page one, is estimated to be positive, significant risks such as negative economic developments, continued fiscal uncertainty of the U.S. government, inflation in fuel or wages, etc. could swiftly eliminate that positive controllable income. Our $52 billion of net losses over the previous eight years were driven significantly by $40 billion in mandated RHB pre-funding. These losses have consumed our cash and borrowing capacity to the point where we have defaulted on our RHB pre-funding obligations the past 3 years and expect to default on the RHB pre-funding payment in 2015.

We continue to inform the Administration, Congress, the Postal Regulatory Commission, and other stakeholders of the immediate and longer-term financial issues we face and the comprehensive legislative changes that would help provide financial stability. Given the vital role the Postal Service plays in the U.S. economy, a financially healthy and stable Postal Service should continue to be a top priority for all stakeholders from legislative and regulatory bodies to management, employees, and customers.