

Financial Review

Board of Governors' Open Session **May 7, 2008**

H. Glen Walker
Chief Financial Officer & Executive Vice President



Financial Performance Qtr II YTD Overview

- Volumes down on last year for all mail classes**
 - **Economy**
 - **Last price increase under old regulatory system**

- Rising fuel costs**



Our Reaction To This Environment

Intense Focus on Cost Reductions

- Work Hours and Rates
- Transportation
- Headquarters
- Real Estate



Our Reaction To This Environment

□ Growth Initiatives

- **Express, Priority, Ground Packages**
- **Returns**
- **Parcel Select**
- **Mailing Services**
 - **Business Development Teams**
 - **Managed Accounts**



Preliminary Income Statement Qtr II, FY 2008

	<u>Actual</u>	<u>SPLY</u>	<u>VAR</u>	<u>%SPLY</u>
Volume	51,302	53,028	-1,726	-3.3%
Revenue	\$18,923	\$18,339	\$584	3.1%
Expense	<u>19,630</u>	<u>19,578</u>	<u>52</u>	0.3%
Net Income/Loss	-\$707	-\$1,239	\$532	

(Data in Millions)
Financial Update

Numbers may not add due to rounding



Preliminary Income Statement Qtr II, YTD FY 2008

	<u>Actual</u>	<u>SPLY</u>	<u>VAR</u>	<u>%SPLY</u>
Volume	106,705	110,131	-3,426	-3.1%
Revenue	\$39,301	\$38,028	\$1,273	3.3%
Operating Expense	<u>39,335</u>	<u>39,280</u>	<u>\$ 55</u>	0.0%
Operating Income/Loss	-\$35	-\$1,252	\$1,217	
Prior-Year Escrow	<u>\$0</u>	<u>\$2,958</u>	<u>-\$2,958</u>	
Net Income/Loss	-\$35	-\$4,210	\$4,175	

(Data in Millions)

Current Financials

Numbers may not add due to rounding



Preliminary Qtr II 2008 Volume

	<u>Volume</u>	<u>% SPLY</u>
First-Class	23.7B	-3.1%
Standard	24.5B	-3.0%
Periodicals	2.2B	-4.3%
Express	12M	-14.3%
Priority	220M	-4.2%
Package Svc	<u>279M</u>	-4.0%
Total All Mail	51.3B	-3.3%



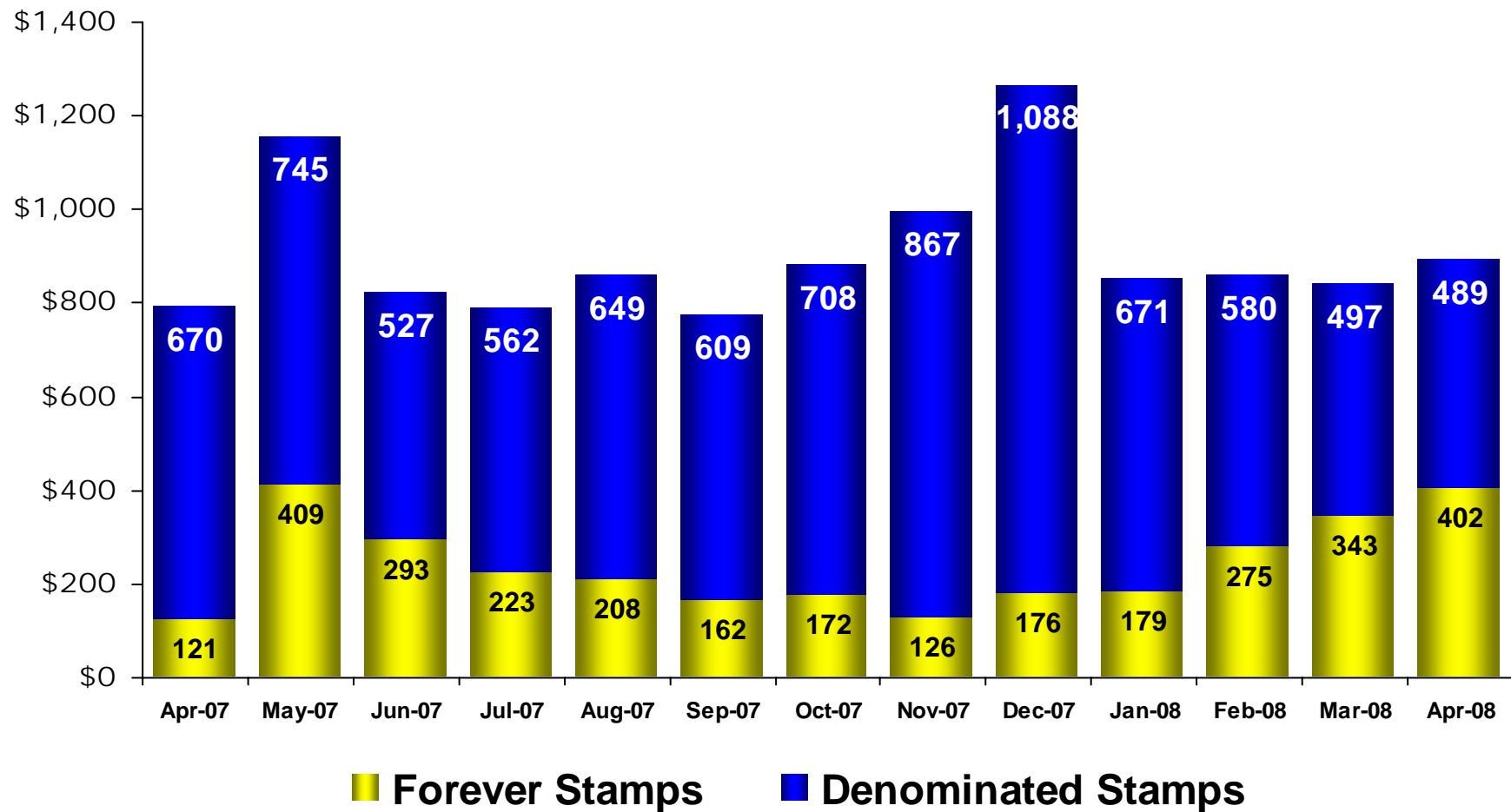
Preliminary Qtr II YTD FY 2008 Volume

	<u>Volume</u>	<u>% SPLY</u>
First-Class	48.0B	-3.5%
Standard	52.2B	-2.8%
Periodicals	4.4B	-1.6%
Express	24M	-12.6%
Priority	461M	-4.6%
Package Svc	<u>597M</u>	-3.7%
Total All Mail	106.7B	-3.1%



Total Stamp Sales

\$ Millions



Current Financials



Preliminary Expense Variance to SPLY

(\$ in Millions)	<u>Qtr II</u>	<u>Qtr II YTD</u>
Compensation & Benefits	-\$168	-\$435
Transportation	175	173
Depreciation & Amortization	47	130
Vehicle Maintenance Service	19	65
All Other	-21	122
Total Expense Variance	\$52	\$55



Challenges – 2nd Half of Fiscal Year

- ❑ Volatile Economy - financial and housing sectors account for the largest portion of the volume decline, with no turn around in sight.**
- ❑ Full year volumes are projected to be down for only the 7th year out of the last 50 years.**
- ❑ Fuel prices continue to impact expenses.**



Challenges – 2nd Half of Fiscal Year

Requires us to hope for the best but plan for the worst:

- ✓ **Intense Focus on Cost Reductions**
- ✓ **Optimize All Growth Opportunities**

Financial Review

Board of Governors' Open Session May 7, 2008

H. Glen Walker
Chief Financial Officer & Executive Vice President