

BOARD OF GOVERNORS' BRIEFING

September 11, 2006

**H. Glen Walker
Chief Financial Officer &
Executive Vice President**



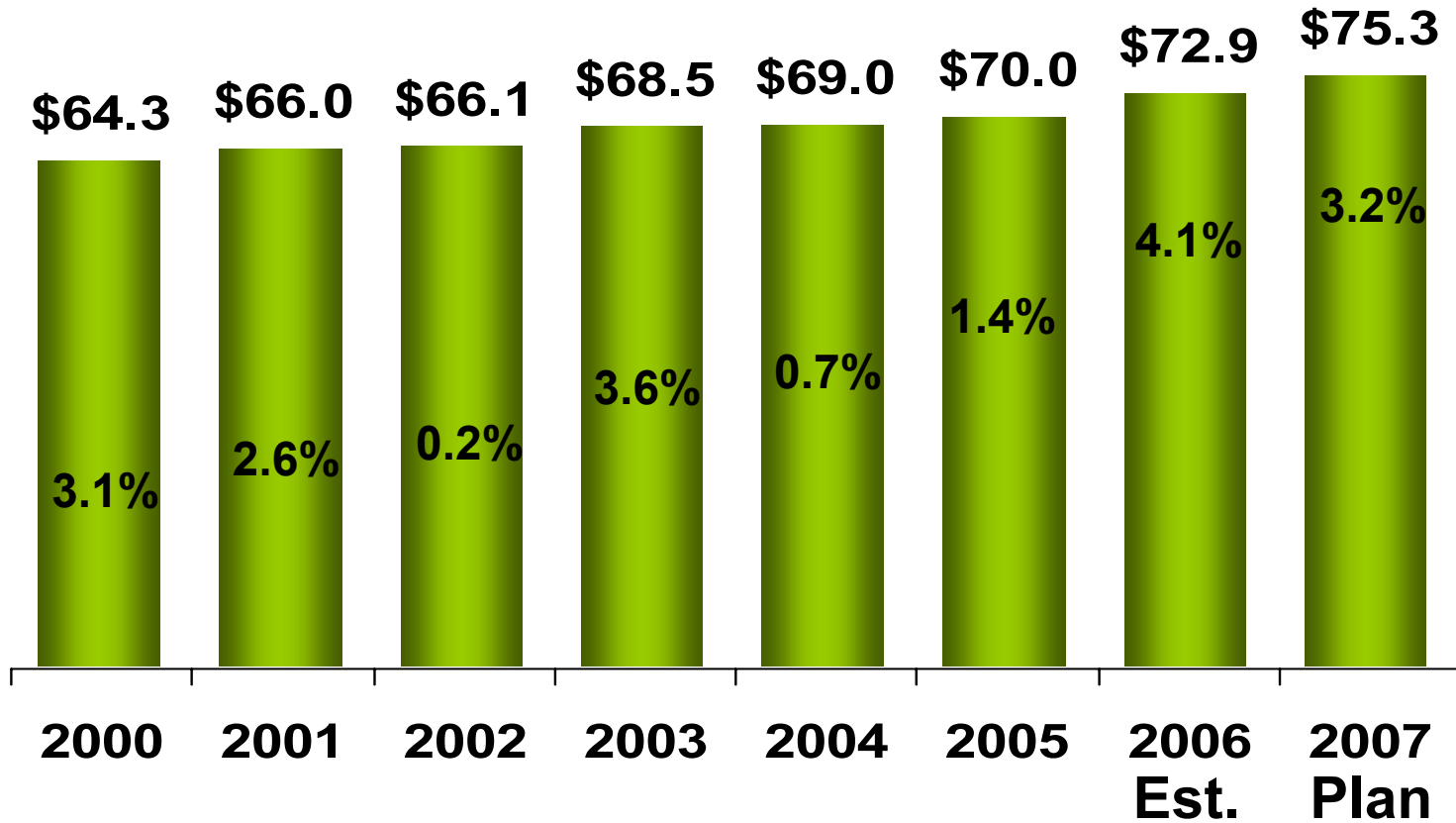
Agenda

- Financial Trends**
- Integrated Financial Plan Preview**
- Control Environment**
- Discussion**

Financial Trends



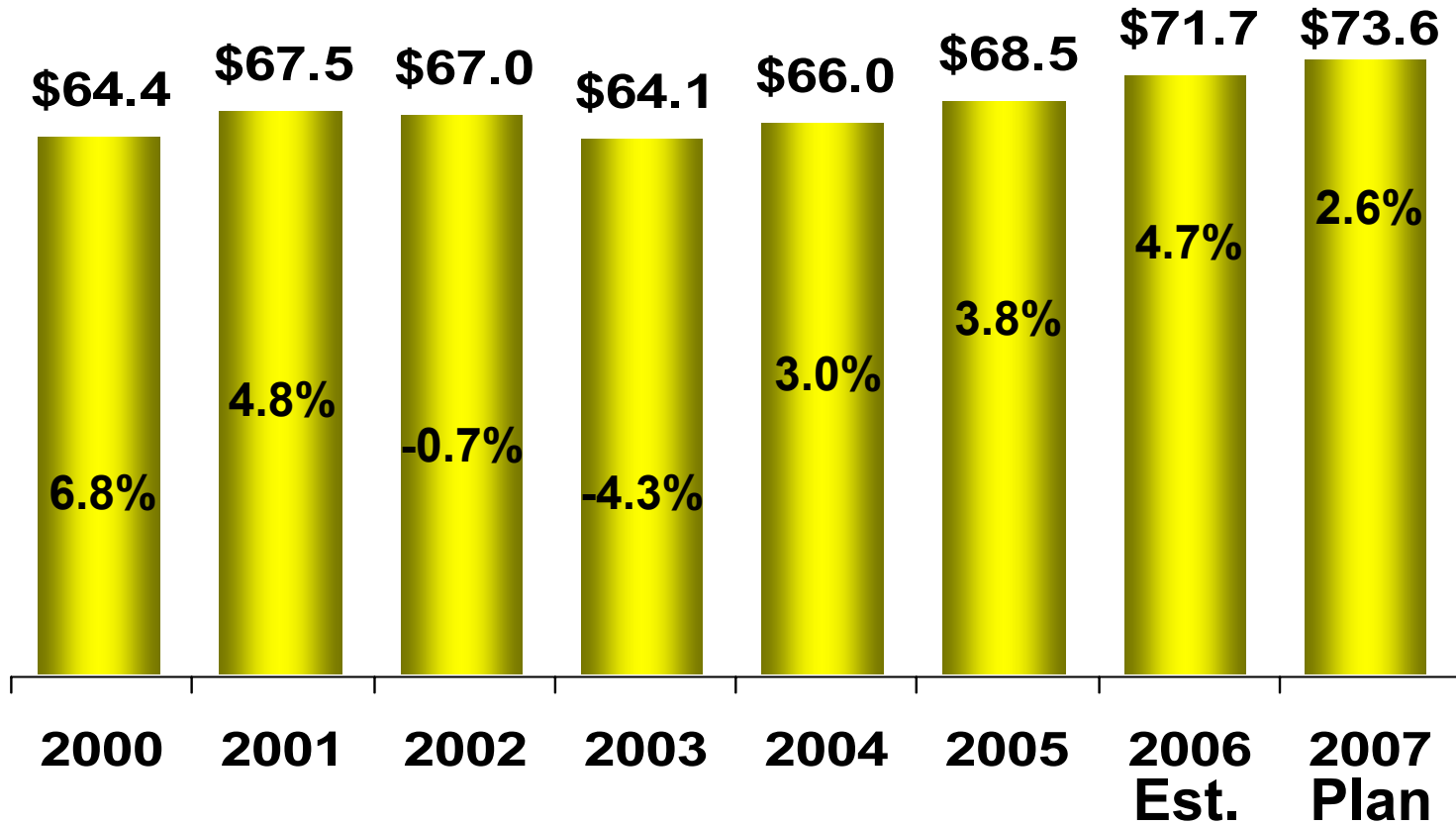
Revenue



(\$Billions)



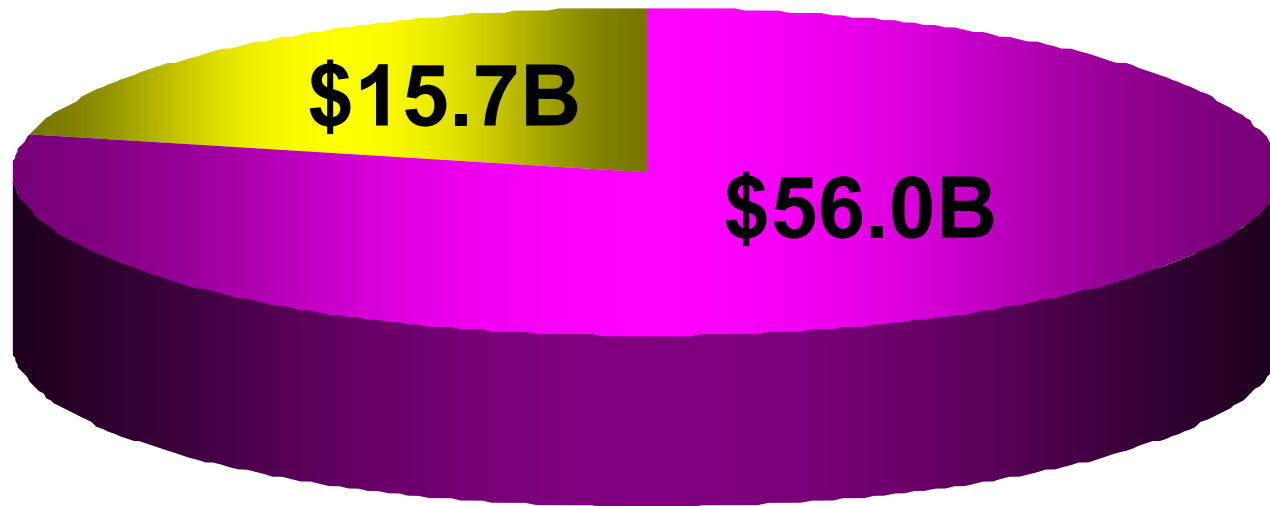
Expense



(\$Billions)

Personnel Cost

78% of Total Expense \$71.7B



 Personnel Expense  Non-Personnel Expense



Complement Drivers

- ❑ **400 Mail Processing Facilities**
- ❑ **38,000 Post Offices and Retail Outlets**
- ❑ **146 Million Delivery Points**
 - **163 Thousand City Delivery Routes**
 - **74 Thousand Rural Routes**

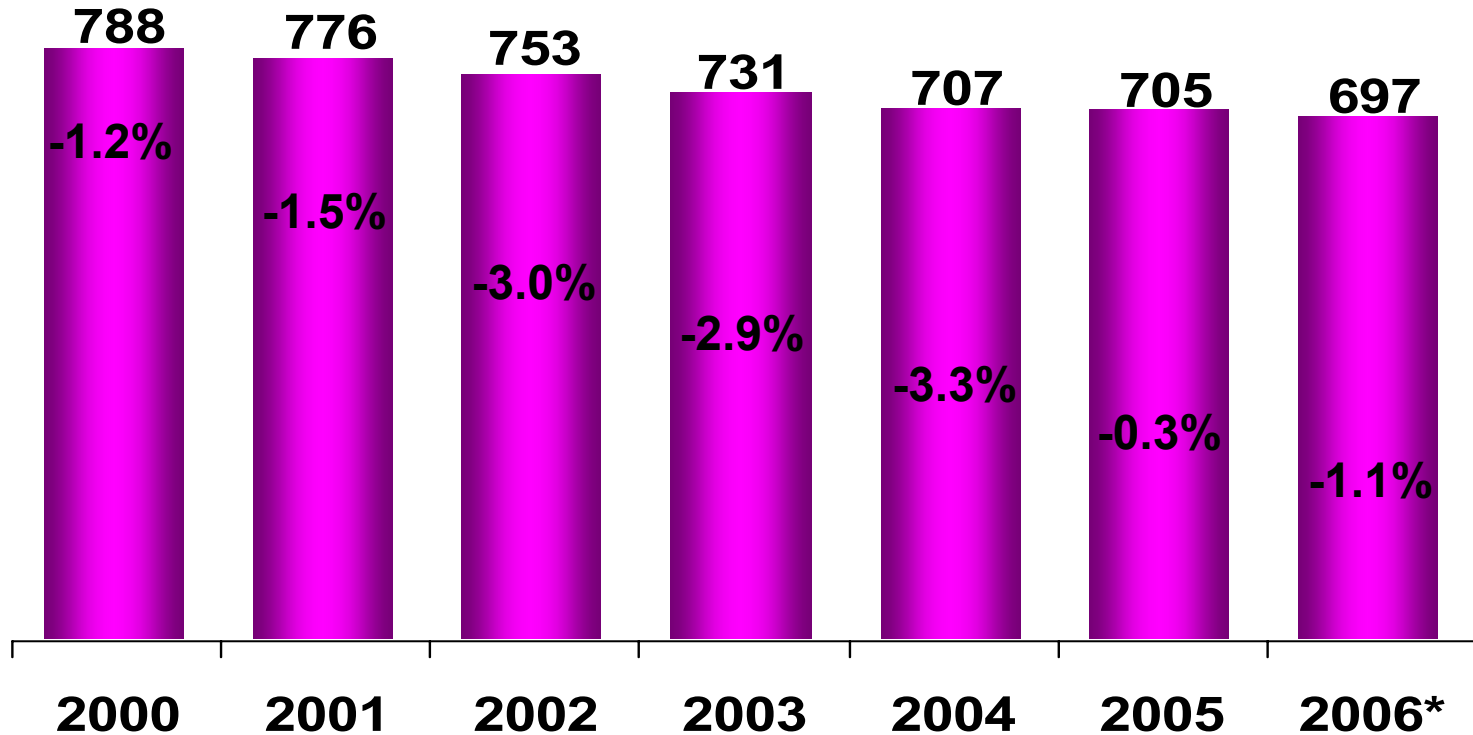
696,730 Career Employees

96,768 Non-Career Employees

793,498 Total Employees (August YTD)



Complement Career Employees



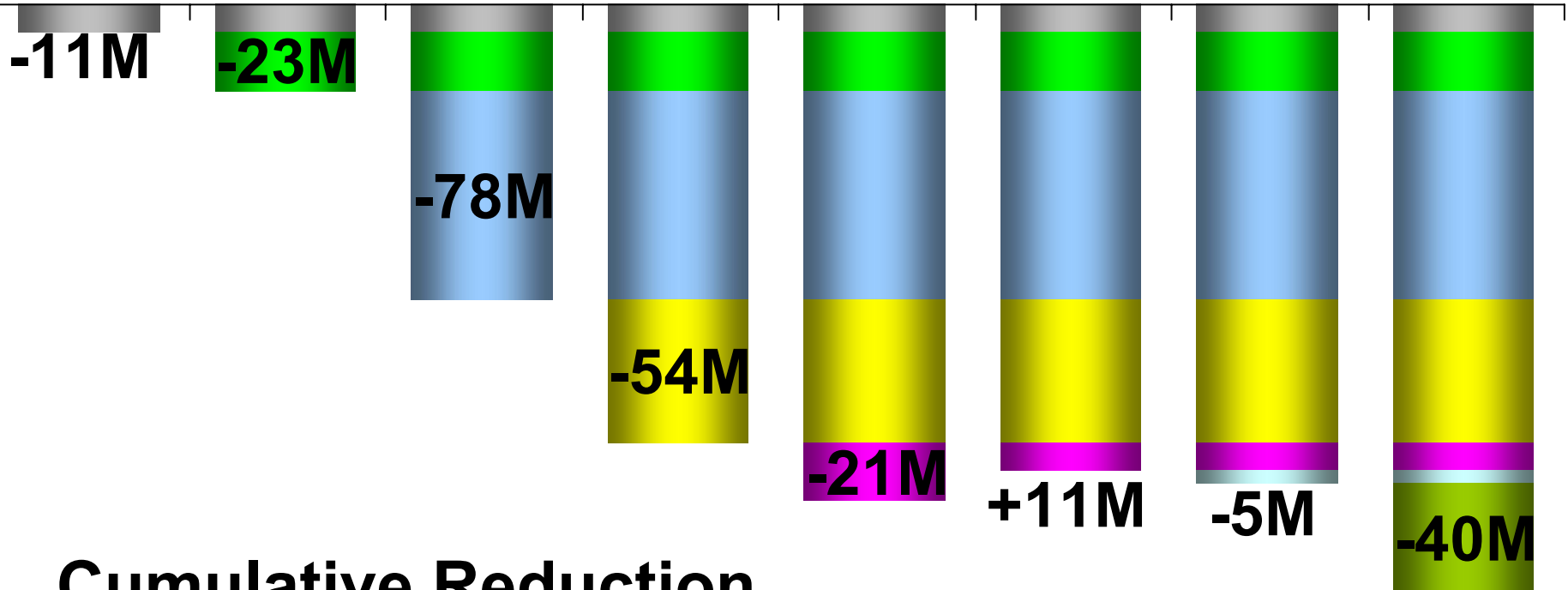
(Thousands)

* August FY2006



Workhour Reductions

FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	Est. FY 2006	Plan FY 2007
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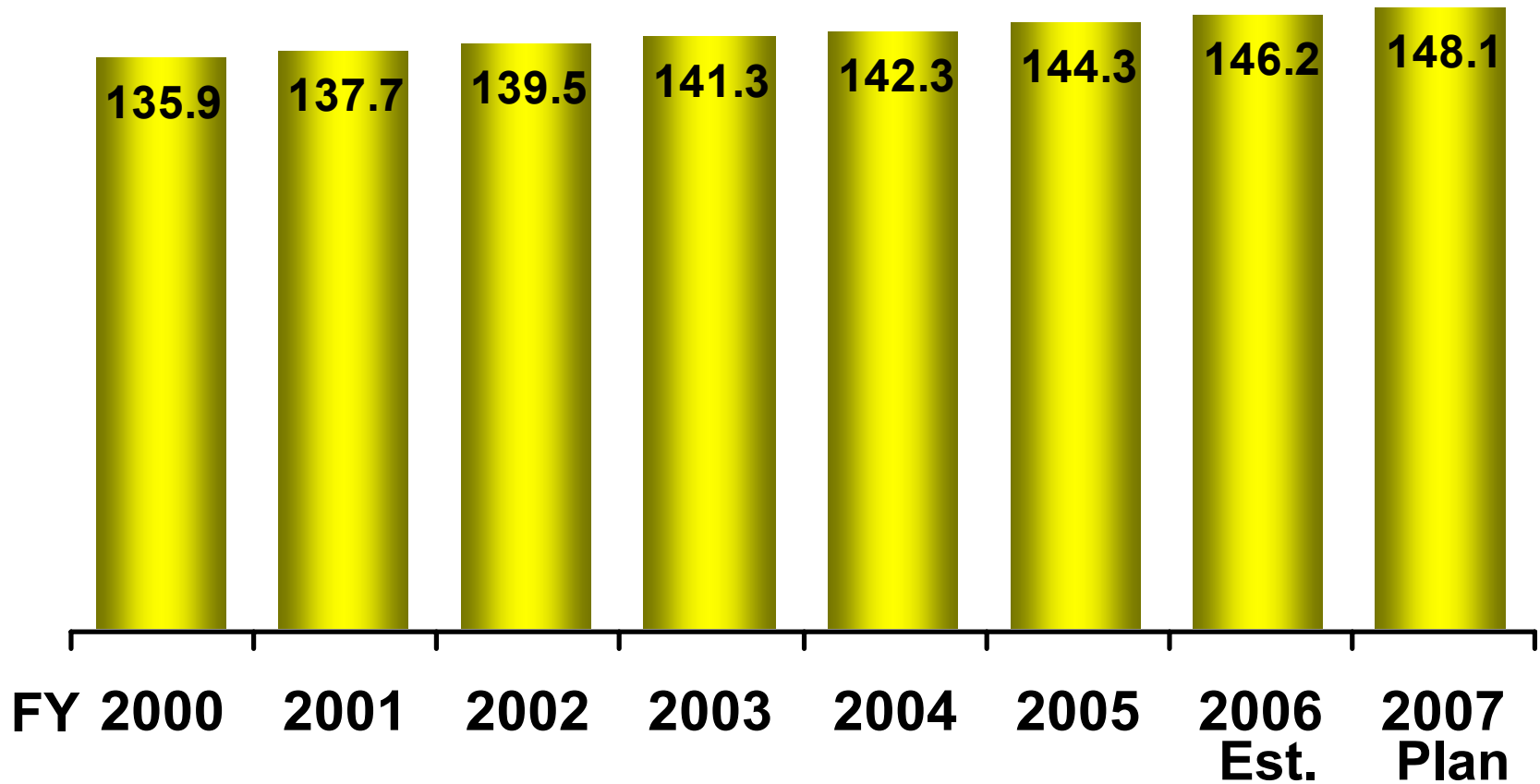


**Cumulative Reduction
713M Workhours**



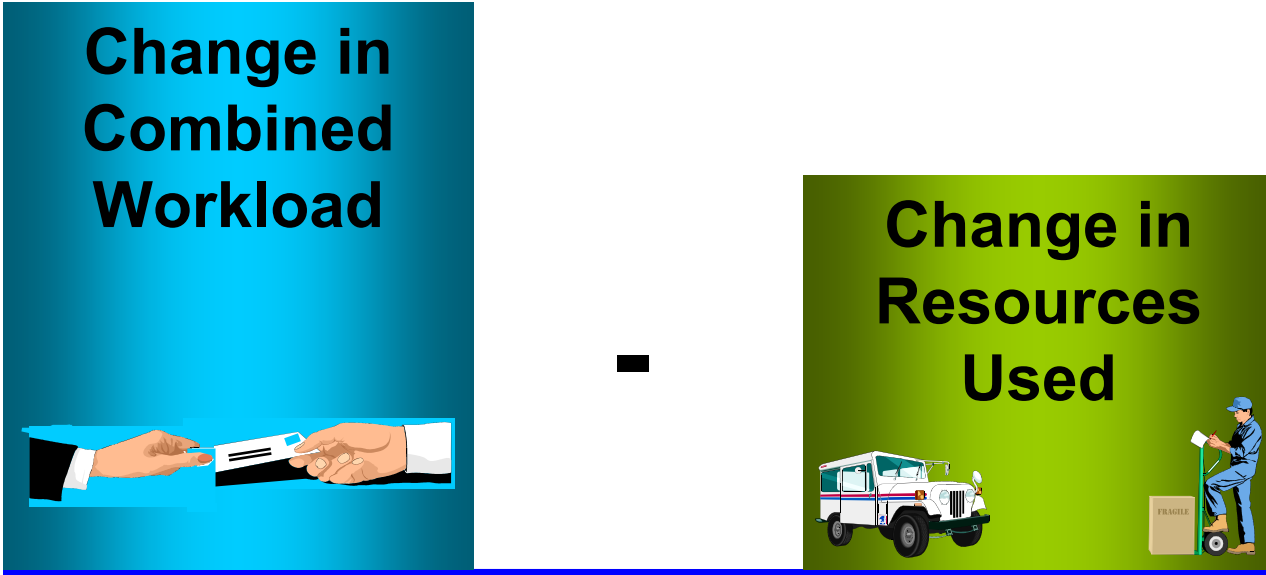
Delivery Point Growth FY 2000 – 2007

Projected Increase of 1.9 Million Delivery Points in FY 2007



(Millions)

TFP Defined

$$\text{TFP} = \text{Change in Combined Workload} - \text{Change in Resources Used}$$


The difference between change in workload and change in resource usage is “Total Factor Productivity”



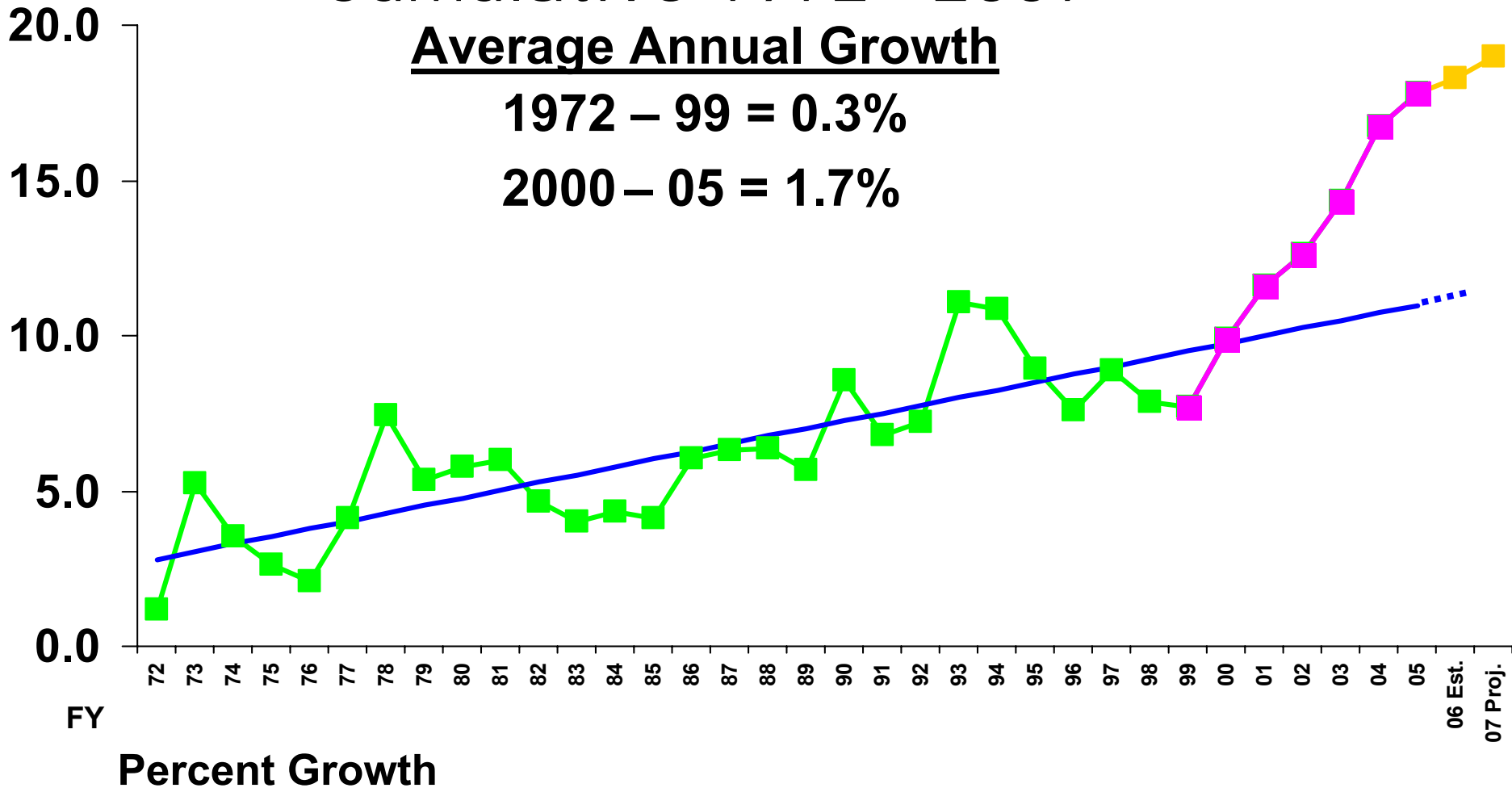
Long Term Trends - TFP

Cumulative 1972 - 2007

Average Annual Growth

1972 - 99 = 0.3%

2000 - 05 = 1.7%





TFP Components

**Combined
Workload
(Outputs)**



Weighted Mail Volume

+ Misc. Output

+ Deliveries

**Resources
(Inputs)**



Labor

+ Capital

+ Materials



Not Included in TFP Calculation

Changes in:

- Price
- Depreciation
- Interest Income
- Interest Expense



BOG BRIEFING

July 2006 YTD Results: TFP = 0.4%

Outputs

	Growth x Weight = Contribution		
Wtg. Mail Volume	0.8%	65.3%	0.5%
Misc. Output	2.0%	4.7%	0.1%
Delivery Network	1.5%	30.0%	<u>0.5%</u>
Workload Growth			1.1%

Inputs

	Growth x Weight = Contribution		
Labor	-0.3%	78.0%	-0.2%
Materials	3.3%	16.7%	0.5%
Capital	6.8%	5.3%	<u>0.4%</u>
Resource Usage Growth			0.7%

Change in Workload minus Change in Resource Usage equals TFP Growth
0.4%



ESCROW REQUIREMENT

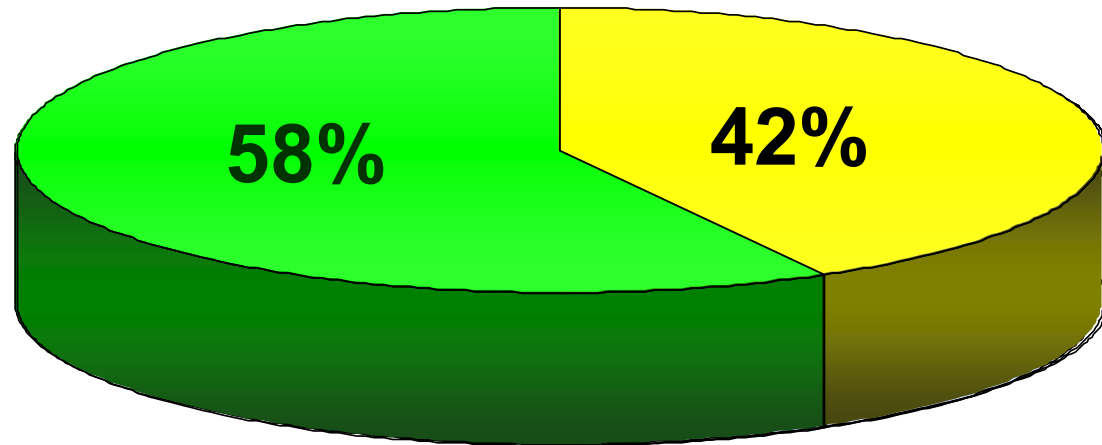
□ P.L. 108-18:

- Revised the funding formula for postal CSRS benefits and shifted, at least provisionally, the military component to the Postal Service.
- Required the Postal Service, for Fiscal Years 2003-2005, to use the full extent of its “savings” of about \$3 billion per year to reduce outstanding debt and postpone rate increases.
- Required the Postal Service to set aside in an escrow its annual savings for Fiscal Years 2006 and beyond, pending congressional action.

Attribution Level

Volume Variable and Institutional Costs

**FY 2005 Total
Expense \$68.5B**



■ Volume Variable \$39.5B

■ Institutional \$29.0B

Volume-Variable Costs Include:

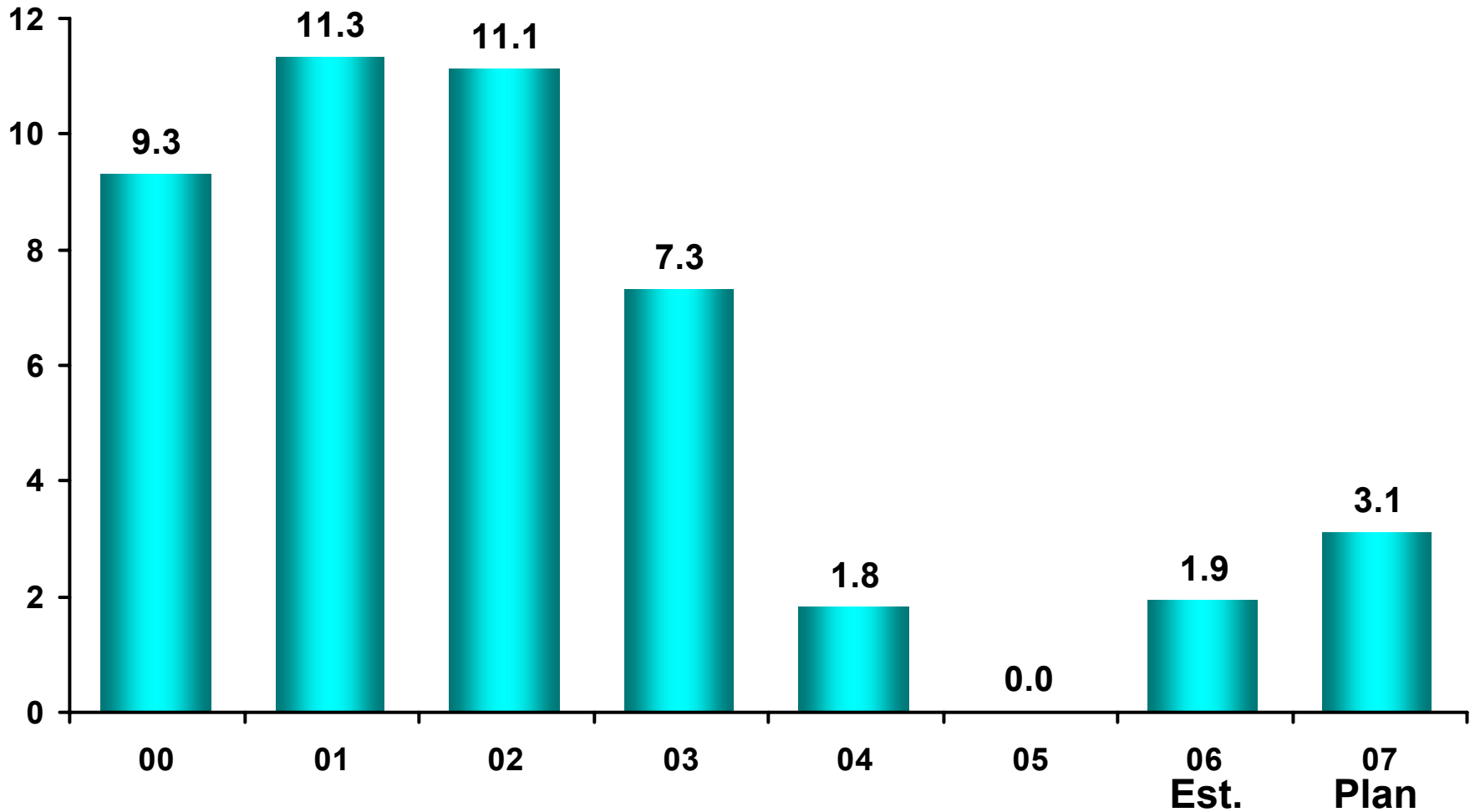
- Mail Processing
- Delivery Carriers:
 - Office Time
 - Mail Box Time
- Transportation
- Retail Transactions

Institutional "Fixed" Costs include:

- Delivery Infrastructure: 253,000 Routes, 144 million Delivery Points
- Administrative & Field Support
- Retail Infrastructure: 37,000 Post Offices



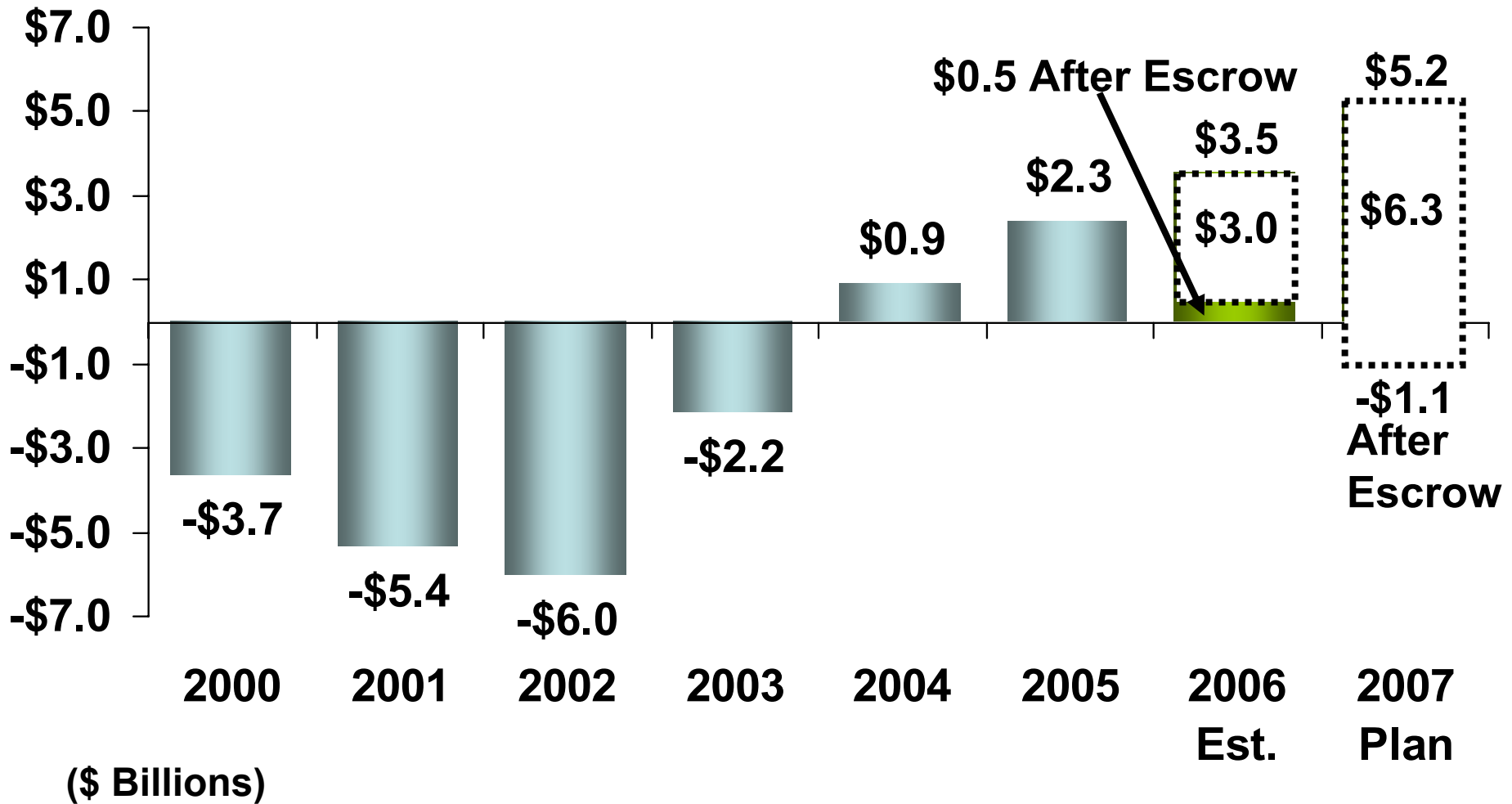
Year-End Debt



(\$ in Billions)



Deficit / Retained Earnings



FY2007 Integrated Financial Plan Preview



FY 2007 Integrated Financial Plan (IFP) Assumptions

Economy

- **Inflation Rate = 1.9%**
- **ECI Forecast (July) = 3.0%**
- **Moderate Job Growth = 1.4%**
- **Sluggish Retail Sales = 1.4%**

Continued Competitive Diversion

No Legislative Change Included

8.5 Percent Rate Increase Will Be Implemented by May 6, 2007



FY 2007 IFP Summary

- ❑ Volume (-0.5% to FY 2006)**
- ❑ Revenue (3.2% to FY 2006)**
- ❑ Cost Reductions of \$1.1 Billion**
- ❑ \$3.3 Billion Escrow Requirement**
- ❑ Eighth Consecutive Year of TFP Growth**



BOG BRIEFING

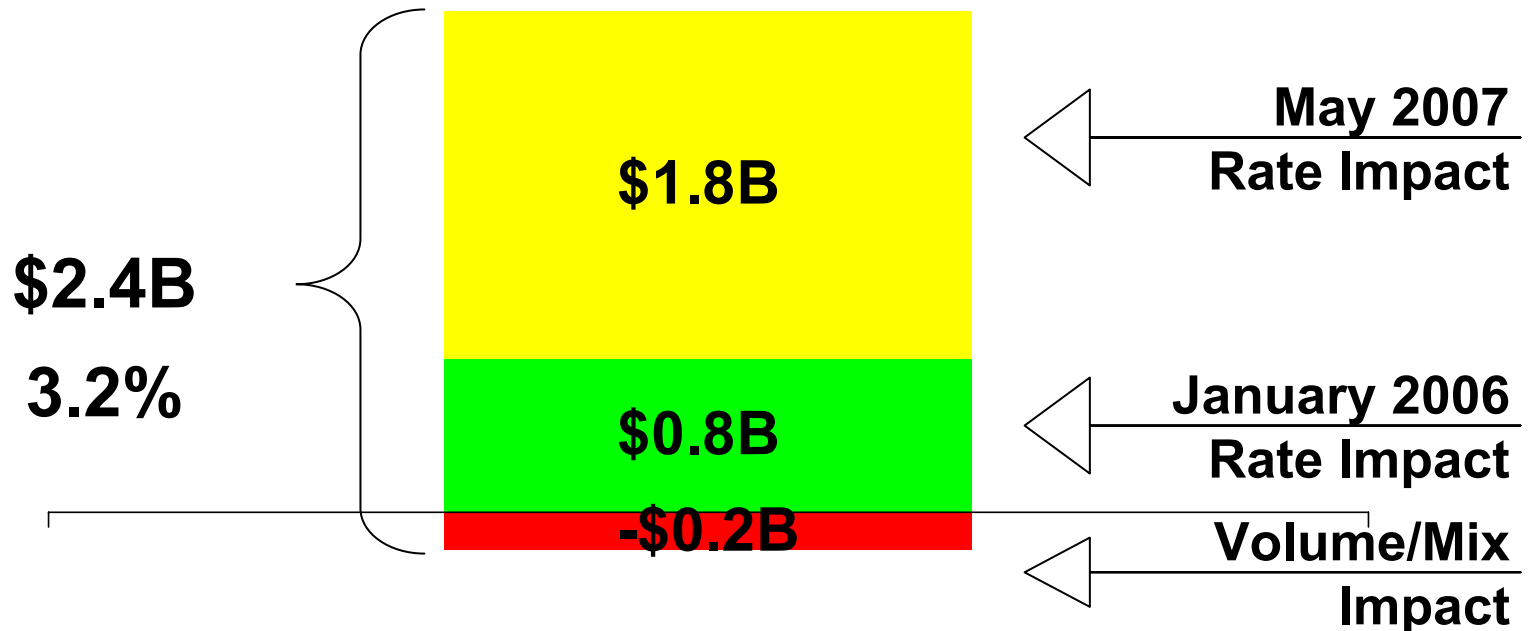
2007 IFP Income Statement

	<u>2006 YE</u>	<u>2007</u>	<u>% Chg</u>
Volume	213.5B	212.3B	-0.5%
Revenue	\$72.9B	\$75.3B	3.2%
Expense	<u>71.7B</u>	<u>73.6B</u>	2.6%
Net Income	\$ 1.2B	\$ 1.7B	
Escrow Restricted Cash	<u>\$ 3.0B</u>	<u>\$ 3.3B</u>	
Deficiency After Escrow	-\$ 1.8B	-\$ 1.6B	



Revenue Analysis

Change in FY 2007 vs. FY 2006



FY 2006 Revenue = \$72.9B

FY 2007 Revenue (projected) = \$75.3B



FY 2007 IFP - Expense Growth

\$3.0B ← **Growth Before
Cost Reductions
+4.2%**

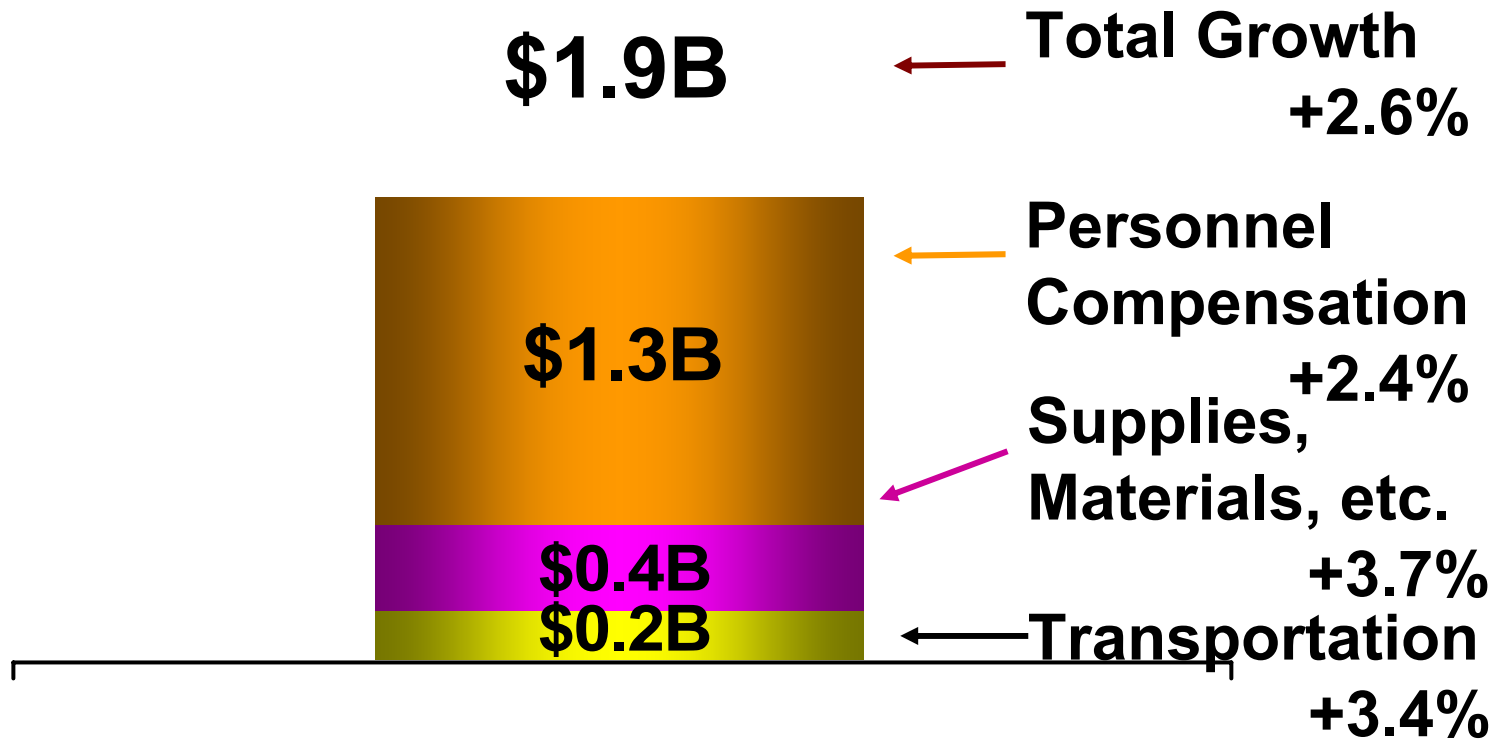
\$1.1B ← **Cost Reductions**

\$1.9B ← **Net Increase
+2.6%**



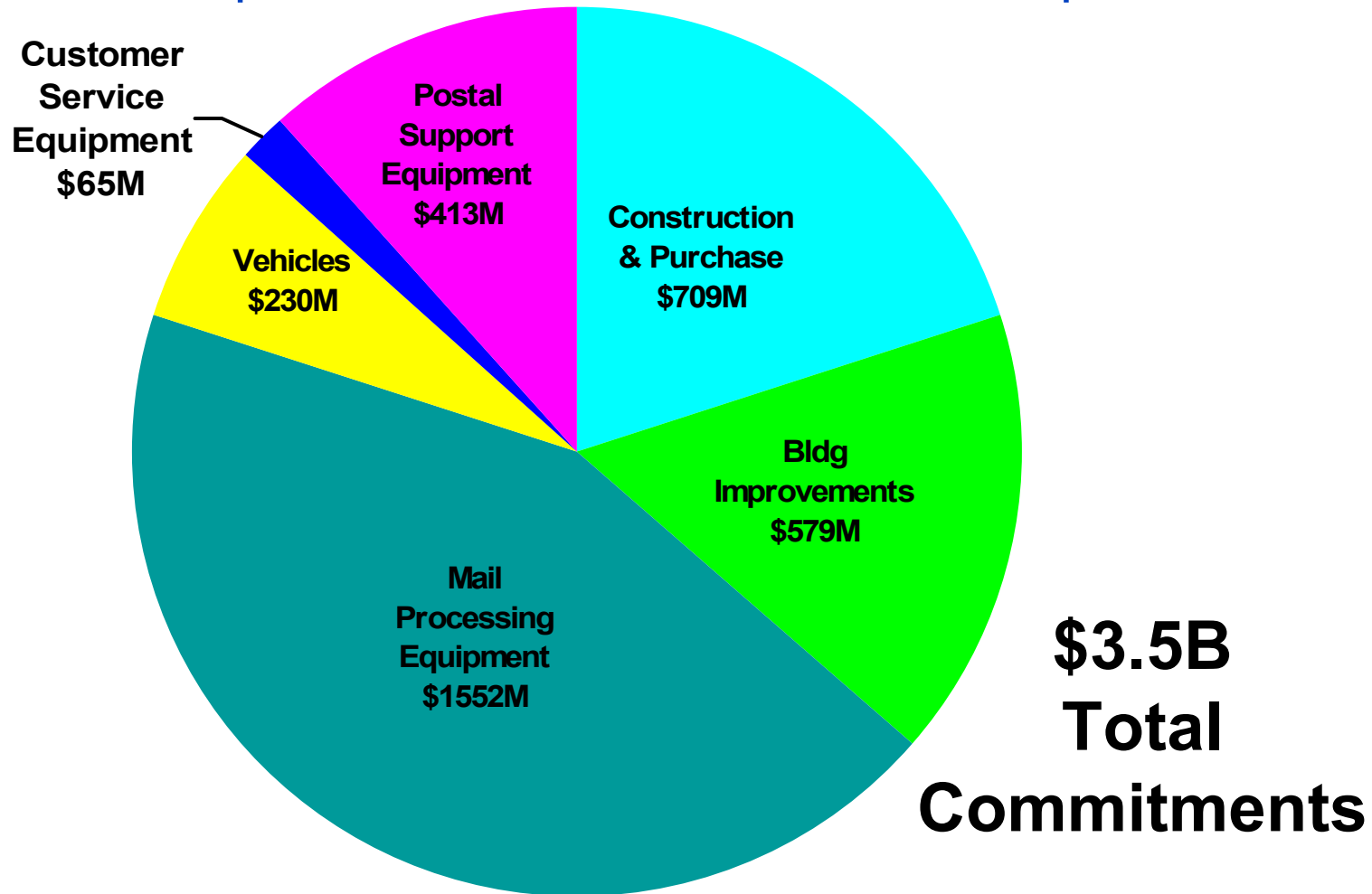


FY 2007 IFP – Expense Growth





FY 2007 IFP - Capital Commitments Components



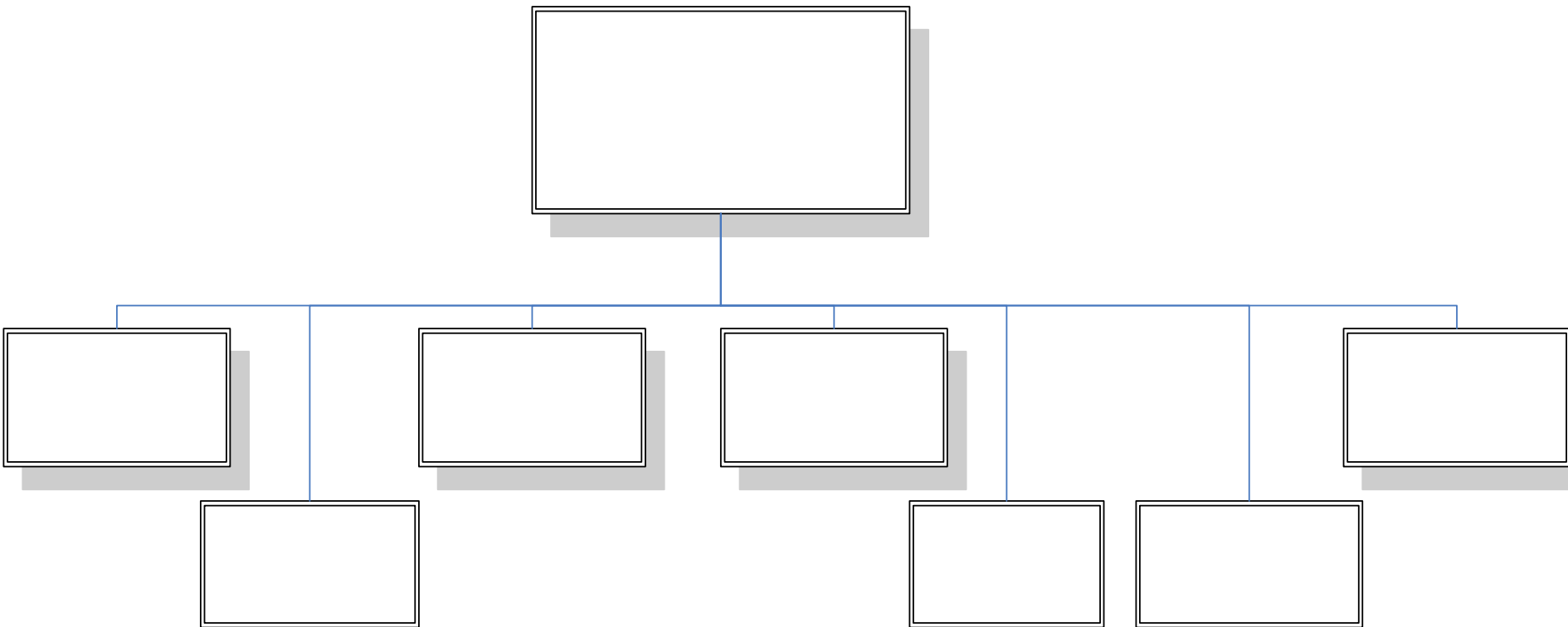


FY 2007 IFP - Risks and Uncertainties

- Economy**
- Inflation**
- Aggressive Work Hour Reductions**
- Labor Negotiations**
- Postal Legislation**
- Rate Recommendation From PRC and Implementation**

Control Environment

CFO & Executive VP Organization





Corporate Governance

- ❑ **Our financial statements are prepared using generally accepted accounting principles and are audited by an external audit firm.**
- ❑ **The Postal Service has produced annual reports since 1971**
- ❑ **Office of Inspector General (OIG) Audits**
- ❑ **Financial processes are documented**
- ❑ **The Postal Service has provided public quarterly reports since 2002**



Capital Budget Process

Preparation

Review & Validation

Set Priorities and Strategies

Decision Analysis Report (DAR) Prepared

DAR to Finance for Validation; HQ VPs, Inspection Service, OIG, Areas for Review

HQ VPs and Area Concurrence with DAR (as applicable)

Final DAR Completed

Validation Completed

SR VP Review and Approval (\$5 M - \$7.5 M)

Capital Investment Committee Review and Approval (>\$7.5 M)

DPMG / COO* Review and Approval (\$7.5 M - \$15 M)
PMG / CEO Review and Approval (>\$15 M)

Board of Governors Capital Projects Committee Review (>\$25 M)

Board of Governors Review and Approval (>\$25 M)

Compliance and After Implementation Review

Approval

Post-Approval



Expense Budget Process

- Field Budget (Includes Capital Plan) - June**
- HQ Budget - September**
- Integrated Financial Plan - September**
- President's Budget - December**
 - **Out Year (Current Planning Year + 1)**

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Financial Update July 2006 & Year-to-Date Thru July

**Board of Governors
Open Session
September 12, 2006**

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FINANCIAL UPDATE

Income Statement – July 2006

	<u>Actual</u>	<u>Plan</u>	<u>Var</u>	<u>Plan</u>	<u>SPLY</u>
Volume	16.1 B	16.3 B	[-0.2]	-1.4%	-1.1%
Revenue	\$5,494	\$5,519	[-25]	-0.5%	+4.1%
Expense	<u>5,762</u>	<u>5,741</u>	[+21]	+0.4%	+4.3%
Net Loss	-\$268	-\$221	-46		-\$251
Escrow Allocation	<u>-\$250</u>				
Deficiency After Escrow Allocation	-\$518				

[] = Unfavorable variance to plan.

Numbers may not add due to rounding.



FINANCIAL UPDATE

Income Statement – July Year-to-Date

	<u>Actual</u>	<u>Plan</u>	<u>Var</u>	<u>Plan</u>	<u>SPLY</u>
Volume	177.4 B	177.4 B	+27	0.0%	+0.8%
Revenue	\$60,561	\$60,198	+364	+0.6%	+3.9%
Expense	<u>59,222</u>	<u>58,927</u>	[+295]	+0.5%	+4.3%
Net Income	\$1,339	\$1,270	+69		\$1,459
Escrow Allocation	<u>-\$2,500</u>				
Deficiency After Escrow Allocation	-\$1,161				

[] = Unfavorable variance to plan.

Numbers may not add due to rounding.



FINANCIAL UPDATE

Volume and Revenue – Change to SPLY– July YTD

	<u>Volume FY 2006</u>	<u>Volume % Change</u>	<u>Revenue \$ Change</u>	<u>Revenue % Change</u>
First-Class	81.9B	-0.5%	+\$753M	+2.5%
Standard	84.5B	+1.7%	+\$745M	+4.8%
Periodicals	7.5B	-1.7%	+\$18M	+1.0%
Package Svc.	975M	+1.7%	+\$44M	+2.4%
Priority	777M	+4.9%	+\$359M	+9.3%
Express	47M	+1.8%	+\$43M	+5.9%
Total	177.4B	+0.8%	+\$2.3B	+3.9%

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