UNITED STATES POSTAL SERVICE®

Fiscal Year 2013 Integrated Financial Plan

EXECUTIVE SUMMARY

The fiscal year (FY) 2013 Integrated Financial Plan (IFP) has a projected Operating Loss of $2.0 billion, versus Operating Losses of $2.4 billion in FY2012 and $2.7 billion in FY2011. The reductions in Operating Losses are a result of our continuing efforts to increase revenue and reduce costs. The FY2013 net loss is forecast to be $7.6 billion, including $5.6 billion of currently mandated pre-funding for retiree health benefits, but before consideration of the expense associated with adjustments to long-term workers' compensation liabilities. These workers' compensation adjustments are heavily influenced by changes in interest rates and actuarial estimations and are too volatile to accurately forecast.

Statements of Operations

In Billions	2012 Actual	2013 Plan
Revenue	$ 65.2	$ 64.9
Expenses	67.5	66.7
Separation Costs	0.1	0.2
Operating Income (Loss)	**$ (2.4)**	**$ (2.0)**
RHB Pre-funding	(11.1)	(5.6)
Workers' Compensation Adj. *	(2.4)	TBD
Net Income (Loss)	**$ (15.9)**	**$ (7.6)**
Mail Volume	**159.9**	**153.1**

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

The IFP shows that again in FY2013, there will be insufficient liquidity to make the $5.6 billion pre-funding payment for retiree health benefits. Even after not making the $11.1 billion of pre-funding payments for FY2012 and the $5.6 billion pre-funding payment for FY2013, we estimate that we will end FY2013 with a cash balance of only $0.8 billion. Additionally, we will have a number of days during the year when our cash or liquidity balance is near $1.0 billion, which represents approximately four days of average daily expenses. If either projected revenues or expense reductions fail to achieve expectations, the risk of a cash shortfall becomes significant. This IFP includes estimated gross cash inflows and outflows of over $130 billon. Just a one percent error in our cash forecasting will result in a $1.3 billion adjustment to cash. The margin for error is slim—a commercial entity our size would typically have minimum liquidity sources totaling $7 to $10 billion to allow for sufficient variations to plan and to invest.

The FY2013 IFP is based on an economic outlook that is weaker than that of FY2012. However, the FY2013 IFP also reflects that the Postal Service is aggressively pursuing new revenue streams, improving productivity, and reducing costs in areas within its control. It considers significant cost reductions and efficiency improvements intended to right-size the organization to reflect current and future expected mail volumes. These measures include consolidation of mail processing facilities, along with changes to Post Office operations and transportation networks.

The FY2013 IFP projects total revenue of $64.9 billion and expenses of $66.7 billion, after cost reductions of $2.3 billion which are driven by a reduction of 41 million work hours. These cost reductions mitigate inflationary increases and drive an $800 million net reduction in expenses as compared to FY2012.

Although our cost-reduction and revenue-generation initiatives are expected to positively impact cash flow, we currently project they may not, in the aggregate, be sufficient to offset potential cash shortfalls in October 2013. Many of the structural reforms needed to ensure long-term viability, such as the resolution of our excessive Retiree Health Benefits pre-funding payment schedule and changes to delivery frequency, can only be achieved with legislation. There can be no assurance that Congress will enact legislation that will impact the Postal Service for FY2013 or future years, and accordingly the IFP does not reflect any benefits associated with potential legislative changes.

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

1. MAJOR ASSUMPTIONS

A. The Economy

The high unemployment rate along with slow economic growth, continue to impact consumer confidence, increasing economic risk. In addition, the looming "fiscal cliff" and its threats of significant federal tax increases and government spending reductions has further increased economic uncertainty, affecting the improving, but still weak, levels of consumer and business spending. The ongoing European economic crisis, which began in 2011, also continues to be a significant drag on international economic growth due to lower economic output from the region. The USPS business, financial position, and results of operations will continue to be adversely impacted to the extent that the US and other countries experience slow economic growth.

In developing the IFP forecast, we consider multi-year trends in our product sales (weighting more recent trends), expected market growth and market share growth, changes in prices and marketing programs, expected migration of hard copy mail to digital transmissions, and 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 FY2013, Global Insight anticipates that the US economy will continue to move at a very measured pace and that economic growth will slow even further compared to FY2012.

Gross Domestic Product is projected to increase by only 1.7 percent, down from 1.9 percent in 2011 and 2.2 percent in 2012, reflecting consumers' careful spending. Retail sales growth is expected to slow from 3.7 percent in 2012 to 1.7 percent in 2013.

The additional uncertainty about tax increases and the federal budget are also affecting business spending. Global Insight is expecting investment growth to decelerate from 11.2 percent in 2012, to 4.1 percent in 2013, also down from the 2011 growth rate of 5.0 percent.

Although employment will continue to grow, the pace of this growth is also expected to slow as the labor force participation rate rises, decreasing from 1.9 percent in 2012 to 1.6 percent in 2013.

Economic Drivers

	2011 Actual	2012 Actual	2013 Forecast
Gross Domestic Product	**1.9%**	**2.2%**	**1.7%**
Retail Sales	**5.6%**	**3.7%**	**1.7%**
Consumer Price Index for All Urban Consumers	**2.6%**	**2.4%**	**1.4%**
Consumer Price Index for Wage Earners	**3.0%**	**2.5%**	**1.3%**
Employment Cost Index	**1.7%**	**1.8%**	**1.8%**
Employment	**1.5%**	**1.9%**	**1.6%**
Investment	**5.0%**	**11.2%**	**4.1%**

Source: Global Insight - October 2012

The recent recession and its aftermath continue to have lingering adverse effects on the economy, while uncertainty concerning the "fiscal cliff" continues to put further pressure on the already slow recovery. Moreover, the increase in the adoption of new technology and customer diversion into other media seems to have an even greater negative impact on the mail than even these economic indicators predict.

B. Mail Volume and Revenue

The FY2013 IFP projects that total mail volume will decrease by 4.2 percent from 2012 levels. First-Class Mail volume is expected to decline by 6.1 percent, reflecting the continuing migration towards electronic communication and the weak economy. Standard Mail volume is expected to decrease by 3.2 percent, not only affected by the slower economic recovery and decline in credit card solicitations, but also the proliferation of alternative advertising media and the continuing adoption of technologies that help advertisers selectively target their mailings.

A significant growth opportunity is provided by the continued expansion of e-commerce. New services and successful marketing campaigns will allow us to capture a growing share of this market. Accordingly, we project that Shipping and Packages volume will grow 7.0 percent in FY2013, after increasing 7.5 percent in FY2012.

Total revenue for 2013 is expected to show a net decrease of $0.3 billion from FY2012. This decline incorporates the impact of the recently announced price increases of 2.6 percent for Market Dominant products and 9 percent for Competitive products, effective in January 2013.

Structural Changes

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

2. 2013 OPERATING PLAN – MAIL VOLUME AND REVENUE

A. Volume

The FY2013 IFP projects total mail volume of 153.1 billion pieces, a decline of 6.8 billion pieces, or 4.2 percent, from 2012 levels. For First-Class Mail, the plan projects a decline of 4.2 billion pieces or 6.1 percent from 2012. This reflects the continuing migration of First-Class Mail to electronic communication and transaction alternatives. Standard Mail is expected to decrease by 2.5 billion pieces, or 3.2 percent, reflecting reduced economic growth, lower credit card solicitations, and the impact of new technologies.

Volume		
Billion pieces	2012 Actual	2013 Plan
First-Class Mail	**68.7**	**64.5**
Standard Mail	**79.5**	**77.0**
Shipping and Packages	**3.5**	**3.7**
International	**0.9**	**0.9**
Periodicals	**6.7**	**6.5**
Other	**0.5**	**0.5**
Total Volume	**159.9**	**153.1**

Shipping and Packages volume is expected to grow 7.0 percent to 3.7 billion pieces in 2013, led by the strong year-over-year growth in e-commerce.

The remaining products and services are expected to decline from 8.1 billion pieces in 2012 to 7.9 billion pieces in 2013, driven primarily by a decline of 0.2 billion pieces in Periodicals. Periodicals volume is not expected to return as electronic content continues to grow in popularity with the public.

B. Revenue

Total revenue for 2013 is expected to decrease by $0.3 billion. This assumes an average price increase of 4 percent effective January 2013 (2.6 percent increase for Market Dominant products and 9 percent increase for Competitive products).

First-Class Mail revenues are projected to decline by $1.3 billion, while Standard Mail revenues are expected to decline by $0.2 billion.

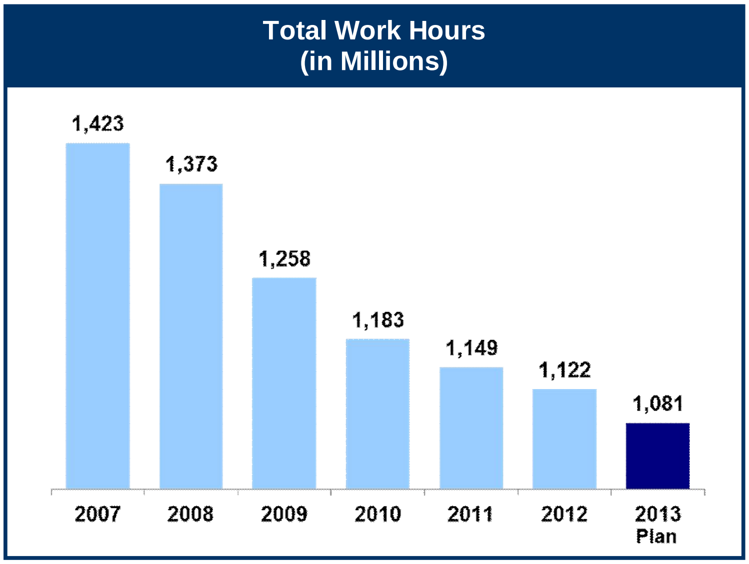
Revenue				
in Billions		2012 Actual		2013 Plan
First-Class Mail	**$**	**28.9**	**$**	**27.6**
Standard Mail		**16.4**		**16.2**
Shipping and Packages		**11.6**		**12.8**
International		**2.8**		**3.0**
Periodicals		**1.7**		**1.7**
Other		**3.8**		**3.6**
Total Revenue	**$**	**65.2**	**$**	**64.9**

Revenue from Shipping and Packages is projected to increase by approximately $1.2 billion in 2013 and to offset most of the declines in First-Class Mail and Standard Mail revenue.

It is important to note that even though the increase in Shipping and Packages revenue appears to compensate for the loss in First-Class Mail and Standard Mail revenue, this is not the case in terms of profitability. Shipping and Packages revenue has a contribution margin of only 15 percent of revenue versus First-Class and Standard Mail which have contribution margins of 52 percent and 34 percent, respectively. Growth in Shipping and Packages would have to substantially exceed the declines in First-Class and Standard Mail in order to fully replace their lost profit.

3. 2013 OPERATING PLAN – EXPENSES

Total work hours were 1,122 in FY2012, and represented a 27 million hour decline, or 2.4 percent, compared to 2011. The plan forecasts total work hours of 1,081 million for FY2013 and a work hour reduction target of 41 million, or 3.7 percent. Success in meeting this goal will be required to achieve the $2.3 billion in total planned cost reductions and efficiency improvements for 2013.



Operating Expenses before Separation Costs, Retiree Health Benefits Pre-funding, and Non-cash adjustments to Workers' Compensation are projected to decrease by $0.8 billion, or 1.2 percent, in 2013. This decline is driven mostly by a net reduction of $1.0 billion in compensation and benefits costs, driven by the 41 million work hour reduction and other operational initiatives. These savings are partially offset by contractually-required cost increases. Transportation and other non-personnel costs increase slightly in FY2013 as a result of the effects of inflation, while depreciation decreases due to restrained capital spending in 2013 and prior years.

Operating Expenses

in Billions		2012 Actual		2013 Plan
Compensation and Benefits	$	51.5	$	50.5
Transportation		6.6		6.7
Depreciation		2.1		2.0
Other Non-Personnel Costs		7.3		7.5
Operating Expenses	**$**	**67.5**	**$**	**66.7**
Separation Costs		0.1		0.2
RHB Pre-funding		11.1		5.6
Non-cash Workers' Comp. Adj. [1]		2.4		TBD
Total Expenses	**$**	**81.1**	**$**	**72.5**

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

The FY2013 IFP assumes $0.2 billion in Separation Costs as a result of the recently announced incentive with the APWU and the consolidation of facilities planned for FY2013.

Costs associated with Non-cash Workers' Compensation adjustments will be determined by changes in interest rates and changes in long-term workers' compensation claims during 2013 and are too volatile to accurately forecast.

4. CAPITAL PLAN

A. Capital Commitments

The 2013 capital commitment plan of $1.0 billion is well below average historical levels and reflects our continuing efforts to conserve cash. Capital commitments continue to be targeted toward projects with high investment returns that improve the customers' experience, support key initiatives, and provide basic infrastructure needs.

Capital Commitments					
In Billions		5-Year Avg. ('06-'10)	2011 Actual	2012 Actual	2013 Plan
Facilities	$	0.9	0.5	0.3	0.4
Equipment		0.5	0.2	0.1	0.2
Infrastructure and Support		0.3	0.1	0.1	0.4
Total	**$**	**1.7**	**0.8**	**0.5**	**1.0**

Facilities

In 2013, commitments for facilities are planned at $0.4 billion and represent approximately 40 percent of the total plan. This investment is primarily for facility infrastructure including building modifications that are necessary to accommodate the ongoing plant consolidations and repairs of our aging buildings. There are no plans to build new facilities.

Equipment

The 2013 capital plan for equipment is $0.2 billion or approximately 20 percent of the total plan. The majority of these investments are focused on improving existing equipment and projects that will improve productivity and reduce operating costs.

Infrastructure and Support

The infrastructure and support category is planned at $0.4 billion or approximately 40 percent of the total plan. Investments in this category include network updates for customer facing technology improvements including replacement retail terminals, mail acceptance system simplification, and enhancements to mail scanning and tracking systems.

B. Capital Cash Outlays

Capital cash outlays continue to decline from the levels of previous years as we seek to conserve cash. Cash Outlays for 2013 are for similar items as described above for Commitments.

Capital Cash Outlays					
In Billions		5-Year Avg. ('06-'10)	2011 Actual	2012 Actual	2013 Plan
Facilities	$	0.9	0.6	0.4	0.4
Equipment		0.8	0.4	0.3	0.2
Infrastructure and Support		0.4	0.2	0.1	0.4
Total	**$**	**2.1**	**1.2**	**0.8**	**1.0**

LIQUIDITY AND FINANCING PLAN

A. Cash Flow and Debt

in Billions	2012	2013
Net Loss	**$ (15.9)**	**(7.6)**
(+) RHB Pre-funding - not paid	11.1	5.6
(+) Depreciation	2.1	2.0
(+) Non-cash Workers' Compensation Adj.	2.4	-
(-) Capital Cash Outlays	(0.7)	(1.0)
(-) Other changes in working capital	(0.2)	(0.3)
Cash Used in Operations	**(1.2)**	**(1.3)**
Cash at Start of Year (less restricted - $0.2)	**1.3**	**2.1**
Borrowing During Year ($15 Billion Debt)	**2.0**	-
Cash Balance / (Shortfall) at End of Year	**2.1**	**0.8**

For FY2013, the projected net loss of $7.6 billion includes $5.6 billion of currently required pre-funding of RHB. Our liquidity position is well short of being able to make pre-funding payments, so we have excluded the $5.6 billion payment due on September 30, 2013, as well as the $11.1 billion in RHB pre-funding still outstanding for FY2012. The net cash to be used in operating the Postal Service during 2013 is estimated to be $1.3 billion. With a beginning balance of $2.1 billion, we expect to end the year with only $0.8 billion of cash. This is a dangerously low level of liquidity as it is equivalent to less than four days of operating costs. This projection assumes that we are able to achieve our operating plan with significant cost reductions and no unforeseen drops in revenue.

As of September 30, 2012, we had reached the statutory $15 billion debt limit. 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. Additionally it could require us to dedicate a substantial portion of our future cash flow from operations to payments on indebtedness, thus reducing the availability of cash flow to fund working capital, capital expenditures, and other general organizational activities.

B. Liquidity

The graph on page 7 plots liquidity on a monthly basis for fiscal years 2012 and 2013, along with a mid-month balance for October 2013 (first month of FY2014). Liquidity is the sum of our unrestricted cash balance plus any available borrowing capacity. We include October 2013 in our graph because it is a critical liquidity month. Each year in October we are required to remit our annual workers' compensation reimbursement to the Department of Labor of approximately $1.5 billion (for 2013).

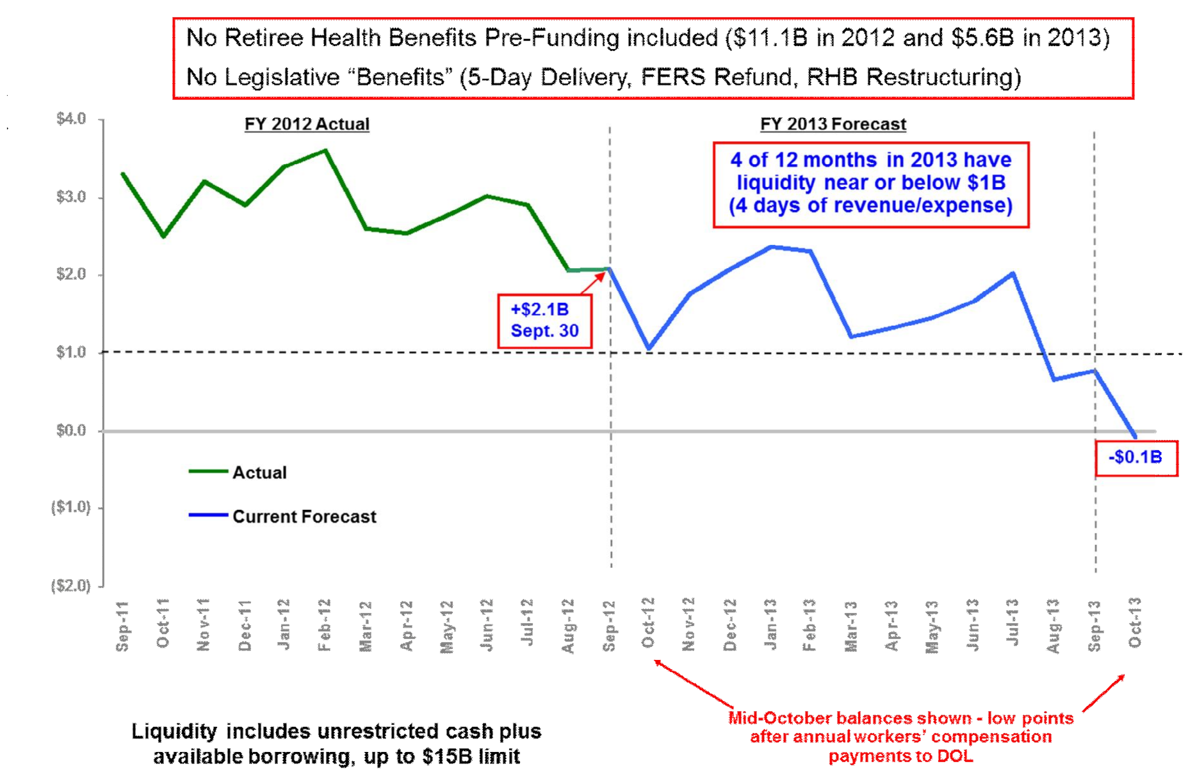
We ended 2012 with $2.1 billion of total cash and no remaining borrowing capacity on our $15 billion debt facility, after defaulting on the two legally-mandated prefunding payments for retiree health benefits totaling $11.1 billion. Although our liquidity position is projected to improve slightly for a few months during the fall mailing season, current projections indicate that we will once again have an extremely low level of liquidity in the second half of 2013.

Unless there is a significant legislative change affecting our financial condition, we will not have sufficient liquidity to make the $5.6 billion RHB pre-funding payment due in September 2013 and we will have no ability to borrow additional funds at that date. We are projected to be at least $4.8 billion short of having sufficient cash or liquidity to make the RHB pre-funding payment in FY2013 and continue operations. These conditions will exist unless Congress and the President take action on the legislative actions that we have requested.

In the event of a projected liquidity shortfall, we will prioritize payments to our employees and suppliers to help ensure that the Postal System continues to operate in a quality manner. Additionally, we continue to seek a refund of our FERS surplus, as those funds would help alleviate some of our short-term liquidity risks. The OIG has determined that if Postal Service-specific assumptions were used in estimating the FERS obligation, rather than government-wide averages, the surplus would be much greater than the $2.6 billion calculated by the Office of Personnel Management as of September 30, 2011, the latest actual data available.

We will continue to pursue legislative changes, cost reductions, and additional ways to generate revenues in 2013. Although our cost-reduction and revenue-generation initiatives are expected to positively impact cash flow, we project that they may not, in the aggregate, be sufficient to offset potential cash shortfalls, which could occur in the second half of 2013. Many of the structural reforms needed to ensure long-term viability, such as adjustments to the Retiree Health Benefits pre-funding payment schedule and changes to delivery standards, can only be achieved with legislative change.

2013 Total Liquidity



CONCLUSION

Despite major cost reductions and revenue initiatives, we project an operating loss of $2.0 billion for 2013. Our $41 billion of net losses over the previous six years were driven significantly by $32 billion in mandated RHB pre-funding expenses. These losses have consumed our cash and borrowing capacity to the point where we can barely fund operations in FY2013, and may be forced to default on RHB pre-funding payments in 2013.

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 legislative changes that would help provide financial stability. Given the vital role the Postal Service plays in the U.S. economy, we are hopeful that Congress will promptly enact, and the President will sign, legislation which will mitigate our short-term financial challenges and provide us with the authority to make needed changes to ensure long-term financial stability.