

USPS Financial Future

Responsibly Realigning Our Network

February 2012



Situation Assessment: Mail

Volume

- Transactional volume declining due to e-diversion
- Advertising mail is subject to more substitution options
- Mail volume highly sensitive to economic changes
- Mail mix changes – lost profit contributions

Declining steadily

Fixed Cost Base

Universal Service Obligation

Postal network driven by:

- Delivery points
- Retail locations
- Sortation facilities
- Six-day delivery

These trends will continue to put pressure on USPS's ability to provide affordable universal service

Price

- Capped by inflation
- Price elasticities are in flux due to growing alternatives

Rising but capped

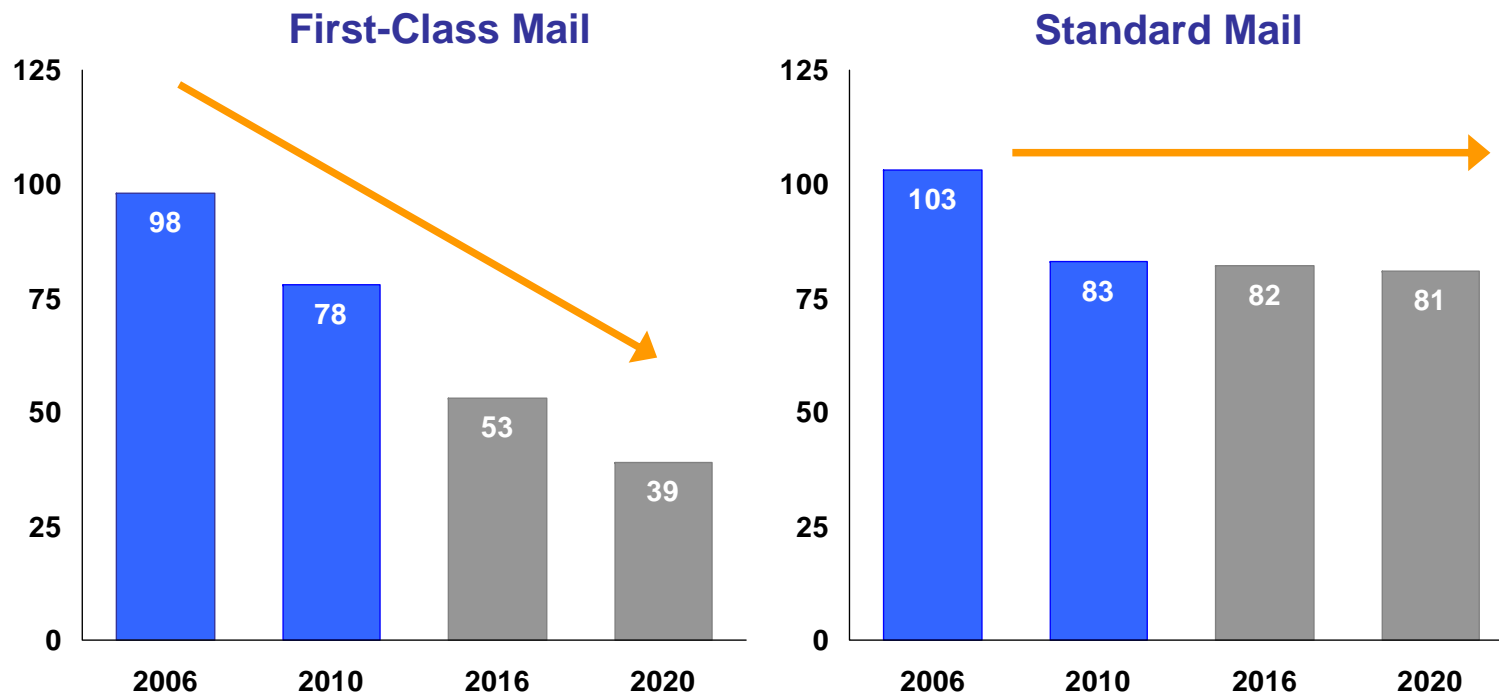
Rising Cost per hour

Labor Costs

- ~80% of total costs
- COLA increases
- Benefits: pensions, retiree health, health insurance
- Limited flexibility
- Retiree prefunding obligation, rising workers' compensation costs



Mail Volume Shifting to Less Profitable Mix



Volume in Billions of Pieces



\$20 Billion Cost Reduction By 2015

NETWORK:

Sorting and Transport
Retail
Delivery

Compensation, Benefits & Non-Personnel:

Flexibility, Benefits, Wages,
Admin, Interest

LEGISLATIVE CHANGES:

RHB Pre-Funding Resolved
Five-Day Delivery

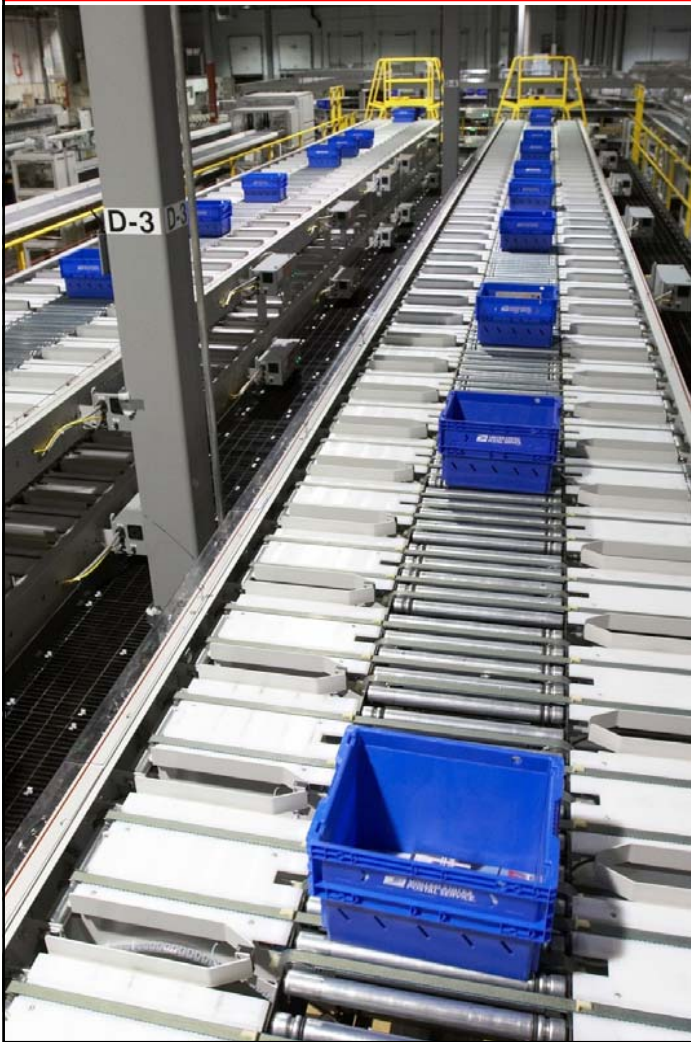
\$6.5 B

\$5.0 B

\$8.5 B

\$20 Billion
Total Potential
Savings

Note: Savings reflect early estimates/goals. Further updates business plan financials will be shared in the coming weeks



Realigning Our Network

*Reducing annual
operating costs
by \$2.6 billion*



What is not Changing?

- Service Standards for:
 - Priority Mail
 - Express Mail
 - Standard Mail
 - Packages
- BMEU locations, in the near term
- Destination SCF Discounts (DSCF)





What is Changing?

First-Class Mail Standards



Today's Delivery Distribution



Likely Future Distribution*



*Dependent upon market adaptation



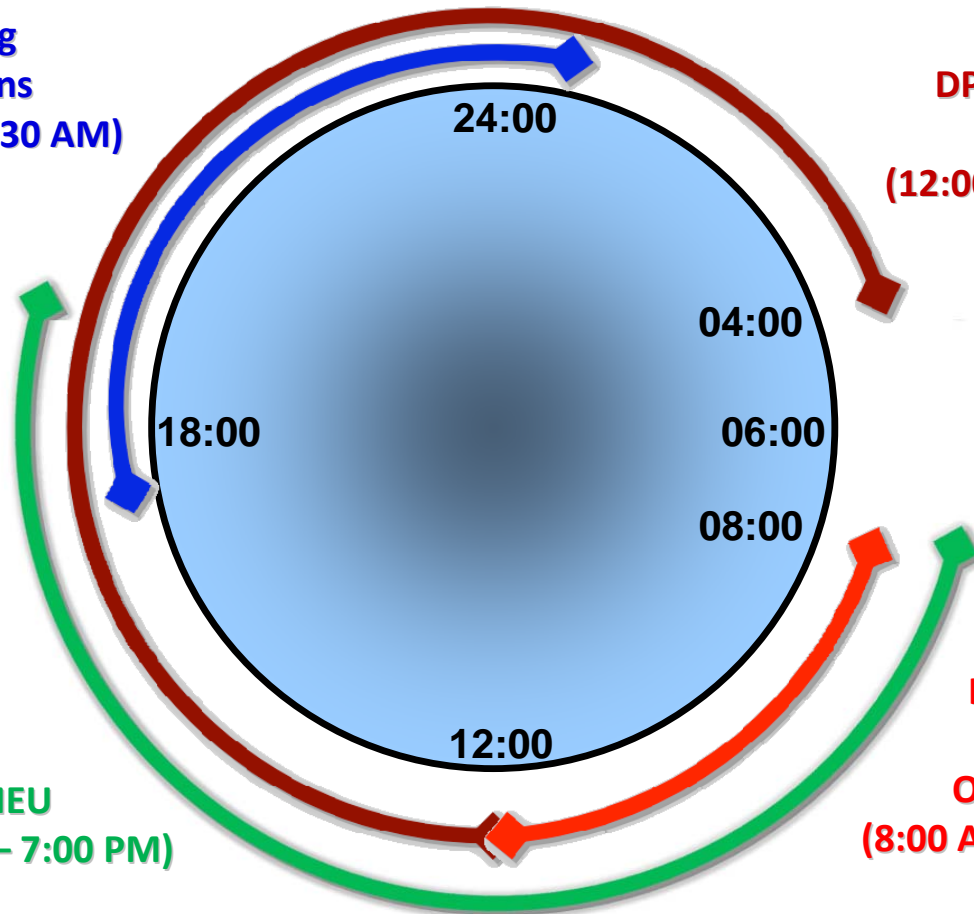
Proposed 24-Hour Plant Operations

**Outgoing
Operations
(5:00 PM – 12:30 AM)**

**Continuous
DPS/Secondary
Operations
(12:00 PM – 4:00 AM)**

**BMEU
(8:00 AM – 7:00 PM)**

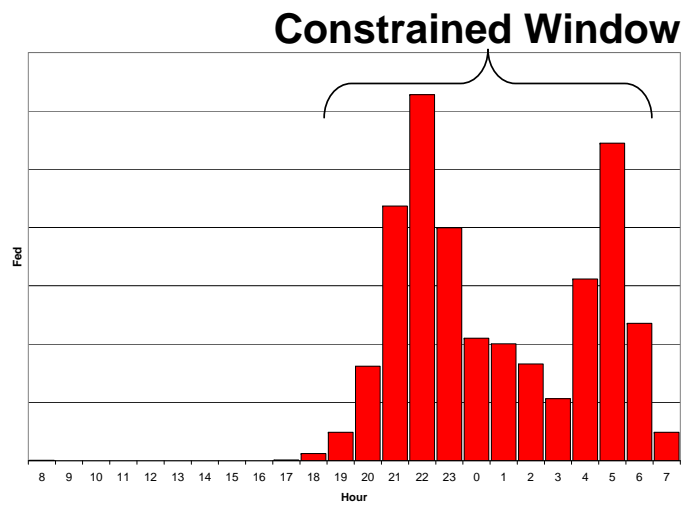
**Incoming
Primary
Operations
(8:00 AM – 12:00 PM)**



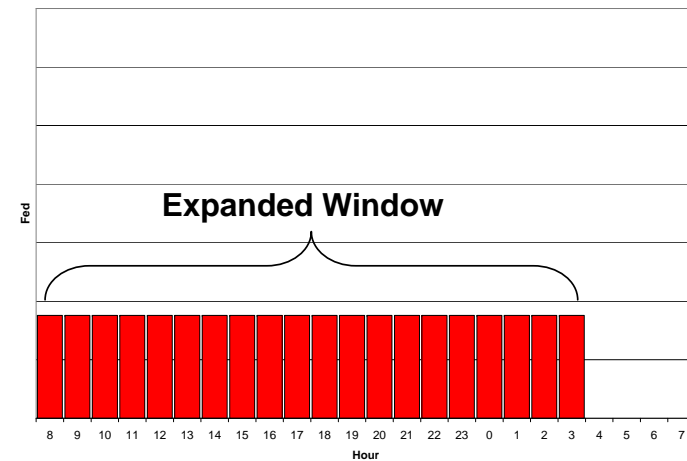


Proposed Expanded Caller Service Solution

**Non-steady flow of volume
Constrained Pick-up Windows**



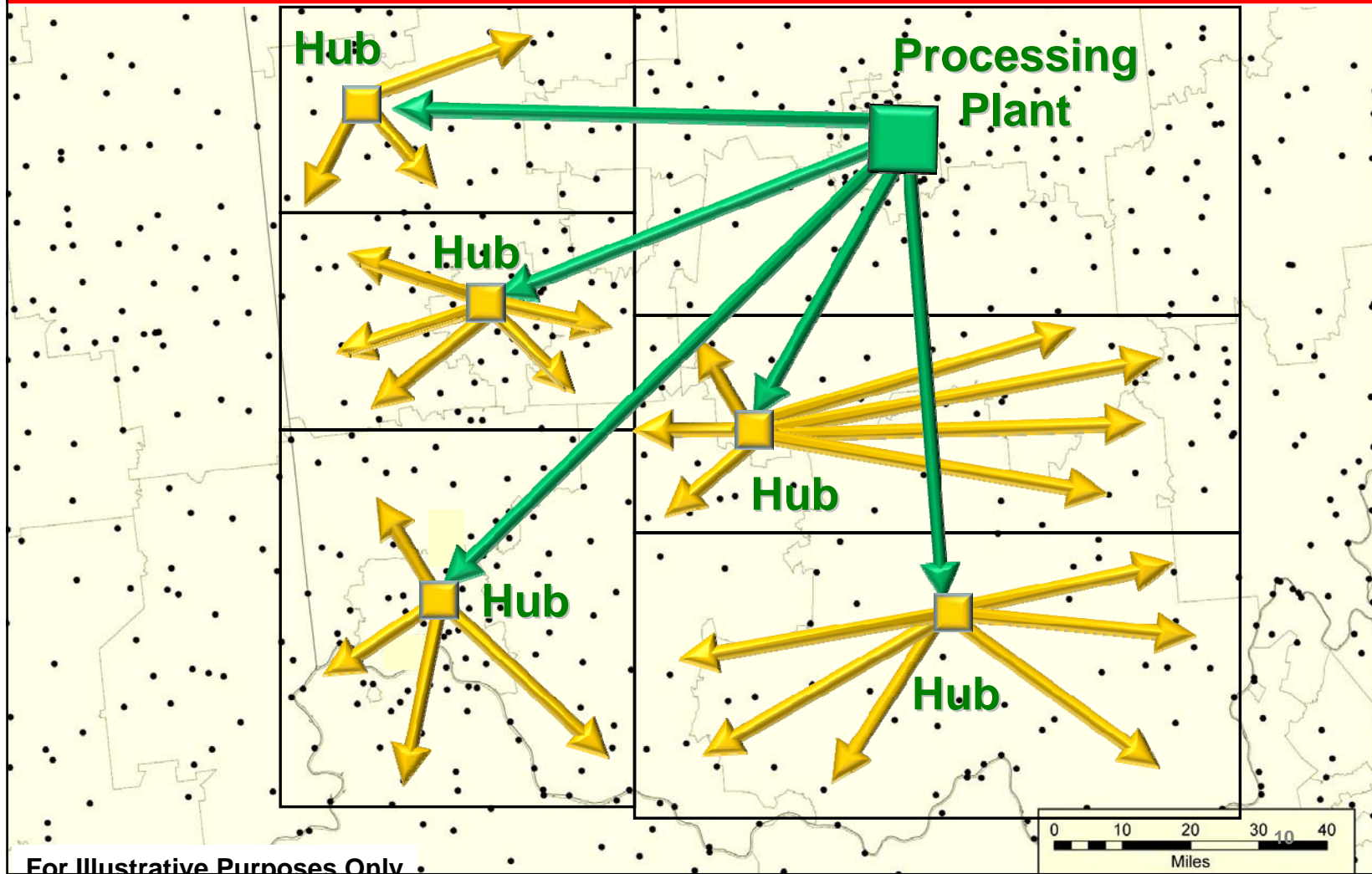
**Steady flow of volume
Expanded Pick-up Windows**



- Option #1 – Frequent pickups at future processing location**
- Option #2 – Continue at current location or close proximity**



Proposed Area Hubs



For Illustrative Purposes Only



Proposed Entry Unit Solutions

- No immediate change to acceptance locations or hours
- 120-day notice of future changes:
 - BMEU Moves/Consolidation
 - DSCF discounts continue
 - BMEU/DMU Hours of Operation
 - DMU Transportation
- Labeling lists transition period
- Customer support available
 - Svc Stds, CATs, CETs, Mail Prep
- Expand drop-ship appointments at gaining facilities





Proposed Service Standard Change

- Publish Final Rule Mid-April
- Implementation After May 15

Proposed Network Realignment

- AMP Decisions End of February
- Overall Realignment begins after May 15
- No major changes during Fall mailing/peak season

Communication & Solutions

- Dedicated micro-website Early March
- Local outreach/engagement Ongoing
- Industry solutions and planning Ongoing



Planning for Implementation

Our Commitment

- Robust site-specific project plans
- Deliberate timing of operational moves
- Critical activities include:
 - Employee moves
 - Equipment moves
 - Transportation contracts
 - Facility modifications
- Labeling list changes six times a year
- Ongoing communications



Committed to Keeping You Informed





Concluding Thoughts

- We are doing our utmost to maintain the long-term affordability of mail and high level of service
- Network changes will be imperceptible to 150 million residential customers; seamless for business customers
- We are creating giant efficiency improvements throughout our network; take advantage by aligning your logistical network with ours
- We value your business and will provide responsible solutions throughout our transition



Questions?

This presentation is posted online at:

<http://about.usps.com/news/facility-studies/welcome.htm>