



POSTAL NEWS

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NOVEMBER NUMBERS RAISE POSTAL SERVICE QUARTER 1 BOTTOM-LINE

SARASOTA, FL – The U.S. Postal Service today reported better than expected First Quarter results with a significant increase in mail volume and net income of \$1.7 billion.

Chief Financial Officer Richard J. Strasser Jr. told the Board of Governors meeting here that the volume growth was largely driven by what the Postal Service believes to be a one-time November spike, resulting from the economic recovery. The largest increases in volume came from the financial and catalog sectors.

"The 5.5% increase is the highest quarterly volume growth in 15 years," said Strasser. November's volume was up 15% compared with the previous years. Volume growth in October and December were both less than 2% compared with 2003 volumes.

For the First Quarter, revenues of \$18.8 billion and expenses of \$17.1 billion produced a net income of \$1.7 billion, down from \$1.8 billion last year. Revenue grew by 3.2 percent during the period.

Strasser also credited an increase in total factor productivity of 2.8 percent, which held down expense growth to 4.4 percent. The workload resulting from the volume increase and an increase of 1.8 million deliveries over the last year would have required an increase of 4.5 million workhours, but postal managers were able to hold workhour growth to 2.6 million.

Board Chairman James C. Miller said, "The Postal Service's finances are, at the moment, in good order. And service to our customers is being provided at the highest levels in our history."

However, he offered a cautionary note, "With First-Class volumes declining and costs increasing, the success management has achieved over the past few years cannot go on forever. The Postal Service needs new tools to enable it to deliver affordable, universal service to this country in the years ahead."

He said the Board would continue to work with the Administration and Congress to achieve postal reform, convinced "we share a common goal (to provide) the postal services necessary to the American people at prices they can afford to pay."

In a related action, the Governors directed management to prepare a filing with the Postal Rate Commission (PRC) to cover an escrow requirement of \$3.1 billion resulting from changes in the Postal Civil Service Retirement System Funding Reform Act of 2003. The escrow must be established by Sept. 30, 2006.

In addition:

The Board of Governors approved the filing of the Postal Service's fourth Negotiated Service Agreement (NSA) with the Postal Rate Commission (PRC). The NSA is similar to three previous NSAs, and is functionally equivalent to the Postal Service's agreement with Capital One. The agreement has three main features: it provides incentives for the customer to send additional First-Class Mail, ensures that the customer will maintain superior mail quality practices, and produces cost savings for the Postal Service from the customer agreeing to receive electronic information about undeliverable mail instead of having pieces physically returned.

The Board acted to set an April 1 implementation date for NSA with Bank One Corporation. However, in reviewing the PRC's recommended decision, the Governors were concerned about the limits on the discounts made available to Bank One under the NSA. As a result, the Board will ask the PRC to reconsider its decision to limit the total amount of discounts available to Bank One under the NSA, and provide guidance as to what standards must be met to avoid a cap in future cases.

The Governors authorized the sale of the Main Post Office in Atlantic City to the local development authority and the construction of a new postal-owned carrier annex of 14,991 square feet on a 1.94 acre site to house 24 carrier routes, limited incoming distribution operations and administrative offices. The project also includes 6,336 square feet of new leased space on the ground level of a new multi-story building for retail and post office boxes.

Since 1775, the Postal Service has connected friends, families, neighbors and businesses by mail. It is an independent federal agency that visits 142 million homes and businesses every day and is the only service provider delivering to every address in the nation. The Postal Service receives no taxpayer dollars for routine operations, but derives its operating revenues solely from the sale of postage, products and services. With annual revenues of more than \$69 billion, it is the world's leading provider of mailing and delivery services, offering some of the most affordable postage rates in the world. The Postal Service delivers more than 46 percent of the world's mail volume—some 206 billion letters, advertisements, periodicals and packages a year—and serves seven million customers each day at its 37,000 retail locations nationwide.