UNITED STATES POSTAL SERVICE — POSTAL NEWS

FOR IMMEDIATE RELEASE
September 12, 2006

Contact: Media Relations
202-268-2155
News Release No. 06-053
www.usps.com

POSTAL SERVICE PLANS FOR MORE THAN $1 BILLION IN COST REDUCTIONS

Board of Governors approve FY 2007 financial plan

WASHINGTON – The U.S. Postal Service Board of Governors today approved a fiscal year 2007 integrated financial plan that includes cost reduction programs totaling $1.1 billion, while continuing to provide universal service to a continuously expanding delivery network. These cost reductions contain a planned decrease of 40 million workhours from the estimated FY 2006 level. Savings will come from automation improvements and implementation of additional "breakthrough productivity" initiatives. The Postal Service's 2007 fiscal year begins Oct. 1, 2006 and ends Sept. 30, 2007.

The plan also calls for a 3.2 percent increase in revenue and a 2.6 percent increase in expenses over the current year's forecast, resulting in $1.7 billion in net income. However, the estimated $3.3 billion escrow requirement results in a net deficiency after escrow of $1.6 billion. The plan assumes continued slower growth in the U.S. economy and implementation of the planned postage price adjustments in May, 2007.

"There is a potential for more risk in the achievement of this plan compared to recent years," said Chief Financial Officer and Executive Vice President H. Glen Walker. "The pending rate case, the current labor negotiations with our four largest unions, and uncertainties with the economy–including fuel prices–all have the potential to affect actual revenue and expense figures." The financial plan does not include effects from possible passage of postal reform legislation.

Other factors taken into account in developing the FY 2007 plan include an expected overall mail volume decrease of 0.5 percent–including a First-Class Mail volume decrease of 2.8 percent–and a continuation in the growth of additional delivery points, expected to be 1.9 million again next fiscal year. The plan also calls for an eighth consecutive year of increases in Total Factor Productivity.

Mr. Walker also briefed the Board of Governors on financial performance for the current fiscal year through July. Year-to-date income through July is $1.34 billion before the escrow allocation, and is $69 million better than planned. The year-to-date net deficiency after the escrow allocation is $1.16 billion.

In other actions, the Governors approved a recommended decision by the Postal Rate Commission (PRC) to extend the Negotiated Service Agreement (NSA) with Capital One Services, Inc. The agreement was to have expired on Sept. 1, 2006, but the Board of Governors extended it to Sept.1, 2007. The NSA provides incentives for increased First-Class Mail volume and substitution of electronic notices for actual returns of undeliverable-as-addressed mail.

The Governors also approved a PRC recommended decision revising the definition of a nominal subscription rate in Periodicals. The change is designed to ease standards covering when a publication's circulation counts as paid. The change means payment of only 30 percent or more of the basic annual subscription price of a publication is required in order for a subscription to qualify as a paid subscription.

Two capital investment projects also received approval during today's meeting. The Board approved funding to purchase eight Automated Package Processing Systems (APPS). This represents the second phase of the program, which will bring the total number of APPS machines deployed to 84.

According to Walter O'Tormey, Vice President, Engineering, "The APPS machine uses advanced technology to automate parcel and bundle sorting and replaces mechanized and manual parcel and bundle operations with a more efficient operation." The contract award, expected later this month, will pave the way for the eight APPS machines to be deployed in July 2007.

In the other project, the Governors approved $48.4 million in funding to purchase the West Valley Logistics and Distribution Center in Phoenix, AZ. The facility, which is currently leased, sits on a 26.1 acre site and serves as the primary parcel and bundle processing center for the Phoenix metropolitan area. Purchase of the facility allows the Postal Service to perform necessary renovations for expansion of operations and provide for future needs at a cost below that of leasing.

Also at today's meeting, Board Chairman James C. Miller III, welcomed the four new members to the Board of Governors: Mickey D. Barnett of New Mexico, James H. Bilbray of Nevada, Katherine C. Tobin of New York, and Ellen C. Williams of Kentucky. They were appointed to the Board by President Bush on Aug. 17, 2006 following U.S. Senate confirmation. Chairman Miller and Postmaster General John E. Potter also expressed their appreciation to former Governor John S. Gardner for his eight months of service on the Board.

# # #