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USPS BOOSTS PRODUCTIVITY HOLDS RATES STEADY

SAN FRANCISCO – Chief Financial Officer Richard J. Strasser, Jr. told the Postal Service's Board of Governors meeting here today, that through Quarter 3 of fiscal year 2004, the Postal Service further reduced its debt and is on track to hold rates steady to 2006. Strasser cited increased productivity and a reduction in Civil Service retirement fund overpayments as the principal reasons for the positive outlook.

He said that despite slight revenue declines, the Postal Service achieved a net income of $259 million in Quarter 3 on revenues of $16.6 billion. Productivity gains of 1.8 per cent were achieved by managing costs and employee complement. "Also in Quarter 3, energy-related expenses were about $80 million greater when compared to the same period last year," said Strasser, "These energy-related expenses are not passed onto the customer."

While daily deliveries grew 1.5 million, an increase of 200,000 from Quarter 2 to a total of 142.4 million nationwide, the growth in expenses was held to 2.8 per cent. For the quarter, estimated mail volume increased two percent. The final determination of volumes will be included in the Postal Service's Third Quarter Financial Report posted on www.usps.com within 45 days after the close of the Quarter.

Thus far in fiscal year 2004, the Postal Service earned $2.8 billion net income on revenues of $52.1 billion, despite a modest decline in revenues. Strasser said he expects the Postal Service to maintain this level of performance in Quarter 4. Revenue is expected to be slightly less than fiscal 2003, mail volume is expected to hold steady and with continuing expense control, productivity will continue to improve.

Strasser also briefed the Governors on the financial results of Postal Service investments in letter mail automation. During the past 17 years, the Postal Service has initiated 44 letter automation programs, deployed 14,000 pieces of equipment that required 1,200 contracts for a total investment of $5.6 billion.

The goal of the program is to control costs, improve productivity and service, maintain rate stability and enhance the Postal Service's competitive position, which has been achieved, he said.

"The investment analysis shows that the automation equipment, together with our customer partnerships, improved workforce productivity, lowered costs and encouraged mail volume growth. The investment produced an estimated positive net cash flow of $20.6 billion and a 92 per cent return on investment," according to Strasser.

In other activity, the Board approved the following capital investment projects:

To streamline operations, reduce transportation costs, and meet future regional mail distribution needs, the Board approved $19.2 million in funds to extend the lease of the Springfield, MA, Priority Mail Processing Center and to acquire an adjacent 9.5-acre parcel. The site will be converted to a Logistics and Distribution Center so that operations in two other facilities can be consolidated into a more efficient operation.

The Board also authorized $32.5 million to acquire a 70-acre site in Pontiac, MI; and fund design for a proposed Northeast Metro Michigan Processing and Distribution Center (P&DC) at that location. The fully developed project, which will be submitted for approval next year, will consolidate processing operations currently split between more than a half-dozen postal facilities and reduce transportation requirements.