

# FINANCIAL UPDATE

## **Mailers' Technical Advisory Committee Meeting**

**February 21, 2007**

**H. Glen Walker  
Chief Financial Officer &  
Executive Vice President**



# FINANCIAL UPDATE

## Agenda

- Legislative Changes**
- Financial Update – Quarter 1 Results & Quarter 2 Forecast**



# FINANCIAL UPDATE

## Income Statement – FY 2006

(\$ Millions)	<b>Internal Reporting</b>	<b>GAAP External Reporting</b>
<b>Net Income</b>	<u>\$900</u>	<u>\$900</u>
<b>Escrow</b>	<u>-2,962</u>	<u>---</u>
<b>Net Gain (Deficiency) After Escrow</b>	<b>-\$2,062</b>	<b>\$900</b>



# FINANCIAL UPDATE

## FY 2007 Revised Integrated Financial Plan

	<b>Original IFP</b>	<b>Revised IFP</b>	<b>GAAP External Reporting</b>
<b>Net Income</b>	<b>\$1.7B</b>	<b>\$1.7B</b>	<b>\$1.7B</b>
<b>2007 Escrow</b>	<b>-3.3B</b>	<b>---</b>	<b>---</b>
<b>2006 Escrow</b>	<b>---</b>	<b>-3.0B</b>	<b>-3.0B</b>
<b>2007 HB Fund</b>	<b>---</b>	<b>-5.4B</b>	<b>-5.4B</b>
<b>CSRS Refund</b>	<b>---</b>	<b>+1.5B</b>	<b>+1.5B</b>
<b>Net Loss/Deficiency</b>	<b>-\$1.6B</b>	<b>-\$5.2B</b>	<b>-\$5.2B</b>



# FINANCIAL UPDATE

## FY 2007 Revised Retained Earnings

	<u>Original IFP</u>	<u>Revised IFP</u>	<u>GAAP External Reporting</u>
<b>September 30, 2006</b>	<b>+\$0.2B</b>	<b>+\$3.2B</b>	<b>+\$3.2B</b>
<b>2007 Planned Net Income</b>	<b>\$1.7B</b>	<b>\$1.7B</b>	<b>\$1.7B</b>
<b>2007 Escrow</b>	<b>-3.3B</b>	<b>---</b>	<b>---</b>
<b>CSRS Refund</b>	<b>---</b>	<b>+1.5B</b>	<b>+1.5B</b>
<b>2006 Escrow</b>	<b>---</b>	<b>-3.0B</b>	<b>-3.0B</b>
<b>2007 HB Fund</b>	<b>---</b>	<b>-5.4B</b>	<b>-5.4B</b>
<b>Projected FY 2007 Retained Earnings Deficit</b>	<b>-\$1.4B</b>	<b>-\$2.0B</b>	<b>-\$2.0B</b>



# FINANCIAL UPDATE

## FY 2007 Revised Cash Flow

<b>(\$ Billions)</b>	<b>Original IFP</b>	<b>Revised IFP</b>	<b>GAAP External Reporting</b>
As of Sept. 30, 2006			
Cash	\$1.0	\$1.0	\$1.0
Escrow	<u>3.0</u>	<u>3.0</u>	<u>3.0</u>
	\$4.0	\$4.0	\$4.0
Cash Flow From OPS	+\$4.0	+\$4.0	+\$4.0
Legislative Impact	---	-6.9	-6.9
Capital Cash Outlays	-2.2	-2.2	-2.2
Cash From Financing	<u>+1.2</u>	<u>+1.8</u>	<u>+1.8</u>
Change in Cash Before Escrow	\$3.0	-\$3.3	-\$3.3
End of Year Cash	\$0.7	\$0.7	\$0.7
Total Escrow	\$6.3	---	---



# FINANCIAL UPDATE

## FY 2007 Revised Debt Outstanding

	<u>Original IFP</u>	<u>Revised IFP</u>
<b>(\$ Billions)</b>		
<b>As of Sept. 30, 2006</b>		
<b>Year End Debt</b>	<b>\$2.1</b>	<b>\$2.1</b>
<b>FY 07 Borrowing</b>	<b><u>1.2</u></b>	<b><u>1.8</u></b>
<b>Debt Outstanding at Year End</b>	<b>\$3.3</b>	<b>\$3.9</b>



# FINANCIAL UPDATE

## Impact from Legislation on FY 2007 Financials

- ❑ **Payment of \$3.0 billion restricted cash from FY 2006 into Retiree Health Benefit Fund (2007 Expense for external GAAP reporting)**
- ❑ **Payment of \$5.4 billion on September 30, 2007 into Retiree Health Benefit Fund (2007 Expense for external GAAP reporting)**
- ❑ **No longer required to pay \$1.5 billion per year for employer's share of CSRS contributions (Reduction to 2007 Expense)**
- ❑ **Net cash/additional debt impact on 2007 – \$600 million**



# FINANCIAL UPDATE

## Income Statement – Quarter 1

	<u>Actual</u>	<u>Plan*</u>	<u>Var</u>	<u>%Plan</u>	<u>SPLY</u>
<b>Volume</b>	<b>57.2B</b>	<b>56.3B</b>	<b>+0.9B</b>	<b>+1.7%</b>	<b>+2.3%</b>
<b>Revenue</b>	<b>\$19,715</b>	<b>\$19,468</b>	<b>+247</b>	<b>+1.3%</b>	<b>+6.4%</b>
<b>Expense</b>	<b><u>18,515</u></b>	<b><u>18,250</u></b>	<b>[+265]</b>	<b>+1.5%</b>	<b>+4.0%</b>
<b>Income from Operations</b>	<b>\$1,200</b>	<b>\$1,219</b>	<b>[-19]</b>		<b>\$728</b>
Prior-Year Escrow	<b>-2,962</b>	<b>-2,962</b>	<b>0</b>		
HB Fund Expense	<b>-1,350</b>	<b>-1,350</b>	<b>0</b>		
CSRS Refund	<b><u>+380</u></b>	<b><u>+380</u></b>	<b><u>0</u></b>		
<b>Net Loss</b>	<b>-\$2,732</b>	<b>-\$2,713</b>	<b>[-19]</b>		

\*Restated to reflect legislative impacts  
(\$ Millions)

[ ] = Unfavorable variance to plan.  
Numbers may not add due to rounding.



# FINANCIAL UPDATE

## Revenue Drivers of Variance to Plan – Quarter 1

<b>Commercial</b>	<b>\$214</b>
<b>Retail</b>	<b>66</b>
<b>Other</b>	<b><u>-33</u></b>
<b>Total Revenue Variance</b>	<b>\$247</b>

**Red – Unfavorable**

**Black – Favorable**

**\$ in Millions**



# FINANCIAL UPDATE

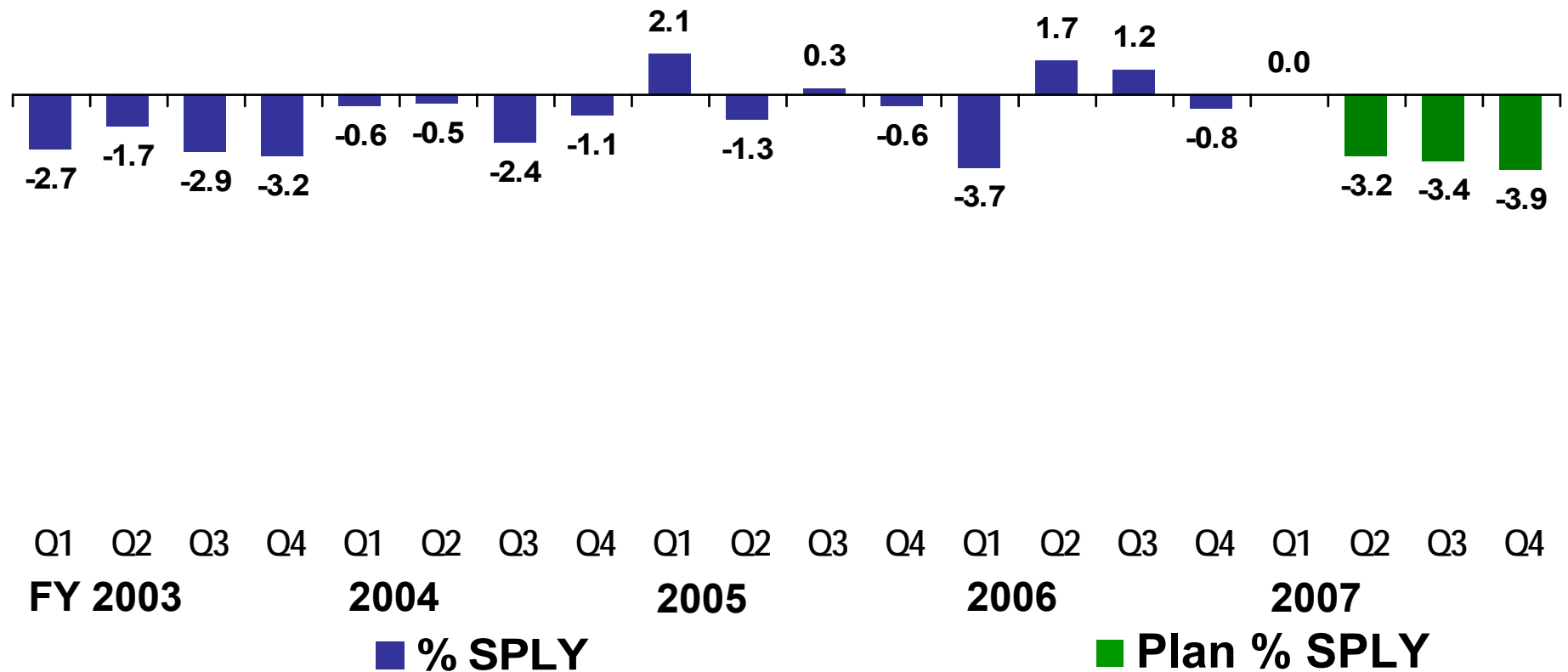
## Volume Performance – Qtr 1

	<u>Volume FY 2007</u>	<u>% Plan</u>	<u>% SPLY</u>
<b>First-Class</b>	<b>25.4B</b>	<b>+1.1%</b>	<b>-0.03%</b>
<b>Standard</b>	<b>28.4B</b>	<b>+2.3%</b>	<b>+4.9%</b>
<b>Periodicals</b>	<b>2.2B</b>	<b>-2.9%</b>	<b>-5.3%</b>
<b>Express</b>	<b>14M</b>	<b>+5.4%</b>	<b>-3.1%</b>
<b>Priority</b>	<b>252M</b>	<b>-0.8%</b>	<b>+1.1%</b>
<b>Package Svc.</b>	<b>329M</b>	<b>+4.4%</b>	<b>+1.1%</b>
<b>Total</b>	<b>57.2B</b>	<b>+1.6%</b>	<b>+2.3%</b>



# FINANCIAL UPDATE

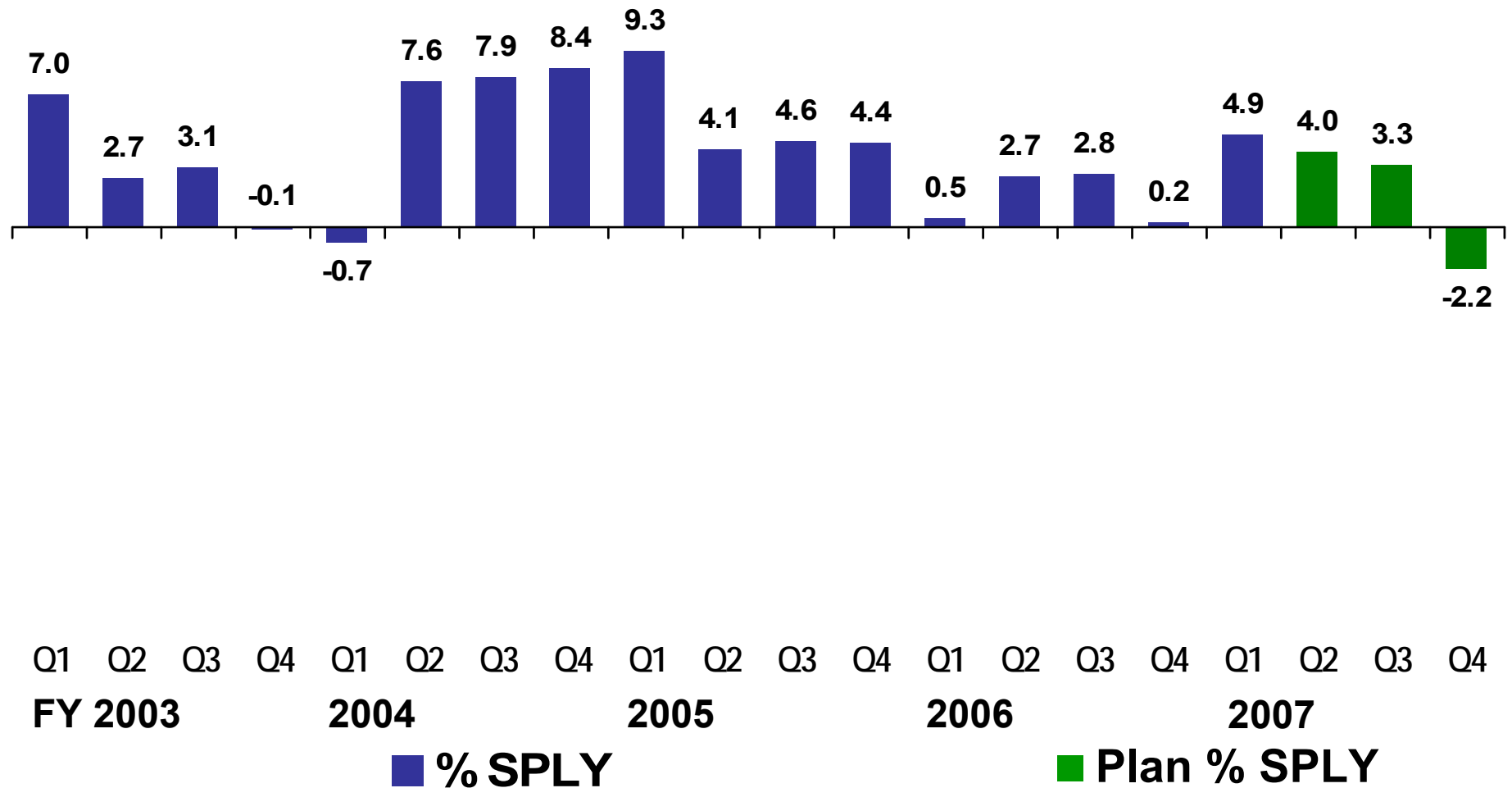
## Total First-Class Mail Volume





# FINANCIAL UPDATE

## Total Standard Mail Volume





# FINANCIAL UPDATE

## Expense Drivers of Variance To Plan – Quarter 1

<b>Transportation</b>	<b>\$219</b>
<b>All Other</b>	<b><u>46</u></b>
<b>Total Expense Variance</b>	<b>\$265</b>

\$ in Millions

**Red – Unfavorable**  
**Black – Favorable**

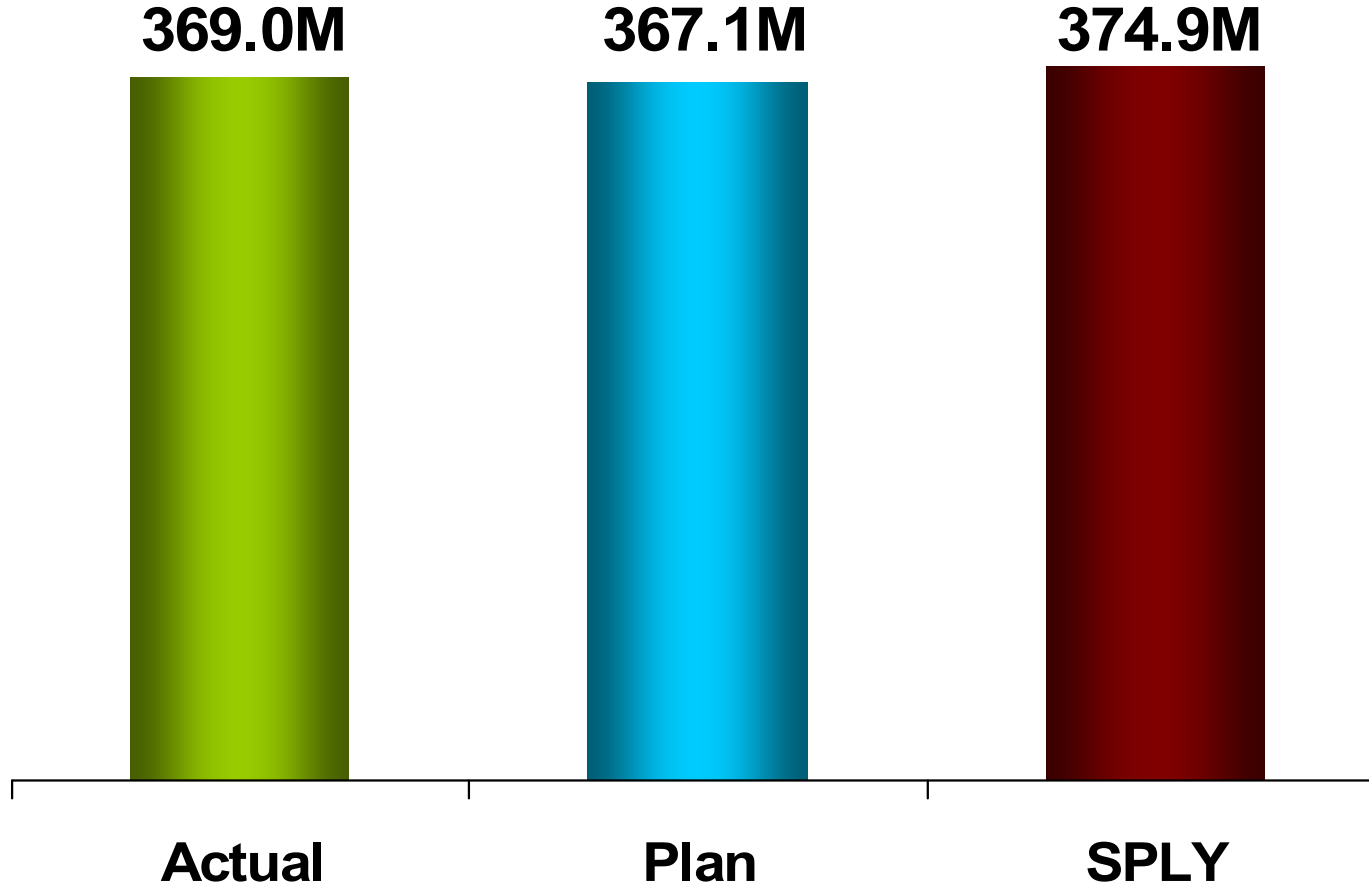


# FINANCIAL UPDATE

## Total National Workhours - Qtr 1

**1.9M Workhours Over Plan, +0.5%**

**5.9M Workhours Under SPLY, -1.6%**





# FINANCIAL UPDATE

## Total Factor Productivity – Qtr 1


### Actual


 **+1.5%** **Workload**

 **-0.4%** **Resources Usage**

 **+1.9%** **Total Factor Productivity**

### Plan

 **+0.6%**

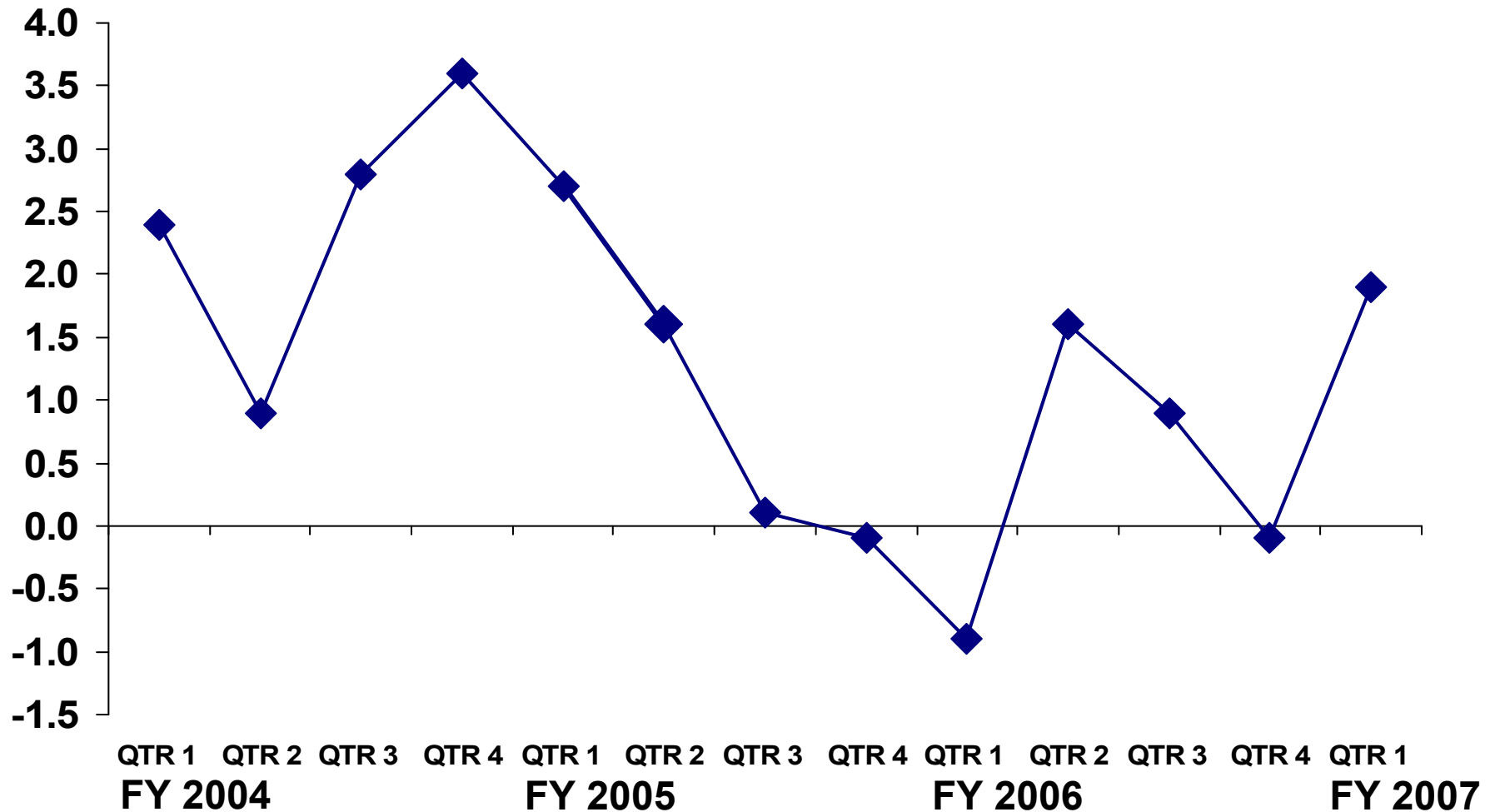
 **-1.0%**

 **+1.6%**



# FINANCIAL UPDATE

## Quarterly TFP





# FINANCIAL UPDATE

## FY 2007 Quarter 2 – Outlook

<u>Quarter 2</u>	<u>Revised Plan</u>	<u>Outlook</u>
<b>Volume</b>	<b>53.5B</b>	<b>On Plan</b>
<b>Revenue</b>	<b>\$18.6B</b>	<b>On Plan</b>
<b>Expenses</b>	<b>\$19.3B*</b>	<b>On Plan</b>
<b>Net Loss</b>	<b>-\$0.7B</b>	<b>On Plan</b>

\* Expense Plan Revised to Include New Postal Law



# FINANCIAL UPDATE

## FY 2007 Risks vs Plan

- PRC Recommendation**
- R-2006-1 May Implementation Date**  
**(1 month delay = \$450M)**
- Increase in Fuel Costs = (10% equates to \$170M)**
- Transportation Costs = \$200M**
- Adverse Decision on NALC/NRLCA Labor Contracts**
- Aggressive Workhour Reductions**
- Worker's Compensation Costs – Actuarial Valuation**  
**Underway (\$7.0 Billion Accrual)**
- Do Not Mail List**



# FINANCIAL UPDATE

## FY 2007 Opportunities

- Revenue Improvements – \$450 Million**
  - **Rate Increase from Competition Higher than R-2006-1**
  - **First-Class Mail Outperforming Forecast**
- Potential Continuing Decline in Fuel Costs (10% equates to \$170M)**
- Employee & Annuitant Health Benefit Premiums = \$200M**
- Labor Mix Management = \$100M to \$200M**

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