

INDUSTRY ALERT

May 10, 2016

U.S. Postal Service Reports Fiscal Year 2016 Second Quarter Results

- *Operating revenue grew 4.7 percent to \$17.7 billion*
- *Controllable income totaled \$576 million; net loss of \$2.0 billion reported*
- *Postal Service revenue benefited from exigent surcharge, which expired on April 10, 2016*
- *Legislative reform and focus on innovation and efficiency remain necessary*

WASHINGTON -- The U.S. Postal Service reported operating revenue of \$17.7 billion for the second quarter of fiscal year 2016 (January 1, 2016 - March 31, 2016), an increase of \$788 million or 4.7 percent over the same period last year. The increase was primarily due to an 11.4 percent increase in Shipping and Package volume and pricing strategies.

"While we have been successful in achieving controllable income during the quarter, we are still reporting net losses and contending with long-term financial challenges," said Postmaster General and Chief Executive Officer Megan J. Brennan. "We continue to focus on improving operating efficiencies, speeding the pace of innovation, and increasing revenues for the Postal Service."

Controllable income for the quarter was \$576 million compared to \$313 million for the same period last year. Calculation of controllable income takes into account the impact of operational expenses including compensation, benefits and work hours; but does not reflect factors such as the legally-mandated expense to prefund retiree health benefits (see Non-GAAP Financial Measures table on following page for full description).

Net loss for the quarter was \$2.0 billion compared to \$1.5 billion for the same period last year. The change in net loss was most significantly impacted by a \$547 million unfavorable change in the workers' compensation expense as a result of interest rate changes - a factor outside of management's control.

Operating expenses also increased in the second quarter compared to the same period last year, driven by increased work hours and transportation expenses due in large part to the increase in package volume. Labor costs increased by \$362 million, and transportation expense increased by approximately \$149 million.

"During the second quarter, we expanded work hours and our transportation network, taking more trips and increasing miles flown," said Chief Financial Officer and Executive Vice President Joseph Corbett. "This largely resulted from strategic business decisions enacted to accommodate package growth and enhance service across the country."

"I am grateful to our dedicated employees who helped us to achieve controllable income this quarter, but we cannot let this result mask the financial challenges we face," said Brennan. "Our financial situation is serious, but solvable. We are confident that we can return to financial stability through the enactment of prudent legislative reform and a favorable resolution of the upcoming regulatory review of our rate-setting system."

Selected Second Quarter 2016 Results of Operations Compared to Same Period Last Year

The following table presents certain selected results of operations for the three months ended March 31, 2016 and 2015:

<i>(volume results in millions of pieces; financial results in \$ millions)</i>	2016*	2015	%
Volume			
Standard Mail	19,464	19,102	1.9 %
First-Class Mail	15,927	15,822	0.7 %
Periodicals	1,366	1,447	(5.6)%
Shipping and Packages	1,227	1,101	11.4 %
International	245	231	6.1 %
Other	71	76	(6.6)%
Total volume	38,300	37,779	1.4 %
Operating revenue and expenses			
Operating revenue (excluding temporary exigent surcharge)	\$ 17,215	\$ 16,423	4.8 %
Temporary exigent surcharge	519	523	(0.8)%
Total operating revenue	\$ 17,734	\$ 16,946	4.7 %
Operating expenses	\$ 19,760	\$ 18,399	7.4 %
Net loss	\$ (2,040)	\$ (1,469)	38.9 %
Workers' compensation expense			
Impact of discount rate changes	\$ 948	\$ 401	136.4 %
Actuarial valuation of new cases and revaluation of existing cases	488	287	70.0 %
Administrative fee	18	18	— %
Total workers' compensation expense	\$ 1,454	\$ 706	105.9 %

* The three months ended March 31, 2016 had one additional business day compared to the same period in 2015.

Non-GAAP Financial Measures

Included in this news release is controllable income, which is not calculated and presented in accordance with accounting principles generally accepted in the United States (GAAP). Controllable income is a non-GAAP financial measure defined as net income subtracting operating expenses considered outside of management's control. These expenses include the mandated prefunding of retirement health benefits, actuarial revaluation of retirement liabilities and non-cash workers' compensation adjustments.

The following table reconciles GAAP net loss to controllable income and illustrates the income from ongoing business activities without the impact of non-controllable items for the three months ended March 31, 2016 and 2015:

<i>(in \$ millions)</i>	<u>2016</u>	<u>2015</u>
Net loss	\$ (2,040)	\$ (1,469)
Impact of:		
PSRHBFB prefunding expense	1,450	1,425
Change in workers' compensation liability due to fluctuations in discount rates	948	401
Other change in workers' compensation liability ¹	158	(44)
Actuarial revaluation of retirement liability ²	60	—
Controllable income	\$ 576	\$ 313

¹ This is a net amount that includes changes in assumptions as well as the valuation of new claims and revaluation of existing claims.

² Determined by OPM in 2015 to amortize the \$3.5 billion unfunded FERS retirement obligation based on actuarial valuations and assumptions. The payments are to be made in equal installments over the next 30 years. The 2015 expense of \$241 million was recorded in full during the fourth quarter of 2015.

Complete financial results are available in the Form 10-Q, available at <http://about.usps.com/who-we-are/financials/welcome.htm>.

Financial Briefing

Postmaster General and CEO Megan J. Brennan and Chief Financial Officer and Executive Vice President Joseph Corbett will host a telephone/Web conference call to discuss the financial results in more detail. The call will begin at 9:30 am on May 10, 2016 ET and is open to news media and all other interested parties.

How to Participate:

Important Notice: *To ensure your computer is set up to join the event, click on the link www.webex.com/jointest/*

US/Canada Attendee Dial-in: (855) 293-5496

Conference ID: 5448669

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If you cannot join using the direct link above, please use the alternate logins below:

Alternate URL: <https://usps.webex.com>

Event Number: 991 496 345

The briefing will also be available on live audio webcast (listen only) at:

<http://about.usps.com/news/electronic-press-kits/cfo/welcome.htm>.

The Postal Service receives no tax dollars for operating expenses and relies on the sale of postage, products and services to fund its operations.

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