

Network Rationalization APWU Article 12.4.B Meeting

February 13, 2012



Situation Assessment: Mail

Volume

- Transactional volume declining due to e-diversion
- Advertising mail is subject to more substitution options
- Mail volume highly sensitive to economic changes
- Mail mix changes – lost profit contributions

Declining steadily

Fixed Cost Base

Universal Service Obligation

Postal network driven by:

- Delivery points
- Retail locations
- Sortation facilities
- Six-day delivery

These trends will continue to put pressure on USPS's ability to provide affordable universal service

Price

- Capped by inflation
- Price elasticities are in flux due to growing alternatives

Rising but capped

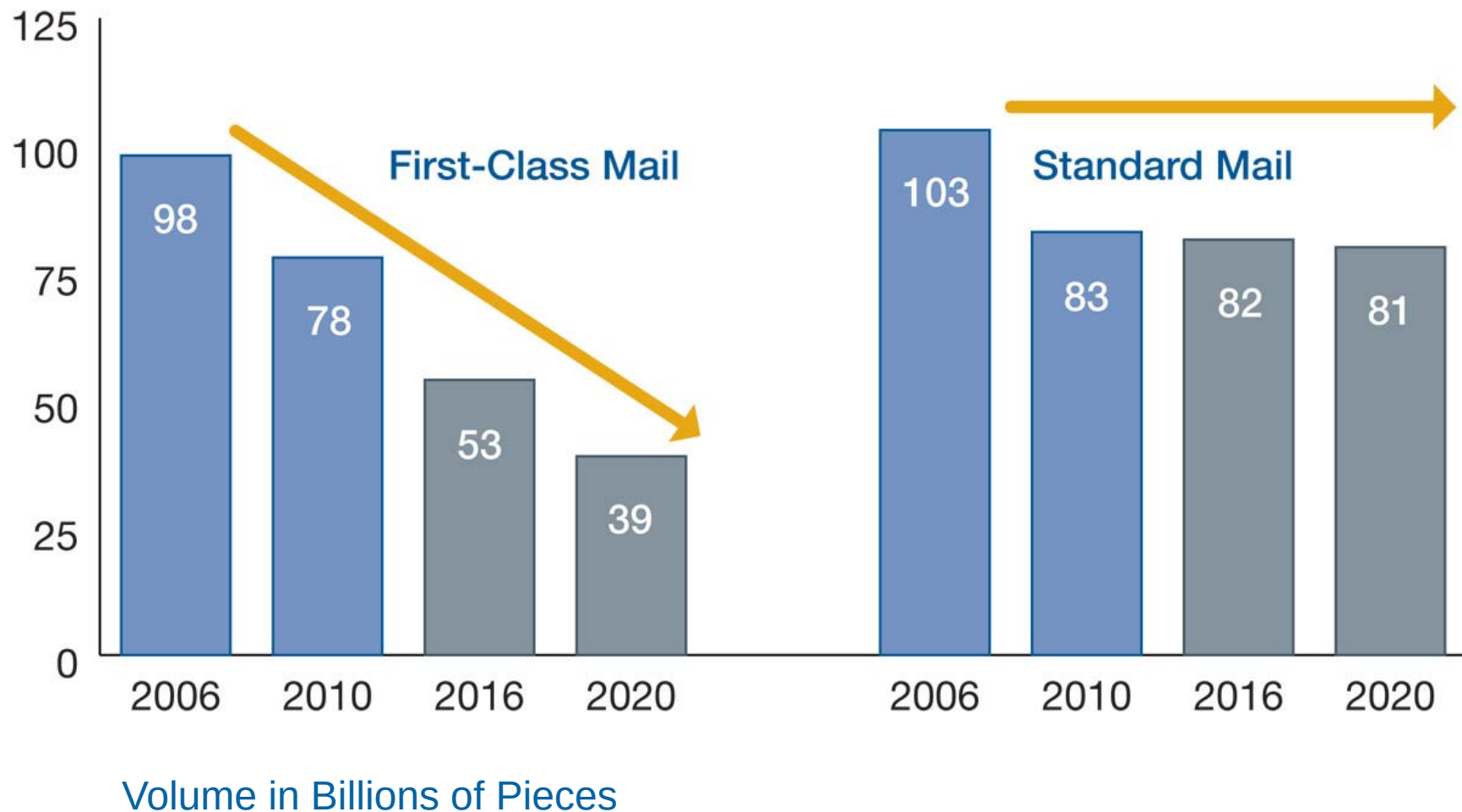
Rising Cost per hour

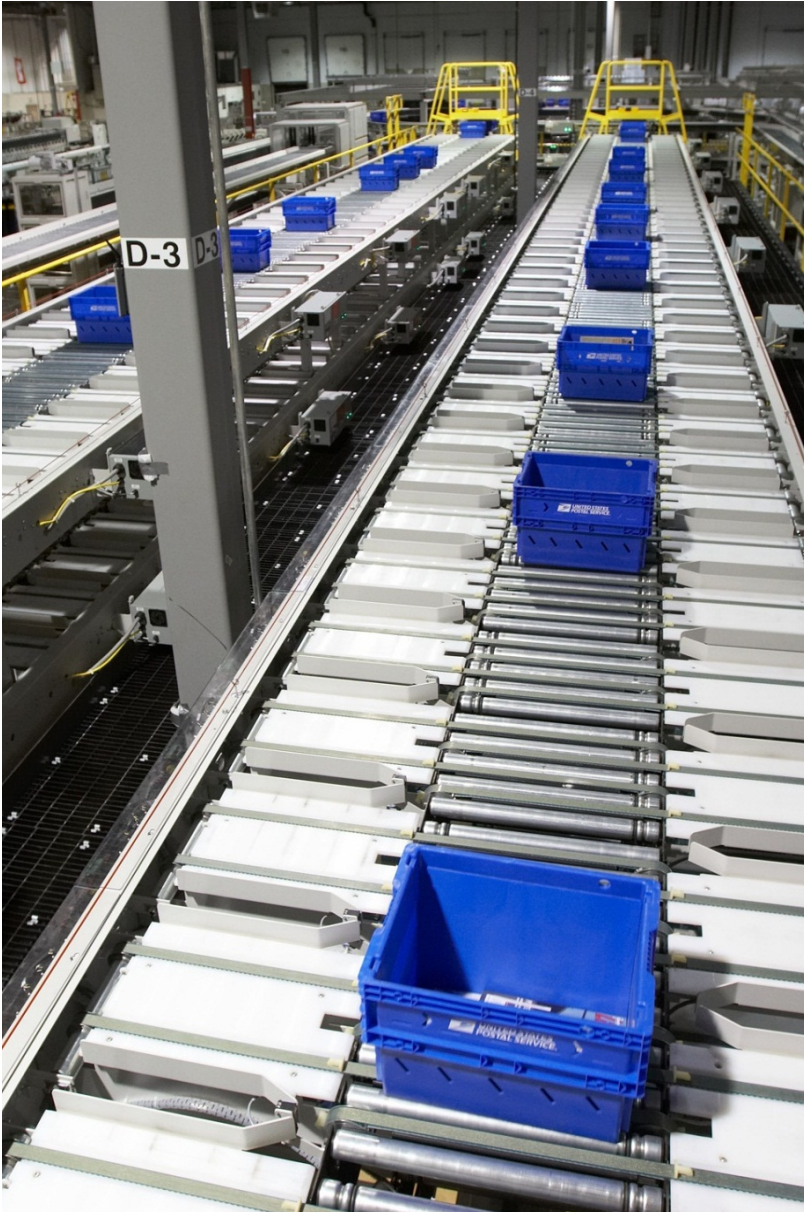
Labor Costs

- ~80% of total costs
- COLA increases
- Benefits: pensions, retiree health, health insurance
- Limited flexibility
- Retiree prefunding obligation, rising workman's compensation costs



Mail Volume Shifting to Less Profitable Mix





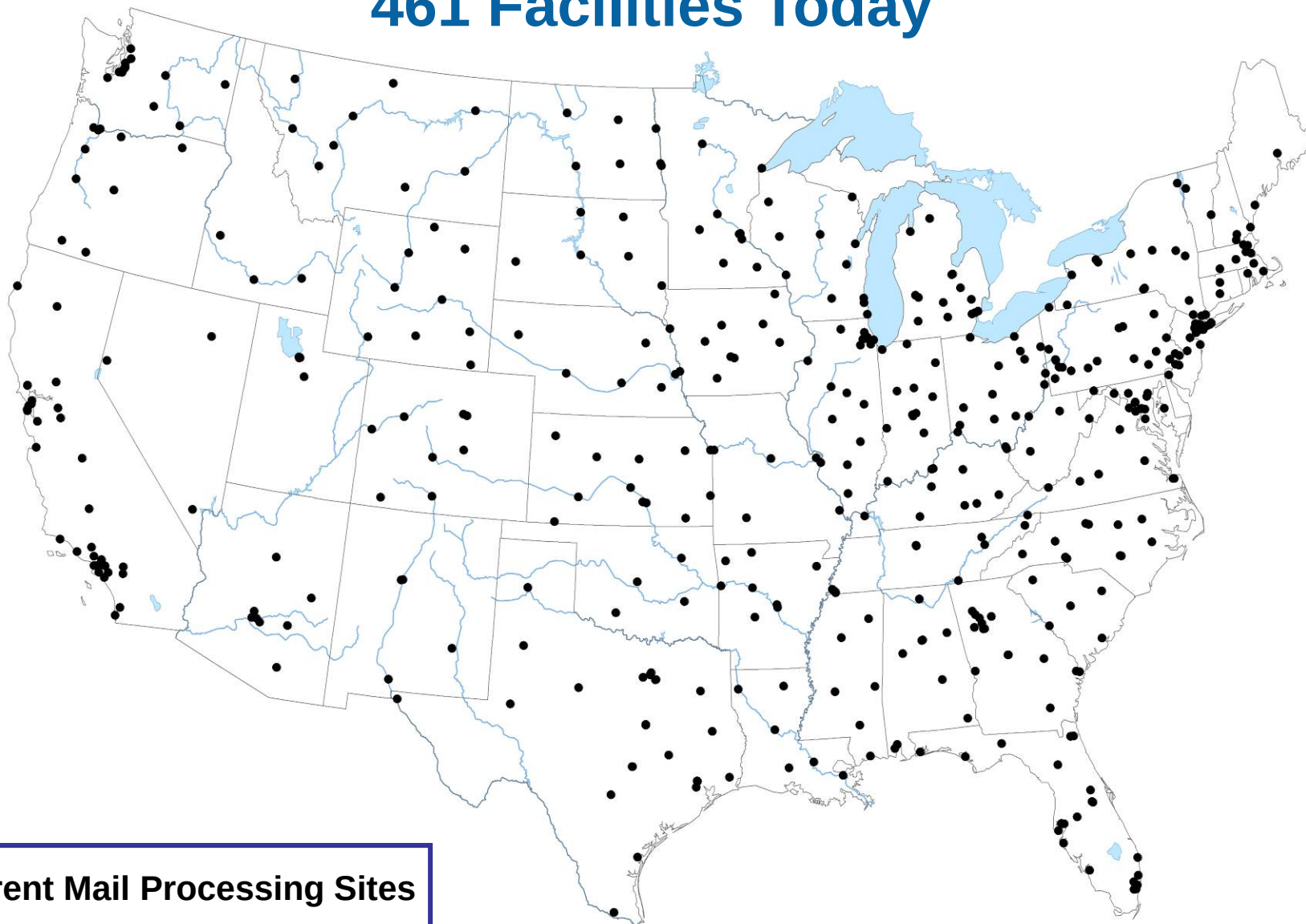
Realigning Our Network

*Reducing annual
operating costs
by \$2.6 billion*



Mail Processing Facility Footprint

461 Facilities Today

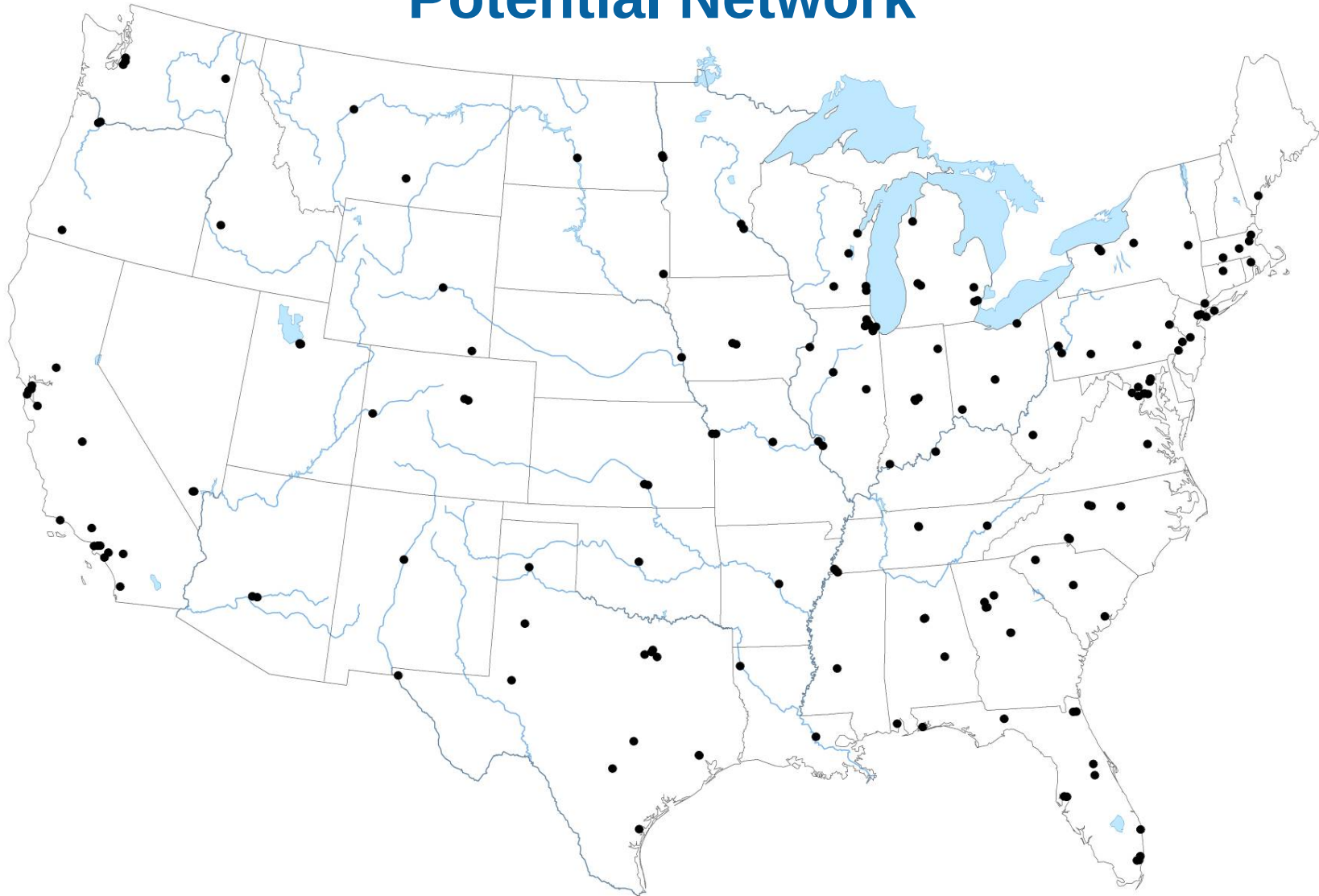


● Current Mail Processing Sites



Mail Processing Facility Footprint

Potential Network





Our Employees

559,000

Total Career Employees

151,000

Total Mail Processing Employees

35,000

Fewer Mail Processing Positions



Deactivation Site Complement - APWU

AREA NAME	Function				Grand Total
	1	3A		3B	
	CLERK	CLERK	PVS	MAINTENANCE	
CAPITAL METRO	924	1	72	342	1,339
EASTERN	3,315	16	275	1,522	5,128
GREAT LAKES	1,413	4	41	710	2,168
NORTHEAST	2,527	8	336	1,385	4,256
PACIFIC	1,161	0	33	502	1,696
SOUTHWEST	2,711	3	330	1,545	4,589
WESTERN	1,736	7	27	942	2,712
NATION	13,787	39	1,114	6,948	21,888

Potentially Impacted Employees



What is not Changing?

- Service Standards for:
 - Priority Mail
 - Express Mail
 - Standard Mail
 - Packages

- BMEU locations, in the near term





What is Changing?

First-Class Mail Standards



Today's Delivery Distribution



Likely Future Distribution*



*Dependent upon market adaptation



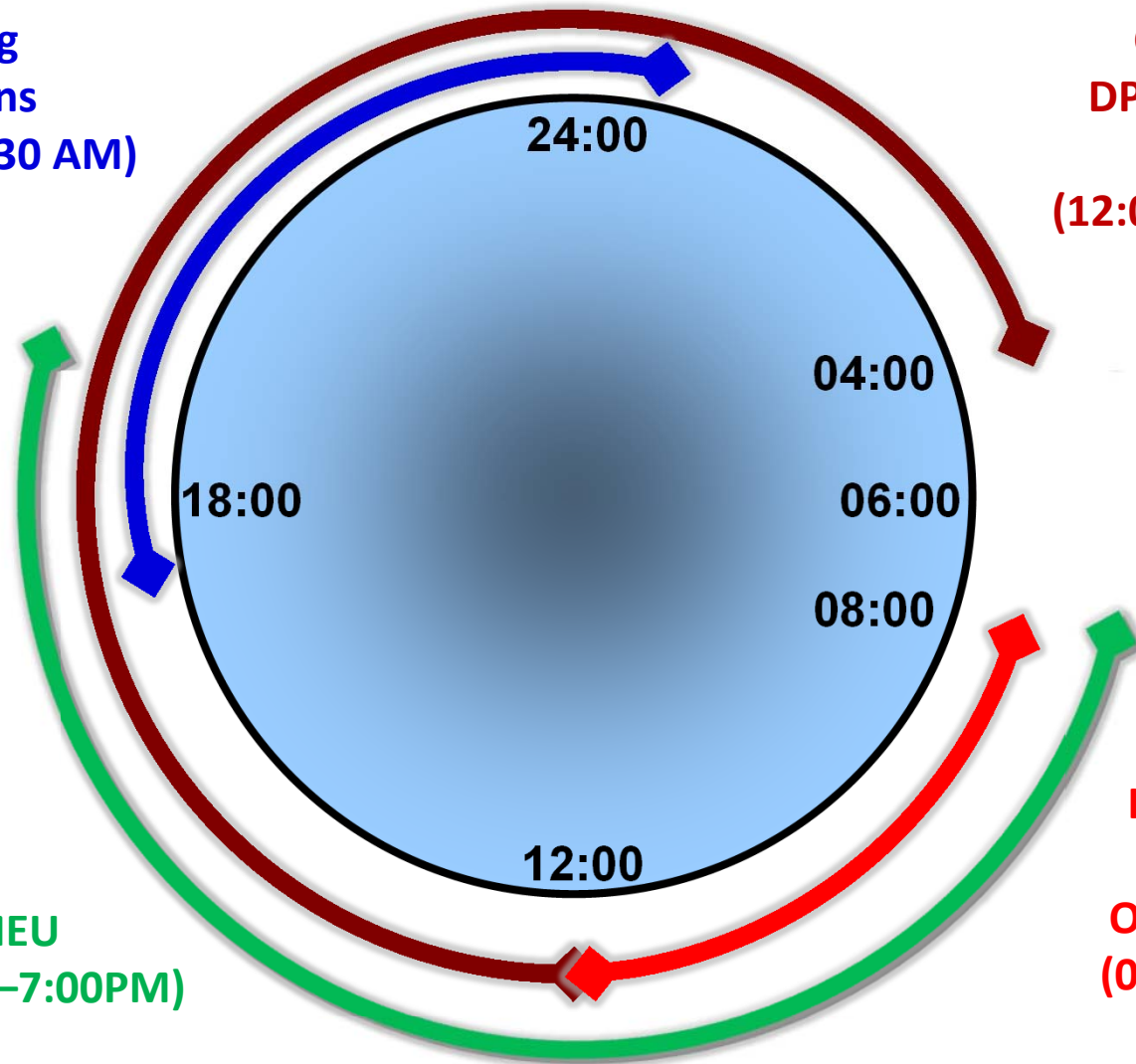
Proposed 24-Hour Plant Operations

**Outgoing
Operations
(5:00PM – 12:30 AM)**

**Continuous
DPS/Secondary
Operations
(12:00PM-0400AM)**

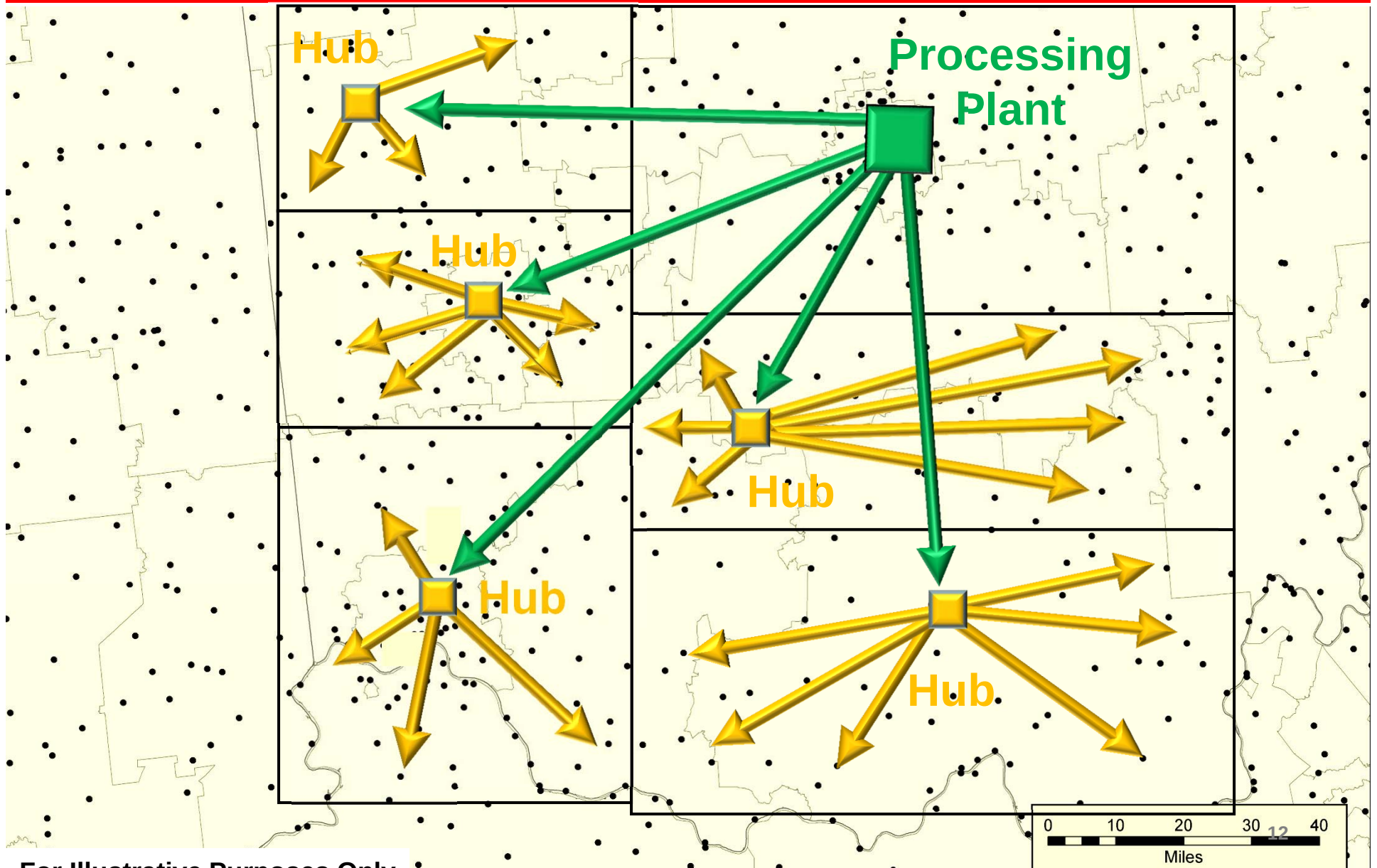
**BMEU
(8:00AM – 7:00PM)**

**Incoming
Primary
Operations
(0800-1200)**





Proposed Area Hubs



For Illustrative Purposes Only



Service Standard Change

- Final Rule Mid-April
- Implementation After May 15

Network Realignment

- AMP Decisions End of February
- Overall Realignment begins after May 15
- No major changes during Fall mailing/peak season



Planning for Implementation

Our Commitment

- Robust site-specific project plans
- Deliberate timing of operational moves
- Critical activities include:
 - Employee moves
 - Equipment moves
 - Transportation contracts
 - Facility modifications
- Ongoing communications



Concluding Thoughts

- Maintain the long-term affordability of mail and high level of service
- Network changes imperceptible to 150 million residential customers and seamless for business customers
- Create giant efficiency improvements throughout our network