

FY 2007 Integrated Financial Plan (IFP)

**Board of Governors
Open Session
September 12, 2006**

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



FY 2007

INTEGRATED FINANCIAL PLAN

Operating Plan

Capital Plan

Financing Plan



FY 2007

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FY 2007 Assumptions

Economy

- **Inflation Rate = 1.9%**
- **ECI Forecast (July) = 3.0%**
- **Moderate Job Growth = 1.4%**
- **Sluggish Retail Sales = 1.4%**

Continued Competitive Diversion

No Legislative Changes Are Included

8.5 Percent Postage Rate Increase Will Be Implemented in May 2007



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FY 2007 IFP Summary

- Volume Declines -0.5% Vs. FY 2006**
- Revenue Increases 3.2% Vs. FY 2006**
- Cost Reductions Of \$1.1 Billion Are Included**
- \$3.3 Billion Escrow Requirement**
- Eighth Consecutive Year Of TFP Growth**
- Labor Negotiations Will Result In ECI -1**
- Work Hours Will Go Down By 40 Million Hours**



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2007 Income Statement

	FY2006	FY2007	
	<u>Forecast</u>	<u>Plan</u>	<u>% Chg</u>
Volume (pieces)	213.5B	212.3B	-0.5%
Revenue	\$72.9B	\$75.3B	3.2%
Expense	<u>71.7B</u>	<u>73.6B</u>	2.6%
Net Income	\$ 1.2B	\$ 1.7B	
Escrow Restricted Cash	<u>\$ 3.0B</u>	<u>\$ 3.3B</u>	
Deficiency After Escrow	-\$ 1.8B	-\$ 1.6B	

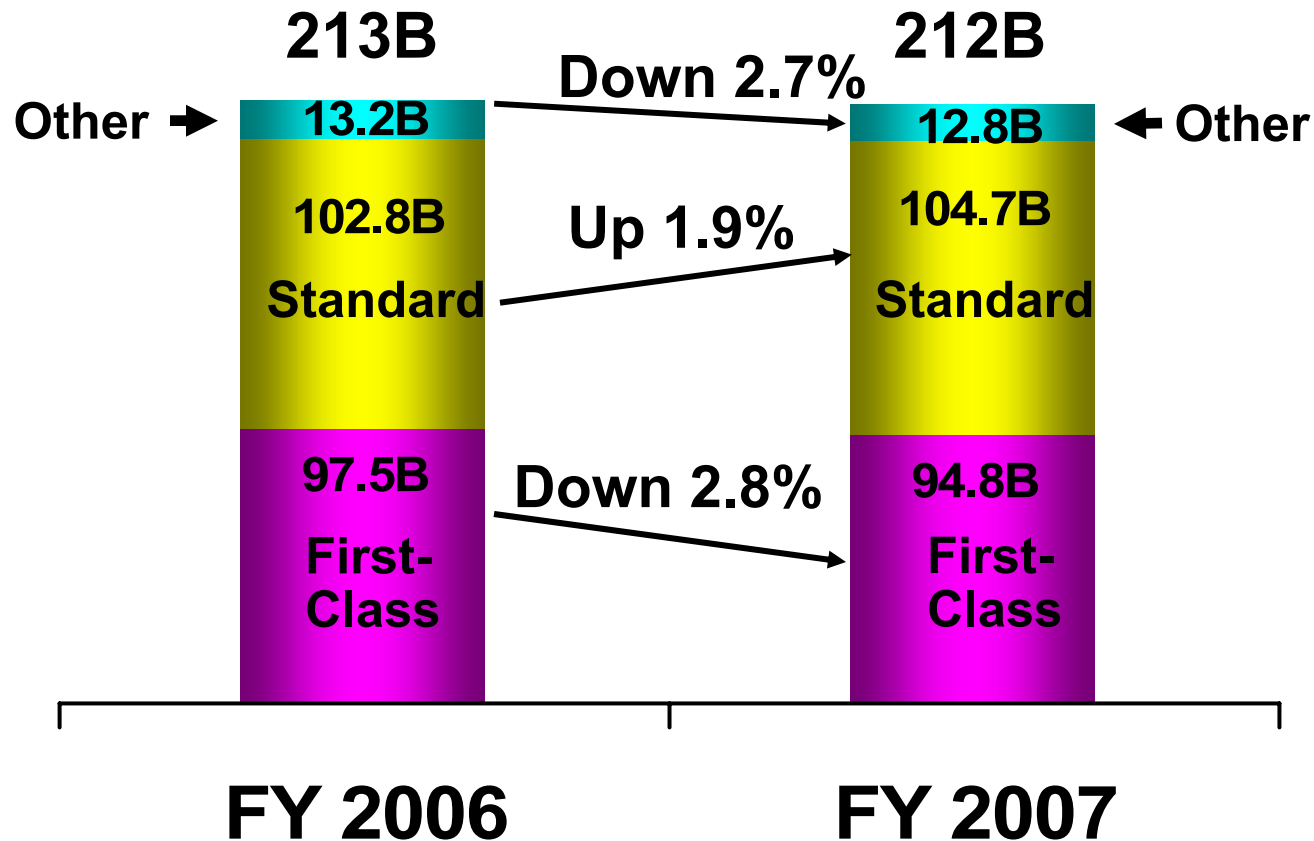


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Volume Change



Total Volume Down by 1.1B Pieces

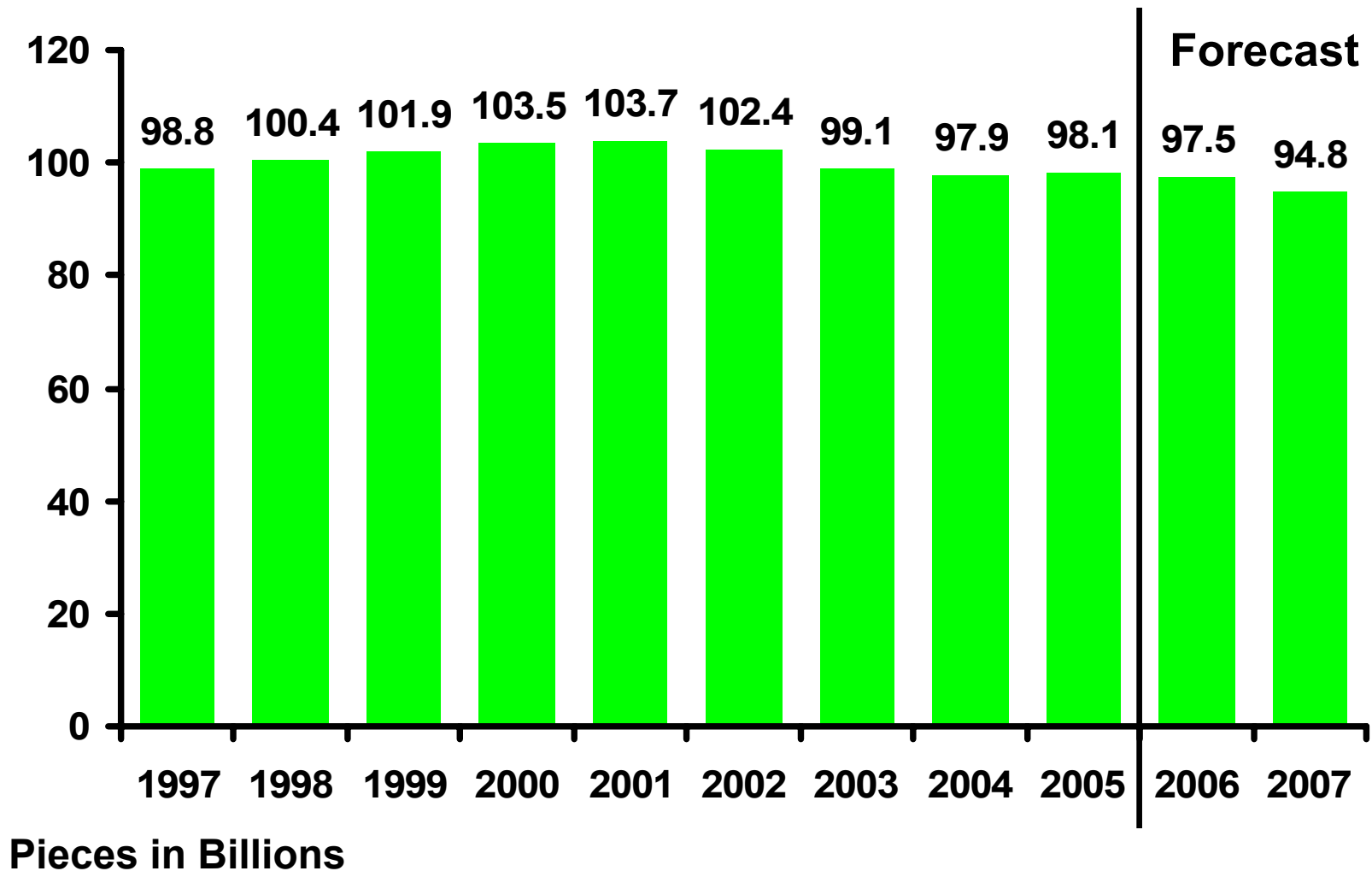


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First-Class Volume Change



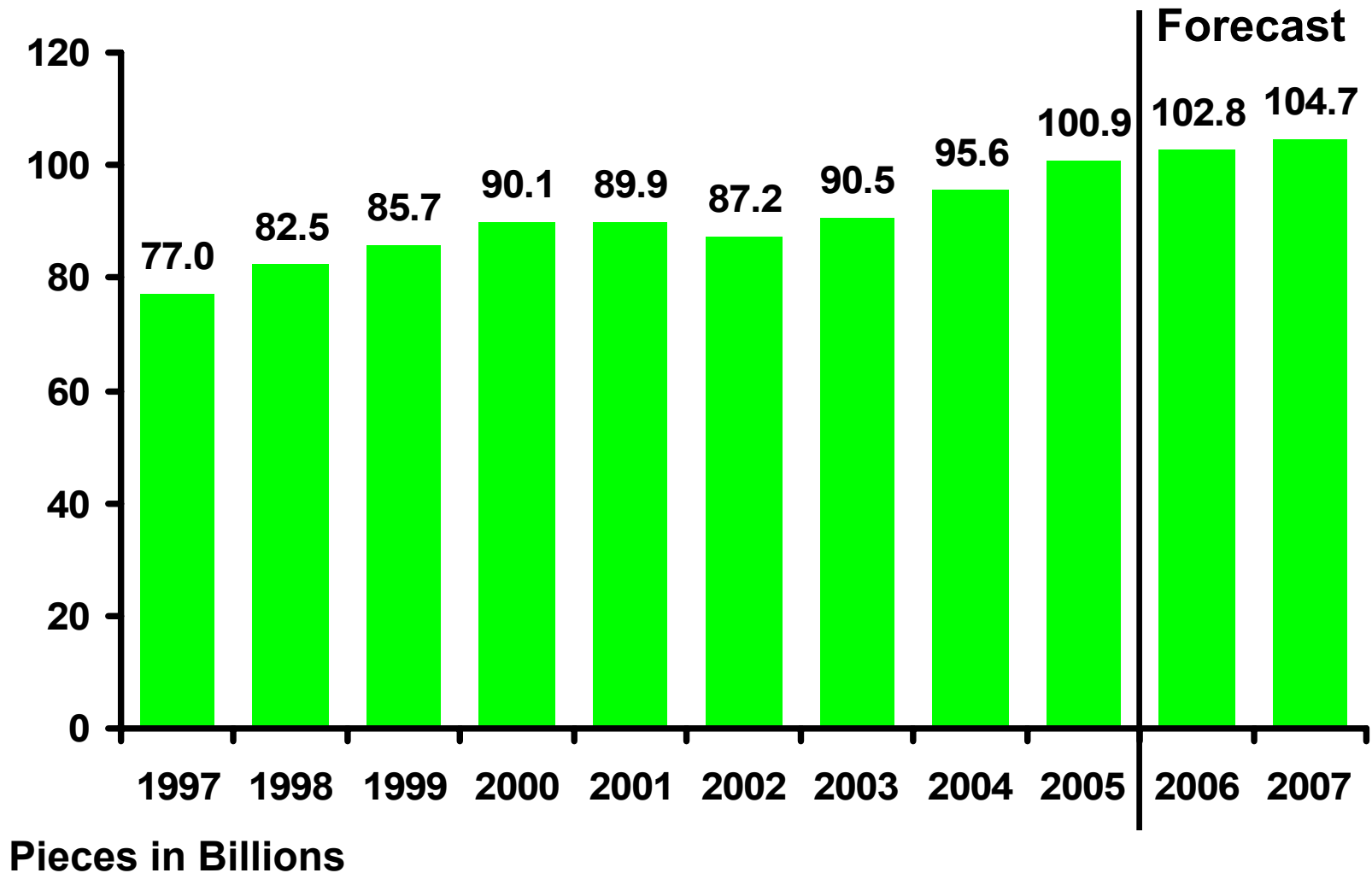


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Standard Mail Volume Change



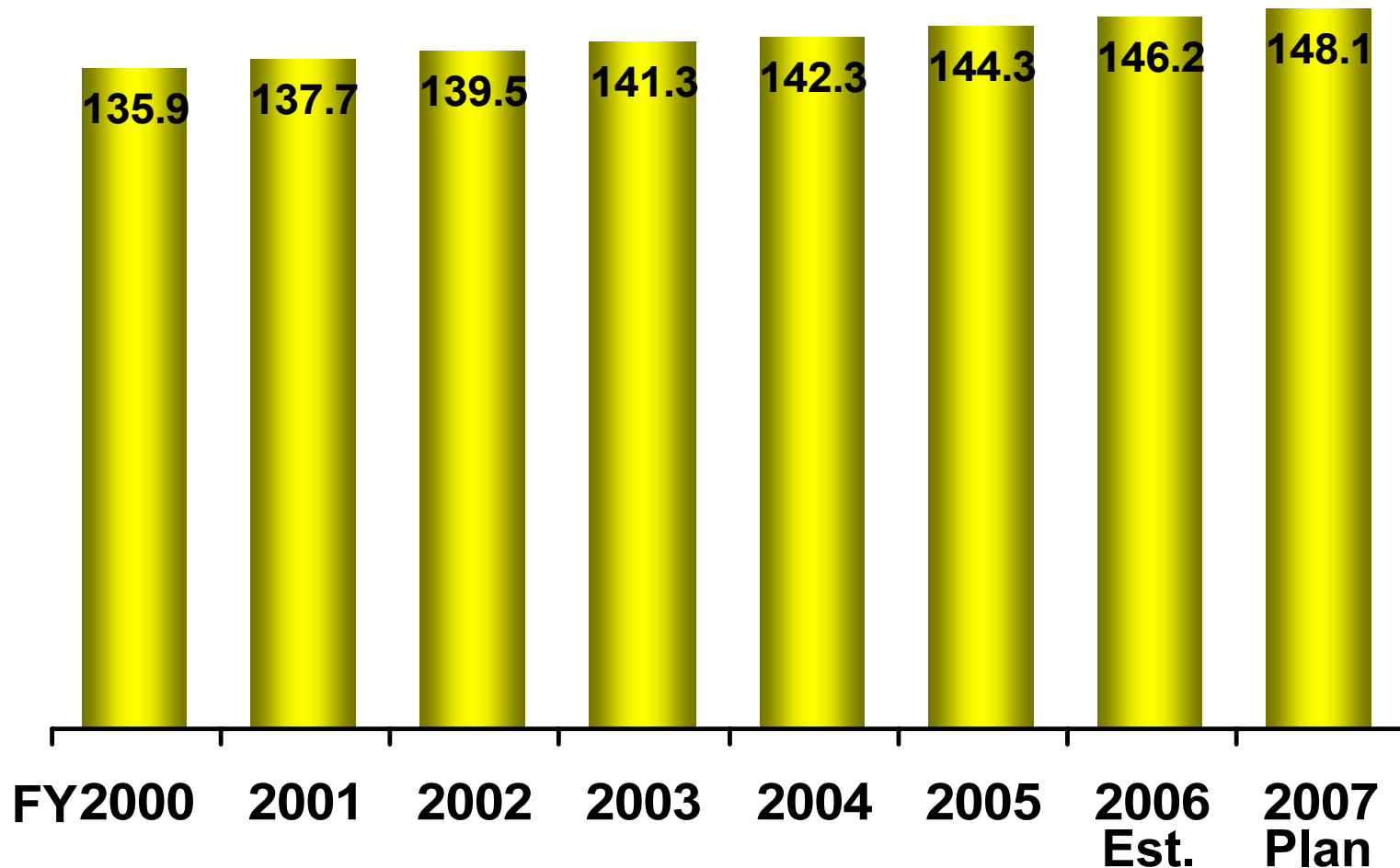


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Delivery Point Growth FY 2000 - 2007



in Millions



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Expense Growth - FY 2007

\$3.0B ← **Growth Before
Cost Reductions
+4.2%**

\$1.1B ← **Cost Reductions**

\$1.9B ← **Net Increase
+2.6%**

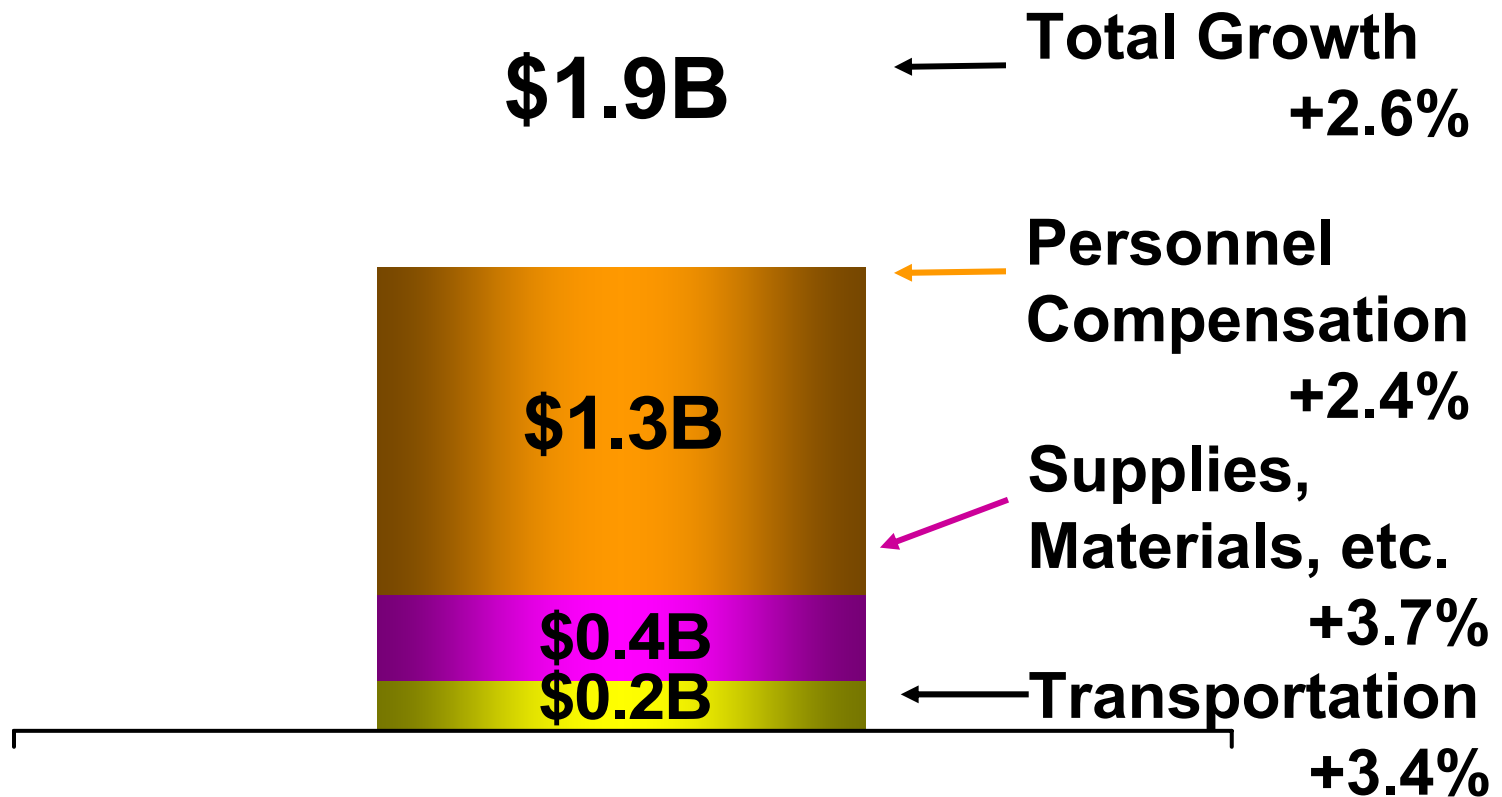




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Expense Growth - FY 2007





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2007 Cost Reductions (\$ Millions)

Non-Investment Related:

Operational Efficiency Gains (Including BPI)	\$	347
Network Transportation		138
Dedicated Air Carrier Savings		<u>92</u>
Total Reductions From Efficiencies	\$	<u>577</u>

Savings Related To Capital Investments:

Automated Package Processing System (APPS)	\$	101
Postal Automated Redirection System (PARS)		75
OCR Enhancements for Letter Automation		73
Integrated Dispatch & Receipt Program		60
Automatic Induction Systems for AFSM 100		48
Human Resources Shared Services		48
Automated Postal Centers (APC)		36
Automatic Tray Handling for AFSM 100		30
Surface Visibility		14
All Others (16 programs range \$100K to \$8M)		<u>52</u>
Total Savings Related to Investments	\$	<u>537</u>

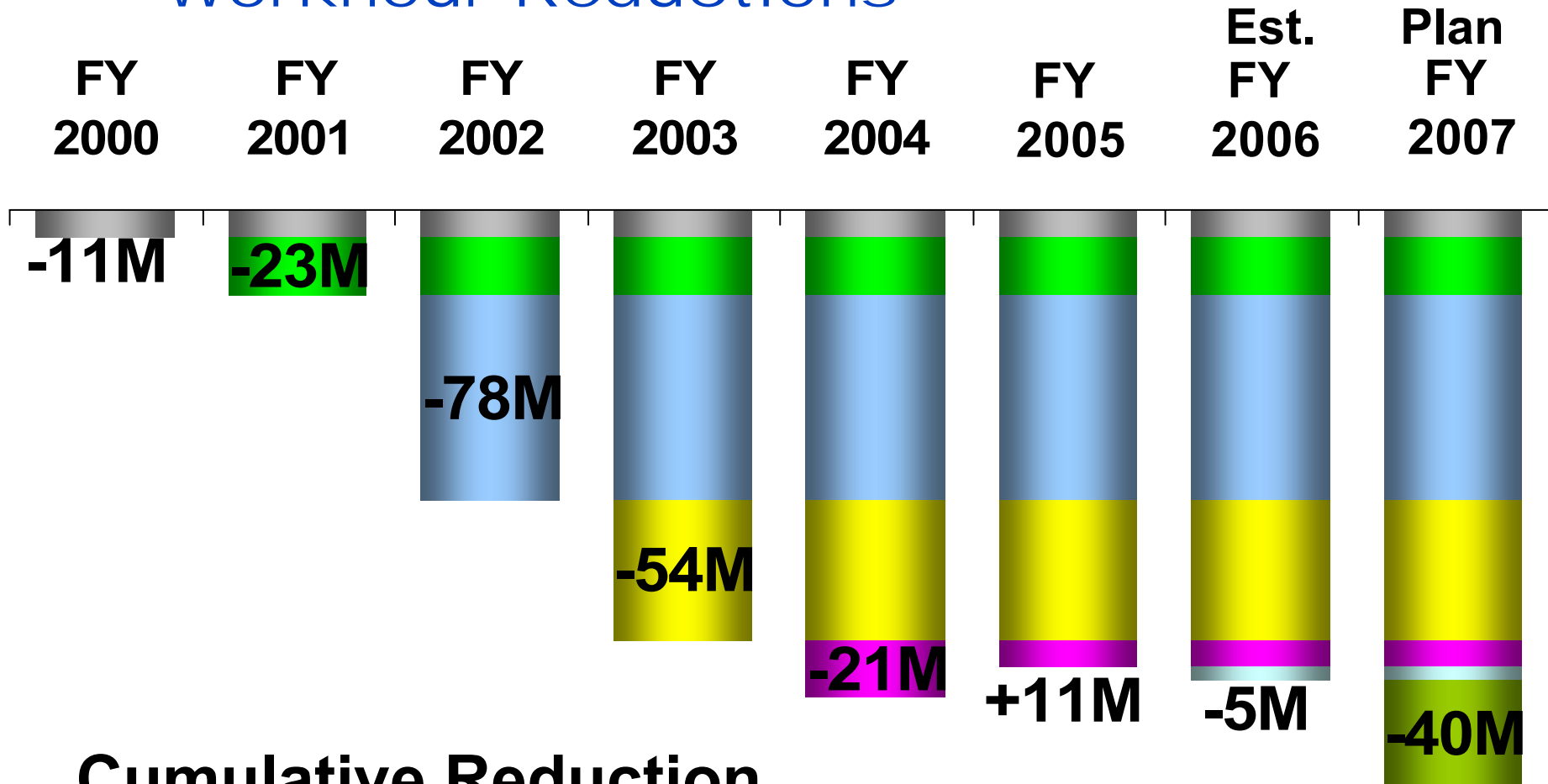
Total Cost Reductions In IFP \$ 1,114



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Workhour Reductions



**Cumulative Reduction
713M Workhours**



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Total Factor Productivity

FY 2006

Projected

FY 2007

IFP

	+1.0%	Workload		-0.8%
	+0.5%	Resources Usage		-1.4%
	+0.5%	Total Factor Productivity		+0.6%



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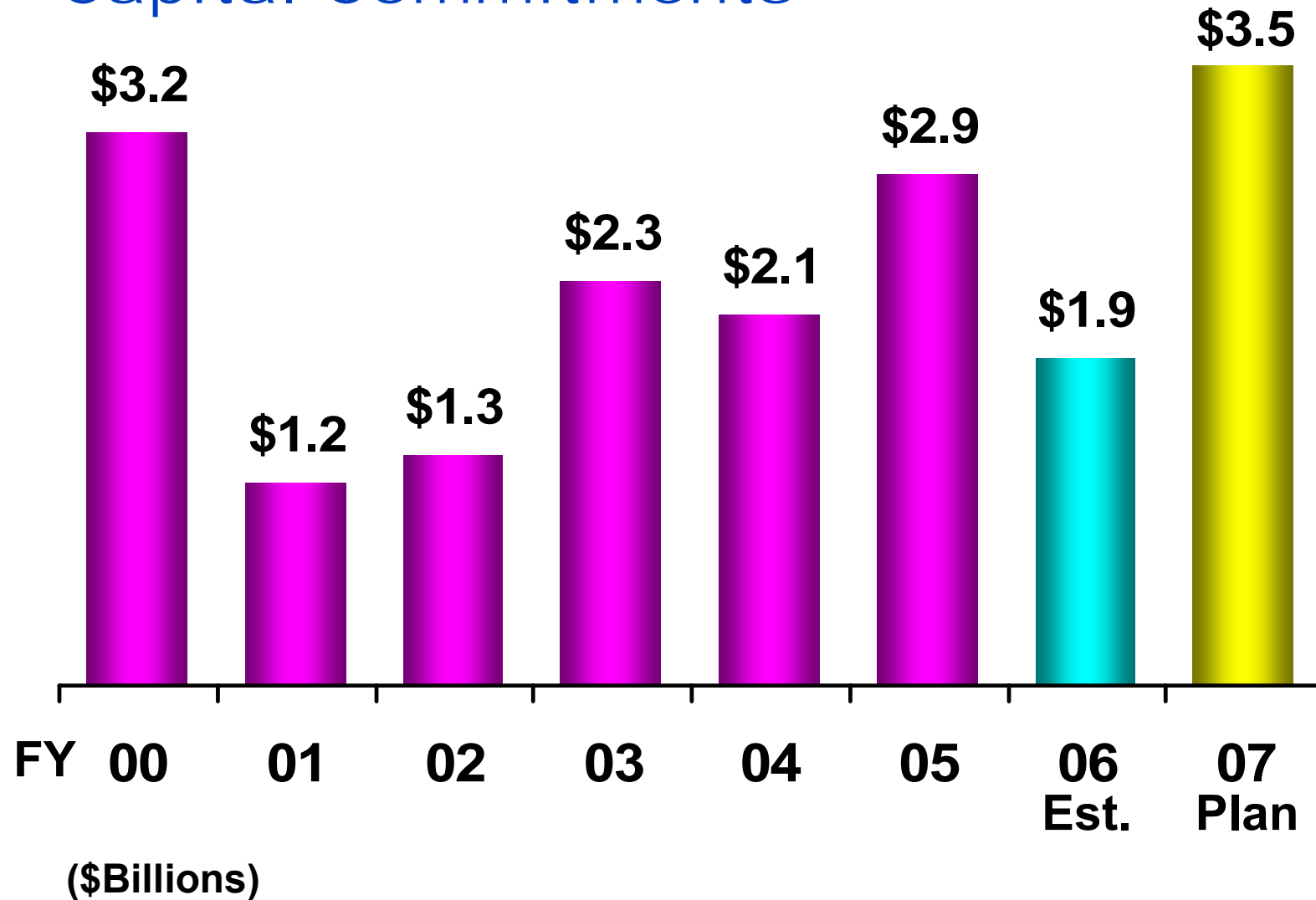


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Capital Commitments

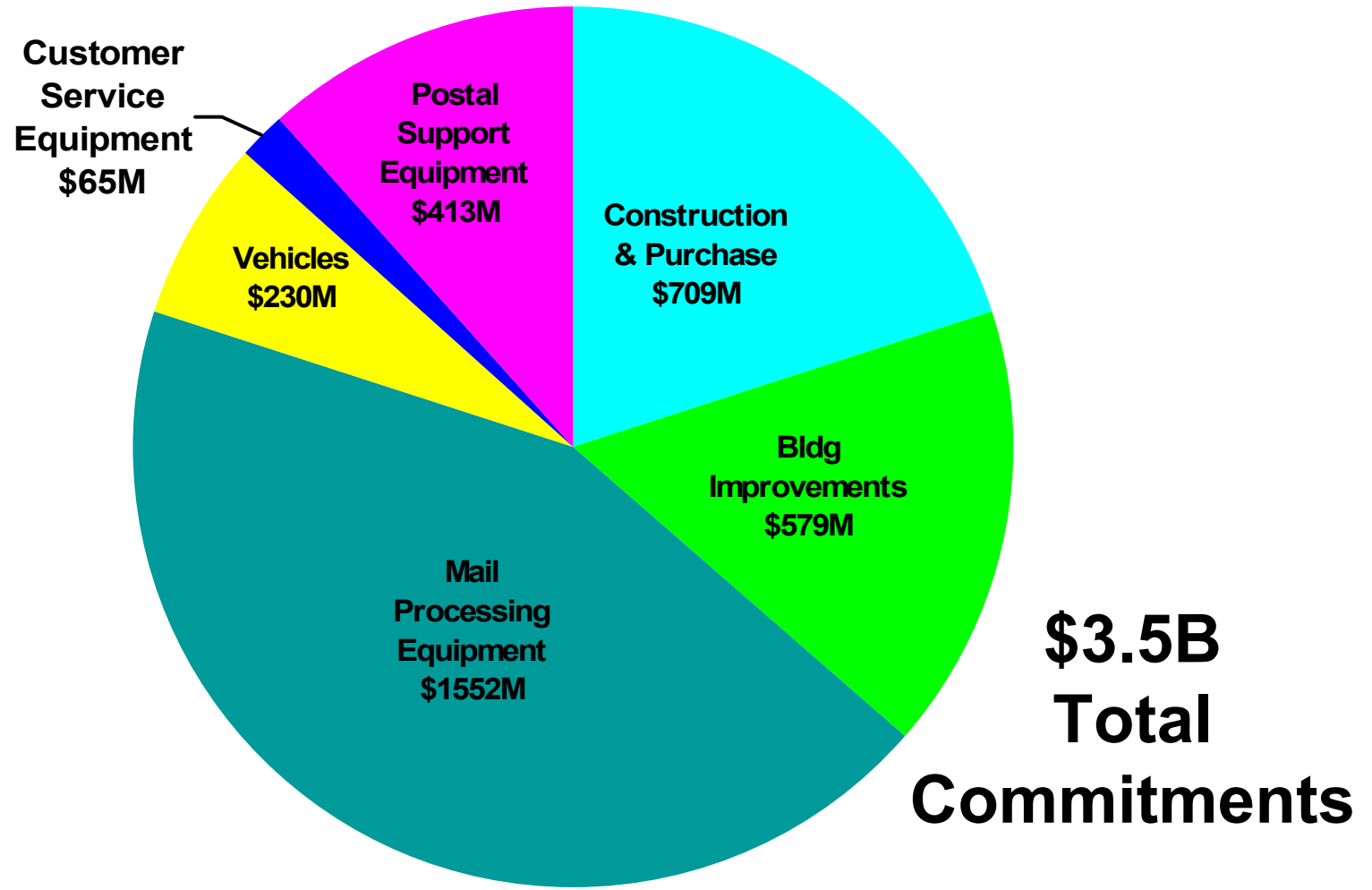




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Capital Commitments – FY 2007 Components





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FY 2007 – Financing Plan

	Estimate	Plan
Beginning Year:	<u>FY 2006</u>	<u>2007</u>
Cash	\$ 0.9	\$ 1.3
Escrow Balance	-	3.0
Cash Flow from Operations	\$ 3.9	\$ 4.0
+ Capital Cash Outlays	<u>-2.4</u>	<u>-2.2</u>
= Free Cash Flow	\$ 1.5	\$ 1.8
+ Cash From Financing	<u>1.9</u>	<u>1.2</u>
= Change In Cash Before Escrow	\$ 3.4	\$ 3.0
End of Year Cash	\$ 1.3	\$ 1.0
Restricted Cash - Escrow	3.0	6.3
Debt Outstanding at Year End	\$ 1.9	\$ 3.1

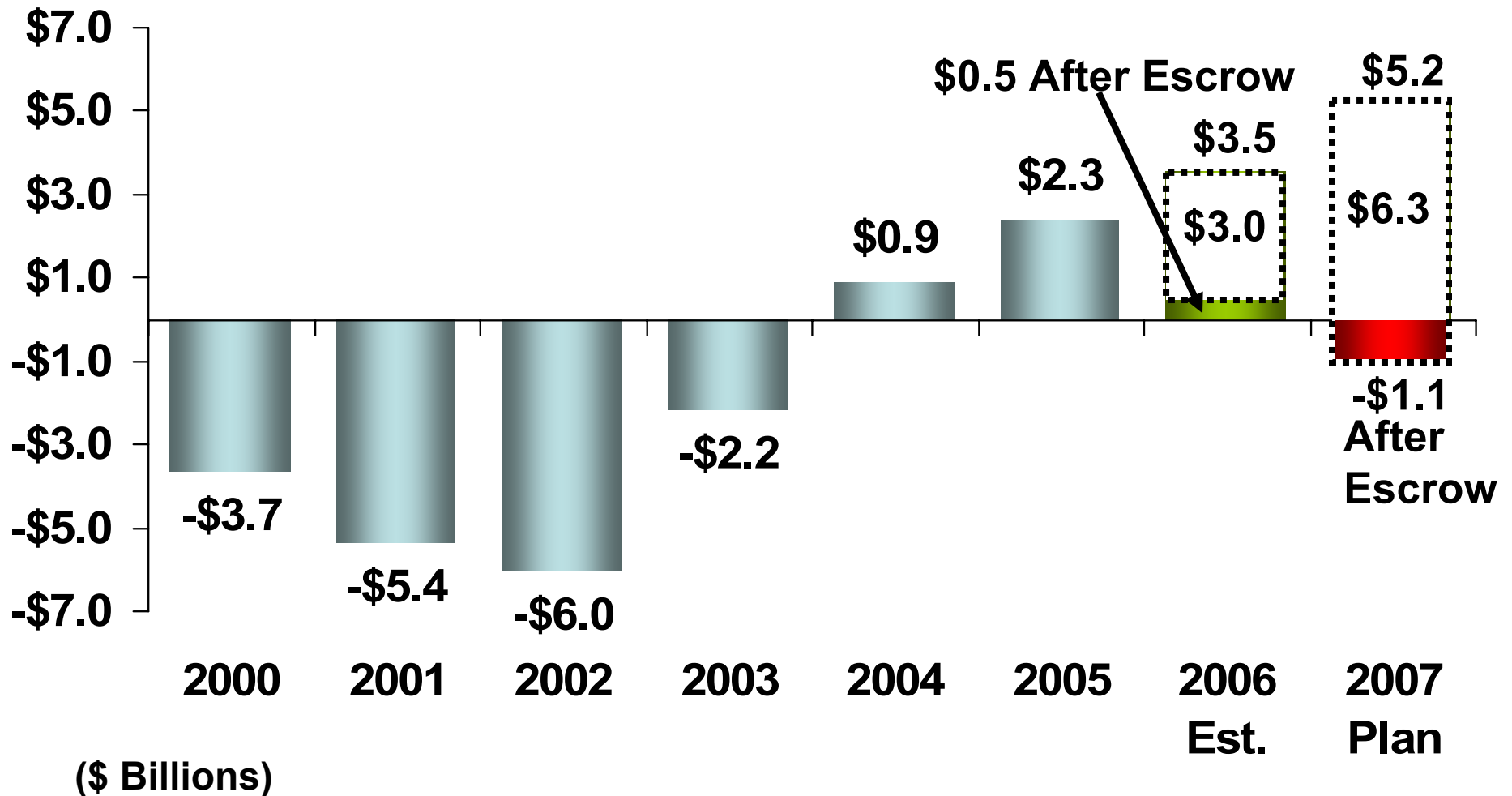
(\$Billions)



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FY 2007 INTEGRATED FINANCIAL PLAN

Deficit / Retained Earnings





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FY 2007 Risks and Uncertainties

- Economy**
- Inflation**
- Aggressive Work Hour Reductions**
- Labor Negotiations**
- Postal Legislation**
- Rate Recommendation From PRC and Implementation**



FY 2007 INTEGRATED FINANCIAL PLAN

Recommendation:

- Approve FY 2007 Operating Plan**

- Approve FY 2007 Capital Plan**

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