

In response to the Postal Service's ongoing financial crisis, we have continued to revise and reevaluate the business strategies and structural improvements necessary to return to profitability and long-term financial stability. Enclosed for your review is a summary of the Postal Service's updated five-year business plan (the "Plan").

The Plan has been subjected to independent review and analysis by Evercore Partners, Inc., one of the nation's leading independent investment banking and prominent financial advisors on major corporate restructurings. Evercore Partners played an important role in analyzing Postal Service models and assumptions and validating the approach taken by management to develop the Plan. The Plan also reflects prior business model analysis from McKinsey & Company and revenue projections from The Boston Consulting Group.

As a result of the rigorous processes applied in the review of this comprehensive and detailed Plan, the Postal Service is highly confident of the strategic approach and core business elements proposed. While the Plan is fundamentally consistent with the approach advanced by the Postal Service over the past year, it incorporates important refinements of financial projections and recommended legislative reforms.

At its core, the Plan requires the reduction of annual costs by at least \$20 billion by 2015, rising to more than \$22 billion by 2016. This cost reduction is necessary given projected declines in First-Class Mail volume, which has already dropped by 25 percent since 2006. However, the Postal Service can achieve only a portion of these reductions under current business model constraints; legislative changes are needed to achieve the full cost reductions.

In the absence of legislative reform that quickly enables meaningful operational changes and cost reductions, the Postal Service could incur annual losses as great as \$18.2 billion by 2015. These prospective losses would be unsustainable and would cause the Postal Service to become a long-term burden to the American taxpayer. Such an outcome is highly undesirable and entirely avoidable.

The comprehensive five-year Plan provides an achievable roadmap to long-term financial stability and independence from taxpayer support, and it provides for full repayment of \$12.9 billion in debt currently owed by the Postal Service to the U.S. Treasury. A central tenet of the Plan is that success is not dependent upon achieving a mix or subset of reforms: the scale of the financial challenge requires that all of the major elements be pursued concurrently and fully executed within a short window of opportunity.

Among the major legislative reforms recommended, the most significant include enabling the Postal Service to provide employee health benefits independent of federal programs (\$7.1 billion annual cost reduction), and transitioning to a national five-day delivery schedule (\$2.7 billion annual cost reduction).

The Postal Service is also aggressively pursuing the realignment of its mail processing, retail, and delivery operations, which is expected to yield more than \$8.1 billion in annual cost reduction. The Postal Service is also pursuing other significant cost reductions and efforts to grow or retain revenues within its current business model.

The Postal Service believes the Plan presents the best path forward to shape a profitable future for the Postal Service—while also meeting its universal service obligations and providing secure, reliable, and affordable service to the American public.

The Postal Service is pleased to provide any additional information or a personal briefing regarding its Plan. Thank you for your continued engagement in Postal Service issues.