



Delivering



2011 Annual Report to Congress and Comprehensive Statement on Postal Operations

the new reality



We give back to the communities in which we work. We support efforts to raise awareness about important social concerns. Our Breast Cancer Research semipostal stamp has raised more than \$73 million for breast cancer research since 1998.

In September 2011, the Postal Service issued the Save Vanishing Species semipostal stamp. Eleven cents from each sale help save vanishing species globally. At the end of fiscal year 2011, the stamp has raised more than \$175,000 that is transferred to the U.S. Fish and Wildlife Service to support the Multinational Species Conservation Funds.



Military Mail

Mail is the touchstone that keeps America connected — and is even more so for the men and women who serve our country in the military every day, away from family, friends and loved ones.

The Postal Service uses its international distribution and transportation services and partners with the Department of Defense for overseas military mail delivery — even in war zones. In fact, between the

Thanksgiving and Christmas holidays this year, nearly 30 million pounds of mail will be delivered to troops in Afghanistan and Iraq.

Every day nearly half a million pounds of mail is shipped from the U.S. to service men and women stationed around the world. That's half a million pounds of news from home, love, support and wishes for a safe return — all through the U.S. Mail.

Delivering

United States Postal Service

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The Year In Review

Financial Highlights

2011 was a difficult year for both the U.S. economy and the Postal Service. As the economy continued to remain weak, mail volumes and revenue continued to decline. The Postal Service met the challenge with focused cost reductions and increased efficiency.

	Years ended Sept. 30			Percent change from preceding year		
	2011	2010	2009	2011	2010	2009
<i>(dollars in millions)</i>						
Operating revenue	\$ 65,711	\$ 67,052	\$ 68,090	(2.0%)	(1.5%)	(9.1%)
Operating expenses *	\$ 70,634	\$ 75,426	\$ 71,830	(6.4%)	5.0%	(7.6%)
Loss from operations	\$ (4,923)	\$ (8,374)	\$ (3,740)			
Operating margin	(7.5%)	(12.5%)	(5.5%)			
Net loss	\$ (5,067)	\$ (8,505)	\$ (3,794)			
Purchases of capital property and equipment	\$ 1,190	\$ 1,393	\$ 1,839	(14.6%)	(24.3%)	(7.8%)
Debt	\$ 13,000	\$ 12,000	\$ 10,200			
Interest expense	\$ 172	\$ 156	\$ 80			
Capital contributions of U.S. government	\$ 3,132	\$ 3,132	\$ 3,087			
Deficit since reorganization	\$ (22,072)	\$ (17,005)	\$ (8,500)			
Total net deficiency	\$ (18,940)	\$ (13,873)	\$ (5,413)			
Number of career employees	557,251	583,908	623,128	(4.6%)	(6.3%)	(6.0%)
Mail volume <i>(pieces in millions)</i>	167,934	170,860	176,744	(1.7%)	(3.3%)	(12.8%)
New delivery points served	636,530	739,580	923,595			

*P.L. 112-33 had a net impact of a \$5.5 billion reduction of expenses in 2011. P.L. 111-68 had a net impact of a \$4.0 billion reduction of expense in 2009.

Global bargain

2011 First-Class Mail Letter equivalent prices in U.S. dollars

1.63 Norway

1.06 Japan

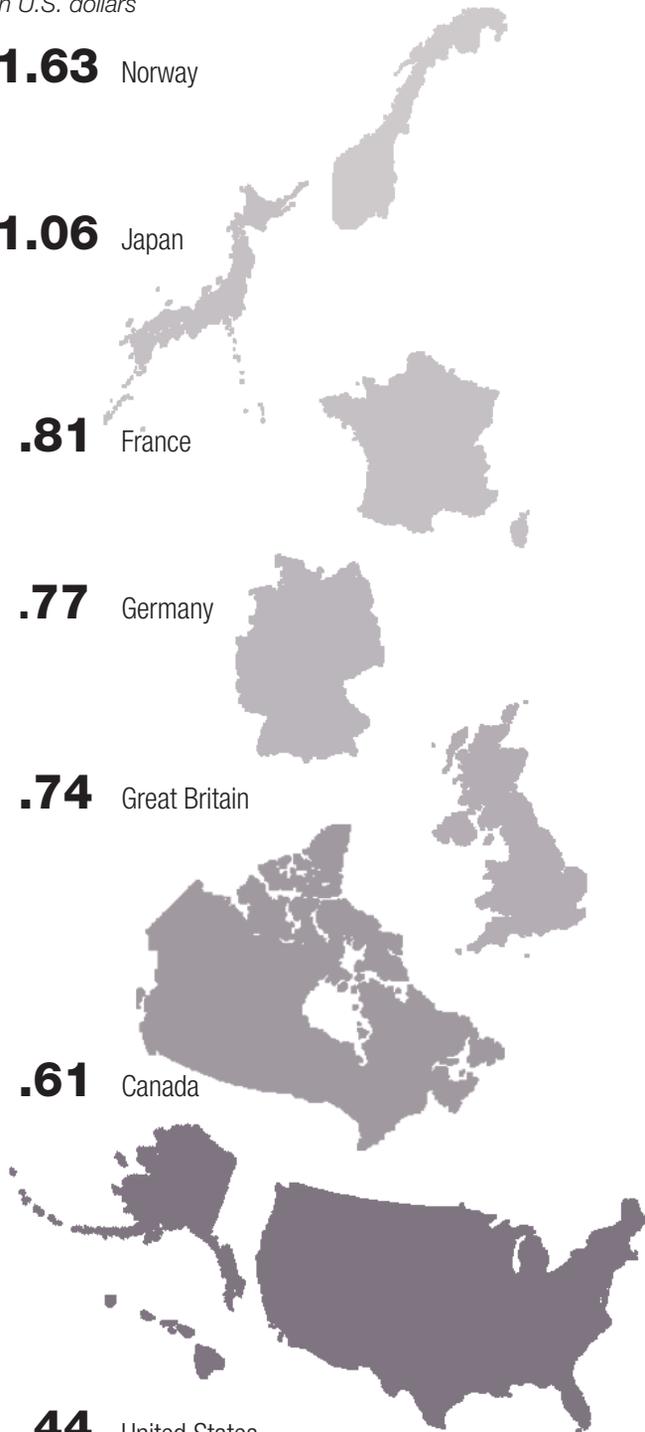
.81 France

.77 Germany

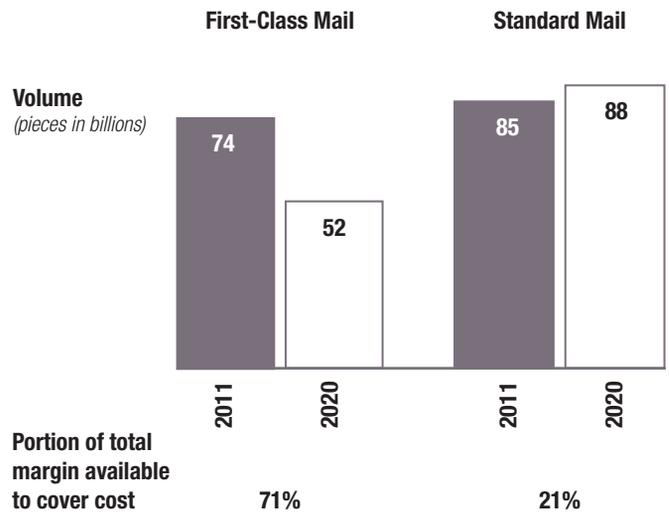
.74 Great Britain

.61 Canada

.44 United States



Volume and contribution changes*



*Volume and contribution changes in the two largest mail classes.

Delivering: Letter from the Postmaster General and CEO, and the Chairman of the Board of Governors

To the President, Members of Congress, Postal Customers, Postal Employees, and the American People:

Both literally and figuratively, the Postal Service delivers for America. Even in an increasingly digital world, the Postal Service remains part of the bedrock infrastructure of the American economy, serving its people and businesses, and binding the nation together.

The core function of the Postal Service is the physical delivery of mail and packages, provided reliably, safely, affordably, and universally, to every address in America.

While the Postal Service meets these obligations today, and supports a \$900 billion mailing industry that employs almost 8 million people, it must adapt to a dynamic marketplace to continue to do so in the future.

Due to an inflexible and outdated business model and a weak economy, the Postal Service incurred significant financial losses in fiscal year (FY) 2011. Although expected to operate as a business does, the Postal Service is nevertheless restricted by laws that limit its ability to control costs and grow revenue in the way a business would.

Over the past year, the Postal Service accelerated ongoing, aggressive cost-reduction strategies that have reduced annual costs by more than \$9 billion since 2008. It undertook significant actions to improve its long-term cost structure and advanced a series of proposals to improve its business model. The Postal Service reorganized its senior management structure and reduced its upper management ranks by 16 percent. The Postal Service also announced a radical realignment of its mail processing, delivery, and retail networks — which is projected to reduce \$6 billion in total operating costs by FY2015.

The Postal Service worked closely with the Administration and Congress to encourage support for proposals to provide delivery frequency flexibility, speed up product and pricing decisions, address collective bargaining issues, enable the Postal Service to provide its own healthcare insurance, and return overpayments to its retirement plans. If enacted, these proposals would enable the Postal Service to achieve the savings necessary to return to long-term profitability and secure a sustainable financial future.

The Postal Service also set out four core business strategies: strengthening the business-to-consumer channel, improving the customer experience, competing for the package business, and becoming a leaner, faster and smarter organization. These core strategies — which emphasize revenue generation and cost control — provide the foundation for a more competitive and market-responsive Postal Service.

In adapting to a dynamic marketplace and establishing a profitable future, the Postal Service is striving to operate more as a business does: competing for customers and providing compelling products and services. In the past year, the Postal Service and its 557,251 employees took great strides toward achieving these goals and building a stronger foundation from which to continue delivering for America.



Patrick R. Donahoe
Postmaster General and Chief Executive Officer



Louis J. Giuliano
Chairman, Board of Governors



*Patrick R. Donahoe
Postmaster General and
Chief Executive Officer*

*Louis J. Giuliano
Chairman, Board of Governors*

Overview

Returning to profitability

This Annual Report to Congress on the performance of the Postal Service for fiscal year 2011 is organized around four core business strategies. These strategies capture the many significant activities we've taken throughout the year to return the Postal Service to profitability and financial stability.

While the Postal Service recorded a financial loss of \$5.1 billion in fiscal year 2011, and concluded the year with a precarious cash outlook, we are fundamentally a strong organization — although one shackled to an inflexible business model. Our financial results could quickly swing from significant losses to profitability under a less restrictive business model.

The underlying value of the Postal Service, and the value of mail as a communications medium, remains strong. The Postal Service delivered 168 billion pieces of mail in 2011, facilitating approximately \$10 trillion in commerce. And we will continue to play a vital role in the American economy and society for generations to come.

Many of the initiatives we undertook in 2011 reflect a sharpening of focus on our core function: Delivering. They also reflect our refreshed approach to the marketplace, based on being relentless in achieving service performance, providing simpler products and processes, enhancing security and providing customers with more personal, positive experiences.

These efforts are driving immediate changes and shaping tomorrow's Postal Service — one that is profitable, market responsive and provides America with a national, low-cost, and technology-centric delivery platform.

Our four core business strategies:

Strengthen our business-to-consumer channel.

Improve our customers' experience.

Compete for the package business.

Become a leaner, faster and smarter organization.

"These strategies serve as the foundation for a revitalized Postal Service that competes for customers, adapts to a dynamic marketplace and provides better service and value to the American public. We have restructured all of our major initiatives and activities to ensure the success of our core business strategies."

*— Pat Donahoe,
Postmaster General and
Chief Executive Officer*



America's businesses rely on mail

Core business strategy no. 1: Strengthening our business-to-consumer channel.

America's businesses rely on mail to reach consumers. This business-to-consumer channel includes billing statements and notifications sent using First-Class Mail, as well as advertisements and offers sent via Standard Mail, which will continue to be our primary revenue base.

Even though Americans are getting information digitally, they still value the physical delivery of mail. They still spend a lot of time looking at their mail and they still use it to make purchasing decisions. Simply put, they get ideas about what to buy from their mail and they act on it.

As long as this is so, businesses will continue to receive significant value from their investment in the mail.

In a competitive environment with many marketing and communications options, strengthening the mail channel ensures a meaningful return on investment for the sender, and provides a compelling experience for the receiver. In FY2011, the Postal Service took significant steps to strengthen and improve the value that businesses get from the mail.

Promoting the mail

This past year, the Postal Service designed and launched a major advertising campaign titled "The Power of Mail." This multi-year, multi-channel campaign promotes mail as a powerful way for businesses to reach and engage their customers. It is designed to serve two purposes: generate Postal revenue, and grow revenue throughout the entire mailing industry. The Postal Service believes if the industry aligns around the same marketing insights about mail that we're promoting, the potential exists to multiply that advertising effect.

Ease and convenience

We also worked to improve the value of business mail by making it easier and more convenient for customers to use the Postal Service. That means providing them with simpler tools and products and eliminating barriers that stand in the way of mail being part of their marketing strategy. This includes seamless entry into our system that lets business customers drop off mail through a streamlined, automated process.

One way we did that in 2011 was by unveiling Every Door Direct Mail (EDDM). This popular product makes it simple for small businesses to pick the streets they want their mail delivered to, rather than specific addresses.

In the 9 months since its launch in January, EDDM sales have reached over \$92 million. EDDM is a great example of a simple product the Postal Service created to make it easier for businesses to use the mail, and to measure their return on investment.



A refrigerator has **never** been hacked.

Unfortunately, the same cannot always be said for email accounts, digital files and the internet. Often times, a customer feels their important statements, passwords, and pin numbers are left exposed and vulnerable. So when it comes to giving your customers an added feeling of safety and security, nothing quite compares to a printed document. It's good for your business and even better for your customers. And it's all delivered through the power of mail.

The Power of Mail.
usps.com/mail



Promoting the mail

The Postal Service designed and launched in 2011 a major advertising campaign to promote mail as a powerful way for businesses to reach and engage their customers.



Introducing innovative products
 New innovative products, such as the web-based direct mail hub, are revitalizing the business-to-consumer channel by encouraging businesses to use the mail as a key means of communication.

Better information

We are continuing to improve tracking and visibility within our network. Our mail scanning score has increased by over three percentage points in the last year. And we made great strides with our Intelligent Mail barcode (IMb) technology to provide customers with end-to-end scanning information. IMb scans are giving our customers better information about mailpieces and mail containers to help them make better business decisions.

Innovation and creativity

And finally, the Postal Service is revitalizing our business-to-consumer channel by introducing new, innovative products that give customers a reason to visit America’s businesses.

New product launches, including EDDM and a web-based direct mail hub, provide fresh reasons for businesses to use the mail as one of their communications channels. The Postal Service also launched an upgraded *USPS.com*, which contains new features to make mailing online easier.

Strengthening the business-to-consumer channel is one of our core business strategies. Improving this channel, which will help the mailing industry grow, means aggressively promoting the mail, improving convenience for business customers, and providing better information for businesses to use to measure their return on investment.

Making it simpler

Every Door Direct Mail, which allows small businesses to pick the streets they want their mail delivered to, is one very successful way in which the Postal Service is making it simpler for businesses to use the mail.



Creating a positive interaction

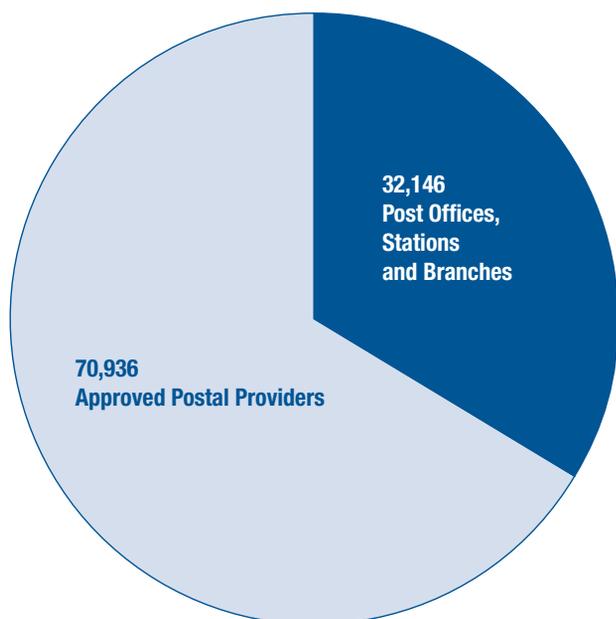
Core business strategy no. 2: Improving the customer experience.

Whether online, at the Post Office, over the phone, dropping off bulk mail or chatting with a letter carrier, the experience our customers have determines whether they will want to do business with us. That's why improving our customers' experience with us is one of our core business strategies. And it's why our future growth is tied to creating those positive experiences at every point of contact with us. Positive experiences with the Postal Service will cause more businesses to use the mail.

At every level of our organization, employees are working to ensure that interactions a customer has with the Postal Service are great ones. That means easier transactions, helpful solutions and friendly exchanges with the clerk or the carrier. It means basing every interaction with the Postal Service on the principles of convenience and simplicity.

Convenient

Increasingly, consumers and businesses want access to Postal Service products and our delivery platform online. They want to buy stamps or send a package without having to go to a Post Office. They want their interactions with us to be easy and to fit their schedules.



More convenient access

The Postal Service is working hard to make sure consumers and businesses have convenient access to our products and services. In fact, nearly three-quarters of all retail locations offering postal products and services are located where consumers and businesses are already shopping.

In FY2011, USPS developed a new retail strategy based on the idea that, in addition to coming to our customers' doors or mailboxes every day, the Postal Service should be where *they* are, so using the mail is as easy as possible.

In the past year, we have worked with major retailers — Office Depot is just one — to offer postal products and services where people are already shopping. We've also invested in



The Village Post Office

Housed in businesses that have longer hours, weekend service and more convenient locations, the Village Post Office is a new retail offering tailored to meet the needs of small communities.

kiosks to provide retail postal options in shopping malls and other high-traffic areas. With 70,936 approved postal providers within easy reach, doing business with us is increasingly a quick stop on a regular shopping trip.

Building on our growing network of retail partners who provide postal products and services that communities need, the Postal Service introduced the Village Post Office (VPO). The Village Post Office is a new retail offering tailored to meet the needs of small communities currently served by low-activity Post Offices under consideration for closing or consolidation. VPOs provide customers with greater access to our products and services because they are housed in businesses that have longer hours, weekend service and more convenient locations.



Greater convenience online

To increase convenience for those who do their shopping on the go or after hours, the Postal Service has enhanced its offerings available through USPS.com and made it easier to use.

The Postal Service also set out in 2011 to be more convenient for those who do their shopping on the go by offering more products and services online and making *USPS.com* more convenient and easy to use. We're also developing apps to help customers find contract postal offices, kiosks, blue collection boxes and Post Offices.

Improving convenience extends to our large mailing customers as well. For example, we started seamless acceptance of bulk mail in FY2011. It enables customers to drop mail at any location using a single account and a simple online tool.

Simpler

Making things simpler is at the heart of a positive customer experience. We're applying that concept to our products and services, our customer-facing interactions and our internal systems and processes.

In FY2011, the Postal Service continued its highly successful Flat Rate shipping campaign "If it fits, it ships," which makes it easy for customers — no weighing, no guessing about cost.

This past year also saw the elimination at the Post Office of the standard products/services speech the clerk was required to make to customers, offering a quicker and simpler customer experience.

We also announced that all new commemorative stamps would be "Forever" stamps, a highly popular change.

Our new Every Door Direct Mail product makes things simpler for small businesses, allowing them to choose the streets they want their mail delivered to, rather than the specific addresses.

Based on feedback from business partners and customers in 2011, the Postal Service is making its mail preparation rules and assessments much simpler and more predictable. Starting in 2012, we will issue only two major software releases a year that cover the structure of postage statements and electronic documentation.

USPS is also establishing a regular schedule of minor software releases and facility profile updates, giving interested customers at least six months lead-time for major releases.

Making things simple and convenient is often hard for an organization to do, but it is what every customer wants. We understand that and are focused on improving our customers' experience by eliminating complexity and making access to our products and services as convenient as possible.

We believe this will result in a stronger, more profitable organization that new customers will be drawn to, and one that existing customers will return to again and again.



Delivering more packages

Core business strategy no. 3: Competing for the package business.

Package delivery has seen strong growth for the Postal Service over the past several years, an important, positive change. This trend continued in FY2011. Indeed, total package deliveries increased by 5 percent to 2.148 billion pieces. Growing our package business is one of our key strategies for returning to profitability.

The Postal Service provides the nation with a low-cost, technology-centric delivery platform, and package deliveries are becoming a larger part of our overall product mix, accounting for 16.1 percent of postal revenues in FY2011, up from just 12.7 percent in FY2006.

This growing business segment has been driven by focused product innovation and marketing, more effective pricing and beneficial trends in e-commerce.

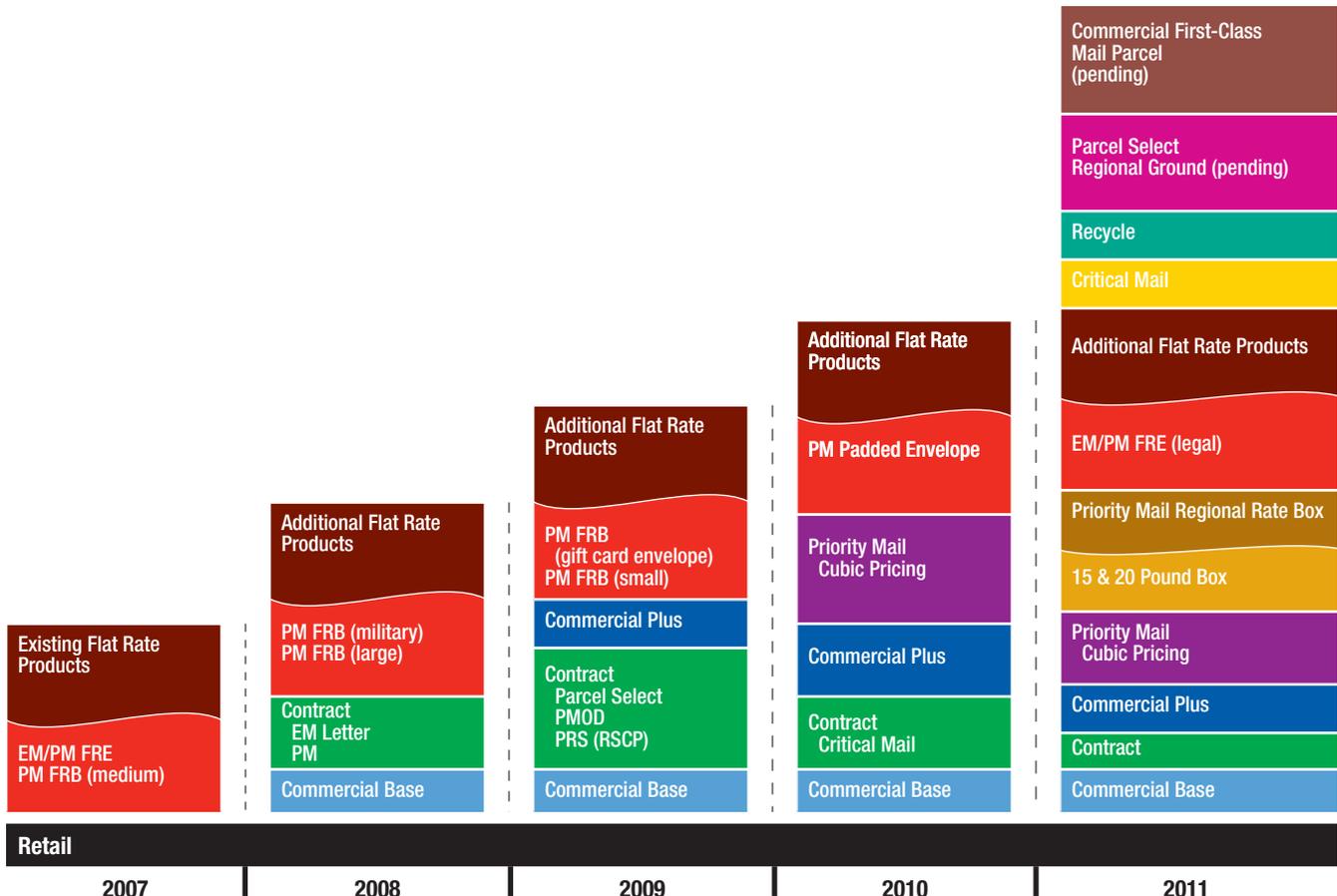
Product development

We intend to continue to create new, innovative package products. This increasing diversity of offerings and tailored pricing has steadily expanded customer use of our package products and services.

The Postal Service made a number of important additions to its product and service offerings in FY2011. They include:

- Priority Mail Regional Rate Boxes. They provide businesses speedy delivery with a 2–3 day commitment and excellent pricing. They are ideal for commercial and online shippers, and companies with decentralized warehousing.
- Parcel Select Regional Ground is an economical ground option for lightweight parcels. This service makes it possible for retailers to offer free shipping to their customers.
- “Forever” Prepaid Flat Rate Priority Mail products are an extension of the “Forever” stamp concept. These Flat Rate Boxes are very popular with small businesses and residential customers.

Evolution of competitive products and pricing 2007–2011



Effective marketing

The Postal Service's Flat Rate shipping products have been supported by a highly effective multi-channel marketing campaign featuring "Al the Letter Carrier." Since 2009, when this promotional effort was launched, revenues for Flat Rate Boxes have increased by more than 78 percent.

More effective pricing

USPS focused on reaching business and residential customers in FY2011 with compelling pricing for their package products and services. We set prices that are market-based and calculated to drive volume sales and encourage growth in small parcel business-to-customer shipping.

In many categories, we offer significantly lower rates compared to major competitors such as FedEx and UPS. Pricing is a major point of differentiation, and the Postal Service provides compelling pricing as a result of its highly efficient delivery platform.



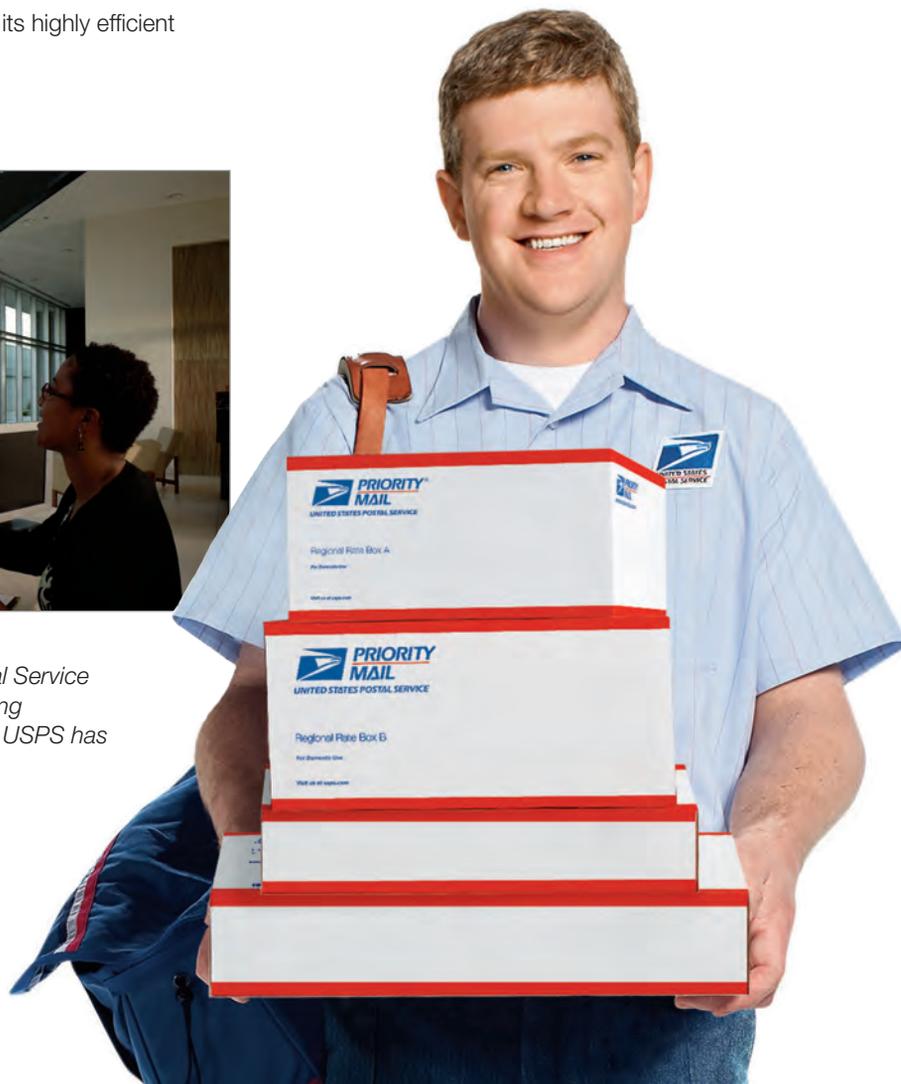
Innovative offerings

"Al the Letter Carrier" is helping the Postal Service promote its very popular Flat Rate Shipping products, among the innovative offerings USPS has introduced to grow its package business.

E-commerce and returns

Perhaps one of the most dynamic trends in package delivery today is the growth in online product ordering. Consumers increasingly associate an online shopping experience with the physical delivery of their orders. The Postal Service plays an important role in facilitating these transactions, and in linking businesses with their customers.

Another related and emerging trend is the growth in merchandise returns. It is becoming the norm for online shoppers to order several items of apparel for the purpose of trying them on, and with the expectation of sending back all but one item. This "returns" dynamic will likely drive package volume growth for years to come. And, due to our pricing and product mix, we are well positioned to be the provider of choice for residential customers who choose to return online purchases.



Radical realignment

Core business strategy no. 4: Becoming a leaner, faster and smarter organization.

The Postal Service launched a radical realignment of its mail processing, delivery and retail networks in 2011. We also took significant steps to harness advanced information technologies to provide customers with more robust mailing tools and capabilities. These initiatives will drive major cost reductions, improve efficiency and create tomorrow's postal operating model.

The end result will be a greatly streamlined and more technology-centric Postal Service that will provide a robust, highly efficient, low-cost delivery platform.

Mail processing

The pace of consolidation of mail processing facilities has accelerated over the past year. It's a necessary step to bring our network in line with a dramatic drop in mail volume. From 1970 until 2006 — our peak volume year — our network capacity had expanded steadily. However, in response to significant market changes since 2006, the Postal Service has aggressively consolidated facilities to eliminate excess capacity. We have reduced the number of mail processing facilities from 673 in 2006, to 461 in 2011.

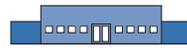
As part of this radical network realignment, an additional 252 mail processing facilities are being studied for potential closing or consolidation this year. By the end of 2013, USPS plans to operate fewer than 200 of these facilities. This new mail processing footprint will support the nation's delivery needs for the next 30 years.

Delivery

The Postal Service is aggressively working to make our delivery operations more effective through route adjustments and by separating delivery functions from Post Office operations. In FY2011, the Postal Service was able to reduce its total number of city and rural delivery routes nationally by 6,878 and delivery workhours by nearly 8.3 million.

Two delivery operations initiatives contributed to the majority of these route reductions: implementing the Flats Sequencing System (FSS), and route evaluations of about 70,000 city delivery routes in non-FSS delivery facilities. During FY2011, FSS was implemented in approximately 1,000 delivery units.

Sequencing mail saved more carrier office time while route evaluations reduced base workhours and routes. These initiatives, along with others, enabled the Postal Service to also absorb 636,530 combined new deliveries, while making delivery operations more efficient. Since FSS implementation and the route review process were ongoing during the year, workhours and dollar savings will be spread over FY2011 and FY2012.



Fewer facilities, greater utilization and efficiency



More retail partners and kiosks, more online services, fewer brick and mortar Post Offices



Earlier mail availability driving more efficient local delivery

\$6.5 billion cost reduction by 2015

THE RESULT

A highly efficient, low-cost, national delivery platform

In the past four years, we have lowered annual costs by reducing the size of our work force by 127,500 career employees, while keeping service performance standards at record high levels.

USPS is studying transition for First-Class Mail from a 1–2 day delivery service standard to a 2–3 day standard, which will make our delivery operations even more efficient. Mail and package delivery will be more centralized, technology can be used more effectively, delivery will occur earlier in the day and mail carriers will spend a greater part of their workday delivering mail instead of sorting it.

Retail

We also are realigning our Post Office retail network. As part of a move away from traditional brick-and-mortar Post Offices toward more retail partners, kiosks and online services, we closed 382 postal-managed facilities this calendar year. An important part of this plan was the unveiling of the Village Post Office, a new retail offering tailored to meet the needs of small communities currently served by low-activity Post Offices.

The Village Post Office builds on a growing network of retail partners that offer a variety of postal products and services, depending on community needs. This low-cost model provides customers with greater access due to our business partners' longer business hours, weekend service and more convenient locations.

Technology

The Postal Service uses some of the most advanced mail processing technology in the world, including fully automated systems and robust tracking and scanning technology. These enhanced network systems enable us to provide customers with better data and better ways of using the mail. And, as our systems get smarter, our customers get smarter about the way they use the mail.

Among the technology-enabled solutions released this year were simplified full-service requirements for drop-shipments and customer supplier agreements. We are giving customers better information regarding their full-service mailings, including better reports and data we collect about mailpieces and containers. We're also offering seamless entry that enables business customers to drop off their mail through streamlined, automated processes.

Our goal is to create a stronger, profitable Postal Service. And building a leaner, faster and smarter operational network is critical to achieving that goal.



Current mail processing network

In response to significant market changes over the past five years, USPS has aggressively consolidated mail processing facilities, which now total 461, down from 673 in 2006.



Proposed mail processing network

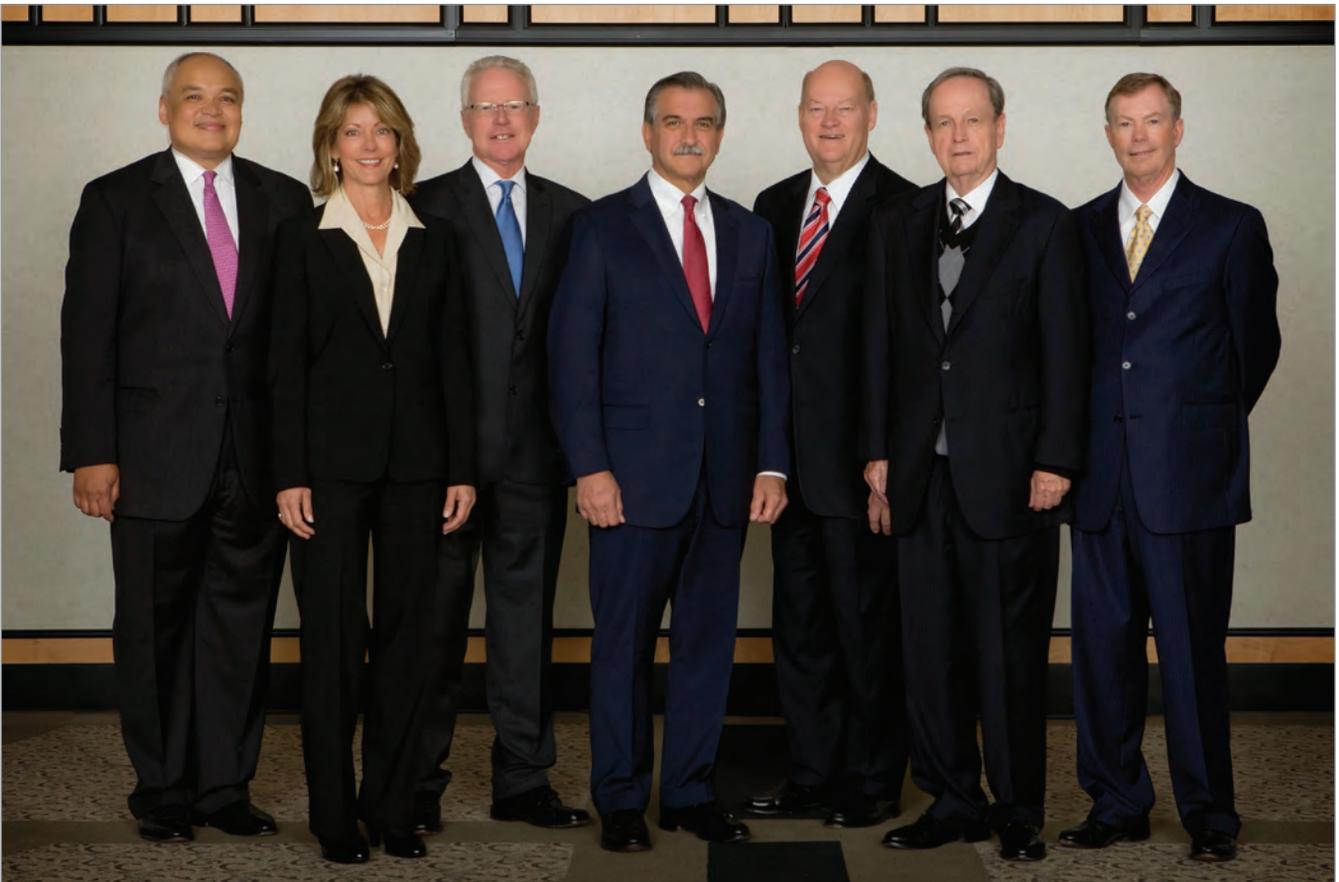
An additional 252 mail processing facilities are being studied for potential closing or consolidation, as USPS works toward a goal of fewer than 200 facilities by the end of 2013.

* 252 mail processing facilities under review

The Board of Governors

As the governing body of the Postal Service, the 11-member Board of Governors has responsibilities comparable to the board of directors of a publicly held corporation. The Board is made up of nine Governors appointed by the President of the United States with the advice and consent of the Senate. No more than five Governors can be members of the same political party. The Board currently has two seats vacant.

The other two members of the Board are the Postmaster General and the Deputy Postmaster General. The Governors appoint the Postmaster General, who serves at their pleasure without a specific term of office. The Governors, together with the Postmaster General, appoint the Deputy Postmaster General.



The seven presidentially appointed governors currently serving are: Vice Chairman Thurgood Marshall, Jr., Ellen C. Williams, Dennis J. Toner, Chairman Louis J. Giuliano, James C. Miller III, James H. Bilbray and Mickey D. Barnett.

Louis J. Giuliano

Appointed November 2004. Term expires December 2014. Chairman since January 2010. Vice Chairman, February 2009 to January 2010. Chairman, Operations Subcommittee. Member, Compensation and Management Resources Committee. Former Chairman of Board of Directors, President and Chief Executive Officer of ITT Corp. Senior Advisor at the Carlyle Group. Formerly a Director of the Service Master Company.

Thurgood Marshall, Jr.

Appointed December 2006. Term expires December 2011. Vice Chairman since January 2010. Chairman, Government Relations and Regulatory Committee. Member, Audit and Finance Committee. Partner at Bingham McCutchen and principal with Bingham Consulting Group. Served President Clinton as Assistant to the President and Cabinet Secretary. Former Director of Legislative Affairs and Deputy Counsel for Vice President Gore. Director, Corrections Corporation of America.

Mickey D. Barnett

Appointed August 2006. Term expires December 2013. Member, Compensation and Management Resources Committee. Member, Audit and Finance Committee. Attorney in Albuquerque, New Mexico. Former member, New Mexico State Senate. Former member, Appellate Nominating Commission for the New Mexico Supreme Court of Appeals. Former Legislative Assistant to Senator Pete Domenici of New Mexico.

James H. Bilbray

Appointed August 2006. Term expires December 2015. Member, Governance and Strategic Planning Committee. Member, Government Relations and Regulatory Committee. Attorney at Kaempfer Crowell Renshaw Gronauer and Fiorentino in Las Vegas, Nevada. Former member, U.S. House of Representatives from Nevada. Former member, Nevada State Senate. Former Deputy District Attorney in Clark County, Nevada. Member of 2005 Base Realignment and Closing Commission.

James C. Miller III

Appointed April 2003. Term expires December 2010. Past Chairman, January 2005 through January 2008. Chairman, Audit and Finance Committee, and member, Governance and Strategic Planning Committee. Senior Advisor, Husch Blackwell Sanders, LLP. Senior Fellow, Hoover Institution at Stanford University, and the Center for Study of Public Choice at George Mason University since 1988. Member of Boards of Washington Mutual Investors Fund, America Fund Tax-Exempt Series I, the JP Morgan Value Opportunities Fund and Clean Energy Fuels Corp. Former Director, U.S. Office of Management and Budget, 1985 to 1988. Former Chairman, U.S. Federal Trade Commission, 1981 to 1985. Formerly a director of FLYi, Inc.

Dennis J. Toner

Appointed September 2010. Term expires December 2012. Member of the Compensation and Management Resources Committee. Founder and principal since 2006 of Horizon Advisors, a private consulting business. Deputy Chief of Staff to then-Senator and now-Vice President Joseph Biden, Jr. from 1995 to 2005.

Ellen C. Williams

Appointed August 2006. Term expires December 2014. Chairman, Compensation and Management Resources Committee, and member, Government Relations and Regulatory Committee. Owner and CEO of Capital Network, government affairs and lobbying firm. Former Vice Chairman, Kentucky Public Services Commission from 2004 to 2005. Former Commissioner, Governor's Office for Local Development in Kentucky from 2005 to 2006. Former Chairman, Kentucky Republican Party from 1999 to 2004. Former executive assistant to Senator Bob Kasten.

Patrick R. Donahoe

Appointed the 73rd Postmaster General of the United States of America since December 2010. Donahoe has served as the Deputy Postmaster General and Chief Operating Officer, the Chief Operating Officer and Executive Vice President, Senior Vice President of Operations, Senior Vice President of Human Resources and Vice President of Allegheny Area Operations.

Ronald A. Stroman

Appointed the 20th Deputy Postmaster General since April 2011. Stroman has been an attorney with the Department of Housing and Urban Development, counsel on the Judiciary Committee of the U.S. House of Representatives, deputy minority staff director for the House Government Reform and Oversight Committee, managing director, Office of Opportunity and Inclusiveness, General Accounting Office, and staff director, House Committee on Oversight and Government Reform prior to joining the Postal Service.

The Executive Leadership Team



The Executive Leadership Team of the U.S. Postal Service is a decision-making body whose members serve as senior advisors to the Postmaster General. It meets frequently and as necessary to consider topics of importance to the Postal Service.

Joseph Corbett
Chief Financial Officer and Executive Vice President

Mary Anne Gibbons
General Counsel and Executive Vice President

Paul Vogel
President and Chief Marketing/Sales Officer

Patrick R. Donahoe
Postmaster General and Chief Executive Officer

Ronald A. Stroman
Deputy Postmaster General

Megan J. Brennan
Chief Operating Officer and Executive Vice President

Ellis A. Burgoyne
Chief Information Officer and Executive Vice President

Anthony J. Vegliante
Chief Human Resources Officer and Executive Vice President

Other officers

Drew T. Aliperto

Vice President, Area Operations (Pacific)

Michael J. Amato

Vice President, Engineering Systems

Sylvester Black

Vice President, Area Operations (Western)

Susan M. Brownell

Vice President, Supply Management

William A. Campbell

Judicial Officer

James P. Cochrane

Vice President, Product Information

Guy J. Cottrell

Chief Postal Inspector

Marie Therese Dominguez

Vice President, Government Relations and Public Policy

John T. Edgar

Vice President, Information Technology

Jo Ann Feindt

Vice President, Area Operations (Great Lakes)

David C. Fields

Vice President, Area Operations (Capital Metro)

Deborah Giannoni-Jackson

Vice President, Employee Resource Management

Dean J. Granholm

Vice President, Delivery and Post Office Operations

Susan M. LaChance

Vice President, Consumer and Industry Affairs

Stephen J. Masse

Vice President, Finance and Planning

Pritha N. Mehra

Vice President, Mail Entry and Payment Technology

Julie S. Moore

Secretary of the Board of Governors

Timothy F. O'Reilly

Vice President, Controller

Samuel M. Pulcrano

Vice President, Corporate Communications

Gary C. Reblin

Vice President, Domestic Products

Maura Robinson

Vice President, Pricing

Cliff Rucker

Vice President, Sales

Tom A. Samra

Vice President, Facilities

Kelly M. Sigmon

Vice President, Channel Access

Jordan M. Small

Vice President, Area Operations (Eastern)

Douglas A. Tulino

Vice President, Labor Relations

Richard Uluski

Vice President, Area Operations (Northeast)

Giselle E. Valera

Vice President, Global Business

Linda J. Welch

Vice President, Area Operations (Southwest)

David E. Williams

Vice President, Network Operations

2011 Financial Summary

Financial Summary and Operating Statistics



Financial history summary

(dollars in millions)

	2011	2010	2009	2008	2007
Operating Results					
Operating Revenue	\$ 65,711	\$ 67,052	\$ 68,090	\$ 74,932	\$ 74,778
Operating Expenses					
Compensation and benefits	48,310	48,909	50,883	52,358	53,306
Retiree health benefits*	2,441	7,747	3,390	7,407	10,084
All other operating expenses	19,883	18,770	17,557	17,973	16,715
Total Operating Expenses*	\$ 70,634	\$ 75,426	\$ 71,830	\$ 77,738	\$ 80,105
Operating Loss	\$ (4,923)	\$ (8,374)	\$ (3,740)	\$ (2,806)	\$ (5,327)
Net Loss	\$ (5,067)	\$ (8,505)	\$ (3,794)	\$ (2,806)	\$ (5,142)
P.L. 109-435 Payment to PSRHBF*	\$ —	\$ 5,500	\$ 1,400	\$ 5,600	\$ 8,358
Workers' Compensation Expenses	\$ 3,672	\$ 3,566	\$ 2,223	\$ 1,227	\$ 880
Financial Position					
Cash and cash equivalents	\$ 1,488	\$ 1,161	\$ 4,089	\$ 1,432	\$ 899
Property and equipment, net	20,337	21,595	22,680	23,193	23,596
All other assets	1,588	1,570	1,349	1,361	1,352
Total Assets	\$ 23,413	\$ 24,326	\$ 28,118	\$ 25,986	\$ 25,847
Total Debt	\$ 13,000	\$ 12,000	\$ 10,200	\$ 7,200	\$ 4,200
Net Capital					
Capital contributions of the U.S. government	\$ 3,132	\$ 3,132	\$ 3,087	\$ 3,034	\$ 3,034
Deficit since 1971 reorganization	(22,072)	(17,005)	(8,500)	(4,706)	(1,900)
Total Net (Deficiency) Capital	\$ (18,940)	\$ (13,873)	\$ (5,413)	\$ (1,672)	\$ 1,134

* P.L. 112-33 had the net impact of a \$5.5 billion reduction of expenses in 2011. P.L. 111-68 had a net impact of a \$4.0 billion reduction of expenses in 2009. P.L. 109-435 had a net impact of a \$6.8 billion increase of expenses in 2007 (\$8.4 billion in additional retiree health benefits less \$1.6 billion in CSRS savings).

For more information about United States Postal Service financial statements and copies of financial reports, please visit <http://about.usps.com/who-we-are/financials/welcome.htm>.

Operating statistics

Mailing and Shipping statistics

(in millions of units indicated, unaudited)

	2011	2010	2009	2008	2007
First-Class Mail					
Revenue	\$ 32,179	\$ 34,153	\$ 35,883	\$ 38,179	\$ 38,404
Pieces, number	73,521	78,514	83,766	91,697	96,297
Weight, pounds	3,726	3,699	3,683	4,165	4,401
Standard Mail					
Revenue	\$ 17,826	\$ 17,331	\$ 17,345	\$ 20,586	\$ 20,779
Pieces, number	84,692	82,525	82,448	99,084	103,516
Weight, pounds	9,092	9,346	9,279	11,017	11,820
Periodicals					
Revenue	\$ 1,821	\$ 1,879	\$ 2,038	\$ 2,295	\$ 2,188
Pieces, number	7,077	7,269	7,901	8,605	8,796
Weight, pounds	2,725	2,778	3,018	3,677	3,896
Package Services					
Revenue	\$ 1,606	\$ 1,544	\$ 1,684	\$ 1,845	\$ 1,812
Pieces, number	675	657	731	846	915
Weight, pounds	1,784	1,742	1,873	2,155	2,297
U.S. Postal Service					
Pieces, number	434	438	455	824	1,008
Weight, pounds	149	133	126	149	141
Free Matter for the Blind					
Pieces, number	62	68	62	72	72
Weight, pounds	30	32	30	34	34
Total Mailing Services Mail					
Revenue	\$ 53,432	\$ 54,907	\$ 56,950	\$ 62,905	\$ 63,183
Pieces, number	166,461	169,471	175,363	201,128	210,604
Weight, pounds	17,506	17,730	18,009	21,197	22,589
Ancillary and Special Services					
Registered Mail					
Revenue	\$ 45	\$ 48	\$ 50	\$ 57	\$ 53
Number of articles	3	3	3	4	4
Certified Mail					
Revenue	\$ 709	\$ 791	\$ 731	\$ 718	\$ 698
Number of articles	251	283	267	269	280
Insurance					
Revenue	\$ 117	\$ 128	\$ 129	\$ 145	\$ 157
Number of articles	35	40	44	52	57
Delivery Receipt Services					
Revenue	\$ 729	\$ 788	\$ 717	\$ 704	\$ 640
Number of articles	1,678	1,595	1,284	1,192	1,098
Money Orders					
Revenue	\$ 172	\$ 182	\$ 190	\$ 205	\$ 211
Face value of issues (non-add)	22,382	22,792	23,839	25,709	27,194
Number of articles	116	123	135	149	163
Box Rent Revenue & Caller Services	\$ 911	\$ 928	\$ 929	\$ 897	\$ 837
Stamped Envelope and Card Revenue	\$ 12	\$ 15	\$ 17	\$ 24	\$ 17
Other Mailing Services Revenue*	\$ 590	\$ 801	\$ 123	\$ 895	\$ 1,108
Total Ancillary & Special Services Revenue	\$ 3,285	\$ 3,681	\$ 2,886	\$ 3,645	\$ 3,721
Total Mailing Services Revenue	\$ 56,717	\$ 58,588	\$ 59,836	\$ 66,550	\$ 66,904

* Includes a \$298 million, a \$103 million, a \$655 million, and a \$230 million increase to the deferred revenue-prepaid postage liability in 2011, 2010, 2009, and 2008, respectively. These amounts, which primarily include changes in estimates, are recorded in the other mailing services revenue category so as to not distort the period-over-period volume statistics (Pieces, number) by service line.

Note: In 2011, the PRC approved a new methodology for allocating revenue across products. This new methodology was applied to revenue and volume data relating to 2011 and 2010. These reclassifications did not impact total mail revenue and volume for 2009. The new methodology does not change total revenue.

Operating statistics

Mailing and Shipping statistics

<i>(in millions of units indicated, unaudited)</i>	2011	2010	2009	2008	2007
Shipping Services					
Revenue	\$ 8,831	\$ 8,317	\$ 8,112	\$ 8,355	\$ 7,852
Pieces, number	1,473	1,389	1,381	1,575	1,630
Weight, pounds	3,354	2,958	2,775	3,040	3,054
Shipping Services Ancillary & Special Services Revenue	\$ 163	\$ 147	\$ 142	\$ 27	\$ 23
Total Shipping Services Revenue	\$ 8,994	\$ 8,464	\$ 8,254	\$ 8,382	\$ 7,875
Postal Service Totals					
Revenue	\$ 62,263	\$ 63,224	\$ 65,062	\$ 71,261	\$ 71,035
Pieces, number	167,934	170,860	176,744	202,703	212,234
Weight, pounds	20,860	20,688	20,784	24,237	25,643
Total Ancillary & Special Services Revenue	\$ 3,448	\$ 3,828	\$ 3,028	\$ 3,671	\$ 3,744
Total Operating Revenue	\$ 65,711	\$ 67,052	\$ 68,090	\$ 74,932	\$ 74,779

Note: In 2011, the PRC approved a new methodology for allocating revenue across products. This new methodology was applied to revenue and volume data relating to 2011 and 2010. These reclassifications did not impact total mail revenue and volume for 2009. The new methodology does not change total revenue.

Operating statistics

Post Office and delivery points

<i>(in actual units indicated, unaudited)</i>	2011	2010	2009	2008	2007
Post Offices, Stations, and Branches					
Postal-Managed					
Post Offices	26,927	27,077	27,161	27,232	27,276
Classified stations, branches, and carrier annexes	5,219	5,451	5,501	5,509	5,419
Total Postal-Managed	32,146	32,528	32,662	32,741	32,695
Contract Postal Units	2,904	2,931	3,037	3,148	3,131
Community Post Offices	706	763	797	834	895
Total Offices, Stations, and Branches	35,756	36,222	36,496	36,723	36,721
Residential Delivery Points					
City delivery	80,792,112	80,531,231	80,187,505	79,848,415	79,470,894
Rural	39,067,740	38,638,280	38,264,946	37,684,158	37,022,488
PO Box	15,891,349	15,739,698	15,601,883	15,639,031	15,635,480
Highway contract	2,639,061	2,607,138	2,576,166	2,516,783	2,473,323
Total Residential Delivery	138,390,262	137,516,347	136,630,500	135,688,387	134,602,185
Business Delivery Points					
City delivery	7,487,332	7,457,500	7,483,461	7,436,965	7,411,582
Rural	1,468,861	1,453,292	1,439,266	1,407,942	1,360,478
PO Box	4,072,664	4,355,674	4,489,688	4,587,454	4,548,973
Highway contract	72,872	72,648	72,966	71,538	69,304
Total Business Delivery	13,101,729	13,339,114	13,485,381	13,503,899	13,390,337
Total Delivery Points	151,491,991	150,855,461	150,115,881	149,192,286	147,992,522
Change in delivery points	636,530	739,580	923,595	1,199,764	1,818,326

Operating statistics

Employees

<i>(actual numbers, unaudited)</i>	2011	2010	2009	2008	2007
Career Employees					
Headquarters and HQ Related Employees					
Headquarters	2,745	2,937	2,811	2,892	2,856
Headquarters – Field Support Units	4,213	4,876	4,455	4,429	4,527
Inspection Service – Field	2,398	2,435	2,617	2,890	2,991
Inspector General	1,123	1,108	1,155	1,159	1,147
Total HQ and HQ Related Employees	10,479	11,356	11,038	11,370	11,521
Field Employees					
Area Offices	809	1,079	1,047	1,316	1,281
Postmasters/Installation Heads	22,212	23,111	23,672	25,250	25,285
Supervisors/Managers	25,083	27,792	28,812	31,787	32,635
Professional Administration and Technical Personnel	4,571	5,926	6,460	8,010	8,058
Clerks/Nurses	149,562	157,168	177,842	194,907	204,305
Mail Handlers	46,596	48,650	52,954	55,812	57,882
City Delivery Carriers	183,774	192,180	200,658	211,661	222,132
Motor Vehicle Operators	7,064	7,413	8,113	8,558	8,726
Rural Delivery Carriers – Full-time	66,186	66,845	67,749	68,900	67,584
Building and Equipment Maintenance Personnel	36,032	37,403	39,531	40,248	39,948
Vehicle Maintenance Employees	4,883	4,985	5,252	5,419	5,405
Total Field Employees	546,772	572,552	612,090	651,868	673,241
Total Career Employees	557,251	583,908	623,128	663,238	684,762
Noncareer Employees					
Casuals	2,606	6,503	4,271	12,000	22,078
Postal Support Employees	10,471	0	0	0	0
Nonbargaining Temporary	2,259	1,910	1,659	1,119	1,244
Rural Part-Time: Subs/RCA/RCR/AUX	50,349	51,801	54,529	58,072	60,444
Postmaster Relief and Leave Replacements	9,138	11,350	11,477	12,327	12,169
Transitional Employees	13,876	16,215	17,018	18,332	5,232
Total Noncareer Employees	88,699	87,779	88,954	101,850	101,167
Total Employees	645,950	671,687	712,082	765,088	785,929

Note: The Postal Support Employees category was newly created in 2011.

2011 Comprehensive Statement on Postal Operations

The 2011 Annual Performance Report and
2012 Annual Performance Plan



2011 Comprehensive Statement on Postal Operations

Compliance with legislative and regulatory reporting requirements

In order to reduce duplication of information and improve clarity, the Postal Service is this year combining its Annual Report to Congress and its Comprehensive Statement on Postal Operations into a single report.

Wherever possible, more detailed financial and operational data is provided online and in other more specialized reports, such as the *Annual Compliance Report to the Postal Regulatory Commission*, financial reports such as our 10-K and 10-Q, safety reporting to the Occupational Safety and Health Administration (OSHA), sustainability and energy reports to the Environmental Protection Agency, and other reports.

Legislative oversight

The mission of the Postal Service is set by legislation. Our broad framework, or business model, is established by the Postal Reorganization Act of 1970 and the Postal Accountability and Enhancement Act of 2006. The pace of change in the postal business environment has overtaken this framework, and USPS management has recommended a number of important changes.

They are described in the March 2, 2010, *Ensuring a Viable Postal Service for America: An Action Plan for the Future* report and in subsequent requests to Congress and the Postal Regulatory Commission. We are asking for greater operational and market flexibility, which would enable us to diversify and respond to the market.

Product management, development and pricing

USPS continues to offer reliable universal delivery service for all categories of mail. Each of these categories is designed to meet the needs of different customers. As we manage our products, we first focus on providing reliable, accurate and secure delivery at reasonable rates. Overall, our mailing services rates are generally kept at the rate of inflation. For a complete listing of FY2011 pricing activities, see www.prc.gov.

We also have added additional features and enhancements to a number of mail categories. Product development has focused primarily on innovative improvements to existing services, and a number of these improvements were offered during FY2011. Currently there are statutory restrictions which limit the offering of nonpostal products.

Operations

The goal of operations is to improve service while reducing costs.

Operations analysis

USPS has a robust and ongoing process of operational discipline, standardization and network optimization using techniques like Lean Six Sigma to identify and resolve problems. Best practices are documented and shared throughout our organization to support continuous improvement.

Information technology, data management and security

We have one of the largest information technology infrastructures in the world. Our network is constantly upgraded and closely monitored for capacity, use and stability. Our enterprise data warehouse is our integrated source of information for business intelligence and reporting. The Postal Service is nationally recognized for our data privacy and security programs.

Mail processing

As mail volume and mix change, our operating network is adjusted. Area Mail Processing centers and other facilities are being consolidated or repurposed. A disciplined top-down process is used to evaluate these consolidations.

To stay competitive, we also are continuing to improve our automation programs with equipment and software upgrades, new equipment and improved processes.

One of our most important programs is our Intelligent Mail barcodes. We continue to develop and implement this advanced barcode. It provides mailing information that supports operating efficiencies for both mailers and postal operations. In addition, it provides effective tracking of mailpieces and containers from start to delivery, and enables more creative use of the mail.

Efficient mail processing and accurate delivery also depends on accurate address management. The Postal Service provides value-added product and service offerings that enable our business customers to better manage the quality of their mailing lists while increasing our ability to efficiently deliver mail as it is addressed. We are now providing more electronic information, and improving the speed, accuracy and responsiveness of address management systems.

We're also improving commercial mail acceptance processes, and using automated verification to speed the mail, reduce paperwork and make payments more accurate.

Transportation

The Postal Service is one of the largest purchasers of contract air and ground transportation services, and we operate one of the largest civilian vehicle fleets in the world. During FY2011, USPS focused on responding to increases in fuel prices, and the need to shift from air to less expensive and more reliable ground transportation, and facility consolidations.

Delivery

Delivering the mail is the largest postal operation. And the number of points we deliver to continues to increase by about 700,000 annually, even as mail volume decreases. Delivery also tends to be labor and fuel intensive. To offset this, during FY2011, we adjusted routes, used effective growth management programs and route optimization tools, and took advantage of continuous improvement programs to keep cost growth to a minimum.

Retail access

USPS operates one of the nation's most extensive retail networks, supplemented by a full range of customer-convenient alternate access channels, including third-party retail partners, self-service and online products and services. Visits to postal retail offices and revenue generated there continued to decline in FY2011, while the percentage of revenue generated from alternate channels continued to grow. The Postal Service introduced a number of improvements for both retail and alternate channels this year.

As customer demographics and use change for retail organizations, it is standard practice for them to close underperforming units, shift operations and develop new products and services. The Postal Service, however, does not have sufficient flexibility to do that.

Facilities management

USPS maintains a large and diverse network of owned, rented and leased facilities. Our facilities management program ensures that all of our buildings are properly maintained, and that our facilities managers obtain new facilities or dispose of unneeded ones as necessary. As the pace of our area mail processing consolidations and related network changes has increased, so has the workload on our facilities managers.

Supply management

Our supply chain management programs have achieved significant cost savings through aggressive contract management and renegotiations, process standardization and the use of automated tools. We also have stepped up our outreach to suppliers, with a particular focus on small, minority-, and women-owned businesses. The Postal Service has been repeatedly recognized for our achievements in this area.

Sustainability and energy management

USPS continues our leadership in sustainability and energy management. We have received more than 75 major environmental awards in recent years (see usps.com/green). This includes programs for facilities and vehicles. We operate the world's largest alternative fuel-capable vehicle fleet.

We are the first federal agency and the largest U.S. organization to publish a greenhouse gas emissions inventory validated by an independent third-party. The Postal Service is complying with the Energy Independence Security Act (see usps.com/National Energy Management Plan) and the Clean Water and Safe Drinking Water Acts.

We also have been recognized by the Environmental Protection Agency for our waste management programs, and are working with suppliers to buy sustainable materials and environmentally preferable products. And we have worked with the mailing industry to support sustainable forest management, paper production and printing processes and recycling programs.

Postal products and services include:

First-Class Mail: This includes personal and business correspondence, bills, statements and payments.

Standard Mail: Advertising, catalogs and related commercial offers.

Periodicals Mail: Magazines and newspapers, journals and other published material. Separate special categories include Bound Printed Matter, Media Mail and Library Rate. Many of these categories receive lower rates by Congressional mandate.

Package Services: Postal packages include both non-competitive and competitive categories, as designated by legislation and regulation. Package services include expedited categories, such as Express Mail and Priority Mail, and ground services, such as Parcel Post and Parcel Select.

International Services: The Postal Service offers a full range of international mail and shipping services for consumers and businesses.

Special Services: Most of these services are related to mailing items, and include Registered Mail, insurance, Delivery Confirmation, Certified Mail and other services.

Money Transfer Services: The Postal Service provides money orders and other services.

Delivery Services: This includes Post Office Box service, premium forwarding and related services.

Retail Services: The Postal Service provides a range of mail-related products at retail, including boxes and supplies for mailing, greeting cards and gift cards.

Complement and work hour management

These operational changes have produced significant reductions in overall complement and improvements in staffing and scheduling. Complement decreased by more than 26,000 in FY2011, and about 7,500 management and administrative positions were targeted for elimination.

Customer programs, outreach and community involvement

Our Customer Experience Measurement (CEM) program identifies gaps in our service and customer expectations by collecting input from customers on how we can improve their experiences. CEM provides a detailed view of customers' experiences as they send and receive mail, visit our Post Offices and contact us to obtain information or to report a problem. Data from CEM is also used to meet the requirements of the Postal Accountability and Enhancement Act of 2006 to provide annually the degree of customer satisfaction with our market-dominant products.

We receive additional information through analysis of customer inquiries, complaints and claims, reviews of articles in the media and online comments. We also conduct market research on a number of topics. This data is validated through independent analysis conducted by firms such as the American Customer Satisfaction Index, which has rated USPS as the most improved service of all firms measured since their survey program began in 1994.

Customer support services and outreach programs

Our Business Service Network (BSN) provides additional support to our commercial customers, linking mailers with postal operations at all levels and locations. The BSN provides technical information, resolves services issues and arranges for supplies and equipment.

Our "business customer intelligence" program provides us with customer-specific data that we use to improve products and services. It also helps us manage an organization-wide effort to standardize customer data across multiple postal systems. The result: employees can respond more effectively to customer concerns with accurate, consistent and relevant information.

The Mailer's Technical Advisory Committee is another forum for customers, the mailing industry, suppliers and their associations to provide feedback to postal management. Participants identify issues, form workgroups, make recommendations and help develop programs to make mailing simple, efficient and effective.

At the local level, Postal Customer Councils provide similar opportunities for small businesses to interact with local postal management. We sponsor an annual National Postal Forum, where thousands of customers, suppliers and mailing industry partners gather to share information, learn of new developments and meet with postal officials.

Advertising, promotion and customer contact

Although the Postal Service and many of its products and services are familiar to most Americans, the constantly changing nature of our business requires us to exert every effort to improve customer awareness and understanding of our offerings. We have sales programs directed at large national mailers, as well as small- and medium-sized mailers. And we provide support for our employees at the local level to contact customers about relevant products and services.

Community involvement

USPS is a familiar and ubiquitous presence in communities across the nation. We have a long-standing and unique relationship with the American people. Our letter carriers have saved countless lives and homes through our carrier alert program. Postal employees donate millions of dollars every year to worthy causes through the Combined Federal Campaign, and provide support to other employees through leave exchange programs and the Postal Employees Relief Fund.

We support the annual letter carriers' Stamp Out Hunger food drive and the National Marrow Donor Program. We cooperate with Valassis, a major mailing industry partner, and the National Center for Missing and Exploited Children in a successful program to find missing children.

We also provide services for other government agencies, such as passports for the Department of State. We have supported successful "vote by mail" programs in several states. And our Postal Inspection Service supports fraud prevention programs with other agencies, and protects mail and postal customers from fraud and theft.

Workplace and work force management

Recruitment, training and development

Recently, recruitment of new employees has been limited by hiring freezes imposed as mail volume and workload has declined. However, we continue to selectively recruit employees for highly specialized technical and professional positions.

Carefully targeted training, development and succession planning programs also have continued despite our extreme financial restraints. The Postal Service maintains one of the largest learning management systems in the nation, blending classroom, online and on-the-job programs.

Diversity, inclusiveness and employee assistance

We also are one of the leading employers of minorities and women, and have consistently received recognition for our achievements in promoting diversity and inclusiveness. We provide our employees with a robust Employee Assistance Program, which supplies free, voluntary and confidential counseling from licensed professionals, who are available at all times in convenient locations nationwide and are supplemented by online assistance.

Our office of Workplace Environment Improvement also provides specialized assistance to work units where problems may be emerging. We also provide high-quality and timely complaint processing in line with U.S. Equal Employment Opportunity Commission requirements, including strong, prompt programs to prevent harassment of any kind.

Safety and injury compensation

Our continuous improvement in postal safety performance is due to employee and management collaboration on several efforts, including risk analysis, employee awareness, training and rigorous reporting and analysis. Employee participation and feedback on program effectiveness is a key component. The Postal Service focuses on specific issues such as lifting and related issues, driving skills, and dog-bite awareness. We maintain a number of worksites in the Voluntary Protection Program in cooperation with the Occupational Safety and Health Administration.

Pay for Performance

The Postal Service's Pay-for-Performance (PFP) program continued to drive organizational achievement during calendar year 2010. Unlike most government agencies that provide regular, across-the-board pay increases, PFP is the sole source of annual pay adjustments for non-bargaining unit employees.

PFP has been cited by several independent entities as a model for other agencies to emulate. The foundation of the system is a balanced scorecard of objective, independently verifiable measures of service, employee engagement and financial performance. Performance indicators are measured at national, area, district, business unit, and individual levels so that meaningful performance distinctions are made within the line-of-sight of all managers. Core performance requirements and individual results are recorded in the Performance Evaluation System. For calendar years 2011 and 2012, salaries are frozen. For fiscal year 2011, no lumps sums are being paid due to the Postal Service's financial challenges.

Pay and benefits comparability

The law requires the Postal Service to provide compensation and benefits to employees at a level comparable to the private sector. The Postal Service continues to pursue comparability for employees represented by labor organizations and management associations, seeking reductions where compensation or benefits are above private sector levels. For postal executives, however, the law significantly limits the Postal Service's ability to achieve comparability with the private sector. The law does not provide the Postal Service with tools to compensate top postal executives at a level of top executives in similarly-sized companies.

Pursuant to Title 39 U.S.C. Section 3686(d), the Postal Service hereby reports that during calendar year 2010 the following persons received compensation in the amounts listed in excess of the rate for level 1 of Executive Schedule under section 5312 of title 5. The total compensation received by these individuals was well below comparable pay of executives in similarly-sized private sector companies.

Name	Amount in Excess of Level 1 of the Executive Schedule
Drew T. Aliperto	\$28,940
Mitzi R. Betman	\$21,808
Sylvester Black	\$21,237
Megan J. Brennan	\$19,806
Susan M. Brownell	\$8,785
Ellis A. Burgoyne	\$19,960
Joseph Corbett	\$67,208
Guy J. Cottrell	\$608
Thomas G. Day	\$8,537
Vincent H. Devito Jr.	\$9,092
Marie Therese Dominguez	\$5,708
Patrick R. Donahoe	\$77,048
John T. Edgar	\$523
Jo Ann Feindt	\$20,537
Steven J. Forte	\$44,644
Deborah M. Giannoni-Jackson	\$8,061
Mary A. Gibbons	\$50,931
Dean J. Granholm	\$22,815
Timothy C. Haney	\$29,419
Stephen M. Kearney	\$29,984
Delores J. Killete	\$4,531
Linda A. Kingsley	\$21,322
Susan M. LaChance	\$4,785
Stephen J. Masse	\$14,646
Pritha Mehra	\$24,291
Julie S. Moore	\$3,612
Susan M. Plonkey	\$20,438
John E. Potter*	\$343,218
Samuel M. Pulcrano	\$11,790
Gary C. Reblin	\$12,638
Maura Robinson	\$2,808
Tom A. Samra	\$11,752
Pranab M. Shah	\$11,722
Jordan M. Small	\$29,575
Douglas A. Tulino	\$5,861
Anthony J. Vegliante	\$76,131
Linda J. Welch	\$29,391
David E. Williams Jr.	\$5,326

*Amount includes payments made upon separation from the Postal Service.

Labor relations and management association consultations

The Postal Service has nine collective bargaining agreements with seven different unions, representing more than 500,000 employees. Work on implementation and interpretation of these contracts is continuous, and processes have been developed to more efficiently manage contract disputes. We also continue to seek additional contract flexibility in staffing to meet operational needs more efficiently in a highly competitive delivery marketplace.

Throughout the year, senior management and key functional leaders consult with management organizations that represent our postmasters and supervisors. This allows association leaders to participate directly in the planning, development and implementation of major postal initiatives. It also provides a way for these leaders to provide feedback directly to USPS leadership, and provide informed, independent communications to their membership.

Employee communications and outreach

USPS is using sophisticated communication technology to provide services and information to employees. We have a Human Capital Enterprise System that has automated day-to-day personnel transactions, eliminated paperwork and expanded self-service access for employees. It is supported by a Human Resources Shared Services Center, which responds to thousands of employee calls daily.

Employees are informed of business conditions and changes through online sites (USPS has the world's largest intranet) and a growing number of video presentations from senior executives. Field management is supplied with material for employee talks, postings and direct distribution. Employee feedback is sought on a regular basis. Every quarter, one fourth of all career employees receive a survey at their work location. Participation is voluntary, confidential and on-the-clock. The survey is managed by an independent contractor, and results are analyzed and shared with employees as part of our workplace improvement programs.

High priority programs and initiatives

The Postal Service is a large and complex organization with many programs, activities, initiatives and functions. The purpose of this section is to highlight initiatives identified in 2011 as particularly important to the organization. These are long-term, cross-functional programs that support multiple goals and strategies.

Nine key initiatives were identified based on their contribution to strategic performance goals, the cross-functional collaboration required to accomplish them, the length of time it would take to implement them and the amount of resources they would require.

While achieving balance among the service, financial, and workplace goals remained important, our focus in 2011 was primarily on improving financial viability. Many of the key initiatives focused on achieving dramatic cost reductions.

Initiative	Progress in FY2011
1. Intelligent Mail	We made substantial progress in improving our scanning infrastructure and processes. In addition, we improved collaboration with mailers and the mailing industry. In FY2011, the percentage of eligible workshared mail containing an Intelligent Mail barcode increased from 52% in quarter 1 to 72% in quarter 4. Mail using Postnet codes decreased from 44% to 25% for the same period.
2. Flats Sequencing System	We also increased the percentage of flat mail sorted in delivery point sequence. As of Sept. 30, 100 flats sequencing machines had been deployed to cover nearly 1,400 zones and 43,000 routes. Twenty-three of the 46 sites have been operating six months or more. These sites cover more than 770 delivery zones and almost 20,000 routes. At these sites, 59% of flats on average are sorted in delivery point sequence with two sites scoring 79%.
3. Expand Access	While retail revenue from customer visits to Post Offices declined by 10%, revenue from alternate channels increased by 12.1%. The effort to expand convenient customer access to postal services through these channels has successfully increased the share of revenue they generated to more than 35%. For example, PC Postage led the way with 28% revenue growth. Alternative access transactions have a lower per-dollar transaction rate than similar transactions at postal windows.
4. Optimize Network	Network optimization is a complex and dynamic process that requires effective real estate asset management. In FY2011, interior space was reduced by over 4.4 million square feet from property disposals, lease terminations and leased space reductions. The annual rent paid to landlords was also reduced by over \$140 million compared to FY2010.
5. Flexible Workforce	Our goal is to effectively manage complement and scheduling to reduce work hours and the cost of those hours. We have successfully reduced both in FY2011, and our agreement with the American Postal Workers Union will enable further improvements in flexibility and cost. In FY2011, the average work hour rate was \$41.60, which was below the FY2011 Integrated Financial Plan rate for bargaining unit and casual employee wages, benefits and contractual wage increases.
6. Reduce Energy Use	From FY2008 through FY2010 the Postal Service reduced Scope 1, 2 and 3 greenhouse gas emissions by 8% — the equivalent of taking more than 204,000 passenger vehicles off the road. Since the baseline year of 2003, USPS has reduced facility energy use by 29.4% and energy intensity 28.3% for EPAct goal subject buildings. ¹
7. Reduce Delivery Costs	The Postal Service increased the average number of deliveries per route to 592 from 569 despite 636,530 more delivery points and the overall decline of mail volume. The implementation of our Flats Sequencing System resulted in a reduction of about 4,250 routes and 154,000 rural work hours. Non-FSS route evaluations identified about 2,100 more routes that were also eliminated. Sequencing performance of letter mail also improved, which saved even more time in the office for letter carriers.
8. Expand Products, Services, and Features	In FY2011, the Postal Service unveiled 23 new products, services and features, exceeding our goal of 15. Renewed focus on responding to customer input, and to suggestions made at our innovations symposia, contributed to this achievement. Eleven of the changes we made were aimed at improving service to mailers by providing easy and convenient ways to develop direct mail online and manage customers' mail more efficiently. Twelve new products, including multiple new shipping services, were created to attract new mailers by making it easier for them to use mail to help grow their businesses.
9. Address Legislative Requirements for Funding	The Postal Service has supported an extensive outreach program to Congress and stakeholders, along with the Postal Regulatory Commission, the Postal Service Office of the Inspector General and others. Legislation addressing several of the critical issues is under development or has been introduced (<i>HR2309, HR2967, HR3174, S1625 and S1688</i>).

¹ The Annual Sustainability Report for FY2011 will be available in the spring of 2012. The data referenced is from the FY2010 report.

Managing strategic initiatives

During FY2011, management recognized that the scope, scale and pace of necessary organizational change required significant improvement in our management of strategic projects. Following a detailed review of industry best practices, and with advice from recognized private-sector experts, we began implementing a rigorous, disciplined process for developing, reviewing and tracking strategic initiatives.

In addition, we began to increase the development of project management skills throughout our organization and began establishing project management offices within functions.

During FY2011, mail volume decline, financial disruptions and significant structural change affected our priority programs. As a result of recently implemented changes in our strategic initiative management, our stakeholders can expect more details on more programs in FY2012.

Oversight

The Postal Service is an independent agency of the federal government. Since we are not funded by appropriations, we aren't directly subject to many of the requirements of the Office of Management and Budget (OMB) concerning budgetary submissions. However, we do follow OMB's guidelines to federal agencies. USPS also regularly testifies before congressional committees on a variety of issues, including our annual oversight hearings.

The Postal Regulatory Commission (PRC)

The Postal Service funds the independent PRC, which has broad authority to review postal pricing, service performance, product development and related issues. Postal filings, public comments and Commission actions can be accessed at www.prc.gov.

The Office of the Inspector General (OIG)

The Postal Service also funds the independent OIG, which conducts audits and reviews of postal programs. It conducts broad research on postal policy issues and makes recommendations. Recent audits, reviews and research reports can be accessed at www.oig.gov.

The Government Accountability Office (GAO)

The GAO also conducts audits and reviews of postal programs. Recent results are available at www.gao.gov.

The 2011 Annual Performance Report and 2012 Annual Performance Plan

TRANSPARENCY

The Postal Service publishes a number of reports that are responsive to different legislative requirements. They provide stakeholders with an accounting of our activities and results. To avoid duplication and improve consistency, our *Annual Report to Congress*, the *Comprehensive Statement on Postal Operations*, and our *Annual Performance Report and Plan* are combined in this single document.

Strategic Objectives

- Improve service
- Improve financial performance
- Improve safety and employee engagement

Performance management

The Postal Service employs a disciplined, well-documented performance management process based on Malcolm Baldrige National Quality Award requirements and incorporates industry best practices, such as the balanced scorecard.

Since implementation of the Government Performance and Results Act (GPRA) in 1993, we have maintained the same three corporate strategic goals: improve service, employee engagement and financial performance. These goals balance the interests of customers, policy-makers and employees. Relentless focus on these goals has helped the Postal Service and its stakeholders develop a clear understanding of what is important and has led to significant and consistent improvement in performance.

Planning

The Postal Service begins our planning process with a review of the business environment, focusing on recent performance trends and external events. In 2010, we highlighted serious issues requiring legislative action and published *Ensuring a Viable Postal Service for America: An Action Plan for the Future*. This report described the conditions driving our unfavorable financial position and outlined a plan to address key issues. Management established a set of high-priority actions within its control and committed to reducing costs and improving service.

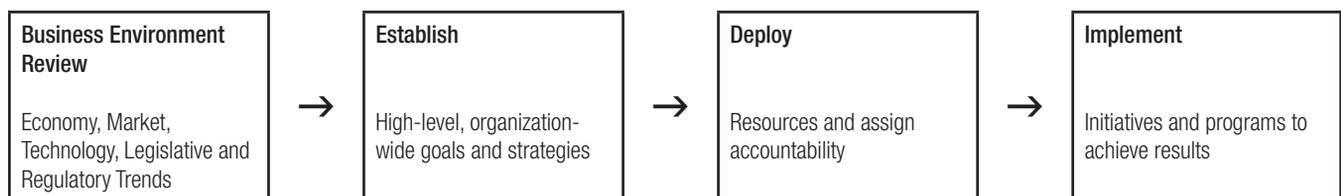
The planning process includes setting corporate-wide goals and relevant functional and unit goals, deploying resources to accomplish those goals, and developing strategies, initiatives, and programs to implement them to achieve our desired results. Performance is continuously reviewed at all levels of our organization.

Establish

Our high-level organization-wide goals and objectives are published in our Annual Performance Plan.

The plan explains how results will be measured and describes any indicator or measurement changes from prior years. Objectives are set based on a review of current business conditions and future operational and market requirements. Requirements are reviewed in the context of the resources expected to be available (see *Integrated Financial Plan*). For most organization-wide performance indicators, the Postal Service has reached a sufficiently high level of performance that maintenance and incremental improvement is expected.

The planning process



Review performance and make adjustments throughout the year

Deploy

Once corporate objectives are established, the Postal Service sets improvement goals and assigns accountability for achieving them down to the area, district, unit and individual levels. Budgets are developed based on the corporate-wide budget.

Tailoring objectives to specific functions ensures that managers are accountable for results within their spans of control. Any adjustments to non-bargaining unit employees' salaries are based on a pay-for-performance system that recognizes how their specific performance contributed to objectives. Unlike most government agencies that provide automatic pay increases, cost-of-living adjustments and locality pay, the Postal Service's pay-for-performance system is the sole source of pay adjustments for non-bargaining unit employees. *(Note: due to our current financial condition, these adjustments have been suspended.)*

Implement

Strategies, initiatives and programs are developed to achieve objectives. During FY2011, it became clear that the scope, scale and pace of needed changes required additional management attention. A Strategic Management Office was created to assist our leadership team in developing a disciplined focus to identify high-priority initiatives, ensure cross-functional collaboration, maintain adherence to program schedules, achieve milestones and review results.

Review

In the review phase, performance is monitored against objectives. Resources and processes are adjusted as needed to assure success. This is a continuous process. The Postal Service's record of progress against its strategic goals stems from its use of process management to define and replicate

best processes, intensive data analysis to target improvement opportunities and insights provided through continuous employee and customer outreach.

The Annual Performance Report provides results against the prior year's high-level organization-wide performance targets. It provides a baseline of performance trends for the last several years to evaluate performance. It does not provide detailed data at the program level, but does describe the performance reporting tools and measurement systems used.

SERVICE PERFORMANCE

The Postal Service is committed to providing timely, reliable, accurate and secure universal delivery of mail and packages. It has developed and continues to enhance a comprehensive reporting system to measure the performance of all mail categories. *(Note: competitive service performance is not reported publicly.)*

The Postal Service has used single-piece First-Class Mail service performance as a model for service performance reporting and management. This category of mail is most familiar to our stakeholders. We also measure service performance for other categories of mail (Presort First-Class, Standard, Periodicals, Package Services, and Special Services). Measurement methods and quarterly service performance results are reported on the USPS website at <http://about.usps.com/what-we-are-doing/service-performance/welcome.htm>.

Detailed information on service performance standards and measurement systems is available in the *Annual Compliance Report (ACR)* to the Postal Regulatory Commission (see <http://www.prc.gov/prc-pages/dockets-search/default.aspx> and select ACR by year).

Organization-Wide Goals

Goal	Performance Indicator	2009 Actual	2010 Actual	2011 Plan	2011 Actual	2012 Plan
Improve Service ¹	FCM Overnight	96.2%	96.36%	96.65%	96.23%	96.65%
	FCM 2-day	93.7%	93.71%	94.15%	93.34%	94.15%
	FCM 3-day	92.2%	92.44%	92.85%	91.87%	92.85%
Improve Financial Performance	Operating Income (\$ billions)	NA	NA	(0.9)	(2.2)	(3.0)
	Deliveries per Work Hour	NA	NA	40.4	39.9	42.2
Improve Safety and Employee Engagement	OSHA Injury and Illness Rate	5.62	5.49	5.39	5.67	5.57
	VOE Survey	64.0	62.3	64.5	64.7	TBD ²

¹ Note: First-Class Mail (FCM) Performance Indicator scores reported for 2010 forward are based on National Performance Assessment (NPA) calculations.

² The VOE 2012 Plan is pending approval by the Postal Service Executive Leadership Team.

The last decade has seen a steady improvement in service performance and customer satisfaction results. This performance has remained consistent as volume has declined and substantial reductions have been made in the workforce since 2008. These results are due to:

- The dedication and hard work of postal employees at all levels of the organization.
- The availability of improved data and analytical techniques on performance that enable employees and mailers to take informed action.
- Close collaboration with partners and suppliers, including the use of competitors such as FedEx and UPS, to move the mail on the most efficient transportation network available.
- Continuing improvements to automation equipment and software, including the use of Intelligent Mail barcodes.
- The use of tools and techniques such as standardization, optimization and Lean Six Sigma to identify root causes of problems and relevant solutions at program and system-wide levels.
- Prompt action at the local level through customer support programs such as the Business Service Network and the Customer Experience Measurement program.
- Collaborative approaches to problem resolution with customers and the mailing industry through the Mailer's Technical Advisory Committee and other forums.

Service performance notes

- More than 55 percent of single-piece First-Class Mail receives overnight service. About 44 percent of this category currently receives two-to-three day service. Most single-piece First-Class Mail with a three-, four- or five-day service standard is actually delivered within three days. Only 0.27 percent of single-piece First-Class Mail volume has a four- or five-day service standard, and usually requires additional contract transportation outside the contiguous 48 states, such as mail to or from Hawaii, Alaska and Puerto Rico. This performance profile will be adjusted as service standards change.
- Natural disasters in different parts of the U.S. affected the ability of the Postal Service to move the mail as reflected in 2011 service scores that were slightly below Plan. The Postal Service has also been undergoing organizational realignment, which although nonquantifiable, did divert some attention from service performance.

Service performance measurement systems

- Since the 1990s, single-piece First-Class Mail has been measured by an independent third-party using a sampling system that records transit times between deposit and delivery of mailpieces. The sampling process has expanded and become more rigorous over time to include almost all originating and destinating ZIP Codes. Test pieces include both standard-size letters and large envelopes. In 2009, First-Class Mail parcels were included

in measurement through the use of tracking parcels having Delivery Confirmation. First-Class Mail International mail is not included in the national goal, but is measured and reported separately.

- Delivery service is a major component of our customers' experience. However, other factors are also important to customers. USPS maintains one of the nation's largest customer experience measurement programs, using surveys for consumers, small businesses and commercial customers. These surveys are supplemented by independent mystery shopper reports, and analysis of complaints and telephone calls to our customer contact centers and to our Business Service Network. We are also included in independent national customer satisfaction surveys, such as those conducted by the American Customer Satisfaction Center (www.theacsi.org). Results have been very favorable and showed our continuous improvement.

FINANCIAL PERFORMANCE

Our Annual Report on Form 10-K as filed with the Postal Regulatory Commission, supplemented by online filings, details the financial performance of the Postal Service. Our fundamental goal is to generate income sufficient to fully fund operations and invest in improvements for the future. The Postal Reorganization Act of 1970 created the Postal Service as an independent entity of the federal government, with the responsibility to become self-sufficient. At the time, about 20 percent of the postal budget was provided through appropriations. USPS succeeded in eliminating public subsidies by 1983. We since have operated as a break-even organization, with postage rates increasing at about the rate of inflation in the general economy. The Postal Accountability and Enhancement Act of 2006 allowed the Postal Service to generate profits, but at the same time imposed additional costs, including the requirement to pre-fund retiree healthcare benefits.

This requirement caused financial distortions that made total revenue less useful as an indicator of postal financial performance and obscured actual operating results. This was described in the March 2, 2010, *Ensuring A Viable Postal Service for America: An Action Plan for the Future*. Total revenue was replaced by operating income for FY2011.

In FY2011, a new indicator — deliveries per work hour — was established to focus on our largest operating cost. This measure gets to the root of one of the Postal Service's core challenges — the growing number of delivery points, which increase between .5 and 1.5 million each year, depending on the economy, while mail volume continues to decline.

Deliveries per Work Hour

Performance Indicator	2009 Actual	2010 Actual	2011 Plan	2011 Actual
Deliveries per Work Hour	NA	NA	40.4	39.9

The total number of deliveries is the number of delivery points multiplied by the number of delivery days. It includes all types of delivery. This is divided by the total number of work hours used in all employee categories, including managers and executives. The result is the number of annual deliveries completed per work hour used.

This measure replaced total factor productivity (TFP), which is an aggregate measure useful for measuring long-term organization-wide trends, but is less relevant as a functional and unit indicator and, as a technical measure, is less easily explained. The Postal Service will continue to measure and use TFP where it is appropriate.

Financial measurement systems

USPS employs a disciplined process that conforms to rigorous requirements of financial reporting and is required by the Postal Accountability and Enhancement Act of 2006 to follow certain rules and regulations of the Securities and Exchange Commission in filing Quarterly Reports on Form 10-Q and the Annual Report on Form 10-K. Accounting systems and financial reports are independently audited, and are subject to review by the Office of the Inspector General and the Government Accountability Office. Financial procedures are protected against abuse by investigations conducted by the Postal Inspection Service.

SAFETY AND EMPLOYEE ENGAGEMENT

The Postal Service has developed an excellent safety program and has achieved remarkable improvement over time. Work-related injury rates have been reduced by almost 50 percent over the last 10 years. However, safety is an issue that requires constant vigilance and continuous improvement. The Injury and Illness rate is calculated using an industry-wide formula required by the Occupational Safety and Health Administration (OSHA): Total number of OSHA injuries and illnesses (multiplied) by 200,000 hours (divided) by the number of exposure hours worked by all employees. The 200,000 hours represents 100 employees working 2,000 hours per year. It provides the standard base for calculating incidence rates. The Postal Service is also subject to audits and inspections.

As important as safety is, it is only a part of the total workplace environment. USPS tracks employee engagement and workplace concerns with one of the largest employee surveys in the nation. It is conducted by an independent third-party, and allows confidential, voluntary, on-the-clock responses to a series of relevant questions. We use best practices from current research and focus on issues that can be addressed at the local level. Every quarter, one fourth of all employees receive the survey. It is an important diagnostic tool, assessing a broad range of issues.

The performance indicator is an index consisting of employee responses to key questions. The score is the average of favorable responses.

Voice of the Employee Survey Index Questions

Issue	Survey Question
Strategic Direction	I am aware of current business conditions facing the Postal Service.
Trust	I am confident in the ability of senior management to make the decisions necessary to ensure the future success of the Postal Service.
Contribution to USPS Growth	Rate the quality of the service provided by your office/facility to your customers.
Communication	Rate your immediate supervisor on communicating regularly to keep you informed.
Diversity and Respect	The Postal Service values diversity of backgrounds, talents and perspectives.*
Commitment	I feel personally responsible for helping the Postal Service succeed as a business.
Personal Safety	I receive information to perform my job safely.**
Work Effort and Quality	I understand how the work I do impacts the service the Postal Service provides.

Survey responses have remained remarkably positive despite the challenges faced by the Postal Service and its employees. A dramatic reduction in the number of employees over the past few years has altered the workplace, and the scope, scale and pace of change affects employee attitudes. As the Postal Service continues to make substantial operating changes in FY2012, the quarterly Voice of the Employee surveys will be a key means of monitoring employee attitudes about their work environment and engagement with the organization.

**In FY2011 the wording of this survey question was changed from "The Postal Service promotes diversity of backgrounds, talents and perspectives" to "The Postal Service values diversity of backgrounds, talents and perspectives."*

***In FY2011 this question replaced "Rate the physical working conditions in your work unit" which was used in FY2010.*

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Year references

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Military mail photos

Inside front cover: Lance Cpl. Megan Sindelar. Back cover: Photographer's Mate 3rd Class Mark J. Rebilas.



The *2011 Annual Report to Congress and Comprehensive Statement on Postal Operations* is published by:

United States Postal Service
Corporate Communications
475 L'Enfant Plaza, SW
Washington, DC 20260-3100

Read this publication online at:
[http://about.usps.com/
publications/annual-report-
comprehensive-statement-2011/
welcome.htm](http://about.usps.com/publications/annual-report-comprehensive-statement-2011/welcome.htm).

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Production notes for the printed version:

Paper stock: Rolland Enviro 100 Print 70lb text white; Rolland Enviro 100 Print 80lb cover white.

Paper stock is 100 post-consumer paper, certified EcoLogo, processed chlorine free, FSC recycled and manufactured by Cascade using biogas energy. This report is printed using environmentally safe inks.

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