

RICHARD J. STRASSER, JR.
CHIEF FINANCIAL OFFICER
EXECUTIVE VICE PRESIDENT



May 8, 2003

Mr. James A. Johnson
President's Commission on the
United States Postal Service
Perseus LLC
2099 Pennsylvania Ave., NW, Suite 900
Washington, DC 20006-6804

Dear Mr. Johnson:

The attached graph and spreadsheet provides the information on projected savings/cost avoidances from the Transformation Plan through 2006, which the Commission requested in an April 23, 2003 letter to Mr. Potter. I would like to note that the savings discussed in the Transformation Plan were commitment targets of cost reductions in certain areas over a five-year period, rather than a compilation of specific, identified savings on a detailed line-item basis.

The spreadsheet shows the breakdown of annual Transformation Plan savings/cost avoidances by five broad categories of potential opportunity as they were identified in March 2002. These build to the \$5 billion of annual savings in 2006. This included the then unidentified Network Integration and Alignment (NIA) strategies. Savings and cost avoidances as a result of the NIA strategies will improve operational efficiencies and reduce transportation costs and are included in those two categories. In addition, the bottom half of the spreadsheet shows the expected cumulative impact which sums to \$14.9 billion.

The graph is an illustration of these estimates of year-by-year progress that the Postal Service expected to make to achieve \$5 billion of annual cost savings by the end of Fiscal Year 2006. The top line illustrates costs without transformation and the bottom line projects expenses with fulfillment of the commitments made in the Plan. The shaded area between the two lines illustrates the cumulative effect of these savings, which sums to almost three times the \$5 billion. In our view, we committed to take \$5 billion out of our annual costs by 2006, while the \$14.9 billion figure reflects the compound impact through 2006 of the annual savings/cost reductions.

We would be pleased to address any follow-up questions you may have.

Sincerely,

A handwritten signature in black ink, appearing to read "R. Strasser, Jr.", written over a horizontal line.

Richard J. Strasser, Jr.

Attachments

cc: Dennis Shea

Internal Use Only- Annual Projections Subject to Change

**Transformation Plan Savings/Cost Avoidance Summary
March 2002**

<u>Areas of Opportunity</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2002-06</u>
Capital Programs	\$ 267	\$ 202	\$ 290	\$ 346	\$ 359	\$ 1,464
Post Office Operations (Function 4)	\$ 163	\$ 189	\$ 213	\$ 274	\$ 264	\$ 1,103
Operational Efficiencies*	\$ 313	\$ 463	\$ 259	\$ 206	\$ 320	\$ 1,561
Administrative Reductions	\$ 162	\$ 140	\$ 10			\$ 312
Transportation*	\$ 136	\$ 81	\$ 40	\$ 48	\$ 256	\$ 561
Total	\$ 1,041	\$ 1,075	\$ 812	\$ 874	\$ 1,199	\$ 5,001
Cumulative Impact ----->	\$1,041	\$1,041	\$1,041	\$1,041	\$1,041	\$5,205
		\$1,075	\$1,075	\$1,075	\$1,075	\$4,300
			\$812	\$812	\$812	\$2,436
				\$874	\$874	\$1,748
					\$1,199	\$1,199
Total Cumulative Impact ----->						\$14,888

(In Millions)

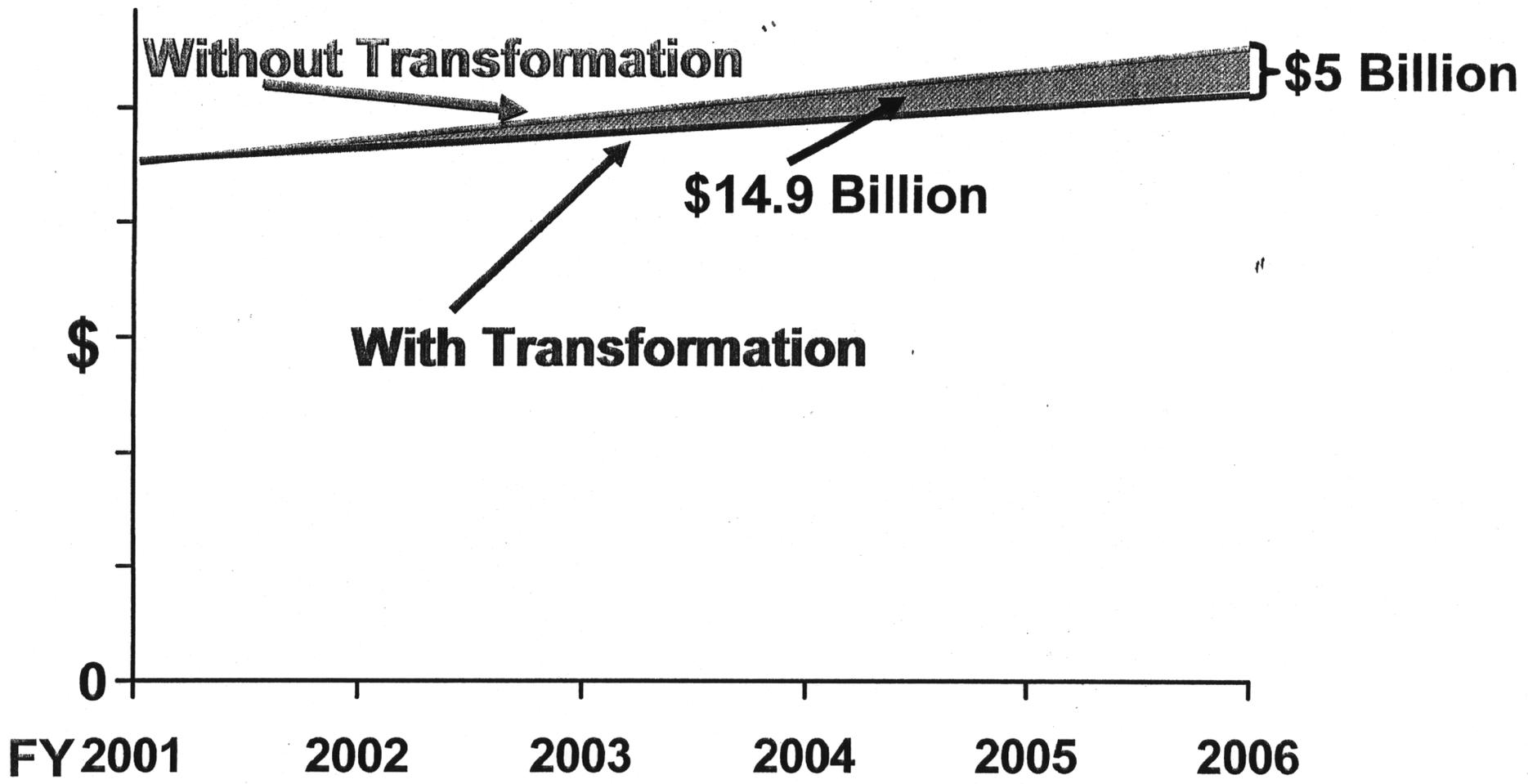
(*Includes the impacts of the Network Integration and Alignment Strategy)

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USPS Transformation Plan

Projected Savings/Cost Avoidance Through 2006



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