Fiscal Year 2007 marked the beginning of a transition to an historic new era for the Postal Service with the enactment of the Postal Accountability and Enhancement Act on December 20, 2006. We begin this journey on a solid foundation, as postal employees capped the year by delivering record levels of mail service, increased productivity, and solid financial performance.

Under the new law, we will see significant changes in our business model. In particular, the new law directs the Postal Service in the coming year to separate its mail services into two business lines. The first of these, known as “Mailing” services, includes First-Class Mail and Standard Mail and accounts for roughly 90 percent of our revenues. These services will be subject to a Consumer Price Index (CPI) price cap. The second business line, known as “Shipping” services, includes Express Mail and Priority Mail and represents the balance of postal revenue. Shipping services can be priced according to the market.

Absent the financial effects of the new law, we would have recorded net income of more than $1.6 billion for 2007, which would have marked our fifth consecutive year of positive net income and fourth straight year of positive retained earnings. However, due to the required funding of retiree health benefits for 2007 — and related financial adjustments under the law, as explained elsewhere in this report — we reported a $5.1 billion loss for the year.

Our solid income before the new law’s impact attests to the sound approach of our Strategic Transformation Plan, 2006–2010, and the disciplined execution by postal management and employees. We increased our productivity for an unprecedented eighth consecutive year, and delivered our best-ever First-Class Mail service, with 96 percent of local First-Class Mail delivered overnight. Our people showed that good service does not cost more; it costs less. This focus on execution was one of our most important achievements in 2007.

The Postal Service faces significant uncertainty over the next few years as we transition to the new business model envisioned by the new law. These uncertainties are in addition to those normally posed by the economy; the challenges of running a large, complex enterprise; and abundant competition in every line of our business.

Nevertheless, the Postal Service’s recent and long-term success inspires optimism. When the Postal Reorganization Act (PRA) was implemented in 1971, the Postal Service was a money-losing, heavily subsidized government department in desperate need of modernization, lacking in customer focus and with serious service and efficiency problems. During the nearly-36 years of the PRA, the Postal Service reinvented itself and made tremendous progress on all fronts. Compared to 1971, today’s Postal Service employs only 7.5 percent more people to deliver 244 percent more mail to more than twice as many addresses, with no tax subsidies supporting its operation. During that time, the Postal Service earned revenue of $1.464 trillion and achieved its break-even mandate within about one-tenth of one percent — quite an accomplishment.

I thank all our employees, customers, and other stakeholders who have contributed to the success of the Postal Service in 2007. Together, we are building a firm foundation for the future. It is now our privilege to continue that journey under a modern mandate. A new Postal Service era has begun.

H. Glen Walker
Chief Financial Officer and Executive Vice President