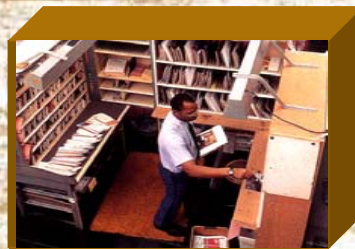




**UNITED STATES
POSTAL SERVICE**

FINANCIAL & OPERATING STATEMENTS

**October, FY 2004
October 1 – October 31, 2003**



Prepared by: Financial Reporting and Analysis

Highlights
October, 2003 - FY 2004
(Millions)

| | Year-to-Date (October 1 - October 31, 2003) | | | | | |
|---------------------|---|------------|-------------------|----------|------------|--------|
| | Actual | Budget | Var. to Budget | % Budget | SPLY * | % SPLY |
| Total Revenue | \$ 6,276.7 | \$ 6,279.3 | [\$ - 2.6] | [- 0.0] | \$ 6,410.1 | - 2.1 |
| Total Expense | 5,453.4 | 5,595.5 | - 142.1 | - 2.5 | 5,369.8 | 1.6 |
| Net Income/(Loss) | \$ 823.3 | \$ 683.8 | \$ 139.5 | - | \$ 1,040.3 | - |
| Capital Commitments | \$ 58.8 | \$ 63.8 | \$ - 5.0 | - 7.9 | \$ 32.3 | 82.0 |
| Total Workhours | 127.5 | 128.2 | - 0.7 | - 0.5 | 130.9 | - 2.6 |

[] = Unfavorable variance to budget

Note: Totals may not sum due to rounding.

* SPLY data may differ from previous reports due to subsequent adjustments.

| Actual Number Of: | Current Period | Last Period | SPLY * |
|---|-------------------|----------------|---------|
| Postal Owned Vehicles In Use | | | |
| Administrative | 5,531 | 5,570 | 5,424 |
| Operations | 206,260 | 203,509 | 201,443 |
| Total Deliveries (000) | 141,467 | 141,273 | 139,702 |
| City Delivery Routes | 164,869 | 164,652 | 165,974 |
| Rural Routes | 69,742 | 69,665 | 69,360 |
| Career Employees (Excludes Inspector General) | 726,360 | 730,086 | 747,805 |
| Casual Employees | 17,450 | 17,974 | 18,564 |
| Transitional Employees | 11,400 | 10,813 | 14,145 |

See accompanying Analysis to the Financial and Operating Statements beginning on page 16.

STATEMENT OF INCOME AND EXPENSE
October, 2003 - FY 2004
(\$ Millions)

| | Year-to-Date | | | | | |
|---------------------------------------|-----------------|-----------------|-------------------|--------------|-------------------|------------|
| | Actual | Budget | Var. to Budget | % Budget | SPLY * | % SPLY |
| Operating Revenue | \$ 6,274.0 | \$ 6,277.1 | [\$ - 3.1] | [- 0.0] | \$ 6,404.1 | - 2.0 |
| Operating Expense | <u>5,426.9</u> | <u>5,572.1</u> | <u>- 145.2</u> | <u>- 2.6</u> | <u>5,341.4</u> | <u>1.6</u> |
| Income (Loss) From Operations | \$ 847.1 | \$ 705.0 | \$ 142.1 | - | \$ 1,062.7 | - |
| Investment Income | 2.7 | 2.2 | 0.5 | 22.7 | 6.0 | - 55.0 |
| Interest Expense | - 3.4 | - 0.3 | [- 3.1] | NM | - 28.3 | - 88.0 |
| Interest on Deferred Retirement Costs | - 23.1 | - 23.1 | 0.0 | 0.0 | 0.0 | NM |
| Debt Repurchase Expense | <u>0.0</u> | <u>0.0</u> | 0.0 | 0.0 | <u>- 0.1</u> | 0.0 |
| Net Income/(Loss) | \$ 823.3 | \$ 683.8 | \$ 139.5 | - | \$ 1,040.4 | - |

[]=Unfavorable variance to budget

Note: Totals may not sum due to rounding.

*SPLY data may differ from previous reports due to subsequent adjustments.

See accompanying Analysis to the Financial and Operating Statements beginning on page 16.

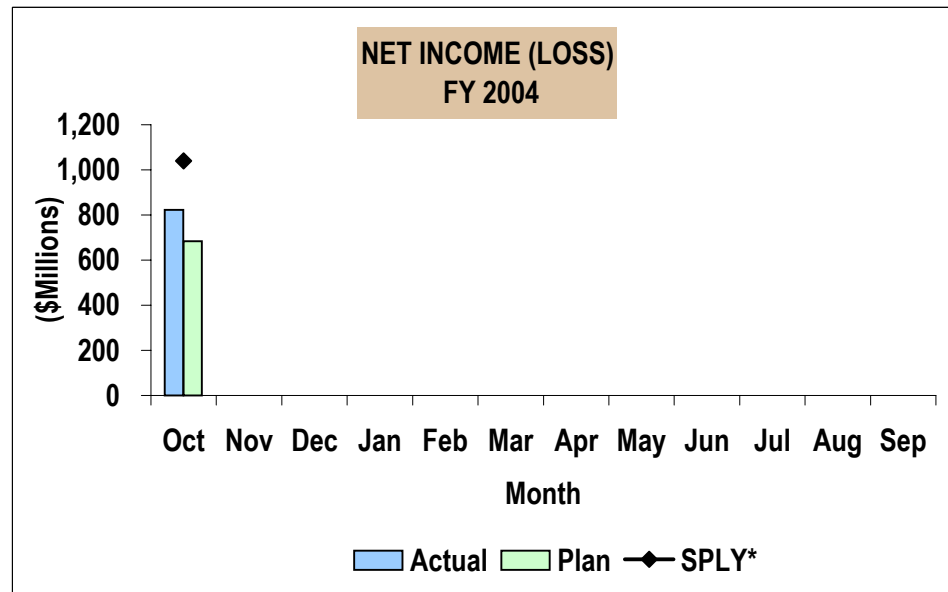
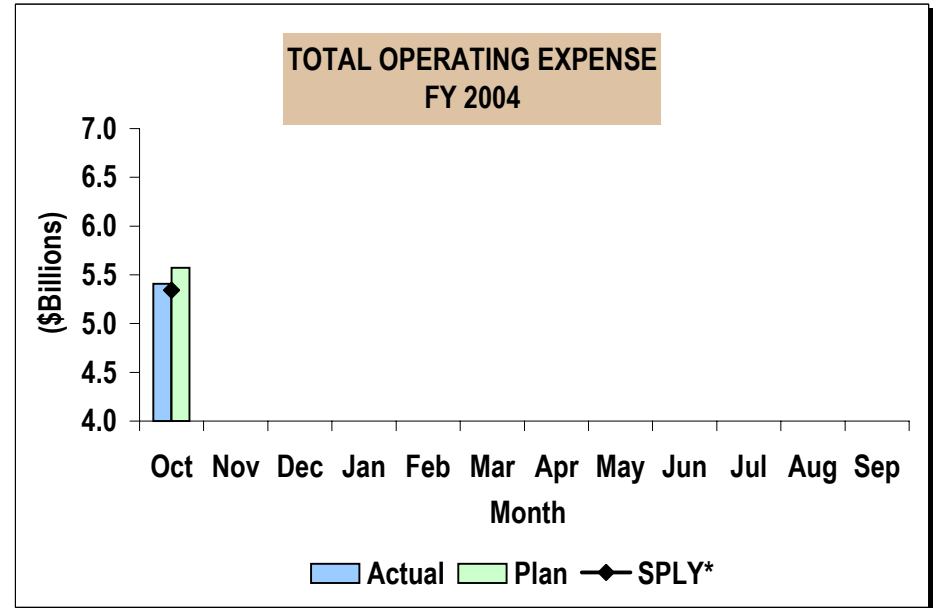
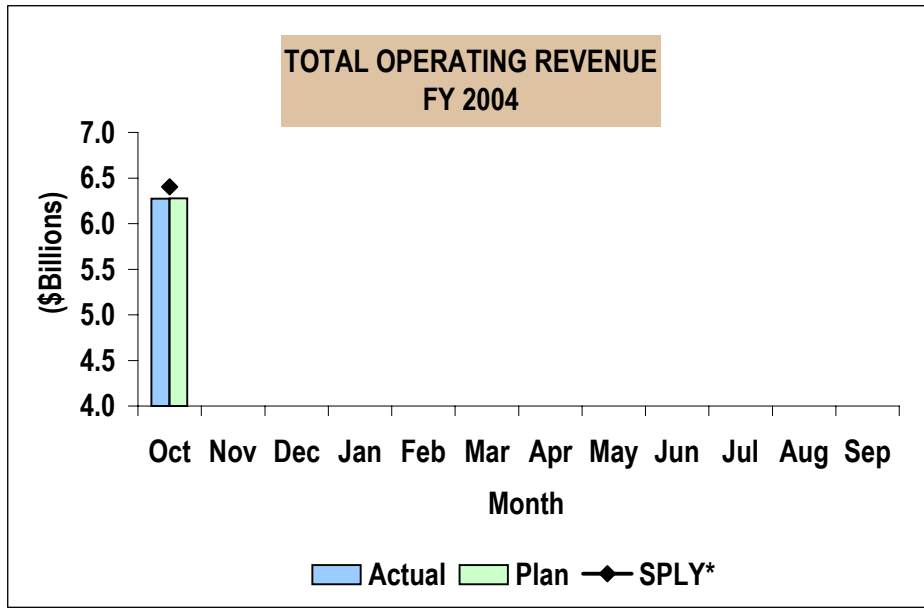
MAIL VOLUME - MAIL REVENUE
(Data in Thousands)

YEAR-TO-DATE

CATEGORY

This data will be published for the Revenue, Pieces and Weight (RPW) report for Quarter I (October 1 - December 31) to be released at the Board of Governors' February meeting. Thereafter, monthly estimates will resume.

See accompanying Analysis to the Financial and Operating Statements beginning on page 16.



*SPLY data may differ from previous reports due to subsequent adjustments.

See accompanying Analysis to the Financial and Operating Statements beginning on page 16.

REVENUE BY SOURCE
October, 2003 - FY 2004
(\$ Millions)

| | Year-to-Date | | |
|---|--------------------------|--------------------------|--------------|
| | Actual | SPLY* | % SPLY |
| Operating Revenue: | | | |
| Metered Postage | \$ 2,232.7 | \$ 2,160.1 | 3.4 |
| Stamps and Stamped Paper | 960.4 | 1,006.7 | - 4.6 |
| Permit Imprint | 1,697.2 | 1,838.4 | - 7.7 |
| Periodicals & Standard | 208.0 | 234.1 | - 11.1 |
| Official Mail | 71.0 | 78.6 | - 9.7 |
| Presort First-Class & Package Svc./Permit Imprint | 857.6 | 815.2 | 5.2 |
| Box Rents | 61.8 | 67.2 | - 8.0 |
| Money Order Fees | 15.6 | 17.3 | - 9.8 |
| Other | <u>166.7</u> | <u>183.9</u> | - 9.4 |
| Subtotal | \$ 6,271.0 | \$ 6,401.5 | - 2.0 |
| Government Appropriation: | | | |
| Revenue Forgone | <u>3.0</u> | <u>2.6</u> | 15.4 |
| Total Operating Revenue | \$ 6,274.0 | \$ 6,404.1 | - 2.0 |
| Investment Income | <u>2.7</u> | <u>6.0</u> | - 55.0 |
| Total Revenue | <u>\$ 6,276.7</u> | <u>\$ 6,410.1</u> | - 2.1 |

Note: Totals may not sum due to rounding.

*SPLY data may differ from previous reports due to subsequent adjustments.

See accompanying Analysis to the Financial and Operating Statements beginning on page 16.

REVENUE BY CATEGORY
October, 2003 - FY 2004
(\$ Millions)

| | Year-to-Date | | |
|--|-------------------|-------------------|------------------|
| | Actual | Budget | % Budget |
| Commercial Revenue | | | |
| Permit Revenue | \$ 2,826.7 | \$ 2,728.6 | 3.6 |
| Other Commercial Accounts Revenue | 1,988.1 | 2,102.2 | [- 5.4] |
| Total Commercial Revenue | \$ 4,814.8 | \$ 4,830.8 | [- 0.3] |
| Retail Revenue | | | |
| Retail Postage Revenue | 1,189.9 | 1,138.4 | 4.5 |
| Retail Services Revenue | 85.5 | 84.3 | 1.4 |
| Retail Products Revenue | 12.8 | 9.7 | 32.0 |
| Other Retail Channels Revenue | 126.4 | 154.1 | [- 18.0] |
| Total Retail Revenue | \$ 1,414.6 | \$ 1,386.5 | 2.0 |
| Total Commercial & Retail Revenue | \$ 6,229.4 | \$ 6,217.3 | 0.2 |
| Other Income | 41.6 | 56.8 | [- 26.8] |
| Revenue Forgone | 3.0 | 3.0 | 0.0 |
| Total Operating Revenue | \$ 6,274.0 | \$ 6,277.1 | [- 0.1] |
| Investment Income | 2.7 | 2.2 | 22.7 |
| Total Revenue | \$ 6,276.7 | \$ 6,279.3 | 0.0 |

[]=Unfavorable variance to budget
Note: Totals may not sum due to rounding.

See accompanying Analysis to the Financial and Operating Statements beginning on page 16.

Expense Analysis
October, 2003 - FY 2004
(\$Millions)

| | Year-to-Date | | | | | |
|---------------------------------------|-------------------|-------------------|-------------------|---------------|-------------------|---------------|
| | Actual | Budget | Var. to Budget | % Budget | SPLY * | % SPLY |
| Personnel Compensation | \$ 4,471.5 | \$ 4,464.4 | [\$ 7.1] | [0.2] | \$ 4,259.7 | 5.0 |
| Non-Personnel Expense: | | | | | | |
| Transportation | 310.9 | 426.3 | - 115.4 | - 27.1 | 383.9 | - 19.0 |
| Supplies & Services | 136.3 | 179.3 | - 43.0 | - 24.0 | 203.0 | - 32.9 |
| Other | <u>508.3</u> | <u>502.1</u> | [<u>6.1</u>] | [1.2] | <u>494.8</u> | 2.7 |
| Subtotal | \$ 955.4 | \$ 1,107.7 | \$ - 152.3 | - 13.7 | \$ 1,081.7 | - 11.7 |
| Total Operating Expense | \$ 5,426.9 | \$ 5,572.1 | \$ - 145.2 | - 2.6 | \$ 5,341.4 | 1.6 |
| Interest Expense | 3.4 | 0.3 | [3.1] | NM | 28.3 | - 88.0 |
| Interest on Deferred Retirement Costs | <u>23.1</u> | <u>23.1</u> | <u>0.0</u> | 0.0 | <u>0.0</u> | NM |
| Total Expense | \$ 5,453.4 | \$ 5,595.5 | \$ - 142.1 | - 2.5 | \$ 5,369.8 | 1.6 |

[]=Unfavorable variance to budget

Note: Totals may not sum due to rounding.

*SPLY data may differ from previous reports due to subsequent adjustments.

See accompanying Analysis to the Financial and Operating Statements beginning on page 16.

ANALYSIS OF OPERATING EXPENSES
October, 2003 - FY 2004
Personnel Compensation
(\$ Millions)

| | Year-to-Date | | | | | | |
|--------------------------------------|-------------------|-------------------|-----------------|---------------|-------------------|------------|--------|
| | Actual | Budget | Var. to Budget | | % Budget | SPLY * | % SPLY |
| Total Compensation | | | | | | | |
| Operations: | | | | | | | |
| -Support | \$ 32.8 | \$ 32.6 | [\$ 0.2] | [0.6] | \$ 30.6 | 7.2 | |
| -Mail Processing | 967.9 | 981.4 | - 13.5 | - 1.4 | 957.2 | 1.1 | |
| -Rural Delivery | 392.9 | 386.5 | [6.4] | [1.7] | 369.8 | 6.2 | |
| -City Delivery | 1,356.0 | 1,346.4 | [9.6] | [0.7] | 1,295.3 | 4.7 | |
| -Vehicles Services | 96.8 | 97.3 | - 0.5 | - 0.5 | 91.5 | 5.9 | |
| -Plant & Equip Maint | 245.8 | 253.8 | - 8.0 | - 3.1 | 230.6 | 6.6 | |
| -Customer Services | 660.4 | 654.9 | [5.5] | [0.8] | 623.0 | 6.0 | |
| Finance | 17.7 | 19.4 | - 1.7 | - 9.0 | 20.7 | - 14.4 | |
| Human Resources | 30.6 | 31.6 | - 1.0 | - 3.1 | 28.0 | 9.3 | |
| Customer Service & Sales | 48.3 | 50.8 | - 2.6 | - 5.0 | 43.8 | 10.3 | |
| Administration | 207.1 | 206.8 | [0.3] | [0.1] | 175.4 | 18.1 | |
| Other Salaries & Benefits | 161.7 | 147.7 | [14.0] | [9.5] | 144.5 | 11.9 | |
| Total Salaries & Benefits | \$ 4,218.0 | \$ 4,209.2 | [\$ 8.8] | [0.2] | \$ 4,010.4 | 5.2 | |
| Workers' Compensation | 124.1 | 124.6 | - 0.5 | - 0.4 | 133.0 | - 6.7 | |
| Unemployment Compensation | 7.1 | 7.7 | - 0.6 | - 8.0 | 8.3 | - 14.9 | |
| Deferred Retirement Cost | 1.8 | 1.8 | 0.0 | 0.0 | 0.0 | NM | |
| Annuitant Health Benefits | 110.2 | 110.2 | 0.0 | 0.0 | 97.7 | 12.8 | |
| Other Compensation | 10.3 | 10.8 | - 0.6 | - 5.3 | 10.3 | - 0.0 | |
| Total Personnel Compensation | \$ 4,471.5 | \$ 4,464.4 | [\$ 7.1] | [0.2] | \$ 4,259.7 | 5.0 | |

[]=Unfavorable variance to budget

Note: Totals may not sum due to rounding.

*SPLY data may differ from previous reports due to subsequent adjustments.

See accompanying Analysis to the Financial and Operating Statements beginning on page 16.

ANALYSIS OF NON-PERSONNEL EXPENSES

October, 2003 - FY 2004

(\$ Millions)

| Description | Year-to-Date | | | | | |
|-------------------------------------|-----------------|-------------------|------------------|--------------|-------------------|--------------|
| | Actual | Budget | Var. to Budget | % Budget | SPLY * | % SPLY |
| Transportation | \$ 310.9 | \$ 426.3 | \$ -115.4 | -27.1 | \$ 383.9 | -19.0 |
| Supplies & Services | 136.3 | 179.3 | -43.1 | -24.0 | 203.0 | -32.8 |
| Depreciation | 201.1 | 190.6 | [10.5] | [5.5] | 193.7 | 3.8 |
| Rent | 75.8 | 82.9 | -7.2 | -8.6 | 77.4 | -2.1 |
| Fuel & Utilities | 37.9 | 40.1 | -2.1 | -5.3 | 39.8 | -4.7 |
| Rural Carrier Equip Maint Allowance | 46.1 | 34.6 | [11.5] | [33.3] | 30.2 | 52.7 |
| Vehicle Maintenance | 33.3 | 34.6 | -1.3 | -3.7 | 34.3 | -2.8 |
| Information Technology | 25.7 | 28.4 | -2.8 | -9.8 | 44.9 | -42.9 |
| Building Projects Expensed | 21.3 | 12.4 | [8.9] | [71.8] | 3.2 | NM |
| Contract Job Cleaners | 6.8 | 6.4 | [0.4] | [6.4] | 5.9 | 14.9 |
| Travel & Relocation | 16.1 | 12.1 | [4.0] | [33.3] | 11.3 | 42.6 |
| Communications | 11.9 | 12.1 | -0.2 | -1.8 | 20.8 | -42.9 |
| Contract Stations | 5.6 | 6.4 | -0.8 | -12.6 | 1.0 | NM |
| Printing | 0.8 | 1.9 | -1.1 | -57.4 | 0.7 | 22.2 |
| Training | 3.3 | 5.7 | -2.4 | -42.5 | 4.3 | -24.1 |
| Carfare & Tolls | 1.2 | 4.6 | -3.3 | -73.0 | 4.8 | -74.5 |
| Vehicle Hire | 1.4 | 2.2 | -0.8 | -37.3 | 2.0 | -30.5 |
| Accident Cost | 4.2 | 3.4 | [0.8] | [25.1] | 3.9 | 8.4 |
| Miscellaneous | 15.8 | 23.8 | -7.9 | -33.4 | 16.5 | -4.3 |
| Total Non-Personnel Expenses | \$ 955.4 | \$ 1,107.7 | \$ -152.3 | -13.7 | \$ 1,081.7 | -11.7 |

[]=Unfavorable variance to budget

*SPLY data may differ from previous reports due to subsequent adjustments.

See accompanying Analysis to the Financial and Operating Statements beginning on page 16.

STATEMENT OF FINANCIAL POSITION

October, 2003 - FY 2004

(\$ Millions)

Assets

Due to a conversion to a new general ledger system, this data, on a monthly basis, is under development. This data will be available for the Quarter I report and, thereafter, on a monthly basis.

STATEMENT OF FINANCIAL POSITION
October, 2003 - FY 2004
(\$ Millions)

Liabilities and Equities

Due to a conversion to a new general ledger system, this data, on a monthly basis, is under development. This data will be available for the Quarter I report and, thereafter, on a monthly basis.

STATEMENT OF CASH FLOWS

Fiscal Year 2004

(\$ Millions)

For the Fiscal Year through October 31, 2004

Due to a conversion to a new general ledger system, this data, on a monthly basis, is under development. This data will be available for the Quarter I report and, thereafter, on a monthly basis.

CAPITAL INVESTMENTS
FY 2004
(\$ Millions)

| MAJOR CATEGORIES | COMMITMENTS | | | CASH OUTLAYS | | |
|---------------------------------------|----------------------|----------------|----------------|----------------------|-----------------|-----------------|
| | October Year-to-Date | | | October Year-to-Date | | |
| | ACTUAL | PLAN | SPLY | ACTUAL | PLAN | SPLY |
| CONSTRUCTION AND BUILDING PURCHASE | \$ -1.0 | \$ 0.0 | \$ 3.6 | \$ 9.9 | \$ 10.3 | \$ 11.2 |
| BUILDING IMPROVEMENTS | 10.5 | 13.1 | -9.4 | 17.9 | 11.7 | 15.4 |
| MAIL PROCESSING EQUIPMENT | 13.5 | 34.2 | 21.2 | 45.8 | 72.1 | 58.5 |
| VEHICLES | 0.2 | 0.0 | 0.0 | 30.6 | 12.1 | 2.3 |
| RETAIL EQUIPMENT | 14.6 | 6.6 | -3.4 | 8.8 | 5.0 | 0.3 |
| POSTAL SUPPORT EQUIPMENT | 21.0 | 9.9 | 20.3 | 26.0 | 11.8 | 14.9 |
| TOTAL COMMITMENTS/CASH OUTLAYS | \$ 58.8 | \$ 63.8 | \$ 32.3 | \$ 139.0 | \$ 123.0 | \$ 102.6 |

RESOURCES ON ORDER
(\$ Millions)

| MAJOR CATEGORIES | October 31, 2003 | September 30, 2003 |
|------------------------------------|---------------------|-----------------------|
| CONSTRUCTION AND BUILDING PURCHASE | \$ 227.3 | \$ 238.2 |
| BUILDING IMPROVEMENTS | 179.3 | 186.7 |
| MAIL PROCESSING EQUIPMENT | 1,377.2 | 1,409.5 |
| VEHICLES | 41.2 | 71.6 |
| RETAIL EQUIPMENT | 184.2 | 178.4 |
| POSTAL SUPPORT EQUIPMENT | 305.5 | 310.5 |
| TOTAL RESOURCES ON ORDER | \$ 2,314.7 | \$ 2,394.9 |

Note: Totals may not sum due to rounding.

See accompanying Analysis to the Financial and Operating Statements beginning on page 16.

WORKHOURS & OVERTIME/SICK LEAVE RATIOS
October, 2003 - FY 2004
(Data in Thousands)

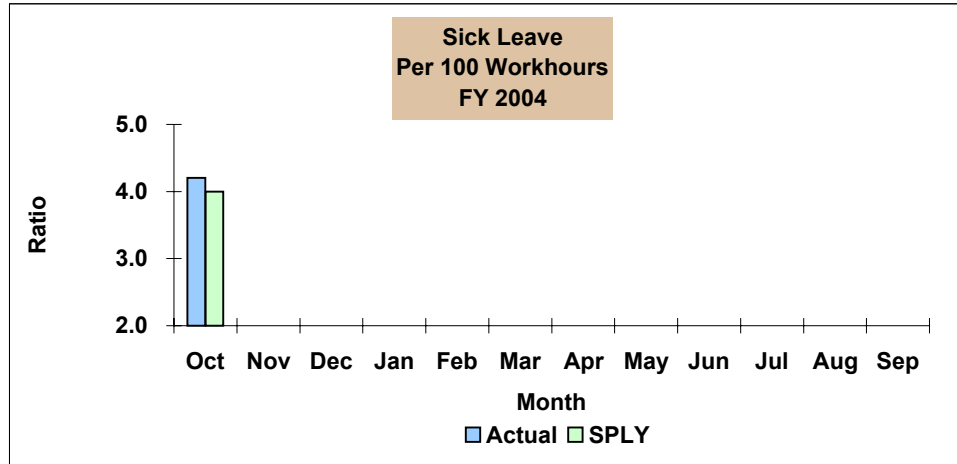
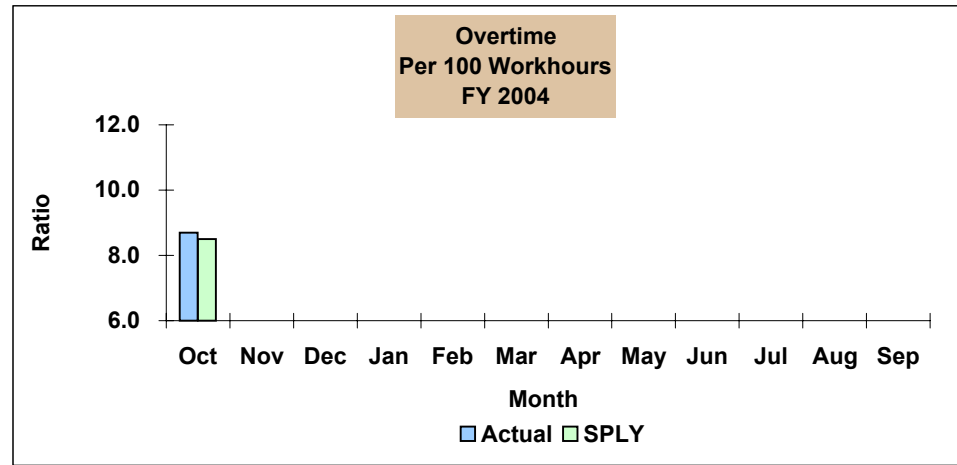
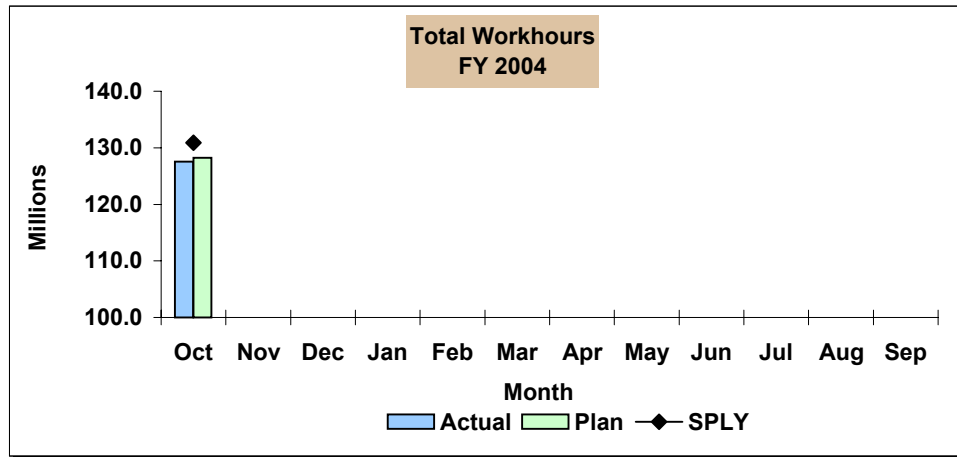
| <u>Total Workhours</u> | Year-to-Date | | | | |
|--------------------------|----------------|----------------|--------------|----------------|--------------|
| | Actual | Var. to Budget | % Budget | SPLY * | % SPLY |
| Operations: | | | | | |
| -Support | 808 | [4] | [0.5] | 817 | - 1.1 |
| -Mail Processing | 29,904 | - 643 | - 2.1 | 31,932 | - 6.3 |
| -Rural Delivery | 14,551 | [151] | [1.0] | 14,260 | 2.0 |
| -City Delivery | 40,497 | [276] | [0.7] | 41,182 | - 1.7 |
| -Vehicles Services | 2,769 | - 24 | - 0.9 | 2,808 | - 1.4 |
| -Plant & Equip Maint | 7,155 | - 290 | - 3.9 | 7,218 | - 0.9 |
| -Customer Services | 20,239 | [81] | [0.4] | 20,743 | - 2.4 |
| Finance | 447 | - 78 | - 14.8 | 599 | - 25.4 |
| Human Resources | 802 | [18] | [2.3] | 765 | 4.8 |
| Customer Service & Sales | 1,337 | - 53 | - 3.8 | 1,325 | 0.9 |
| Administration | 5,801 | - 16 | - 0.3 | 5,827 | - 0.4 |
| Other | 3,231 | - 89 | - 2.7 | 3,411 | - 5.3 |
| Total Workhours | 127,540 | - 665 | - 0.5 | 130,887 | - 2.6 |

| Overtime | | | |
|---|--------|--------|------|
| | Actual | Budget | SPLY |
| Overtime Ratio Per 100 Workhours | 8.7% | 8.3% | 8.5% |

| Sick Leave | | | |
|---|--------|--------|------|
| | Actual | Budget | SPLY |
| Sick Leave Ratio Per 100 Workhours | 4.2% | - | 4.0% |

[]=Unfavorable variance to budget
 Note: Totals may not sum due to rounding.
 *SPLY data may differ from previous reports due to subsequent adjustments.

See accompanying Analysis to the Financial and Operating Statements beginning on page 16.



See accompanying Analysis to the Financial and Operating Statements beginning on page 16

October 2003, FY 2004

Analysis of the Financial and Operating Statements

Revenue - Pages 1, 2, 3, 4, 5 and 6

Year-to-date (YTD), Total Revenue is \$2.6 million under plan. Other Commercial Accounts contribute to the majority of the Total Revenue underrun to plan, \$114.1 million, with Customer Meters being the largest contributor. As compared to SPLY, Total Revenue has decreased 2.1% or \$133.4 million. Permit Imprint and Stamps and Stamped Paper revenue combined are \$187.5 million of this total revenue change to SPLY amount.

Expenses - Pages 1, 2, 4, 7, 8 and 9

YTD, Total Expenses are \$142 million or 2.5% below plan. Most of the YTD plan underrun lies in Transportation, \$115 million and Supplies and Services, \$43 million. Transformation Plan initiatives, Supply Chain Management, and other cost containment initiatives will continue to drive savings.

Mail Volume and Revenue - Page 3

Mail volume and revenue data is not available at this time. We anticipate that this data will be available at the completion of Quarter I.

October 2003, FY 2004

Analysis of the Financial and Operating Statements (Continued)

Capital Commitments - Pages 1 and 13

The Fiscal Year 2004 Capital Commitments for October, 2003 YTD are \$59 million compared to a plan of \$64 million. This represents an underrun of about \$5 million or 7.9%.

The Cash Outlays YTD are \$139 million versus a plan of \$123 million, representing a \$16 million overrun to plan.

Workhours - Pages 1, 14 and 15

Total workhours for October YTD are 0.7 million hours or 0.5% below plan and 3.3 million hours below October, 2002. The Mail processing function, which includes automated, mechanized and manual distribution, remote barcoding operations, platform operations, and supervision are 2.0 million workhours less than the same month last year. An additional 1.2 million workhours are reduced in City Delivery Service and Customer Service combined. These reductions are a direct result of cost containment and efficiency improvement activities outlined in the Transformation Plan.