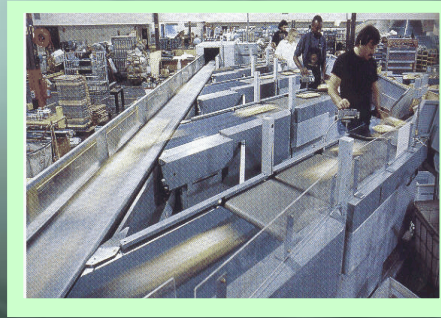




**UNITED STATES
POSTAL SERVICE**

FINANCIAL & OPERATING STATEMENTS



**July, FY 2006
July 1 – July 31, 2006**

Prepared by: Financial Reporting and Analysis

HIGHLIGHTS
July 2006 - FY 2006
(Millions)

| Current Period | | | | | | Year-to-Date (October 1, 2005 - July 31, 2006) | | | | | |
|--------------------|----------------|----------------|---------------|----------------|--------|--|-----------------|-----------------|---------------|-----------------|--------|
| Actual | Budget | Var. to Budget | % Budget | SPLY | % SPLY | Actual | Budget | Var. to Budget | % Budget | SPLY | % SPLY |
| \$ 5,493.9 | \$ 5,519.4 | [\$ -25.5] | [-0.5] | \$ 5,275.2 | 4.1 | \$ 60,561.4 | \$ 60,197.8 | \$ 363.6 | 0.6 | \$ 58,264.4 | 3.9 |
| <u>5,761.6</u> | <u>5,740.7</u> | <u>[20.9]</u> | <u>[0.4]</u> | <u>5,526.5</u> | 4.3 | <u>59,222.1</u> | <u>58,927.5</u> | <u>[294.6]</u> | <u>[0.5]</u> | <u>56,805.8</u> | 4.3 |
| \$ (267.7) | \$ (221.3) | [\$ -46.4] | NM | \$ (251.3) | NM | \$ 1,339.3 | \$ 1,270.3 | \$ 69.0 | NM | \$ 1,458.6 | NM |
| <u>250.0</u> | | | | | | <u>2,500.0</u> | | | | | |
| <u>\$ (517.7)</u> | | | | | | <u>\$ (1,160.7)</u> | | | | | |
| | | | | | | | | | | | |
| \$ 226.2 | \$ 116.6 | \$ 109.6 | 94.0 | \$ 352.4 | -35.8 | \$ 1,177.8 | \$ 1,134.1 | \$ 43.7 | 3.9 | \$ 1,510.1 | -22.0 |
| 115.0 | 115.3 | -0.3 | -0.2 | 115.5 | -0.4 | 1,214.5 | 1,198.5 | [16.0] | [1.3] | 1,217.2 | -0.2 |

| Actual Number Of: | Current Period | Last Period | SPLY |
|---|----------------|-------------|---------|
| Post Offices | 27,319 | 27,325 | 27,401 |
| Postal Owned Vehicles In Use | | | |
| Administrative | 6,270 | 6,271 | 6,307 |
| Operations | 209,488 | 209,709 | 206,676 |
| Total Deliveries (000) | 145,766 | 145,605 | 143,908 |
| City Delivery Routes | 163,450 | 163,702 | 164,412 |
| Rural Routes | 74,191 | 73,833 | 72,119 |
| Career Employees (excludes Inspector General) | 696,451 | 696,512 | 702,978 |
| Casual Employees | 19,805 | 22,586 | 20,121 |
| Transitional Employees | 5,475 | 5,886 | 8,708 |

*Public Law (PL) 108-18, The Postal Civil Service Retirement System Funding Reform Act of 2003 requires that the U. S. Postal Service, beginning in FY 2006 hold in escrow an amount equal to the difference between the CSRS retirement costs before and after the implementation of this law. The Office of Personnel Management (OPM) calculates this amount and based on their latest estimate we are allocating \$250 million per month for purposes of assessing our financial position.

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

STATEMENT OF INCOME & EXPENSE
 July 2006 - FY 2006
 (\$ Millions)

| Current Period | | | | | | | Year-to-Date | | | | | |
|----------------|----------------|-----------------|----------|----------------|--------|---|-----------------|-----------------|------------------|----------|-----------------|--------|
| Actual | Budget | Var. to Budget | % Budget | SPLY | % SPLY | | Actual | Budget | Var. to Budget | % Budget | SPLY | % SPLY |
| \$ 5,476.3 | \$ 5,499.6 | [\$ -23.3] | [-0.4] | \$ 5,265.9 | 4.0 | Operating Revenue | \$ 60,427.8 | \$ 60,049.5 | \$ 378.3 | 0.6 | \$ 58,197.6 | 3.8 |
| <u>5,743.9</u> | <u>5,718.8</u> | [<u>25.1</u>] | 0.4 | <u>5,505.8</u> | 4.3 | Operating Expense | <u>59,043.6</u> | <u>58,707.3</u> | [<u>336.3</u>] | [0.6] | <u>56,582.9</u> | 4.3 |
| \$ (267.6) | \$ (219.2) | [\$ -48.4] | NM | \$ (239.9) | NM | Income/(Loss) From Operations | \$ 1,384.2 | \$ 1,342.2 | \$ 42.0 | NM | \$ 1,614.7 | NM |
| 17.6 | 19.8 | [-2.2] | [-11.1] | 9.3 | 89.2 | Investment Income | 133.6 | 148.3 | [-14.7] | [-9.9] | 66.8 | 100.0 |
| 0.0 | 0.1 | [-0.1] | -100.0 | 0.0 | NM | Interest Expense | 1.4 | 2.2 | -0.8 | -36.4 | 1.5 | -6.7 |
| <u>17.7</u> | <u>21.8</u> | <u>-4.1</u> | - | <u>20.7</u> | -14.5 | Interest on Deferred Retirement Obligations | <u>177.1</u> | <u>218.0</u> | <u>-40.9</u> | <u>-</u> | <u>221.4</u> | -20.0 |
| \$ (267.7) | \$ (221.3) | [\$ -46.4] | NM | \$ (251.3) | NM | Net Income Before Escrow Allocation * | \$ 1,339.3 | \$ 1,270.3 | \$ 69.0 | NM | \$ 1,458.6 | NM |
| <u>250.0</u> | | | | | | Escrow Allocation * | <u>2,500.0</u> | | | | | |
| \$ (517.7) | | | | | | Net Gain/(Deficiency) After Escrow Allocation * | \$ (1,160.7) | | | | | |

[]=Unfavorable variance to budget

* See footnote on page 1.

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

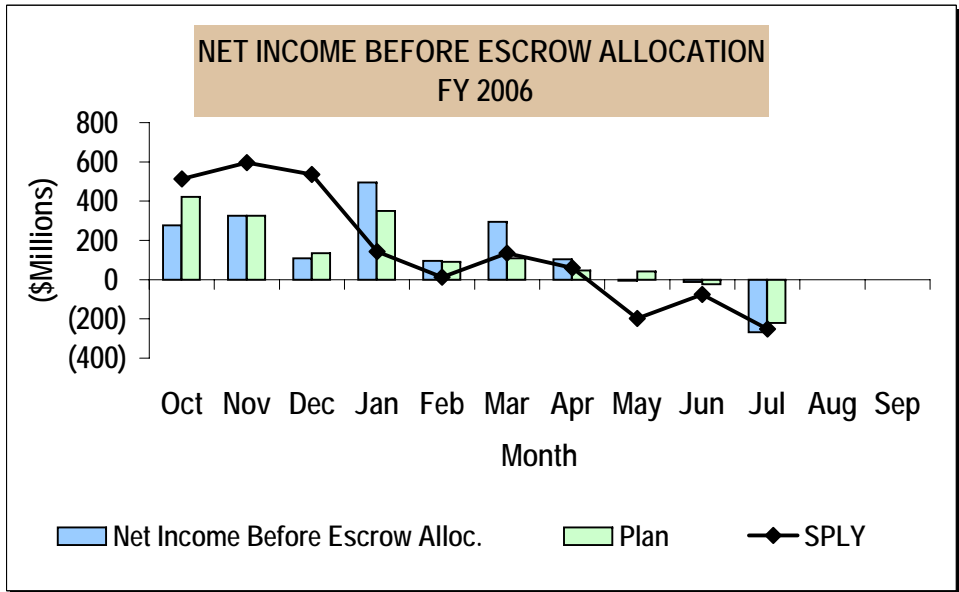
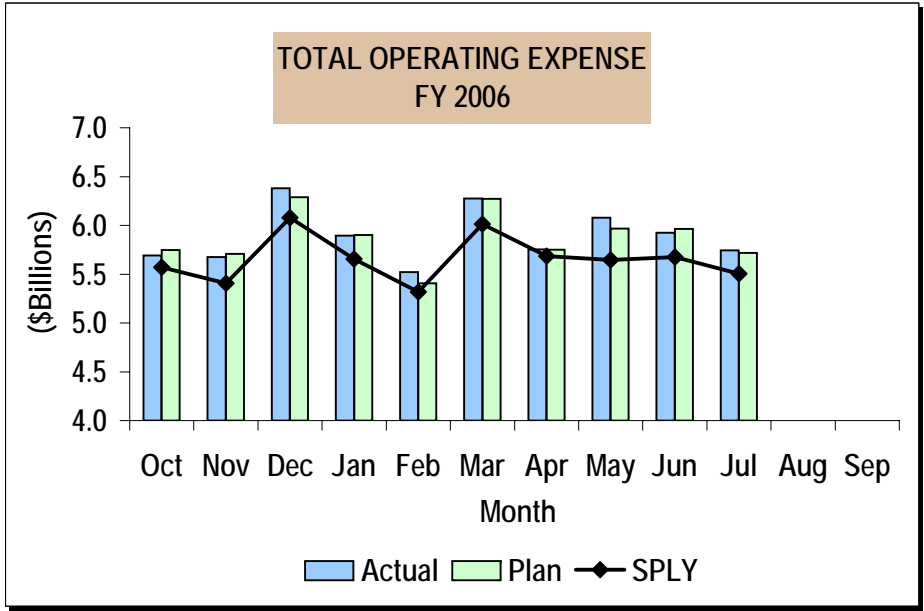
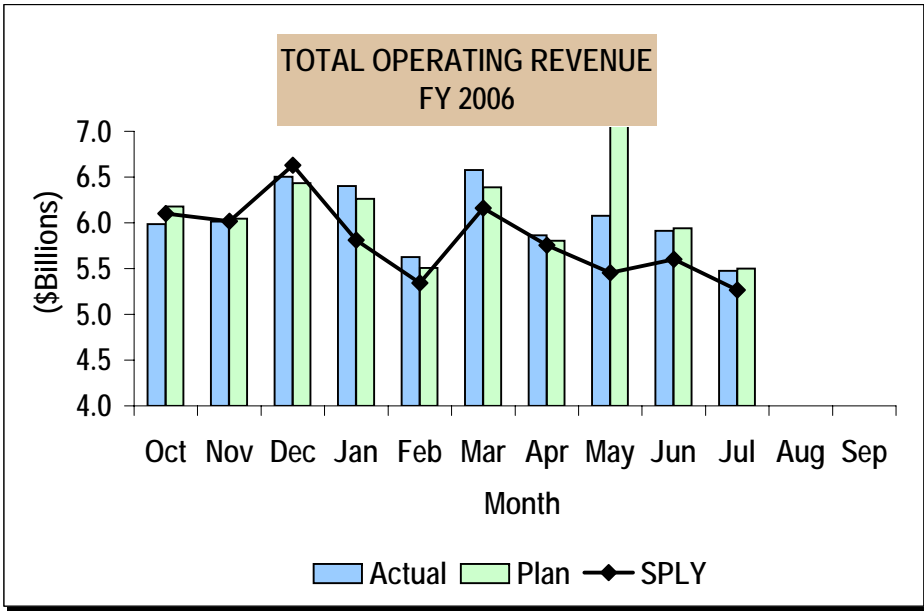
MAIL VOLUME - MAIL REVENUE
(Data in Thousands)

| CATEGORY | CURRENT PERIOD | | | YEAR-TO-DATE | | |
|-------------------------|---------------------|---------------------|--------|---------------------|---------------------|--------|
| | July 31, FY 2006 | July 31, FY 2005 | % SPLY | July 31, FY 2006 | July 31, FY 2005 | % SPLY |
| FIRST-CLASS | | | | | | |
| VOLUME | 7,470,101 | 7,565,666 | - 1.3 | 81,866,650 | 82,292,936 | - 0.5 |
| REVENUE | \$ 2,854,851 | \$ 2,745,294 | 4.0 | \$ 30,994,710 | \$ 30,241,716 | 2.5 |
| REV/PC. | \$ 0.3822 | \$ 0.3629 | 5.3 | \$ 0.3786 | \$ 0.3675 | 3.0 |
| PRIORITY-MAIL | | | | | | |
| VOLUME | 66,060 | 64,228 | 2.9 | 776,542 | 740,309 | 4.9 |
| REVENUE | \$ 360,657 | \$ 331,534 | 8.8 | \$ 4,231,905 | \$ 3,873,277 | 9.3 |
| REV/PC. | \$ 5.4595 | \$ 5.1618 | 5.8 | \$ 5.4497 | \$ 5.2320 | 4.2 |
| EXPRESS MAIL | | | | | | |
| VOLUME | 4,319 | 4,426 | - 2.4 | 46,932 | 46,105 | 1.8 |
| REVENUE | \$ 71,107 | \$ 68,810 | 3.3 | \$ 768,601 | \$ 725,855 | 5.9 |
| REV/PC. | \$ 16.4638 | \$ 15.5468 | 5.9 | \$ 16.3769 | \$ 15.7435 | 4.0 |
| PERIODICALS | | | | | | |
| VOLUME | 641,206 | 719,407 | - 10.9 | 7,506,243 | 7,633,382 | - 1.7 |
| REVENUE | \$ 153,174 | \$ 164,684 | - 7.0 | \$ 1,827,181 | \$ 1,809,419 | 1.0 |
| REV/PC. | \$ 0.2389 | \$ 0.2289 | 4.4 | \$ 0.2434 | \$ 0.2370 | 2.7 |
| STANDARD MAIL | | | | | | |
| VOLUME | 7,618,855 | 7,686,193 | - 0.9 | 84,506,021 | 83,089,861 | 1.7 |
| REVENUE | \$ 1,479,105 | \$ 1,425,059 | 3.8 | \$ 16,345,216 | \$ 15,599,844 | 4.8 |
| REV/PC. | \$ 0.1941 | \$ 0.1854 | 4.7 | \$ 0.1934 | \$ 0.1877 | 3.0 |
| PACKAGE SERVICES | | | | | | |
| VOLUME | 94,487 | 90,703 | 4.2 | 975,326 | 959,044 | 1.7 |
| REVENUE | \$ 164,944 | \$ 149,093 | 10.6 | \$ 1,881,652 | \$ 1,838,038 | 2.4 |
| REV/PC. | \$ 1.7457 | \$ 1.6437 | 6.2 | \$ 1.9293 | \$ 1.9165 | 0.7 |
| INTERNATIONAL | | | | | | |
| VOLUME | 62,464 | 60,297 | 3.6 | 725,173 | 716,216 | 1.3 |
| REVENUE | \$ 124,006 | \$ 128,015 | - 3.1 | \$ 1,567,774 | \$ 1,481,579 | 5.8 |
| REV/PC. | \$ 1.9852 | \$ 2.1231 | - 6.5 | \$ 2.1619 | \$ 2.0686 | 4.5 |
| ALL OTHER | | | | | | |
| VOLUME | 108,192 | 46,243 | 134.0 | 980,718 | 583,613 | 68.0 |
| ALL MAIL | | | | | | |
| VOLUME | 16,065,685 | 16,237,164 | - 1.1 | 177,383,604 | 176,061,466 | 0.8 |
| REVENUE | \$ 5,207,844 | \$ 5,012,490 | 3.9 | \$ 57,617,039 | \$ 55,569,728 | 3.7 |
| REV/PC. | \$ 0.3242 | \$ 0.3087 | 5.0 | \$ 0.3248 | \$ 0.3156 | 2.9 |

NOTE: Totals may not sum due to rounding.

When interpreting RPW SPLY changes under monthly reporting, users must factor in the number and composition of business days in the relevant time periods.

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.

REVENUE BY SOURCE
July 2006 - FY 2006
(\$ Millions)

| Current Period | | | | Year-to-Date | | |
|--------------------------|--------------------------|------------|---|---------------------------|---------------------------|------------|
| Actual | SPLY | % SPLY | | Actual | SPLY | % SPLY |
| | | | Operating Revenue: | | | |
| \$ 1,907.2 | \$ 1,877.0 | 1.6 | Metered Postage | \$ 20,782.6 | \$ 20,505.3 | 1.4 |
| 784.9 | 786.0 | - 0.1 | Stamps and Stamped Paper | 9,289.3 | 9,302.9 | - 0.1 |
| 1,411.8 | 1,347.8 | 4.7 | Permit Imprint | 15,466.4 | 14,658.1 | 5.5 |
| 151.7 | 163.0 | - 6.9 | Periodicals & Standard | 1,811.6 | 1,793.9 | 1.0 |
| 59.6 | 65.2 | - 8.6 | Official Mail | 699.6 | 681.7 | 2.6 |
| 923.7 | 801.3 | 15.3 | Presort First-Class & Package Svc./Permit Imprint | 9,646.2 | 8,669.6 | 11.3 |
| 69.2 | 66.3 | 4.4 | Box Rents | 675.8 | 657.5 | 2.8 |
| 16.4 | 17.0 | - 3.5 | Money Order Fees | 175.6 | 173.4 | 1.3 |
| <u>137.6</u> | <u>133.9</u> | 2.8 | Other | <u>1,744.8</u> | <u>1,674.4</u> | 4.2 |
| \$ 5,462.1 | \$ 5,257.5 | 3.9 | Subtotal | \$ 60,291.9 | \$ 58,116.8 | 3.7 |
| <u>14.2</u> | <u>8.4</u> | 69.0 | Government Appropriations | <u>135.9</u> | <u>80.8</u> | 68.2 |
| \$ 5,476.3 | \$ 5,265.9 | 4.0 | Total Operating Revenue | \$ 60,427.8 | \$ 58,197.6 | 3.8 |
| <u>17.6</u> | <u>9.3</u> | 89.2 | Investment Income | <u>133.6</u> | <u>66.8</u> | 100.0 |
| <u>\$ 5,493.9</u> | <u>\$ 5,275.2</u> | 4.1 | Total Revenue | <u>\$ 60,561.4</u> | <u>\$ 58,264.4</u> | 3.9 |

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

REVENUE BY CATEGORY
July 2006 - FY 2006
(\$ Millions)

| Current Period | | | | Year-to-Date | | |
|-------------------|-------------------|-----------------|--|--------------------|--------------------|-----------------|
| Actual | Budget | % Budget | | Actual | Budget | % Budget |
| | | | Commercial Revenue | | | |
| \$ 2,534.1 | \$ 2,520.1 | 0.6 | Permit Revenue | \$ 27,511.1 | \$ 26,953.4 | 2.1 |
| <u>1,616.2</u> | <u>1,654.1</u> | [- 2.3] | Other Commercial Accounts Revenue | <u>17,316.1</u> | <u>18,079.3</u> | [- 4.2] |
| \$ 4,150.3 | \$ 4,174.2 | [- 0.6] | Total Commercial Revenue | \$ 44,827.2 | \$ 45,032.7 | [- 0.5] |
| | | | Retail Revenue | | | |
| 919.1 | 962.8 | [- 4.5] | Retail Postage Revenue | 10,997.0 | 11,062.9 | [- 0.6] |
| 103.6 | 95.9 | 8.0 | Retail Services Revenue | 1,052.2 | 1,031.0 | 2.1 |
| 17.2 | 14.0 | 22.9 | Retail Products Revenue | 171.4 | 159.4 | 7.5 |
| <u>251.6</u> | <u>214.6</u> | 17.2 | Other Retail Channels Revenue | <u>2,796.7</u> | <u>2,222.7</u> | 25.8 |
| \$ 1,291.5 | \$ 1,287.3 | 0.3 | Total Retail Revenue | \$ 15,017.3 | \$ 14,476.0 | 3.7 |
| \$ 5,441.8 | \$ 5,461.5 | [- 0.4] | Total Commercial & Retail Revenue | \$ 59,844.5 | \$ 59,508.7 | 0.6 |
| 20.3 | 26.2 | [- 22.5] | Other Income | 447.4 | 413.3 | 8.3 |
| <u>14.2</u> | <u>11.9</u> | 19.3 | Government Appropriations | <u>135.9</u> | <u>127.5</u> | 6.6 |
| \$ 5,476.3 | \$ 5,499.6 | [- 0.4] | Total Operating Revenue | \$ 60,427.8 | \$ 60,049.5 | 0.6 |
| <u>17.6</u> | <u>19.8</u> | [- 11.1] | Investment Income | <u>133.6</u> | <u>148.3</u> | [- 9.9] |
| \$ 5,493.9 | \$ 5,519.4 | [- 0.5] | Total Revenue | \$ 60,561.4 | \$ 60,197.8 | 0.6 |

[]=Unfavorable variance to budget

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

EXPENSE ANALYSIS
July 2006 - FY 2006
(\$ Millions)

| Current Period | | | | | | | Year-to-Date | | | | | |
|------------------------|-------------------|------------------|---------------|-------------------|---------------|---|--------------------|--------------------|-------------------|---------------|--------------------|---------------|
| Actual | Budget | Var. to Budget | % Budget | SPLY | % SPLY | | Actual | Budget | Var. to Budget | % Budget | SPLY | % SPLY |
| \$ 4,502.3 | \$ 4,500.6 | [\$ 1.7] | [0.0] | \$ 4,376.9 | 2.9 | Personnel Compensation | \$ 46,506.6 | \$ 46,069.0 | [\$ 437.6] | [0.9] | \$ 44,888.3 | 3.6 |
| Non-Personnel Expense: | | | | | | | | | | | | |
| 499.8 | 484.9 | [14.9] | [3.1] | 426.7 | 17.1 | Transportation | 4,972.0 | 4,918.8 | [53.2] | [1.1] | 4,480.2 | 11.0 |
| 207.1 | 195.2 | [11.9] | [6.1] | 204.9 | 1.1 | Supplies & Services | 2,042.1 | 2,067.5 | - 25.4 | - 1.2 | 1,930.5 | 5.8 |
| <u>534.7</u> | <u>538.1</u> | <u>- 3.4</u> | <u>- 0.6</u> | <u>497.4</u> | <u>7.5</u> | Other | <u>5,522.9</u> | <u>5,652.0</u> | <u>- 129.1</u> | <u>- 2.3</u> | <u>5,283.9</u> | <u>4.5</u> |
| \$ 1,241.6 | \$ 1,218.2 | [\$ 23.4] | [1.9] | \$ 1,128.9 | 10.0 | Subtotal | \$ 12,537.0 | \$ 12,638.3 | \$ - 101.3 | - 0.8 | \$ 11,694.6 | 7.2 |
| \$ 5,743.9 | \$ 5,718.8 | [\$ 25.1] | [0.4] | \$ 5,505.8 | 4.3 | Total Operating Expense | \$ 59,043.6 | \$ 58,707.3 | [\$ 336.3] | [0.6] | \$ 56,582.9 | 4.3 |
| 0.0 | 0.1 | - 0.1 | - 100.0 | - | NM | Interest Expense | 1.4 | 2.2 | - 0.8 | - 36.4 | 1.5 | - 6.7 |
| <u>17.7</u> | <u>21.8</u> | <u>- 4.1</u> | <u>-</u> | <u>20.7</u> | <u>- 14.5</u> | Interest on Deferred Retirement Obligations | <u>177.1</u> | <u>218.0</u> | <u>- 40.9</u> | <u>-</u> | <u>221.4</u> | <u>- 20.0</u> |
| \$ 5,761.6 | \$ 5,740.7 | [\$ 20.9] | [0.4] | \$ 5,526.5 | 4.3 | Total Expense | \$ 59,222.1 | \$ 58,927.5 | [\$ 294.6] | [0.5] | \$ 56,805.8 | 4.3 |

[]=Unfavorable variance to budget

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

ANALYSIS OF OPERATING EXPENSES
Personnel Compensation
July 2006 - FY 2006
(\$ Millions)

| Current Period | | | | | | | Year-to-Date | | | | | | |
|-------------------|-------------------|-----------------|---------------|-------------------|------------|--------------------------------------|--------------------|--------------------|-------------------|---------------|--------------------|------------|--|
| Actual | Budget | Var. to Budget | % Budget | SPLY | % SPLY | Total Compensation | Actual | Budget | Var. to Budget | % Budget | SPLY | % SPLY | |
| \$ 35.0 | \$ 34.2 | [\$ 0.7] | [2.1] | \$ 34.0 | 2.9 | Operations: | \$ 376.7 | \$ 358.3 | [\$ 18.4] | [5.1] | \$ 349.8 | 7.7 | |
| 927.1 | 916.6 | [10.5] | [1.1] | 922.7 | 0.5 | -Support | 9,821.0 | 9,592.8 | [228.2] | [2.4] | 9,607.0 | 2.2 | |
| 458.2 | 459.8 | - 1.6 | - 0.4 | 428.3 | 7.0 | -Mail Processing | 4,557.1 | 4,561.6 | - 4.5 | - 0.1 | 4,243.4 | 7.4 | |
| 1,402.2 | 1,399.0 | [3.2] | [0.2] | 1,377.4 | 1.8 | -Rural Delivery | 14,384.9 | 14,239.7 | [145.2] | [1.0] | 13,935.3 | 3.2 | |
| 101.1 | 99.3 | [1.7] | [1.7] | 97.1 | 4.1 | -City Delivery | 1,038.8 | 1,025.2 | [13.6] | [1.3] | 995.5 | 4.4 | |
| 256.7 | 261.3 | - 4.6 | - 1.8 | 245.6 | 4.5 | -Vehicles Services | 2,618.7 | 2,666.7 | - 47.9 | - 1.8 | 2,507.8 | 4.4 | |
| 661.2 | 657.7 | [3.5] | [0.5] | 644.3 | 2.6 | -Plant & Equip Maint | 6,960.3 | 6,802.3 | [158.0] | [2.3] | 6,709.2 | 3.7 | |
| 17.4 | 19.1 | - 1.7 | - 8.7 | 17.1 | 1.9 | -Customer Services | 181.8 | 202.6 | - 20.7 | - 10.2 | 174.6 | 4.2 | |
| 28.0 | 29.6 | - 1.7 | - 5.6 | 30.5 | - 8.4 | Finance | 299.2 | 308.5 | - 9.3 | - 3.0 | 316.4 | - 5.4 | |
| 42.1 | 43.5 | - 1.4 | - 3.3 | 40.8 | 3.0 | Human Resources | 444.8 | 452.3 | - 7.5 | - 1.7 | 427.2 | 4.1 | |
| 207.6 | 206.8 | [0.8] | [0.4] | 199.0 | 4.3 | Customer Service & Sales | 2,158.9 | 2,158.4 | [0.5] | [0.0] | 2,093.2 | 3.1 | |
| 100.2 | 106.1 | - 5.9 | - 5.6 | 93.9 | 6.7 | Administration - Field | 1,054.5 | 1,065.4 | - 10.9 | - 1.0 | 1,106.5 | - 4.7 | |
| \$ 4,236.5 | \$ 4,233.1 | [\$ 3.4] | [0.1] | \$ 4,130.8 | 2.6 | Total Salaries & Benefits | \$ 43,896.8 | \$ 43,433.8 | [\$ 463.0] | [1.1] | \$ 42,465.9 | 3.4 | |
| 103.9 | 99.7 | [4.2] | [4.2] | 95.8 | 8.4 | Workers' Compensation | 1,038.7 | 997.2 | [41.5] | [4.2] | 953.7 | 8.9 | |
| 8.7 | 6.4 | [2.2] | [34.8] | 4.3 | 103.1 | Unemployment Compensation | 63.1 | 52.0 | [11.1] | [21.3] | 38.6 | 63.6 | |
| 1.9 | 2.4 | - 0.5 | - 19.0 | 3.3 | - 41.1 | Deferred Retirement Cost | 19.6 | 24.0 | - 4.4 | - 18.5 | 20.4 | - 4.1 | |
| 140.6 | 146.7 | - 6.1 | - 4.2 | 131.1 | 7.3 | Annuitant Health Benefits | 1,376.2 | 1,411.4 | - 35.1 | - 2.5 | 1,253.0 | 9.8 | |
| 10.7 | 12.3 | - 1.6 | - 13.0 | 11.6 | - 8.1 | Other Compensation | 112.2 | 150.5 | - 38.3 | - 25.5 | 156.7 | - 28.4 | |
| \$ 4,502.3 | \$ 4,500.7 | [\$ 1.6] | [0.0] | \$ 4,376.9 | 2.9 | Total Personnel Compensation | \$ 46,506.6 | \$ 46,068.9 | [\$ 437.7] | [1.0] | \$ 44,888.3 | 3.6 | |

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

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

ANALYSIS OF NON-PERSONNEL EXPENSES
July 2006 - FY 2006
(\$ Millions)

| Current Period | | | | | | | Year-to-Date | | | | | |
|-------------------|-------------------|----------------|---------------|-------------------|-------------|-------------------------------------|--------------------|--------------------|-------------------|--------------|--------------------|------------|
| Actual | Budget | Var. to Budget | % Budget | SPLY | % SPLY | Description | Actual | Budget | Var. to Budget | % Budget | SPLY | % SPLY |
| \$ 499.8 | \$ 484.9 | [\$ 14.9] | [3.1] | \$ 426.7 | 17.1 | Transportation | \$ 4,972.0 | \$ 4,918.8 | [\$ 53.2] | [1.1] | \$ 4,480.2 | 11.0 |
| 207.1 | 195.2 | [11.9] | [6.1] | 204.9 | 1.1 | Supplies & Services | 2,042.1 | 2,067.5 | - 25.4 | - 1.2 | 1,930.5 | 5.8 |
| 171.5 | 183.0 | - 11.5 | - 6.3 | 175.5 | - 2.3 | Depreciation | 1,771.4 | 1,823.3 | - 51.9 | - 2.8 | 1,728.8 | 2.5 |
| 83.5 | 85.0 | - 1.5 | - 1.8 | 81.8 | 2.0 | Rent | 851.8 | 860.1 | - 8.3 | - 1.0 | 853.1 | - 0.2 |
| 51.9 | 47.1 | [4.8] | [10.3] | 46.8 | 11.0 | Utilities & Heating Fuel | 543.1 | 542.5 | [0.6] | [0.1] | 467.5 | 16.2 |
| 37.1 | 36.7 | [0.4] | [1.2] | 34.8 | 6.6 | Rural Carrier Equip Maint Allowance | 384.6 | 387.3 | - 2.6 | - 0.7 | 357.9 | 7.5 |
| 63.9 | 44.6 | [19.3] | [43.3] | 45.9 | 39.3 | Vehicle Maintenance Services | 582.3 | 525.9 | [56.4] | [10.7] | 472.1 | 23.3 |
| 27.6 | 38.7 | - 11.1 | - 28.7 | 24.7 | 11.8 | Information Technology | 288.9 | 424.9 | - 136.0 | - 32.0 | 276.3 | 4.5 |
| 18.7 | 18.2 | [0.5] | [2.6] | 19.1 | - 2.0 | Building Projects Expensed | 183.3 | 190.8 | - 7.5 | - 3.9 | 190.0 | - 3.5 |
| 10.7 | 7.8 | [2.9] | [37.0] | 7.0 | 53.4 | Contract Job Cleaners | 81.7 | 76.3 | [5.4] | [7.1] | 72.6 | 12.5 |
| 18.1 | 18.0 | [0.1] | [0.8] | 17.9 | 1.2 | Travel & Relocation | 201.7 | 185.0 | [16.7] | [9.0] | 189.3 | 6.5 |
| 19.5 | 17.7 | [1.8] | [10.2] | 18.1 | 7.3 | Communications | 208.5 | 175.4 | [33.1] | [18.9] | 185.6 | 12.3 |
| 6.0 | 6.6 | - 0.7 | - 9.9 | 6.1 | - 1.8 | Contract Stations | 61.8 | 67.6 | - 5.8 | - 8.5 | 62.2 | - 0.6 |
| 1.6 | 2.2 | - 0.6 | - 27.3 | 1.2 | 37.0 | Printing | 18.8 | 21.9 | - 3.1 | - 14.3 | 19.2 | - 2.2 |
| 3.3 | 5.7 | - 2.3 | - 41.4 | 4.4 | - 24.2 | Training | 40.6 | 59.2 | - 18.6 | - 31.5 | 47.3 | - 14.1 |
| 2.0 | 3.4 | - 1.4 | - 40.9 | 2.4 | - 15.9 | Carfare & Tolls | 23.4 | 27.4 | - 4.0 | - 14.6 | 25.0 | - 6.1 |
| 0.8 | 1.0 | - 0.2 | - 21.2 | 0.8 | - 7.0 | Vehicle Hire | 13.1 | 12.7 | [0.3] | [2.7] | 12.3 | 5.9 |
| 2.5 | 3.3 | - 0.7 | - 22.9 | 4.0 | - 36.4 | Accident Costs | 44.2 | 39.8 | [4.4] | [11.1] | 40.6 | 9.0 |
| 15.9 | 19.1 | - 3.2 | - 16.6 | 6.9 | 129.9 | Miscellaneous | 223.7 | 232.0 | - 8.3 | - 3.6 | 284.2 | - 21.3 |
| \$ 1,241.6 | \$ 1,218.2 | [23.4] | [1.9] | \$ 1,129.0 | 10.0 | Total Non-Personnel Expenses | \$ 12,537.0 | \$ 12,638.3 | \$ - 101.4 | - 0.8 | \$ 11,694.6 | 7.2 |

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

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

STATEMENT OF FINANCIAL POSITION
July 2006 - FY 2006
(\$ Millions)

| Assets | July 31 , 2006 | July 31 , 2005 | September 30, 2005* |
|---|-------------------------|-------------------------|-------------------------|
| Current Assets: | | | |
| Cash and cash equivalents _1/ | \$ 2,420 | \$ 2,008 | \$ 930 |
| Receivables: | | | |
| Foreign countries | 577 | 631 | 590 |
| U.S. Government | 182 | 274 | 280 |
| Other | <u>192</u> | <u>180</u> | <u>188</u> |
| Receivables before allowances | 951 | 1,085 | 1,058 |
| Less allowances | <u>46</u> | <u>114</u> | <u>50</u> |
| Total receivables, net | 905 | 971 | 1,008 |
| | | | |
| Supplies, advances and prepayments | <u>187</u> | <u>177</u> | <u>200</u> |
| Total Current Assets | 3,512 | 3,156 | 2,138 |
| | | | |
| Other Assets, principally revenue forgone appropriations receivable | 397 | 361 | 376 |
| | | | |
| Property and Equipment, at Cost: | | | |
| Buildings | 21,062 | 20,368 | 20,480 |
| Equipment | 19,530 | 18,558 | 18,664 |
| Land | 2,888 | 2,807 | 2,878 |
| Leasehold improvements | <u>1,224</u> | <u>1,143</u> | <u>1,172</u> |
| | 44,704 | 42,876 | 43,194 |
| Less allowances for depreciation and amortization | <u>23,732</u> | <u>22,175</u> | <u>22,400</u> |
| | 20,972 | 20,701 | 20,794 |
| | | | |
| Construction in progress | <u>1,866</u> | <u>1,795</u> | <u>1,895</u> |
| Total property and equipment, net | 22,838 | 22,496 | 22,689 |
| | | | |
| Total Assets | <u>\$ 26,747</u> | <u>\$ 26,013</u> | <u>\$ 25,203</u> |

_1/ Includes securities with maturities of 90 days or less in accordance with Statement of Financial Accounting Standards (SFAS) No. 95.

* Audited year-end data.

Certain reclassifications have been made to previously reported Balance Sheet amounts.

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

STATEMENT OF FINANCIAL POSITION

July 2006 - FY 2006

(\$ Millions)

| Liabilities and Net Capital | July 31 , 2006 | July 31 , 2005 | September 30, 2005* |
|--|-------------------|-------------------|------------------------|
| Current Liabilities: | | | |
| Compensation and benefits | \$ 2,554 | \$ 2,836 | \$ 2,852 |
| Estimated prepaid postage | 1,221 | 1,258 | 1,200 |
| Payables and accrued expenses: | | | |
| Commercial vendors & accrued expenses | 1,169 | 1,299 | 1,568 |
| Foreign countries | 563 | 739 | 688 |
| U.S. government | 87 | 57 | 76 |
| Total payables and accrued expenses | <u>1,819</u> | <u>2,095</u> | <u>2,332</u> |
| Customer deposit accounts | 1,677 | 1,651 | 1,720 |
| Outstanding postal money orders | 823 | 830 | 830 |
| Prepaid box rent & other deferred revenue | 426 | 424 | 477 |
| Total Current Liabilities | <u>8,520</u> | <u>9,094</u> | <u>9,411</u> |
| Non-Current Liabilities: | | | |
| Workers' compensation costs | 7,672 | 7,597 | 6,695 |
| Employees' accumulated leave | 2,126 | 2,077 | 2,016 |
| Deferred revenue | 692 | 772 | 692 |
| Long-term portion capital lease obligations | 667 | 657 | 644 |
| Other | 330 | 427 | 369 |
| Total Non-Current Liabilities | <u>11,487</u> | <u>11,530</u> | <u>10,416</u> |
| Total Liabilities | <u>20,007</u> | <u>20,624</u> | <u>19,827</u> |
| Net Capital: | | | |
| Capital contributions of the U.S. government | 3,034 | 3,034 | 3,034 |
| Retained earnings since reorganization | 3,706 | 2,355 | 2,342 |
| Total Net Capital | <u>6,740</u> | <u>5,389</u> | <u>5,376</u> |
| Total Liabilities and Net Capital | <u>\$ 26,747</u> | <u>\$ 26,013</u> | <u>\$ 25,203</u> |

* Audited year-end data.

Certain reclassifications have been made to previously reported Balance Sheet amounts.

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

STATEMENT OF CASH FLOWS
Fiscal Year 2006 through July 31, 2006
(\$ Millions)

| | July 31, 2006 | July 31, 2005 | September 30, 2005* |
|---|------------------|------------------|------------------------|
| Cash flows from operating activities: | | | |
| Net Income | \$ 1,364 | \$ 1,458 | \$ 1,445 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization | 1,757 | 1,717 | 2,089 |
| Loss on disposals of property and equipment, net | 8 | 4 | 5 |
| Increase in revenue forgone appropriations receivable | (21) | - | (15) |
| Increase (decrease) in workers' compensation liability | 977 | 946 | (58) |
| Increase in employees' accumulated leave | 110 | 71 | 10 |
| Increase (decrease) in long-term portion capital lease obligation | 23 | 5 | (8) |
| Increase in non-current deferred revenue | - | 484 | 288 |
| (Decrease) increase in other non-current liabilities | (39) | 46 | (399) |
| Changes in current assets and liabilities: | | | |
| Decrease in receivables, net | 103 | 53 | 16 |
| Decrease in supplies, advances and prepayments | 13 | 43 | 20 |
| (Decrease) increase in compensation and benefits | (298) | 196 | 314 |
| Increase (decrease) in estimated prepaid postage | 21 | 2 | (56) |
| Decrease in payables and accrued expenses | (512) | (481) | (199) |
| (Decrease) increase in customers' deposit accounts | (43) | 45 | 114 |
| Decrease in outstanding postal money orders | (7) | 63 | 63 |
| (Decrease) increase in prepaid box rent & other deferred revenue | (51) | (1) | 52 |
| Net cash provided by operating activities | 3,405 | 4,651 | 3,681 |
| Cash flows from investing activities: | | | |
| Purchase of property and equipment | (1,935) | (1,745) | (2,317) |
| Proceeds from sale of property and equipment | 20 | 25 | 31 |
| Net cash used in investing activities | (1,915) | (1,720) | (2,286) |
| Cash flows from financing activities: | | | |
| U.S. government appropriation - received | - | - | 503 |
| U.S. government appropriation - expended | - | - | (45) |
| Payments on debt | - | (1,800) | (1,800) |
| Net cash used in financing activities | - | (1,800) | (1,342) |
| Net increase (decrease) in cash and cash equivalents | 1,490 | 1,131 | 53 |
| Cash and cash equivalents at beginning of year | 930 | 877 | 877 |
| Cash and cash equivalents at end of period | \$ 2,420 | \$ 2,008 | \$ 930 |

* Audited year-end data.

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

CAPITAL INVESTMENTS
 July 2006 - FY 2006
 (\$ Millions)

| MAJOR CATEGORIES | COMMITMENTS | | | CASH OUTLAYS | | |
|---------------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| | Year-to-Date | | | Year-to-Date | | |
| | ACTUAL | PLAN | SPLY | ACTUAL | PLAN | SPLY |
| CONSTRUCTION AND BUILDING PURCHASE | \$ 213.5 | \$ 150.7 | \$ 165.0 | \$ 137.8 | \$ 166.9 | \$ 187.4 |
| BUILDING IMPROVEMENTS | 342.2 | 398.1 | 246.8 | 434.4 | 387.0 | 345.6 |
| MAIL PROCESSING EQUIPMENT | 490.6 | 411.6 | 298.4 | 841.5 | 749.6 | 575.5 |
| VEHICLES | 16.3 | 16.5 | 239.5 | 194.2 | 86.5 | 130.4 |
| RETAIL EQUIPMENT | [-0.3] | 0.4 | 1.0 | 0.5 | 26.5 | 56.4 |
| POSTAL SUPPORT EQUIPMENT | 115.5 | 156.8 | 559.4 | 326.6 | 387.1 | 449.7 |
| TOTAL COMMITMENTS/CASH OUTLAYS | \$ 1,177.8 | \$ 1,134.1 | \$ 1,510.1 | \$ 1,935.0 | \$ 1,803.6 | \$ 1,744.9 |

Note: Totals may not sum due to rounding.

RESOURCES ON ORDER
 (\$ Millions)

| MAJOR CATEGORIES | July 31, 2006 | September 30, 2005 |
|------------------------------------|-------------------|--------------------|
| CONSTRUCTION AND BUILDING PURCHASE | \$ 215.4 | \$ 149.0 |
| BUILDING IMPROVEMENTS | 312.5 | 419.5 |
| MAIL PROCESSING EQUIPMENT | 1,664.4 | 2,017.9 |
| VEHICLES | 24.8 | 202.7 |
| RETAIL EQUIPMENT | 37.7 | 38.5 |
| POSTAL SUPPORT EQUIPMENT | 374.8 | 579.8 |
| TOTAL RESOURCES ON ORDER | \$ 2,629.6 | \$ 3,407.4 |

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

WORKHOURS & OVERTIME/SICK LEAVE RATIOS

July 2006 - FY 2006

(Data in Thousands)

| Current Period | | | | | Year-to-Date | | | | | |
|----------------|----------------|----------|---------|--------|--------------------------|-----------|----------------|----------|-----------|--------|
| Actual | Var. to Budget | % Budget | SPLY * | % SPLY | | Actual | Var. to Budget | % Budget | SPLY * | % SPLY |
| | | | | | <u>Total Workhours</u> | | | | | |
| 740 | [1] | [0.1] | 739 | 0.1 | Operations: | 8,201 | [380] | [4.9] | 7,920 | 3.5 |
| 25,459 | [424] | [1.7] | 26,083 | -2.4 | -Support | 278,441 | [9,469] | [3.5] | 281,267 | -1.0 |
| 15,427 | [51] | [0.3] | 14,898 | 3.6 | -Mail Processing | 153,844 | [1,168] | [0.8] | 148,523 | 3.6 |
| 37,480 | -87 | -0.2 | 37,662 | -0.5 | -Rural Delivery | 389,605 | [3,547] | [0.9] | 391,520 | -0.5 |
| 2,531 | [7] | [0.3] | 2,493 | 1.5 | -City Delivery | 26,716 | [177] | [0.7] | 26,515 | 0.8 |
| 6,454 | -228 | -3.4 | 6,363 | 1.4 | -Vehicles Services | 67,600 | -1,836 | -2.6 | 67,285 | 0.5 |
| 17,943 | -73 | -0.4 | 18,105 | -0.9 | -Plant & Equip Maint | 194,485 | [4,338] | [2.3] | 194,658 | -0.1 |
| 383 | -66 | -14.6 | 389 | -1.5 | -Customer Services | 4,102 | -551 | -11.8 | 4,115 | -0.3 |
| 605 | -47 | -7.2 | 685 | -11.7 | Finance | 6,723 | -211 | -3.0 | 7,428 | -9.5 |
| 1,032 | -50 | -4.6 | 1,030 | 0.2 | Human Resources | 11,268 | -260 | -2.3 | 11,216 | 0.5 |
| 5,280 | -48 | -0.9 | 5,240 | 0.8 | Customer Service & Sales | 55,649 | [63] | [0.1] | 56,172 | -0.9 |
| 1,667 | -142 | -7.9 | 1,780 | -6.4 | Administration | 17,835 | -292 | -1.6 | 20,590 | -13.4 |
| | | | | | Other | | | | | |
| 115,002 | -259 | -0.2 | 115,468 | -0.4 | <u>Total Workhours</u> | 1,214,470 | [15,992] | [1.3] | 1,217,210 | -0.2 |

| Overtime | | | Overtime | | |
|----------|--------|------|----------|--------|------|
| Actual | Budget | SPLY | Actual | Budget | SPLY |

| | | | | | | |
|-------|------|-------|----------------------------------|-------|------|-------|
| 11.4% | 8.5% | 10.8% | Overtime Ratio Per 100 Workhours | 11.3% | 8.7% | 10.7% |
|-------|------|-------|----------------------------------|-------|------|-------|

| Sick Leave | | Sick Leave | |
|------------|------|------------|------|
| Actual | SPLY | Actual | SPLY |

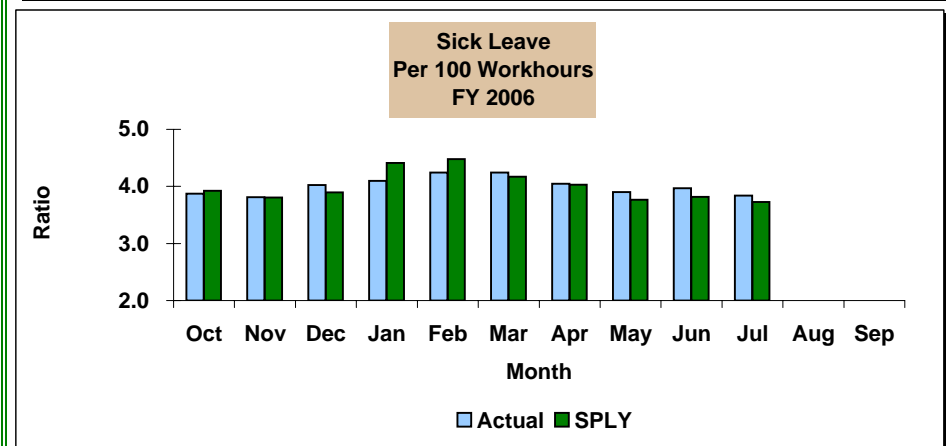
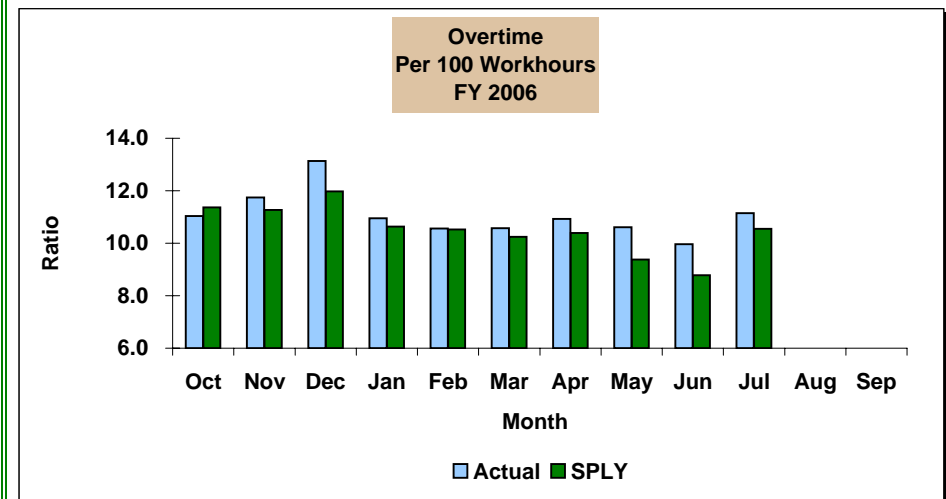
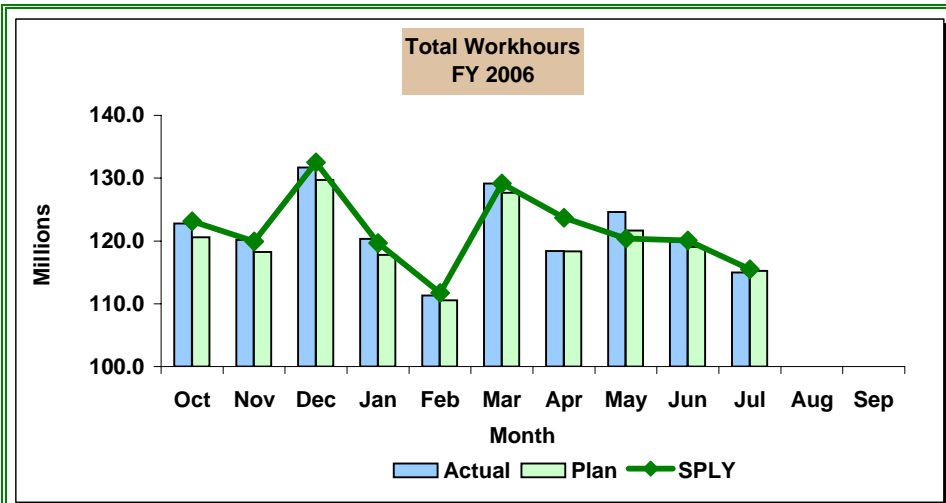
| | | | | |
|------|------|------------------------------------|------|------|
| 3.8% | 3.8% | Sick Leave Ratio Per 100 Workhours | 4.0% | 4.0% |
|------|------|------------------------------------|------|------|

[]=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.

July 2006 - FY 2006

Information: For the month, there were the same number of delivery days and business weekdays when compared to same period last year (SPLY). Year-to-date (YTD), there are an equal number of delivery days and business days compared to last year.

Analysis of the Financial and Operating Statements

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

For July, Total Revenue was \$26 million or 0.5% under plan, and \$219 million or 4.1% above SPLY. Commercial Revenue was under plan by \$24 million or 0.6% and Retail Revenue was above plan by \$4 million or 0.3%. In July, Total Commercial Revenue and Retail Revenue, combined, were \$221 million more than SPLY. Most of the increase in revenue to SPLY for July was reflected in Presort First Class and Package Services/Permit Imprint, Permit Imprint and Meter Postage. Combined these revenue sources were \$216.6 million above SPLY.

Year-to-date, Total Revenue is \$364 million or 0.6% above plan with the largest contributor being Retail Revenue at \$541 million or 3.7% more than plan. Year-to-date, Total Revenue is \$2.3 billion above SPLY. Primary contributors to the increase over SPLY are Permit Revenue at \$1.8 billion more and Other Retail Channels Revenue at \$752 million, or 36.8% more than SPLY.

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

For July, Total Expenses were \$21 million above plan. Personnel costs were \$1.7 million above plan and non-personnel costs were above plan by \$23.4 million or 1.9%. Compared to SPLY, this month's Total Expenses were increased by \$235 million or 4.3%. The non-personnel factors contributing to this increase over SPLY include contract job cleaners, information technology, vehicle maintenance, and printing costs. The personnel factors contributing to this month's increase over SPLY include unemployment compensation and workers compensation costs.

Year-to-date, Total Expenses were \$295 million or 0.5% above plan. Personnel costs are \$438 million or 0.9% above plan while non-personnel expenses are \$101 million or 0.8% below plan. The largest contributors to the non-personnel plan underrun are Information Technology at \$136 million or 32.0% below plan, Training at \$19 million or 32% below plan. Year-to-date, Total Expenses are \$2.4 billion or 4.3% above SPLY.

July 2006 - FY 2006

Analysis of the Financial and Operating Statements (Continued)

Mail Volume and Revenue - Page 3

Total Mail Volume for July FY 2006 was 171 million pieces or 1.1% below same period last year. Four of the eight major mail categories posted below SPLY volumes for the month. Standard Mail and First-Class Mail volumes combined were 163 million below their July 2005 levels.

Year-to-date, Total Mail Volume is 0.8% or 1.3 billion pieces above SPLY. The Priority Mail category experienced the most significant mail volume increase over SPLY, with a 4.9% or 36 million piece increase.

In July, Priority Mail and Package Services experienced an increase in both revenue and volume when compared to SPLY. Priority Mail's 1.8 million piece or 2.9% increase over SPLY's volume yielded a \$29 million or 8.8% increase in revenue. Additionally, Package Service's 3.8 million piece or 4.2% increase in SPLY volume resulted in a \$15.9 million or 10.6% increase in revenue.

Year-to-date, all eight major mail categories experienced a positive increase in revenues when compared to SPLY. Periodicals generated the smallest percentage revenue increase of 1.0%, which equates to \$17.8 million above SPLY. Priority Mail generated the highest revenue percentage increase of 9.3%, which generated \$358 million over SPLY.

Capital Investments - Pages 1 and 13

Year-to-date, the Fiscal Year 2006 Capital Commitments through July 2006 are \$1,178 million compared to a plan of \$1,134 million. This represents a plan overrun of about \$44 million.

Year-to-date, Cash Outlays are \$1,935 million versus a plan of \$1,804 million, representing a \$131 million plan overrun.

Workhours - Pages 1, 14 and 15

Total workhours for July 2006 were 259 thousand hours or 0.2% below plan, and 466 thousand hours or 0.4% below July 2005. Although Mail Processing workhours were 424 thousand hours, or 1.7% above plan, this month's overrun represents a 2.4%, or 624 thousand hours underrun when compared to SPLY. July's Customer Service workhours were 73 thousand hours, or 0.4% below plan and 162 thousand hours or 0.9% under SPLY. Delivery Service's actual workhours were slightly above plan by 51 thousand hours, or 0.3%, which yielded a 0.7% increase or 348 thousand hours over SPLY.

Year-to-date, total Workhours for July 2006 were 16 million hours or 1.3% above plan and 3 million hours or 0.2% below SPLY. The most significant plan overruns lie within Mail Processing workhours where 9 million hours were utilized above plan and in Customer Services where an additional 4.3 million hours were utilized above plan. Overall, Mail Processing workhours were 2.8 million hours or 1.0% below SPLY; Customer Service workhours were 0.2 million hours or 0.1% below SPLY, and Delivery Service workhours were 3.4 million hours or 0.6% above SPLY.