

***UNITED STATES
POSTAL SERVICE***

FINANCIAL & OPERATING STATEMENTS



**Accounting Period 7, PFY 2003
February 22 – March 21, 2003**

**Prepared by:
Financial Reporting and Analysis**

Highlights
Accounting Period 7, FY 2003
(Millions)

Accounting Period 7					
Actual	Budget	Var. to Budget	% Budget	SPLY*	% SPLY
\$ 5,416.5	\$ 5,645.0	[\$ - 228.5]	[- 4.0]	\$ 5,183.8	4.5
<u>5,376.1</u>	<u>5,443.6</u>	<u>- 67.5</u>	- 1.2	<u>5,274.7</u>	1.9
\$ 40.4	\$ 201.4	[\$ - 161.0]	-	\$ (- 90.9)	-
\$ 34.1	\$ 49.9	\$ - 15.8	- 31.7	\$ 35.6	- 4.2
117.1	117.2	- 0.1	- 0.1	121.6	- 3.7
15,870.6	16,381.7	[- 511.2]	[- 3.1]	15,974.6	- 0.7

Year-to-Date (September 7, 2002 - March 21, 2003)					
Actual	Budget	Var. to Budget	% Budget	SPLY *	% SPLY
\$ 38,190.6	\$ 39,009.9	[\$ - 819.3]	[- 2.1]	\$ 36,182.1	5.6
<u>36,505.0</u>	<u>37,638.9</u>	<u>- 1,133.9</u>	- 3.0	<u>36,163.3</u>	0.9
\$ 1,685.6	\$ 1,371.0	\$ 314.6	-	\$ 18.8	-
\$ 665.2	\$ 837.5	\$ - 172.3	- 20.6	\$ 592.9	12.2
808.5	814.8	- 6.3	- 0.8	844.0	- 4.2
112,052.6	113,935.8	[- 1,883.3]	[- 1.7]	111,415.1	0.6

[] = Unfavorable variance to budget

Note: Totals may not sum due to rounding.

Note: Mail Volume numbers are preliminary numbers and are subject to change.

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

Number Of:	Current Period	Last Period	SPLY
Post Offices	27,657	27,694	27,866
Postal Owned Vehicles In Use			
Administrative	5,569	5,409	5,584
Operations	201,136	201,115	203,381
Total Deliveries (000) **	140,424	140,281	138,619
City Delivery Routes	165,319	165,380	167,384
Rural Routes	69,488	69,489	69,604
Career Employees (Excludes Inspector General)	739,277	740,742	765,351
Casual Employees	20,097	19,819	23,063
Transitional Employees	13,394	13,757	12,529

** Beginning in Accounting Period 3, Fiscal Year 2003, this line has been modified to include all deliveries: city, rural, post office box and contracted highway deliveries. Prior year data has been restated.

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

Statement of Income & Expense
Accounting Period 7, FY 2003
(\$ Millions)

Current Period						Year-to-Date					
Actual	Budget	Var. to Budget	% Budget	SPLY*	% SPLY	Actual	Budget	Var. to Budget	% Budget	SPLY *	% SPLY
\$ 5,412.5	\$ 5,642.7	[\$ - 230.2]	[- 4.1]	\$ 5,180.3	4.5	\$ 38,163.3	\$ 38,990.3	[\$ - 827.0]	[- 2.1]	\$ 36,163.8	5.5
5,224.4	5,289.4	- 65.0	- 1.2	5,120.0	2.0	35,425.3	36,548.1	- 1,122.8	- 3.1	35,091.8	1.0
\$ 188.1	\$ 353.3	[\$ - 165.2]	-	\$ 60.3	-	\$ 2,738.0	\$ 2,442.2	\$ 295.8	-	\$ 1,072.0	-
4.0	2.3	1.7	71.9	3.5	14.3	27.3	19.6	7.7	39.3	18.3	49.0
- 27.9	- 30.4	2.5	- 8.3	- 28.6	- 2.3	- 212.9	- 224.0	11.1	- 4.9	- 188.7	12.8
- 123.8	- 123.8	0.0	0.0	- 126.1	- 1.8	- 866.8	- 866.8	0.0	0.0	- 882.8	- 1.8
\$ 40.4	\$ 201.4	[\$ - 161.0]	-	\$ (- 90.9)	-	\$ 1,685.6	\$ 1,371.0	\$ 314.6	-	\$ 18.8	-

[]=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 Notes to the Financial and Operating Statements beginning on page 16.

MAIL VOLUME - MAIL REVENUE

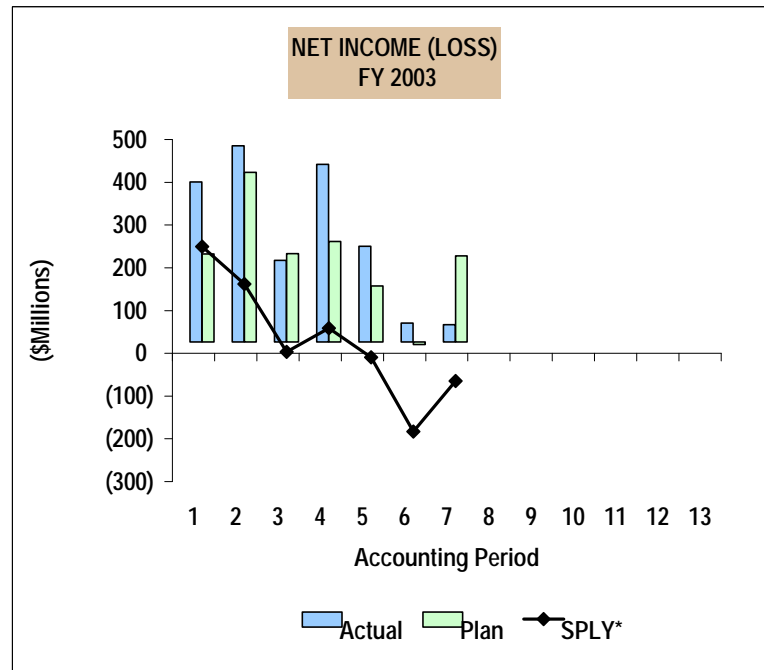
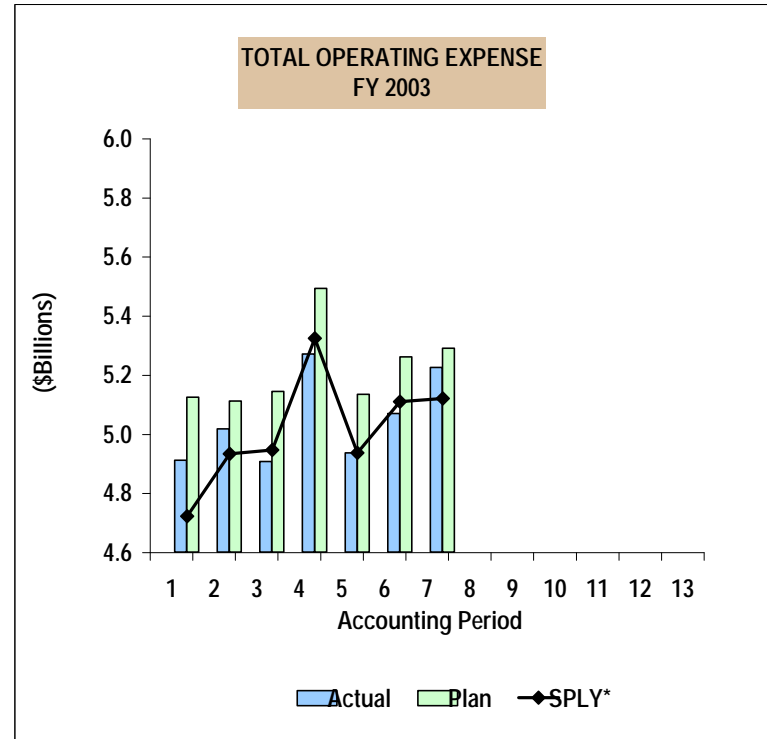
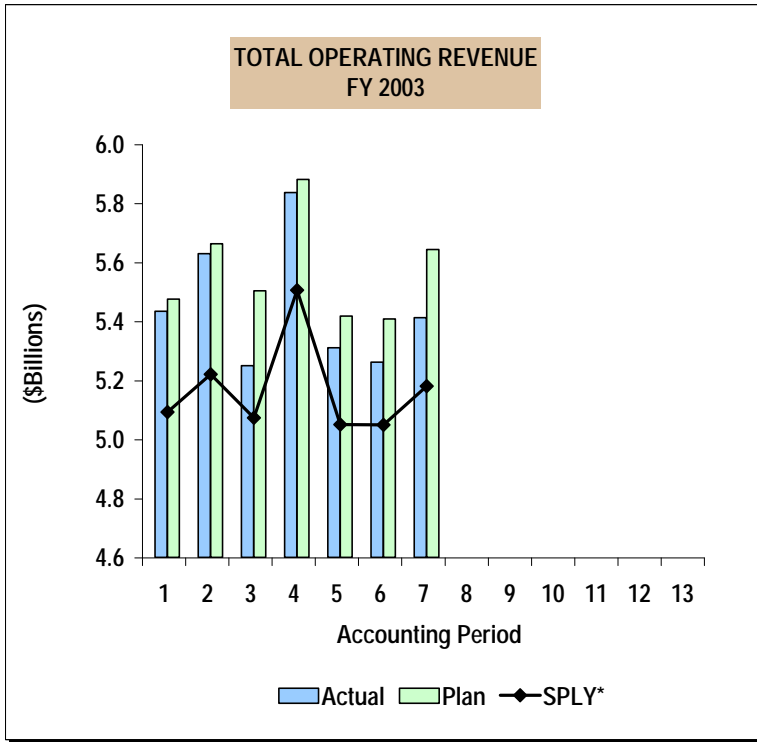
(Data in Thousands)

CATEGORY	CURRENT PERIOD			YEAR-TO-DATE		
	AP 07 FY 2003	AP 07 FY 2002	% SPLY	AP 07 FY 2003	AP 07 FY 2002	% SPLY
FIRST-CLASS						
VOLUME	7,759,310	7,989,513	- 2.9	55,068,036	56,336,390	- 2.3
REVENUE	\$ 2,902,591	\$ 2,823,709	2.8	\$ 20,629,480	\$ 19,732,992	4.5
REV/PC.	0.3741	0.3534	5.8	0.3746	0.3503	7.0
PRIORITY-MAIL						
VOLUME	69,112	81,414	- 15.1	488,757	570,649	- 14.4
REVENUE	\$ 352,651	\$ 366,912	- 3.9	\$ 2,594,498	\$ 2,670,863	- 2.9
REV/PC.	5.1026	4.5067	13.2	5.3084	4.6804	13.4
EXPRESS MAIL						
VOLUME	4,536	5,177	- 12.4	30,283	33,447	- 9.5
REVENUE	\$ 71,204	\$ 74,436	- 4.3	\$ 484,878	\$ 489,568	- 1.0
REV/PC.	15.6975	14.3782	9.2	16.0116	14.6371	9.4
PERIODICALS						
VOLUME	775,647	786,190	- 1.3	5,114,438	5,325,424	- 4.0
REVENUE	\$ 187,047	\$ 173,253	8.0	\$ 1,238,193	\$ 1,179,155	5.0
REV/PC.	0.2411	0.2204	9.4	0.2421	0.2214	9.3
STANDARD MAIL						
VOLUME	7,056,501	6,925,080	1.9	49,931,573	47,748,122	4.6
REVENUE	\$ 1,356,981	\$ 1,247,514	8.8	\$ 9,512,218	\$ 8,564,841	11.1
REV/PC.	0.1923	0.1801	6.7	0.1905	0.1794	6.2
PACKAGE SERVICES						
VOLUME	87,553	76,859	13.9	629,562	591,960	6.4
REVENUE	\$ 173,049	\$ 147,333	17.5	\$ 1,290,386	\$ 1,177,818	9.6
REV/PC.	1.9765	1.9169	3.1	2.0497	1.9897	3.0
INTERNATIONAL						
VOLUME	79,235	74,326	6.6	529,113	533,988	- 0.9
REVENUE	\$ 115,979	\$ 129,119	- 10.2	\$ 902,891	\$ 919,431	- 1.8
REV/PC.	1.4637	1.7372	- 15.7	1.7064	1.7218	- 0.9
ALL OTHER						
VOLUME	38,662	36,075	7.2	260,804	275,072	- 5.2
REVENUE	\$ 148	\$ 177	-	\$ 752	\$ 741	1.5
ALL MAIL						
VOLUME	15,870,558	15,974,633	- 0.7	112,052,567	111,415,052	0.6
REVENUE	\$ 5,159,649	\$ 4,962,453	4.0	\$ 36,653,297	\$ 34,735,410	5.5
REV/PC.	0.3251	0.3106	4.7	0.3271	0.3118	4.9

NOTE: Totals may not sum due to rounding.

NOTE: "This data reflects PRELIMINARY estimates of revenue, pieces and weight by mail class and are subject to change. Limits on available data and statistical variations due to sampling warrant that AP estimates be used with caution.

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



*SPLY data may differ from previous reports due to subsequent adjustments.
See accompanying Notes to the Financial and Operating Statements beginning on page 164 -

REVENUE BY SOURCE
Accounting Period 7, FY 2003
(\$ Millions)

Current Period				Year-to-Date		
Actual	SPLY*	% SPLY		Actual	SPLY*	% SPLY
			Operating Revenue:			
\$ 2,012.2	\$ 1,961.8	2.6	Metered Postage	\$ 14,092.1	\$ 13,582.6	3.8
892.2	873.2	2.2	Stamps and Stamped Paper	6,627.3	6,358.1	4.2
1,289.2	1,175.2	9.7	Permit Imprint	8,965.5	8,071.3	11.1
185.7	171.6	8.2	Periodicals & Standard	1,227.0	1,168.3	5.0
68.7	67.3	2.2	Official Mail	496.5	482.6	2.9
736.8	725.6	1.5	Presort First-Class & Package Svc./Permit Imprint	5,216.3	5,100.5	2.3
68.0	64.2	5.9	Box Rents	413.7	384.2	7.6
15.9	11.9	33.6	Money Order Fees	103.3	112.8	- 8.4
<u>141.3</u>	<u>125.8</u>	12.4	Other	<u>1,004.4</u>	<u>877.2</u>	14.5
\$ 5,410.0	\$ 5,176.6	4.5	Subtotal	\$ 38,146.1	\$ 36,137.6	5.6
			Government Appropriation:			
<u>2.5</u>	<u>3.7</u>	- 34.3	Revenue Forgone	<u>17.2</u>	<u>26.2</u>	- 34.3
\$ 5,412.5	\$ 5,180.3	4.5	Total Operating Revenue	\$ 38,163.3	\$ 36,163.8	5.5
<u>4.0</u>	<u>3.5</u>	14.3	Investment Income	<u>27.3</u>	<u>18.3</u>	49.0
\$ 5,416.5	\$ 5,183.8	4.5	Total Revenue	\$ 38,190.6	\$ 36,182.1	5.6

Note: Totals may not sum due to rounding.

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

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

REVENUE BY CATEGORY
Accounting Period 7, FY 2003
(\$ Millions)

Current Period				Year-to-Date		
Actual	Budget	% Budget		Actual	Budget	% Budget
			Commercial Revenue			
\$ 2,259.7	\$ 2,366.8	[- 4.5]	Permit Revenue	\$ 15,760.6	\$ 16,034.4	[- 1.7]
<u>1,774.4</u>	<u>1,885.1</u>	[- 5.9]	Other Commercial Accounts Revenue	<u>12,352.2</u>	<u>13,113.9</u>	[- 5.8]
\$ 4,034.1	\$ 4,251.9	[- 5.1]	Total Commercial Revenue	\$ 28,112.8	\$ 29,148.3	[- 3.5]
			Retail Revenue			
1,094.6	1,107.6	[- 1.2]	Retail Postage Revenue	8,111.6	7,927.2	2.3
94.1	82.4	14.3	Retail Services Revenue	572.5	555.6	3.0
9.0	8.8	2.5	Retail Products Revenue	83.5	65.1	28.3
<u>148.2</u>	<u>149.6</u>	[- 0.9]	Other Retail Channels Revenue	<u>1,027.7</u>	<u>1,040.5</u>	[- 1.2]
\$ 1,345.9	\$ 1,348.4	[- 0.1]	Total Retail Revenue	\$ 9,795.3	\$ 9,588.4	2.1
\$ 5,380.0	\$ 5,600.3	[- 3.9]	Total Commercial & Retail Revenue	\$ 37,908.1	\$ 38,736.7	[- 2.1]
30.0	39.9	[- 24.9]	Other Income	238.0	236.4	0.7
<u>2.5</u>	<u>2.5</u>	0.0	Revenue Forgone	<u>17.2</u>	<u>17.2</u>	0.0
\$ 5,412.5	\$ 5,642.7	[- 4.1]	Total Operating Revenue	\$ 38,163.3	\$ 38,990.3	[- 2.1]
<u>4.0</u>	<u>2.3</u>	71.9	Investment Income	<u>27.3</u>	<u>19.6</u>	39.3
\$ 5,416.5	\$ 5,645.0	[- 4.0]	Total Revenue	\$ 38,190.6	\$ 39,009.9	[- 2.1]

[]=Unfavorable variance to budget

Note: Totals may not sum due to rounding.

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

ANALYSIS OF OPERATING EXPENSES
Accounting Period 7, FY 2003
Personnel Compensation
(\$ Millions)

Current Period							Year-to-Date						
Actual	Budget	Var. to Budget		SPLY *	% SPLY	Total Compensation	Actual	Budget	Var. to Budget		SPLY *	% SPLY	
\$ 28.9	\$ 28.4	[\$ 0.6]	[2.1]	\$ 27.4	5.8		Operations:	\$ 187.6	\$ 187.7	\$ -0.1	-0.1	\$ 181.8	3.2
853.9	856.1	-2.2	-0.3	854.9	-0.1	-Support	6,040.0	6,113.7	-73.7	-1.2	6,133.7	-1.5	
345.4	351.4	-6.0	-1.7	335.4	3.0	-Mail Processing	2,335.5	2,352.0	-16.4	-0.7	2,276.3	2.6	
1,199.1	1,180.0	[19.1]	[1.6]	1,172.7	2.3	-Rural Delivery	8,138.7	8,049.8	[88.9]	[1.1]	7,811.5	4.2	
86.1	85.2	[0.9]	[1.0]	82.5	4.4	-City Delivery**	586.0	581.7	[4.3]	[0.7]	571.8	2.5	
216.0	221.8	-5.9	-2.6	204.2	5.8	-Vehicles Services	1,461.8	1,492.0	-30.2	-2.0	1,399.8	4.4	
577.1	577.3	-0.3	-0.0	573.2	0.7	-Plant & Equip Maint	3,976.6	3,983.9	-7.3	-0.2	4,002.1	-0.6	
18.7	21.3	-2.6	-12.3	19.3	-3.5	-Customer Services	126.9	146.2	-19.3	-13.2	135.7	-6.4	
26.3	27.2	-0.9	-3.2	25.4	3.6	Finance	171.7	178.2	-6.6	-3.7	168.5	1.9	
40.9	43.1	-2.2	-5.1	39.2	4.2	Human Resources	272.6	287.6	-15.0	-5.2	237.7	14.7	
185.3	176.6	[8.7]	[4.9]	177.9	4.2	Customer Service & Sales	1,197.9	1,171.6	[26.3]	[2.2]	1,143.4	4.8	
135.0	161.4	-26.4	-16.4	151.0	-10.6	Administration	922.4	1,169.2	-246.8	-21.1	1,263.4	-27.0	
\$ 3,712.5	\$ 3,729.7	\$ -17.2	-0.5	\$ 3,663.0	1.4	Other Salaries & Benefits	\$ 25,417.7	\$ 25,713.6	\$ -295.9	-1.2	\$ 25,325.7	0.4	
119.9	119.8	[0.1]	[0.1]	112.5	6.6	Total Salaries & Benefits	838.4	838.9	-0.4	-0.1	617.0	35.9	
7.7	7.7	0.0	0.2	9.9	-22.6	Workers' Compensation	53.8	53.8	0.0	0.0	48.9	10.1	
107.9	107.9	0.0	0.0	107.9	0.0	Unemployment Compensation	755.0	755.0	0.0	0.0	755.5	-0.1	
69.3	69.3	0.0	0.0	65.3	6.1	Deferred Retirement Cost	485.1	485.1	0.0	0.0	476.9	1.7	
89.4	89.4	0.0	0.0	74.5	20.0	CSRS Annuitant COLA	625.9	625.9	0.0	0.0	550.7	13.6	
10.1	9.1	[1.1]	[11.7]	32.8	-69.0	Annuitant Health Benefits	74.8	116.8	-42.1	-36.0	18.1	-	
\$ 4,116.9	\$ 4,132.9	\$ -16.0	-0.4	\$ 4,065.9	1.3	Other Compensation	\$ 28,250.7	\$ 28,589.1	\$ -338.4	-1.2	\$ 27,792.8	1.6	
						Total Personnel Compensation							

[]=Unfavorable variance to budget

Note: Totals may not sum due to rounding.

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

**The line formerly identified as Other Delivery has been renamed to better identify operations.

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

ANALYSIS OF NON-PERSONNEL EXPENSES
Accounting Period 7, FY 2003
(\$ Millions)

Current Period							Year-to-Date						
Actual	Budget	Var. to Budget		SPLY *	% SPLY	Description	Actual	Budget	Var. to Budget		SPLY *	% SPLY	
\$ 375.4	\$ 387.8	\$ -12.4	-3.2	\$ 379.7	-1.1	Transportation	\$ 2,779.0	\$ 2,927.2	\$ -148.2	-5.1	\$ 2,856.4	-2.7	
197.1	245.2	-48.1	-19.6	197.7	-0.3	Supplies & Services	1,175.9	1,542.9	-366.9	-23.8	1,301.4	-9.6	
183.3	190.6	-7.3	-3.8	178.1	2.9	Depreciation	1,233.8	1,325.8	-92.0	-6.9	1,237.6	-0.3	
84.1	82.2	[1.8]	[2.2]	79.1	6.3	Rent	481.0	490.7	-9.6	-2.0	466.6	3.1	
53.6	48.8	[4.8]	[9.8]	43.8	22.3	Fuel & Utilities	272.7	286.1	-13.5	-4.7	258.9	5.3	
32.0	32.3	-0.3	-1.0	30.6	4.5	Rural Carrier Equip Maint Allowance	213.7	221.7	-8.0	-3.6	209.6	1.9	
39.0	33.8	[5.2]	[15.4]	31.7	23.0	Vehicle Maintenance	238.6	225.6	[12.9]	[5.7]	213.1	11.9	
43.3	38.7	[4.6]	[12.0]	24.0	80.7	Information Technology	205.4	288.1	-82.7	-28.7	178.1	15.3	
13.2	14.7	-1.4	-9.9	9.0	45.9	Building Projects Expensed	72.7	130.2	-57.4	-44.1	77.3	-5.9	
6.6	6.1	[0.5]	[8.1]	6.3	3.9	Contract Job Cleaners	41.2	38.8	[2.4]	[6.2]	38.8	6.2	
17.3	11.9	[5.4]	[45.5]	12.7	35.8	Travel & Relocation	81.0	76.4	[4.6]	[6.0]	63.7	27.3	
19.5	18.8	[0.6]	[3.4]	19.3	0.9	Communications	100.5	110.1	-9.6	-8.7	103.7	-3.1	
5.7	6.2	-0.5	-8.2	5.9	-2.1	Contract Stations	36.8	38.2	-1.4	-3.7	37.4	-1.6	
2.0	2.9	-0.9	-30.1	1.9	7.3	Printing	11.8	17.3	-5.5	-31.9	15.3	-22.8	
4.0	6.2	-2.2	-35.0	4.5	-11.0	Training	24.3	40.4	-16.1	-39.9	27.3	-11.1	
4.2	4.5	-0.3	-7.0	5.2	-19.9	Carfare & Tolls	29.0	31.5	-2.5	-7.8	32.2	-9.7	
1.5	2.3	-0.8	-33.6	2.0	-23.3	Vehicle Hire	12.6	17.9	-5.4	-29.9	17.8	-29.6	
4.5	5.9	-1.4	-23.7	4.5	1.1	Accident Cost	26.6	26.0	[0.6]	[2.4]	25.6	3.8	
-0.8	-3.6	[2.8]	[77.6]	-1.1	-25.8	Capitalized Interest	-10.6	-25.0	[14.3]	[57.4]	-18.7	-43.0	
21.9	21.1	[0.9]	[4.0]	19.1	-	Miscellaneous	148.8	149.2	-0.4	-0.3	156.9	-5.2	
\$ 1,107.5	\$ 1,156.5	\$ -49.0	-4.2	\$ 1,054.1	5.1	Total Other Operating Expenses	\$ 7,174.6	\$ 7,959.0	\$ -784.4	-9.9	\$ 7,299.0	-1.7	

[]=Unfavorable variance to budget

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

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

STATEMENT OF FINANCIAL POSITION			
Accounting Period 7, FY 2003			
(\$ Millions)			
Assets	March 21, 2003	February 21, 2003	September 30, 2002 *
Current Assets:			
Cash and cash equivalents _1/	\$ 2,027	\$ 1,619	\$ 1,150
U.S. Government securities, at amortized cost which approximates market	6	6	6
Receivables:			
Foreign countries	711	690	592
U.S. Government	130	116	125
Other	209	182	192
	<u>1,050</u>	<u>988</u>	<u>909</u>
Less allowances	<u>117</u>	<u>117</u>	<u>112</u>
	933	871	797
Supplies, advances and prepayments	<u>321</u>	<u>320</u>	<u>327</u>
Total Current Assets	3,287	2,816	2,280
Other assets _2/	368	368	368
Property and equipment, at cost:			
Buildings	19,748	19,725	19,513
Equipment	16,887	16,846	16,421
Land	<u>2,787</u>	<u>2,779</u>	<u>2,776</u>
	39,422	39,350	38,710
Less allowances for depreciation	<u>17,287</u>	<u>17,133</u>	<u>16,401</u>
	22,135	22,217	22,309
Construction in progress	925	955	1,223
Leasehold improvements, net	<u>607</u>	<u>615</u>	<u>604</u>
	23,667	23,787	24,136
Deferred Retirement Costs _3/	<u>32,716</u>	<u>32,893</u>	<u>32,231</u>
Total Assets	<u>\$ 60,038</u>	<u>\$ 59,864</u>	<u>\$ 59,015</u>

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

_2/ Appropriation receivable for revenue forgone.

_3/ Represents the Postal Service's deferred retirement liability for CSRS to OPM for increases in basic pay and annuitants' COLAs. Amounts applicable to future periods are capitalized as deferred retirement costs and amortized over 30 years for basic pay and 15 years for annuitants' COLAs.

* Audited year-end data

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

STATEMENT OF FINANCIAL POSITION			
Accounting Period 7, FY 2003			
(\$ Millions)			
Liabilities and Equities	March 21, 2003	February 21, 2003	September 30, 2002 *
**Current Liabilities:			
Compensation and employees' benefits	\$ 5,216	\$ 5,113	\$ 5,113
Estimated prepaid postage	1,510	1,508	1,500
Payables and accrued expenses:			
Foreign countries	824	840	748
U.S. Government	221	189	246
Other - Including Emergency Preparedness Appropriations	<u>2,351</u>	<u>2,272</u>	<u>1,167</u>
	3,396	3,301	2,161
Appropriation for free & reduced rate mail	17	19	0
Prepaid permit mail and box rentals	2,009	2,036	2,011
Outstanding postal money orders	821	866	986
Current portion of debt	<u>751</u>	<u>951</u>	<u>3,815</u>
Total Current Liabilities	13,720	13,794	15,586
Long-term debt, less current portion	6,524	6,524	7,300
Other Liabilities:			
Amounts payable for retirement benefits _3/	31,495	31,495	30,046
Workers' compensation claims	6,586	6,467	5,815
Employees' accumulated leave	1,922	1,816	2,088
Other	<u>1,435</u>	<u>1,443</u>	<u>1,182</u>
Total Other Liabilities	41,438	41,221	39,131
Capital Contributions of the US Government	3,034	3,034	3,034
Deficit Since Reorganization	<u>- 4,678</u>	<u>- 4,709</u>	<u>- 6,036</u>
Equity/Capital Deficiency	<u>- 1,644</u>	<u>- 1,675</u>	<u>- 3,002</u>
Total Liabilities and Equity	<u>\$ 60,038</u>	<u>\$ 59,864</u>	<u>\$ 59,015</u>

_3/ Represents the Postal Service's deferred retirement liability for CSRS to OPM for increases in basic pay and annuitants' COLAs. Amounts applicable to future periods are capitalized as deferred retirement costs and amortized over 30 years for basic pay and 15 years for annuitants' COLAs.

* Audited year-end data

**Note: For reporting during the postal operating year (September 7, 2002 through September 5, 2003) certain salary and benefit impacts from the Compensation and employees' benefits line are shown in the Other Payables and accrued expenses line. For official end of the year reporting, this is reversed.

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

STATEMENT OF CASH FLOWS	
Fiscal Year 2003	
(\$ Millions)	
For the Fiscal Year through March 21, 2003	
Cash flows from operating activities:	
Net income/(loss) (Government Fiscal Year Basis)	\$ 1,358
Adjustments to reconcile net income/(loss) to net cash provided/(used) by operating activities:	
Depreciation and amortization	1,221
Increase/(decrease) in other liabilities	253
Increase/(decrease) in employees' accumulated leave	(166)
Increase/(decrease) in non-current workers' compensation claims	771
Increase/(decrease) in retirement, net	964
Changes in current assets and liabilities:	
Increase/(decrease) in accrued compensation and benefits	103
Increase/(decrease) in deferred revenue	25
Increase/(decrease) in payables and accrued expenses	1,235
(Increase)/decrease in receivables	(136)
(Increase)/decrease in supplies, advances and prepayments	6
Increase/(decrease) in outstanding postal money orders	(165)
Net cash provided by operating activities	5,469
Cash flows from investing activities:	
Sale/(purchase) of U.S. Government securities, net	0
Purchase and sale of property and equipment, net	(752)
Net cash used in investing activities	(752)
Cash flows from financing activities:	
Increase/(decrease) in debt	(3,840)
(Increase)/decrease in other non-current assets	0
Net cash used by financing activities	(3,840)
Net (decrease)/increase in cash and cash equivalents	877
Cash and cash equivalents at beginning of period	1,156
Cash and cash equivalents at end of period	\$ 2,033

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

CAPITAL INVESTMENTS

FY 2003
(\$ Millions)

MAJOR CATEGORIES	COMMITMENTS			CASH OUTLAYS		
	A/P 7 Year-to-Date			A/P 7 Year-to-Date		
	ACTUAL	PLAN	SPLY	ACTUAL	PLAN	SPLY
CONSTRUCTION AND BUILDING PURCHASE	\$ 19.5	\$ 27.1	\$ 14.6	\$ 70.0	\$ 133.6	\$ 132.5
BUILDING IMPROVEMENTS	43.9	95.5	41.1	80.8	122.3	105.7
MAIL PROCESSING EQUIPMENT	467.4	509.5	430.7	337.0	317.1	642.0
VEHICLES	20.1	25.8	- 4.1	29.1	96.6	95.7
RETAIL EQUIPMENT	3.0	0.0	5.0	4.1	78.3	30.8
POSTAL SUPPORT EQUIPMENT	111.2	179.7	105.5	108.8	147.8	136.2
TOTAL COMMITMENTS/CASH OUTLAYS	\$ 665.2	\$ 837.5	\$ 592.9	\$ 629.8	\$ 895.7	\$ 1,142.8

RESOURCES ON ORDER
(\$ Millions)

MAJOR CATEGORIES	March 21, 2003	September 30, 2002
CONSTRUCTION AND BUILDING PURCHASE	\$ 77.3	\$ 132.3
BUILDING IMPROVEMENTS	95.9	157.1
MAIL PROCESSING EQUIPMENT	1,079.7	964.6
VEHICLES	136.8	145.8
RETAIL EQUIPMENT	39.9	40.9
POSTAL SUPPORT EQUIPMENT	97.0	95.2
TOTAL RESOURCES ON ORDER	\$ 1,526.6	\$ 1,535.9

Note: Totals may not sum due to rounding.

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

WORK HOURS & OVERTIME/SICK LEAVE RATIOS
 Accounting Period 7, FY 2003
 (Data in Thousands)

Current Period					Total Work Hours	Year-to-Date				
Actual	Var. to Budget	% Budget	SPLY *	% SPLY		Actual	Var. to Budget	% Budget	SPLY *	% SPLY
758	[24]	[3.4]	742	2.2	-Support	4,900	[15]	[0.3]	4,922	- 0.4
27,248	- 327	- 1.2	29,181	- 6.6	-Mail Processing	197,534	- 4,316	- 2.1	212,840	- 7.2
13,112	- 202	- 1.5	13,668	- 4.1	-Rural Delivery	88,853	- 850	- 0.9	92,640	- 4.1
37,062	[575]	[1.6]	37,567	- 1.3	-City Delivery **	252,187	[1,911]	[0.8]	255,834	- 1.4
2,558	[10]	[0.4]	2,608	- 1.9	-Vehicles Services	17,532	[10]	[0.1]	17,984	- 2.5
6,510	- 233	- 3.5	6,560	- 0.8	-Plant & Equip Maint	44,433	- 1,272	- 2.8	44,727	- 0.7
18,424	- 20	- 0.1	19,311	- 4.6	-Customer Services	127,429	- 610	- 0.5	134,027	- 4.9
527	- 75	- 12.5	577	- 8.6	Finance	3,602	- 542	- 13.1	4,003	- 10.0
707	- 16	- 2.2	705	0.2	Human Resources	4,606	- 165	- 3.5	4,688	- 1.8
1,196	- 66	- 5.2	1,206	- 0.8	Customer Service & Sales	7,983	- 486	- 5.7	7,365	8.4
5,594	[303]	[5.7]	5,591	0.1	Administration	36,123	[744]	[2.1]	35,918	0.6
3,379	- 81	- 2.3	3,866	- 12.6	Other	23,314	- 789	- 3.3	29,035	- 19.7
117,077	- 106	- 0.1	121,582	- 3.7	Total Work Hours	808,496	- 6,349	- 0.8	843,983	- 4.2

Overtime						
Actual	Budget	SPLY		Actual	Budget	SPLY
7.7%	7.4%	7.2%	Overtime Ratio Per 100 Work Hours	8.4%	8.4%	8.1%

Sick Leave						
Actual	Budget	SPLY		Actual	Budget	SPLY
4.1%	--	4.1%	Sick Leave Ratio Per 100 Work Hours	4.1%	--	4.0%

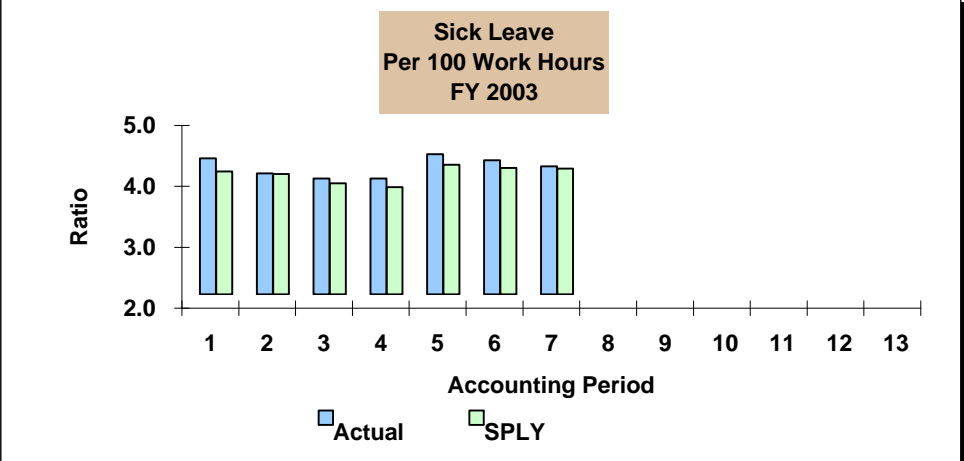
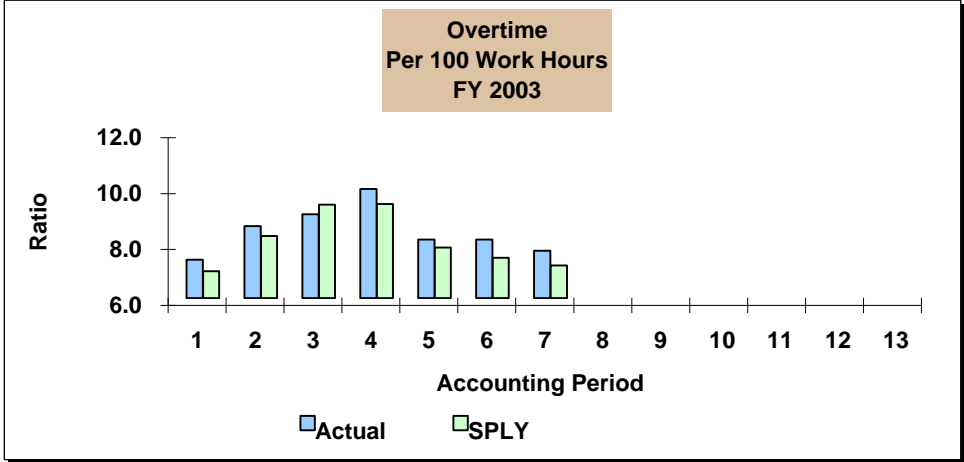
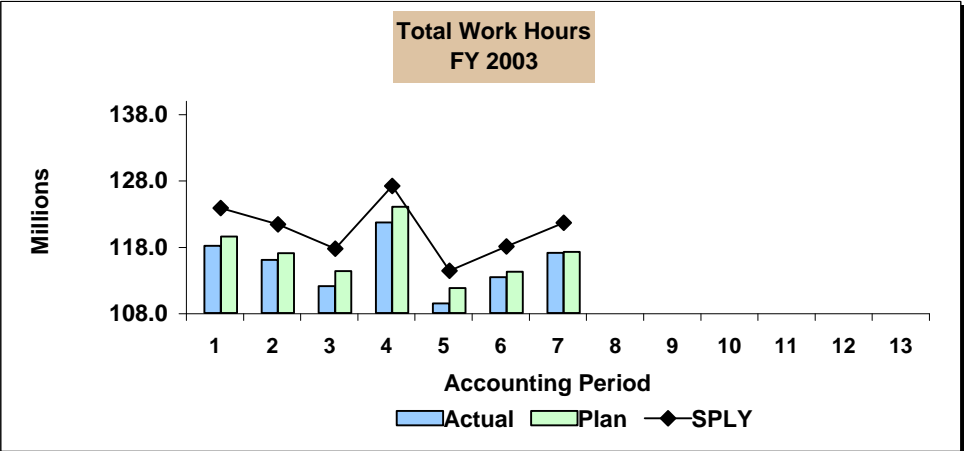
[]=Unfavorable variance to budget

Note: Totals may not sum due to rounding.

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

**The line formerly identified as Other Delivery has been renamed to better identify operations.

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



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

Accounting Period 7, FY 2003

Notes to the Financial and Operating Statements

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

Current period, Total Revenue was 4.0% or \$229 million under plan. Commercial Revenue was 5.1% or \$218 million under plan. The biggest drivers of the Commercial Revenue plan underrun were Customer Meters at \$107 million below, and First-Class Permit Imprint Mail at \$100 million below. Total Retail Revenue was 0.1% or \$2.5 million under plan. Total Revenue grew by 4.5% or \$233 million over same period last year (SPLY). The bulk of the increase to SPLY for total revenue was reflected in Permit Imprint and Metered Postage at \$114 million and \$50 million over SPLY, respectively. This increase over SPLY was totally due to the new postage rate structure implemented on June 30, 2002, as total volume decreased 0.7%.

Year-to-date (YTD), Total Revenue is \$819 million or 2.1% under plan. As compared to SPLY, Total Revenue has increased 5.6% driven by the rate change on June 30, 2002, and a volume increase of 0.6%. Most of the YTD plan underrun, \$762 million, exists in Other Commercial Accounts. Of this amount, nearly \$776 million lies in Customer Meters. Compared to SPLY, YTD Total Revenue is 5.6% or \$2,009 million above SPLY YTD. Permit Imprint, Metered Postage, and Stamps and Stamped Paper revenue combined are \$1.7 billion above SPLY.

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

Current period, Total Expenses were \$68 million or 1.2% under plan. Both personnel and non-personnel costs were below plan. The biggest driver of the \$16 million under run to plan in personnel costs was a continuation of cost containment activities and lower than expected mail volume. Total work hours were 0.1% below plan and 3.7% below SPLY (see page 15). Favorable work hour performance was offset in part by increases in benefits expenses, primarily health benefits.

The biggest drivers of the \$49 million plan underrun in non-personnel costs were Supplies and Services, and Transportation, which were \$48 million, and \$12 million below plan, respectively.

YTD, Total Expenses were \$1,134 million or 3.0% below plan. Most of the YTD plan underrun lies in Supplies and Services, \$367 million; Personnel Compensation, \$338 million; Transportation, \$148 million; Depreciation, \$92 million; Information Technology, \$83 million; and Building Projects Expenses, \$57 million. Transformation Plan initiatives, Supply Chain Management, more effective utilization of our transportation network, and other cost containment initiatives have driven many of these savings. Reduced workload due to lower mail volume has also had an impact. The current trend of significant expense underruns may not continue as budgets become more challenging toward the end of the year. City Delivery personnel compensation is \$89 million above plan resulting from an increase in City Delivery work hour usage, 1.9 million hours more than planned, partially spurred by the continuation in the growth of delivery points.

Accounting Period 7, FY 2003

Notes to the Financial and Operating Statements

Mail Volume and Revenue - Page 3

Total Mail Volume for AP 7, Fiscal Year (FY) 2003, was 104.1 million pieces below SPLY, or 0.7%. Standard Mail, Package Services, and International Mail were above SPLY while First-Class, Priority Mail, Express Mail, and Periodicals were below their AP 7, FY 2002, levels.

The Total Mail Revenue for AP 7, FY 2003 YTD was 5.5% above that reported during the same period last year (SPLY). Contributing to this performance was the new postage rate structure implemented on June 30, 2002, which provided a 7.7% revenue increase across all mail categories, and a 0.6% increase in volume.

Capital Commitments - Pages 1 and 13

The Fiscal Year Capital Commitments through YTD, AP 7, FY 2003 were \$665.2 million compared to a plan of \$837.5 million. This represents an underrun of about \$172.3 million or 20.6%. The single largest commitment made thus far in FY 2003 was \$316 million for the Automated Package Processing Systems project which has a projected return on investment (ROI) of 24.4%.

The Cash Outlays YTD were \$629.8 million versus a plan of \$895.7 million, representing a \$265.9 million underrun to plan.

Work Hours - Pages 1, 14 and 15

Total work hours for the accounting period were 0.1 million hours below plan and 4.5 million hours below same period last year. Mail processing function, including automated, mechanized and manual distribution; remote barcoding operations; platform and indirect operations; and supervision was 1.9 million work hours less than SPLY. An additional 2.0 million work hours were reduced in Delivery Service, Customer Service, and Rural Delivery, combined. These reductions are a direct result of cost containment and efficiency improvement activities outlined in the Transformation Plan, as well as capturing work hours as a result of decreasing workload. At the end of Quarter II, a \$315 million reduction was made to operational budgets reflecting a continued projection of decreased workload. Other Work Hours category on page 14, relating to Limited Duty, Rehabilitation and Headquarters General Management hours, played a major role in work hour reductions to SPLY. Current period it should be noted that Other Work Hours were 0.5 million hours below same period last year.

Total work hours for AP 7 YTD were reduced 35.5 million hours or 4.2% below SPLY. This reduction in work hours reflects the continuation of cost containment activities through the installation of more efficient mail processing equipment and other productivity enhancements. To date, Mail Processing work hours have been reduced 15.3 million hours below same period last year. City and Rural Delivery, combined with Customer Service clerk work hours, contributed to a reduction of 14 million work hours to SPLY. The AP 7 Overtime Ratio of 7.7, which was above plan and SPLY, was mostly influenced by the increase in Delivery Services overtime, 9.3% above SPLY. This was driven by an increase in delivery points, impact of inclement weather, and fewer career Delivery Service employees than last year.