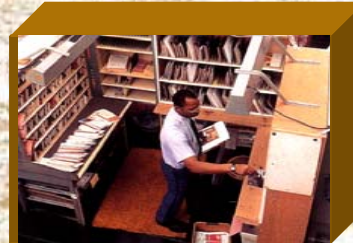




**UNITED STATES
POSTAL SERVICE**

FINANCIAL & OPERATING STATEMENTS

**August, FY 2004
August 1 – August 31, 2004**



Prepared by: Financial Reporting and Analysis

HIGHLIGHTS
August - FY 2004
(Millions)

| Current Period | | | | | |
|----------------|----------------|----------------|----------|----------------|--------|
| Actual | Budget | Var. to Budget | % Budget | SPLY* | % SPLY |
| \$ 5,544.7 | \$ 5,730.9 | [\$ -186.2] | [-3.2] | \$ 5,385.9 | 2.9 |
| <u>5,512.5</u> | <u>5,658.5</u> | <u>-146.0</u> | -2.6 | <u>5,687.8</u> | -3.1 |
| \$ 32.2 | \$ 72.4 | [\$ -40.2] | - | \$ (301.9) | - |
| \$ 162.1 | \$ 1,105.9 | [\$ -943.8] | [-85.3] | \$ 290.2 | -44.1 |
| 120.8 | 120.3 | [0.5] | [0.4] | 120.2 | 0.4 |

| Year-to-Date (October 1, 2003 - August 31, 2004) | | | | | |
|--|-----------------|----------------|----------|-----------------|--------|
| Actual | Budget | Var. to Budget | % Budget | SPLY * | % SPLY |
| \$ 63,109.3 | \$ 63,241.5 | [\$ -132.2] | [-0.2] | \$ 63,137.7 | -0.0 |
| <u>60,296.1</u> | <u>61,084.9</u> | <u>-788.8</u> | -1.3 | <u>59,076.4</u> | 2.1 |
| \$ 2,813.2 | \$ 2,156.6 | \$ 656.6 | - | \$ 4,061.3 | - |
| \$ 1,407.0 | \$ 2,481.7 | [\$ -1,074.7] | [-43.3] | \$ 1,651.4 | -14.8 |
| 1,332.2 | 1,335.6 | -3.4 | -0.3 | 1,355.9 | -1.7 |

[] = Unfavorable variance to budget

Note: Totals may not sum due to rounding.

| Actual Number Of: | Current Period | Last Period | SPLY * |
|---|----------------|-------------|---------|
| Post Offices | 27,513 | 27,522 | 27,604 |
| Postal Owned Vehicles In Use | | | |
| Administrative | 5,805 | 5,832 | 5,471 |
| Operations | 206,486 | 206,712 | 201,855 |
| Total Deliveries (000) | 142,830 | 142,612 | 141,273 |
| City Delivery Routes | 164,452 | 164,459 | 165,549 |
| Rural Routes | 70,711 | 70,533 | 69,644 |
| Career Employees (Excludes Inspector General) | 707,023 | 708,228 | 730,086 |
| Casual Employees | 19,889 | 20,237 | 17,974 |
| Transitional Employees | 9,688 | 9,686 | 10,813 |

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

Government appropriation of \$11.9 million for the current period SPLY and \$130.2 million YTD SPLY to offset FY 2003 Emergency Preparation Program expenses are being reclassified as revenue to be consistent with FY 2004 practice.

STATEMENT OF INCOME & EXPENSE
August - FY 2004
(\$ Millions)

| Current Period | | | | | | | Year-to-Date | | | | | |
|----------------|----------------|----------------|---------------|----------------|---------------|---------------------------------------|-----------------|-----------------|----------------|---------------|-----------------|--------------|
| Actual | Budget | Var. to Budget | % Budget | SPLY* | % SPLY | | Actual | Budget | Var. to Budget | % Budget | SPLY * | % SPLY |
| \$ 5,541.1 | \$ 5,728.7 | [\$ - 187.6] | [- 3.3] | \$ 5,380.5 | 3.0 | Operating Revenue | \$ 63,079.5 | \$ 63,217.0 | [\$ - 137.5] | [- 0.2] | \$ 63,084.3 | - 0.0 |
| <u>5,494.2</u> | <u>5,620.5</u> | <u>- 126.3</u> | - 2.2 | <u>5,279.4</u> | 4.1 | Operating Expense | <u>60,200.5</u> | <u>60,907.2</u> | <u>- 706.7</u> | - 1.2 | <u>58,278.2</u> | 3.3 |
| \$ 46.9 | \$ 108.2 | [\$ - 61.3] | - | \$ 101.1 | - | Income/(Loss) From Operations | \$ 2,879.0 | \$ 2,309.8 | \$ 569.2 | - | \$ 4,806.1 | - |
| 3.6 | 2.2 | 1.4 | 63.6 | 5.4 | - 33.3 | Investment Income | 29.8 | 24.5 | 5.3 | 21.6 | 53.4 | - 44.2 |
| 1.1 | 3.0 | - 1.9 | - 63.3 | 385.3 | - 99.7 | Interest Expense | 9.5 | 19.5 | - 10.0 | - 51.3 | 705.8 | - 98.7 |
| <u>17.2</u> | <u>35.0</u> | <u>- 17.8</u> | <u>- 50.9</u> | <u>23.1</u> | <u>- 25.5</u> | Interest on Deferred Retirement Costs | <u>86.1</u> | <u>158.2</u> | <u>- 72.1</u> | <u>- 45.6</u> | <u>92.4</u> | <u>- 6.8</u> |
| \$ 32.2 | \$ 72.4 | [\$ - 40.2] | - | \$ (301.9) | - | Net Income/(Loss) | \$ 2,813.2 | \$ 2,156.6 | \$ 656.6 | - | \$ 4,061.3 | - |

[]=Unfavorable variance to budget

Note: Totals may not sum due to rounding.

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

Government appropriation of \$11.9 million for the current period SPLY and \$130.2 million YTD SPLY to offset FY 2003 Emergency Preparation Program expenses are being reclassified as revenue to be consistent with FY 2004 practice.

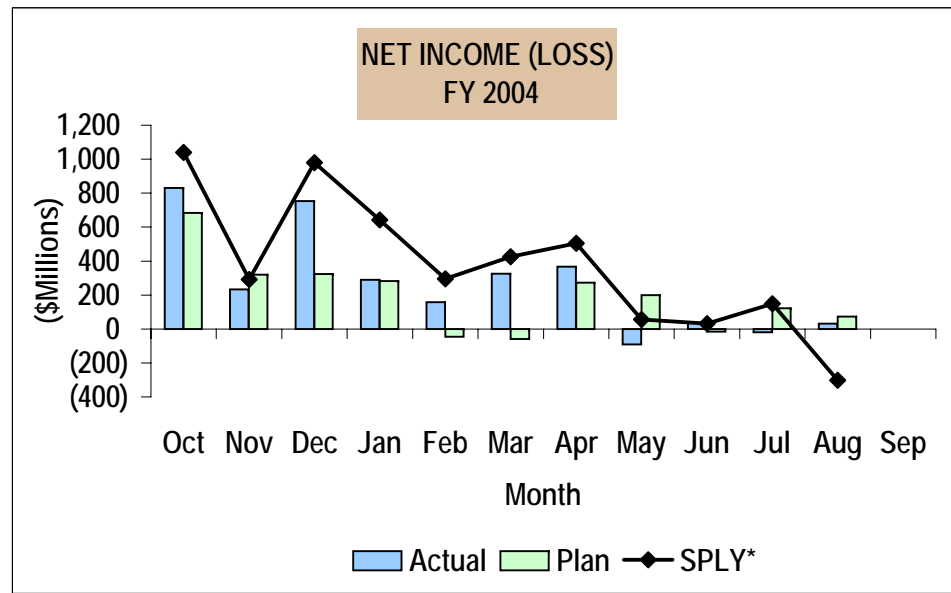
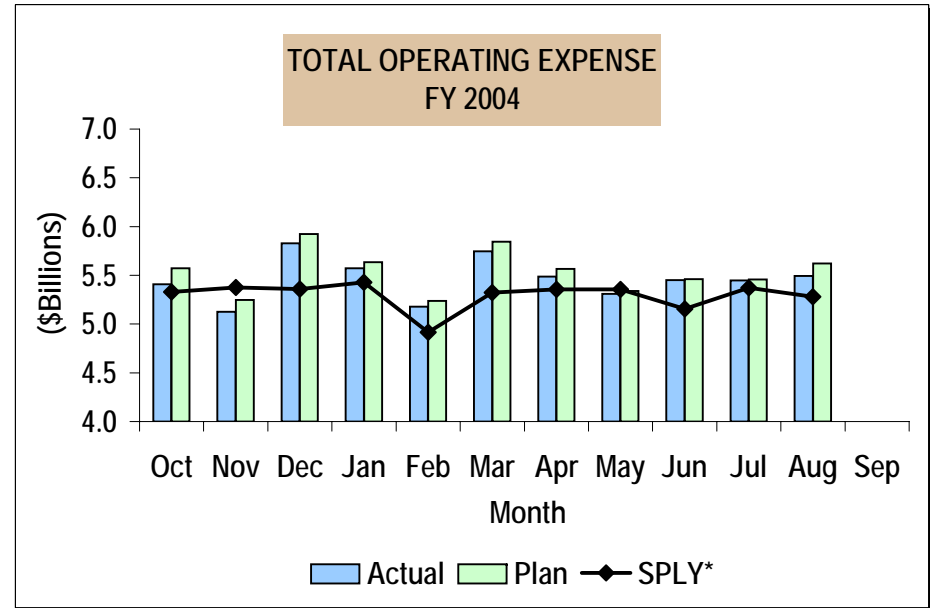
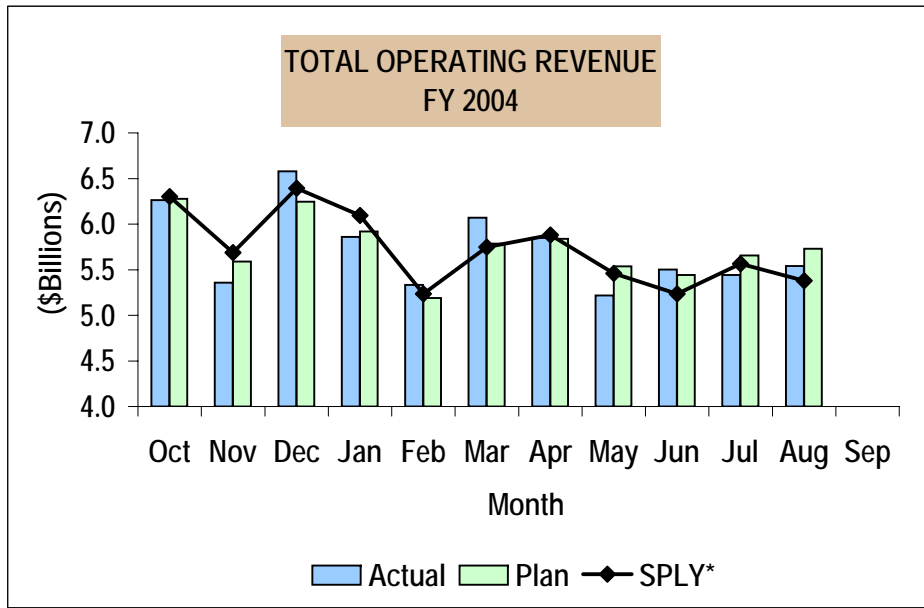
| MAIL VOLUME - MAIL REVENUE (Data in Thousands) | | | | | | |
|---|--------------------|--------------------|--------|--------------------|--------------------|--------|
| CATEGORY | CURRENT PERIOD | | | YEAR-TO-DATE | | |
| | August 31, 2004 | August 31, 2003 | % SPLY | August 31, 2004 | August 31, 2003 | % SPLY |
| FIRST-CLASS | | | | | | |
| VOLUME | 7,709,867 | 7,592,322 | 1.5 | 89,947,364 | 91,246,171 | - 1.4 |
| REVENUE | \$ 2,864,624 | \$ 2,842,640 | 0.8 | \$ 33,443,889 | \$ 34,120,031 | - 2.0 |
| REV/PC. | 0.3716 | 0.3744 | - 0.8 | 0.3718 | 0.3739 | - 0.6 |
| PRIORITY-MAIL | | | | | | |
| VOLUME | 67,895 | 65,029 | 4.4 | 782,082 | 796,413 | - 1.8 |
| REVENUE | \$ 351,382 | \$ 335,323 | 4.8 | \$ 4,082,490 | \$ 4,164,822 | - 2.0 |
| REV/PC. | 5.1754 | 5.1565 | 0.4 | 5.2200 | 5.2295 | - 0.2 |
| EXPRESS MAIL | | | | | | |
| VOLUME | 4,474 | 4,575 | - 2.2 | 49,787 | 51,412 | - 3.2 |
| REVENUE | \$ 69,829 | \$ 71,856 | - 2.8 | \$ 784,843 | \$ 818,384 | - 4.1 |
| REV/PC. | 15.6077 | 15.7062 | - 0.6 | 15.7640 | 15.9182 | - 1.0 |
| PERIODICALS | | | | | | |
| VOLUME | 722,933 | 728,137 | - 0.7 | 8,338,510 | 8,601,102 | - 3.1 |
| REVENUE | \$ 174,666 | \$ 170,768 | 2.3 | \$ 1,992,274 | \$ 2,053,258 | - 3.0 |
| REV/PC. | 0.2416 | 0.2345 | 3.0 | 0.2389 | 0.2387 | 0.1 |
| STANDARD MAIL | | | | | | |
| VOLUME | 8,063,790 | 7,321,116 | 10.1 | 86,851,554 | 82,277,281 | 5.6 |
| REVENUE | \$ 1,531,459 | \$ 1,400,507 | 9.4 | \$ 16,434,958 | \$ 15,664,106 | 4.9 |
| REV/PC. | 0.1899 | 0.1913 | - 0.7 | 0.1892 | 0.1904 | - 0.6 |
| PACKAGE SERVICES | | | | | | |
| VOLUME | 95,257 | 102,785 | - 7.3 | 1,030,174 | 1,038,857 | - 0.8 |
| REVENUE | \$ 179,229 | \$ 175,168 | 2.3 | \$ 2,021,130 | \$ 2,041,378 | - 1.0 |
| REV/PC. | 1.8815 | 1.7042 | 10.4 | 1.9619 | 1.9650 | - 0.2 |
| INTERNATIONAL | | | | | | |
| VOLUME | 64,276 | 65,167 | - 1.4 | 773,844 | 743,726 | 4.0 |
| REVENUE | \$ 130,531 | \$ 130,212 | 0.2 | \$ 1,544,335 | \$ 1,475,438 | 4.7 |
| REV/PC. | 2.0308 | 1.9981 | 1.6 | 1.9957 | 1.9838 | 0.6 |
| ALL OTHER | | | | | | |
| VOLUME | 53,757 | 38,954 | 38.0 | 541,922 | 427,226 | 26.8 |
| REVENUE | \$ 53 | \$ 47 | 13.2 | \$ 643 | \$ 1,187 | - 45.8 |
| ALL MAIL | | | | | | |
| VOLUME | 16,782,249 | 15,918,083 | 5.4 | 188,315,237 | 185,182,189 | 1.7 |
| REVENUE | \$ 5,301,774 | \$ 5,126,520 | 3.4 | \$ 60,304,562 | \$ 60,338,605 | - 0.1 |
| REV/PC. | 0.3159 | 0.3221 | - 1.9 | 0.3202 | 0.3258 | - 1.7 |

NOTE: Totals may not sum due to rounding.

NOTE: RPW data are reported on a new Fiscal Year basis (October 1-September 30). In addition, RPW data are reported on a calendar month basis.

Quarterly RPW reports are now defined as the sum of three calendar months (e.g., quarter one corresponds to the time period of October 1-December 31). In order to provide a basis for comparison, FY 2003 data have been recast to reflect these reporting changes. The recast of FY 2003 data uses representative data from Accounting, PERMIT, the RPW sample and other input systems and can only provide an approximate basis for calculating changes to same period last year (SPLY) data. Therefore, the changes indicated in this report should be viewed as preliminary and subject to uncertainty. Analysts should use the FY 2004 quarterly reports for SPLY analysis when they are available. 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.



*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
August - FY 2004
(\$ Millions)

| Current Period | | | | Year-to-Date | | |
|-------------------|-------------------|------------|---|--------------------|--------------------|--------------|
| Actual | SPLY* | % SPLY | | Actual | SPLY* | % SPLY |
| | | | Operating Revenue: | | | |
| \$ 1,982.1 | \$ 1,952.3 | 1.5 | Metered Postage | \$ 22,994.7 | \$ 23,300.7 | - 1.3 |
| 873.4 | 868.6 | 0.6 | Stamps and Stamped Paper | 10,483.0 | 10,750.3 | - 2.5 |
| 1,449.4 | 1,338.8 | 8.3 | Permit Imprint | 15,388.9 | 14,762.4 | 4.2 |
| 173.2 | 169.1 | 2.4 | Periodicals & Standard | 1,974.7 | 2,034.2 | - 2.9 |
| 66.4 | 75.0 | - 11.5 | Official Mail | 785.6 | 833.2 | - 5.7 |
| 766.5 | 738.3 | 3.8 | Presort First-Class & Package Svc./Permit Imprint | 8,730.2 | 8,621.9 | 1.3 |
| 61.7 | 53.4 | 15.5 | Box Rents | 732.6 | 729.8 | 0.4 |
| 14.1 | 14.9 | - 5.4 | Money Order Fees | 162.2 | 171.4 | - 5.4 |
| <u>150.5</u> | <u>155.6</u> | - 3.3 | Other | <u>1,703.9</u> | <u>1,721.8</u> | - 1.0 |
| \$ 5,537.3 | \$ 5,366.0 | 3.2 | Subtotal | \$ 62,955.8 | \$ 62,925.7 | 0.0 |
| <u>3.8</u> | <u>14.5</u> | - 73.8 | Government Appropriation** | <u>123.7</u> | <u>158.6</u> | - 22.0 |
| \$ 5,541.1 | \$ 5,380.5 | 3.0 | Total Operating Revenue | \$ 63,079.5 | \$ 63,084.3 | - 0.0 |
| <u>3.6</u> | <u>5.4</u> | - 33.3 | Investment Income | <u>29.8</u> | <u>53.4</u> | - 44.2 |
| \$ 5,544.7 | \$ 5,385.9 | 2.9 | Total Revenue | \$ 63,109.3 | \$ 63,137.7 | - 0.0 |

Note: Totals may not sum due to rounding.

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

**Note: Appropriation of \$11.9 million current period SPLY and \$130.2 million year-to-date SPLY to offset FY03 Emergency Preparedness Program expenses are being reclassified as revenue to be consistent with current year practice.

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

REVENUE BY CATEGORY
August - FY 2004
(\$ Millions)

| Current Period | | | | Year-to-Date | | |
|-------------------|-------------------|-----------------|--|--------------------|--------------------|-----------------|
| Actual | Budget | % Budget | | Actual | Budget | % Budget |
| | | | Commercial Revenue | | | |
| \$ 2,443.3 | \$ 2,429.1 | 0.6 | Permit Revenue | \$ 26,688.1 | \$ 25,920.9 | 3.0 |
| <u>1,727.9</u> | <u>1,952.5</u> | [- 11.5] | Other Commercial Accounts Revenue | <u>19,964.1</u> | <u>21,000.3</u> | [- 4.9] |
| \$ 4,171.2 | \$ 4,381.6 | [- 4.8] | Total Commercial Revenue | \$ 46,652.2 | \$ 46,921.2 | [- 0.6] |
| | | | Retail Revenue | | | |
| 1,055.8 | 1,060.2 | [- 0.4] | Retail Postage Revenue | 12,858.9 | 12,975.8 | [- 0.9] |
| 87.1 | 84.6 | 3.0 | Retail Services Revenue | 1,020.9 | 987.3 | 3.4 |
| 14.2 | 20.0 | [- 29.0] | Retail Products Revenue | 158.4 | 127.6 | 24.1 |
| <u>168.6</u> | <u>135.0</u> | 24.9 | Other Retail Channels Revenue | <u>1,837.1</u> | <u>1,762.5</u> | 4.2 |
| \$ 1,325.7 | \$ 1,299.8 | 2.0 | Total Retail Revenue | \$ 15,875.3 | \$ 15,853.2 | 0.1 |
| \$ 5,496.9 | \$ 5,681.4 | [- 3.2] | Total Commercial & Retail Revenue | \$ 62,527.5 | \$ 62,774.4 | [- 0.4] |
| 40.4 | 44.3 | [- 8.8] | Other Income | 428.3 | 409.1 | 4.7 |
| <u>3.8</u> | <u>3.0</u> | 26.7 | Government Appropriation | <u>123.7</u> | <u>33.5</u> | NM |
| \$ 5,541.1 | \$ 5,728.7 | [- 3.3] | Total Operating Revenue | \$ 63,079.5 | \$ 63,217.0 | [- 0.2] |
| <u>3.6</u> | <u>2.2</u> | 63.6 | Investment Income | <u>29.8</u> | <u>24.5</u> | 21.6 |
| \$ 5,544.7 | \$ 5,730.9 | [- 3.2] | Total Revenue | \$ 63,109.3 | \$ 63,241.5 | [- 0.2] |

[]=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
August - FY 2004
(\$ Millions)

| Current Period | | | | | | Year-to-Date | | | | | | |
|------------------------|-------------------|-------------------|--------------|-------------------|--------------|---------------------------------------|--------------------|--------------------|-------------------|--------------|--------------------|------------|
| Actual | Budget | Var. to Budget | % Budget | SPLY* | % SPLY | Actual | Budget | Var. to Budget | % Budget | SPLY * | % SPLY | |
| \$ 4,293.8 | \$ 4,410.4 | \$ - 116.6 | - 2.6 | \$ 4,219.0 | 1.8 | Personnel Compensation | \$ 47,827.5 | \$ 48,076.1 | \$ - 248.6 | - 0.5 | \$ 46,126.1 | 3.7 |
| Non-Personnel Expense: | | | | | | | | | | | | |
| 422.0 | 435.3 | - 13.3 | - 3.1 | 343.8 | 22.7 | Transportation | 4,522.6 | 4,679.6 | - 157.0 | - 3.4 | 4,406.6 | 2.6 |
| 206.0 | 218.7 | - 12.7 | - 5.8 | 190.9 | 7.9 | Supplies & Services | 2,058.9 | 2,250.6 | - 191.7 | - 8.5 | 2,081.3 | - 1.1 |
| <u>572.4</u> | <u>556.1</u> | [16.3] | [2.9] | <u>525.7</u> | 8.9 | Other | <u>5,791.5</u> | <u>5,900.9</u> | <u>- 109.4</u> | - 1.9 | <u>5,664.2</u> | 2.2 |
| \$ 1,200.4 | \$ 1,210.1 | \$ - 9.7 | - 0.8 | \$ 1,060.4 | 13.2 | Subtotal | \$ 12,373.0 | \$ 12,831.1 | \$ - 458.1 | - 3.6 | \$ 12,152.1 | 1.8 |
| \$ 5,494.2 | \$ 5,620.5 | \$ - 126.3 | - 2.2 | \$ 5,279.4 | 4.1 | Total Operating Expense | \$ 60,200.5 | \$ 60,907.2 | \$ - 706.7 | - 1.2 | \$ 58,278.2 | 3.3 |
| 1.1 | 3.0 | - 1.9 | - 63.3 | 385.3 | - 99.7 | Interest Expense | 9.5 | 19.5 | - 10.0 | - 51.3 | 705.8 | - 98.7 |
| <u>17.2</u> | <u>35.0</u> | <u>- 17.8</u> | - 50.9 | <u>23.1</u> | - 25.5 | Interest on Deferred Retirement Costs | <u>86.1</u> | <u>158.2</u> | <u>- 72.1</u> | - 45.6 | <u>92.4</u> | - 6.8 |
| \$ 5,512.5 | \$ 5,658.5 | \$ - 146.0 | - 2.6 | \$ 5,687.8 | - 3.1 | Total Expense | \$ 60,296.1 | \$ 61,084.9 | \$ - 788.8 | - 1.3 | \$ 59,076.4 | 2.1 |

[]=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
Personnel Compensation
August - FY 2004
(\$ Millions)

| Current Period | | | | | | Year-to-Date | | | | | | |
|-------------------|-------------------|------------------|-------------|-------------------|------------|--------------------------------------|--------------------|--------------------|------------------|-------------|--------------------|------------|
| Actual | Budget | Var. to Budget | % Budget | SPLY * | % SPLY | Actual | Budget | Var. to Budget | % Budget | SPLY * | % SPLY | |
| | | | | | | Total Compensation | | | | | | |
| | | | | | | Operations: | | | | | | |
| 32.7 | 33.2 | \$ -0.5 | -1.5 | \$ 30.1 | 8.5 | -Support | 351.4 | 349.4 | [\$ 2.0] | [0.6] | \$ 328.7 | 6.9 |
| 898.0 | 926.1 | -28.1 | -3.0 | 916.1 | -2.0 | -Mail Processing | 10,318.1 | 10,449.3 | -131.2 | -1.3 | 10,131.2 | 1.8 |
| 404.6 | 417.3 | -12.7 | -3.0 | 379.5 | 6.6 | -Rural Delivery | 4,337.5 | 4,368.5 | -31.0 | -0.7 | 4,057.4 | 6.9 |
| 1,324.3 | 1,348.7 | -24.4 | -1.8 | 1,312.7 | 0.9 | -City Delivery | 14,688.6 | 14,580.7 | [107.9] | [0.7] | 13,998.8 | 4.9 |
| 95.9 | 97.1 | -1.3 | -1.3 | 93.3 | 2.8 | -Vehicles Services | 1,060.7 | 1,056.6 | [4.1] | [0.4] | 1,009.6 | 5.1 |
| 242.6 | 252.5 | -9.9 | -3.9 | 236.5 | 2.6 | -Plant & Equip Maint | 2,664.8 | 2,730.3 | -65.5 | -2.4 | 2,527.6 | 5.4 |
| 643.8 | 651.2 | -7.4 | -1.1 | 619.2 | 4.0 | -Customer Services | 7,150.5 | 7,150.4 | [0.1] | [0.0] | 6,795.9 | 5.2 |
| 16.9 | 19.7 | -2.8 | -14.0 | 17.7 | -4.3 | Finance | 183.6 | 212.8 | -29.2 | -13.7 | 212.8 | -13.7 |
| 30.6 | 31.6 | -1.0 | -3.1 | 29.1 | 5.3 | Human Resources | 328.7 | 331.2 | -2.5 | -0.8 | 305.5 | 7.6 |
| 47.5 | 49.9 | -2.3 | -4.7 | 44.3 | 7.3 | Customer Service & Sales | 512.1 | 530.0 | -17.9 | -3.4 | 477.0 | 7.3 |
| 211.5 | 209.5 | [1.9] | [0.9] | 184.6 | 14.5 | Administration - Field | 2,248.1 | 2,224.2 | [23.9] | [1.1] | 2,116.4 | 6.2 |
| 106.8 | 114.9 | -8.1 | -7.1 | 119.2 | -10.5 | Other Salaries & Benefits | 1,227.5 | 1,268.9 | -41.5 | -3.3 | 1,560.1 | -21.3 |
| \$ 4,055.0 | \$ 4,151.7 | \$ -96.6 | -2.3 | \$ 3,982.3 | 1.8 | Total Salaries & Benefits | \$ 45,071.6 | \$ 45,252.3 | \$ -180.8 | -0.4 | \$ 43,521.0 | 3.6 |
| 124.0 | 124.6 | -0.6 | -0.5 | 121.3 | 2.3 | Workers' Compensation | 1,364.1 | 1,371.0 | -6.9 | -0.5 | 1,357.6 | 0.5 |
| -7.3 | 7.7 | -15.0 | -194.5 | 4.6 | -259.4 | Unemployment Compensation | 50.9 | 84.4 | -33.5 | -39.7 | 56.7 | -10.4 |
| 2.0 | 6.0 | -4.0 | -66.7 | 1.8 | 11.1 | Deferred Retirement Cost | 10.2 | 15.6 | -5.4 | -34.6 | 7.2 | 41.7 |
| 110.2 | 110.2 | 0.0 | 0.0 | 97.7 | 12.8 | Annuitant Health Benefits | 1,211.8 | 1,211.8 | 0.0 | 0.0 | 1,054.3 | 14.9 |
| 9.8 | 10.2 | -0.4 | -3.8 | 11.4 | -13.7 | Other Compensation | 118.9 | 141.0 | -22.0 | -15.6 | 129.2 | -8.0 |
| \$ 4,293.8 | \$ 4,410.4 | \$ -116.6 | -2.6 | \$ 4,218.9 | 1.8 | Total Personnel Compensation | \$ 47,827.5 | \$ 48,076.1 | \$ -248.6 | -0.5 | \$ 46,126.1 | 3.7 |

[]=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
August - FY 2004
(\$ Millions)

| Current Period | | | | | | Year-to-Date | | | | | | |
|----------------|----------------|--------------|--------------|-------------------|-------------|-------------------------------------|-----------------|-----------------|-------------------|--------------|--------------------|------------|
| Actual | Budget | Var. to | | SPLY * | % SPLY | Description | Actual | Budget | Var. to | | SPLY * | % SPLY |
| | | Budget | % Budget | | | | | | Budget | % Budget | | |
| 422.0 | 435.3 | \$ - 13.3 | - 3.1 | \$ 343.8 | 22.8 | Transportation | 4,522.6 | 4,679.6 | \$ - 157.0 | - 3.4 | \$ 4,406.6 | 2.6 |
| 206.0 | 218.7 | - 12.7 | - 5.8 | 190.9 | 7.9 | Supplies & Services | 2,058.9 | 2,250.6 | - 191.7 | - 8.5 | 2,081.3 | - 1.1 |
| 192.7 | 191.2 | [1.5] | [0.8] | 195.3 | - 1.3 | Depreciation | 2,038.1 | 2,081.9 | - 43.8 | - 2.1 | 2,118.8 | - 3.8 |
| 79.4 | 83.8 | - 4.3 | - 5.2 | 78.1 | 1.7 | Rent | 903.4 | 896.5 | [6.9] | [0.8] | 866.2 | 4.3 |
| 52.6 | 54.7 | - 2.2 | - 4.0 | 60.2 | - 12.7 | Fuel & Utilities | 500.5 | 475.7 | [24.8] | [5.2] | 478.2 | 4.7 |
| 31.9 | 31.4 | [0.5] | [1.5] | 32.4 | - 1.8 | Rural Carrier Equip Maint Allowance | 358.6 | 364.2 | - 5.6 | - 1.5 | 374.8 | - 4.3 |
| 48.6 | 41.6 | [7.0] | [16.9] | 35.4 | 37.4 | Vehicle Maintenance | 462.2 | 411.2 | [51.0] | [12.4] | 411.9 | 12.2 |
| 66.4 | 42.3 | [24.0] | [56.8] | 35.0 | 89.8 | Information Technology | 402.8 | 500.8 | - 98.0 | - 19.6 | 433.2 | - 7.0 |
| 20.1 | 26.3 | - 6.2 | - 23.5 | 25.1 | - 19.8 | Building Projects Expensed | 232.7 | 231.5 | [1.2] | [0.5] | 165.6 | 40.5 |
| 6.5 | 7.1 | - 0.6 | - 8.9 | 6.8 | - 4.3 | Contract Job Cleaners | 78.3 | 74.2 | [4.1] | [5.5] | 73.1 | 7.1 |
| 19.5 | 18.6 | [0.9] | [4.7] | 10.4 | 86.7 | Travel & Relocation | 189.8 | 169.3 | [20.5] | [12.1] | 162.8 | 16.6 |
| 22.8 | 19.8 | [2.9] | [14.8] | 22.4 | 1.6 | Communications | 199.7 | 208.1 | - 8.4 | - 4.0 | 191.1 | 4.5 |
| 5.9 | 6.5 | - 0.7 | - 10.5 | 5.7 | 2.9 | Contract Stations | 65.4 | 70.2 | - 4.8 | - 6.9 | 60.1 | 8.7 |
| 1.5 | 2.1 | - 0.7 | - 31.8 | 2.2 | - 32.6 | Printing | 17.2 | 26.3 | - 9.1 | - 34.7 | 22.1 | - 22.2 |
| 4.6 | 4.7 | - 0.1 | - 2.3 | 3.1 | 46.6 | Training | 41.3 | 57.8 | - 16.5 | - 28.5 | 40.8 | 1.3 |
| 2.5 | 3.4 | - 0.9 | - 25.8 | 3.0 | - 16.2 | Carfare & Tolls | 31.0 | 41.2 | - 10.2 | - 24.7 | 40.5 | - 23.4 |
| 0.9 | 1.8 | - 0.9 | - 48.3 | 1.5 | - 37.2 | Vehicle Hire | 16.9 | 21.3 | - 4.4 | - 20.8 | 20.0 | - 15.5 |
| 3.4 | 3.9 | - 0.5 | - 12.8 | 9.2 | - 63.5 | Accident Cost | 45.3 | 44.2 | [1.0] | [2.4] | 51.7 | - 12.4 |
| 13.3 | 16.7 | - 3.4 | - 20.4 | - 0.2 | NM | Miscellaneous | 208.5 | 226.4 | - 18.0 | - 7.9 | 153.2 | 36.0 |
| 1,200.4 | 1,210.1 | - 9.7 | - 0.8 | \$ 1,060.4 | 13.2 | Total Non-Personnel Expenses | 12,373.0 | 12,831.1 | \$ - 458.1 | - 3.6 | \$ 12,152.1 | 1.8 |

[]=Unfavorable variance to budget

Totals may not sum due to rounding.

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

STATEMENT OF FINANCIAL POSITION
August - FY 2004
(\$ Millions)

| Assets | August 31, 2004 | September 30, 2003* |
|---|-------------------------|-------------------------|
| Current Assets: | | |
| Cash and cash equivalents _1/ | \$ 166 | \$ 2,266 |
| Receivables: | | |
| Foreign countries | 620 | 744 |
| U.S. Government | 293 | 359 |
| Consignment | 50 | 50 |
| Other | 138 | 144 |
| Receivables before allowances | <u>1,101</u> | <u>1,297</u> |
| Less allowances | <u>97</u> | <u>106</u> |
| Total receivables, net | 1,004 | 1,191 |
| | | |
| Supplies, advances and prepayments | <u>369</u> | <u>366</u> |
| Total Current Assets | 1,539 | 3,823 |
| Other assets, principally revenue forgone appropriations receivable | 364 | 365 |
| Property and Equipment, at Cost: | | |
| Buildings | 20,169 | 19,759 |
| Equipment | 17,252 | 17,166 |
| Land | 2,822 | 2,809 |
| Leasehold improvements | 1,131 | 1,060 |
| | <u>41,374</u> | <u>40,794</u> |
| Less allowances for depreciation and amortization | <u>20,529</u> | <u>18,717</u> |
| | 20,845 | 22,077 |
| | | |
| Construction in progress | <u>1,560</u> | <u>977</u> |
| Total property, plant and equipment, net | <u>22,405</u> | <u>23,054</u> |
| Total Assets | \$ <u>24,308</u> | \$ <u>27,242</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.

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

STATEMENT OF FINANCIAL POSITION
August - FY 2004
(\$ Millions)

| Liabilities and Net Capital | August 31, 2004 | September 30, 2003* |
|--|----------------------------|--------------------------------|
| Current Liabilities: | | |
| Compensation and benefits | \$ 2,641 | \$ 2,518 |
| Estimated prepaid postage | 1,349 | 1,349 |
| Payables and accrued expenses: | | |
| Commercial vendors & other accrued expenses | 1,736 | 2,269 |
| Foreign countries | 738 | 879 |
| U.S. government | 79 | 112 |
| Total payables and accrued expenses | <u>2,553</u> | <u>3,260</u> |
| Permit, metered mail and prepaid box rentals | 2,006 | 1,925 |
| Outstanding postal money orders | 834 | 768 |
| Debt | <u>452</u> | <u>7,273</u> |
| Total Current Liabilities | 9,835 | 17,093 |
| Non-Current Liabilities: | | |
| Workers' compensation | 7,690 | 6,324 |
| Employees' accumulated leave | 2,032 | 1,932 |
| Other | <u>1,072</u> | <u>1,027</u> |
| Total Other Liabilities | <u>10,794</u> | <u>9,283</u> |
| Total Liabilities | 20,629 | 26,376 |
| Net Capital: | | |
| Capital contributions of the U.S. government | 3,034 | 3,034 |
| Retained earnings (deficit) since reorganization | <u>645</u> | <u>(2,168)</u> |
| Total Net Capital | <u>3,679</u> | <u>866</u> |
| Total Liabilities and Net Capital | <u>\$ 24,308</u> | <u>\$ 27,242</u> |

* Audited year-end data.

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

STATEMENT OF CASH FLOWS
Fiscal Year 2004 through August 31, 2004
(\$ Millions)

| | |
|--|----------------|
| Cash flows from operating activities: | |
| Net Income (Loss) | \$ 2,813 |
| Adjustments to reconcile net income/(loss) to net cash provided by operating activities: | |
| Depreciation and amortization | 1,976 |
| Loss on disposals of property and equipment, net | 59 |
| Decrease in other assets, principally revenue forgone appropriations receivable | 1 |
| Increase in long-term USPS workers' compensation liability | 1,342 |
| Increase in employees' accumulated leave | 100 |
| Increase in other liabilities | 45 |
| Changes in current assets and liabilities: | |
| Decrease in receivables, net | 187 |
| (Increase) in supplies, advances and prepayments | (3) |
| Decrease in compensation and benefits | 147 |
| Estimated prepaid postage | - |
| (Decrease) in payables and accrued expenses | (707) |
| Increase in permit, metered mail and prepaid box rentals | 81 |
| Increase in outstanding postal money orders | 66 |
| | <hr/> |
| Net cash provided by operating activities | 6,107 |
| Cash flows from investing activities: | |
| Purchase of property and equipment, net | (1,400) |
| Proceeds from sale of property and equipment | 14 |
| | <hr/> |
| Net cash used in investing activities | (1,386) |
| Cash flows from financing activities: | |
| U.S. government appropriations expended | - |
| Issuance of debt | - |
| Payments on debt | (6,821) |
| | <hr/> |
| Net cash used in financing activities | (6,821) |
| | |
| Net (decrease) in cash and cash equivalents | (2,100) |
| Cash and cash equivalents at beginning of year | 2,266 |
| | <hr/> |
| Cash and cash equivalents at end of period | \$ 166 |

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

CAPITAL INVESTMENTS

August - FY 2004

(\$ Millions)

| MAJOR CATEGORIES | COMMITMENTS | | | CASH OUTLAYS | | |
|---------------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| | Year-to-Date | | | Year-to-Date | | |
| | ACTUAL | PLAN | SPLY | ACTUAL | PLAN | SPLY |
| CONSTRUCTION AND BUILDING PURCHASE | \$ 82.5 | \$ 132.4 | \$ 215.7 | \$ 141.3 | \$ 271.1 | \$ 100.4 |
| BUILDING IMPROVEMENTS | 293.8 | 316.1 | 166.1 | 264.1 | 271.4 | 168.0 |
| MAIL PROCESSING EQUIPMENT | 623.4 | 1,373.5 | 813.9 | 598.2 | 741.0 | 573.8 |
| VEHICLES | 171.2 | 195.2 | 142.8 | 117.9 | 232.3 | 124.0 |
| RETAIL EQUIPMENT | 28.9 | 64.5 | 107.0 | 87.1 | 117.3 | 11.1 |
| POSTAL SUPPORT EQUIPMENT | 207.2 | 400.1 | 205.9 | 198.2 | 288.9 | 200.4 |
| TOTAL COMMITMENTS/CASH OUTLAYS | \$ 1,407.0 | \$ 2,481.7 | \$ 1,651.4 | \$ 1,406.7 | \$ 1,922.0 | \$ 1,177.7 |

RESOURCES ON ORDER

(\$ Millions)

| MAJOR CATEGORIES | August 31, 2004 | September 30, 2003 |
|------------------------------------|-------------------|--------------------|
| CONSTRUCTION AND BUILDING PURCHASE | \$ 165.4 | \$ 238.2 |
| BUILDING IMPROVEMENTS | 202.6 | 186.7 |
| MAIL PROCESSING EQUIPMENT | 1,431.9 | 1,409.5 |
| VEHICLES | 124.9 | 71.6 |
| RETAIL EQUIPMENT | 120.1 | 178.4 |
| POSTAL SUPPORT EQUIPMENT | 315.1 | 310.5 |
| TOTAL RESOURCES ON ORDER | \$ 2,360.0 | \$ 2,394.9 |

Note: Totals may not sum due to rounding.

WORKHOURS & OVERTIME/SICK LEAVE RATIOS

August - FY 2004
(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> | | | | | |
| 776 | [10] | [1.3] | 730 | 6.3 | Operations: | 8,300 | - 4 | - 0.0 | 8,339 | - 0.5 |
| 26,872 | - 166 | - 0.6 | 27,932 | - 3.8 | -Support | 309,339 | - 3,197 | - 1.0 | 321,068 | - 3.7 |
| 14,849 | [43] | [0.3] | 14,355 | 3.4 | -Mail Processing | 157,345 | - 724 | - 0.5 | 153,031 | 2.8 |
| 38,912 | [250] | [0.6] | 38,818 | 0.2 | -Rural Delivery | 426,098 | [947] | [0.2] | 426,785 | - 0.2 |
| 2,660 | [18] | [0.7] | 2,627 | 1.3 | -City Delivery | 29,340 | - 91 | - 0.3 | 29,526 | - 0.6 |
| 6,834 | - 144 | - 2.1 | 6,837 | - 0.0 | -Vehicles Services | 74,627 | - 2,203 | - 2.9 | 75,187 | - 0.7 |
| 19,369 | [297] | [1.6] | 18,649 | 3.9 | -Plant & Equip Maint | 213,860 | [700] | [0.3] | 213,740 | 0.1 |
| 418 | - 78 | - 15.8 | 450 | - 7.2 | -Customer Services | 4,497 | - 831 | - 15.6 | 5,839 | - 23.0 |
| 748 | [13] | [1.8] | 761 | - 1.7 | Finance | 8,022 | - 7 | - 0.1 | 7,991 | 0.4 |
| 1,268 | - 36 | - 2.7 | 1,203 | 5.4 | Human Resources | 13,600 | - 573 | - 4.0 | 13,588 | 0.1 |
| 5,900 | [193] | [3.4] | 5,171 | 14.1 | Customer Service & Sales | 62,211 | [732] | [1.2] | 62,447 | - 0.4 |
| 2,153 | [68] | [3.3] | 2,714 | - 20.7 | Administration | 24,974 | [1,884] | [8.2] | 38,358 | - 34.9 |
| 120,758 | [466] | [0.4] | 120,247 | 0.4 | Other | | | | | |
| | | | | | <u>Total Workhours</u> | 1,332,212 | - 3,366 | - 0.3 | 1,355,899 | - 1.7 |

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

| | | | | | | |
|------|------|------|-----------------------|------|------|------|
| 9.4% | 7.8% | 8.3% | <u>Overtime Ratio</u> | 9.3% | 8.0% | 8.2% |
| | | | Per 100 Workhours | | | |

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

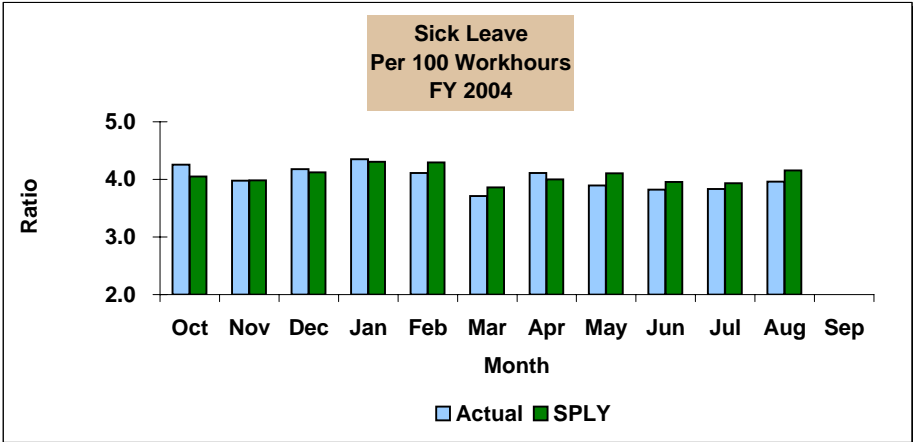
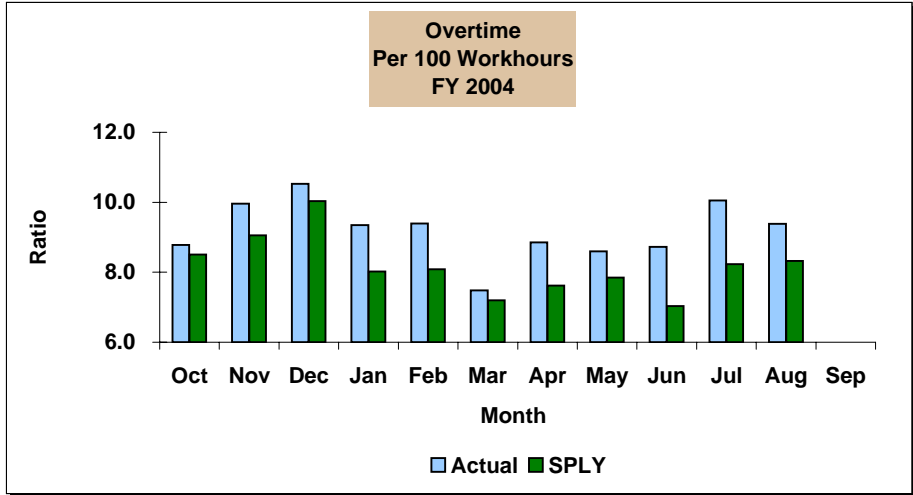
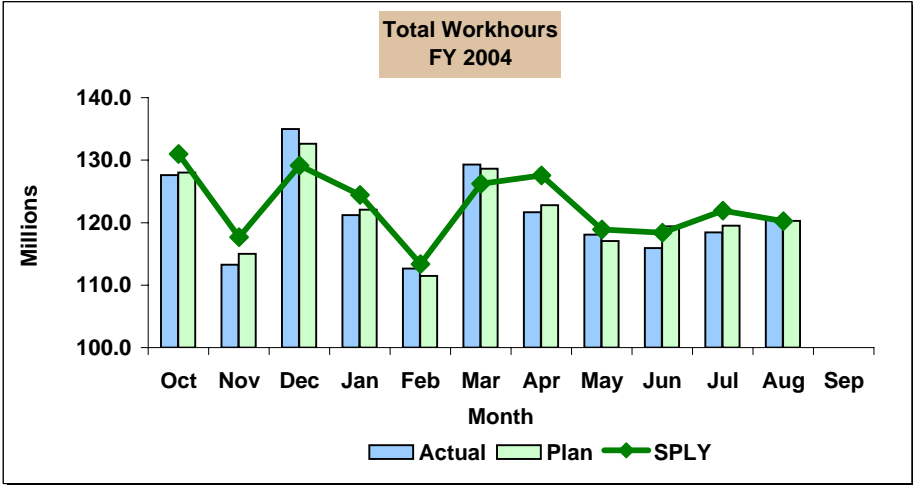
| | | | | |
|------|------|-------------------------|------|------|
| 4.0% | 4.2% | <u>Sick Leave Ratio</u> | 4.1% | 4.1% |
| | | Per 100 Workhours | | |

[]=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.

August - FY 2004

Information: August 2004 had one less Saturday and one more weekday than August 2003.

Analysis of the Financial and Operating Statements

Government appropriation of \$11.9 million in August 2003 and \$130.2 million YTD August 2003 to offset FY 2003 Emergency Preparation Programs expenses are being reclassified as revenue to be consistent with FY 2004 practice.

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

For August, Total Revenue was \$186 million or 3.2% under plan. Commercial Revenue was under plan by \$210 million or 4.8% and Retail Revenue was over plan \$26 million or 2.0%. In August, Total Revenue was \$159 million or 2.9% over same period last year (SPLY). Combined Commercial Revenue and Retail Revenue were \$195 million more than SPLY.

Year-to-date (YTD), Total Revenue is \$132 million or 0.2% under plan. Permit Revenue at \$767 million more than plan is the primary driver of the Total Revenue increase over plan. Conversely, Other Commercial Accounts at \$1,036 million or 4.9% less than plan is negatively impacting the Total Revenue performance to plan. YTD Total Revenue is \$28 million under SPLY.

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

For August, Total Expenses were \$146 million or 2.6% below plan. While personnel costs were \$117 million or 2.6% below plan, non-personnel costs were below plan by \$10 million or 0.8%. The primary contributors of the non-personnel expense plan underrun were Transportation and Supplies and Services. Combined, these contributors were \$26 million below plan. Also, as a result of modifying accrual timing, interest on deferred retirement liabilities was \$18 million below plan. Total Expenses were \$175 million or 3.1% below SPLY during August.

Year-to-date, Total Expenses are \$789 million or 1.3% below plan. YTD, personnel costs and non-personnel expenses are \$249 million and \$458 million below plan, respectively. The largest contributors to the non-personnel plan underrun are Supplies & Services, Transportation and Information Technology, which are \$192 million, \$157 million and \$98 million below plan, respectively. Transformation Plan initiatives, Supply Chain Management, more effective utilization of our transportation network, and other cost containment initiatives are continuing to drive most of our savings. Some positive impact to non-personnel savings are derived from the timing of payment for invoices versus planned payment. These cost containment activities have assisted in offsetting cost increases in other areas. Retiree health benefits have risen 15% or \$158 million above SPLY, YTD. The non-personnel lines most impacted by the increase in energy related prices, Vehicle Maintenance, Transportation and Fuel & Utilities have risen a total of \$189 million above SPLY, YTD.

August - FY 2004

Analysis of the Financial and Operating Statements (Continued)

Mail Volume and Revenue - Page 3

Total Mail Volume for August, FY 2004 was 864.2 million pieces or 5.4% above SPLY. First-Class Mail, Priority Mail, and Standard Mail were above SPLY, while Express Mail, Periodicals, Package Services and International Mail were below their August, 2003 levels.

Year-to-date, Total Mail Volume is 1.7% or 3.1 billion pieces above SPLY. The most significant mail volume increase above SPLY for FY 2004 YTD is in the lower revenue-per-piece Standard Mail category which increased 4.6 billion pieces or 5.6%. YTD, First-Class Mail volume is 1.4% less than SPLY, generating \$676 million or 2.0% less revenue than SPLY.

Capital Investments - Pages 1 and 13

The Fiscal Year 2004 Capital Commitments YTD through August 31, 2004 are \$1,407.0 million compared to a plan of \$2,481.7 million. This represents an underrun of about \$1,075 million or 43.3%.

The Cash Outlays YTD are \$1,406 million versus a plan of \$1,922 million, representing a \$515 million underrun to plan.

Workhours - Pages 1, 14 and 15

Total workhours for August 2004 were 0.5 million hours or 0.4% above plan and 0.5 million hours or 0.4% above August 2003, due to one additional workday in 2004 compared to 2003. Other Workhours and Mail Processing posted the most workhour savings to SPLY, 1.1 million hours and 0.6 million hours, respectively.

Total workhours for August, 2004 YTD are 23.7 million hours or 1.7% below SPLY. This reduction in workhours reflects the continuation of cost containment activities through the installation of more efficient mail processing equipment and other productivity enhancements. To date, Mail Processing workhours have been reduced 11.7 million hours or 3.7% below SPLY. Other Workhours, relating to Limited Duty, Rehabilitation and Headquarters General Management hours also played a major role by using 13.4 million hours less than SPLY. The reduction in Limited Duty and Rehabilitation hours is directly impacted by the initiative to include these operations in our calculation of productivity improvement opportunity.