



**UNITED STATES
POSTAL SERVICE**

FINANCIAL & OPERATING STATEMENTS

The balance sheet in this report is not adjusted. Please see the [Quarter III Financial Conditions & Results Report](#) for the restated balance sheet, and the [Press Release of December 2, 2003](#)



**Accounting Period 12, PFY 2003
July 12 – August 8, 2003**

**Prepared by:
Financial Reporting and Analysis**

Highlights
Accounting Period 12, FY 2003
(Millions)

Accounting Period 12					
Actual	Budget	Var. to Budget	% Budget	SPLY*	% SPLY
\$ 4,983.5	\$ 5,129.6	[\$ -146.1]	[-2.8]	\$ 5,057.7	-1.5
<u>5,281.9</u>	<u>5,258.3</u>	<u>[23.6]</u>	<u>[0.4]</u>	<u>5,139.3</u>	<u>2.8</u>
\$ (-298.4)	\$ (-128.7)	[\$ -169.7]	-	\$ (-81.7)	-
\$ 434.7	\$ 509.4	\$ -74.7	-14.7	\$ 89.4	386.2
110.9	112.7	-1.9	-1.7	113.5	-2.4
14,622.3	14,941.0	[-318.7]	[-2.1]	14,765.0	-1.0

Year-to-Date (September 7, 2002 - August 8, 2003)					
Actual	Budget	Var. to Budget	% Budget	SPLY *	% SPLY
\$ 63,576.2	\$ 65,013.8	[\$-1,437.6]	[-2.2]	\$ 60,864.4	4.5
<u>59,142.8</u>	<u>64,022.0</u>	<u>-4,879.2</u>	<u>-7.6</u>	<u>61,729.4</u>	<u>-4.2</u>
\$ 4,433.4	\$ 991.8	\$ 3,441.6	-	\$ (-865.0)	-
\$ 1,543.5	\$ 1,723.5	\$ -180.0	-10.4	\$ 1,042.5	48.1
1,365.4	1,375.7	-10.3	-0.7	1,416.6	-3.6
186,439.3	189,396.4	[-2,957.1]	[-1.6]	186,531.4	-0.0

[] = Unfavorable variance to budget

Note: Totals may not sum due to rounding.

Note: Mail Volume numbers are preliminary numbers and are subject to change. (See additional note on page 3.)

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

** Includes impact of revised Civil Service Retirement System (CSRS) funding requirements as a result of Public Law (PL) 108-18. Refer to notes on page 2 for an explanation of this impact.

Number Of:	Current Period	Last Period	SPLY *
Post Offices	27,697	27,698	27,863
Postal Owned Vehicles In Use			
Administrative	5,594	5,614	5,464
Operations	202,051	201,046	202,119
Total Deliveries (000) ***	141,049	140,875	139,255
City Delivery Routes	164,882	165,128	166,281
Rural Routes	69,644	69,596	69,423
Career Employees (Excludes Inspector General)	732,022	733,703	754,756
Casual Employees	19,010	20,797	20,101
Transitional Employees	11,045	11,284	12,708

*** Beginning in Accounting Period (AP 3), Fiscal Year (FY 2003), this line has been modified to include all deliveries: city, rural post office box and contracted highway deliveries.

AP 11 data is shown, as AP 12 data is not yet available for FY 2003.

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

STATEMENT OF INCOME AND EXPENSE
Accounting Period 12, FY 2003
(\$ Millions)

Current Period							Year-to-Date					
Actual	Budget	Var. to Budget	% Budget	SPLY*	% SPLY		Actual	Budget	Var. to Budget	% Budget	SPLY *	% SPLY
\$ 4,978.3	\$ 5,127.3	[\$ -149.0]	[-2.9]	\$ 5,052.9	-1.5	Operating Revenue	\$ 63,522.5	\$ 64,982.7	[\$ -1,460.2]	[-2.2]	\$ 60,826.8	4.4
4,873.1	5,107.1	-234.0	-4.6	5,009.5	-2.7	Operating Expense 1)	58,363.8	62,172.3	-3,808.5	-6.1	59,915.3	-2.6
\$ 105.2	\$ 20.2	\$ 85.0	-	\$ 43.4	-	Income (Loss) From Operations	\$ 5,158.7	\$ 2,810.4	\$ 2,348.3	-	\$ 911.5	-
5.2	2.3	2.9	126.1	4.8	9.2	Investment Income	53.7	31.1	22.6	72.4	37.6	42.9
-25.4	-27.4	2.0	-7.3	-28.8	-11.8	Interest Expense	-349.4	-363.7	14.3	-3.9	-325.8	7.2
-23.1	-123.8	100.7	-81.3	-101.1	-77.2	Interest on Deferred Retirement Costs 2)	-69.3	-1,486.0	1,416.7	-95.3	-1,488.3	-95.3
-360.3	0.0	-360.3	-	0.0	-	Debt Repurchase Expense 3)	-360.3	0.0	-360.3	-	0.0	-
\$ (-298.4)	\$ (-128.7)	[\$ -169.7]	-	\$ (-81.7)	-	Net Income/(Loss)	\$ 4,433.4	\$ 991.8	\$ 3,441.6	-	\$ (-865.0)	-

[]=Unfavorable variance to budget

Note: Totals may not sum due to rounding.

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

As a result of the recently enacted legislation, Postal Civil Service Retirement System Funding Reform Act of 2003, PL 108-18, funding by the Postal Service to the Civil Service Retirement System (CSRS) changed effective at the beginning of the second pay period of Accounting Period (AP) 9. The analysis supporting this law, developed by the Office of Personnel Management (OPM), showed that the net accumulated value of Postal Service payments already made to the fund was approaching the value of the future CSRS benefits applicable to its participants. The deferred retirement costs for CSRS to OPM were decreased to an estimated value at the end of FY 2003 of \$5.8 billion and the first payment on this is due on September 30, 2004. Additionally, the law increased the percentage of employer contributions from 7 to 17.4 percent. The following footnotes show how these changes are reflected above and on other pages.

Notes:

- Operating expenses in the current period reflect a \$91.6 million net reduction in expenses related to the adoption of PL 108-18. The reduction in expenses consists of two components: (a) a decrease of \$175.4 million reflecting the reduced deferred retirement costs and (b) an increase in the cost of the employer contributions to the CSRS for active employees of \$83.8 million for one accounting period. Year-to-date expenses have been adjusted by \$1,827.3 million to reflect the cumulative impact of PL 108-18.
- The interest accrued as a result of PL 108-18 entitled as deferred retirement costs was reduced to \$23.1 million. The current period and year-to-date reflects this change. The current period impact is a reduction of \$100.7 million, while the year-to-date reduction totals \$1,416.7 million.

Current period net income on this page and on pages 1 and 4 reflect the above impacts, a total positive impact of \$192.3 million. The year-to-date net income on this page and on pages 1 and 4 reflect a total year-to-date positive impact of \$3,243.9 million.

Total expenses on this page and on pages 1, 7, and 8 also reflect the above impacts. Specific expense lines, personnel compensation, total compensation, interest on deferred retirement costs and CSRS annuitant COLA, operating expenses, on pages 4, 7 and 8 also reflect the above impact.

- This represents the premium paid for the repurchase of \$6.0 billion of long-term debt payable to the Federal Financing Bank (FFB). Funds for the repurchase were provided through short-term debt obtained from the FFB. As a result, interest expense will be reduced and it is expected that the premium will be paid back in approximately 16 months.

See accompanying Notes to the Financial and Operating Statements beginning on page 16. This includes an analysis of performance excluding CSRS impacts.

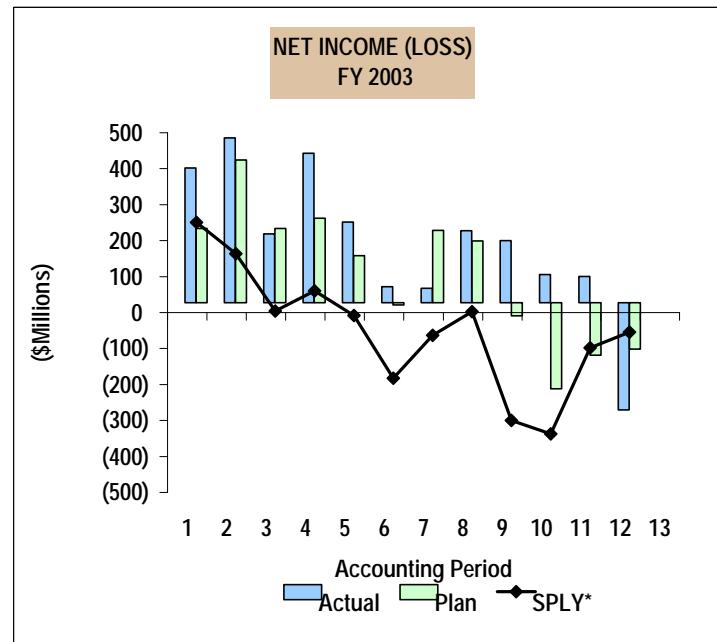
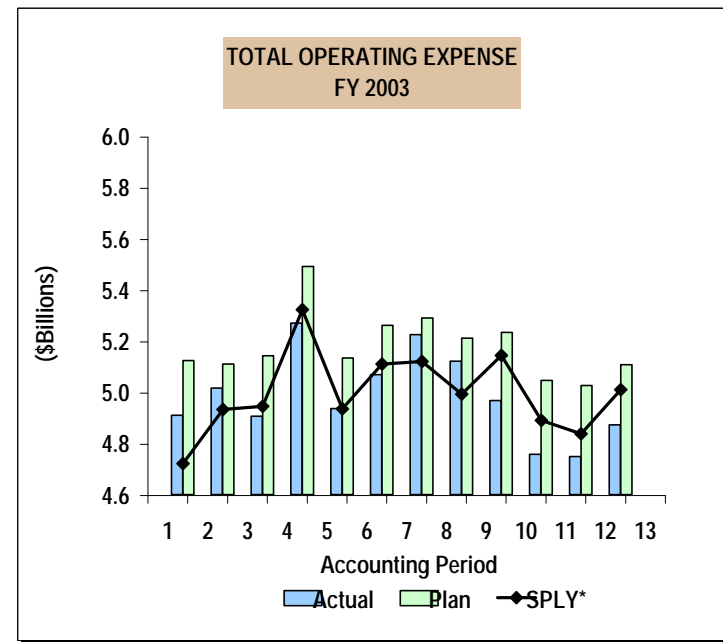
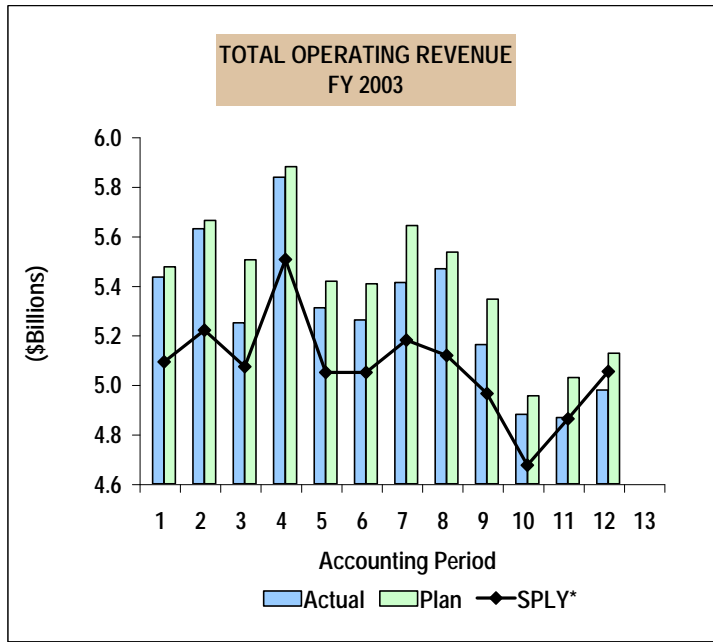
MAIL VOLUME - MAIL REVENUE (Data in Thousands)						
CATEGORY	CURRENT PERIOD			YEAR-TO-DATE		
	AP 12 FY 2003	AP 12 FY 2002	% SPLY	AP 12 FY 2003	AP 12 FY 2002	% SPLY
FIRST-CLASS						
VOLUME	7,410,715	7,499,291	- 1.2	92,174,114	94,487,874	- 2.4
REVENUE	\$ 2,772,517	\$ 2,825,133	- 1.9	\$ 34,512,795	\$ 33,395,779	3.3
REV/PC.	0.3741	0.3767	- 0.7	0.3744	0.3534	5.9
PRIORITY-MAIL						
VOLUME	60,519	63,255	- 4.3	809,717	932,501	- 13.2
REVENUE	\$ 309,116	\$ 323,735	- 4.5	\$ 4,237,745	\$ 4,365,628	- 2.9
REV/PC.	5.1078	5.1179	- 0.2	5.2336	4.6816	11.8
EXPRESS MAIL						
VOLUME	4,272	4,467	- 4.4	51,817	57,229	- 9.5
REVENUE	\$ 66,829	\$ 70,649	- 5.4	\$ 823,512	\$ 842,499	- 2.3
REV/PC.	15.6435	15.8158	- 1.1	15.8927	14.7215	8.0
PERIODICALS						
VOLUME	653,805	672,806	- 2.8	8,605,019	8,964,074	- 4.0
REVENUE	\$ 153,046	\$ 161,486	- 5.2	\$ 2,070,949	\$ 1,984,200	4.4
REV/PC.	0.2341	0.2400	- 2.5	0.2407	0.2214	8.7
STANDARD MAIL						
VOLUME	6,293,577	6,343,000	- 0.8	82,468,961	79,821,847	3.3
REVENUE	\$ 1,193,708	\$ 1,199,844	- 0.5	\$ 15,703,821	\$ 14,382,856	9.2
REV/PC.	0.1897	0.1892	0.3	0.1904	0.1802	5.7
PACKAGE SERVICES						
VOLUME	85,693	88,041	- 2.7	1,028,163	966,524	6.4
REVENUE	\$ 154,353	\$ 161,569	- 4.5	\$ 2,054,520	\$ 1,893,177	8.5
REV/PC.	1.8012	1.8352	- 1.8	1.9982	1.9587	2.0
INTERNATIONAL						
VOLUME	75,927	58,949	28.8	864,892	847,117	2.1
REVENUE	\$ 128,370	\$ 115,697	11.0	\$ 1,479,642	\$ 1,485,730	- 0.4
REV/PC.	1.6907	1.9627	- 13.9	1.7108	1.7539	- 2.5
ALL OTHER						
VOLUME	37,841	35,213	7.5	436,649	454,257	- 3.9
REVENUE	\$ 47	\$ 88	- 47.1	\$ 1,187	\$ 1,255	- 5.4
ALL MAIL						
VOLUME	14,622,348	14,765,021	- 1.0	186,439,333	186,531,423	- 0.0
REVENUE	\$ 4,777,985	\$ 4,858,202	- 1.7	\$ 60,884,171	\$ 58,351,124	4.3
REV/PC.	0.3268	0.3290	- 0.7	0.3266	0.3128	4.4

Note: Totals may not sum due to rounding.

Note: On June 30 of AP 11 FY 2002, new Domestic rates were implemented for U.S. Postal Service mail. Historically, when rates change, customers increase their stamp holdings as they convert to stamps reflecting the new rates. This postage in the hands of the public (PIHOP) phenomenon can cause a disconnect between the revenue reported in the Accounting System and the sampled mail volumes measured by RPW. AP 11 FY 2002 RPW data were affected by this PIHOP phenomenon.

Since the RPW system is designed to report accurate quarterly data, AP estimates should 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.

**Includes impact of revised CSRS funding requirements as a result of PL 108-18. Refer to notes on page 2 for an explanation of this impact.

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

REVENUE BY SOURCE
Accounting Period 12, FY 2003
(\$ Millions)

Current Period				Year-to-Date		
Actual	SPLY*	% SPLY		Actual	SPLY*	% SPLY
			Operating Revenue:			
\$ 1,854.4	\$ 1,916.8	- 3.3	Metered Postage	\$ 23,626.0	\$ 22,945.7	3.0
826.4	894.1	- 7.6	Stamps and Stamped Paper	10,841.0	10,659.3	1.7
1,135.9	1,139.7	- 0.3	Permit Imprint	14,802.6	13,545.3	9.3
151.7	160.1	- 5.3	Periodicals & Standard	2,052.7	1,966.0	4.4
72.5	68.7	5.5	Official Mail	847.4	813.3	4.2
703.9	678.0	3.8	Presort First-Class & Package Svc./Permit Imprint	8,677.7	8,490.8	2.2
52.2	57.8	- 9.6	Box Rents	730.6	683.5	6.8
14.1	15.0	- 6.0	Money Order Fees	175.2	186.8	- 6.2
<u>164.7</u>	<u>119.0</u>	38.4	Other	<u>1,739.8</u>	<u>1,491.1</u>	16.7
\$ 4,975.8	\$ 5,049.2	- 1.5	Subtotal	\$ 63,493.0	\$ 60,781.8	4.5
			Government Appropriation:			
<u>2.5</u>	<u>3.7</u>	- 34.3	Revenue Forgone	<u>29.5</u>	<u>45.0</u>	- 34.3
\$ 4,978.3	\$ 5,052.9	- 1.5	Total Operating Revenue	\$ 63,522.5	\$ 60,826.8	4.4
<u>5.2</u>	<u>4.8</u>	9.2	Investment Income	<u>53.7</u>	<u>37.6</u>	42.9
\$ 4,983.5	\$ 5,057.7	- 1.5	Total Revenue	\$ 63,576.2	\$ 60,864.4	4.5

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 12, FY 2003
(\$ Millions)

Current Period				Year-to-Date		
Actual	Budget	% Budget		Actual	Budget	% Budget
			Commercial Revenue			
\$ 2,037.6	\$ 2,131.9	[- 4.4]	Permit Revenue	\$ 26,109.4	\$ 26,785.6	[- 2.5]
<u>1,684.9</u>	<u>1,758.9</u>	[- 4.2]	Other Commercial Accounts Revenue	<u>20,860.3</u>	<u>22,047.8</u>	[- 5.4]
\$ 3,722.5	\$ 3,890.8	[- 4.3]	Total Commercial Revenue	\$ 46,969.7	\$ 48,833.4	[- 3.8]
			Retail Revenue			
1,013.5	1,002.0	1.1	Retail Postage Revenue	13,278.0	12,934.6	2.7
73.6	91.2	[- 19.3]	Retail Services Revenue	1,004.5	966.1	4.0
11.8	8.0	47.7	Retail Products Revenue	145.8	105.3	38.5
<u>118.4</u>	<u>132.3</u>	[- 10.5]	Other Retail Channels Revenue	<u>1,689.2</u>	<u>1,705.1</u>	[- 0.9]
\$ 1,217.3	\$ 1,233.5	[- 1.3]	Total Retail Revenue	\$ 16,117.5	\$ 15,711.1	2.5
\$ 4,939.8	\$ 5,124.3	[- 3.6]	Total Commercial & Retail Revenue	\$ 63,087.2	\$ 64,544.5	[- 2.3]
36.0	0.5	NM	Other Income	405.8	408.7	[- 0.7]
<u>2.5</u>	<u>2.5</u>	0.0	Revenue Forgone	<u>29.5</u>	<u>29.5</u>	0.0
\$ 4,978.3	\$ 5,127.3	[- 2.9]	Total Operating Revenue	\$ 63,522.5	\$ 64,982.7	[- 2.2]
<u>5.2</u>	<u>2.3</u>	126.1	Investment Income	<u>53.7</u>	<u>31.1</u>	72.4
\$ 4,983.5	\$ 5,129.6	[- 2.8]	Total Revenue	\$ 63,576.2	\$ 65,013.8	[- 2.2]

[]=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.

EXPENSE ANALYSIS
Accounting Period 12, FY 2003
(\$ Millions)

Current Period						Year-to-Date					
Actual	Budget	Var. to Budget	% Budget	SPLY*	% SPLY	Actual	Budget	Var. to Budget	% Budget	SPLY *	% SPLY
\$ 3,833.3	\$ 4,063.7	\$ -230.4	- 5.7	\$ 3,918.9	- 2.2	\$ 46,192.4	\$ 48,671.3	\$ -2,478.9	- 5.1	\$ 47,472.5	- 2.7
						Non-Personnel Expense:					
367.4	382.0	- 14.6	- 3.8	385.1	- 4.6	4,598.6	4,822.2	- 223.6	- 4.6	4,702.6	- 2.2
190.7	122.8	[67.9]	[55.3]	193.4	- 1.4	2,037.6	2,592.4	- 554.8	- 21.4	2,227.4	- 8.5
481.7	538.6	- 56.9	- 10.6	512.1	- 5.9	5,535.2	6,086.4	- 551.2	- 9.1	5,512.8	0.4
<u>\$ 1,039.8</u>	<u>\$ 1,043.4</u>	<u>\$ -3.6</u>	<u>- 0.3</u>	<u>\$ 1,090.6</u>	<u>- 4.6</u>	<u>\$ 12,171.4</u>	<u>\$ 13,501.0</u>	<u>\$ -1,329.6</u>	<u>- 9.8</u>	<u>\$ 12,442.8</u>	<u>- 2.2</u>
\$ 4,873.1	\$ 5,107.1	\$ -234.0	- 4.6	\$ 5,009.5	- 2.7	\$ 58,363.8	\$ 62,172.3	\$ -3,808.5	- 6.1	\$ 59,915.3	- 2.6
25.4	27.4	- 2.0	- 7.3	28.8	- 11.8	349.4	363.7	- 14.3	- 3.9	325.8	7.2
23.1	123.8	- 100.7	- 81.3	101.1	- 77.2	69.3	1,486.0	- 1,416.7	- 95.3	1,488.3	- 95.3
360.3	0.0	[360.3]	NM	0.0	NM	360.3	0.0	[360.3]	NM	0.0	NM
<u>\$ 5,281.9</u>	<u>\$ 5,258.3</u>	<u>[\$ 23.6]</u>	<u>[0.4]</u>	<u>\$ 5,139.3</u>	<u>2.8</u>	<u>\$ 59,142.8</u>	<u>\$ 64,022.0</u>	<u>\$ -4,879.2</u>	<u>- 7.6</u>	<u>\$ 61,729.4</u>	<u>- 4.2</u>

[]=Unfavorable variance to budget

Note: Totals may not sum due to rounding.

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

**Includes impact of revised CSRS funding requirements as a result of PL 108-18. Refer to notes on page 2 for an explanation of this impact.

*** The item represents a premium paid of \$360.3 million for the repurchase of \$5,976.5 million of long-term debt payable to the Federal Financing Bank (FFB). Funds for the repurchase were provided through short-term debt obtained from the FFB.

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

ANALYSIS OF OPERATING EXPENSES
Accounting Period 12, 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
\$ 28.3	\$ 29.0	\$ -0.8	-2.6	\$ 26.2	7.8		Operations:	\$ 329.4	\$ 328.7	[\$ 0.7]	[0.2]	\$ 313.9
817.2	824.0	-6.8	-0.8	803.3	1.7	-Support	10,176.4	10,240.0	-63.6	-0.6	10,220.5	-0.4
350.6	354.1	-3.5	-1.0	329.4	6.4	-Mail Processing	4,060.3	4,091.9	-31.6	-0.8	3,888.3	4.4
1,187.9	1,194.4	-6.4	-0.5	1,118.6	6.2	-Rural Delivery	14,008.2	13,926.8	[81.3]	[0.6]	13,463.4	4.0
85.7	85.4	[0.3]	[0.3]	80.8	6.0	-City Delivery**	1,010.5	1,006.9	[3.5]	[0.3]	976.4	3.5
213.7	221.5	-7.7	-3.5	199.4	7.2	-Vehicles Services	2,528.1	2,587.3	-59.2	-2.3	2,397.3	5.5
568.2	573.4	-5.1	-0.9	548.7	3.6	-Plant & Equip Maint	6,807.3	6,804.0	[3.2]	[0.0]	6,765.6	0.6
16.9	24.9	-8.0	-32.2	18.5	-8.8	-Customer Services	215.6	249.6	-33.9	-13.6	228.7	-5.7
27.4	27.5	-0.1	-0.5	24.1	13.7	Finance	304.8	310.9	-6.1	-2.0	289.5	5.3
41.6	43.7	-2.1	-4.8	38.7	7.5	Human Resources	477.3	497.5	-20.2	-4.1	429.6	11.1
185.1	187.7	-2.6	-1.4	169.8	9.0	Customer Service & Sales	2,113.2	2,088.5	[24.7]	[1.2]	1,988.9	6.2
130.6	93.5	[37.1]	[39.6]	133.2	-2.0	Administration	1,580.0	1,683.6	-103.6	-6.2	1,939.8	-18.5
\$ 3,653.2	\$ 3,659.1	\$ -5.8	-0.2	\$ 3,490.8	4.7	Other Salaries & Benefits	\$ 43,611.0	\$ 43,815.7	\$ -204.6	-0.5	\$ 42,901.8	1.7
79.8	119.8	-40.1	-33.4	162.3	-50.9	Total Salaries & Benefits	1,337.0	1,438.1	-101.0	-7.0	1,379.2	-3.1
-0.3	7.7	-8.0	-104.1	23.9	-101.3	Workers' Compensation	68.2	92.2	-24.0	-26.0	124.6	-45.2
1.8	107.9	-106.1	-98.3	107.9	-98.3	Unemployment Compensation	5.4	1,294.3	-1,288.9	-99.6	1,295.1	-99.6
0.0	69.3	-69.3	-100.0	66.3	-100.0	Deferred Retirement Cost***	0.0	831.6	-831.6	-100.0	804.2	-100.0
89.4	89.4	0.0	0.0	72.5	23.3	CSRS Annuitant COLA***	1,053.9	1,072.9	-19.0	-1.8	915.4	15.1
9.4	10.5	-1.1	-10.9	-4.8	-293.9	Annuitant Health Benefits	116.7	126.4	-9.7	-7.7	52.2	123.5
\$ 3,833.3	\$ 4,063.7	\$ -230.4	-5.7	\$ 3,918.9	-2.2	Other Compensation	\$ 46,192.4	\$ 48,671.3	\$ -2,478.9	-5.1	\$ 47,472.5	-2.7
						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.

***Includes impact of revised CSRS funding requirements as a result of PL 108-18. Refer to notes on page 2 for an explanation of this impact.

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

ANALYSIS OF NON-PERSONNEL EXPENSES
Accounting Period 12, FY 2003
(\$ Millions)

Current Period							Year-to-Date					
Actual	Budget	Var. to Budget		SPLY *	% SPLY	Description	Actual	Budget	Var. to Budget		SPLY *	% SPLY
			% Budget							% Budget		
\$ 367.4	\$ 382.0	\$ -14.6	-3.8	\$ 385.1	-4.6	Transportation	\$ 4,598.6	\$ 4,822.2	\$ -223.6	-4.6	\$ 4,702.6	-2.2
190.7	122.8	[67.9]	[55.3]	193.4	-1.4	Supplies & Services	2,037.6	2,592.4	-554.8	-21.4	2,227.4	-8.5
179.8	190.6	-10.8	-5.7	199.0	-9.7	Depreciation	2,121.0	2,289.2	-168.2	-7.3	2,156.7	-1.7
77.6	79.1	-1.5	-1.9	75.8	2.5	Rent	864.6	877.6	-13.0	-1.5	837.6	3.2
43.7	43.3	[0.4]	[1.0]	45.5	-4.0	Fuel & Utilities	460.2	485.0	-24.8	-5.1	452.7	1.7
32.4	33.7	-1.3	-3.8	31.4	3.2	Rural Carrier Equip Maint Allowance	374.3	382.9	-8.6	-2.2	361.2	3.6
32.5	33.0	-0.5	-1.5	31.9	1.9	Vehicle Maintenance	408.8	385.1	[23.7]	[6.1]	369.9	10.5
41.1	49.8	-8.7	-17.5	32.9	24.9	Information Technology	404.7	512.2	-107.4	-21.0	344.6	17.4
16.5	16.6	-0.1	-0.6	18.5	-10.8	Building Projects Expensed	159.9	209.3	-49.4	-23.6	142.3	12.4
6.3	6.0	[0.3]	[4.8]	5.6	12.0	Contract Job Cleaners	72.6	69.2	[3.4]	[4.9]	67.2	8.0
16.6	11.7	[4.9]	[41.5]	10.3	61.7	Travel & Relocation	159.2	136.0	[23.2]	[17.0]	124.0	28.3
20.9	22.4	-1.5	-6.7	18.4	13.6	Communications	181.1	207.3	-26.1	-12.6	192.7	-6.0
5.5	6.1	-0.6	-10.0	5.7	-3.7	Contract Stations	65.2	68.8	-3.6	-5.3	66.5	-2.0
2.1	5.7	-3.7	-64.1	2.9	-28.3	Printing	21.2	35.5	-14.3	-40.3	27.0	-21.4
3.3	5.8	-2.6	-44.2	3.9	-15.9	Training	41.1	69.8	-28.7	-41.1	47.5	-13.5
1.4	4.2	-2.7	-65.2	4.6	-68.7	Carfare & Tolls	41.6	53.5	-12.0	-22.4	53.8	-22.7
1.3	2.3	-0.9	-41.4	1.7	-23.1	Vehicle Hire	20.5	28.4	-7.9	-27.7	28.7	-28.5
5.1	3.6	[1.6]	[43.8]	3.4	51.5	Accident Cost	46.9	48.4	-1.5	-3.0	47.3	-0.8
-0.5	-3.6	[3.1]	[87.1]	0.1	-590.1	Capitalized Interest	-4.9	-42.8	[37.9]	[88.5]	-24.6	-79.9
-4.0	28.4	-32.4	-114.1	20.5	-119.5	Miscellaneous ¹	97.4	271.2	-173.8	-64.1	217.8	-55.3
\$ 1,039.8	\$ 1,043.4	\$ -3.6	-0.3	\$ 1,090.6	-4.7	Total Non-Personnel Expenses	\$ 12,171.4	\$ 13,501.0	\$-1,329.6	-9.8	\$ 12,442.8	-2.2

[]=Unfavorable variance to budget

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

1) The current period includes an \$11.9 million negative adjustment from Emergency Preparedness Plan appropriations. The year-to-date amount is \$130.2 million.

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

STATEMENT OF FINANCIAL POSITION
Accounting Period 12, FY 2003
(\$ Millions)

Assets	August 8, 2003	July 11, 2003	September 30, 2002 *
Current Assets:			
Cash and cash equivalents _1/	\$ 3,080	\$ 3,441	\$ 1,150
U.S. Government securities, at amortized cost which approximates market	6	6	6
Receivables:			
Foreign countries	706	728	592
U.S. Government	288	236	125
Other	198	202	192
	<u>1,192</u>	<u>1,166</u>	<u>909</u>
Less allowances	<u>116</u>	<u>119</u>	<u>112</u>
	1,076	1,047	797
Supplies, advances and prepayments	<u>385</u>	<u>342</u>	<u>327</u>
Total Current Assets	4,547	4,836	2,280
Other assets _2/	368	368	368
Property and equipment, at cost:			
Buildings	19,757	19,795	19,513
Equipment	17,121	17,027	16,421
Land	<u>2,822</u>	<u>2,826</u>	<u>2,776</u>
	39,700	39,648	38,710
Less allowances for depreciation	<u>17,967</u>	<u>17,840</u>	<u>16,401</u>
	21,733	21,808	22,309
Construction in progress	829	851	1,223
Leasehold improvements, net	<u>568</u>	<u>573</u>	<u>604</u>
	23,130	23,232	24,136
Deferred Retirement Costs _3/	<u>5,749</u>	<u>5,774</u>	<u>32,231</u>
Total Assets	<u>\$ 33,794</u>	<u>\$ 34,210</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 foregone.

_3/ Public Law 108-18 (PL 108-18), The Postal Civil Service Retirement Reform Act of 2003 revised Postal Service funding of the Civil Service Retirement System. The normal cost contribution on basic pay was increased from 7% to 17.4% effective May 3, 2003. In addition, the deferred retirement costs for CSRS to OPM were decreased to an estimated value at the end of FY 2003 of \$5.8 billion. Under PL 108-18, the first payment on the deferred retirement costs is due on September 30, 2004.

* Audited year-end data

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

STATEMENT OF FINANCIAL POSITION
Accounting Period 12, FY 2003
(\$ Millions)

Liabilities and Equities	August 8, 2003	July 11, 2003	September 30, 2002 *
**Current Liabilities:			
Compensation and employees' benefits	\$ 2,130	\$ 2,167	\$ 5,113
Estimated prepaid postage	1,468	1,486	1,500
Payables and accrued expenses:			
Foreign countries	789	847	748
U.S. Government	131	229	246
Other - Including Emergency Preparedness Appropriations	<u>2,175</u>	<u>2,131</u>	<u>1,167</u>
	3,095	3,207	2,161
Appropriation for free & reduced rate mail	5	7	0
Prepaid permit mail and box rentals	1,967	1,928	2,011
Outstanding postal money orders	920	926	986
Current portion of debt	<u>7,274</u>	<u>751</u>	<u>3,815</u>
Total Current Liabilities	16,859	10,472	15,586
Long-term debt, less current portion	0	6,524	7,300
Other Liabilities:			
Amounts payable for retirement benefits _3/	5,774	5,774	30,046
Workers' compensation claims	7,038	7,006	5,815
Employees' accumulated leave	1,931	1,930	2,088
Other	<u>1,348</u>	<u>1,362</u>	<u>1,182</u>
Total Other Liabilities	16,091	16,072	39,131
Capital Contributions of the US Government	3,034	3,034	3,034
Deficit Since Reorganization	<u>- 2,190</u>	<u>- 1,892</u>	<u>- 6,036</u>
Equity/Capital Deficiency	<u>844</u>	<u>1,142</u>	<u>- 3,002</u>
Total Liabilities and Equity	<u>\$ 33,794</u>	<u>\$ 34,210</u>	<u>\$ 59,015</u>

_3/ Public Law 108-18 (PL 108-18), The Postal Civil Service Retirement Reform Act of 2003 revised Postal Service funding of the Civil Service Retirement System. The normal cost contribution on basic pay was increased from 7% to 17.4% effective May 3, 2003. In addition, the deferred retirement costs for CSRS to OPM were decreased to an estimated value at the end of FY 2003 of \$5.8 billion. Under PL 108-18, the first payment on the deferred retirement costs is due on September 30, 2004.

* 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 August 8, 2003

Cash flows from operating activities:

Net income/(loss) (Government Fiscal Year Basis)	\$	3,846
Adjustments to reconcile net income/(loss) to net cash provided/(used) by operating activities:		
Depreciation and amortization		2,096
Increase/(decrease) in other liabilities		166
Increase/(decrease) in employees' accumulated leave		(157)
Increase/(decrease) in non-current workers' compensation claims		1,223
Increase/(decrease) in retirement, net *		2,210
Changes in current assets and liabilities:		
Increase/(decrease) in accrued compensation and benefits *		(2,983)
Increase/(decrease) in deferred revenue		(71)
Increase/(decrease) in payables and accrued expenses		934
(Increase)/decrease in receivables		(279)
(Increase)/decrease in supplies, advances and prepayments		(58)
Increase/(decrease) in outstanding postal money orders		(66)
Net cash provided by operating activities		6,861

Cash flows from investing activities:

Sale/(purchase) of U.S. Government securities, net		0
Purchase and sale of property and equipment, net		(1,090)
Net cash used in investing activities		(1,090)

Cash flows from financing activities:

Increase/(decrease) in debt		(3,841)
(Increase)/decrease in other non-current assets		0
Net cash used by financing activities		(3,841)

Net (decrease)/increase in cash and cash equivalents

1,930

Cash and cash equivalents at beginning of period

1,156

Cash and cash equivalents at end of period

\$ 3,086

* Public Law 108-18 (PL 108-18), The Postal Civil Service Retirement Reform Act of 2003 revised Postal Service funding of the Civil Service Retirement System. The normal cost contribution on basic pay was increased from 7% to 17.4% effective May 3, 2003. In addition, the deferred retirement costs for CSRS to OPM were decreased to an estimated value at the end of FY 2003 of \$5.8 billion. Under PL 108-18, the first payment on the deferred retirement costs is due on September 30, 2004.

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 12 Year-to-Date			A/P 12 Year-to-Date		
	ACTUAL	PLAN	SPLY	ACTUAL	PLAN	SPLY
CONSTRUCTION AND BUILDING PURCHASE	\$ 200.1	\$ 65.5	\$ 62.6	\$ 98.2	\$ 252.3	\$ 162.1
BUILDING IMPROVEMENTS	125.9	146.2	93.8	140.7	246.8	167.3
MAIL PROCESSING EQUIPMENT	806.9	812.3	718.4	530.6	630.4	834.6
VEHICLES	142.6	311.4	- 3.4	91.5	210.7	110.9
RETAIL EQUIPMENT	79.1	78.0	6.7	4.4	178.2	36.9
POSTAL SUPPORT EQUIPMENT	188.8	310.1	164.4	189.1	253.7	205.8
TOTAL COMMITMENTS/CASH OUTLAYS	\$ 1,543.5	\$ 1,723.5	\$ 1,042.5	\$ 1,054.5	\$ 1,772.1	\$ 1,517.6

**RESOURCES ON ORDER
(\$ Millions)**

MAJOR CATEGORIES	August 8, 2003	September 30, 2002
CONSTRUCTION AND BUILDING PURCHASE	\$ 220.7	\$ 132.3
BUILDING IMPROVEMENTS	112.6	157.1
MAIL PROCESSING EQUIPMENT	1,223.1	964.6
VEHICLES	197.0	145.8
RETAIL EQUIPMENT	115.7	40.9
POSTAL SUPPORT EQUIPMENT	92.2	95.2
TOTAL RESOURCES ON ORDER	\$ 1,961.3	\$ 1,535.9

Note: Totals may not sum due to rounding.

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

WORKHOURS & OVERTIME/SICK LEAVE RATIOS

Accounting Period 12, FY 2003

(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>					
					Operations:					
691	- 18	- 2.7	698	- 1.1	-Support	8,417	[27]	[0.3]	8,436	- 0.2
24,944	- 573	- 2.2	26,378	- 5.4	-Mail Processing	325,089	- 5,843	- 1.8	348,404	- 6.7
13,184	- 69	- 0.5	12,915	2.1	-Rural Delivery	153,540	- 1,483	- 1.0	157,485	- 2.5
35,510	- 90	- 0.3	35,903	- 1.1	-City Delivery **	429,158	[2,111]	[0.5]	435,167	- 1.4
2,435	- 6	- 0.2	2,477	- 1.7	-Vehicles Services	29,724	- 71	- 0.2	30,440	- 2.4
6,215	- 280	- 4.3	6,256	- 0.7	-Plant & Equip Maint	75,618	- 2,385	- 3.1	76,013	- 0.5
17,295	- 179	- 1.0	17,832	- 3.0	-Customer Services	214,491	- 411	- 0.2	224,131	- 4.3
438	- 227	- 34.1	537	- 18.4	Finance	5,970	- 970	- 14.0	6,689	- 10.8
698	[4]	[0.5]	664	5.1	Human Resources	8,037	- 155	- 1.9	8,011	0.3
1,142	- 68	- 5.6	1,154	- 1.1	Customer Service & Sales	13,690	- 685	- 4.8	13,095	4.5
5,291	- 50	- 0.9	5,243	0.9	Administration	62,617	[913]	[1.5]	61,842	1.3
3,010	- 305	- 9.2	3,486	- 13.7	Other	39,065	- 1,334	- 3.3	46,917	- 16.7
110,852	- 1,861	- 1.7	113,543	- 2.4	Total Workhours	1,365,415	- 10,287	- 0.7	1,416,630	- 3.6

Overtime						
Actual	Budget	SPLY		Actual	Budget	SPLY
8.1%	7.6%	7.5%	<u>Overtime Ratio</u>	8.1%	8.0%	7.7%
			Per 100 Workhours			

Sick Leave						
Actual	Budget	SPLY		Actual	Budget	SPLY
4.1%	--	4.1%	<u>Sick Leave Ratio</u>	4.1%	--	4.0%
			Per 100 Workhours			

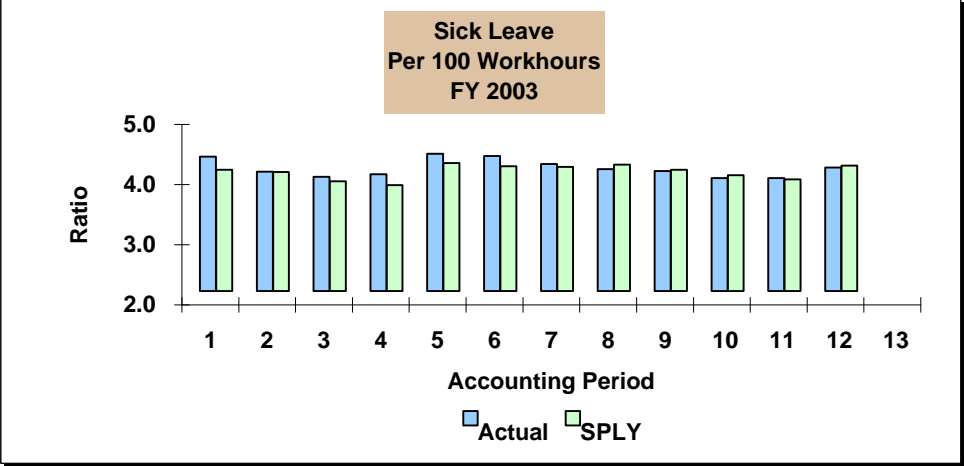
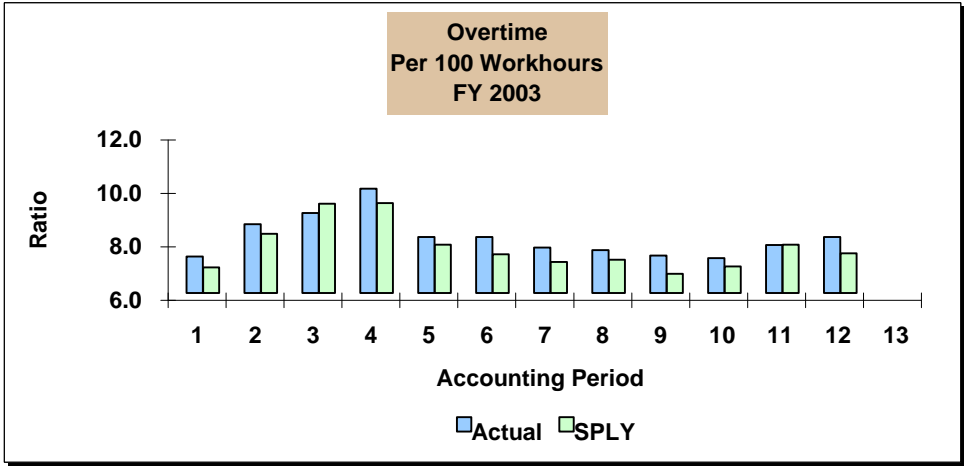
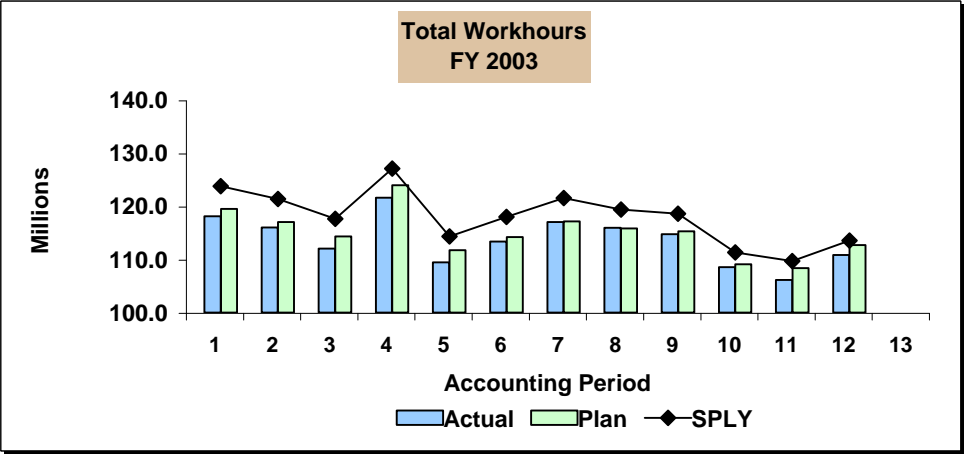
[]=Unfavorable variance to budget

Note: Totals may not sum due to rounding.

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

**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 12, FY 2003

Notes to the Financial and Operating Statements

The following provides a crosswalk from performance including the impacts of the recently enacted CSRS legislation (PL 108-18) explained on page 2 to performance, excluding the impacts.

Accounting Period 12 Performance						
	Actual	Budget	Var. to Budget	% Budget	SPLY	% SPLY
1. Total Expenses with PL 108-18 Impact (From page 1)	\$ 5,282.0	\$ 5,258.3	[\$ 23.7]	[0.5]	\$ 5,139.3	2.8
2. Employer Share Increase from 7% to 17.4%	- 83.8					
3. Reduction of Funding for CSRS Deferred Retirement Costs ¹	175.4					
4. Reduction of Interest Expense Related to CSRS Deferred Retirement Costs ²	100.7					
5. Total Expenses without impacts of PL 108-18 (Sum of lines 1 thru 4)	\$ 5,474.3	\$ 5,258.3	[\$ 216.0]	[4.1]	\$ 5,139.3	6.5
6. Total Revenue (From page 1)	4,983.6	5,129.6	[\$ - 146.0]	[- 2.8]	5,057.7	- 1.5
7. Net Income without impacts of PL 108-18 (Line 6 minus Line 5)	\$ - 490.7	\$ - 128.7	[\$ - 362.0]	-	\$ - 81.7	-

Year-to-Date Through Accounting Period 12 Performance						
	Actual	Budget	Var. to Budget	% Budget	SPLY	% SPLY
1. Total Expenses with PL 108-18 Impact (From page 1)	\$ 59,142.8	\$ 64,022.0	\$ - 4,879.2	- 7.6	\$ 61,729.4	- 4.2
2. Employer Share Increase from 7% to 17.4%	- 293.3					
3. Reduction of Funding for CSRS Deferred Retirement Costs ¹	2,120.6					
4. Reduction of Interest Expense Related to CSRS Deferred Retirement Costs ²	1,416.7					
5. Total Expenses without impacts of PL 108-18 (Sum of lines 1 thru 4)	\$ 62,386.8	\$ 64,022.0	\$ - 1,635.2	- 2.6	\$ 61,729.4	1.1
6. Total Revenue (From page 1)	63,576.2	65,013.9	[\$ - 1,437.7]	[- 2.2]	60,864.4	4.5
7. Net Income without impacts of PL 108-18 (Line 6 minus Line 5)	\$ 1,189.4	\$ 991.8	\$ 197.6	-	\$ - 865.0	-

[]=Unfavorable variance to budget

- 1) This is the savings on the reduced principle as a result of PL 108-18 lowering the deferred retirement costs. The original amount accrued for this was \$177.2 million per accounting period, while the current amount is \$1.8 million.
- 2) This is the interest savings as a result of the lowered deferred retirement costs. The original amount accrued for this was \$123.8 million per accounting period, while the current amount is \$23.1 million.

The following Notes to Financial and Operating Statements refer to performance without the impacts from PL 108-18.

Accounting Period 12, FY 2003

Notes to the Financial and Operating Statements (Continued)

The following Notes to the Financial and Operating Statements refer to performance without the impacts from the CSRS legislation.

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

Current period, Total Revenue was 2.8% or \$146 million under plan. Commercial Revenue was 4.3% or \$168 million under plan. The biggest drivers of the Commercial Revenue plan underrun were Customer Meters at \$97 million below, Standard Mail at \$33M below and First-Class Permit Imprint Mail at \$32 million below. Total Retail Revenue was 1.3% or \$16 million under plan. Total Revenue was 1.5% or \$74 million under same period last year (SPLY). The bulk of the decrease to SPLY for total revenue was reflected in Stamps and Stamped Paper, \$68 million under and Metered Postage, which decreased \$62 million.

Year-to-date (YTD), Total Revenue is \$1,438 million or 2.2% under plan. Other Commercial Accounts contribute to the majority of the Total Revenue underrun to plan, \$1,188 million, with Customer Meters being the largest contributor. As compared to SPLY, Total Revenue has increased 4.5% or \$2,712 million driven by the rate changed on June 30, 2002. Permit Imprint, Metered Postage, and Stamps and Stamped Paper revenue combined are \$2.1 billion of this total revenue change to SPLY amount.

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

Current period, Total Expenses were \$216 million or 4.1% above plan. This includes \$360.3 million premium paid for the repurchase of \$6.0 billion of long-term debt. Both personnel and non-personnel costs were below plan. Total workhours were 1.7% below plan and 2.4% below SPLY (see page 14). The primary contributors of the \$4 million plan underrun in non-personnel costs were Transportation and Depreciation, which were \$15 million and \$11 million below plan, respectively.

YTD, Total Expenses are \$1,635 million or 2.6% below plan. Most of the YTD plan underrun lies in Personnel Compensation, \$652 million; Supplies and Services, \$555 million; Transportation, \$224 million; Depreciation, \$168 million; Information Technology, \$107 million; and Building Projects Expensed, \$49 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 than planned mail volume has also had an impact.

Mail Volume and Revenue - Page 3

Total Mail Volume for Accounting Period (AP) 12, Fiscal Year (FY) 2003, was 143 million pieces below SPLY, or 1.0%. International and All Other mail were above SPLY, while First-Class, Priority Mail, Express Mail, Periodicals, Standard Mail, and Package Services were below their Accounting Period 12, FY 2002, levels.

The Total Mail Revenue for AP 12, FY 2003 YTD was slightly below that reported during the same period last year (SPLY) despite a \$2.6 billion increase in Standard Mail.

Accounting Period 12, FY 2003

Notes to the Financial and Operating Statements (Continued)

Capital Commitments - Pages 1 and 13

The Fiscal Year Capital Commitments through YTD, Accounting Period 12, FY 2003 are \$1,544 million compared to a plan of \$1,724 million. This represents an underrun of about \$180 million or 10.4%. The single largest commitment made thus far in FY 2003 was \$321 million for the Automated Package Processing Systems project which has a projected return on investment (ROI) of 24.4%.

The Cash Outlays YTD are \$1,054 million versus a plan of \$1,772 million, representing a \$718 million underrun to plan.

Workhours - Pages 1, 14 and 15

Total workhours for the accounting period were 1.9 million hours or 1.7% below plan and 2.7 million hours below same period last year. The Mail processing function, which includes automated, mechanized and manual distribution, remote barcoding operations, platform operations, and supervision was 1.4 million workhours less than SPLY. An additional 0.9 million workhours were reduced in City Delivery Service and Customer Service combined. These reductions were a direct result of cost containment and efficiency improvement activities outlined in the Transformation Plan. Other Workhours category on page 14, relating to Limited Duty, Rehabilitation and Headquarters General Management hours, played a major role in workhour reductions to SPLY. Current period, it should be noted that Other Workhours were 0.5 million hours below same period last year.

Total workhours for AP 12 YTD are reduced by 51.2 million hours or 3.6% 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, as well as capturing workhours as a result of decreasing workload. To date, Mail Processing workhours have been reduced 23.3 million hours below same period last year. City and Rural Delivery, combined with Customer Service clerk workhours, contributed to a reduction of 19.6 million workhours to SPLY.