Income Statement (Unaudited)

($ in Millions)	Quarter Ending May 17, 2002	Quarter Ending Same Period FY 2001	Year-to-Date May 17, 2002	Year-to-Date Same Period FY 2001
Operating Revenue	$ **15,285**	$ **15,607**	$ **46,263**	$ **46,711**
Operating Expenses:				
Compensation and Benefits	12,023	11,996	36,019	35,924
Transportation	1,117	1,131	3,686	3,576
Other	1,976	2,105	5,683	6,049
Total Operating Expenses	**15,116**	**15,232**	**45,387**	**45,549**
Income From Operations	**169**	**375**	**876**	**1,162**
Interest and Investment Income	11	8	26	25
Interest on Deferrred Retirement	(378)	(372)	(1,135)	(1,115)
Interest Expense on Borrowing	(83)	(77)	(243)	(267)
Net Income (Loss)	$ **(281)**	**(65)**	**(476)**	**(194)**

Based on Postal Fiscal Year

Statement of Cash Flows (Unaudited)

($ in Millions)	Year-to-date May 17, 2002	Year-to-date Same Period FY 2001
Cash Flows from Operating Activities:		
Net Income (Loss) (Government Fiscal Year)	$ (763)	$ (672)
Depreciation and Amortization	1,453	1,387
Changes in Non Current Assets & Liabilities	2,283	2,125
Changes in Current Assets & Liabilities	2,404	1,868
Net Cash Provided by Operating Activities	**5,377**	**4,708**
Cash Flows from Investing Activities:		
Sale/Purchase of U. S. Government Securities - Net	1	-
Purchase of Property and Equipment - Net	(1,383)	(2,120)
Net Cash Used by Investing Activities	**(1,382)**	**(2,120)**
Cash Flows from Financing Activities:		
Increase/(Decrease) in Long-term Debt	(4,363)	(3,224)
(Increase)/Decrease in Other Non-current Assets	-	-
Net Cash Used by Financing Activities	**(4,363)**	**(3,224)**
Net Change in Cash and Cash Equivalents	**(368)**	**(636)**
Cash & Cash Equivalents at Beginning of Period	999	677
Cash & Cash Equivalents at End of Period	$ **631**	$ **41**

Based on Government Fiscal Year

OPERATING RESULTS

NET INCOME: Quarter III net loss of $281 million was $80 million less than the planned net loss of $361 million. Revenue for the quarter was $796 million below plan but expenses were under plan by $876 million resulting in a smaller net loss than planned for the quarter.

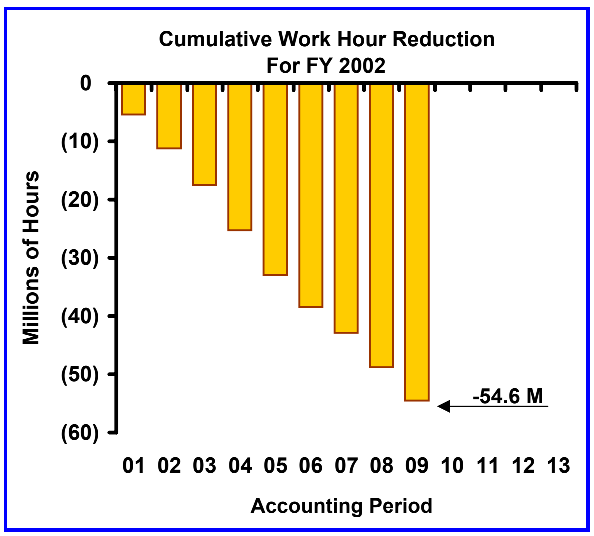
REVENUE: Revenue of $15.3 billion was 4.9 percent ($796 million) below plan and 2.0 percent ($322 million) below Quarter III of last year. Planned revenue growth for Quarter III was 3.1 percent.

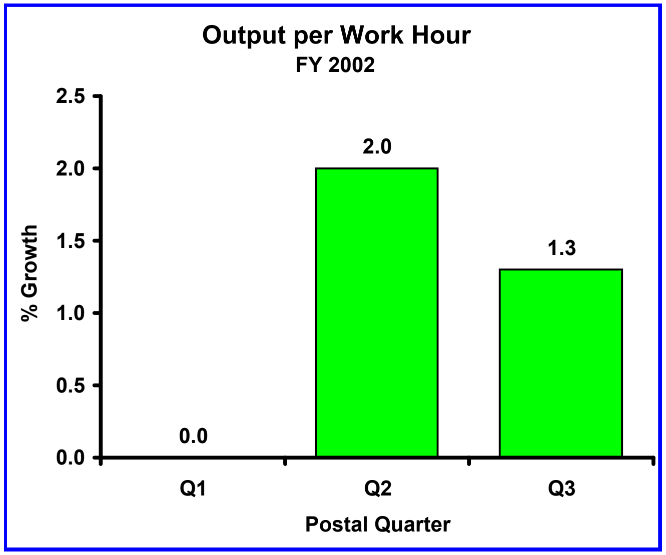
VOLUME: Total mail volume of 47.1 billion pieces for Quarter III was 3.5 percent below plan. Mail volume declined 2.5 percent during Quarter III against anticipated growth of 1.0 percent. Volume for all mail categories declined during Quarter III.

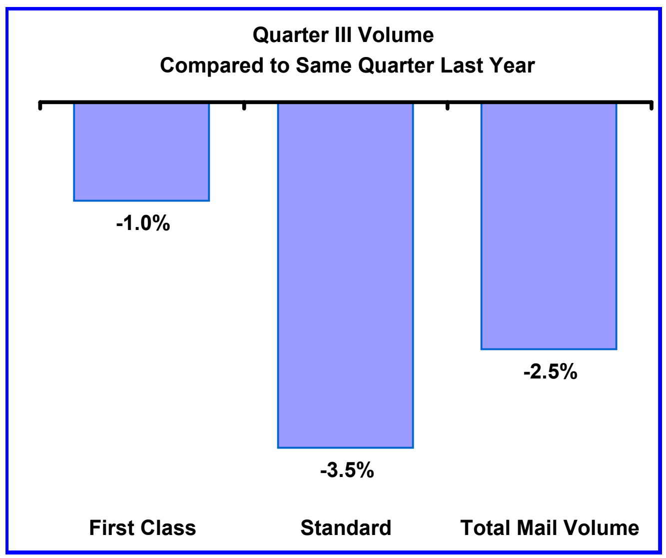
EXPENSE: Operating expenses of $15.1 billion for Quarter III were $871 million, or 5.2 percent under plan. Personnel costs were $524 million under plan, transportation expense was $80 million under plan, and other Non-personnel expense were $435 million under plan for the quarter. Operating expenses were reduced by 0.8 percent from Quarter III of last year.

Balance Sheet (Unaudited)

($ in Millions)	May 17, 2002	Sept. 30, 2001
ASSETS		
Current Assets		
Cash & Cash Equiv.	$ 631	$ 999
Other Current Assets	1,007	934
Total Current Assets	1,638	1,933
Property Plant & Equipment - Net	24,693	24,763
Deferred Retirement Costs	33,305	32,023
Other Assets	372	372
Total Assets	**60,008**	**59,091**
LIABILITIES		
Current Liabilities	14,371	11,893
Total Debt	6,952	11,315
Other Liabilities	41,774	38,209
Total Liabilities	**$ 63,097**	**$ 61,417**
EQUITY		
Contributions	$ 3,034	$ 3,034
Deficit Since Reorganization	(6,123)	(5,360)
Total Equity (Capital Deficiency)	**$ (3,089)**	**$ (2,326)**
Total Liabilities & Equity	**$ 60,008**	**$ 59,091**
Based on Government Fiscal Year		







Message from the Chief Financial Officer

Performance in Quarter III FY 2002

Performance in Quarter III FY 2002 was better than plan. The net loss of $281 million was $80 million less than the planned net loss. This net income performance was driven by strong operating expense reductions. Total operating expenses were $116 million below last year and $871 million below planned expenses for Quarter III. Revenues were $322 million below Quarter III last year and $796 million below planned revenue.

After initial setbacks from bioterrorism, total factor productivity and output per work hour gains were achieved over last year despite major volume losses. Volume in Quarter III was 2.5 percent below last year. We processed and delivered 47.1 billion pieces as compared to 48.3 billion pieces last year. Revenue loss from the volume decline of 1.2 billion pieces was offset through expense reductions. Although not included in this financial report, measured service also improved.

Positive expense and productivity performance was driven by employee and work hour reductions. Through Quarter III, career complement has been reduced by 13,750 employees, with a reduction of 5,600 in Quarter III. Complement control, along with investments in capital and other productivity initiatives, has enabled operating managers to reduce work hours in Quarter III by 16.1 million hours, bringing total work hour reductions this year to 54.6 million. These complement and work hour reductions are unprecedented.

Volume trends of the past three quarters are expected to continue through the fiscal year end in Spetember. Taking the June 30, 2002 rate increase into account, volume losses in the 3 to 4 percent range are anticipated for the quarter, compared to the same quarter last year.

With expense reductions in excess of $2.5 billion and the rate increase on June 30, the estimated net loss for the the year will be in the range $1.0 billion to $1.5 billion.

Richard J. Strasser, Jr.
Chief Financial Officer
& Executive Vice President