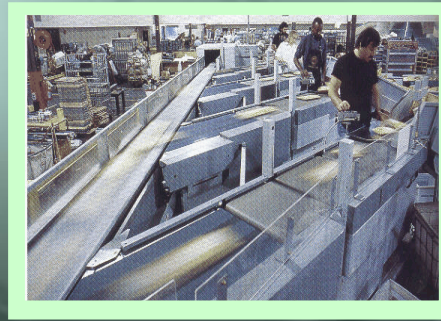




**UNITED STATES
POSTAL SERVICE**

FINANCIAL & OPERATING STATEMENTS



May, FY 2006

May 1 – May 31, 2006

Prepared by: Financial Reporting and Analysis

HIGHLIGHTS
 May 2006 - FY 2006
 (Millions)

Current Period						Year-to-Date (October 1, 2005 - May 31, 2006)					
Actual	Budget	Var. to Budget	% Budget	SPLY	% SPLY	Actual	Budget	Var. to Budget	% Budget	SPLY	% SPLY
\$ 6,095.8	\$ 6,028.9	\$ 66.9	1.1	\$ 5,465.0	11.5	\$ 49,150.4	\$ 48,739.2	\$ 411.2	0.8	\$ 47,350.7	3.8
<u>6,102.0</u>	<u>5,987.8</u>	<u>[114.2]</u>	<u>[1.9]</u>	<u>5,663.2</u>	<u>7.7</u>	<u>47,504.9</u>	<u>47,223.6</u>	<u>[281.3]</u>	<u>[0.6]</u>	<u>45,513.5</u>	<u>4.4</u>
\$ (6.2)	\$ 41.1	[\$ -47.3]	NM	\$ (198.2)	NM	\$ 1,645.6	\$ 1,515.7	\$ 129.9	NM	\$ 1,837.2	NM
<u>250.0</u>						<u>2,000.0</u>					
<u>\$ (256.2)</u>						<u>\$ (354.4)</u>					
\$ 99.4	\$ 192.9	[\$ -93.5]	[-48.5]	\$ 72.8	36.5	\$ 610.9	\$ 778.6	[\$ -167.7]	[-21.5]	\$ 988.9	-38.2
124.6	121.7	[2.9]	[2.4]	120.4	3.5	979.4	964.1	[15.2]	[1.6]	981.5	-0.2

Actual Number Of:	Current Period	Last Period	SPLY
Post Offices	27,327	27,327	27,445
Postal Owned Vehicles In Use			
Administrative	6,273	6,256	5,881
Operations	209,707	209,712	206,798
Total Deliveries (000)	145,402	145,236	143,545
City Delivery Routes	163,930	164,026	164,594
Rural Routes	73,506	73,293	71,513
Career Employees (excludes Inspector General)	695,458	694,565	702,274
Casual Employees	21,525	21,185	21,408
Transitional Employees	6,306	6,437	9,224

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

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

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

Current Period						Year-to-Date						
Actual	Budget	Var. to Budget	% Budget	SPLY	% SPLY	Actual	Budget	Var. to Budget	% Budget	SPLY	% SPLY	
\$ 6,076.7	\$ 6,009.2	\$ 67.5	1.1	\$ 5,455.3	11.4	Operating Revenue	\$ 49,051.8	\$ 48,630.1	\$ 421.7	0.9	\$ 47,302.5	3.7
<u>6,080.2</u>	<u>5,965.9</u>	[<u>114.3</u>]	1.9	<u>5,645.0</u>	7.7	Operating Expense	<u>47,329.0</u>	<u>47,047.1</u>	[<u>281.9</u>]	[0.6]	<u>45,367.1</u>	4.3
\$ (3.5)	\$ 43.3	[\$ - 46.8]	NM	\$ (189.7)	NM	Income/(Loss) From Operations	\$ 1,722.8	\$ 1,583.0	\$ 139.8	NM	\$ 1,935.4	NM
19.1	19.7	[- 0.6]	[- 3.0]	9.7	96.9	Investment Income	98.6	109.1	[- 10.5]	[- 9.6]	48.2	104.6
-	0.1	- 0.1	- 100.0	0.1	- 100.0	Interest Expense	1.4	2.0	- 0.6	- 30.0	1.6	- 12.5
<u>21.8</u>	<u>21.8</u>	<u>-</u>	-	<u>18.1</u>	20.4	Interest on Deferred Retirement Obligations	<u>174.4</u>	<u>174.4</u>	<u>-</u>	-	<u>144.8</u>	20.4
\$ (6.2)	\$ 41.1	[\$ - 47.3]	NM	\$ (198.2)	NM	Net Income Before Escrow Allocation *	\$ 1,645.6	\$ 1,515.7	\$ 129.9	NM	\$ 1,837.2	NM
<u>250.0</u>						Escrow Allocation *	<u>2,000.0</u>					
\$ (256.2)						Net Gain/(Deficiency) After Escrow Allocation *	\$ (354.4)					

[]=Unfavorable variance to budget

* See footnote on page 1.

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

MAIL VOLUME - MAIL REVENUE
(Data in Thousands)

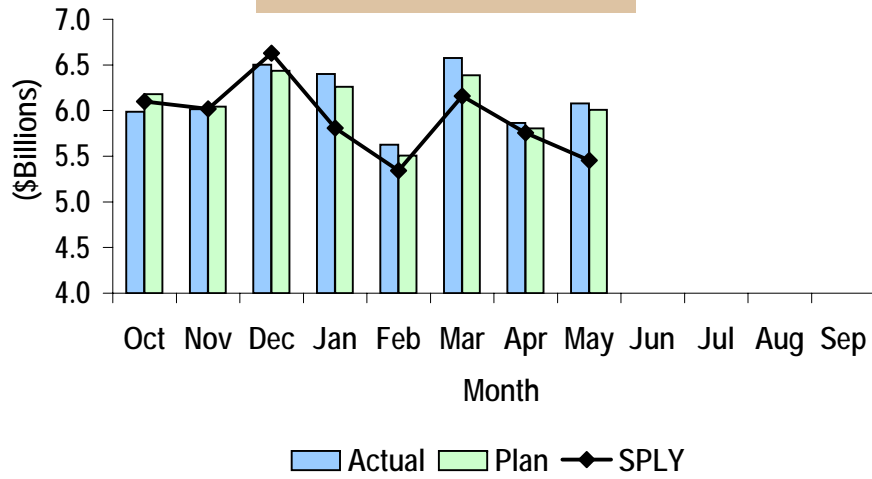
CATEGORY	CURRENT PERIOD			YEAR-TO-DATE		
	May 31, FY 2006	May 31, FY 2005*	% SPLY	May 31, FY 2006	May 31, FY 2005 *	% SPLY
FIRST-CLASS						
VOLUME	8,136,730	7,690,418	5.8	66,356,999	66,751,836	- 0.6
REVENUE	\$ 3,120,641	\$ 2,820,729	10.6	\$ 25,048,548	\$ 24,578,737	1.9
REV/PC.	\$ 0.3835	\$ 0.3668	4.6	\$ 0.3775	\$ 0.3682	2.5
PRIORITY-MAIL						
VOLUME	74,379	71,766	3.6	640,051	605,874	5.6
REVENUE	\$ 407,238	\$ 366,058	11.2	\$ 3,513,318	\$ 3,177,897	10.6
REV/PC.	\$ 5.4752	\$ 5.1007	7.3	\$ 5.4891	\$ 5.2451	4.7
EXPRESS MAIL						
VOLUME	4,884	4,694	4.0	37,829	36,744	3.0
REVENUE	\$ 80,626	\$ 73,365	9.9	\$ 618,753	\$ 580,305	6.6
REV/PC.	\$ 16.5082	\$ 15.6295	5.6	\$ 16.3566	\$ 15.7932	3.6
PERIODICALS						
VOLUME	762,281	762,667	- 0.1	6,076,464	6,118,141	- 0.7
REVENUE	\$ 190,526	\$ 181,756	4.8	\$ 1,481,314	\$ 1,458,200	1.6
REV/PC.	\$ 0.2499	\$ 0.2383	4.9	\$ 0.2438	\$ 0.2383	2.3
STANDARD MAIL						
VOLUME	8,659,511	7,843,798	10.4	68,894,998	67,501,087	2.1
REVENUE	\$ 1,686,083	\$ 1,466,083	15.0	\$ 13,308,826	\$ 12,709,803	4.7
REV/PC.	\$ 0.1947	\$ 0.1869	4.2	\$ 0.1932	\$ 0.1883	2.6
PACKAGE SERVICES						
VOLUME	87,794	82,254	6.7	791,399	771,161	2.6
REVENUE	\$ 180,308	\$ 159,126	13.3	\$ 1,551,531	\$ 1,520,615	2.0
REV/PC.	\$ 2.0538	\$ 1.9346	6.2	\$ 1.9605	\$ 1.9719	- 0.6
INTERNATIONAL						
VOLUME	50,143	66,646	- 24.8	547,843	586,629	- 6.6
REVENUE	\$ 133,122	\$ 133,084	0.0	\$ 1,283,704	\$ 1,204,133	6.6
REV/PC.	\$ 2.6548	\$ 1.9969	32.9	\$ 2.3432	\$ 2.0526	14.2
ALL OTHER						
VOLUME	124,986	47,168	165.0	735,076	459,907	59.8
ALL MAIL						
VOLUME	17,900,708	16,569,411	8.0	144,080,659	142,831,378	0.9
REVENUE	\$ 5,798,545	\$ 5,200,201	11.5	\$ 46,805,994	\$ 45,229,689	3.5
REV/PC.	\$ 0.3239	\$ 0.3138	3.2	\$ 0.3249	\$ 0.3167	2.6

NOTE: Totals may not sum due to rounding.

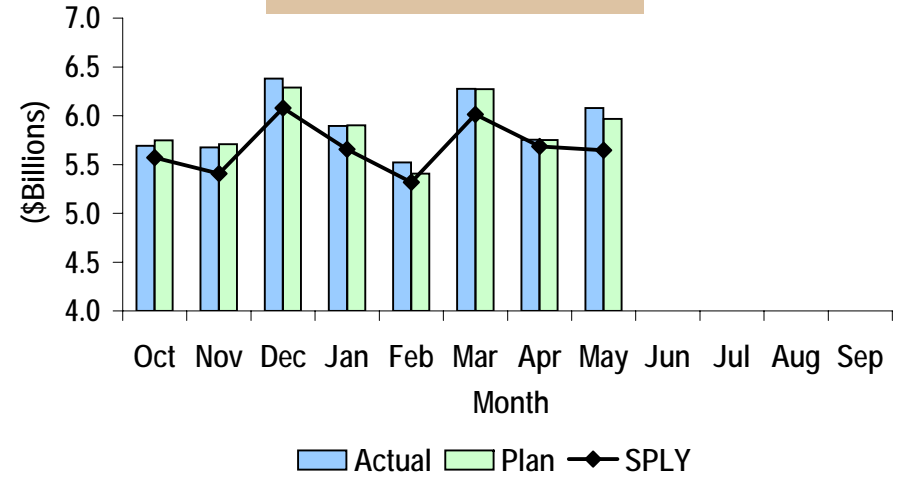
When interpreting RPW SPLY changes under monthly reporting, users must factor in the number and composition of business days in the relevant time periods.

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

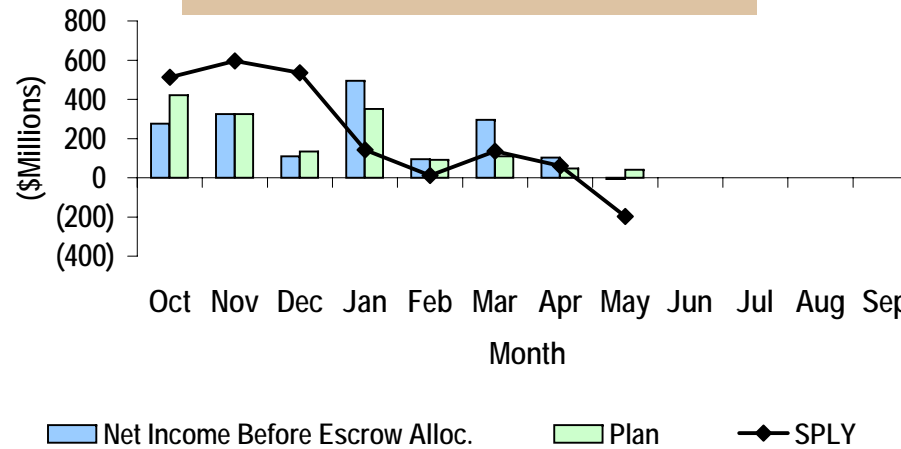
**TOTAL OPERATING REVENUE
FY 2006**



**TOTAL OPERATING EXPENSE
FY 2006**



**NET INCOME BEFORE ESCROW ALLOCATION
FY 2006**



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

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

Current Period				Year-to-Date		
Actual	SPLY	% SPLY		Actual	SPLY	% SPLY
			Operating Revenue:			
\$ 2,073.1	\$ 1,921.9	7.9	Metered Postage	\$ 16,832.3	\$ 16,628.9	1.2
880.2	839.3	4.9	Stamps and Stamped Paper	7,634.0	7,674.0	- 0.5
1,594.9	1,372.9	16.2	Permit Imprint	12,576.1	11,928.2	5.4
189.0	180.5	4.7	Periodicals & Standard	1,469.0	1,446.0	1.6
68.8	62.3	10.4	Official Mail	568.8	548.3	3.7
994.5	827.3	20.2	Presort First-Class & Package Svc./Permit Imprint	7,752.6	7,014.3	10.5
66.4	60.3	10.1	Box Rents	524.8	514.2	2.1
17.9	17.7	1.1	Money Order Fees	141.8	143.3	- 1.0
<u>177.9</u>	<u>164.0</u>	8.5	Other	<u>1,444.7</u>	<u>1,342.7</u>	7.6
\$ 6,062.7	\$ 5,446.2	11.3	Subtotal	\$ 48,944.1	\$ 47,239.9	3.6
<u>14.0</u>	<u>9.1</u>	53.8	Government Appropriations	<u>107.7</u>	<u>62.6</u>	72.0
\$ 6,076.7	\$ 5,455.3	11.4	Total Operating Revenue	\$ 49,051.8	\$ 47,302.5	3.7
<u>19.1</u>	<u>9.7</u>	96.9	Investment Income	<u>98.6</u>	<u>48.2</u>	104.6
<u>\$ 6,095.8</u>	<u>\$ 5,465.0</u>	11.5	Total Revenue	<u>\$ 49,150.4</u>	<u>\$ 47,350.7</u>	3.8

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

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

Current Period				Year-to-Date		
Actual	Budget	% Budget		Actual	Budget	% Budget
			Commercial Revenue			
\$ 2,833.4	\$ 2,699.5	5.0	Permit Revenue	\$ 22,283.8	\$ 21,771.7	2.4
1,755.8	1,847.7	[- 5.0]	Other Commercial Accounts Revenue	13,956.6	14,616.8	[- 4.5]
\$ 4,589.2	\$ 4,547.2	0.9	Total Commercial Revenue	\$ 36,240.4	\$ 36,388.5	[- 0.4]
			Retail Revenue			
1,039.1	1,082.9	[- 4.0]	Retail Postage Revenue	9,076.0	9,040.2	0.4
105.9	101.4	4.4	Retail Services Revenue	828.6	827.1	0.2
15.5	15.0	3.3	Retail Products Revenue	137.9	130.2	5.9
270.0	209.8	28.7	Other Retail Channels Revenue	2,264.7	1,789.9	26.5
\$ 1,430.5	\$ 1,409.1	1.5	Total Retail Revenue	\$ 12,307.2	\$ 11,787.4	4.4
\$ 6,019.7	\$ 5,956.3	1.1	Total Commercial & Retail Revenue	\$ 48,547.6	\$ 48,175.9	0.8
43.0	41.0	4.9	Other Income	396.5	350.5	13.1
14.0	11.9	17.6	Government Appropriations	107.7	103.7	3.9
\$ 6,076.7	\$ 6,009.2	1.1	Total Operating Revenue	\$ 49,051.8	\$ 48,630.1	0.9
19.1	19.7	[- 3.0]	Investment Income	98.6	109.1	[- 9.6]
\$ 6,095.8	\$ 6,028.9	1.1	Total Revenue	\$ 49,150.4	\$ 48,739.2	0.8

[]=Unfavorable variance to budget

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

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

Current Period							Year-to-Date						
Actual	Budget	Var. to Budget	% Budget	SPLY	% SPLY		Actual	Budget	Var. to Budget	% Budget	SPLY	% SPLY	
\$ 4,794.1	\$ 4,760.0	[\$ 34.1]	[0.7]	\$ 4,436.0	8.1	Personnel Compensation	\$ 37,276.5	\$ 36,921.9	[\$ 354.6]	[1.0]	\$ 36,070.1	3.3	
Non-Personnel Expense:													
511.0	485.7	[25.3]	[5.2]	453.8	12.6	Transportation	4,003.4	3,969.2	[34.2]	[0.9]	3,595.0	11.4	
214.0	199.1	[14.9]	[7.5]	206.5	3.6	Supplies & Services	1,609.2	1,675.7	- 66.5	- 4.0	1,513.8	6.3	
<u>561.1</u>	<u>521.1</u>	<u>[40.0]</u>	[7.7]	<u>548.7</u>	2.3	Other	<u>4,439.8</u>	<u>4,480.2</u>	<u>- 40.4</u>	- 0.9	<u>4,188.3</u>	6.0	
\$ 1,286.1	\$ 1,205.9	[\$ 80.2]	[6.7]	\$ 1,209.0	6.4	Subtotal	\$ 10,052.5	\$ 10,125.2	\$ - 72.7	- 0.7	\$ 9,297.0	8.1	
\$ 6,080.2	\$ 5,965.9	[\$ 114.3]	[1.9]	\$ 5,645.0	7.7	Total Operating Expense	\$ 47,329.0	\$ 47,047.1	[\$ 281.9]	[0.6]	\$ 45,367.1	4.3	
0.0	0.1	- 0.1	- 100.0	0.1	- 100.0	Interest Expense	1.4	2.0	- 0.6	- 30.0	1.6	- 12.5	
<u>21.8</u>	<u>21.8</u>	<u>-</u>	-	<u>18.1</u>	20.4	Interest on Deferred Retirement Obligations	<u>174.4</u>	<u>174.4</u>	<u>-</u>	-	<u>144.8</u>	20.4	
\$ 6,102.0	\$ 5,987.8	[\$ 114.2]	[1.9]	\$ 5,663.2	7.7	Total Expense	\$ 47,504.8	\$ 47,223.5	[\$ 281.3]	[0.6]	\$ 45,513.5	4.4	

[]=Unfavorable variance to budget

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

ANALYSIS OF OPERATING EXPENSES

Personnel Compensation

May 2006 - FY 2006

(\$ Millions)

Current Period							Year-to-Date						
Actual	Budget	Var. to Budget	% Budget	SPLY	% SPLY		Actual	Budget	Var. to Budget	% Budget	SPLY	% SPLY	
							Total Compensation						
							Operations:						
\$ 40.4	\$ 38.4	[\$ 2.1]	[5.3]	\$ 36.3	11.3	-Support	\$ 301.9	\$ 285.7	[\$ 16.3]	[5.7]	\$ 278.7	8.3	
986.4	960.8	[25.5]	[2.7]	929.1	6.2	-Mail Processing	7,943.8	7,725.9	[217.9]	[2.8]	7,772.1	2.2	
484.1	475.5	[8.6]	[1.8]	434.8	11.3	-Rural Delivery	3,634.3	3,622.3	[11.9]	[0.3]	3,383.4	7.4	
1,483.5	1,451.8	[31.7]	[2.2]	1,354.2	9.5	-City Delivery	11,517.5	11,369.7	[147.8]	[1.3]	11,174.1	3.1	
108.0	106.2	[1.9]	[1.7]	98.5	9.6	-Vehicles Services	830.7	822.2	[8.5]	[1.0]	799.1	4.0	
273.3	279.4	- 6.1	- 2.2	252.4	8.3	-Plant & Equip Maint	2,092.7	2,136.6	- 43.9	- 2.1	2,011.8	4.0	
717.0	693.2	[23.8]	[3.4]	656.4	9.2	-Customer Services	5,596.5	5,455.1	[141.4]	[2.6]	5,399.9	3.6	
19.2	21.0	- 1.8	- 8.6	17.9	7.2	Finance	145.1	161.9	- 16.7	- 10.3	139.3	4.2	
31.9	33.5	- 1.7	- 5.0	32.8	- 2.9	Human Resources	240.1	246.0	- 5.9	- 2.4	252.3	- 4.8	
46.8	47.9	- 1.1	- 2.2	42.8	9.4	Customer Service & Sales	355.1	360.6	- 5.5	- 1.5	342.6	3.7	
232.7	225.5	[7.2]	[3.2]	217.3	7.1	Administration - Field	1,725.8	1,725.7	[0.1]	[0.0]	1,680.4	2.7	
112.8	163.5	- 50.7	- 31.0	122.5	- 7.9	Other Salaries & Benefits	844.4	909.2	- 64.8	- 7.1	900.4	- 6.2	
\$ 4,536.1	\$ 4,496.7	[\$ 39.4]	[0.9]	\$ 4,195.1	8.1	Total Salaries & Benefits	\$ 35,227.9	\$ 34,820.9	[\$ 407.0]	[1.2]	\$ 34,134.0	3.2	
99.6	99.7	- 0.1	- 0.1	92.2	8.1	Workers' Compensation	797.3	797.8	- 0.5	- 0.1	762.1	4.6	
4.8	4.1	[0.7]	[18.3]	5.4	- 11.6	Unemployment Compensation	46.7	41.5	[5.2]	[12.5]	31.7	47.5	
2.4	2.4	-	-	1.9	26.3	Deferred Retirement Cost	19.2	19.2	-	-	15.2	26.3	
140.2	144.9	- 4.7	- 3.3	129.4	8.3	Annuitant Health Benefits	1,095.0	1,118.8	- 23.9	- 2.1	993.9	10.2	
11.0	12.2	- 1.3	- 10.3	12.0	- 8.5	Other Compensation	90.5	123.7	- 33.2	- 26.8	133.2	- 32.1	
\$ 4,794.1	\$ 4,760.0	[\$ 34.1]	[0.7]	\$ 4,436.0	8.1	Total Personnel Compensation	\$ 37,276.5	\$ 36,921.9	[\$ 354.6]	[1.0]	\$ 36,070.1	3.3	

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

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

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

Current Period							Year-to-Date					
Actual	Budget	Var. to		SPLY	% SPLY	Description	Actual	Budget	Var. to		SPLY	% SPLY
		Budget	% Budget						Budget	% Budget		
\$ 511.0	\$ 485.8	[\$ 25.3]	[5.2]	\$ 453.8	12.6	Transportation	\$ 4,003.4	\$ 3,969.1	[\$ 34.3]	[0.9]	\$ 3,595.0	11.4
214.0	199.1	[14.9]	[7.5]	206.5	3.6	Supplies & Services	1,609.2	1,675.7	- 66.5	- 4.0	1,513.8	6.3
170.6	179.9	- 9.3	- 5.2	163.6	4.3	Depreciation	1,427.4	1,453.0	- 25.6	- 1.8	1,358.4	5.1
83.2	83.0	[0.2]	[0.3]	82.0	1.5	Rent	686.5	690.7	- 4.2	- 0.6	686.2	0.0
51.7	50.4	[1.3]	[2.6]	43.6	18.6	Utilities & Heating Fuel	441.8	440.2	[1.5]	[0.4]	373.9	18.2
37.2	36.9	[0.3]	[0.8]	35.3	5.5	Rural Carrier Equip Maint Allowance	311.5	314.0	- 2.4	- 0.8	288.8	7.9
67.7	55.3	[12.5]	[22.6]	54.2	24.9	Vehicle Maintenance Services	461.9	422.1	[39.8]	[9.4]	378.8	21.9
33.1	50.4	- 17.3	- 34.3	28.4	16.5	Information Technology	232.5	325.3	- 92.9	- 28.5	204.6	13.6
24.8	17.9	[6.9]	[38.7]	17.8	39.5	Building Projects Expensed	157.4	149.1	[8.2]	[5.5]	160.5	- 1.9
7.8	7.3	[0.5]	[6.4]	6.7	16.5	Contract Job Cleaners	63.3	60.8	[2.6]	[4.2]	57.9	9.4
23.9	19.2	[4.6]	[24.0]	20.7	15.3	Travel & Relocation	160.5	143.8	[16.7]	[11.6]	148.1	8.4
22.3	18.3	[4.0]	[21.7]	19.7	13.1	Communications	158.5	139.4	[19.1]	[13.7]	147.0	7.9
6.1	6.7	- 0.6	- 9.1	6.3	- 3.3	Contract Stations	49.6	54.1	- 4.4	- 8.2	50.0	- 0.7
1.6	2.1	- 0.5	- 22.7	2.4	- 33.5	Printing	15.6	17.6	- 2.1	- 11.7	16.8	- 7.6
5.0	7.1	- 2.1	- 29.2	6.4	- 21.2	Training	32.4	47.6	- 15.2	- 32.0	37.3	- 13.1
2.1	3.1	- 1.0	- 33.3	2.6	- 20.4	Carfare & Tolls	18.9	21.2	- 2.3	- 10.8	20.0	- 5.3
1.1	1.2	- 0.1	- 7.7	1.2	- 3.7	Vehicle Hire	10.8	10.7	[0.2]	[1.4]	10.2	6.5
5.9	3.2	[2.7]	[86.3]	4.0	47.4	Accident Costs	37.2	30.9	[6.3]	[20.4]	32.3	15.3
16.9	- 20.9	[37.9]	- 180.9	53.9	- 68.6	Miscellaneous	173.9	159.6	[14.3]	[8.9]	217.5	- 20.0
\$ 1,286.1	\$ 1,205.9	\$ 80.2	[6.7]	\$ 1,209.0	6.4	Total Non-Personnel Expenses	\$ 10,052.5	\$ 10,125.2	\$ - 72.7	- 0.7	\$ 9,297.0	8.1

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

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

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

Assets	May 31, 2006	May 31, 2005	September 30, 2005*
Current Assets:			
Cash and cash equivalents _1/	\$ 3,585	\$ 2,546	\$ 930
Receivables:			
Foreign countries	582	672	590
U.S. Government	267	316	280
Other	<u>192</u>	<u>182</u>	<u>188</u>
Receivables before allowances	1,041	1,170	1,058
Less allowances	<u>48</u>	<u>113</u>	<u>50</u>
Total receivables, net	993	1,057	1,008
Supplies, advances and prepayments	<u>168</u>	<u>155</u>	<u>200</u>
Total Current Assets	4,746	3,758	2,138
Other Assets, principally revenue forgone appropriations receivable	393	361	376
Property and Equipment, at Cost:			
Buildings	20,933	20,321	20,480
Equipment	19,411	18,066	18,664
Land	2,888	2,806	2,878
Leasehold improvements	<u>1,218</u>	<u>1,134</u>	<u>1,172</u>
	44,450	42,327	43,194
Less allowances for depreciation and amortization	<u>23,548</u>	<u>21,866</u>	<u>22,400</u>
	20,902	20,461	20,794
Construction in progress	<u>1,872</u>	<u>2,021</u>	<u>1,895</u>
Total property and equipment, net	22,774	22,482	22,689
Total Assets	<u>\$ 27,913</u>	<u>\$ 26,601</u>	<u>\$ 25,203</u>

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

* Audited year-end data.

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

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

STATEMENT OF FINANCIAL POSITION

May 2006 - FY 2006

(\$ Millions)

Liabilities and Net Capital	May 31, 2006	May 31, 2005	September 30, 2005*
Current Liabilities:			
Compensation and benefits	\$ 3,599	\$ 3,367	\$ 2,852
Estimated prepaid postage	1,221	1,261	1,200
Payables and accrued expenses:			
Commercial vendors & accrued expenses	1,142	1,100	1,568
Foreign countries	590	801	688
U.S. government	63	56	76
Total payables and accrued expenses	<u>1,795</u>	<u>1,957</u>	<u>2,332</u>
Customer deposit accounts	1,660	1,617	1,720
Outstanding postal money orders	775	811	830
Prepaid box rent & other deferred revenue	434	422	477
Debt	-	-	-
Total Current Liabilities	<u>9,484</u>	<u>9,435</u>	<u>9,411</u>
Non-Current Liabilities:			
Workers' compensation costs	7,463	7,406	6,695
Employees' accumulated leave	2,241	2,181	2,016
Deferred revenue	692	772	692
Long-term portion capital lease obligations	663	656	644
Other	349	383	369
Total Non-Current Liabilities	<u>11,408</u>	<u>11,398</u>	<u>10,416</u>
Total Liabilities	<u>20,892</u>	<u>20,833</u>	<u>19,827</u>
Net Capital:			
Capital contributions of the U.S. government	3,034	3,034	3,034
Retained earnings since reorganization	3,987	2,734	2,342
Total Net Capital	<u>7,021</u>	<u>5,768</u>	<u>5,376</u>
Total Liabilities and Net Capital	<u>\$ 27,913</u>	<u>\$ 26,601</u>	<u>\$ 25,203</u>

* Audited year-end data.

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

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

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

	May 31, 2006	May 31, 2005	September 30, 2005*
Cash flows from operating activities:			
Net Income	\$ 1,645	\$ 1,837	\$ 1,445
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	1,417	1,350	2,089
Loss on disposals of property and equipment, net	7	1	5
Increase in revenue forgone appropriations receivable	(17)	-	(15)
Increase (decrease) in workers' compensation liability	768	755	(58)
Increase in employees' accumulated leave	225	175	10
Increase (decrease) in long-term portion capital lease liability	19	4	(8)
Increase in non-current deferred revenue	-	484	288
(Decrease) increase in other non-current liabilities	(20)	2	(399)
Changes in current assets and liabilities:			
Decrease (increase) in receivables, net	15	(33)	16
Decrease in supplies, advances and prepayments	32	65	20
Increase in compensation and benefits	747	727	314
Increase (decrease) in estimated prepaid postage	21	5	(56)
Decrease in payables and accrued expenses	(536)	(619)	(199)
(Decrease) increase in customers' deposit accounts	(60)	11	114
(Decrease) increase in outstanding postal money orders	(55)	44	63
(Decrease) increase in prepaid box rent & other deferred revenue	(43)	(3)	52
Net cash provided by operating activities	4,165	4,805	3,681
Cash flows from investing activities:			
Purchase of property and equipment	(1,524)	(1,359)	(2,317)
Proceeds from sale of property and equipment	14	23	31
Net cash used in investing activities	(1,510)	(1,336)	(2,286)
Cash flows from financing activities:			
U.S. government appropriation - received	-	-	503
U.S. government appropriation - expended	-	-	(45)
Issuance of debt	-	-	-
Payments on debt	-	(1,800)	(1,800)
Net cash used in financing activities	-	(1,800)	(1,342)
Net increase (decrease) in cash and cash equivalents	2,655	1,669	53
Cash and cash equivalents at beginning of year	930	877	877
Cash and cash equivalents at end of period	\$ 3,585	\$ 2,546	\$ 930

* Audited year-end data.

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

CAPITAL INVESTMENTS

May 2006 - FY 2006

(\$ Millions)

MAJOR CATEGORIES	COMMITMENTS			CASH OUTLAYS		
	Year-to-Date			Year-to-Date		
	ACTUAL	PLAN	SPLY	ACTUAL	PLAN	SPLY
CONSTRUCTION AND BUILDING PURCHASE	\$ 127.4	\$ 126.2	\$ 141.1	\$ 115.3	\$ 134.1	\$ 143.1
BUILDING IMPROVEMENTS	240.7	262.5	142.2	342.8	291.6	266.4
MAIL PROCESSING EQUIPMENT	158.7	277.0	191.6	635.4	563.9	471.8
VEHICLES	15.3	15.4	28.5	169.2	71.6	122.2
RETAIL EQUIPMENT	0.0	0.3	3.2	0.5	20.4	54.7
POSTAL SUPPORT EQUIPMENT	68.9	97.2	482.3	260.3	330.2	301.0
TOTAL COMMITMENTS/CASH OUTLAYS	\$ 610.9	\$ 778.6	\$ 988.9	\$ 1,523.6	\$ 1,411.9	\$ 1,359.2

Note: Totals may not sum due to rounding.

RESOURCES ON ORDER

(\$ Millions)

MAJOR CATEGORIES	May 31, 2006	September 30, 2005
CONSTRUCTION AND BUILDING PURCHASE	\$ 156.5	\$ 149.0
BUILDING IMPROVEMENTS	306.4	419.5
MAIL PROCESSING EQUIPMENT	1,531.8	2,017.9
VEHICLES	49.6	202.7
RETAIL EQUIPMENT	38.0	38.5
POSTAL SUPPORT EQUIPMENT	391.6	579.8
TOTAL RESOURCES ON ORDER	\$ 2,473.9	\$ 3,407.4

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

WORKHOURS & OVERTIME/SICK LEAVE RATIOS

May 2006 - FY 2006
(Data in Thousands)

Current Period					Total Workhours	Year-to-Date				
Actual	Var. to Budget	% Budget	SPLY *	% SPLY		Actual	Var. to Budget	% Budget	SPLY *	% SPLY
877	[34]	[4.0]	819	7.0	Operations:	6,604	[346]	[5.5]	6,335	4.3
27,632	[1,062]	[4.0]	27,196	1.6	-Support	226,997	[8,709]	[4.0]	228,766	- 0.8
16,143	[275]	[1.7]	15,070	7.1	-Mail Processing	122,698	[1,259]	[1.0]	118,522	3.5
40,156	[910]	[2.3]	38,414	4.5	-Rural Delivery	313,010	[3,424]	[1.1]	314,521	- 0.5
2,762	[37]	[1.4]	2,643	4.5	-City Delivery	21,495	[79]	[0.4]	21,374	0.6
7,010	- 203	- 2.8	6,814	2.9	-Vehicles Services	54,371	- 1,599	- 2.9	54,188	0.3
19,815	[656]	[3.4]	19,108	3.7	-Plant & Equip Maint	157,426	[3,854]	[2.5]	157,277	0.1
430	- 67	- 13.6	422	1.9	-Customer Services	3,290	- 435	- 11.7	3,297	- 0.2
710	- 38	- 5.1	773	- 8.2	Finance	5,443	- 125	- 2.2	5,948	- 8.5
1,180	- 25	- 2.1	1,127	4.7	Human Resources	9,048	- 209	- 2.3	9,029	0.2
5,953	[175]	[3.0]	5,863	1.5	Customer Service & Sales	44,672	[145]	[0.3]	45,258	- 1.3
1,923	95	[5.2]	2,157	- 10.9	Administration	14,307	- 210	- 1.4	16,944	- 15.6
124,589	[2,910]	[2.4]	120,405	3.5	Other	979,361	[15,238]	[1.6]	981,460	- 0.2
					Total Workhours					

Overtime						
Actual	Budget	SPLY		Actual	Budget	SPLY

10.6%	8.1%	9.4%	Overtime Ratio Per 100 Workhours	11.2%	8.7%	10.7%
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Sick Leave				
Actual	SPLY		Actual	SPLY

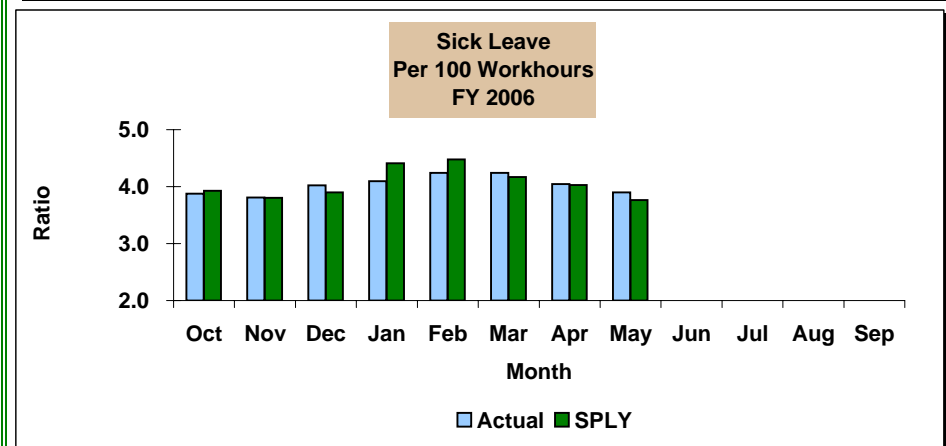
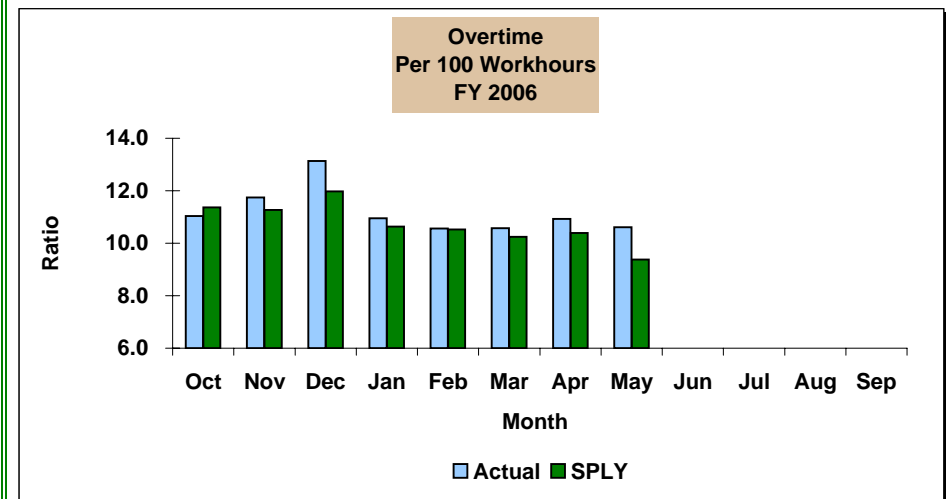
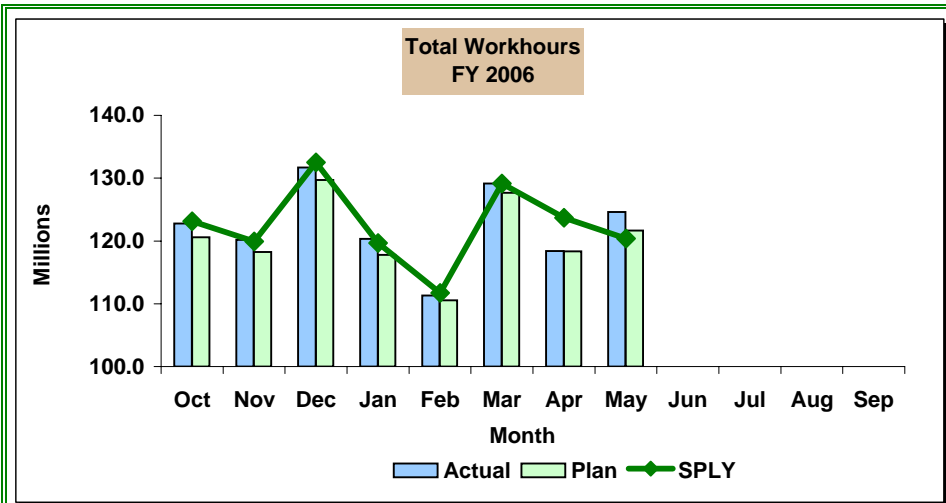
3.9%	3.8%	Sick Leave Ratio Per 100 Workhours	4.0%	4.0%
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[]=Unfavorable variance to budget

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.

May 2006 - FY 2006

Information: For the month, there was one more delivery day and one more business weekday as compared to same period last year (SPLY). Year-to-date (YTD), there are an equal number of delivery days and one less business day compared to last year.

Analysis of the Financial and Operating Statements

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

For May, Total Revenue was \$67 million or 1.1% over plan, and \$631 million or 11.5% over same period last year (SPLY). Commercial Revenue was over plan by \$42 million or 0.9% and Retail Revenue was over plan \$21 million or 1.5%. In May, combined Total Commercial Revenue and Retail Revenue were \$613 million more than SPLY. Most of the increase in revenue to SPLY for May was reflected in Presort First and Package Services/Permit Imprint and Permit Imprint. Combined these revenue sources were \$389 million more than SPLY.

Year-to-date, Total Revenue is \$411 million or 0.8% over plan. The largest contributors to the plan overrun are Permit Revenue at \$512 million or 2.4% more and Other Retail Channels at \$475 million or 26.5% more than plan. YTD, Total Revenue is \$1,800 million over SPLY. Primary contributors to the increase over SPLY are Permit Revenue at \$1,417 million more and Other Retail Channels Revenue at \$607 million more than last year.

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

For May, Total Expenses were \$114 million above plan. Personnel costs were \$34 million or 0.7% above plan and non-personnel costs were above plan by \$80 million or 6.7%. Compared to SPLY, this month's Total Expenses were increased by \$439 million or 7.7%. Factors contributing to this increase over SPLY include transportation costs, an increase in deliveries, increased fuel prices, health benefits and COLA costs.

Year-to-date, Total Expenses were \$281 million or 0.6% above plan. Personnel costs are \$355 million or 1.0% above plan, while non-personnel expenses are \$73 million or 0.7% below plan. The largest contributors to the non-personnel plan underrun are Supplies and Services at \$67 million or 4.0% below plan and Information Technology at \$93 million or 28.5% below plan. YTD Total Expenses are \$1,991 million or 4.4% above SPLY.

May 2006 - FY 2006

Analysis of the Financial and Operating Statements (Continued)

Mail Volume and Revenue - Page 3

Total Mail Volume for May, FY 2006 was 1.3 billion pieces or 8.0% above SPLY. With the exception of Periodical Mail and International Mail, all of the major mail categories posted volumes above their May 2005 levels. These two categories combined were 17 million pieces below SPLY.

Year-to-date, Total Mail Volume is 0.9% or 1.2 billion pieces above SPLY. A significant mail volume increase over SPLY for YTD is in the lower revenue-per-piece Standard Mail category, which increased 1.4 billion pieces or 2.1%. YTD, First-Class Mail volume is 0.6% less than SPLY generating only \$470 million more revenue than SPLY.

Capital Investments - Pages 1 and 13

The Fiscal Year 2006 Capital Commitments YTD through May 2006 are \$611 million compared to a plan of \$779 million. This represents a plan underrun of about \$168 million or 21.5%.

The Cash Outlays YTD are \$1,524 million versus a plan of \$1,412 million, representing a \$112 million overrun to plan.

Workhours - Pages 1, 14 and 15

Total Workhours for May 2006 were 2.9 million hours or 2.4% above plan, and 4.2 million hours or 5.5% above May 2005. Together, City Delivery and Rural Delivery increased 2.8 million hours over SPLY.

Total Workhours for May 2006 YTD are 15.2 million hours or 1.6% above plan and 2.1 million hours or 0.2% below SPLY. The most significant plan overruns lie in Mail Processing by 8.7 million hours, Delivery Services by 4.7 million hours, and Customer Services by 3.9 million hours. YTD, major contributors to the workhours decrease to SPLY are City Delivery and Mail Processing workhours. Combined these operations workhours are 3.3 million hours below SPLY.