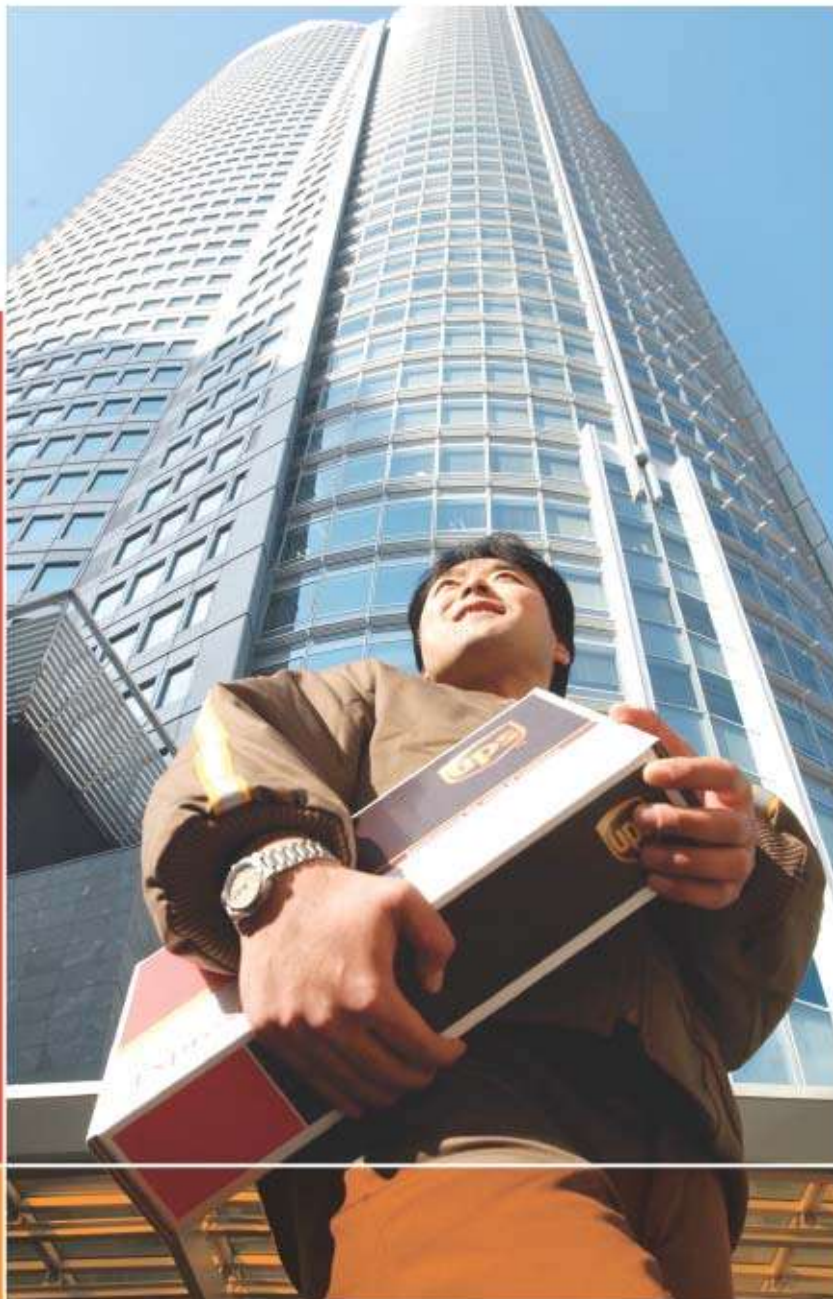


Operating in Unison

2004 UPS Corporate Sustainability Report

Published June 2005



OVERVIEW



UPS continues to focus on improving the global communities in which we do business every day. We have supported our employees who donate their own time to helping communities in 35 countries. We are constantly reviewing our processes to make sure we are reducing our impact on the environment. This includes examining how we drive, fly and conduct business worldwide.

In 2004, we continued to introduce new initiatives and gain new recognition that will help us achieve our sustainability goals for the year 2007. Throughout each section of this site you will find more details about the initiatives affecting our economic, social and environmental performance.

Economic Sustainability

- Rated the "World's Most Admired" company in its industry in a *FORTUNE* magazine survey for the sixth consecutive time. UPS was also rated "America's Most Admired" company in its industry for the 21st consecutive year. UPS ranked No. 1 among all companies on the attributes of quality of management, financial soundness, use of corporate assets and social responsibility.
- Included in the Dow Jones Sustainability Index, an index of companies that meet specific sustainability criteria for the third consecutive year.
- Added to the FTSE4Good Index, a leading European index fund comprised of socially responsible companies.



FTSE4Good

Community Investment

- Encouraged participation in the second annual UPS Global Volunteer week, which took place in October 2004 and included triple the number of volunteers and volunteer hours of the inaugural year. More than 3,500 UPS employees volunteered more than 15,000 hours in 35 countries during the 2004 event.
- Launched a new focus on hunger in 2004 called The UPS Foundation National Collaboration to Reduce Hunger and Improve Nutrition. This U.S. grant-making program centers on helping national, regional, state and local organizations work to reduce obesity and improve the nutrition of hungry people in our communities. The initiative was launched with the award of US\$2 million in grants to eight different organizations.

Workforce Investment and Acknowledgments

- Continued UPS's Earn and Learn program, which has provided US\$72.8 million of tuition assistance for 48,765 employees in the U.S. since 1999. This program is available at 51 locations in the U.S.
- Introduced two new safety initiatives - Safety First and Target Zero - to minimize auto accidents and employee injuries.
- Recognized by several prominent organizations for the company's commitment to promoting a diverse and inclusive workplace. UPS was ranked No. 32 on *DiversityInc* magazine's "Top 50 Companies for Diversity" and was listed among *Hispanic Magazine's* "Corporate 100."

Ground and Air Fleet Initiatives

- Continuing to enhance our fleet with our "rolling laboratory" philosophy - using our alternative fuel fleet as a way to learn about how new technologies and advancements can be adapted for use in a large delivery fleet.
 - Deployed two fuel cell powered Sprinter vans into the California fleet. These vehicles were the first medium duty, hydrogen powered vehicles in a commercial fleet in North America.
 - Operated a second-generation hybrid electric vehicle that operated in Kalamazoo, Mich.
 - Introduced an electric vehicle that operates in New York, N.Y.
- Continuing to add modern, wide-body aircraft, including eight A300-600s and three MD11s to our fleet, which improves the overall efficiency of the air network and offers improved environmental benefits as well.
- Continuing to evaluate the effectiveness of continuous descent approach (CDA) when landing at airports rather than stepping down altitudes. With CDA, planes use idle power to glide down, which makes less noise, burns less fuel and creates fewer emissions.
- Using The Lido flight planning system to calculate the most efficient route between two points, based on weather, winds, terrain and other factors. UPS is the first U.S.-based carrier to use Lido.
- Appointed an airline fuel manager and a fuel analyst to look for additional ways to reduce fuel consumption throughout UPS Airlines, the world's ninth largest airline.

Infrastructure Efficiencies

- Used renewable, solar energy to provide 70 percent of the power source for the UPS Palm Springs, California facility. The 100-kilowatt solar panel array exceeded expectations in 2004 by producing 4.9 percent more power than anticipated. 405,000 pounds of CO₂ emissions have been saved since implementation in July 2003.

New in 2005

- Announced in partnership with the U.S. EPA and other companies plans to build and test the first fully-hydraulic urban delivery vehicle to further advance hybrid technology.
- Deployed a second electric vehicle in Manhattan, NY.
- Implemented our ENERGY STAR® Million Monitor Drive pledge, installing "sleep" software on 11,000 of its computers in Atlanta, Ga., Louisville, Ky., Towson, Md., and Mahwah, N.J., to conserve energy.
- Joined the U.S. Environmental Protection Agency's Green Power Partnership, which recognizes organizations that demonstrate environmental leadership by using renewable energy. In addition, UPS now has 14 facilities in California using "green" power as part of their electricity supply.
- Named America's Most Socially Responsible Company by *FORTUNE* magazine.
- Listed on the inaugural list of 2005 Global 100 Most Sustainable Corporations in the World. This list acknowledges UPS as a company that produces an overall positive impact on society and the environment. UPS was the only delivery company to make the list.
- Provided US\$3 million in aid to those areas devastated by the tsunamis across Southeast Asia. UPS donated US\$2.5 million in in-kind services, US\$400,000 in cash grants to relief organizations and up to US\$100,000 in employee-matching contributions.



Sustainability Statement



At UPS, we believe our business success depends upon balancing economic, social and environmental objectives.

UPS provides optimal service and value to our customers by striving for the highest operational efficiencies and minimizing impact to the environment.

This business model has endured for nearly a century, and it has generated significant benefits for our stakeholders - employees, customers, communities and shareholders. Indeed, it is the foundation of a culture rooted in an ownership philosophy that values long-term strategy along with diligent execution.

This balanced approach to business also is an important element of synchronizing global commerce, which we believe will be one of the most powerful and pervasive economic, social and environmental forces of the 21st century.

A Letter from the Chairman



The issue of corporate sustainability has never been more timely or important than it is today. Last year the pace of global economic development reached an all-time high. In the developing world alone, more people rose out of poverty than at any time in history.

Clearly, more people around the world are yearning for and demanding a better quality of life that comes with increased global connectivity and trade. At the same time, global energy prices are soaring, threatening long-term economic growth and stability.

In this environment, there's no better time for stakeholders to deepen their relationships with companies that are succeeding in balancing economic, social and environmental responsibilities.

We believe UPS is well on its way.

Sustainable business practices have served UPS well since our inception in 1907, and will remain guiding imperatives as we approach our second century. This commitment was highlighted two years ago in our first Corporate Sustainability report. This year, we are pleased to provide another update on our progress.

UPS is moving forward in a number of important areas including increasing fuel efficiency, lowering aircraft emissions and decreasing the injury rate of our employees. That said, we're never satisfied with the status quo. UPS has a term we use to challenge ourselves, "constructive dissatisfaction." In that spirit, we will continue to aggressively push ahead with our 2007 goals, and we'll do so with knowing that we've got the right people, programs and principles to get us there.

Mike Eskew

Chairman and CEO

The UPS Business Model



Our business - which serves eight million customers daily in over 200 countries by 384,000 employees - is built on a single, highly integrated network structure. We believe this model is the most efficient, cost effective, environmentally responsible and profitable in the industry. All goods - air and ground, domestic and international, commercial and residential - are processed through a single network. This results in very efficient use of assets and lower costs.

The single network model delivers significant benefits: reducing environmental impact; offering opportunities to employees; and providing positive financial performance. This report elaborates on the ways in which all three of these aspects of a sustainable enterprise are manifested in UPS.

UPS Company Profile

Our Business - Synchronizing Commerce



Every day, millions of business transactions speed across telephone wires, computer networks and wireless equipment. In today's economy, everything involved in these transactions - the goods, the information and the funds - must flow in a synchronized fashion. UPS is one of the few companies in the world that has the infrastructure, the scale, the financial strength and the expertise to make that synchronization happen.

From moving huge cargo containers across the ocean to expediting customs paperwork at international ports to simply delivering a small package to a local neighborhood, we handle the seamless movement of two percent of the world's commerce. We serve more than 200 countries and territories worldwide and own the world's largest franchiser of retail shipping, postal and business service centers.

Our Network - The Industry's Most Efficient



At UPS, all products - export and domestic, premium and standard, air and ground, commercial and residential - flow through the same infrastructure, making for efficient and environmentally sound use of assets. For instance, our intelligent use of intermodal transportation makes UPS one of the largest railroad customers in the United States.

This merging of multiple products into a single network structure results in substantial efficiencies. For example, volume is handled at a lower cost per package with fewer miles traveled between stops.

UPS's single network provides the flexibility to transport goods using the most reliable and cost-effective transportation mode or combination of modes - air, rail or ground - and still meet our delivery commitments.

Our Technology - The Engine of Commerce

Complementing UPS's unique network structure, technology powers virtually every service we offer and every operation we perform. Today, more than 95 percent of the information about the small packages that move through our system each day is provided to us by our customer.



The continuation of our deployment of Package Flow Technology, marks a major re-engineering of our U.S. package operations. Through its use, we will deliver packages even more reliably, while reducing our fuel consumption. The technology also positions us to provide more customized solutions.

Financial Information

(Millions of dollars except per-share amounts)	2004	2003	2002	2001	2000
Total revenue	\$ 36,582	\$ 33,485	\$ 31,272	\$ 30,321	\$ 29,498
Operating expenses	31,593	29,040	27,176	26,359	24,986
Income taxes	1,589	1,472	1,755	1,512	1,900
Net income	3,333	2,898	3,182	2,399	2,934
Diluted earnings per share	\$2.93	\$2.55	\$2.81	\$2.10	\$2.50
Total assets	33,026	29,734	26,868	24,636	21,662
Long-term debt	3,261	3,149	3,495	4,648	2,981
Shareowners' equity	16,384	14,852	12,455	10,248	9,735

Governance



To us "governance" is the guiding principle for "how we run the business." Integrity, reliability and trust have been cornerstones of UPS since we were founded in 1907.

We have run our business in a manner that creates and sustains a financially strong organization which takes its social and environmental responsibilities seriously.

Today, "governance" has come to be defined by others as identifying specific structures, controls and processes to ensure the interests of shareowners are protected.

UPS has had a focus on employee ownership since its inception. As of December 31, 2004, employees, retirees and founders' families still retain about 46 percent of the company's stock. Therefore, we have a long history of focus on shareowner interests.

Our governance practices are explained in detail on the UPS Investor Relations Web site including information about the composition, committees and compensation of our Board of Directors. Detailed information about our structure and management philosophy is also available on the Web site.

Report Overview



We used the Global Reporting Initiative (GRI)* as the foundation for compiling our Corporate Sustainability Report. The GRI helped identify key performance indicators (KPIs) particularly relevant to our business.

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In addition to GRI recommended measurements, we developed key performance indicators that are completely new to our industry. They represent a significant step forward to fully and accurately measure the impact of companies like us on society and the environment. The new measurements include ground network fuel efficiency and aircraft emissions per payload capacity.

All measurements in the report uniquely reflect our culture, business model, quality of management and impact on natural resources. Throughout the report, KPIs are indicated with a special icon to distinguish them from informational charts and graphs, as shown below:

- Key Performance Indicator

A few additional notes about the data and measurements:

- Approximately 53 percent of our KPIs include global data; 47 percent are based on U.S. data.
- Whenever available, global data is used as the basis for performance measurement. Acquiring global data is an ongoing challenge for UPS, but one that is referenced throughout the report as one of our goals.

Moving Forward

We will provide annual updates regarding the specific performance measures listed in our report and periodic updates on our strategic direction. All updates will be available on our Web site as well as in a modified printed form.

Feedback

Preparing this report is a valuable opportunity for us to assess and improve upon our economic, environmental and social progress and performance. We welcome your opinion and perspective by writing or e-mailing us:

Mailing Address:

UPS Corporate Sustainability Report
55 Glenlake Parkway, NE
Atlanta, GA 30328

E-mail Address:

sustainability@ups.com

*GRI has not verified the contents of this report, nor does it take a position on the reliability of information reported herein. Except for historical information contained herein, the statements made in this report constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Such forward-looking statements, including statements regarding the intent, belief or current expectations of UPS and its management regarding the company's strategic directions, prospects and future results, involve certain risks and uncertainties.

Certain factors may cause actual results to differ materially from those contained in the forward-looking statements, including economic and other conditions in the markets in which we operate, governmental regulations, our competitive environment, strikes, work stoppages and slowdowns, increases in aviation and motor fuel prices, cyclical and seasonal fluctuations in our operating results, and other risks discussed in the company's Form 10-K and other filings with the Securities and Exchange Commission, which discussions are incorporated herein by reference.

Facts at a Glance

2004 Company Statistics

FOUNDED	August 28, 1907, in Seattle, Wash.
HEADQUARTERS	Atlanta, Ga.
WORLD WIDE WEB ADDRESS	www.ups.com
CHAIRMAN AND CEO	Michael L. Eskew
2004 REVENUE	US\$36.6 billion
EMPLOYEES	384,000 (328,000 U.S.; 42,000 Europe; 8,000 Canada; 3,000 Asia Pacific; 3,000 Americas)

PACKAGE OPERATIONS

2004 DELIVERY VOLUME	3.6 billion packages and documents
DAILY DELIVERY VOLUME	14.1 million packages and documents
DAILY U.S. AIR VOLUME	2.1 million packages and documents
DAILY INTERNATIONAL VOLUME	1.4 million packages and documents
SERVICE AREA	More than 200 countries and territories Every address in North America and Europe
CUSTOMERS	7.9 million daily
UPS.COM	145 million hits per day on www.ups.com - including an average 10 million daily on-line tracking requests
RETAIL ACCESS	<i>The UPS Store</i> , 3,900; Mail Boxes Etc., 1,500 (global); UPS Customer Centers, 1,000; Authorized outlets, 17,000; UPS Drop Boxes, 40,000
OPERATING FACILITIES	1,748
DELIVERY FLEET	88,000 package cars, vans, tractors, motorcycles
UPS JET AIRCRAFT	268; 9th largest airline in the world
CHARTERED AIRCRAFT	296
DAILY FLIGHT SEGMENTS	Domestic - 1,082; International - 1,140

AIRPORTS SERVED	Domestic - 402; International - 498
AIR HUBS	
UNITED STATES	Louisville, Ky. (main U.S. Air Hub) Philadelphia, Pa. Dallas, Texas Ontario, Calif. Rockford, Ill. Columbia, S.C. Hartford, Conn.
EUROPE	Cologne/Bonn, Germany
ASIA PACIFIC	Taipei, Taiwan; Pampanga, Philippines; Hong Kong; Singapore
LATIN AMERICA and CARIBBEAN	Miami, Fla., USA
CANADA	Hamilton, Ontario
UPS SUPPLY CHAIN SOLUTIONS	
2004 REVENUE	US\$2.8 billion
KEY SERVICES	Logistics and distribution; transportation and freight (air, sea, ground, rail); freight forwarding; international trade management, and customs brokerage.
SPECIALTY SERVICES	Service parts logistics; technical repair and configuration; supply chain design and planning; returns management; urgent parts delivery.
FACILITIES	1,000+ facilities in more than 150 countries; 35 million sq. ft.

Awards and Recognition



In 2004, UPS received several notable awards. Because of the intensive review process for many of these awards, we consider them to be a good indication of how we are doing in serving our employees, customers, communities and shareholders.

Workplace

DiversityInc recognizes UPS as a top company for diversity

UPS ranked No. 32 on *DiversityInc* magazine's 2004 "Top 50 Companies for Diversity" and also was ranked No. 7 by the magazine as one of the "Top 10 Companies for Latinos."

DiversityInc's annual survey is based on a rigorous set of metrics for evaluating diversity. Companies provide data on four key areas: CEO commitment, human capital, corporate communications (internal and external) and supplier diversity.

Hispanic Magazine names UPS to 2004 "Corporate 100" and recognizes UPS as having Top 25 Recruitment Program

In February, UPS was included in *Hispanic Magazine's* "Corporate 100." These companies are honored as the "100 companies providing the most opportunities to hispanics." In May 2004, *Hispanic Magazine* also named UPS as having one of the Top 25 Recruitment Programs in the United States. This list recognized companies that have aggressive recruitment programs, promote diversity in the workplace, marketplace and communities they serve and have Latinos in key company positions.

UPS named among America's Top Corporations for Women Business Enterprises (WBEs)

In March, for the fifth consecutive year, UPS was named among America's Top Corporations for Women Business Enterprises by the Women's Business Enterprise National Council (WBENC), the leading third-party certifier of businesses owned and operated by women. UPS's inclusion in the WBENC "Elite Eleven" highlights the company's effort to provide opportunities to women- and minority-owned businesses. UPS has ranked among WBENC's "Top Corporations" since the inception of the list in 1999. With the Elite Eleven, WBENC recognizes corporations with world-class quality in supplier diversity programs featuring women-owned businesses.

Customers

UPS ranked No. 1 for Online Customer Respect

In a study, conducted by The Customer Respect Group, on how large transportation and logistics firms treat their customers online, UPS scored the highest with an overall score of 8.2 out of 10 - well ahead of the average score of 5.6 for the Mail, Package & Freight Delivery group of companies.

Survey ranks UPS Best-in-Class in Customer Service

Parcel Shipping & Distribution magazine's Best Practice Survey concluded that UPS was best-in-class in several categories, including customer service, delivery performance (i.e., driver courtesy, package handling) and pricing.

UPS recognized at the American Brand Excellence Awards

The City Business Journals Network (CBJN) recognized UPS at the first-ever American Brand Excellence Awards for having the Best Business Services Brand. The CBJN awards recognized those U.S. brands that best serve small and medium-sized businesses, helping them grow and succeed. Winners were determined based on national survey results conducted by CBJN and its partners the Wake Forest University Babcock School of Management and Russell Marketing Research.

Communities

UPS and its employees top list of corporate donations to United Way in U.S.

For the fourth year in a row, UPS and its employees led the U.S. in supporting the annual United Way campaign. UPS and its employees donated US\$54.3 million to United Way in 2004, an all-time record and the third consecutive year the company has exceeded US\$52 million in contributions.

UPS Supply Chain Solutions honored with the Stanley A Quarles Memorial Community Spirit Award

The United Way of Aiken County (KY) honored UPS Supply Chain Solutions with the 2004 Stanley A Quarles Memorial Community Spirit Award. The Community Spirit Award was created in 1995 to recognize organizations that go above and beyond all expectations during the annual campaign. Whether facing harsh economic challenges or pulling out all stops to achieve surprising results, organizations that win this award are a portrait of community spirit.

Shareholders

FORTUNE names UPS "World's Most Admired" company in its industry for sixth consecutive year

Rated the "World's Most Admired" company in its industry in a *FORTUNE* magazine survey for the sixth consecutive time. UPS was also rated "America's Most Admired" company in its industry for the 21st consecutive year. UPS ranked No. 1 among all companies on the attributes of quality of management, financial soundness, use of corporate assets and social responsibility.

UPS once again included in Dow Jones Sustainability Index

For the third consecutive year, UPS was included in the Dow Jones Sustainability Index, an index of companies that meet specific sustainability criteria.

UPS added to FTSE4Good Index

In 2004, UPS was added to the FTSE4Good Index, a leading European index fund comprised of socially responsible companies.

ECONOMIC



UPS operates in a business sector that has a vibrant future, characterized by global growth opportunities. The company has an established record of exceptional performance, supported by sound growth strategies. UPS is more than a shipping company; we are a leader in synchronizing worldwide commerce.

Our goal is to run a financially sound business, in a responsible manner, to ensure our ongoing ability to positively impact stakeholders with whom we interact every day. Without remaining profitable, none of our other initiatives, including our social and community programs or our environmental ones, would be possible.

Company Economic Overview

"Sustainable development begins and ends with sound economics. A well-run, responsible and sustainable business is a profitable business."

-- Mike Eskew

UPS's unique, globally integrated business model helps the company generate consistent, superior financial returns. The combination of this business model with UPS's owner/manager culture contributes to UPS's financial strength. Ownership in the company aligns management and employee interests with public shareowners' interests, resulting in a focus on long-term performance rather than short term gains.

- UPS maintains a strong balance sheet. As of December 31, 2004, we were one of only eight companies with a AAA credit rating from both Standard & Poor's and Moody's.
 - For the past two decades, UPS's return on equity has averaged over 20 percent annually.
 - Since 1994, the compound annual growth rate of earnings has been 13.5 percent.

By facilitating the flow of goods, information and funds through the supply chain and by providing reliable, affordable services to millions of businesses, we help them thrive. UPS's supply chain services enable customers to:

- increase productivity;
- enhance their customer service;
- improve cash flow;
- differentiate products; and
- expand global markets.

UPS's financial strength enables the company to extend economic, social and environmental benefits to our stakeholders. These benefits include:

- Paying US\$13.7 billion in competitive salaries and hourly wages, and US\$7.2 billion in health and retirement benefits;
- Designating a goal of maintaining contributions equal to a five-year trailing average of one percent of pre-tax, adjusted profits to The UPS Foundation, the charitable arm of the organization;

- Providing business opportunities to more than 16,000 small, minority- and women-owned businesses, with more than US\$540 million awarded in contracts in 2004 alone through the UPS Supplier Diversity Program;
- Distributing more than US\$1.2 billion in dividends in 2004 to UPS shareholders; and
- Paying approximately US\$2.5 billion in taxes in the communities we serve in 2003.¹

Our goal is to run a financially sound business, in a responsible manner, to ensure our ongoing ability to positively impact stakeholders with whom we interact every day.

¹2004 tax numbers available in September 2005

Industry Trends

Globalization

Today, businesses can source goods from around the world, produce their product wherever it makes economic sense, and sell it anywhere.

International trade is forecasted to grow at twice the rate of the world gross domestic product (GDP), and international small package shipments are a key part of that growth.

The economic impacts of globalization are enormous. Easier movement of goods helps stimulate growth of middle classes in developing countries; rising standards of living enable businesses to expand markets; small businesses anywhere in the world have unprecedented opportunities to flourish.

Shift to Smaller More Frequent Shipments

Many goods that once moved via heavy freight are now moving through time-definite, small package networks. For example, heavy mainframes evolved into servers, which became equally powerful personal computers that can easily be shipped via a small package network. In addition, just-in-time inventory, the pace and risk of obsolescence, the Internet, and growing direct-to-consumer business models, all drive greater demand for time-definite package delivery.

We believe these trends are occurring in Europe as country borders become more transparent, and as small package transportation becomes more widespread. As economies expand in Asia and throughout the rest of the world, so too does the need for small package delivery.

Outsourcing

As globalization continues, supply chains are becoming more complex. At the same time, speed-to-market and consistent, satisfactory customer experiences are becoming more important. Yet managing the complexities of a global supply chain is not the competency of most businesses. Therefore, companies are increasingly outsourcing the vital support necessary to provide these services. Such action not only increases efficiency and improves profitability, but strengthens customer relations as well.

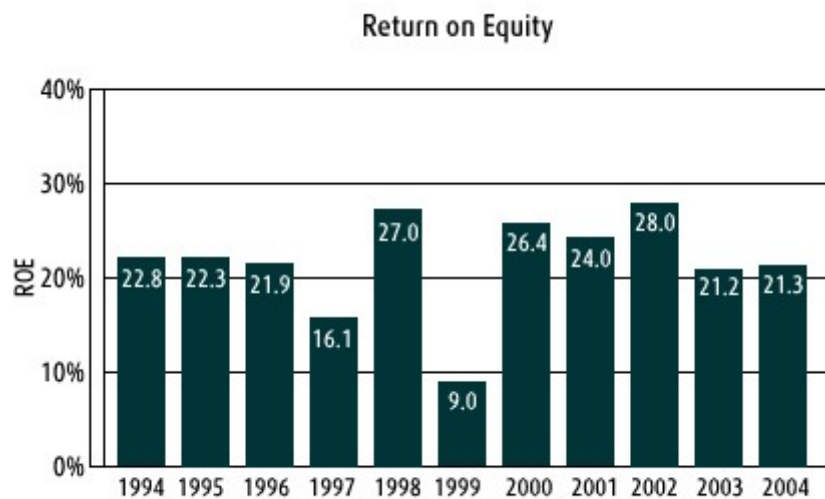
We believe the well-managed supply chain is one of the primary sources of future innovation and competitive advantage. It is estimated that the outsourced logistics market is a US\$350 billion

opportunity, and growing at twice the rate of U.S. domestic GDP. There is substantial growth opportunity for supply chain management service providers.

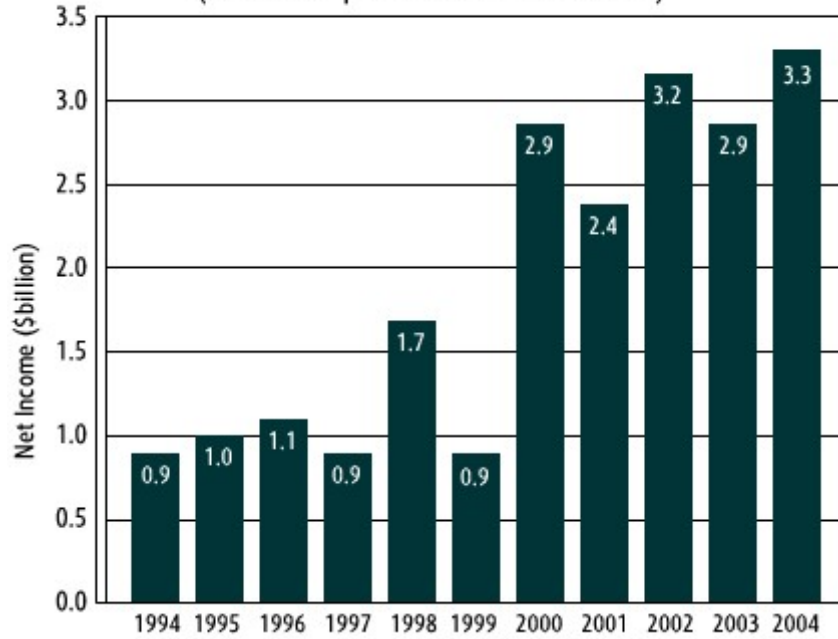
Financial Performance

Our business model generates significant cash to reinvest in the business and reward shareowners. The strength of this model helps ensure UPS's AAA debt rating by both Standard and Poor's and Moody's.

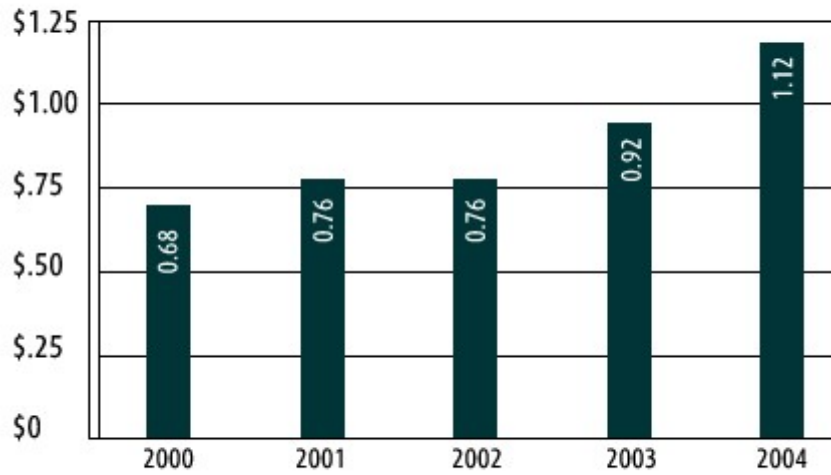
Previously our economic section included one KPI, Return on Equity (ROE). However, there are a number of performance measures that, taken together, provide a better view of the economic sustainability of our company. Therefore, we are providing several measures, none of which is the "key" indicator.



**Global - Long-Term Earnings Growth
(13.5% Compound Annual Growth Rate)**

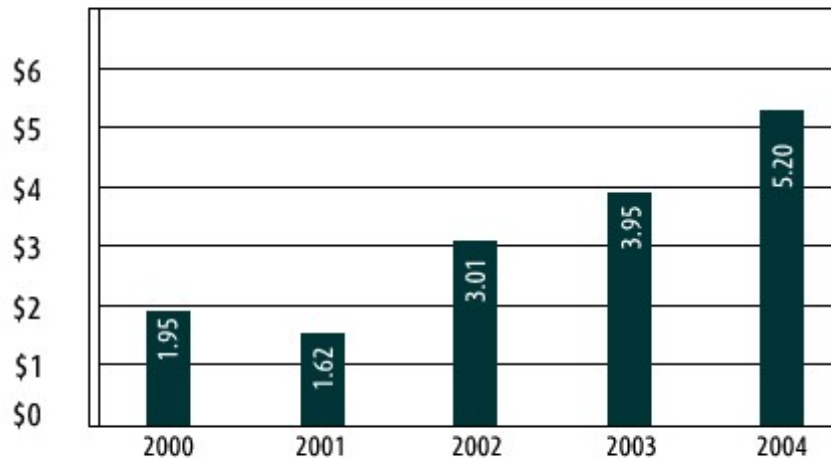


**Dividends Declared
(in dollars per share)**



Dividends have increased 65 percent over the last five years.

Cash and Investments (in billions)



Cash and investments have increased over 160 percent since 2000.

Growth Opportunities

Small Package Growth: In the U.S., we expect small package transportation to grow at the same rate as U.S. GDP. Outside the United States, package delivery is growing at a faster rate. Europe is our largest region outside the United States, followed by Asia. The expansion of the European Union into the Central European countries is creating a stronger economic entity with increased cross-border trade. Growth in Asia will be driven by improving demographics and economic trends in China, South Korea and India, as well as improved positioning in the Japanese import/export market and overall growth of intra-Asian trade.

To achieve growth objectives, UPS will rely on well developed strengths - leading-edge technology, a broad portfolio of services and integrated solutions, and the most efficient global network in the industry. UPS invests more than US\$1 billion annually in technology to support both customer-facing solutions and internal operational systems and processes. The more UPS can differentiate through technology and service offerings, the higher the value proposition we bring to customers.

UPS has also made it easier than ever for consumers to connect with the company. Currently our worldwide consumer access points include:

- 17,000 authorized shipping outlets
- 3,900 The UPS Store® locations; 1,500 Mail Boxes Etc.® locations
- 1,000 UPS customer centers
- 40,000 UPS drop boxes

Many UPS solutions combine the scope of its global small package transportation network with supply chain services, allowing goods to move more quickly across borders via air, ground or sea. The ability to tie together all modes of transportation to move anything from a small package to heavy freight enables UPS to develop the right solution for each customer.

Supply Chain Management: We have used our global network, technological expertise, financial strength and brand equity to develop a leading presence in the global supply chain solutions arena. In the last four years, we have acquired over 20 supply chain businesses that expand our geographic presence, scope of services and technological expertise.

UPS manages supply chains for companies large and small in 150 countries. Our focus is on technology, re-engineering and management-based solutions rather than on more traditional asset-based logistics, such as operating warehouses and vehicle fleets. We provide a broad range of transportation solutions to customers worldwide, including air, ocean and ground freight, as well as customs brokerage and trade/materials management. In addition, we offer a portfolio of financial services to facilitate our customers' ability to take advantage of the opportunities global trade offers.

Conclusion



Globalization and technology advancements continue to fuel greater worldwide economic opportunity, mobility, spending power and entrepreneurial activity. This means a bright future for our business segments as well as for our customers and worldwide communities. Globalization and technology advancements continue to fuel greater worldwide economic opportunity, mobility, spending power and entrepreneurial activity. This means a bright future for our business segments as well as for our customers and worldwide communities.

The success of UPS is based on our financial performance, but it extends beyond that as well. Running a sustainable company is good for business and for the world we live in and has been ingrained in UPS culture since our founding in 1907.

We see every aspect of our business working cohesively to synchronize commerce - helping companies simultaneously manage goods, information and funds with speed, precision, security and efficiency. And we believe that synchronization and sustainability must go hand-in-hand.

SOCIAL



Today, synchronizing commerce is more than a business process or an emerging industry space. It's about operating in unison with employees, communities and governments to foster greater global economic prosperity and encourage individual achievement.

We believe the social and economic impact of synchronization - bringing greater balance and sustained order to economic development - benefits UPS, our employees, customers, shareowners and the communities in which we operate.

Throughout this report, the environmental and economic impacts of our operational network are detailed. This network includes vehicles, planes, data and operating facilities, but is, first and foremost, a connection of people and communities. This connection results in trust and collaboration, performance and accountability, and careful, attentive service to our customers.

In this section, we've detailed the opportunities and the challenges UPS faces in creating a culture of commitment among employees and communities.

Corporate Culture



Founded in 1907 by Jim Casey, UPS was built on a legacy of honesty, integrity and teamwork. Today, four components serve as the hallmark of our strong corporate culture: employee ownership, ethics and compliance, opportunity and diversity, and promotion from within.

Employee Ownership

For 92 years, UPS was a privately held company with employees owning a significant portion of shares. We believe that when employees' interests are aligned with the best interests of the company, better decisions are made with long-term success rather than short-term gains in mind.

The company's initial public offering in November 1999 did not change that philosophy. As of December 31, 2004, employees, retirees and the families of the company's founders own slightly more than 46 percent of outstanding shares. Approximately 36 percent of employees eligible to purchase shares own shares in the company. This includes over 53 percent of our full-time workforce.

We believe that our employee-owner philosophy has been and will continue to be a critical factor contributing to the success of our company. In the 1950s, we began awarding a percentage of profits to our managers to foster the company's partnership culture. UPS has recently updated its Managers Incentive Plan from a profit-sharing plan to one tied directly to its performance on key company goals. Each year, an award, based on this performance, of half restricted stock units and the choice to receive additional shares or cash for the remaining half is distributed to approximately 33,000 management employees. The restricted stock vests over five years at 20 percent per year. Management employees are offered additional incentives to hold and accumulate

UPS stock. In addition, we award stock option and restricted stock awards to approximately 10 percent of the management team.

We provide additional ways for employees to own UPS stock, including the Discounted Employee Stock Purchase Plan (available in the U.S., Canada, Puerto Rico, Germany, Hong Kong, Taiwan and Singapore), the UPS Savings Advantage, which offers a company match in stock (available in the U.S.), and the Direct Stock Purchase Plan (available worldwide).

Since we believe aligning employees' interests with company goals is a high priority, we will continue to encourage and pursue ways for employees to increase their ownership stake in the company.

Ethics and Compliance

UPS Corporate Compliance Mission Statement

Promote an organizational atmosphere that protects our legacy of ethical conduct and supports full compliance with all legal and regulatory requirements and UPS policies throughout all UPS business units globally.

Our legacy of ethics and integrity is fundamental to our ability to attract and retain the best employees, gain and keep the trust of our customers, create shareholder value, support the communities in which we operate and protect our reputation.

This value system is coupled with the UPS Policy Book and the UPS Code of Business Conduct. These two elements - the philosophical and the practical - work together to create an environment where good people can make good decisions.

Our commitment to ethical operations begins with top management. Our Chief Operating Officer serves as the Corporate Compliance Officer and has a reporting responsibility to the Board of Directors' Audit Committee.

The UPS Code of Business Conduct provides employees with worldwide Business Conduct guidelines, which apply to all UPS business units. The Code of Business Conduct is available to employees in 12 languages on our intranet.

Several tools are in place to monitor the effectiveness of our compliance initiatives globally, including the UPS Business Ethics Questionnaire (BEQ), an Annual Compliance Report and Certification Process, and Regulatory Compliance Reviews. Employees around the globe have access to the UPS Help Line, a toll-free number they can call to ask advice or report concerns.

- The BEQ audits and monitors compliance with the company's ethical responsibilities. More than 14,000 UPS managers worldwide are required to complete the BEQ on a regular basis. Results and subsequent investigations are reported to the Board of Directors' Audit Committee by the Corporate Compliance Officer.
- Senior level managers in all business units are required to complete an Annual Report and Certification process regarding compliance activities in their areas of responsibility. Administered by the Corporate Compliance Department, the results of this process are reported to the Board of Directors' Audit Committee.
- The UPS Internal Audit Department conducts Regulatory Compliance Reviews to monitor the effectiveness of our regulatory programs to determine if we are operating in a manner consistent with our policies, procedures and legal requirements.

Opportunity and Diversity

UPS Charter

UPS believes that people do their best when they feel pride in their contributions, when they are treated with dignity, and when their talents are encouraged to flourish in an environment that embraces diversity.

With 384,000 employees and eight million daily customers in more than 200 countries, equal opportunity is part of the social fabric at UPS. It reflects a mindset of inclusiveness, respect and cooperation - a core value that drives our relationships with employees, customers, suppliers and communities.

Promotion from Within

Our culture emphasizes a promote-from-within approach to management development. Development is a shared responsibility between UPS and the employee. By encouraging our people to have long-term careers at UPS, we have developed a management team whose depth of expertise is unparalleled in our industry. A large percentage of our workforce in the United States has advanced from part-time to full-time positions and from non-management to management positions.

- In 2004, 8,719 part-time employees advanced to full-time positions.
- 53.6 percent of our current full-time drivers were once part-time employees.
- 68.4 percent of our full-time management employees were promoted from non-management positions.
- 78.1 percent of our vice president level employees started in non-management positions.
- Nine of the 12 members of our Management Committee started in non-management positions.

We have a formalized career development process that identifies employees with high potential early and develops qualified candidates for all positions. This process is critical to succession planning, which identifies the next level of executive leadership and ensures that these employees are ready to advance.

Our promotion-from-within policy is one of the primary reasons that our culture of ethics and integrity has stood the test of time for nearly a century. Due to the level of experience and length of service of our employees, our legacy is passed on seamlessly from generation to generation.

The average UPS manager has been at the company 14.8 years.

Fair Treatment



As one of the largest employers in the world, UPS is a microcosm of society's opportunities and challenges. Balancing the needs of a diverse global workforce to ensure that everyone is treated with fairness, dignity and respect requires daily commitment.

We have comprehensive policies and procedures in place to ensure fair treatment across the business:

- Many of our employees are represented by labor unions and work councils worldwide. We know that our people can be effective and loyal employees and, at the same time, be good union members. We consider the point of view of unions along with the interests of our customers, our employees and our company as a whole. The UPS Policy Book provides guidance on this topic.
- We negotiate fairly with labor unions for reasonable wage rates and working conditions. These negotiations should give due consideration to our unique operations and enable us to maintain the operating flexibility and efficiency needed to remain competitive.
- We respect and fulfill the terms of our labor agreements. We also expect union leaders and members to cooperate in fulfilling the terms of such agreements.
- Our UPS Code of Business Conduct clearly identifies our policy. We treat each individual fairly, and we recruit, select, train, promote and pay employees based on merit, experience and other work-related criteria. Our policies comply with all laws governing fair employment and labor practices worldwide.
- Our Professional Conduct and Anti-Harassment Policy prohibits harassment based on race, sex, national origin, disability, sexual orientation, age or religion. Training is provided to employees on this policy upon joining UPS.

2004 Year-End UPS Workforce Diversity in the United States

Our U.S. diversity initiatives are guided by the UPS Diversity Steering Council, co-chaired by our Chairman and CEO and our Senior Vice President of Human Resources.

Women as a percentage of officials and managers	28.0%
Minorities as a percentage of officials and managers	29.6%

Asian	3%
Black	20%
Hispanic	11%
Native American/Other	1%

Women on the Board of Directors	33%
Minorities on the Board of Directors	22%

Supplier Diversity



Formally launched in 1992, the UPS Supplier Diversity Program is committed to providing business opportunities to small, minority- and women-owned businesses – more than 16,200 businesses are part of the program. In 2004, we awarded more than US\$540 million in contracts through this program.

While our commitment thus far has been significant, there is more to be done. We are currently working to improve the level of engagement in the Supplier Diversity Program throughout our business units worldwide.

Since 2001, we have been part of an initiative sponsored by the National Minority Supplier Development Council (NMSDC) to establish programs in Europe, Canada and South America. Our Vice President of Supplier Diversity is a member of the NMSDC International Advisory Committee.

Workforce Development



Attracting and retaining a skilled and motivated workforce is essential to our organization. We offer competitive compensation and benefits packages, invest in the development of our people, and promote skill development and life-long learning opportunities.

As we have expanded globally, we have learned it is best to have local people manage our operations. At the end of 2004, out of 56,000 employees, UPS had just 50 expatriates working in our international operations. This practice enables us to integrate our operations seamlessly into any culture or economy, while ensuring that we are sensitive to the cultural needs of the local workforce.

The spirit of teamwork all UPS employees share is a key ingredient of our success. This cooperative spirit allows us to proactively address many of the worldwide challenges addressed in this section, including continuing focus on safety and ensuring equal opportunity for and fair treatment of all employees.

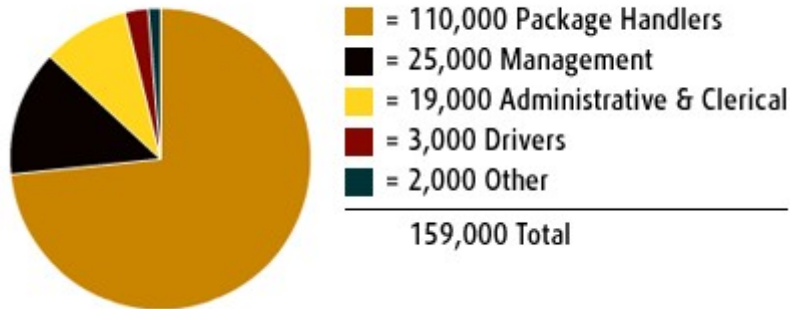
UPS Workforce (Approximate)	
U.S.	328,000
Europe	42,000
Canada	8,000
Asia Pacific	3,000
Americas	3,000
Employees Worldwide	384,000

Part-time



Part-time employees are a critical part of our workforce - 47 percent of our employees hold part-time positions. The nature of the package delivery business - periodic bursts of activity throughout the day - requires carriers like UPS to use part-time employees. While meeting the needs of the company, our part-time jobs also meet the needs of thousands of people, like students, retirees and others who want flexible hours, competitive wages and benefits.

U.S. - Part-time Workforce



Managing turnover in a large part-time workforce is a challenge industry-wide, and UPS shares that challenge. In 2004, turnover in our part-time workforce totaled 45.3 percent. However, it is also true that our average part-time employee in the U.S. is with us for more than three years before pursuing full-time opportunities within the company or pursuing opportunities elsewhere.

In order to address turnover in key locations, we provide education and development opportunities for our people. We offer a wide range of tuition assistance programs to help us recruit and retain college students. In the U.S., college students made up more than 56 percent of our new part-time hires in 2004. It's an ideal match - we pay for a significant amount of their college tuition plus an hourly wage and full benefits. Reducing turnover reduces hiring and training costs significantly, creating a worthwhile return on our tuition assistance investment.

The UPS Earn and Learn Program

Since it began in 1999, the UPS Earn and Learn program has provided US\$72.8 million in tuition assistance for nearly 49,000 employees to help pay for their college education. This program is available at 51 UPS locations in the U.S.

Metropolitan College

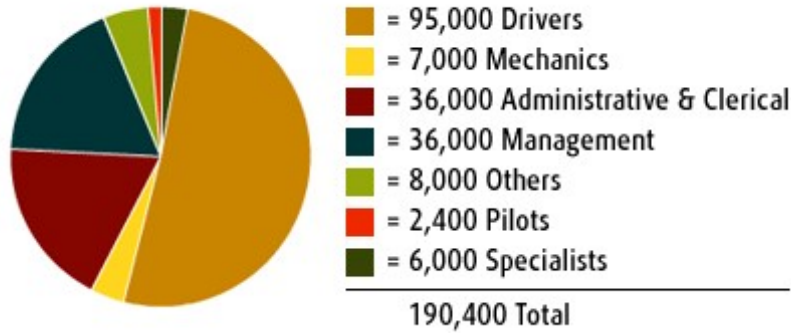
A unique partnership between UPS and the state of Kentucky, Metropolitan College offers people the opportunity to pursue their college education for free while also working for UPS. Since the program's inception in 1998 in Louisville, 9,333 employees have enrolled in Metro College. In 2004, 1,704 employees were enrolled.

Full-time



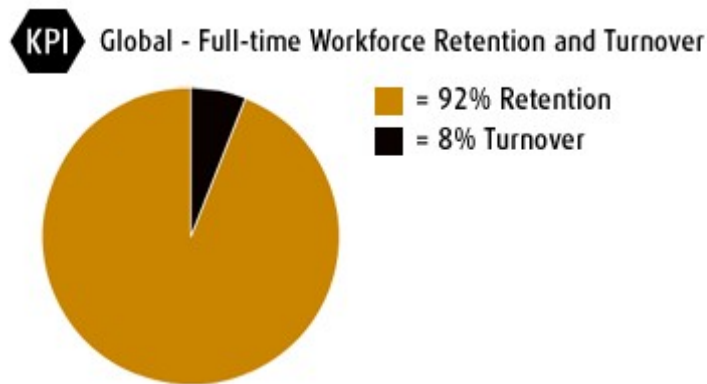
Because of our promotion-from-within policy, many part-time employees have the opportunity to move into full-time positions. Full-time positions range from drivers and mechanics to software engineers, industrial and plant engineers, sales executives and human resources professionals.

Global - Full-time Workforce



As a result of the career and company ownership opportunities created for our employees, turnover in our full-time workforce is at an industry low of eight percent.

As a result of the career and company ownership opportunities created for our employees, turnover in our full-time workforce is at an industry low of eight percent.



2007 Goal:

Maintain the full-time workforce retention rate at no less than 92 percent.

Attrition, acquisitions and market conditions will cause our current retention level to fluctuate. Keeping retention at no less than 92 percent perpetuates institutional knowledge while also allowing for a steady influx of new talent and ideas.

The full-time retention rate now reflects UPS's global operations, including all business units. The retention rate has lowered to 92 percent.

Initiatives:

- Maintain a culture of employee ownership
- Focus on career development opportunities and promotion-from-within philosophy
- Offer training and education opportunities
- Respond to annual employee survey feedback
- Provide competitive compensation and benefits

Compensation and Benefits



Our business creates highly skilled, highly paid jobs. We pay well for demanding work and the skills necessary to do that work.

We offer competitive hourly wages, salaries and health and retirement benefits plans for our employees worldwide. In the U.S., our part-time employees receive benefits as well. In addition to their hourly wage, part-time employees receive the following:

- health benefits for themselves and their families
- the ability to participate in a 401(k) plan and a discounted employee stock purchase plan
- paid vacation
- pension benefits
- tuition assistance

In 2004, we invested US\$20.9 billion in our employees worldwide, which is 57 percent of total annual revenue of US\$36.6 billion (annual revenue). This investment includes US\$7.2 billion in indirect pay, including income protection, healthcare benefits and retirement plans. It also includes US\$94 million (401k) SavingsPLUS stock matches.

Employee Feedback



Two-way communication is a hallmark of UPS's culture - we know that our ability to improve as a company is directly tied to employee feedback. To encourage communication, we address each other on a first-name basis (from the Chairman and CEO to the first-line employee), and we have an open door policy, which ensures any employee can express concerns to or receive guidance from any manager.

Formal mechanisms, like our Employee Dispute Resolution (EDR) program, are also in place. The EDR Program is designed to assist employees in resolving problems in the workplace in a fashion that is reasonable, timely and fair.

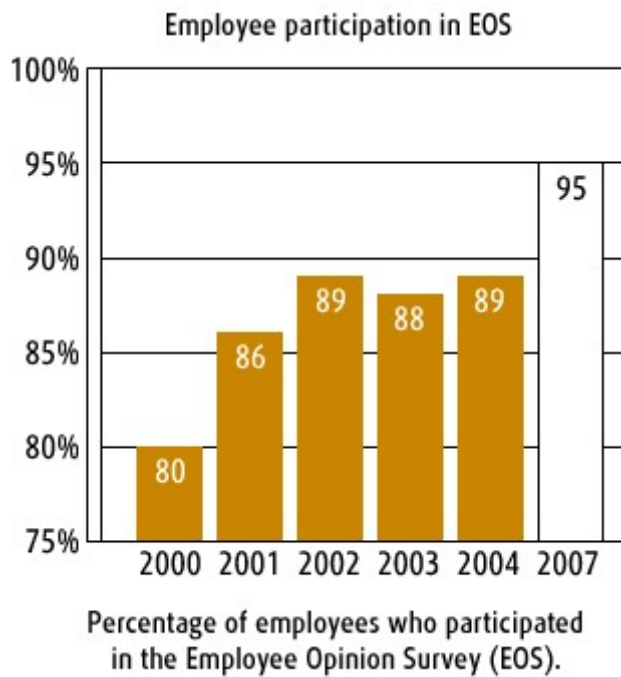
In this section, we share statistics from our annual Employee Opinion Survey, which is conducted on a global basis. Information from this survey helps us identify issues that need attention as well as programs that are working.

Employee Opinion Survey

Since 1983, we have conducted an Employee Opinion Survey (EOS). The annual EOS is a voluntary and anonymous way for employees to communicate their opinions and concerns. The objectives of the EOS are:

- to help create a positive, customer-focused workforce
- to identify areas of concern so that improvements may be made
- to provide feedback to management on employee relations issues
- to assist the organization in achieving its business goals

In 2004, the survey was administered globally, with 89 percent of employees participating.



2007 Goal:

Increase the global employee participation rate to 95 percent.

Participation in the EOS is completely voluntary. Therefore, our goal of 95 is aspirational in nature - we afford 100 percent of our employees the opportunity to participate in the survey so their opinions are heard and acted upon.

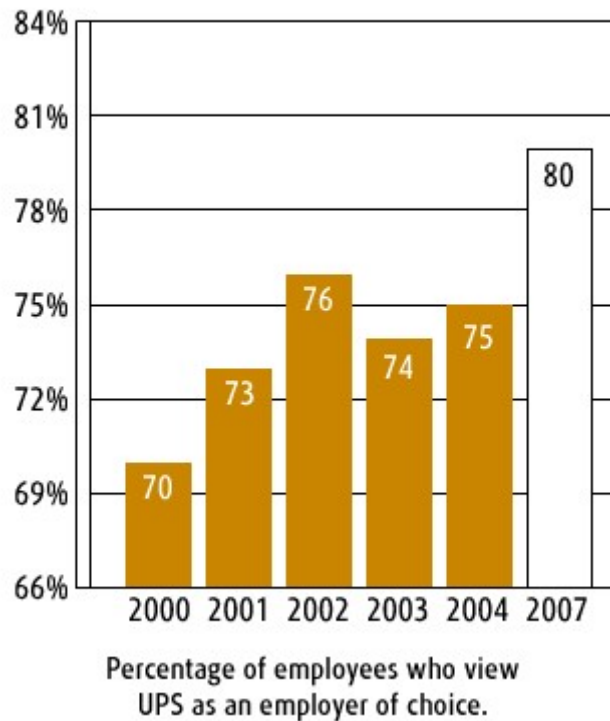
Initiatives:

- Employee communication
- Leverage technology to ensure ease of use
- Respond effectively each year to concerns identified in the survey

Employer of Choice Index

The Employer of Choice Index (ECI) is compiled from a subset of 20 questions contained in the Employee Opinion Survey. The ECI looks at concepts, like career opportunities, work-life balance and benefits, that affect how we attract, retain and motivate employees. The results are used by senior management to analyze company initiatives. The goal is to use the feedback to develop and implement strategies that continue to make UPS an employer of choice.

KPI Employer of Choice Index



2007 Goal:

Achieve an 80 percent favorable rating among our employees.

In 2004, the ECI reflected UPS's total global operations, including all business units. The ECI rating improved slightly in 2004.

Initiatives:

In 2004, UPS implemented several programs to ensure we maintain our status as an employer of choice, including expanded training, renewed focus on career development discussions with all employees and enhanced programs for years of service.

- Action plans developed by employee relations committees to address issues identified by employees in the survey
- Annual video message from the Chairman and CEO which addresses company-wide challenges as well as issues confronting specific functions
- Effective employee communication programs, including worldwide deployment of employee portal
- Competitive compensation and benefit plans
- Enhanced recognition programs to award years of employment
- Career development opportunities
- Work-life balance issues
- New hire training and job specific training

Health and Safety

The UPS Policy Book

The safety of our people and of the general public is of utmost importance to us. We train our people to avoid injury to themselves and others in all phases of their work. We do not tolerate unsafe work practices.

We encourage the involvement of all our people in safety awareness activities and give recognition to employees for safety accomplishments. We are all committed to fostering the most effective safe practices in all our work.

By meeting our own high safety standards, we will be contributing to the well-being of our people, our company, and the communities we serve.



Since our company's beginning in 1907, safety has been a priority. Safety guidelines were developed for the company's bicycle messengers and then for drivers of the Ford Model T. Drivers were given their first defensive driving handbook in 1917.

Even as we continue to increase the level of technological sophistication in our operations, the primary job of our employees is moving more than 14 million packages and documents each day. You are more likely to find a UPS employee driving a package car, or sorting packages in a bustling hub, than behind a desk. Because of the physical nature of many of our jobs, safety is a significant challenge and a top priority. Therefore, we dedicate significant resources to train our people to avoid injuries and accidents.

Training



Training is the cornerstone of safety in UPS's package and airline operations. We invest more than US\$38 million per year on safety training, which equals nearly 1.3 million hours of safety training for employees. Each year 27 different types of formal UPS safety training courses are taught worldwide.

Operations



In UPS operations, there are two primary safety measurements: lost-time injuries and automotive accident frequency.

Positions in our operations - sorting, loading and delivering packages - involve physical labor. To prevent injuries, we provide comprehensive safety training to employees to equip them with the knowledge, methods and tools necessary to work safely.

Despite our safety initiatives, controls and procedures, there were four fatal employee automotive accidents globally in 2004. All accidents and injuries require a substantive investigation to identify the root cause. The results of those investigations are used to examine what can be done to prevent accidents in the future.

Over the past five years, we have invested more than US\$180 million in safety-related initiatives, including enhanced training programs, new equipment and modifications to facilities. Following is an overview of our primary safety initiatives:

Comprehensive Health and Safety Process (CHSP): The CHSP was developed in 1995 to directly involve front-line employees in improving health and safety methods. There are now more than 2,400 CHSP committees at UPS facilities worldwide. The committees consist of union and non-union employees, supported by non-management and management co-chairs, who together conduct facility and equipment audits, perform job hazard and behavior analysis, conduct injury investigations, conduct training and recommend work process changes. Between 1996 and 2004, CHSP helped reduce lost workdays due to injuries by 78 percent.

Facility and equipment improvements: Design improvements have been made by UPS engineers to the company's buildings, vehicles and equipment. Some of these improvements include: the widening of the door in our delivery vehicles; the user-friendly design of hand trucks and handheld computers used by drivers; the layout of new buildings to include "no lift" work areas where packages are pushed or pulled instead of lifted. Some of these ideas came directly from drivers and package handlers through focus group meetings and CHSP committees.

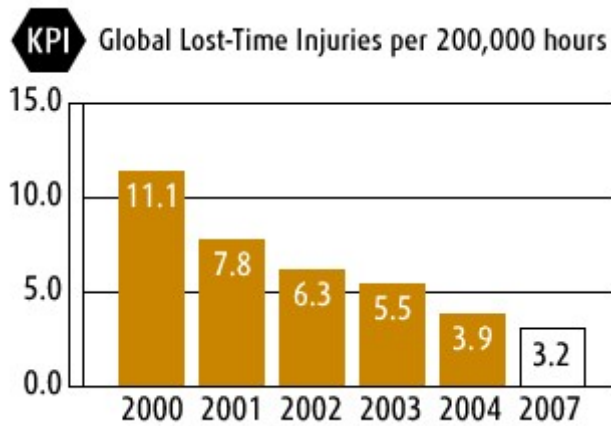
Safe Driving: UPS drivers are among the safest on the road. Our 95,000 drivers worldwide log more than two billion miles a year and average less than one accident per million miles driven. We have certified management trainers who educate drivers on an annual and periodic basis. UPS tractor-trailer drivers receive 80 hours of classroom and on-the-road training before operating equipment. Delivery drivers undergo an intensive six-day training program, including 20 hours of behind-the-wheel and classroom training, plus periodic training rides through their evaluation period. UPS drivers globally receive annual safety training rides and follow-up training in the event of an avoidable accident.

The foundation of our safe driving platform is space and visibility training that focuses on the **Five Seeing Habits** - proven safe driving methods that focus on avoiding potential accident scenarios versus reacting to them.

These programs have helped improve our safety results. Nevertheless, this area remains a significant challenge, and we have established aggressive goals for further reducing accidents and injuries.

Lost-Time Injuries per 200,000 hours

This measurement reflects the injury rate per 200,000 hours on an annual basis.



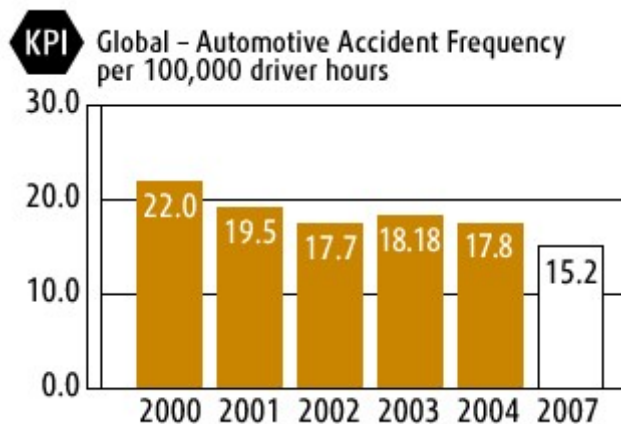
2007 Goal:

To reduce lost-time injury frequency globally to 3.2.

We reduced the number of lost-time injuries per 200,000 hours by 29 percent in 2004. During the same time, the number of UPS Supply Chain Solutions injuries was reduced by 56 percent, establishing an injury frequency of 1.1 for SCS, which is well below the industry average of 3.3.

Company-wide, the lost-time injury frequency has decreased 65 percent since 2000.

Automotive Accident Frequency per 100,000 driver hours



2007 Goal:

Reduce automotive accident frequency worldwide to 15.2 per 100,000 driver hours.

Safety is a way of life at UPS and a critical operational priority. UPS leads the industry in safe driving records. The company's auto accident frequency was reduced 2.1 percent in 2004.

UPS measures automotive accident frequency per 100,000 driver hours as a KPI rather than per million miles driven. This is because drivers operate in very different conditions from long-haul truckers. We operate in heavily congested commercial and residential areas as well as in remote

locations. Normalizing accident frequency per 100,000 hours of driver time more accurately reflects the nature of our operations.

In addition, we report all accidents, not just those deemed reportable by the U.S. Department of Transportation.

Initiatives:

In 2004, the focus on workforce health and safety continued through the implementation of the following initiatives:

- Safety First: Places safety at the top of operational priorities.
- The Employee Relations Index (ERI) annually identifies and gauges the satisfaction of our people. The Health & Safety Factor Index (HSFI) extracts nine questions from the ERI to measure the employee perception of safety within the UPS work environment. In 2004, the HSFI overall rating improved one percentage point to 80.
- In 2004, a variety of worksite-based health promotion and disease prevention programs were implemented. The programs were created to address employee health risk and behaviors, with an emphasis on personal ownership. Program deployment was specific to operational risk reduction strategies and identified employee groups.
- Target Zero: Emphasizes zero accidents and injuries on a daily, weekly and monthly basis. Employees, district and regions are recognized for achieving these safety milestones. In 2004, of the 862 Supply Chain Solutions facilities, 72 percent had zero OSHA (Occupational Safety and Health Administration) recordable injuries and 74 percent had zero DART (days away restricted or transferred) injuries.
- Summer Safety Program: Engages employees in special initiatives during National Safety Month (June) in cooperation with the National Safety Council.
- Training: Increased on road training and supervision for drivers, including an emphasis on driving and work methods.
- Equipment: Global implementation of rear vision cameras.

Ongoing programs:

- Reinforcement and implementation of CHSP in our global operations
- Training on proper work methods
- Implementation of behavior-based safety training
- Automation of package sorting facilities

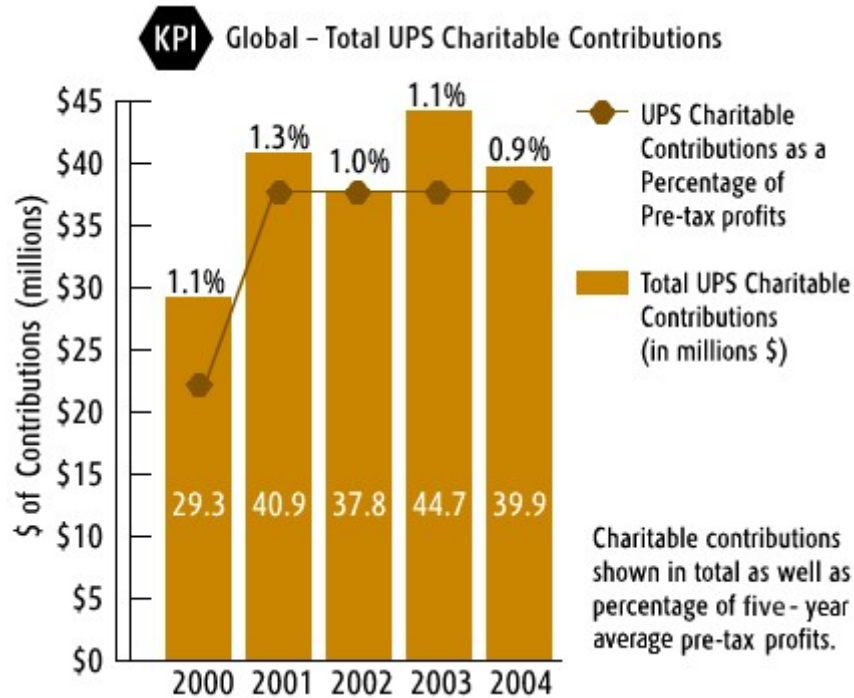
Community Engagement



Throughout our history, we've found that we grow by investing not only in our business, but also in the communities we serve. This belief drove us in 1951 to establish The 1907 Foundation, today known as The UPS Foundation, to develop and champion innovative solutions to social problems.

In this section, we've outlined the status of our philanthropic strategies through The UPS Foundation and United Way.

The UPS Foundation



2007 Goal:

To maintain philanthropic contributions at a five-year trailing average of one percent of adjusted profit before interest and taxes.

Because UPS provides service to homes and businesses in 200 countries and territories worldwide, we see the needs of communities very closely. Our experiences have shaped the company's philanthropic approach profoundly. The desire to make a tangible difference in communities extends company-wide, and drives our belief that individual participation is just as important as writing a check. We encourage grants and donations along with employee volunteerism.

In 2004, The UPS Foundation's global contributions totaled US\$39.9 million.

Initiatives:

In 2004, UPS continued to identify and work with organizations around the world that can effectively manage corporate contributions and deliver results.

- The UPS Global Signature Program is a three-year, US\$1.5 million partnership between The UPS Foundation and the World Association of Girl Guides and Girl Scouts. This program seeks to increase the recruitment and retention of volunteers, support volunteers through training and self-development, and introduce a system to monitor and appraise volunteer leadership in Malaysia, Mexico and China.
- Additionally, The UPS Foundation awarded US\$1 million in grants to organizations in Brazil, Canada, Germany, United Kingdom and the Philippines that focus on hunger, literacy and volunteerism.

A global philanthropy strategy was developed in 2003 and included the launch of a global volunteer challenge that aims to achieve at least 100,000 hours of volunteering by UPS employees around the globe. Called the Neighbor to Neighbor (N2N) Service Challenge, the effort is part of UPS's ongoing commitment to strengthen the communities worldwide where it operates.

During this time, UPS also launched its first Global Volunteer Week. The initial program was so well received by employees that the second annual Global Volunteer Week, in October 2004, included triple the number of volunteers and volunteer hours of the inaugural year. More than 3,500 UPS employees volunteered more than 15,000 hours around the world during the 2004 event. The number of markets participating also expanded from 14 to 35. A sample of activities from around the world:

- In Mexico, employees volunteered 1,500 hours to plant trees for a reforestation project.
- In Spain, UPS employees spent 400 hours working at a food bank.
- In India, employees spent 700 hours working with underprivileged children and senior citizens providing mentoring, cleaning and landscaping.
- In Canada, employees volunteered 3,200 hours in a wide variety of activities from sorting food at food banks to building a house with Habitat for Humanity.
- Along with Global Volunteer Week, UPSers volunteered more than 115,000 hours in the 4th quarter of 2004.
- UPS provided US\$3 million in aid to those areas devastated by the tsunamis across Southeast Asia. UPS donated US\$2.5 million in in-kind services, US\$400,000 in cash grants to relief organizations and up to US\$100,000 in employee-matching contributions.

During 2005, volunteer activities in communities worldwide will continue. In addition, The UPS Foundation will be making more than US\$3 million in charitable contributions to specific initiatives outside the United States.

Community Investment Strategy



To ensure that our contributions meet critical needs, and continue to mirror the values of the company, The UPS Foundation's investment strategy supports three key areas, including hunger, literacy, and volunteerism. We support these areas through four giving strategies: leadership, operations, sustainability and effective volunteerism.

Giving Focus

Hunger: The UPS Foundation launched a new focus on hunger in 2004 called The UPS Foundation National Collaboration to Reduce Hunger and Improve Nutrition. This national grant-making program centers on helping national, regional, state and local organizations work to reduce obesity and improve the nutrition of hungry people in our communities.

The UPS Foundation also has supported anti-hunger organizations through our Prepared and Perishable Food Rescue Initiative since 1989 and has invested more than US\$10 million to build the capacity of local organizations throughout the United States. UPS investments have helped provide more than 240 million pounds of food through hundreds of local organizations.

Literacy: A long-time supporter of adult and family literacy programs, The UPS Foundation seeks to build stronger communities by expanding support in the areas of economic and financial literacy.

Volunteerism: The UPS Foundation will continue to assist nonprofit organizations to improve their effectiveness in recruiting, training and retaining volunteers.

Giving Strategies

Leadership: The goal is to improve nonprofit effectiveness through investments that encourage innovation and social entrepreneurship among nonprofit leaders.

Operations: The UPS Foundation will look for opportunities to share UPS's vast expertise in logistics and operational management with the nonprofit community.

Sustainability: The UPS Foundation will support innovative programs that promote the long-term effectiveness and financial stability of nonprofits delivering outstanding services to their communities.

Effective Volunteerism: Help nonprofit organizations improve their ability to deliver services through a more effective use of volunteers.

United Way



UPS supports United Way and its agencies throughout Canada, Mexico, Puerto Rico, and the United States.

Our 2004 contribution of US\$54.2 million marked the third consecutive year in which UPS and its people surpassed US\$52 million in an annual campaign - the first company to ever do so. More than 229,000 employees participated in the campaign, pledging US\$45 million and the company contributed approximately US\$9.3 million.

Community Internship Program



Founded in 1968, the Community Internship Program (CIP) is an intense management training course designed to immerse senior level executives in the community, exposing them to a variety of social and economic challenges facing today's workforce. While in the program, managers leave their jobs and families to spend a month living and working in one of four CIP sites run by local non-profit agencies. Internship sites are located in New York, N.Y.; Chattanooga, Tenn.; McAllen, Texas and San Francisco, Calif.

CIP aids UPS in developing and strengthening its managers, while helping to improve the communities where our employees live and work. After completing four weeks of "hands-on" community service and learning projects, UPS managers leave with a sense of accomplishment, community involvement and with a greater sensitivity to those less fortunate.

Conclusion



As our business continues to grow globally, we face many challenges, including preventing workplace injuries and reducing part-time turnover.

However, UPS has been in business for nearly a century because we've backed our words with action and opportunities for employees, customers, suppliers and communities. Our strong culture and values will continue to guide our efforts as we develop plans to address each challenge to provide the most benefit to our stakeholders.

ENVIRONMENTAL

Environmental Policy Statement

We conduct our business and operations with consideration for their environmental impact. Our responsibility for the environment ranges from the construction, maintenance, and operation of our facilities, to the maintenance and operation of our vehicles and aircraft, to the conservation of resources.

In an effort to maintain a leadership role in protecting the environment, we continually evaluate improved technology and seek opportunities to improve environmental performance. All our people are responsible for pollution prevention and for compliance with applicable environmental laws and regulations.

Greening the Supply Chain



As the world's largest package delivery company, UPS delivers more than 14 million packages daily.

The UPS network serves our customers in unison with our environmental objectives - and is unique in our industry. As one of the largest users of intermodal transport in the world, we move goods by ship, rail, aircraft and truck. This flexibility allows us to address customers' needs for cost effectiveness and speed.

Our network minimizes environmental impact - the ability to move air product by ground and ground product by rail produces significant reductions in our energy use, fuel consumption and emissions. The sophistication of our network allows us to use environmentally efficient modes of transport and still make on-time deliveries for customers. Using advanced route planning software minimizes miles on drivers' daily routes. Fewer miles traveled reduce our fuel use and emissions.

With more than 88,000 vehicles, 2,850 facilities and as the ninth largest airline worldwide, UPS faces significant challenges to reduce our environmental impact. We take those challenges seriously and have identified specific goals for the company. At the same time, we are working to advance new industry technologies to reduce emissions and conserve energy. Most importantly, environmental concerns are a core part of UPS's daily activities and engineering processes.

Fuel Use and Emissions



As fuel prices continue to rise, managing fuel consumption and greenhouse gas emissions is a business opportunity - one that can improve the bottom line, reduce our impact and our customers' impact on the environment and increase the long-term viability of our company. That's why we operate one of the world's largest fleets of alternative fuel vehicles, which includes over 1,700 compressed natural gas, liquefied natural gas, propane, fuel cell, electric and hybrid electric vehicles.

Moving more than 14 million packages around the world each day requires operating a large ground and air fleet. Reducing emissions is a constant priority and challenge. Our long-term goal is to minimize dependence on fossil fuels by improving operational efficiencies and advancing new technologies. Our emissions reduction strategy includes reducing fuel consumption and deploying alternative fuel and low emissions vehicles.

Ground Fleet



UPS's ground fleet strategy is to actively participate in advancing the development of future generations of delivery vehicles that reduce dependence on fossil fuels and significantly reduce fuel consumption and emissions.

This strategy has two specific practical applications. In the short term, as older vehicles are retired, they are replaced with low emission, fuel efficient vehicles. In the long term, we are working towards reduced dependence on fossil fuels.

Using the year 2000 as a baseline, we have made significant progress in managing fuel consumption. Our success in this area is directly attributed to three factors:

- A sophisticated intermodal network
- New operational technologies
- Deployment of fuel efficient technologies

Ground Fleet Characteristics

Our practice is to buy low emission vehicles as defined by the U.S. Environmental Protection Agency (EPA). As of 2004, the company operates 1,702 ultra-low and 6,037 low emission vehicles throughout North America. That number will continue to rise as older delivery vehicles reach the end of their life cycles and are replaced. For instance, we added 1,800 DaimlerChrysler Sprinter delivery vans to our U.S. fleet in 2002. 750 Sprinters have been deployed in our Western Europe fleet for several years. These vans have twice the fuel economy of the vehicles they replaced.

Leading-edge technology is deployed to keep our delivery fleet in top form. Through careful route planning and world class maintenance standards, our automotive engineering experts are dedicated to economizing fuel use and minimizing emissions.

Automotive Information System (AIS): UPS's proprietary Automotive Information System is a sophisticated matrix which notifies mechanics when a specific vehicle should undergo a preventive maintenance inspection. AIS removes the guesswork in planning labor for vehicle repairs, maintaining parts inventory and estimating fuel usage, allowing engineers to monitor trends and constantly refine methods and specifications.

Preventive Maintenance Inspections: UPS keeps its delivery fleet in top condition through preventive maintenance inspections (PMIs). Our mechanics perform a PMI based on information in our Automotive Information System, such as miles driven, days of service and engine type for each vehicle. The PMI process ensures peak performance and results in better fuel economy and lower emissions. Our PMI process has been so effective that other companies and government agencies have consulted with UPS's automotive engineers and adopted some of our maintenance procedures.

UPS's Automotive Study Group has redesigned the PMI for our delivery vehicles. The redesigned process is built around the individual characteristics of the delivery fleet, essentially giving each vehicle its own fingerprint. Through rigorous part testing, real-time duty cycle analysis and fleet-wide assessments, the Study Group developed a detailed matrix of vehicle characteristics, including engine type, vehicle group, miles driven, days of service and manufacturers' recommendations for oil changes and other types of engine service. This process allows us to better gauge how

frequently a vehicle type needs an oil change. This effort results in a net savings of 330,000 quarts of oil annually.

Alternative Fuel Fleet

In 2004, UPS spent 3.8 percent of its revenue on fuel. We believe this is the lowest percentage in the industry, but it is still a significant cost that must be managed. We have a responsibility to our customers and shareowners to control and potentially reduce that cost.

In 2003, we reported UPS's alternative fuel fleet included over 1,800 vehicles. Today, that number is just over 1,700. The reduction is due to the retirement of older Compressed Natural Gas (CNG) vehicles. Those CNG vehicles, which operate in the United States, were converted from diesel in the 1980s. Over the years, market forces affecting gas in the United States, as well as the development of new and better alternative fuel technologies, have led to reduced infrastructural support for CNG technology. As a result, when our U.S. CNG vehicles are retired, they are being replaced with new diesel vehicles that are more fuel efficient and produce fewer emissions.

In 2004, UPS's fleet of over 1,700 alternative fuel vehicles traveled 29.8 million miles making deliveries to homes and businesses. This number includes alternative fuel vehicles operating outside the United States and is more than double the miles reported driven by our alternative fuel vehicles in 2003. The large increase in this number is due to expanded data collection.

We have invested almost US\$15 million to deploy significant numbers of alternative fuel vehicles in our fleet. While maintaining our current alternative fuel vehicles, we are also working with manufacturers, government agencies and non-profit organizations to advance new fuel technologies.

UPS developed and continues to enhance its fleet using a "rolling laboratory" philosophy - using its alternative fuel fleet as a way to learn about how new technologies and advancements can be adapted for use in a large delivery fleet.

Alternative Fuel Fleet Overview

Fuel Cell Vehicles: UPS deployed its first DaimlerChrysler Sprinter fuel cell vehicle in Stuttgart, Germany in October 2003, which was retired in 2004. We deployed two additional fuel cell vehicles in late 2004. UPS currently operates one in Ontario, Calif. and one in Ann Arbor, Mich. The EPA provides a hydrogen refueling station at its national fuel emissions laboratory in Ann Arbor, Mich. In California, UPS gets its hydrogen fuel from a station in the South Coast Air Quality Management District. Fuel cells work by converting energy into electricity without combustion. Water vapor and heat are the only emissions produced.

Hybrid Technology: UPS was the first package delivery company to introduce a hybrid electric vehicle (HEV) into daily operations. We have been researching and testing HEV technology since early 1998. In 2000, we deployed a hybrid electric vehicle in our Huntsville, Ala. operations on a 31-mile route, making 150 pickups and deliveries each day. In 2004, UPS deployed a second-generation HEV that operated in Kalamazoo, Michigan through December 2004.

HEV technology offers significant potential to dramatically decrease emissions and fuel consumption by primarily operating on batteries and electric drive motors. UPS plans to expand its testing of hybrid electric vehicles by deploying 50-100 additional HEVs over the next five years.

989 Compressed Natural Gas (CNG) Vehicles: UPS has one of the largest private fleet of CNG vehicles in the U.S with 989 operating in 18 cities in the United States. We also operate three in Stuttgart, Germany, five in Brazil, and recently deployed one in Paris, France.

UPS began extensively testing CNG in 1989 to assess its benefits and viability as an alternative fuel. The results have been impressive: particulate emissions are 95 percent lower than with diesel engines; carbon monoxide emissions are 75 percent lower; and emissions of nitrogen oxides are 49 percent lower.

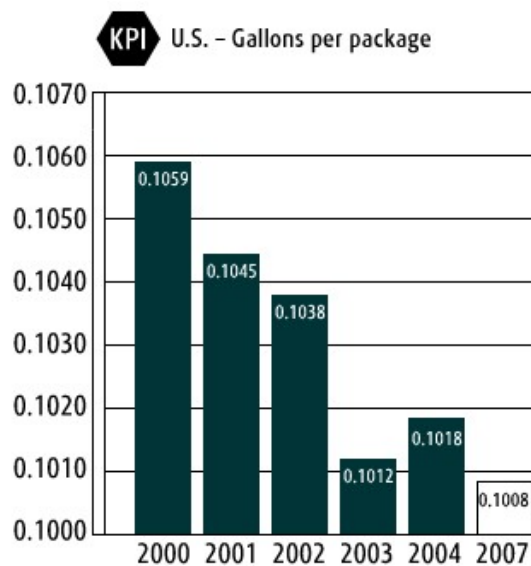
687 Propane-Powered Vehicles: We operate 623 propane delivery vehicles in Canada and 64 in Mexico City.

11 Liquefied Natural Gas Tractors: In November 2002, UPS deployed the package delivery industry's first alternative fuel tractors. Eleven liquefied natural gas (LNG) tractors now operate in our West Coast fleet, hauling more than 31,000 packages a day. Because of its density, LNG is a viable alternative fuel source for large trucks that need to go long distances before stopping to refuel.

Electric Vehicles: In 2004, UPS deployed a full-size electric package car in Manhattan, New York, and added a second in the spring of 2005. Additionally, UPS has operated an electric car in Santiago, Chile since 2001. UPS also tested 13 zero emission electric minivans in downtown Los Angeles, Calif. These vehicles had a range of 80 to 90 miles and were primarily used to make Next Day Air deliveries and pickups.

Fuel Consumption

We have established a gallons per package measurement to chart progress in ground network fuel efficiency. It is calculated by dividing our total U.S. ground fuel consumption by total U.S. ground and air packages. Fuel consumption includes gas, diesel and CNG. It also includes fuel consumed by use of rail services. The results demonstrate our ability to be efficient in the gallons of fuel used per package delivered.



Calculated by dividing total U.S. ground fuel consumption (gas, diesel, CNG, and rail fuel) by total U.S. ground and air packages.

2007 Goal:

Decrease gallons per package to 0.1008.

In 2004, fuel consumption increased at a slightly greater rate than package volume increased. This resulted in a slight increase in gallons per package.

2004 Ground Network Fuel Efficiency

By investing in new technologies that help the company operate more efficiently, UPS continues to make progress toward our goal of .1008 gallons per package in 2007.

Ongoing Initiatives:

- Continuing to enhance our fleet using a "rolling laboratory" philosophy - using its alternative fuel fleet as a way to learn about how new technologies and advancements can be adapted for use in a large delivery fleet. Additional alternative vehicles introduced in 2004 include a second-generation hybrid electric vehicle that operated in Kalamazoo, Mich. and the deployment of an electric vehicle that operates in Manhattan, NY. In 2005, we deployed a second electric vehicle in Manhattan, NY.
- Continuing the roll-out of Package Flow Technology, which features advanced geographic tools that allow us to analyze and edit dispatch plans to optimize delivery routes and times. This system is expected to reduce mileage by more than 100 million miles and save the company almost 14 million gallons of fuel annually while reducing CO₂ emissions by 130,000 metric tons when fully deployed in 2007.
- Participating in the U.S. EPA's SmartWay Transport Partnership, an initiative to reduce fuel use and emissions by shippers and carriers.

Diesel

While some concerns remain regarding diesel emissions, manufacturers have made significant improvements in diesel engines and the fuel itself over the past 20 years. In addition to improvements made in the industry, we remain focused on reducing diesel emissions through practical operational strategies and methods:

- All new diesel-powered package delivery vehicles meet the new "Pull Ahead" standards established by the U.S. EPA under its Clean Diesel program.
- We are piloting several new technologies to reduce diesel emissions from heavy-duty vehicles. For example, we are participating in a project with Northeast States for Coordinated Air Use Management to test the impact of selective catalytic reduction (SCR) technologies. Studies have shown that equipping heavy-duty engines with SCR can achieve significant reductions in heavy-duty engine NO_x emissions.
- To limit diesel emissions in our facilities, UPS drivers do not start their vehicles until they are ready to leave the facility. Our "no idling" practice reduces exposure to diesel fumes. In addition, our facility ventilation systems are designed to protect employees from harmful emissions.

Air Fleet



UPS Airlines strives to reduce its impact on the environment by operating efficient aircraft and aggressively managing our aircraft operations. We support the development of economically responsible solutions that reduce the effect of air operations on the environment. These solutions include not only equipment design and configuration, but aircraft operating procedures and technology.

We operate the ninth largest airline in the world, and we continue to lead the industry in deploying noise and emission reduction technologies. Our strategy for purchasing aircraft focuses on managing operational costs and ensuring landing rights around the world by flying a quiet, fuel efficient and low emission fleet.

Compliance with ICAO's 2006 Noise and Emission Regulations

UPS's fleet of aircraft meets and exceeds the noise and emission reduction regulations established by the International Civil Aviation Organization (ICAO). We have consistently pursued a "beyond compliance" strategy to ensure a quiet and highly fuel efficient air fleet. Instead of installing hush kits on our engines, in the mid-1990s UPS took a long-term, sustainable approach and replaced 100 percent of the engines in our 727-100 and DC-8 jet freighter fleet.

In 2006, all new aircraft must meet ICAO's Stage 4 noise guidelines, which call for a 10 decibel reduction over Stage 3. UPS is voluntarily applying the standard to its entire fleet - all UPS aircraft will meet Stage 4 guidelines.



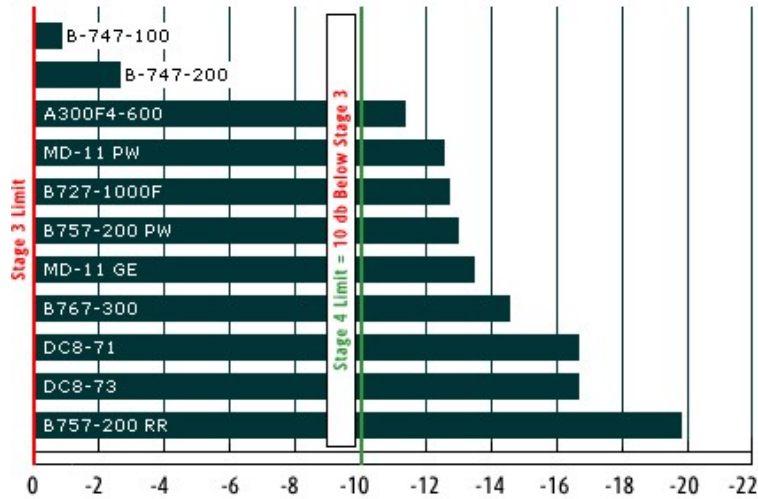
Percent of Total UPS Air Fleet Meeting ICAO Stage 4 Noise Guidelines	
2002	92 percent
2003	94 percent
2004	95 percent

2007 Goal:

97 percent of our total aircraft fleet will meet ICAO's 2006 guidelines for new aircraft.

UPS buys aircraft that are highly efficient and environmentally friendly. The following graph describes the characteristics of each type of aircraft we purchase.

UPS Aircraft Noise Characteristics as Compared to ICAO Stage 3 and Stage 4 Guidelines



Aircraft Emissions

Our aircraft engineers developed a measurement that links the amount of emissions produced by our aircraft with the number of packages the fleet can carry. In 2004, UPS had 0.86 kilograms of aircraft emissions per 1,000 kilograms of payload capacity – an improvement of 2.3 percent over 2003.

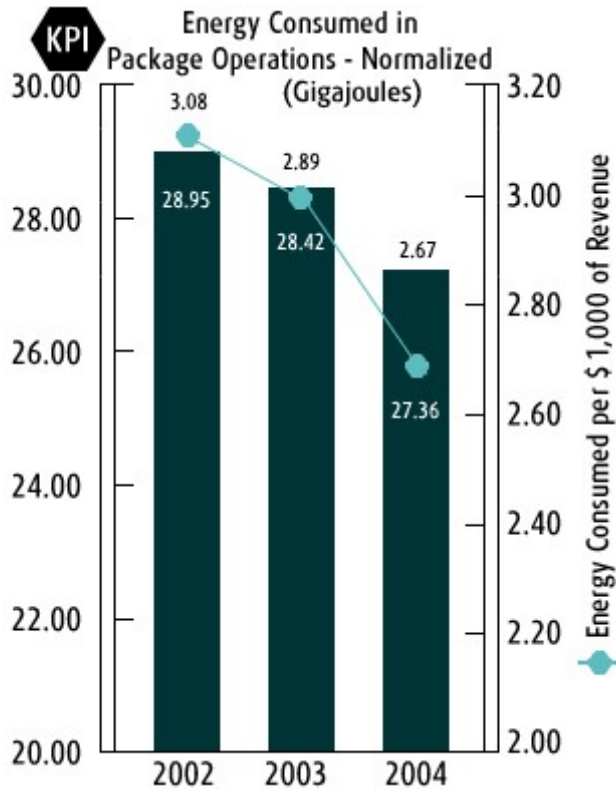
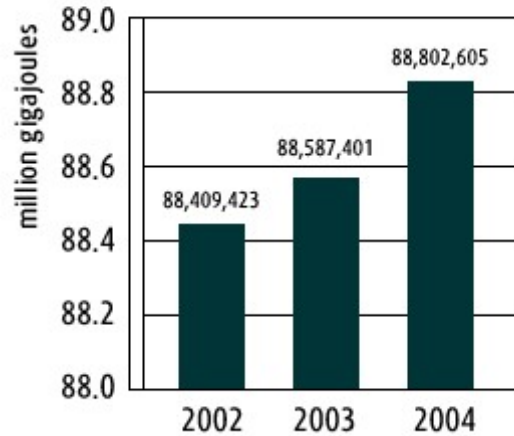
The positive trend reflects the increasing role that modern, efficient aircraft play in our airline operations.

Energy



UPS takes specific steps to reduce energy use in our 2,850 facilities worldwide. Our energy consumption in the United States is comprised of stationary sources of energy (electricity, natural gas, propane and heating oil) and mobile sources of energy (gasoline, diesel, jet A, and compressed natural gas).

KPI Energy Consumed in U.S.
Package Operations - Absolute



2007 Goal: Pending

In 2004, our total energy consumption increased slightly by 0.2 percent. However, the energy consumption per package decreased 3.7 percent. This equates to picking up and delivering 1.4 more packages for each unit of energy used in 2004.

UPS continues to evaluate the collective impact of our multiple fuel and energy initiatives to determine a goal.

Initiatives

Ongoing infrastructural initiatives:

- Solar: Solar power provides 70 percent of the power needs at our Palm Springs, California sorting facility. Since its deployment in July 2003, the 100 kilowatt solar panel initiative has exceeded expectations by 4.9 percent.
- Package Flow Technology: Continue to roll-out technology to U.S. facilities designed to improve customer service and provide greater internal efficiency. The new technology enhances two key processes: planning the daily delivery route and actually loading each vehicle. This system is expected to reduce the mileage driven by its delivery trucks by more than 100 million miles each year. Package Flow Technology is projected to save the company 14 million gallons of fuel and reduce CO2 emissions by 130,000 metric tons annually.

Ongoing facility initiatives:

- Energy-efficient lighting upgrade program.
- Energy-efficient motors and low friction belts for conveyer systems.
- High-speed roll-up doors to open and close quickly when vehicles are departing and arriving at the buildings.
- Pressurized heating systems and dock door seals to prevent the infiltration of outside air in cooler climates.
- Motion sensors and timers for office lighting to reduce wasteful use of energy.
- High efficiency HVAC equipment

Greenhouse Gas Emissions

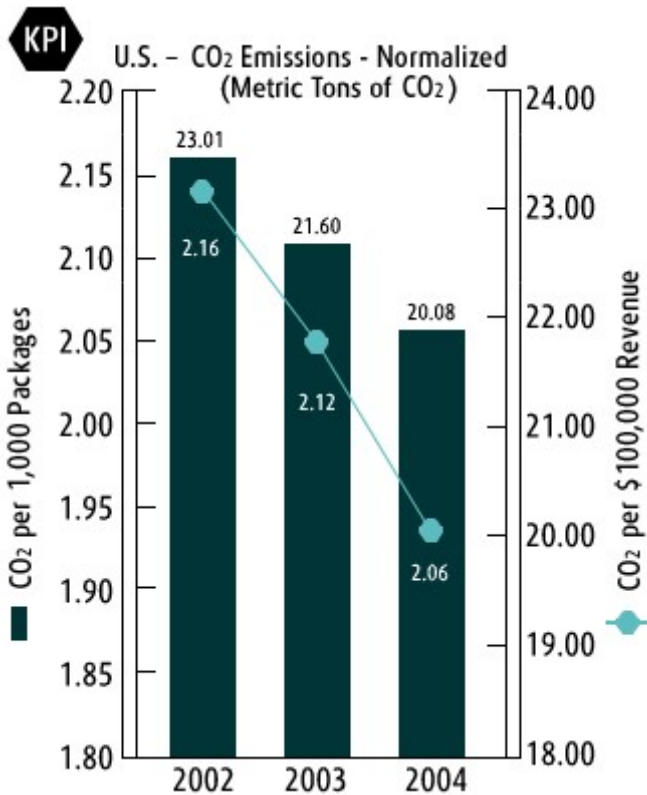
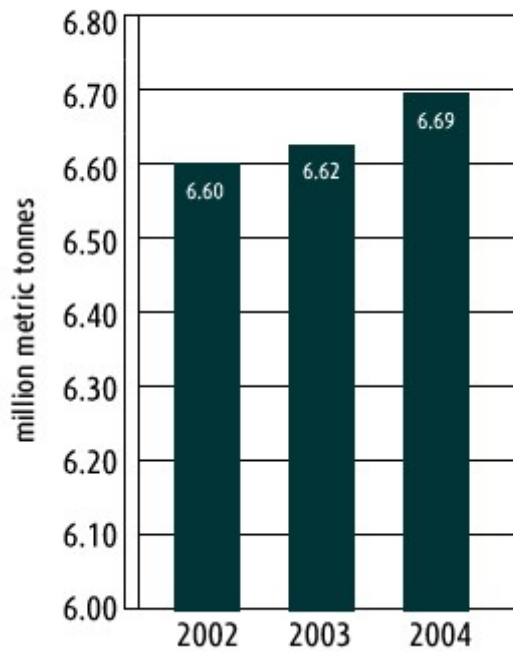


As new fuel efficient and alternative technologies become widely available and affordable, UPS's long-term goal is to decrease total CO2 emissions produced by our operations. In the near term, our efforts are focused on reducing emissions per package.

UPS's carbon footprint is comprised of stationary sources of energy (electricity, natural gas, propane and heating oil) and mobile sources of energy (gasoline, diesel, jet A, and compressed natural gas). It is expressed in million metric tons of CO2 emissions.

In 2004, UPS's CO2 efficiency improved 2.8 percent. We produced 0.06 metric tons (60 kilograms) less CO2 emissions per 1,000 packages delivered than we did in 2003.

KPI U.S. - CO₂ Emissions - Absolute



Initiatives

UPS's greenhouse gas emissions calculation is directly affected by activities in our ground and air fleets as well as our energy consumption.

In October, UPS began purchasing green power as part of the electricity supply at 14 California facilities. This power comes from biomass sources, which refers to a waste-to-energy process and can take the form of converting landfill gas, human and animal waste or agricultural waste to energy.

This commitment will prevent the release of 2.4 million pounds of carbon dioxide and has the equivalent environmental impact of removing 213 cars from the road a year.

Following is an overview of emissions reduction strategies:

- Increase fuel efficiency of vehicles and aircraft
- Support and maintain current alternative fuel fleet
- Experiment with and deploy new fleet technologies such as hybrid electric vehicles and hydrogen fuel cell vehicles
- Continue to test new technologies for our facilities including solar, wind and distributed power
- Focus on energy conservation in facilities
- Implement operational technologies that improve efficiency and reduce miles driven
- Continue to take advantage of our integrated network and intermodal capabilities

Recycling and Waste Management



UPS has training programs and policies in place to ensure the proper management of hazardous and nonhazardous waste. From airline operations to vehicle maintenance shops, these procedures are integrated throughout our operations. In addition, we have a wide array of recycling and source reduction initiatives that lessen our impact on the environment and help us operate more efficiently.

In this section, you will find an overview of UPS's strategic involvement with recycling and source reduction, hazardous and nonhazardous waste and water consumption and conservation.

Recycling and Source Reduction



UPS currently collects solid waste data on 1,265 of our U.S. facilities. Solid waste refers to normal trash such as paper, cardboard, and plastic that is commonly landfilled. In 2004, these facilities generated 75,000 tons of solid waste and an additional 23,000 tons were recycled.

Electronic Equipment Recycling

Computers and other electronic equipment contain toxic chemicals and plastics that must be properly addressed at the end of a product's lifecycle. In 2004, UPS recycled 2.9 million pounds of electronic equipment from our own operations. Since the program began in 2000, UPS has recycled 12.9 million pounds.

We use our transport and logistics capabilities to collect and prepare equipment for recycling or remanufacturing. An internal Web site enables our technical staff to determine if computer equipment should be repaired or sent to a qualified vendor to be recycled or refurbished.

UPS also helps its customers dispose of unwanted electronics. Through its Asset Recovery and Recycling Management service, UPS Supply Chain Solutions oversees the final disposition of electronics through repair, recycling or disposal in an environmentally safe manner, all while controlling logistics-related activities.

Additionally, several of The UPS Store® locations accept old cell phones for reuse and recycling. UPS Supply Chain Solutions sorts and ships the phones to our partner, ReCellular, which reconditions them and resells them to developing markets. The devices that cannot be refurbished are recycled and kept out of landfills.

Reusable bags

To date, we used more than 2.9 million reusable bags in the U.S. and Germany to bundle and sort small packages within our system. Each reusable bag eliminates the need for more than 600 plastic bags. Since the program's beginning in 1994, our reusable bags have prevented more than 31,000 tons of plastic from entering landfills.

Responsible Packaging

We introduced the industry's first Reusable Next Day Air envelope in 1998, which is bleach free and 100 percent recycled fiber (80 percent post-consumer). While it cuts down on waste by allowing one envelope to be used twice, the Reusable Envelope also provides convenience to customers, like mortgage brokers and attorneys, who have to ship documents for their clients to sign and return.

In 1998, UPS accepted the challenge from The Alliance for Environmental Innovation to improve the environmental profile of packaging in the transportation industry. Our express packaging was redesigned to eliminate bleached paper and increase the use of post-consumer recycled content — changes that not only reduced paper usage, but also reduced the amount of energy used in the manufacturing process by 12 percent.

Additionally, The UPS Store locations have an ongoing effort to encourage consumers to bring in foam packing peanuts to be reused and recycled.

Battery Recycling

Through its participation in the Rechargeable Battery Recycling Corporation (RBRC), UPS recycled 6,741 pounds of batteries. These batteries include nickel cadmium, nickel metal hydride, lithium ion and small-sealed lead acid.

Corporate Office Recycling Program

In 2004, 51 percent of waste produced by our corporate office was recycled, including paper, cardboard, lamps and ballasts. Since 2000, we have reduced wastes by 135 pounds per person and have recycled wastes at a rate of 95 pounds per person at this location.

Delivery Information Acquisition Device (DIAD)

The DIAD is a hand-held computer that our drivers carry to electronically record delivery information, including recipient signature. The DIAD eliminates the use of 59 million sheets of paper a year, saving 5,187 trees per year. Currently, UPS drivers in 43 countries, including the U.S., Canada, Mexico, China, Japan and most of Western Europe, use the DIAD.

Hazardous and Non-hazardous Wastes



Wastes are generated from aircraft, vehicle and facility operations. These wastes typically include spent antifreeze, used oil, spent solvents, spill residues, paint wastes, used filters and leaking packages.

Non-hazardous Wastes

The vast majority of wastes from aircraft, vehicles and facility maintenance are managed as non-hazardous wastes. These wastes, which are disposed of or recycled through many vendors, represent approximately 90 percent of the combined hazardous and non-hazardous wastes. Our

responsibility for these wastes includes ensuring that wastes are properly disposed of or recycled.

- Used oil is recycled or used for energy recovery.
- We reuse antifreeze until it is spent, and then it is either recycled or properly disposed.
- UPS recognizes scrap tires pose a significant environmental issue when improperly disposed. That's why we work closely with vendors to develop specifications for retread tires that ensure quality and safety. Quality retreads enable UPS to reuse tires - stretching our resources while benefiting the environment.

Hazardous Wastes

Only 10 percent of our wastes are managed as hazardous wastes. Hazardous wastes are managed through select vendors to ensure responsible disposal. We audit our vendors with third-party consultants on a regular basis to ensure compliance and proper management of wastes. In 2004, UPS's operating facilities in the U.S. generated 627 tons of hazardous waste.



2007 Goals:

- Ensure consistent, responsible management of hazardous and non-hazardous wastes.
- Reduce the amount of hazardous waste generated by our operations through recycling and source reduction initiatives.
- Work with customers to improve their packaging materials and techniques.

Package Design Initiatives

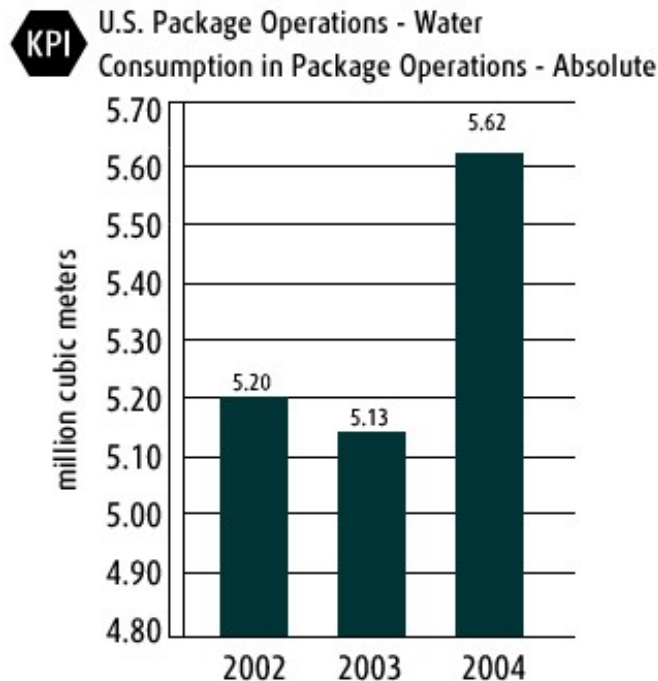
The UPS Package Design and Test Lab works with customers to ensure they are making proper packaging selections. The lab recently developed new box strength guidelines for small package carrier shipments. Ensuring that our customers are using proper packaging materials and packing techniques helps facilitate damage-free shipments.

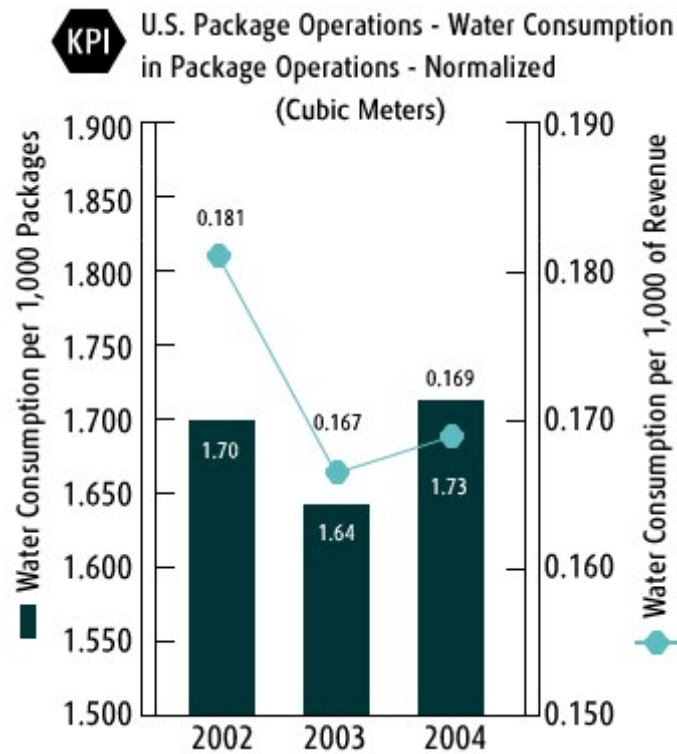
Water Consumption and Conservation



The efficient use of water is essential to future commerce and quality of life. Due to its cost, there is also a direct bottom-line benefit to reducing water use.

UPS consumes more than 1.4 billion gallons of water each year in its facilities, maintenance operations and vehicle washing operations. We are committed to researching and implementing conservation initiatives.





Goal: Pending

Tracking water consumption has proven to be more complicated than initially anticipated. In the U.S., we have more than 1,900 water accounts with more than 1,000 unique suppliers using 16 different units of measurement.

Water consumption increased in 2004 mainly due to adding the UPS logo to our tractor trailers. This necessitates more frequent washings of these vehicles, per our policy with all of our branded fleet vehicles.

Initiatives:

In the near term, we continue to improve the quality of water consumption data. In 2005, we will select UPS facilities around the U.S. to participate in a water reduction pilot program. The experience learned from this program will then be transferred to other UPS facilities.

Initiatives include:

- **Vehicle Washing Policy:** In 1995, we changed our policy for washing delivery vehicles, saving 365 million gallons of water annually. Instead of washing them every day, we wash them as needed to maintain their appearance.
- **Water reclamation systems:** 24 UPS facilities have wash tunnels equipped with active systems to reclaim water for reuse.
- **Vehicle Wash Agent (VWA):** In 2003, UPS began new procedures for washing our vehicles that incorporate an environmentally friendly enzyme wash agent that has the following benefits:

- Neutral pH, 100 percent biodegradable and non-hazardous with by-products of carbon dioxide and water;
- Cleans oil, grease and algae from drains, floor and walls of wash tunnels;
- Improves the quality of wastewater discharge;
- Saves approximately US\$1 million per year in materials and water.

Environmental Management System



Patterned after the ISO 14001 standard, UPS's environmental management system provides guidance to our plant engineering staff regarding their responsibilities for regulatory and waste minimization programs. We have 440 full-time equivalent employees whose responsibilities include carrying out our environmental programs, processes and activities in accordance with regulatory and UPS-specific requirements.

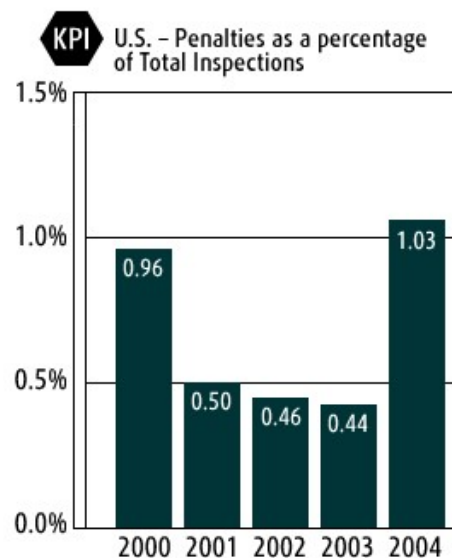
While we comply with all applicable government regulations, we also exceed minimum requirements on many initiatives. Our training and auditing programs identify areas for improvement and outline strategies for achieving it. More than 880 employees have received training since 1991, and results of annual audits are reported to UPS's senior management.

The quality of our environmental management system is evident in our approach to four specific areas: environmental inspections by government agencies, procedures regarding underground petroleum storage tanks, management of incidental spills, and monitoring aircraft deicing runoff.

Agency Environmental Inspections



In 2004, U.S. federal and state environmental agencies conducted 581 inspections at UPS facilities. Six of those inspections resulted in penalties, totaling US\$5,420. This measurement is a snapshot of our past performance, which now includes UPS Supply Chain Solutions (U.S. only). The number of inspections is controlled by federal and state agencies. Despite the increase that resulted in 2004 this low number of penalties is a direct reflection of the quality of our environmental management system.



2007 Goal:

This measurement is a lagging indicator. No goal intended.

Initiatives:

- UPS maintains environmental compliance by annually certifying its internal environmental auditors and by continuously focusing on the quality of the environmental programs and standards in its operations.
- UPS has 236 environmental auditors that have completed our internal certification process.
- UPS has 476 employees that have achieved fuel management systems certification.

Underground Storage Tanks



To comply with EPA regulations set forth in 1988, UPS removed, replaced or upgraded all of our underground storage tanks two years before the deadline at a cost of more than US\$100 million. Today we have approximately 1,056 total underground gas and diesel tanks in the U.S. These tanks utilize extensive protective measures, including leak-detection systems, redundant spill and overfill protection devices and built-in electrical interlocks and timers.

Incidental Spills

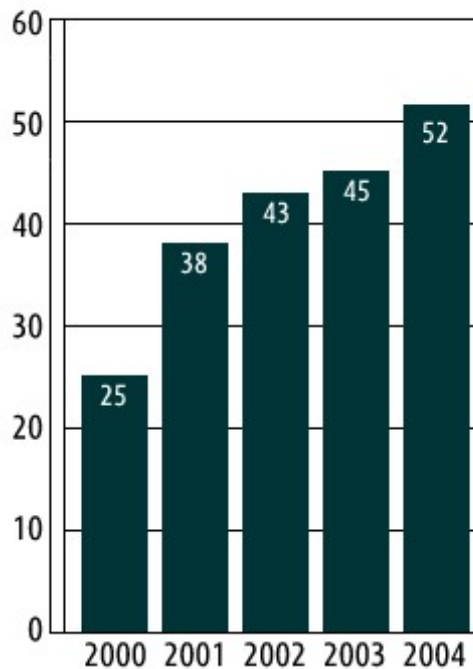


We have thorough training programs and standards in place to prevent accidental spills. We exceed federal reporting guidelines by requiring that facilities report to UPS Corporate Environmental Affairs all spills that can impact the environment. By closely measuring information about every spill, our goal is to improve our programs and processes by understanding where failures occur. When a spill does occur, we focus on quick response, thorough clean up and accurate reporting to the appropriate

authorities.

We have a “zero spill” objective in our operations, which is an aggressive goal for a company delivering more than 14 million packages daily with 88,000 vehicles.

U.S. – Number of Reportable Spill Incidents to Federal or State Agency

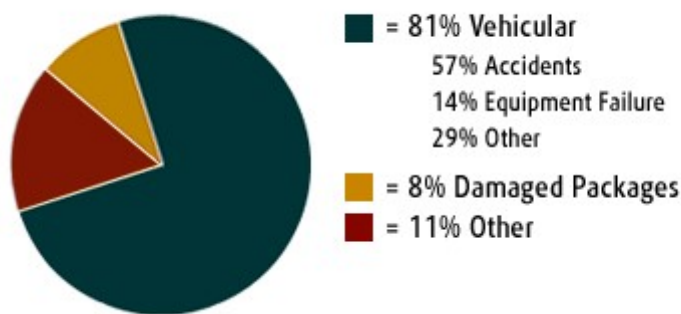


Goal:

Reduce spills to as close to zero as possible.

In 2004, reportable spills increased from 45 to 52. Spill volume increased, however this was due to two incidents that make up 87 percent of the total spill volume. As the breakdown in the second chart below indicates, 81 percent of 2004 spills are from vehicle incidents.

U.S. – Breakdown of 2004 Spill Incidents by Type



Initiatives:

- Reduce auto accidents.
- Maintain environmental management controls.
- Reduce improperly packaged items by educating customers on proper packaging techniques. The UPS Package Design and Test Lab recently developed new box strength guidelines for small package carrier shipments. Ensuring that our customers are using proper packaging materials and packing techniques helps facilitate damage-free shipments.

Aircraft Deicing Runoff



In inclement weather conditions, airlines are required to use deicing fluids to ensure that planes are safe to fly. UPS carefully manages the runoff generated by these fluids, from capturing and recycling the fluids to routing runoff to publicly owned water treatment facilities for proper treatment. In addition to managing runoff, we work with manufacturers to develop products with reduced environmental impact.

Conclusion



Sound business practices and strategies can, and indeed must, lead to a stronger, healthier environment. We know that good environmental decisions are typically good business decisions.

The challenges and opportunities ahead of us are significant. We embrace our leadership role in developing sustainable transport options. Many changes are possible in how our fleets and facilities will look in the years to come. Through fleet advances and innovative facility engineering, UPS strives to reduce its impact on the environment and reduce natural resource consumption in our operations worldwide.

THE FUTURE



Significant advances in technology, globalization and consumerism over the past several years have brought all businesses to a new age of commerce. To date, the supply chain has generally been managed in a linear fashion, where the movement of goods, information and funds are at best loosely connected disciplines. The emerging practice of “synchronizing commerce” is creating a US\$3.2 trillion marketplace in which goods, information and funds flow with speed, precision, security and efficiency.

By helping businesses and entire economies better manage demand and supply cycles, synchronized commerce comes with the promise of creating new and lasting growth opportunities around the world by engaging more people in the global trading community.

UPS plans to be an integral player in the world of synchronized commerce by helping our customers streamline their operations and integrate their supply chains to better serve their customers, drive efficiencies, eliminate waste and create more sustainable business models.

We believe our company is well-positioned to capitalize on the opportunities of an increasingly synchronized global economy. We have invested billions of dollars to create an unparalleled infrastructure of physical assets, technology and people that cannot be easily replicated by any competitor.

As a result, we have great confidence in our future economic prospects, which is the foundation for running a sustainable organization. However, in the spirit of constructive dissatisfaction that has driven UPS for nearly a century, we recognize that there is much work to be done to become a more sustainable enterprise in the next century.

We will be guided by our approach of balancing the economic, environmental and social aspects of running our business. Our immediate focus will include, but not be limited to:

Economic

- Seeking new ways to empower our customers, primarily through the implementation of new technologies, by treating each one as if they are our only customer.
- Investing in new services, processes and channels that connect more people to the world of trade.
- Looking for new ways to make our business more efficient.
- Supporting, and stimulating, the removal of artificial and regulatory barriers that inhibit the flow of commerce among trading partners and nations.

Social

- Removing obstacles that hinder the success and development of our people.
- Promoting equal opportunity on a global scale.
- Seeking solutions that provide UPS share ownership opportunities for employees worldwide.
- Investing in training and development opportunities for our people around the world, giving them the tools to sustain safe, productive and meaningful careers.
- Developing and implementing a comprehensive strategy and protocols for philanthropy, community involvement and volunteerism wherever we operate in the world.

Environmental

- Researching, testing and using new technologies and fuels that reduce consumption and emissions.
- Deploying new operational procedures and technologies that optimize our network and reduce waste.
- Reinforcing our environmental philosophies on a global basis.

Finally, not only are we committing to update the measurements presented in this report on an annual basis, but to add new ones as appropriate. We will make these measurements even more global in scope as our ability to collect and monitor international data improves.

At UPS, we know that our future performance and accountability are more important than past accomplishments. We are aligned with the principles of responsible, ethical growth and believe such accountability is an essential element of operating a successful business.