



## OVERVIEW

From deploying significant new technologies that will improve efficiency to investing in the community infrastructure in China and Thailand, UPS made a significant impact on the global communities where we do business.

Following are examples of the new initiatives that are helping us achieve our sustainability goals. Throughout each section of this site, you will find more details about the initiatives affecting our economic, environmental and social performance.

### 2003 Initiatives

#### Infrastructure Efficiencies

- Rolled out Package Flow Technologies to U.S. facilities, a \$600 million upgrade predicted to save 14 million gallons of fuel annually and reduce CO2 emissions by 130,000 metric tons. Full deployment is expected by the end of 2006.
- Installed 100 kilowatt solar panel array at Palm Springs, California, sorting facility.

#### Economic Indicators

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

#### Workforce Investment

- Continuation of UPS's Earn and Learn program, which has provided tuition assistance for 39,000 employees in the U.S. since 1999.
- UPS Supply Chain Solutions placed Health and Safety Managers in each business unit to implement strategic safety initiatives. Community Investment
- Establishment of annual UPS Global Volunteer Week, a week during which more than 1,000 UPS employees volunteered their time in 14 international markets.
- The UPS Foundation partnered with the Corporation for National and Community Service and the USA Freedom Corps to conduct the first-ever national study of volunteer management at nonprofits.

## Ground and Air Fleet Initiatives

- Deployed the first commercial fuel cell vehicle in North America through a unique partnership with DaimlerChrysler and the U.S. Environmental Protection Agency. The vehicle, which is a Mercedes-Benz F-Cell, delivers packages on a daily route in Ann Arbor, Michigan.
- Deployed a fuel cell-powered Sprinter van in Stuttgart, Germany.
- Joined the U.S. EPA's Smartway Transport Partnership, an initiative to reduce fuel use and emissions by shippers and carriers.
- Developed an advanced preventive maintenance inspection process for our delivery fleet, resulting in a savings of 330,000 quarts of oil and \$3 million.
- Replaced six older 727 and 747 aircraft with new, highly efficient aircraft.

## New in 2004

- Launched UPS Asset Recovery and Recycling Management service to customers. Through this service, UPS Supply Chain Solutions manages the logistics of used and obsolete electronics through repair, recycling or disposal in an environmentally safe manner.
- Introduction of two new safety initiatives - Safety First and Target Zero - to minimize auto accidents and employee injuries.
- Chairman and CEO Mike Eskew elected chairman of the U.S.-China Business Council, the principal organization of U.S. corporations engaged in business relations with the People's Republic of China.
- 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."
- Added to the FTSE4Good Index, a leading European index fund comprised of socially responsible companies.



## OVERVIEW | 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.

UPS Sustainability Presentation

UPS has sustained a balance among its economic, social, and environmental objectives for nearly a century.



## A LETTER FROM THE CHAIRMAN

UPS today is in many ways a metaphor for the opportunity and promise of a sustainable global economy.

Each day we serve eight million customers in over 200 countries. Those customers entrust us with 2 percent of the world's GDP. It's a responsibility we don't take lightly. That's why we remain committed to providing the most efficient, cost-effective and environmentally and socially responsible services in our industry, while producing a healthy return for shareholders.

Balancing economic, social and environmental responsibilities is a formula that has served UPS well since our inception in 1907, and it will remain a guiding imperative as we enter our second century. This commitment to sustainable business practices was highlighted last year in our first Corporate Sustainability report. This year, we are pleased to provide an update on our progress.

UPS is progressing 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. In the spirit of "constructive dissatisfaction," 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, processes and programs to get us there.

Mike Eskew

A handwritten signature in black ink that reads "Mike Eskew". The signature is written in a cursive, flowing style.

Chairman and CEO



## OVERVIEW | THE UPS BUSINESS MODEL

Our business - which serves eight million customers daily in over 200 countries by 360,000 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 the same 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.



## OVERVIEW | 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 surrounding these transactions - the goods, the information and the funds - must happen 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 2 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, we process electronic data from more than 90 percent of the shipments that move through our system each day.

A three-year deployment of a suite of new technologies, initiated in 2003, marks a major re-engineering of our U.S. package operations. As a result, we can route packages and schedule equipment literally down to the individual package. An investment of over \$600 million in these technologies is expected to result in cost savings of more than \$600 million annually when fully deployed.



OVERVIEW | FINANCIAL INFORMATION

(Millions of dollars except per-share amounts)	2003	2002	2001	2000
Total revenue	\$ 33,485	\$ 31,272	\$ 30,321	\$ 29,498
Operating expenses	29,040	27,167	26,359	24,986
Income taxes	1,472	1,755	1,512	1,900
Net income	2,898	3,182	2,399	2,934
Diluted earnings per share	\$2.55	\$2.81	\$2.10	\$2.50
Total assets	28,909	26,357	24,636	21,662
Long-term debt	3,149	3,495	4,648	2,981
Shareowners' equity	14,852	12,455	10,248	9,735

(Adjusted Net Income Data)	2003	2002	2001	2000
Net income	2,772	2,422 <sup>1</sup>	2,425 <sup>2</sup>	2,795 <sup>3</sup>
Diluted earnings per share	2,44	\$ 2.14	\$ 2.12	\$ 2.38

<sup>1</sup> Excludes (on an after-tax basis) \$121 million gain related to change in vacation policy, \$65 million restructuring change and related expenses, \$72 million charge related to the adoption of FAS 142, and \$776 million gain related to the settlement of a previously established tax assessment liability.

<sup>2</sup> Excludes \$26 million after-tax charge related to the adoption of FAS 133.

<sup>3</sup> Excludes (on an after-tax basis) \$145 million in investment gains, a \$29 million gain on the sale of our UPS Truck Leasing subsidiary, and a \$35 million charge related to an arbitration ruling under our 1997 contract with the Teamsters.





## OVERVIEW | 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 the 1920s. Since the 1999 initial public offering, employees, retirees and founders’ families still retain about 50 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, elections and compensation of our Board of Directors. Detailed information about our structure and management philosophy is also available on the web site.



## OVERVIEW | 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.

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 62 percent of our KPIs include global data; 38 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 emailing us:

### Mailing Address:

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

### Email Address:

[sustainability@ups.com](mailto: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.



OVERVIEW | FACTS AT A GLANCE

2003 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
2003 REVENUE	\$33.5 billion
EMPLOYEES	357,000 (317,000 U.S.; 40,000 International)
PACKAGE OPERATIONS	
2003 DELIVERY VOLUME	3.4 billion packages and documents
DAILY DELIVERY VOLUME	13.6 million packages and documents
DAILY U.S. AIR VOLUME	2 million packages and documents
DAILY INTERNATIONAL VOLUME	1.3 million packages and documents
SERVICE AREA	More than 200 countries and territories Every address in the United States
CUSTOMERS	7.9 million daily
UPS.COM	115 million hits per day on www.ups.com - including an average 9.1 million daily on-line tracking requests
RETAIL ACCESS	<i>The UPS Store</i> , 3,300; Mail Boxes Etc., 1,100 (global); UPS Customer Centers, 1,000; Authorized outlets, 17,000; UPS Drop Boxes, 45,000
OPERATING FACILITIES	1,748
DELIVERY FLEET	88,000 package cars, vans, tractors, motorcycles
UPS JET AIRCRAFT	269
CHARTERED AIRCRAFT	313
DAILY FLIGHT SEGMENTS	Domestic - 972; International - 873

AIRPORTS SERVED	Domestic - 385; International - 466
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	
2003 REVENUE	\$2.1 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	750+ facilities in more than 120 countries; 25 million sq. ft.



## OVERVIEW | AWARDS AND RECOGNITION

In 2003, 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

UPS named to *FORTUNE* magazine's Best Company For Minorities list for fifth consecutive year

In July 2003 for the fifth consecutive year, UPS ranked among the "50 Best Companies for Minorities" in the annual survey published by *FORTUNE* magazine. The survey ranks corporations on their commitment to hiring, promoting and retaining a diverse pool of talented employees. In addition, it reviews companies' support of supplier diversity and philanthropic support of organizations that support minorities. In 2003, UPS ranked #26.

UPS Taiwan recognized as a Best Employer in Asia

In a 2003 regional survey of more than 300 companies in Asia, UPS Taiwan ranked tenth in the "Best Employers in Asia" list. The study was conducted by Hewitt Associates Inc. in partnership with *The Asian Wall Street Journal* and the *Far Eastern Economic Review*. The survey questioned 84,000 employees from all levels regarding people practices in each company and included eight countries in the region. An independent panel of business leaders, Human Resources professionals, and academics reviewed the results to determine the best employers.

### Customers

Businesses Rank UPS as top logistics provider in annual 'Top 10 3PL Excellence Award' survey

In 2003, UPS Supply Chain Solutions was rated as the No. 1 logistics provider in *Inbound Logistics'* annual "Top 10 3PL Excellence Award" survey. Award rankings were based on excellence in 28 service categories, including integrated logistics, process re-engineering, consulting and import, export and customs capabilities, among others.

More than 3,000 respondents from about 360 third-party logistics companies worldwide participated in the survey.

## Communities

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

For the third year in a row, UPS and its employees led the U.S. in supporting the annual United Way campaign. UPS and its employees contributed \$53.2 million to United Way. UPS's 2002 United Way contribution of \$52.2 million made the company the first ever to contribute more than \$50 million to United Way in one annual campaign. UPS was United Way's largest corporate contributor in 2001.

UPS receives "Corporate Leadership Award" from The National Urban League

In November 2003, UPS received the "Corporate Leadership Award" for company's overall commitment to the National Urban League and its affiliates around the country. UPS's relationship with the Urban League dates to 1962.

## Shareholders

UPS once again included in Dow Jones Sustainability Index

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

UPS ranked Top Ten in FORTUNE magazine's 2003 "World's Most Admired Companies" survey

In 2003 for the fifth year in a row, UPS rated the "World's Most Admired" company in its industry in a *FORTUNE* magazine survey, in the process ranking in the Top 10 among all companies on five of the nine attributes evaluated.

The rankings were compiled based on an evaluation of nine criteria, including quality of management; quality of products and services; innovativeness; long-term investment value; financial soundness; employee talent; social responsibility; use of corporate assets, and globalness.



## ECONOMIC

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 in 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.

In this section, you'll learn how UPS is handling today's economic challenges and opportunities while also ensuring future stakeholder value.





## ECONOMIC | INDUSTRY OVERVIEW

From UPS Mission Statement

We sustain a financially strong company that provides a long-term competitive return to our shareholders.

UPS has a history of strong returns. These returns have been driven by our abilities to transform our company and adapt to changing conditions. We believe these abilities will drive our financial sustainability well into the future.

The service UPS provides has inherent economic benefits:

- First, by providing reliable, affordable services to millions of small businesses, we help them thrive;
- Second, by facilitating the flow of goods, information and funds we enable our customers to run their businesses more efficiently, reduce waste and strengthen their bottom lines;
- Third, as we grow our business in a financially sustainable manner, we extend economic, social and environmental benefits to our stakeholders.

UPS combines the disparate activities of supply chains into a precise, engineered whole, transforming what was once a cost center into a business opportunity. For example, warehouses can be shared by several manufacturers, eliminating redundancies and reducing costs; packages can be delivered directly from the manufacturer to the consumer, saving money for the producer and improving customer service; international accounts receivable can be reduced from weeks to days, substantially increasing cash flow.

Ours is an industry of increasing importance to our customer's business strategies. UPS is aligning its strategies to capitalize on four emerging industry trends. Those trends are:

- Globalization
- Consolidation
- Shift to smaller, more frequent shipments
- Outsourcing logistics

ECONOMIC | INDUSTRY OVERVIEW | 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.

ECONOMIC | INDUSTRY OVERVIEW | CONSOLIDATION



The trend toward more complex supply chains and increased global trade is driving industry consolidation. Because of the greater complexity in addressing customer needs, less efficient competitors are finding it increasingly difficult to compete. We believe providers of transportation and supply chain management solutions with the broadest capabilities and deepest expertise will be the most successful.



**ECONOMIC | INDUSTRY OVERVIEW | 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, and the Internet, with its direct-to-consumer distribution channel, all drive greater demand for time-definite package delivery.

In the 1970s, the value of goods in small package networks accounted for two percent of the U.S. GDP. Driven by the trends discussed above, that value has increased to 11 percent today. We believe a similar trend is occurring in Europe as country borders become more transparent, and as small package transportation becomes more widespread. As economies expand throughout the rest of the world, so too does the need for small package delivery.

ECONOMIC | INDUSTRY OVERVIEW | OUTSOURCING



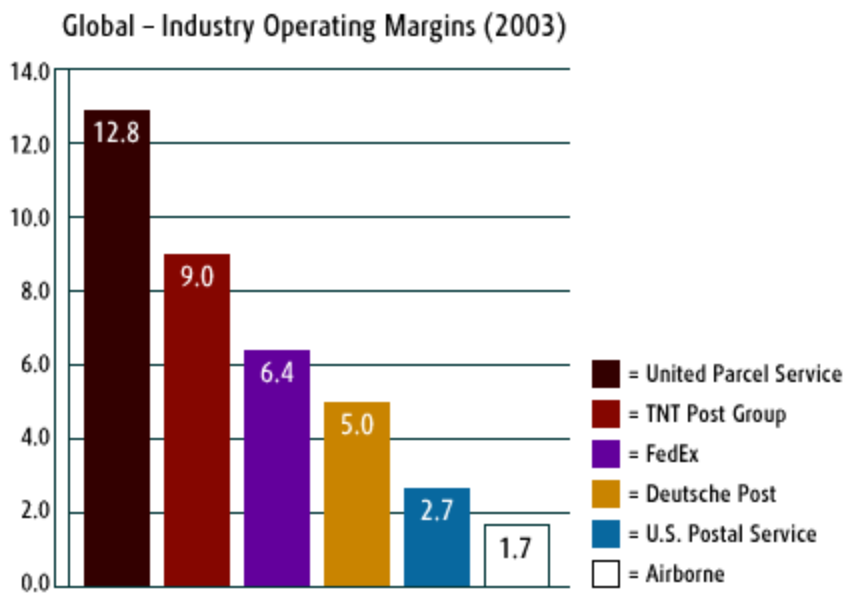
As globalization continues, supply chains are becoming more complex. At the same time, speed-to-market and consistent, satisfactory customer experiences are becoming more important. Yet managing the complexities of a global supply chain is not the competency of most businesses. Therefore, companies are 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 10 percent of the world's GDP is spent on supply chain activities; a \$3 trillion global market of which only \$0.06 per dollar is represented by small package delivery. We believe there is substantial growth opportunity for supply chain management service providers.



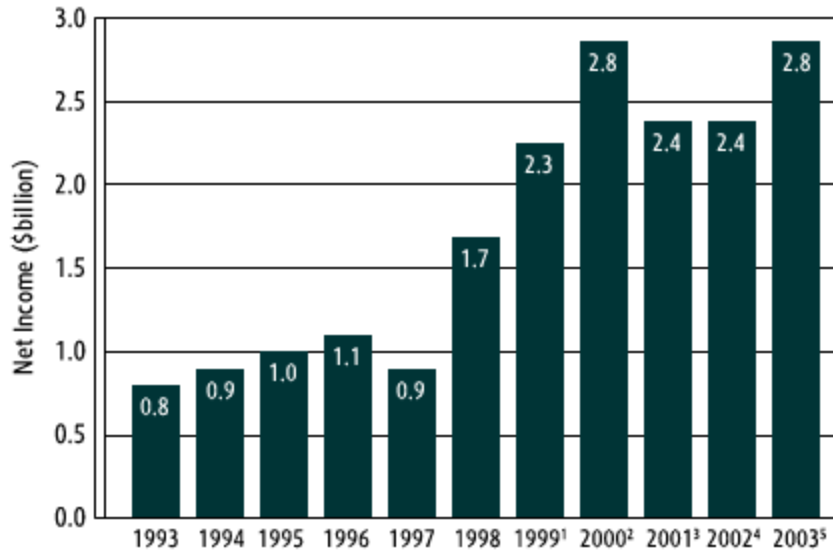
ECONOMIC | FINANCIAL PERFORMANCE

Our business model generates the best margins in the industry, even as we compete with large, government-subsidized postal systems.



We have averaged 12 percent annual growth over the past decade and have generated a return on equity (ROE) generally in excess of 20 percent. Our goal is to maintain ROE in the mid-20s.

Global – Long-Term Earnings Growth  
(12% Compound Annual Growth Rate)



<sup>1</sup> Excludes a \$1.442 billion tax assessment charge.

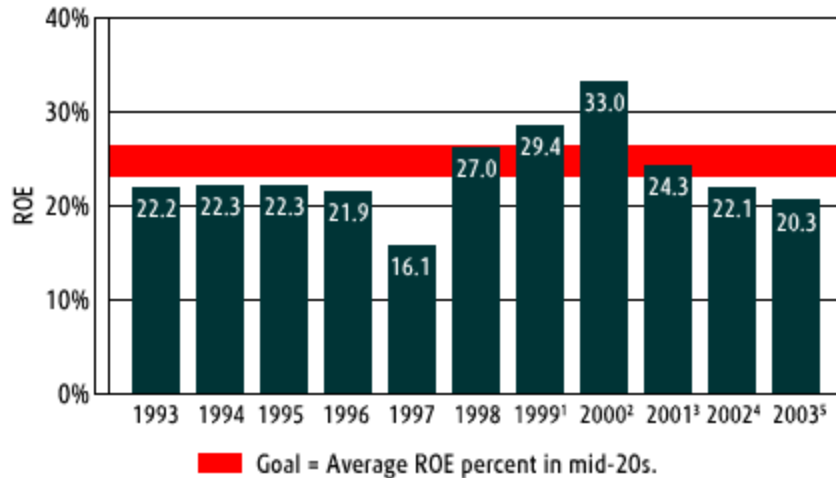
<sup>2</sup> Excludes (on an after-tax basis) \$145 million in investment gains, a \$29 million gain on the sale of our UPS Truck Leasing subsidiary, and a \$35 million charge related to an arbitration ruling under our 1997 contract with the Teamsters.

<sup>3</sup> Excludes \$26 million after-tax charge related to the adoption of FAS 133.

<sup>4</sup> Excludes (on an after-tax basis) \$121 million gain related to change in vacation policy, \$65 million restructuring charge and related expenses, \$72 million charge related to the adoption of FAS 142, and \$776 million gain related to the settlement of previously established tax assessment liability.

<sup>5</sup> Excludes after-tax gain from sale of Mail Technologies (\$14 million, \$0.01 per share) and Aviation Technologies (\$15 million, \$0.01 per share), gain on redemption of long-term debt (\$18 million, \$0.02 per share), impairment of investments (\$37 million, \$0.03 per share) and credits to income tax expense for a lower effective state tax rate in the fourth quarter (\$39 million, \$0.03 per share), the resolution of various tax contingencies (\$55 million, \$0.05 per share), and a favorable ruling on the tax treatment of jet engine maintenance costs (\$22 million, \$0.02 per share).

**KPI** Adjusted Return on Equity



UPS continues to generate strong profits and cash flow. As a result, our cash balance continues to increase. This has a negative impact on ROE, since the return on cash is typically lower than what we generate in our business operations. The challenge is finding opportunities to reinvest this cash to produce returns that will sustain mid-twenties ROE in a growth environment.

<sup>1</sup> Excludes a \$1.442 billion tax assessment charge.

<sup>2</sup> Excludes (on an after-tax basis) \$145 million in investment gains, a \$29 million gain on the sale of our UPS Truck Leasing subsidiary, and a \$35 million charge related to an arbitration ruling under our 1997 contract with the Teamsters.

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Additional attributes that make UPS economically sustainable:

- **Transparency:** Package delivery service is an easy-to-understand business with clear revenue recognition - the service is provided, then invoiced and payment recorded. This business requires virtually no inventory with its risk of obsolescence.
- **Financial quality:** UPS maintains a strong balance sheet. It is one of only seven companies with a AAA credit rating from both Standard & Poor's and Moody's. In addition, the company generates exceptional cash flow.
- **Employee-owner culture:** Financial prudence is part of UPS's cultural mind set. Employees have owned UPS for decades. Emphasis is on the long-term, with financial returns well in excess of the company's cost of capital. This employee/owner mentality results in close alignment of management's interests with public shareholders' interests.



## ECONOMIC | GROWTH OPPORTUNITIES

**U.S. Growth:** In the U.S. we expect the importance of small package transportation to grow along with increased use of the Internet in both consumer and business transactions. In addition, we are expanding the services and access points for customers to connect with us. For example, in 2003, the U.S. franchisees of Mail Boxes Etc. (MBE), a UPS subsidiary, were offered the opportunity to rebrand and capitalize on the equity in the UPS name by becoming The UPS Store. More than 90 percent of the 3,300 MBE outlets chose to take advantage of this opportunity, and they are experiencing substantial improvements in operating performance.

**International Growth:** Globally, package delivery is growing at a faster rate than in the U.S. Europe is our largest region outside the United States, followed by Asia — both with excellent long-term economic prospects. The expansion of the European Union into the Eastern Bloc countries will create an even stronger economic entity with increased cross-border trade. Growth in Asia will be driven by improving demographic and economic trends in China, South Korea and India.

**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 almost 20 supply chain businesses that expand our geographic presence, scope of services and technological expertise.

UPS manages supply chains for major companies in 120 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.

ECONOMIC | GROWTH OPPORTUNITIES | ECONOMIC IMPACT



UPS has a significant impact on local economies worldwide. In 2003, we paid \$2.5 billion in federal, state and local taxes across the globe.

Additional economic impact in 2003 included:

- Over \$12.6 billion in salary and wages
- \$6.7 billion in employee benefits
- \$955 million in repairs and maintenance
- \$730 million in occupancy expenditures (lights, heat, power, utilities, etc.)
- \$1 billion in dividends

ECONOMIC | CONCLUSION



UPS is well-positioned to take advantage of the trends influencing global commerce, and we will assume a leadership role in meeting an increasing demand to synchronize commerce. We remain committed to being a positive economic force and continue to earn the trust of our constituents over and over again.



## 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.



## SOCIAL | 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 the majority of shares since 1929. We believe that when employees' interests are aligned with the best interests of the company, better decisions are made with long-term success in mind rather than short-term gains.

The company's initial public offering in November 1999 did not change that philosophy. Today, employees, retirees and the families of the company's founders own slightly less than 50 percent of outstanding shares. Of our 357,000 employees, approximately 33 percent own shares in the company. This includes over 50 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. Through our annual Managers Incentive Plan, we distribute approximately 15 percent of the company's pre-tax profits in the form of stock to approximately 30,000 managers. Management employees are offered additional incentives to hold and accumulate UPS stock. In addition, we have smaller stock option and restricted stock awards for 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 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

To guide the company's efforts to provide responsible, ethical business behavior and manage business conduct to achieve and maintain compliance with all applicable regulations and policies for all aspects of UPS business worldwide.

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.

In 2003, the U.S. Code of Business Conduct and the International Code of Business Conduct were integrated into a worldwide Code, which applies to all UPS business units. The Code of Business Conduct is available to employees in 13 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 10,000 UPS managers 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 360,000 employees and 8 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 2003, 5,280 part-time employees advanced to full-time positions.
- 51 percent of our current full-time drivers were once part-time employees.
- 71 percent of our full-time management employees were promoted from non-management positions.
- 76 percent of our vice president level employees started in non-management positions.
- Eleven 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 16 years and has held seven different jobs with the company.



## 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 works 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 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.

## 2003 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 Senior Vice President of Human Resources.

Women as a percentage of officials and managers	27.3%
Minorities as a percentage of officials and managers	29.1%

Asian	3.7%
Black	15.9%
Hispanic	8.8%
Native American	0.6%

Women on the Board of Directors	25%
Minorities on the Board of Directors	50%

### 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 25,000 businesses are part of the program. In 2002, we awarded more than \$400 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.



## SOCIAL | 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 2003, we had 32 expatriates out of 40,000 employees in our international package 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.

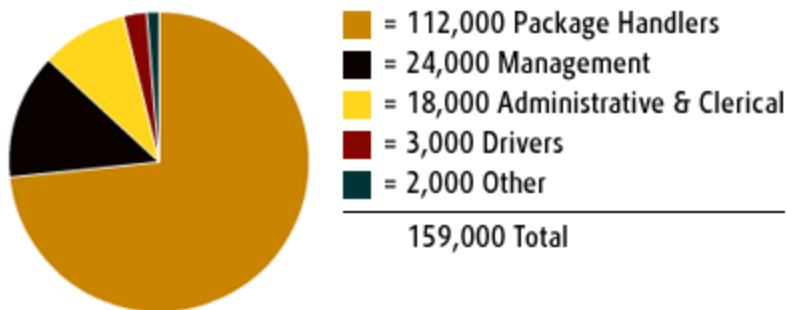
UPS Workforce	
U.S. Employees	317,000
International Employees	40,000
Employees Worldwide	357,000



SOCIAL | WORKFORCE DEVELOPMENT | PART-TIME

Part-time employees are a critical part of our workforce - 49 percent of our employees hold part-time positions. The nature of the package delivery business - alternating 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 2003, turnover in our part-time workforce totaled 37 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 50 percent of our new part-time hires in 2003. 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 helped more than 39,000 part-time employees pay for their college education.

## Metropolitan College

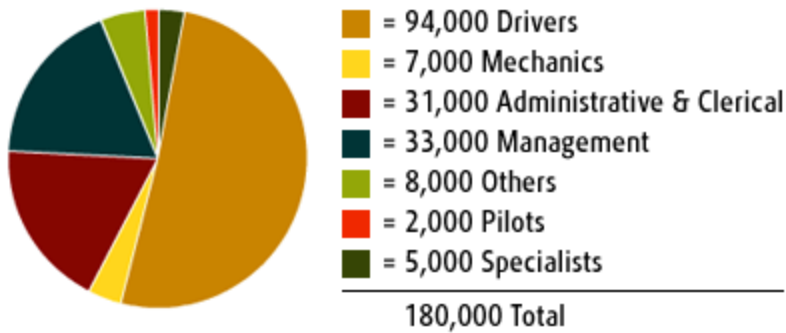
A unique partnership between UPS and the state of Kentucky, Metropolitan College offers people the opportunity to pursue their college education for free while also working for UPS. Since the program's inception in 1998 in Louisville, 8,728 employees have enrolled in Metro College. In 2003, 1,805 employees were enrolled.



SOCIAL | WORKFORCE DEVELOPMENT | FULL-TIME

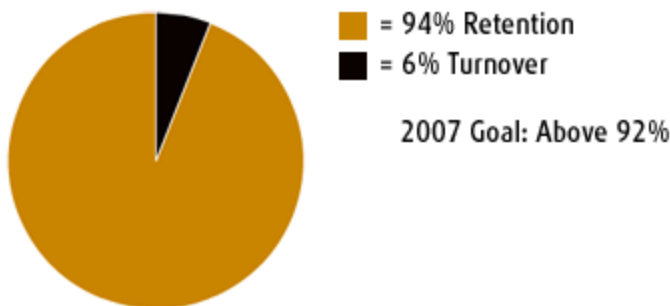
Because of our promotion-from-within policy, many part-time employees have the opportunity to move into full-time positions. Full-time positions range from drivers and mechanics to software engineers, industrial and plant engineers, sales executives and human resources professionals.

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 six percent.

**KPI** Global - Full-time Workforce Retention and Turnover



2007 Goal:

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

While our current retention level is higher, attrition, acquisitions and market conditions will cause this number to fluctuate. Keeping retention at no less than 92 percent perpetuates organizational 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 maintained at 94 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



SOCIAL | WORKFORCE DEVELOPMENT | 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 2002, we invested \$19.3 billion in our employees worldwide, which is 57 percent of total annual revenue of \$33.5 billion (annual revenue). This investment includes \$6.7 billion in indirect pay, including income protection, healthcare benefits and retirement plans. It also includes \$87 million (401k) SavingsPLUS stock matches.





## SOCIAL | 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.

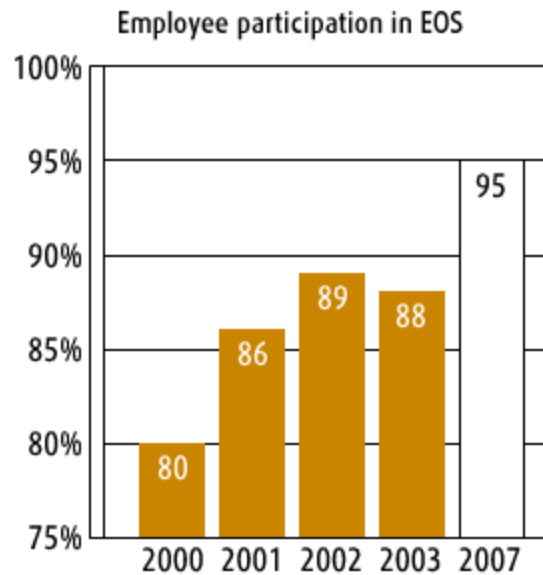


**SOCIAL | EMPLOYEE FEEDBACK | EMPLOYEE OPINION SURVEY**

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 2003, the survey was administered globally, with 88 percent of employees participating.



Percentage of employees who participated in the Employee Opinion Survey (EOS).

2007 Goal:

Increase the global employee participation rate to 95 percent.

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

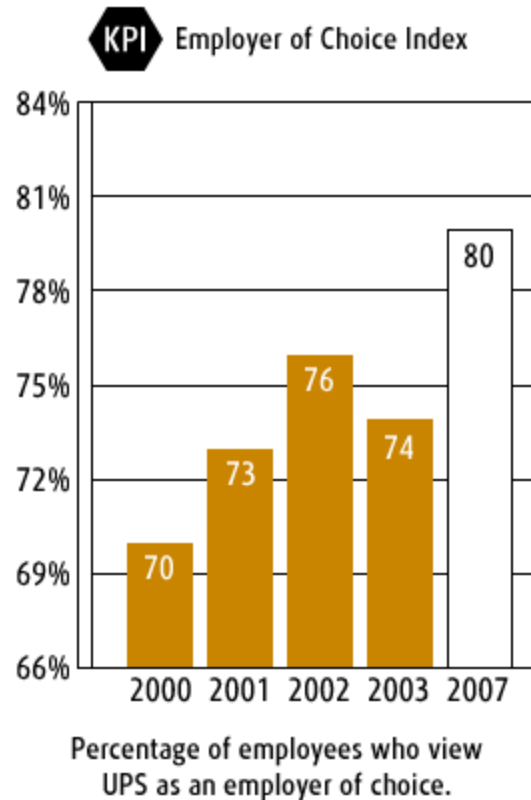
Initiatives:

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



SOCIAL | EMPLOYEE FEEDBACK | 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 large 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.



2007 Goal:

Achieve an 80 percent favorable rating among our employees.

In 2003, the ECI reflected UPS's total global operations, including all business units. In 2002 and previous years, the ECI reflected only UPS's package operations. While the

ECI decreased two percentage points in 2003, the results are still significantly positive considering the addition of thousands of employees to the index.

#### Initiatives:

In 2004, UPS is implementing 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 companywide 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



## SOCIAL | 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 13 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 direct significant resources to train our people to avoid injuries and accidents.



**SOCIAL | HEALTH AND SAFETY | TRAINING**

Training is the cornerstone of safety in UPS's package and airline operations. We invest more than \$38 million per year on safety training, which equals nearly 1.3 million hours of safety training for employees. Each year 26 formal UPS safety training courses are taught worldwide.



## SOCIAL | HEALTH AND SAFETY | OPERATIONS

In UPS operations, there are two primary safety measurements: lost-time injuries and automotive accident frequency. (Can you make these intra page links to the correct sections below?)

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 six fatal employee accidents globally in 2003. 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 \$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 program was developed in 1995 to directly involve first-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 2003, CHSP helped reduce lost workdays due to injuries by 60 percent.

**Facility and equipment improvements:** Over the past five years, more than 40 individual 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.



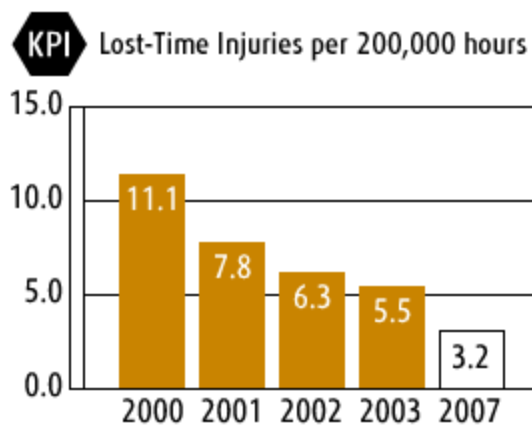
Safe Driving: UPS drivers are among the safest on the road. Our 94,000 drivers worldwide log more than two billion miles a year and average less than one accident per million miles driven. We have certified management trainers who educate drivers on an annual and periodic basis. UPS tractor-trailer drivers 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.



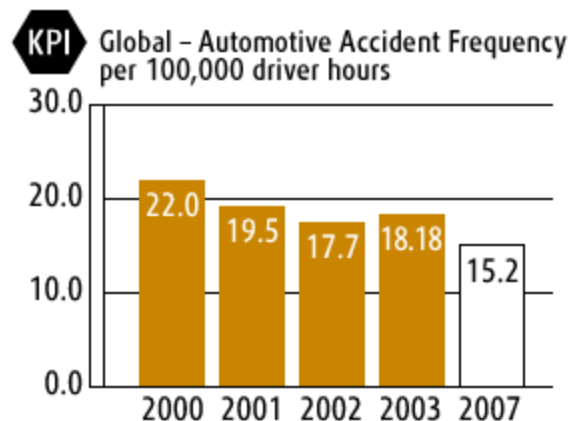
2007 Goal:

To reduce lost-time injury frequency globally by 49 percent to 3.2.

In 2003, UPS Supply Chain Solutions (SCS) implemented CHSP in 57 facilities, affecting 70 percent of its employee population. The results were significant – injuries were reduced by 36.3 percent, establishing an injury frequency of 2.5 for SCS, which is well below the industry average of 4.6.

Companywide, the lost-time injury frequency has decreased 50 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. While UPS leads the industry in safe driving records, the company's auto accident frequency increased 4.9 percent in 2003.

While many trucking companies measure their automotive accident frequency per million miles driven, UPS measures the frequency per 100,000 driver hours. Our 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 safety will continue through the implementation of the following initiatives:

- Safety First: Places safety at the top of operational priorities. For instance, all UPS meetings, regardless of topic, begin with a focus on safety.

- 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 the first quarter of 2004, 52 percent of UPS Supply Chain Solutions facilities have achieved zero 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



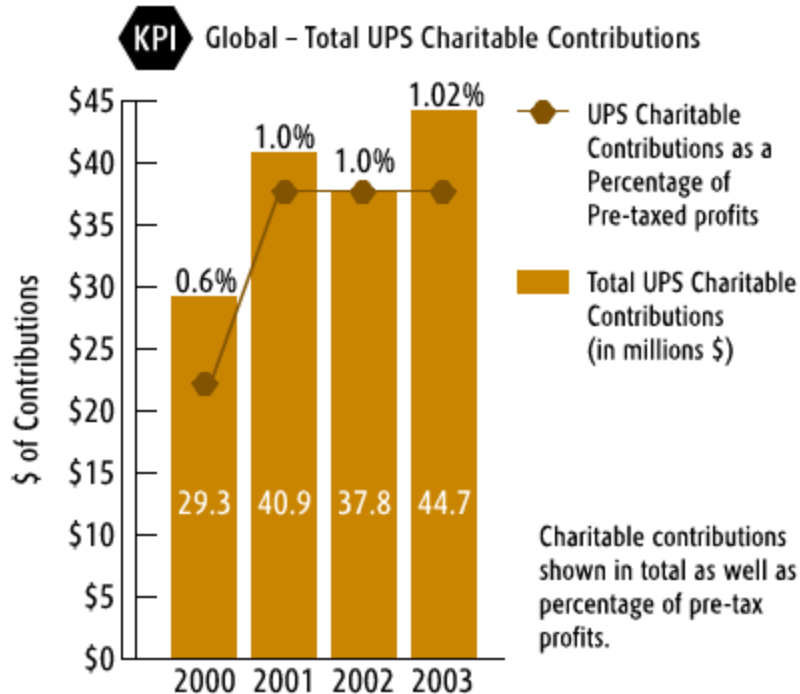
## SOCIAL | COMMUNITY ENGAGEMENT

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 to establish The UPS Foundation in 1951 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.



SOCIAL | COMMUNITY ENGAGEMENT | THE UPS FOUNDATION



2007 Goal

To maintain philanthropic contributions at 1 percent of 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 companywide, and drives our belief that dirt under our fingernails is just as important as writing a check. Grants and donations must be accompanied by employee volunteerism.

Initiatives:

In our 2002 report, we specifically called out the need for UPS develop a global philanthropy strategy. As UPS has evolved into a global company, so too must The UPS Foundation.

A global philanthropy strategy was developed in 2003 and was kicked off during UPS's first "Global Philanthropy Week." In October 2003, more than 1,000 UPS employees volunteered their time in 14 select markets outside the United States – Canada, Belgium, the United Kingdom, Germany, China, Singapore, Hong Kong, Malaysia, the Philippines, Thailand, Taiwan, Australia, Brazil and Mexico. A sample of activities from around the world:

- In Asia, employees volunteered over 2,400 hours to help build a school, landscape a home for autistic children and play games with children in an orphanage, among other activities.
- In Latin America, employees volunteered more than 300 hours to plant trees and paint a facility that helps people with autism.
- In Europe, employees volunteered over 700 hours to help build an animal shelter, distribute books to underprivileged children and collect food for a food bank, among other activities.
- In Canada, employees volunteered over 3,000 hours to distribute food to the homeless, clean dog kennels for the humane society or help coordinate a blood drive, among other activities.

During 2004, volunteer activities in communities worldwide will continue. In addition, The UPS Foundation will be making \$2.4 million in charitable contributions to specific initiatives outside the United States.



**SOCIAL | COMMUNITY ENGAGEMENT | COMMUNITY INVESTMENT  
STRATEGY**

To ensure that our contributions meet critical needs, as well as continuing 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:** Our support has historically focused on food rescue. Our plan is to serve as a catalyst addressing the broader issues within the anti-hunger and food distribution field.

**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 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.



**SOCIAL | COMMUNITY ENGAGEMENT | UNITED WAY**

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

Our 2003 contribution of \$53.2 million marked the third consecutive year in which UPS and its people surpassed \$50 million in an annual campaign - the first company to ever do so. More than 226,000 employees participated in the campaign, contributing \$44 million and the company contributed approximately \$9.3 million.

In 2002, United Way awarded UPS with the Spirit of America Award, the organization's highest honor for corporate involvement and commitment to building better communities.





## SOCIAL | 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 13 million packages daily.

We serve our customers with a network that operates in unison with our environmental objectives - one that 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 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 reduces our fuel use and emissions.

With more than 88,000 vehicles, 2,850 facilities and as the 11th 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.



## ENVIRONMENTAL | FUEL USE AND EMISSIONS

Managing 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 1,800 compressed natural gas, liquefied natural gas, propane and hybrid electric vehicles.

Moving more than 13 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.



## ENVIRONMENTAL | FUEL USE AND EMISSIONS | 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 or ultra-low emission vehicles as defined by the U.S. Environmental Protection Agency (EPA). As of 2003, the company operates 1,788 ultra-low emission vehicles and 1,437 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 recently added 1,800 DaimlerChrysler Sprinter delivery vans to our U.S. fleet. 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.

**Package Flow Technology:** In September 2003, we unveiled a new technology system that will improve customer service and provide greater internal efficiency. The new system is expected to reduce mileage by more than 100 million miles and save the company almost 14 million gallons of fuel when fully deployed the next three years. It features advanced geographic tools that allow us to analyze and edit dispatch plans to optimize delivery routes and times.

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.

In 2003, UPS's Automotive Study Group 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 will result in a net savings of 330,000 quarts of oil annually.

#### Alternative Fuel Fleet

In 2003, UPS's fleet of almost 1,800 alternative fuel vehicles traveled 13.4 million miles making deliveries to homes and businesses.

Fuel accounts for an average of three percent of our operating costs. 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.

We have invested almost \$15 million to deploy significant numbers of alternative fuel vehicles in our fleet. Our compressed natural gas and propane vehicles have saved the company 15 percent on fuel costs and decreased total emissions by 35 percent during their life cycles, as compared to similar diesel vehicles.

While maintaining our current alternative fuel vehicles, we are also working with manufacturers, government agencies and non-profit organizations to advance new fuel technologies.

## Alternative Fuel Fleet Overview

**1,788 Propane and Compressed Natural Gas Vehicles:** We operate 682 propane delivery vehicles in Canada and 82 in Mexico City. With 1,024 vehicles, we also operate the largest private compressed natural (CNG) gas fleet in the United States.

**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.

**Hybrid Electric Vehicles:** 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. HEV technology offers significant potential to dramatically decrease emissions and fuel consumption by primarily operating on batteries and electric drive motors.

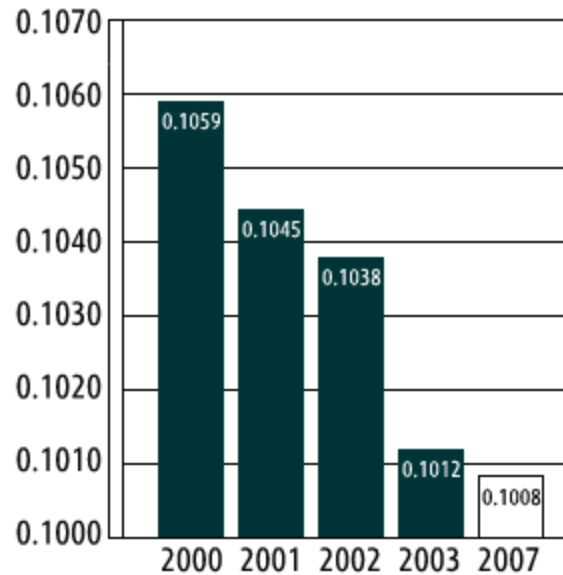
**Electric Vans:** UPS operates 13 zero emission electric minivans in downtown Los Angeles, Calif. These vehicles have a range of 80 to 90 miles and are primarily used to make Next Day Air deliveries and pickups.

**Fuel Cell Vehicles:** UPS began running a DaimlerChrysler Sprinter fuel cell vehicle in Stuttgart, Germany in October 2003. In addition, we have a unique alliance with the EPA and DaimlerChrysler to test North America's first medium-duty fuel cell vehicles in a delivery fleet. DaimlerChrysler will supply the fuel cell vehicles for UPS, while the EPA will supply a hydrogen refueling station at its national fuel emissions laboratory in Ann Arbor, Mich. The fueling station will be operational by late 2003 and will provide compressed hydrogen fuel to the UPS Sprinter fuel cell vehicles, which will be deployed in early 2004. Fuel cells work by converting energy into electricity without combustion. Water vapor and heat are the only emissions produced.

## Fuel Consumption

We have established a new measurement in our industry, gallons per package, 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.

**KPI** U.S. – Gallons per package



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 2003, we improved the fuel efficiency of our ground fleet network by 2.5 percent. We accomplished this increase in efficiency while still growing our business and increasing the number of packages we deliver.

#### 2003 Ground Network Fuel Efficiency

- Decreased fuel consumption by 1.5 million gallons.
- Decreased CO2 emissions by almost 14,000 metric tons.

By investing in new technologies that help the company operate more efficiently, UPS is solidly progressing toward our goal of .1008 gallons per package in 2007.

In 2003, UPS made significant strides forward in deploying leading edge transportation technology:

- Rolled out Package Flow Technologies to U.S. facilities, a \$600 million upgrade predicted to save 14 million gallons of fuel annually and reduce CO2 emissions by 130,000 metric tons. Full deployment is expected by the end of 2006.
- Deployed the first commercial fuel cell vehicle in North America through a unique partnership with DaimlerChrysler and the U.S. Environmental Protection Agency. The vehicle, which is a Mercedes-Benz F-Cell, delivers packages on a daily route in Ann Arbor, Michigan.
- Deployed a fuel cell-powered Sprinter van in Stuttgart, Germany.
- Joined the U.S. EPA's SmartWay Transport Partnership, an initiative to reduce fuel use and emissions by shippers and carriers.
- Developed an advanced preventive maintenance inspection process for UPS's delivery fleet, resulting in a savings of 330,000 quarts of oil and \$3 million.

The company's efforts are continuing in 2004 with the deployment of additional fuel cell, electric and hybrid electric vehicles.

## Diesel

We realize that diesel emissions are a source of concern. However, 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 NOx 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.





**ENVIRONMENTAL | FUEL USE AND 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 11th 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.

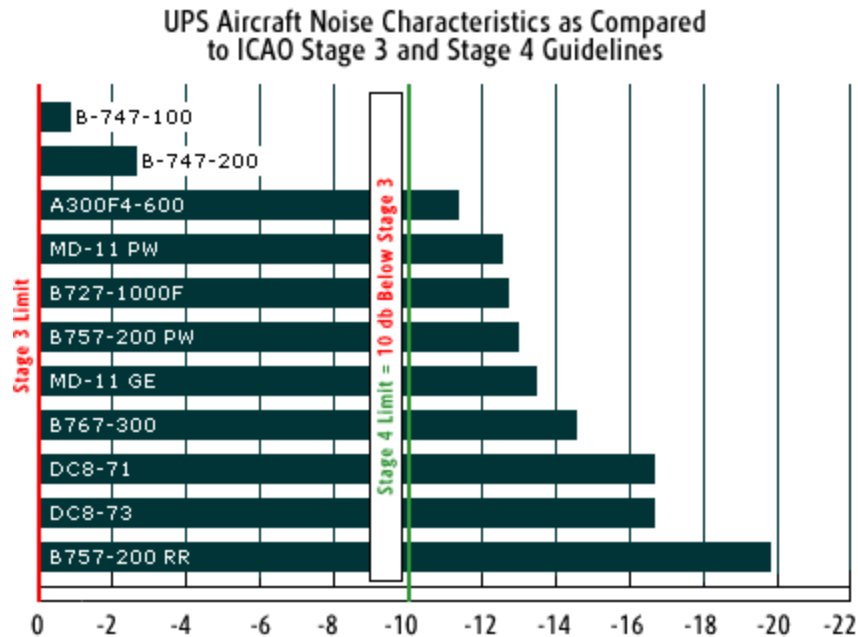
**Compliance with ICAO’s 2006 Noise and Emission Regulations**

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, a low cost, short-term solution to ICAO’s noise regulations in the mid-1990s, we 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 - any aircraft built before or after 2006 will meet Stage 4 guidelines.

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

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



2007 Goal:

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

#### Initiatives

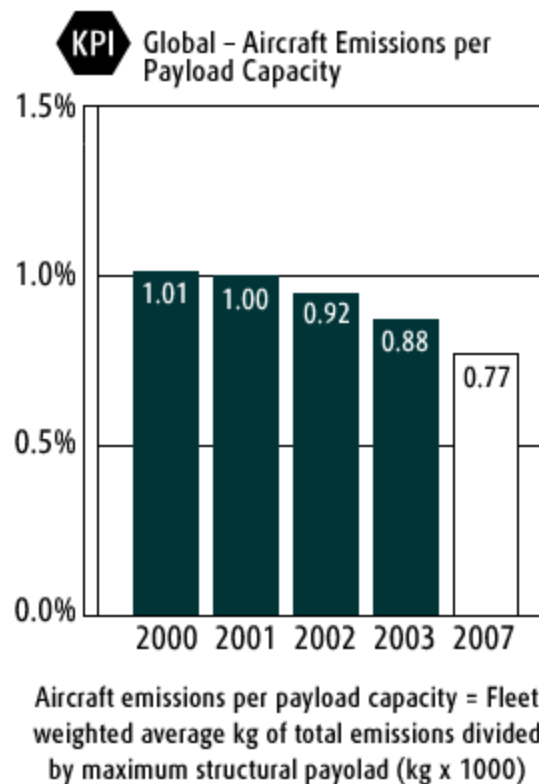
- In 2003, UPS continued its plan of adding modern wide body aircraft like the A300-600F and MD11F to its fleet which improves the overall efficiency of the air network and offers improved environmental benefits as well.
- UPS, MIT, the Federal Aviation Administration's environmental and air traffic departments, NASA, Boeing and the Rannoch Corporation have been participating in the FAA's Center of Excellence noise study program to investigate changes in airspace usage and to take advantage of advanced avionics in UPS aircraft.
- At our Worldport hub in Louisville, Kentucky, UPS developed a program called "contraflow" through a cooperative effort involving local community groups, the airport, FAA and air traffic controllers. Contraflow operations route aircraft over the least populated areas of the community to reduce the number of people affected by aircraft noise.
- In 2003, UPS began evaluating 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.
- In Europe, UPS flies precise departure and arrival tracks at the Cologne hub. Noise monitors around the airport record any deviations from agreed-upon noise levels.

## 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 2003, UPS had 0.88 kilograms of aircraft emissions per 1,000 kilograms of payload capacity – and improvement of 4.9 percent over 2002.

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



2007 Goal:

Improve aircraft emissions per payload capacity to 0.77

#### Initiatives

- In March 2003, UPS Airlines implemented a fuel conservation program which has saved the company more than a million gallons of fuel. A key initiative was implementing the Lido flight planning system, which calculates 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.
- In 2003, UPS retired six older aircraft, including three 727-200s, two 747-100s and one 747-200. These were replaced with new highly-efficient aircraft, including eight a-300s and four MD-11s.
- In 2003, UPS began evaluating 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.



ENVIRONMENTAL | 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 U.S. Package Operations - Energy Consumed in Package Operations - Absolute	
2002	88.41 million gigajoules
2003	88.59 million gigajoules

U.S. Package Operations - Energy Consumed in Package Operations - Normalized Per package and per revenue dollar	
2002	
Energy used per 1,000 Packages	28.95 gigajoules
Energy used per \$ of Revenue (in '000)	3.08 gigajoules
2003	
Energy used per 1,000 Packages	28.42 gigajoules
Energy used per \$ of Revenue (in '000)	2.89 gigajoules

2007 Goal: Pending

UPS will establish a goal in 2004.

Initiatives

In 2003, UPS pursued several operational initiatives that will affect energy consumption:

- Solar: Installed a 100 kilowatt solar panel array at Palm Springs, California sorting facility. During its first full year of operation (July 2003-July 2004), the solar panels are on track to produce 197,000 kWh and reduced CO<sub>2</sub> emissions by 257,000 pounds.

- Package Flow Technology: Rolled out new technology to U.S. facilities designed to improve customer service and provide greater internal efficiency. The new technology, a \$600 million upgrade, more completely automates two key processes: planning the daily delivery route and the process of actually loading each vehicle. Testing and initial deployment suggest UPS can 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 CO<sub>2</sub> 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



**ENVIRONMENTAL | GREENHOUSE GAS EMISSIONS**

As new fuel efficient and alternative technologies become widely available and affordable, UPS's long-term goal is to decrease total CO<sub>2</sub> emissions produced by our operations. In the near term, our efforts are focused on reducing emissions per package.

The 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 CO<sub>2</sub> emissions.

In 2003, UPS's CO<sub>2</sub> efficiency improved 1.9 percent. We produced .04 metric tonnes (40 kilograms) less CO<sub>2</sub> emissions per 1,000 packages delivered than we did in 2002.

KPI U.S. - CO <sub>2</sub> Emissions - Absolute	
2002	6.59 million metric tons
2003	6.62 million metric tons

U.S. - CO <sub>2</sub> Emissions - Normalized per piece and per revenue dollared	
<b>2002</b>	
CO <sub>2</sub> emissions per 1,000 Packages	2.16 metric tons
CO <sub>2</sub> emissions per \$100,000 revenue	23.01 metric tons
<b>2003</b>	
CO <sub>2</sub> emissions per 1,000 Packages	2.12 metric tons
CO <sub>2</sub> emissions per \$100,000 revenue	21.60 metric tons

**Initiatives**

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

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
- 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





## ENVIRONMENTAL | 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.



**ENVIRONMENTAL | RECYCLING AND WASTE MANAGEMENT | RECYCLING  
AND SOURCE REDUCTION**

UPS currently collects solid waste data on 82 percent of our U.S. facilities. These facilities generated 74,000 tons of solid waste in 2002.

#### Electronic Equipment Recycling

Computers and other electronic equipment contain toxic chemicals and plastics that must be properly disposed. In 2003, UPS recycled 3.6 million pounds of electronic equipment from our own operations.

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.

#### Reusable bags

In 2003 we used more than 2.5 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 21,000 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.

#### Corporate Office Recycling Program

In 2003, 52 percent of waste produced by our corporate office was recycled, including paper, cardboard, lamps and ballasts. Since 2000, we have reduced wastes by 67 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. Currently, UPS drivers in 43 countries, including the U.S., Canada, Mexico, China, Japan and most of Western Europe, use the DIAD.



ENVIRONMENTAL | RECYCLING AND WASTE MANAGEMENT |  
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.

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 2003, UPS's operating facilities in the U.S. generated 543 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.

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.



**ENVIRONMENTAL | RECYCLING AND WASTE MANAGEMENT | 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 1.3 billion gallons of water each year in its facilities, maintenance operations and vehicle washing operations. We are committed to researching and implementing conservation initiatives.

<b>KPI</b>	<b>U.S. Package Operations - Water Consumption in Package Operations - Absolute</b>
2002	5.2 million meters <sup>3</sup> <i>(restated from 6.63 million meters<sup>3</sup>)</i>
	<b>U.S. Package Operations and Supply Chain Solutions - Water Consumption in Package Operations - Absolute</b>
2003	5.1 million meters <sup>3</sup>

<b>U.S. Package Operations - Water Consumption in Package Operations - Normalized Per package and per revenue dollar</b>	
2002	
Water Consumption per 1,000 Packages	1.7 meters <sup>3</sup> <i>(restated from 2.17 meters<sup>3</sup>)</i>
Water Consumption per \$ of Revenue (in '000)	0.181 meters <sup>3</sup> <i>(restated from 0.231 meters<sup>3</sup>)</i>
<b>U.S. Package Operations and Supply Chain Solutions - Water Consumption in Package Operations - Normalized Per package and per revenue dollar</b>	
2003	
Water Consumption per 1,000 Packages	1.64 meters <sup>3</sup>
Water Consumption per \$ of Revenue (in '000)	0.167 meters <sup>3</sup>

Goal: Pending

Tracking water consumption has proved 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. During 2003, UPS engineers and procurement professionals worked together to significantly improve the quality of our water consumption data. Through this evaluation process, we identified that we overstated our 2002 U.S. water consumption. The corrected figures appear in the KPI chart above. In addition, in 2003 we were able to expand our data collection to include UPS Supply Chain Solutions.

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.

Other reduction 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 nonhazardous 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 \$1 million per year in materials and water.



## ENVIRONMENTAL | 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 compliance and waste minimization programs. We have 440 employees whose responsibilities include carrying out our environmental programs, processes and activities in accordance with regulatory and UPS-specific requirements.

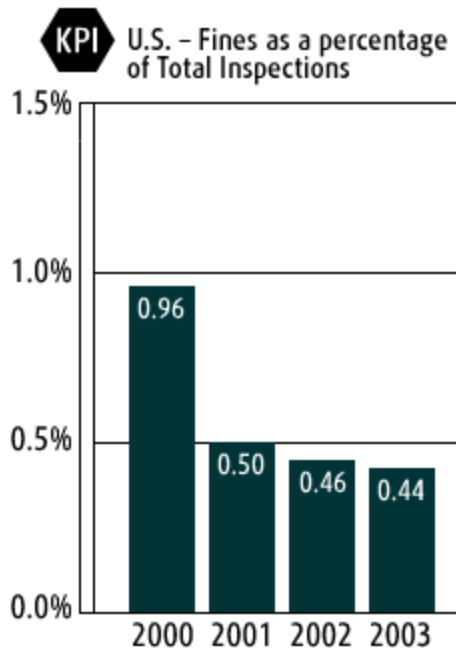
While we comply with all government regulations, we also exceed compliance on many initiatives. Our training and auditing programs identify areas for improvement and outline strategies for achieving it. More than 800 employees have received training since 1991, and results of annual audits are reported 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.



ENVIRONMENTAL | ENVIRONMENTAL MANAGEMENT SYSTEM | AGENCY  
ENVIRONMENTAL INSPECTIONS

In 2003, U.S. federal and state environmental agencies conducted 458 inspections at UPS facilities. Only two of those inspections resulted in fines, totaling \$2,250. This measurement is a snapshot of our past performance. While the number of inspections is controlled by federal and state agencies, the extremely low number of fines 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.



Currently, this measurement only captures our U.S. package operations. In 2004, UPS Supply Chain Solutions information will also be included (U.S. only).



**ENVIRONMENTAL | ENVIRONMENTAL MANAGEMENT SYSTEM |  
UNDERGROUND STORAGE TANKS**

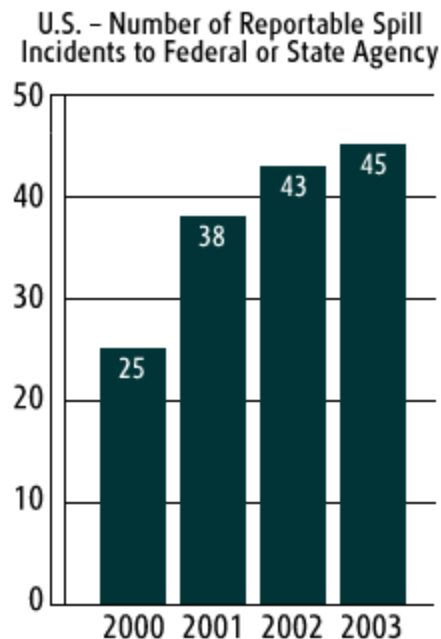
To comply with EPA regulations set forth in 1988, UPS removed, replaced or upgraded all of our underground storage tanks two years before the deadline at a cost of more than \$100 million. Today we have approximately 1,135 total gas and diesel tanks in the U.S. These tanks utilize extensive protective measures, including leak-detection systems, redundant spill and overfill protection devices and built-in electrical interlocks and timers.



**ENVIRONMENTAL | ENVIRONMENTAL MANAGEMENT SYSTEM |  
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 13 million packages daily with 88,000 vehicles.



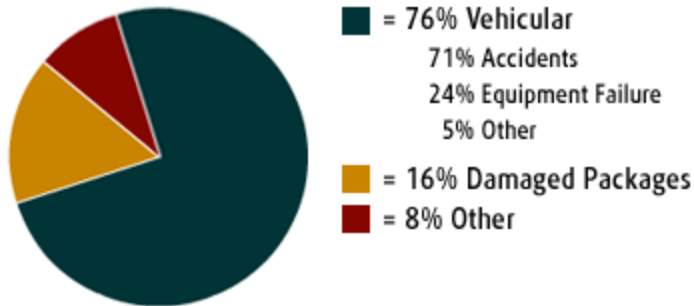
Goal:

Reduce spills to as close to zero as possible.

In 2003, UPS reduced the total gallons of reportable spills by 555 gallons. However, the actual number of spills increased by 2, from 43 spills to 45 spills.

As the breakdown in the second chart below indicates, 76 percent of 2003 spills are from vehicle incidents.

U.S. – Breakdown of 2003 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.



**ENVIRONMENTAL | ENVIRONMENTAL MANAGEMENT SYSTEM |  
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.



## ENVIRONMENTAL | CONCLUSION

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