UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

FOR ANNUAL AND TRANSITION REPORTS

PURSUANT TO SECTIONS 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

(Mark One)

☑ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2003

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission file number 001-15451

United Parcel Service, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Delaware *(State or Other Jurisdiction of Incorporation or Organization)*	**58-2480149** *(I.R.S. Employer Identification No.)*
55 Glenlake Parkway, N.E. **Atlanta, Georgia** *(Address of Principal Executive Offices)*	**30328** *(Zip Code)*

(404) 828-6000

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Class B common stock, par value $.01 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

Class A common stock, par value $.01 per share

(Title of Class)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☑ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes☑ No ☐

The aggregate market value of the class B common stock held by non-affiliates of the registrant as of February 2, 2004 was approximately $36,117,791,009 (based on the closing price of such stock as of the last business day of the registrant's most recently completed second fiscal quarter). As of February 2, 2004, non-affiliates held 534,496,664 shares of class A common stock and 566,998,289 shares of class B common stock. The registrant's class A common stock is not listed on a national securities exchange or traded in an organized over-the-counter market, but each share of the registrant's class A common stock is convertible into one share of the registrant's class B common stock.

As of February 2, 2004, there were 561,427,654 outstanding shares of class A common stock and 567,633,930 outstanding shares of class B common stock.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement for its annual meeting of shareowners scheduled for May 6, 2004 are incorporated by reference into Part III of this report.

TABLE OF CONTENTS

PART I

Item 1. *Business*

Overview

We are the world's largest package delivery company and a leading global provider of specialized transportation and logistics services. We were founded in 1907 as a private messenger and delivery service in the Seattle, Washington area. Over the past 97 years, we have expanded from a small regional parcel delivery service into a global company. We deliver packages each business day for 1.8 million shipping customers to 6.1 million consignees. In 2003, we delivered an average of more than 13 million pieces per day worldwide. Total revenue in 2003 was over $33 billion. We focus on the movement of goods, information and funds, and we seek to synchronize the world of commerce.

Our primary business is the time-definite delivery of packages and documents throughout the United States and in over 200 other countries and territories. We have established a global transportation infrastructure and developed a comprehensive portfolio of guaranteed delivery services, and we support these services with advanced technology. We provide integrated supply chain solutions for major companies worldwide. We are the industry leader in the delivery of goods purchased over the Internet.

Competitive Strengths

Our competitive strengths include:

Global Reach and Scale. We believe that our integrated global ground and air network is the most extensive in the industry. We operate a ground fleet of more than 88,000 vehicles, ranging from custom-built delivery vehicles to large tractors and trailers, and almost 600 airplanes. In the U.S., we estimate that our integrated door-to-door delivery system carries goods having a value in excess of 6% of the U.S. gross domestic product, or 2% of the world's GDP, and we reach all U.S. businesses and residential addresses. We are the ninth largest airline in North America and eleventh largest in the world. Our primary air hub is located in Louisville, Kentucky.

We established our first European operation in Germany in 1975 and expanded it as the single market created by the European Union drove the need for pan-European delivery services. We believe we have the most comprehensive integrated delivery and information services portfolio of any carrier in Europe.

Through more than two dozen alliances with Asian delivery companies that supplement company-owned operations, we currently serve more than 40 Asia Pacific countries and territories. With among the fastest growing economies in the world, China and India represent two of our most promising opportunities.

We also are the largest air cargo carrier and a leading logistics provider in Latin America and the Caribbean. We have formed alliances with a number of service providers in countries throughout that region.

Our Canadian operations include both intra-Canada and import/export capabilities, effectively linking two of the world's most significant trading partners — U.S. and Canada. We offer delivery to all addresses throughout Canada, and we are the only carrier to offer guaranteed 8:00 a.m. delivery next day to all major Canadian cities.

Technology Systems. We continue to be a global leader in merging technology with business processes to improve operations and provide new or enhanced services to customers worldwide. We have developed a strong global capability as a mover of electronic information. We daily transmit approximately 3 million packets of tracking data via wireless networks, and we currently collect electronic data on 93% of the packages that move through our U.S. system each day — more than any of our competitors.

In 2003 we announced plans for significant improvements to our package sorting and delivery systems. We expect to invest $600 million over the next several years to simplify and optimize our package sorting and delivery systems, which we believe will result in significant gains in efficiency, reliability and flexibility. Once the systems are fully deployed in over 1,000 of our package sorting facilities, which we estimate to be completed in 2007, we anticipate achieving reductions in operating costs of approximately $600 million annually. These savings will be realized through productivity improvements, as well as in savings resulting from driving an estimated 100 million fewer miles each year.

Technology powers virtually every service we offer and every operation we perform. Our technology initiatives continue to be driven by the needs of customers. We provide the infrastructure for an Internet presence that extends to more than 60,000 customer web sites that integrate UPS® tools. We offer a variety of on-line service options that enable our customers to integrate UPS functionality into their own businesses not only to conveniently send, manage and track their shipments, but to provide their own customers with better information services.

E-Commerce Capabilities. We are a leading participant in and facilitator of global e-commerce, which we define as the use of networked computer technology to facilitate the three flows of commerce: funds, goods and information. According to Forrester Research, by 2008, online retail sales should reach $230 billion. Forrester Research also reports that online retail sales will grow to $123 billion in 2004. We enable our customers around the world to thrive in this environment by providing a portfolio of technology solutions that streamline their shipment processing and integrate critical transportation information into their business processes.

Broad, Flexible Range of Distribution Services. Our portfolio of services enables customers to choose the delivery option that is most appropriate for their requirements. All of our delivery service offerings are guaranteed.

Our express air services are integrated with our vast ground delivery system. This integrated air and ground network enhances efficiency, improves productivity and provides us with the flexibility to transport packages using the most reliable and cost-effective transportation mode or combination of modes. Our sophisticated engineering systems allow us to optimize our network efficiency and asset utilization on a daily basis.

Customer Relationships. We focus on building and maintaining long-term customer relationships. We deliver an average of more than 13 million packages each business day for 1.8 million shipping customers to 6.1 million consignees. In addition to daily pick-up, thousands of customers access us daily through UPS On-Call Pickup℠ for air delivery services, about 45,000 drop-boxes, over 8,000 independently owned authorized shipping outlets, and more than 3,000 independently owned and operated The UPS Store™ locations

We place significant value on the quality of our customer relationships, and we conduct comprehensive research to monitor customer perceptions. Since 1993, we have conducted telephone interviews with shipping decision-makers virtually every business day to determine their satisfaction with small package carriers and perception of performance on 17 key categories of service factors. Results from this survey for the second half of 2003 were the highest we have ever achieved.

Brand Equity. We have built the leading and most trusted brand in our industry. Our reputation for quality service, reliability and product innovation is unmatched. The distinctive appearance of our vehicles and the friendliness and helpfulness of our drivers are major contributors to our brand equity.

In 2003 we introduced our first new logo in 42 years. The change was more than cosmetic; it signals our commitment to provide more comprehensive solutions to meet our customers' needs and to be the leader of the broader business arena of synchronized commerce.

Distinctive People and Culture. We believe that the dedication of our employees results in large part from our distinctive "employee-owner" concept. Our employee stock ownership tradition dates from 1927, when our founders, who believed that employee stock ownership was a vital foundation for successful business, first offered stock to employees. To facilitate employee stock ownership, we maintain several stock-based compensation programs.

Our long-standing policy of "promotion from within" complements our tradition of employee ownership, and this policy makes it generally unnecessary for us to hire managers and executive officers from outside UPS. The vast majority of our management team began their careers as full-time or part-time hourly UPS employees, and have since spent their entire careers with us. Our chief executive officer and many of our executive officers have more than 30 years of service with us and have accumulated a meaningful ownership stake in our company. Therefore, our executive officers have a strong incentive to effectively manage UPS, which benefits all of our shareowners.

Financial Strength. Our balance sheet reflects financial strength that few companies can match. As of December 31, 2003, we had a balance of cash, cash equivalents, marketable securities and short-term investments of approximately $4.0 billion and shareowners' equity of $14.9 billion. Long-term debt was $3.1 billion. We carry long-term debt ratings of AAA/Aaa from Standard and Poor's and Moody's, respectively. Our financial strength gives us the resources to achieve global scale and to make investments in technology, transportation equipment and buildings in our existing businesses as well as to pursue strategic opportunities which will facilitate our growth.

Growth Strategy

Our growth strategy takes advantage of our competitive strengths while maintaining our focus on meeting or exceeding our customers' requirements. The principal components of our growth strategy are:

Build on Our Leadership Position in Our U.S. Business. Our U.S. package operation is the foundation of our business. We believe that our tradition of reliable package delivery service, our experienced and dedicated employees and our unmatched integrated air and ground network provide us with the advantages of reputation, service quality and economies of scale that differentiate us from our competitors. Our strategy is to increase core domestic revenues through cross-selling our existing and new services to our large and diverse customer base, to limit the rate of expense growth and to employ technology-driven efficiencies to increase operating profit.

Our vision is to continue growing UPS's package business by leading the transformation of supply chain management into the broader business arena of synchronized commerce, where the flow of goods, information and funds are seamlessly connected to help our customers grow their businesses.

Continue International Expansion. We have built a strong international presence through significant investments over a number of decades. The international package delivery market has grown, and continues to grow, at a faster rate than the U.S. market. We plan to utilize our worldwide infrastructure and broad product portfolio to continue to grow high-margin premium services and to implement cost, process and technology improvements in our international operations.

Europe is our largest region outside the United States, followed by Asia. Both of these regions offer significant opportunities for growth. The expansion of the European Union to include several Eastern European and Baltic countries will create even greater economic cohesion. Growth in Asia will be driven by improving demographic and economic trends throughout the region, with specific emphasis on China and India.

Provide Comprehensive Supply Chain Solutions. Many businesses outsource the management of all or part of their supply chains to streamline and gain efficiencies, to strengthen their balance sheets, to support new business models and to improve service. Companies' global supply chains are growing increasingly complicated. They are vulnerable to significant disruptions and increased regulations. This is creating further demand for a global service offering that incorporates transportation, distribution and international trade services with financial and information services. We believe that we are well positioned to capitalize on this growth for the following reasons:

- We manage supply chains for major companies in 120 countries, with about 25 million square feet of distribution space and over 750 facilities worldwide.

- We focus on technology, supply chain redesign, and management-based solutions for our customers rather than solely on more traditional asset-based logistics such as warehouses and vehicle fleets. We have built valuable intellectual capital in specific high growth industries such as healthcare and high-tech.

- We provide a broad range of transportation solutions to customers worldwide, including air, ocean and ground freight, as well as customs brokerage and trade and materials management. We provide standardized service and specialized distribution facilities and services adapted to the unique supply chains of specific industries such as healthcare, high-tech, consumer retail and automotive.

- We offer a portfolio of financial services that provide customers with short- and long-term financing, secured lending, working capital, government guaranteed lending, lines of credit, global trade financing, credit cards and equipment leasing.

Leverage Our Leading-Edge Technology and E-Commerce Advantage. We believe that e-commerce will drive smaller and more frequent shipments and provide a strong complement to our core delivery service offerings.

Our goals are to provide our customers with easy-to-use, flexible technology offerings that streamline their shipment processing and integrate critical transportation information into their business processes, helping them create supply chain efficiencies, improve their cash flows and serve their customers. Our leading-edge technology has enabled our e-commerce partners to integrate our shipping functionality and information solutions into their e-commerce product suites. Our partners' products are being installed throughout the Internet, and we expect these integrated systems to provide us with a competitive advantage as they allow our customers to provide better decision-making information and improve customer service.

Pursue Strategic Acquisitions and Global Alliances. Strategic acquisitions and global alliances play a significant role in spurring growth. We look for opportunities that:

- complement our domestic package business;

- build our global brand;

- enhance our technological capabilities or service offerings;

- lower our costs; or

- expand our geographic presence and managerial expertise.

Domestic Package Products and Services

For most of our history, we have been engaged primarily in the delivery of packages traveling by ground transportation. We expanded this service gradually, and today our standard ground service is available to every address in the 48 contiguous United States. We handle packages that weigh up to 150 pounds and are up to 165 inches in combined length and girth.

In addition to our standard ground delivery product, *UPS Hundredweight Service*® offers discounted rates to customers sending multiple package shipments having a combined weight of 200 pounds or more, or air shipments totaling 100 pounds or more, addressed to one recipient at one address and shipped on the same day. Customers may realize significant savings on these shipments compared to less-than-truckload or air freight forwarder published rates.

We provide domestic air delivery throughout the United States. *UPS Next Day Air*® offers guaranteed next business day delivery by 10:30 a.m. to more than 74% of the United States population and delivery by noon to areas covering an additional 15% of the population. We offer Saturday delivery for UPS Next Day Air shipments for an additional fee.

We offer additional services, such as Consignee Billing, Quantum View Manage, Delivery Confirmation and UPS Returns℠, to customers that require customized package distribution solutions.

International Package Products and Services

We deliver international shipments to more than 200 countries and territories worldwide, and we provide guaranteed overnight delivery to the world's major business centers. We offer a complete portfolio of import, export and domestic services. This portfolio includes guaranteed 8:00 a.m., 8:30 a.m., 10:30 a.m. and

12:00 p.m. next business day delivery to major cities around the world, as well as scheduled day-definite air and ground services. We offer complete customs clearance service for any mode of transportation, regardless of carrier.

We also have a portfolio of UPS domestic services in 20 major countries throughout the world, which provide our customers time-definite delivery options for packages moving between points within those countries.

Europe is our largest region outside the United States. Transborder services, or the movement of packages within the European Union, are proving to be the growth engine in this region. To accommodate growth opportunities across the whole of Europe, we have expanded and further automated our major air hub in Cologne, Germany.

We continue to invest in infrastructure and technology in Asia. In April 2002, we opened a new intra-Asia hub at Clark Air Force Base in Pampanga, Philippines to enable future growth in the region. This hub allows us to compete more effectively in the Asian express market and improve our Europe/Asia service. We previously acquired landing slots on the new runway at Tokyo's Narita Airport, which have resulted in enhanced access and connections to the intra-Asia hub. We received from the U.S. Department of Transportation the authority to expand service to and through Hong Kong, including permanent authority to fly from Hong Kong to other cities, specifically to our Cologne hub in Europe. This routing was implemented in October 2003. In addition, Thailand was directly linked to the intra-Asia network with new flights beginning in October 2003. We continue our development efforts in the fast-growing China market.

We believe that there is long-term potential for us to expand our service offerings in Latin America. To this end, we have realigned our delivery capabilities between key cities in the Mercosur and other trade blocs and continue to benefit from our Americas International Gateway in Miami, Florida. This gateway complements our operations in Florida and Latin America and represents our commitment to the Americas market.

Mexico and Canada are also important to our international activity. We created UPS Trade Direct℠ Cross Border service to manage movements to the U.S. from these countries. This service combines UPS's small package, freight and brokerage capabilities to create an integrated, streamlined and economical door-to-door solution for customers with complex cross-border distribution needs.

We also have introduced UPS Trade Direct Ocean™, a service that transforms ocean container movements into pre-labeled small packages or less-than-truckload shipments. When the goods arrive in the U.S., packages are deconsolidated and entered into the UPS system, eliminating the receiving, sorting and handling necessary in distribution centers. This service significantly cuts the supply chain cycle from point of origin to consignee. It also provides our customers with faster time to market, reduced costs, increased visibility and better management of their global supply chain.

The Trade Direct portfolio of services reflects both our small package and supply chain solutions capabilities, uniquely combined to provide new value to our customers.

Non-Package Products and Services

Supply Chain Services

UPS Supply Chain Solutions™ meets customers' supply chain needs by selecting the most appropriate solution from a portfolio of over 60 services. Among these are:

- *Logistics and Distribution:* supply chain management, distribution center design, planning and management, order fulfillment, inventory management, receiving and shipping, service parts logistics, reverse logistics and cross docking.

- *International Trade Management:* freight forwarding, full-service customs brokerage and international trade consulting.

- *Transportation and Freight:* air, ocean, rail and ground freight utilizing UPS and other carriers, and multimodal transportation network management.

Other supply chain services are available through UPS Capital℠ and UPS Consulting℠:

- *Financial:* asset-based lending, global trade finance and export-import lending.

- *Consulting:* strategic supply chain design and re-engineering advice.

Electronic Services

We provide a variety of UPS on-line solutions that support automated shipping and tracking.

- *UPS OnLine*® WorldShip® helps shippers streamline their shipping activities by processing shipments, printing address labels, tracking packages and providing management reports, all from a desktop computer.

- *UPS CampusShip*® is a web-based, UPS-hosted distributed shipping solution that allows employees of companies with multiple facilities and decentralized workforces to easily process and ship packages with UPS from their computer desktops. At the same time, the system gives transportation and mailroom decision-makers centralized control over shipping procedures and costs.

- *UPS Internet Shipping* is a quick and convenient way to ship packages using the web without installing additional software.

- *UPS OnLine*® Host Access provides electronic connectivity between UPS and the shipper's host computer system, linking UPS shipping information directly to all parts of the customer's organization.

- *UPS Ready*® encompasses electronic solutions provided by third-party vendors that benefit customers who want to automate their shipping and tracking processes.

Our website strategy is to provide our customers with the convenience of all the functions that they otherwise would perform over the phone or at one of our shipping outlets. Package tracking, pick-up requests, rate quotes, account opening, wireless registration, drop-off locator, transit times and supply ordering services all are available at the customer's desktop. The site also displays full domestic and international service information.

UPS.com® receives more than 115 million hits and processes over 9.1 million package tracking transactions daily. A growing number of those tracking requests now come from customers in the 35 countries that have wireless access to UPS tracking information. Businesses in 46 countries also can download UPS OnLine Tools™ to their own websites for direct use by their customers. This allows users to access the information they need without leaving our customers' websites.

Sales and Marketing

The UPS worldwide sales organization includes both our traditional U.S. domestic and international small package delivery business and our Supply Chain Solutions group. Globally, we have 5,700 direct sales resources.

This field sales organization consists primarily of locally based account executives assigned to our individual operating units. For our largest multi-shipping site customers, we manage sales through an organization of regionally based account managers, reporting directly to our corporate office.

Our sales force also includes specialized groups that work together with our general sales organization to support the sale of e-commerce and customer technology solutions, international package delivery, LTL and freight transportation, and warehousing and distribution services.

Our worldwide marketing organization also supports both our traditional U.S. domestic and international small package delivery business and our Supply Chain Solutions group. Our corporate marketing function is engaged in market and customer research, brand management, rate-making and revenue management policy, new product development, product portfolio management, marketing alliances and e-commerce, including the non-technical aspects of our web presence. Advertising, public relations, and most formal marketing communications are centrally developed and controlled.

In addition to our corporate marketing group, field-based marketing personnel are assigned to our individual operating units, and are primarily engaged in business planning, bid preparation and revenue management activities. These local marketing teams support the execution corporate initiatives while also managing limited promotional and public relations activities pertinent to their local markets.

Employees

As of December 31, 2003, we had approximately 355,000 employees.

We have received numerous awards and wide recognition as an employer-of-choice, including the following:

- In 2003, we were named one of *FORTUNE magazine*'s "Diversity Elite — 50 Best Companies for Minorities" for the fifth consecutive year.
- We were named the NAACP Corporate Citizen of the Year for 2002.
- We received the National Urban League's Corporate Leadership Award in 2003 for our longstanding support of the National Urban League.
- We received the Ron Brown Award for Corporate Leadership in 2001.
- *Hispanic Magazine* recognized us in 2003 as a leader in its annual "Corporate 100," a list of companies providing the most opportunities for Hispanics.
- In 2003, Div2000.com ranked UPS 13th in its annual "America's Top Organizations for Multicultural Business Opportunities."
- In 2002, for the third consecutive year, we were named a top corporation for women's business enterprises by the Women's Business Enterprise National Council (WBENC).

As of December 31, 2003, we had approximately 228,000 employees (64% of our total employees) employed under a national master agreement and various supplemental agreements with local unions affiliated with the International Brotherhood of Teamsters ("Teamsters"). These agreements run through July 31, 2008. The majority of our pilots are employed under a collective bargaining agreement with the Independent Pilots Association, which became amendable January 1, 2004. Negotiations are ongoing with the assistance of the National Mediation Board. Our airline mechanics are covered by a collective bargaining agreement with Teamsters Local 2727, which becomes amendable on November 1, 2006. In addition, the majority of our ground mechanics who are not employed under agreements with the Teamsters are employed under collective bargaining agreements with the International Association of Machinists and Aerospace Workers. These agreements run through July 31, 2009.

We believe that our relations with our employees are good.

Competition

We are the largest package delivery company in the world, in terms of both revenue and volume. We offer a broad array of services in the package delivery industry and, therefore, compete with many different companies and services on a local, regional, national and international basis. Our competitors include the postal services of the United States and other nations, various motor carriers, express companies, freight forwarders, air couriers and others. Our major competitors include the United States Postal Service, FedEx, DHL Worldwide Express, Deutsche Post and TNT Post Group.

We believe competition increasingly is based on a carrier's ability to integrate its distribution and information systems with its customers' systems to provide unique transportation solutions at competitive prices. We rely on our vast infrastructure and service portfolio to attract and maintain customers. As we expand our supply chain and other non-package businesses, we compete with a number of participants in the supply chain, financial services and information technology industries.

Government Regulation

Both the U.S. Department of Transportation and the Federal Aviation Administration regulate air transportation services.

The DOT's authority primarily relates to economic aspects of air transportation, such as discriminatory pricing, non-competitive practices, interlocking relations and cooperative agreements. The DOT also regulates, subject to the authority of the President of the United States, international routes, fares, rates and practices, and is authorized to investigate and take action against discriminatory treatment of U.S. air carriers abroad. We are subject to U.S. customs laws and related DOT regulations regarding the import and export of shipments to and from the U.S. In addition, our customs brokerage entities are subject to those same laws and regulations as they relate to the filing of documents on behalf of client importers and exporters.

The FAA's authority primarily relates to safety aspects of air transportation, including aircraft standards and maintenance, personnel and ground facilities. In 1988, the FAA granted us an operating certificate, which remains in effect so long as we meet the operational requirements of federal aviation regulations.

The FAA has issued rules mandating repairs on all Boeing Company and McDonnell-Douglas Corporation aircraft that have completed a specified number of flights, and also has issued rules requiring a corrosion control program for Boeing Company aircraft. Our total expenditures under these programs for 2003 were about $8 million. The future cost of repairs pursuant to these programs may fluctuate. All mandated repairs have been completed, or are scheduled to be completed, within the timeframes specified by the FAA.

Our ground transportation of packages in the U.S. is subject to the DOT's jurisdiction with respect to the regulation of routes and to both the DOT's and the states' jurisdiction with respect to the regulation of safety, insurance and hazardous materials.

We are subject to similar regulation in many non-U.S. jurisdictions. In addition, we are subject to non-U.S. government regulation of aviation rights to and beyond non-U.S. jurisdictions, and non-U.S. customs regulation.

The Postal Reorganization Act of 1970 created the U.S. Postal Service as an independent establishment of the executive branch of the federal government, and vested the power to recommend domestic postal rates in a regulatory body, the Postal Rate Commission. We participate in the proceedings before the Postal Rate Commission in an attempt to secure fair postal rates for competitive services.

We are subject to numerous other laws and regulations in connection with our non-package businesses, including customs regulations, Food and Drug Administration regulation of our transportation of pharmaceuticals and state and federal lending regulations.

Where You Can Find More Information

We make our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to these reports available free of charge through the investor relations page of our website, located at *www.ups.com*, as soon as reasonably practicable after they are filed with or furnished to the SEC.

We have adopted a written Code of Business Conduct that applies to all of our directors, officers and employees, including our principal executive officer and senior financial officers. It is available in the governance section of the investor relations page of our website, located at *www.ups.com*. In the event that we make changes in, or provide waivers from, the provisions of the Code of Business Conduct that the SEC requires us to disclose, we intend to disclose these events in the governance section of our investor relations website.

Our Corporate Governance Guidelines and the charters for our Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee are also available free of charge in the governance section of the investor relations page of our website.

See Footnote 12 to our consolidated financial statements for financial information regarding our industry segments and geographic areas in which we operate.

Item 1A. ***Executive Officers of the Registrant***

Name and Office	Age	Principal Occupation and Employment For the Last Five Years
David P. Abney Senior Vice President and President, UPS International	48	Senior Vice President and President, UPS International (2003 to present), UPS/Fritz Companies Integration Manager (2001 to 2002), UPS SonicAir® Manager (1995 to 2000).
John J. Beystehner Senior Vice President, Chief Operating Officer and President — UPS Airlines	52	Chief Operating Officer (2004 to present), President — UPS Airlines (2004 to present), Senior Vice President (1999 to present), Marketing Group Manager (2001 to 2003), Worldwide Sales Group Manager (1997 to 2003).
Calvin Darden Senior Vice President and Director	54	Senior Vice President and U.S. Operations Manager (1998 to present), Director (2001 to present).
D. Scott Davis Senior Vice President, Chief Financial Officer and Treasurer	52	Senior Vice President, Chief Financial Officer and Treasurer (2001 to present), Vice President — Finance (2000 to 2001), Chief Executive Officer of Overseas Partners Ltd. (1999 to 2000).
Michael L. Eskew Chairman and Chief Executive Officer	54	Chairman and Chief Executive Officer (2002 to present), Vice Chairman (2000 to 2001), Executive Vice President (1999 to 2001), Director (1998 to present), Corporate Development Group Manager (1999 to 2000), Senior Vice President (1996 to 1999), Engineering Group Manager (1996 to 2000).

Name and Office	Age	Principal Occupation and Employment For the Last Five Years
Allen E. Hill Senior Vice President and Secretary	48	Senior Vice President, Secretary and Legal and Public Affairs Group Manager (2004 to present), Corporate Legal Department Manager (1995 to 2003).
Kurt P. Kuehn Senior Vice President	49	Senior Vice President and Worldwide Sales and Marketing Group Manager (2004 to present), Vice President, Investor Relations (1999 to 2003).
Kenneth W. Lacy Senior Vice President and Chief Information Officer	54	Senior Vice President and Chief Information Officer (1996 to present).
Christopher D. Mahoney Senior Vice President	56	Senior Vice President (1998 to present), Transportation Group Manager (2001 to present), Labor Relations Group Manager (2001 to present), U.S. Operations Manager (1998 to 2001), Region Manager (1990 to 1998).
John J. McDevitt Senior Vice President	45	Senior Vice President, Strategic Integration (2003 to present), Air Region Manager (2001 to 2002), Corporate Labor Relations Manager (1996 to 2000).
Joseph M. Pyne Senior Vice President	56	Senior Vice President (1996 to present), Supply Chain Solutions Group Manager (2002 to present), Corporate Development Group Manager (2000 to 2002), Marketing Group Manager (1996 to 2001).
Lea N. Soupata Senior Vice President and Director	53	Senior Vice President and Human Resources Group Manager (1995 to present), Director (1998 to present).

Item 2. *Properties*

Operating Facilities

We own our headquarters, which are located in Atlanta, Georgia and consist of about 735,000 square feet of office space on an office campus, and our UPS Supply Chain Solutions group's headquarters, which are located in Alpharetta, Georgia and consist of about 310,000 square feet of office space.

We also own our 27 principal U.S. package operating facilities, which have floor spaces that range from about 310,000 to 693,000 square feet. In addition, we have a 1.9 million square foot operating facility near Chicago, Illinois, which is designed to streamline shipments between East Coast and West Coast destinations, and we own or lease over 1,000 additional smaller package operating facilities in the U.S. The smaller of these facilities have vehicles and drivers stationed for the pickup of packages and facilities for the sorting, transfer and delivery of packages. The larger of these facilities also service our vehicles and equipment and employ specialized mechanical installations for the sorting and handling of packages.

We own or lease almost 600 facilities that support our international package operations and over 750 facilities that support our non-package operations. Our non-package operations maintain facilities with about 25 million square feet of floor space.

We believe that our facilities are adequate to support our current operations.

Our aircraft are operated in a hub and spokes pattern in the U.S. Our principal air hub in the U.S. is located in Louisville, Kentucky, with regional air hubs in Columbia, South Carolina; Dallas, Texas; Hartford, Connecticut; Ontario, California; Philadelphia, Pennsylvania; and Rockford, Illinois. These hubs house facilities for the sorting, transfer and delivery of packages. Our European air hub is located in Cologne, Germany, and our Asia-Pacific air hub is located in Taipei, Taiwan. Our intra-Asia air hub is located at Clark Air Force Base in Pampanga, Philippines, and our regional air hub in Canada is located in Hamilton, Ontario.

Our computer operations are consolidated in a 435,000 square foot owned facility, the Ramapo Ridge facility, which is located on a 39-acre site in Mahwah, New Jersey. We also own a 175,000 square foot facility located on a 25-acre site in Alpharetta, Georgia, which serves as a backup to the main computer operations facility in New Jersey. This facility provides production functions and backup capacity in the event that a power outage or other disaster incapacitates the main data center. It also helps us to meet communication needs.

Fleet

Aircraft

The following table shows information about our aircraft fleet as of December 31, 2003:

Description	Owned and Capital Leases	Short-term Leased or Chartered From Others	On Order	Under Option
McDonnell-Douglas DC-8-71	23	—	—	—
McDonnell-Douglas DC-8-73	26	—	—	—
Boeing 727-100.	51	—	—	—
Boeing 727-200.	2	—	—	—
Boeing 747-100.	9	—	—	—
Boeing 747-200.	4	3	—	—
Boeing 757-200.	75	—	—	—
Boeing 767-300.	32	—	—	—
Boeing MD-11.	12	—	5	18
Airbus A300-600.	32	—	58	42
Other	—	313	—	—
Total	266	316	63	60

We maintain an inventory of spare engines and parts for each aircraft.

All of the aircraft we own meet Stage III federal noise regulations and can operate at airports that have aircraft noise restrictions. We became the first major airline to successfully operate a 100% Stage III fleet more than three years in advance of the date required by federal regulations.

During 2003, we took delivery of eight Airbus A300-600 aircraft and six Boeing MD-11 aircraft. We have firm commitments to purchase three Boeing MD-11 aircraft in 2004 and 58 Airbus A300-600 aircraft between 2004 and 2009. We expect to take delivery of four Boeing MD-11 aircraft and eight Airbus A300-600 aircraft during 2004. We also have options to purchase 18 Boeing MD-11 aircraft between 2005 and 2010 and 42 Airbus A300-600 aircraft between 2004 and 2012.

Vehicles

We operate a ground fleet of more than 88,000 package cars, vans, tractors and motorcycles.

Our ground support fleet consists of over 25,000 pieces of equipment designed specifically to support our aircraft fleet, ranging from non-powered container dollies and racks to powered aircraft main deck loaders and cargo tractors. We also have about 31,000 containers used to transport cargo in our aircraft.

Safety

We promote safety throughout our operations.

Our Automotive Fleet Safety Program is built with the following components:

- *Selection.* Five out of every six drivers come from our part-time ranks. Therefore, many of our new drivers are familiar with our philosophies, policies, practices and training programs.

- *Training.* Training is the cornerstone of our Fleet Safety Program. Our approach starts with training the trainer. All trainers undergo a rigorous training workshop to ensure that they have the skills and motivation to effectively train novice drivers. A new driver's employment includes five hours of classroom training and 15 hours of on-road training, followed by three safety training rides integrated into his or her training cycle.

- *Responsibility.* Our operations managers are responsible for their drivers' safety records. We investigate every accident. If we determine that an accident could have been prevented, we re-train the driver.

- *Preventive Maintenance.* An integral part of our Fleet Safety Program is a comprehensive Preventive Maintenance Program. Our fleet is tracked by computer to ensure that each vehicle is serviced before a breakdown or accident is likely to occur.

- *Honor Plan.* A well-defined safe driver honor plan recognizes and rewards our drivers when they achieve success. We have over 3,000 drivers who have driven for 25 years or more without an avoidable accident.

Our workplace safety program is built upon a comprehensive health and safety process. The foundation of this process is our employee-management health and safety committees. The workplace safety process focuses on employee conditioning and safety-related habits. Our employee co-chaired health and safety committees complete comprehensive facility audits and injury analyses, and recommend facility and work process changes.

Item 3. *Legal Proceedings*

We are named as a defendant in twenty-three pending lawsuits that seek to hold us liable for the collection of premiums for excess value ("EV") insurance in connection with package shipments since 1984. Based on state and federal tort, contract and statutory claims, these cases generally claim that we failed to remit collected EV premiums to an independent insurer; we failed to provide promised EV insurance; we acted as an insurer without complying with state insurance laws and regulations; and the price for EV insurance was excessive.

These actions all were filed after the August 9, 1999 United States Tax Court decision, in which the Tax Court held that we were liable for tax on income of Overseas Partners Ltd., a Bermuda company that had reinsured EV insurance purchased by our customers beginning in 1984, and that we were liable for additional tax for the 1983 and 1984 tax years. On June 20, 2001, the U.S. Court of Appeals for the Eleventh Circuit ruled in our favor and reversed the Tax Court decision. In January 2003, we and the IRS finalized settlement of all outstanding tax issues relating to EV package insurance.

These twenty-three cases have been consolidated for pre-trial purposes in a multi-district litigation proceeding ("MDL Proceeding") in federal court in New York. In addition to the cases in which UPS is named as a defendant, there also is an action, *Smith v. Mail Boxes Etc.,* against Mail Boxes Etc. and its franchisees relating to UPS EV insurance and related services purchased through Mail Boxes Etc. centers. This case also has been consolidated into the MDL Proceeding.

While expressly denying any and all liability, the parties have obtained preliminary court approval of a global settlement resolving all claims and all cases in the MDL Proceeding. The proposed settlement requires several steps before it becomes final, including notice to the settlement class, and obtaining final court approval. If the proposed settlement becomes final, we would provide to qualifying settlement class members vouchers toward the purchase of specified UPS services and pay a portion of the plaintiffs' attorneys' fees, the total amount of which will be determined by the Court. The ultimate cost to us of the proposed settlement will depend on a number of factors. We do not believe that this proposed settlement will have a material effect on our financial condition, results of operations or liquidity.

In addition, we are a defendant in various other lawsuits that arose in the normal course of business. We believe that the eventual resolution of these cases will not have a material adverse effect on our financial condition, results of operations or liquidity.

We participate in a number of trustee-managed multi-employer pension and health and welfare plans for employees covered under collective bargaining agreements. Several factors could result in higher future contributions to these plans, including unfavorable investment performance, changes in demographics, and increased benefits to participants. At this time, we are unable to determine the amount of additional future contributions, if any, or whether any material adverse effect on our financial condition, results of operations, or cash flows could result from our participation in these plans.

Item 4. *Submission of Matters to a Vote of Security Holders*

None

PART II

Item 5. *Market for Registrant's Common Equity and Related Stockholder Matters*

Our class A common stock is not listed on a national securities exchange or traded in an organized over-the-counter market.

The following is a summary of our Class B common stock price activity and dividend information for 2003 and 2002. Our Class B common stock is listed on the New York Stock Exchange under the symbol "UPS."

	High	Low	Close	Dividends Declared
2003:				
First Quarter	$64.48	$53.00	$57.00	$ 0.21
Second Quarter	$64.32	$56.52	$63.70	$ 0.21
Third Quarter	$64.99	$61.17	$63.80	$ 0.25
Fourth Quarter	$74.86	$63.76	$74.55	$ 0.25
2002:				
First Quarter	$61.24	$54.25	$60.80	$ 0.19
Second Quarter	$63.00	$57.75	$61.75	$ 0.19
Third Quarter	$67.10	$58.80	$62.53	$ 0.19
Fourth Quarter	$64.50	$58.50	$63.08	$ 0.19

As of February 28, 2004, there were 169,751 and 14,409 record holders of Class A and Class B stock, respectively.

The policy of our board of directors is to declare dividends each year out of current earnings. The declaration of future dividends is subject to the discretion of the board of directors in light of all relevant facts, including earnings, general business conditions and working capital requirements.

On February 12, 2004, our board declared a dividend of $0.28 per share, which is payable on March 9, 2004 to shareowners of record on February 23, 2004.

Item 6. ***Selected Financial Data***

The following table sets forth selected financial data for each of the five years in the period ended December 31, 2003 (amounts in millions, except per share amounts). This financial data should be read in conjunction with our Consolidated Financial Statements, Management's Discussion and Analysis of Financial Condition and Results of Operations and other financial data appearing elsewhere in this report.

Selected Income Statement Data

	Years Ended December 31,				
	2003	2002	2001	2000	1999
Revenue:					
U.S. domestic package	$25,022	$23,924	$23,997	$24,002	$22,313
International package	5,561	4,680	4,245	4,078	3,718
Non-package	2,902	2,668	2,079	1,418	841
Total revenue	33,485	31,272	30,321	29,498	26,872
Operating expenses:					
Compensation and benefits	19,328	17,940	17,397	16,546	15,285
Other	9,712	9,236	8,962	8,440	7,682
Total operating expenses	29,040	27,176	26,359	24,986	22,967
Operating profit (loss):					
U.S. domestic package	3,272	3,576	3,620	3,929	3,506
International package	709	322	125	277	230
Non-package	464	198	217	306	169
Total operating profit	4,445	4,096	3,962	4,512	3,905
Other income (expense):					
Investment income	18	63	159	527	197
Interest expense	(121)	(173)	(184)	(205)	(228)
Gain on redemption of long-term debt	28	—	—	—	—
Tax assessment	—	1,023	—	—	(1,786)
Income before income taxes	4,370	5,009	3,937	4,834	2,088
Income taxes	(1,472)	(1,755)	(1,512)	(1,900)	(1,205)
Cumulative effect of changes in accounting principles	—	(72)	(26)	—	—
Net income	$ 2,898	$ 3,182	$ 2,399	$ 2,934	$ 883
Per share amounts:					
Basic earnings per share	$ 2.57	$ 2.84	$ 2.13	$ 2.54	$ 0.79
Diluted earnings per share	$ 2.55	$ 2.81	$ 2.10	$ 2.50	$ 0.77
Dividends declared per share	$ 0.92	$ 0.76	$ 0.76	$ 0.68	$ 0.58
Weighted Average Shares Outstanding					
Basic	1,128	1,120	1,126	1,153	1,121
Diluted	1,138	1,134	1,144	1,175	1,141
As Adjusted Net Income Data:					
Net income	$ 2,772(1)	$ 2,422(2)	$ 2,425(3)	$ 2,795(4)	$ 2,325(5)
Basic earnings per share	$ 2.46	$ 2.16	$ 2.15	$ 2.42	$ 2.07
Diluted earnings per share	$ 2.44	$ 2.14	$ 2.12	$ 2.38	$ 2.04

Table of Contents

Selected Balance Sheet Data

	As of December 31,				
	2003	2002	2001	2000	1999
Working capital	$ 4,335	$ 3,183	$ 2,811	$ 2,623	$ 5,994
Long-term debt	3,149	3,495	4,648	2,981	1,912
Total assets	28,909	26,357	24,636	21,662	23,028
Shareowners’ equity	14,852	12,455	10,248	9,735	12,474

(1) Excludes (on an after-tax basis) the gain on sale of Mail Technologies ($14 million) and Aviation Technologies ($15 million), the gain on redemption of long-term debt ($18 million), the loss on impairment of investments ($37 million), a reduction of income tax expense due to a lower effective tax rate from improvements in state income taxes ($39 million), a reduction of income tax expense due to the resolution of various tax contingency matters ($55 million), and a reduction of income tax expense from a favorable ruling on the tax treatment for jet engine maintenance costs ($22 million).

(2) 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 a previously established tax assessment liability.

(3) Excludes $26 million after-tax charge related to the adoption of FAS 133.

(4) 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.

(4) Excludes a $1.442 billion tax assessment charge.

Item 7. ***Management's Discussion and Analysis of Financial Condition and Results of Operations***

Operations

The following tables set forth information showing the change in revenue, average daily package volume and average revenue per piece, both in dollars or amounts and in percentage terms:

	Year Ended December 31,		Change	
	2003	2002	$	%
Revenue (in millions):				
U.S. domestic package:				
Next Day Air	$ 5,580	$ 5,349	$ 231	4.3%
Deferred	2,982	2,868	114	4.0
Ground	16,460	15,707	753	4.8
Total U.S. domestic package	25,022	23,924	1,098	4.6
International package:				
Domestic	1,134	943	191	20.3
Export	4,001	3,276	725	22.1
Cargo	426	461	(35)	(7.6)
Total International package	5,561	4,680	881	18.8
Non-package:				
UPS Supply Chain Solutions	2,126	1,969	157	8.0
Other	776	699	77	11.0
Total Non-package	2,902	2,668	234	8.8
Consolidated	$33,485	$31,272	$2,213	7.1%

			#	
Average Daily Package Volume (In thousands):				
U.S. domestic package:				
Next Day Air	1,185	1,111	74	6.7%
Deferred	918	895	23	2.6
Ground	10,268	10,112	156	1.5
Total U.S. domestic package	12,371	12,118	253	2.1
International package:				
Domestic	786	779	7	0.9
Export	481	443	38	8.6
Total International package	1,267	1,222	45	3.7
Consolidated	13,638	13,340	298	2.2%
Operating days in period	252	252		

			$	
Average Revenue Per Piece:				
U.S. domestic package:				
Next Day Air	$18.69	$19.11	$(0.42)	(2.2)%
Deferred	12.89	12.72	0.17	1.3
Ground	6.36	6.16	0.20	3.2
Total U.S. domestic package	8.03	7.83	0.20	2.6
International package:				
Domestic	5.73	4.80	0.93	19.4
Export	33.01	29.35	3.66	12.5
Total International package	16.08	13.70	2.38	17.4
Consolidated	$ 8.77	$ 8.37	$ 0.40	4.8%

	Year Ended December 31, 2002	Year Ended December 31, 2001	Change $	Change %
Revenue (in millions):				
U.S. domestic package:				
Next Day Air	$ 5,349	$ 5,433	$ (84)	(1.5)%
Deferred	2,868	2,893	(25)	(0.9)
Ground	15,707	15,671	36	0.2
Total U.S. domestic package	23,924	23,997	(73)	(0.3)
International package:				
Domestic	943	907	36	4.0
Export	3,276	2,931	345	11.8
Cargo	461	407	54	13.3
Total International package	4,680	4,245	435	10.2
Non-package:				
UPS Supply Chain Solutions	1,969	1,479	490	33.1
Other	699	600	99	16.5
Total Non-package	2,668	2,079	589	28.3
Consolidated	$31,272	$30,321	$951	3.1%
			#	
Average Daily Package Volume (in thousands):				
U.S. domestic package:				
Next Day Air	1,111	1,116	(5)	(0.4)%
Deferred	895	917	(22)	(2.4)
Ground	10,112	10,317	(205)	(2.0)
Total U.S. domestic package	12,118	12,350	(232)	(1.9)
International package:				
Domestic	779	805	(26)	(3.2)
Export	443	408	35	8.6
Total International package	1,222	1,213	9	0.7
Consolidated	13,340	13,563	(223)	(1.6)%
Operating days in period	252	252		
			$	
Average Revenue Per Piece:				
U.S. domestic package:				
Next Day Air	$19.11	$19.32	$(0.21)	(1.1)%
Deferred	12.72	12.52	0.20	1.6
Ground	6.16	6.03	0.13	2.2
Total U.S. domestic package	7.83	7.71	0.12	1.6
International package:				
Domestic	4.80	4.47	0.33	7.4
Export	29.35	28.51	0.84	2.9
Total International package	13.70	12.56	1.14	9.1
Consolidated	$ 8.37	$ 8.14	$ 0.23	2.8%

Operating Profit

The following tables set forth information showing the change in operating profit, both in dollars (in millions) and in percentage terms:

Operating Segment	Year Ended December 31, 2003	2002	Change $	%
U.S. domestic package	$3,272	$3,576	$(304)	(8.5)%
International package	709	322	387	120.2
Non-package	464	198	266	134.3
Consolidated Operating Profit	$4,445	$4,096	$ 349	8.5%

Operating Segment	Year Ended December 31, 2002	2001	Change $	%
U.S. domestic package	$3,576	$3,620	$ (44)	(1.2)%
International package	322	125	197	157.6
Non-package	198	217	(19)	(8.8)
Consolidated Operating Profit	$4,096	$3,962	$134	3.4%

Non-GAAP Financial Measures

In the discussion and analysis below and in "Selected Financial Data", we sometimes refer to information extracted from consolidated financial information but not required by generally accepted accounting principles (GAAP) to be presented in financial statements. Certain of this information is considered "non-GAAP financial measures" under Securities and Exchange Commission rules. Specifically, we refer to operating profit, operating margin, net income and earnings per share on an "as adjusted" basis, excluding certain transactions that we believe are not indicative of future results. We have presented these measures since we believe that meaningful analysis of our financial performance requires an understanding of the factors underlying that performance and our judgments about the likelihood that particular factors will repeat. When these "non-GAAP financial measures" have been used, we have provided reconciliations of these adjusted measures to the appropriate GAAP measure for comparability purposes.

U.S. Domestic Package Operations

2003 compared to 2002

U.S. domestic package revenue increased $1.098 billion, or 4.6%, for the year, which was driven by a 2.1% increase in average daily package volume and a 2.6% increase in revenue per piece. Ground volume increased by 1.5% in 2003, reversing a 2.0% decline in 2002, reflecting the improving U.S. economy and the impact that labor negotiations had on lowering volume during portions of 2002. The volume for our UPS Next Day Air products increased by 6.7% during the year, driven by double-digit growth in overnight letters which was influenced by the strength in mortgage refinancing activity during 2003. The increase in U.S. domestic average daily package volume was more significant in the latter half of the year. In the third and fourth quarters of 2003, total U.S. domestic average daily package volume increased 3.2% and 4.9%, respectively.

The overall improvement in revenue per piece was primarily due to the rate increase that became effective in January 2003, with some additional benefit from the fuel surcharge as described below. The decline in revenue per piece for the Next Day Air products, and the relatively smaller increase for the deferred products, was primarily due to the relatively higher growth in letter volume compared with the growth in package volume for these products.

On January 6, 2003, we increased rates for standard ground shipments an average of 3.9% for commercial deliveries. The ground residential surcharge increased $0.05 to $1.15 over the commercial ground rate. The additional delivery area surcharge added to residential deliveries in certain ZIP codes increased $0.25 to $1.75. Rates for UPS Hundredweight increased 5.9%. In addition, we increased rates for UPS Next Day Air an average of 3.4% and increased rates for deferred services by 4.5%.

Rates for international shipments originating in the United States (UPS Worldwide Express, UPS Worldwide Express Plus, UPS Worldwide Expedited and UPS Standard service) increased an average of 3.9%. Rate changes for shipments originating outside the United States generally are made throughout the year and vary by geographic market.

During 2003, the index-based fuel surcharge reset on a monthly basis and was based on the National U.S. Average On-Highway Diesel Fuel Prices as reported by the U.S. Department of Energy. Based on published rates, the average fuel surcharge increased to 1.47% in 2003 from 0.78% in 2002, resulting in an increase in fuel surcharge revenue of $144 million. Effective in 2004, we have discontinued the fuel surcharge on ground service, while a new indexed surcharge is being applied to our Next Day Air and deferred products. This new fuel surcharge for the domestic air products is based on the U.S. Energy Department's Gulf Coast spot price for a gallon of kerosene-type jet fuel. This change will have a negative impact on revenue for our ground products, while having a beneficial impact on revenue for our Next Day Air and deferred products.

U.S. domestic package operating profit declined $304 million, or 8.5%, primarily due to the slow volume and revenue growth combined with an increase in operating expenses (discussed further below under the section titled "operating expenses and operating margin"). U.S. domestic package operating profit increased 2.0% in the third quarter and decreased by 9.4% in the fourth quarter. However, in the fourth quarter of 2002, U.S. domestic package operating profit benefited from a $175 million credit due to a change in our vacation policy for non-union employees. Without the vacation-related credit in the 2002 results, fourth quarter operating profit would have increased 9.6% and the decline for the year ending December 31, 2003 would have been $129 million, or 3.8%.

2002 compared to 2001

U.S. domestic package revenue decreased $73 million, or 0.3%, for the year. This decrease was driven by a 1.9% decrease in average daily package volume, and partially offset by a 1.6% increase in revenue per piece. The decline in volume was a result of the impact of volume diversion to competitors prior to the agreement reached on a new six-year contract with the International Brotherhood of Teamsters, combined with the continued weakness in the U.S. economy. The decline in volume was most pronounced in the period surrounding the July 31, 2002 expiration date of the previous contract.

On January 7, 2002, we increased rates for standard ground shipments an average of 3.5% for commercial deliveries. The ground residential charge increased $0.05 to $1.10 over the commercial ground rate, and this charge also was applied to express deliveries in 2002. The additional delivery area surcharge added to residential deliveries in certain ZIP codes, remained at $1.50, and also was applied to express deliveries in 2002. Rates for UPS Hundredweight increased 5.9%.

We also increased rates for UPS Next Day Air, UPS Next Day Air Saver, UPS 2nd Day Air, and 3 Day Select an average of 4.0%. The surcharge for UPS Next Day Air Early A.M. increased from $27.50 to $28.50. Rates for international shipments originating in the United States (Worldwide Express, Worldwide Express Plus, UPS Worldwide Expedited and UPS International Standard service) increased an average of 3.9%. Rate changes for shipments originating outside the U.S. were made throughout 2002 and varied by geographic market.

An index-based fuel surcharge, which began in February 2002 and reset on a monthly basis, replaced a fixed fuel surcharge of 1.25%. The indexed surcharge was based on the National U.S. Average On-Highway Diesel Fuel Prices as reported by the U.S. Department of Energy. Based on published rates, the average fuel surcharge for the year ended December 31, 2002 was 0.78%. Approximately $251 million in revenue was recorded in 2002 as a result of our fuel surcharge, a decrease of $97 million from the prior year.

U.S. domestic package operating profit decreased $44 million, or 1.2%, for 2002, primarily due to the decrease in average daily volume discussed previously and an increase in operating expenses (discussed further below). In 2002, operating profit benefited from a credit to operating expense of $175 million that occurred related to a change in our vacation policy for non-union employees. In 2001, we recorded a credit to expense related to the Air Transportation Safety and System Stabilization Act, which benefited the U.S. domestic package segment by $28 million.

International Package Operations

2003 compared to 2002

International package revenue improved $881 million, or 18.8%, for the year due primarily to the 8.6% volume growth for our export products and strong revenue per piece improvements, a portion of which can be attributed to the impact of currency. Revenue increased $443 million during the year due to currency fluctuations. Export volume increased throughout the world, with Asia-Pacific, Canada, and the Americas showing double-digit export volume growth, and U.S. and European export volume increasing slightly over 6%. European export volume growth was adversely impacted by the strength of the Euro and the weak European economy. Domestic volume increased 0.9% for the year, which reverses a 3.2% decline from the previous year, and was also negatively affected by the weak European economy.

Export revenue per piece increased 12.5% for the year (3.3% currency-adjusted), due to improvements in product mix and continued focus on yield management. In total, international average daily package volume increased 3.7% and average revenue per piece increased 17.4% (6.2% currency-adjusted). The 7.6% decline in cargo revenue during the year was largely due to a reduction of flights in our air network in the Americas.

The improvement in operating profit for our international package operations was $387 million for the year, $117 million of which was due to favorable currency fluctuations. This increase in operating profit was primarily due to the strong export volume growth and revenue per piece increases described previously. In 2002, international operating profit benefited from an $11 million credit to operating expense as a result of a change in our vacation policy for non-union employees.

2002 compared to 2001

For the year ended December 31, 2002, international package revenue improved $435 million, or 10.2% (8.1% currency-adjusted), due primarily to volume growth for our export products and strong revenue per piece improvements. This volume growth was driven primarily by the Asia-Pacific region, which had an increase in average daily export volume of 17.1%, and the Europe region, which had an increase in average daily export volume of 13.6%. In total, international average daily package volume increased 0.7% and average revenue per piece increased 9.1% (6.8% currency-adjusted).

The improvement in operating profit for our international package operations was $197 million for the year, $22 million of which was due to currency fluctuations. The increase in operating profit was primarily due to export volume growth of 8.6% and a strong increase in revenue per piece. In addition, the shutdown of the U.S. West Coast ports during the latter part of 2002 had a beneficial impact on our international package results. In 2002, operating profit benefited from an $11 million reduction to expense related to the change in vacation policy. Operating profit in 2002 benefited, compared with 2001, from an $11 million reduction of expense due to the elimination of goodwill amortization. In 2001, operating profit benefited from a $46 million credit to expense related to the Air Transportation Safety and System Stabilization Act.

Non-Package Operations

2003 compared to 2002

Non-package revenue increased $234 million, or 8.8%, for the year. UPS Supply Chain Solutions, which comprises our former UPS Freight Services and UPS Logistics Group businesses, increased revenue by 8.0% during the year. This increase was due to growth in our supply chain management and other logistics businesses, with international revenues growing faster than in the U.S., partially as a result of favorable currency fluctuations. Favorable currency fluctuations accounted for $74 million of the increase in revenue. Freight forwarding revenue increased at a slower rate, which was influenced by global economic conditions and increased air revenue in 2002 as a result of the work disruption at U.S. west coast ports. The remainder of our non-package operations, which includes Mail Boxes Etc. (the franchisor of Mail Boxes Etc. and The UPS Store), UPS Capital Corp., our mail and consulting services and our excess value package insurance business, increased revenue by 11.0% for the year, primarily due to increased franchise revenue at Mail Boxes Etc. and strong results from our Mail Innovations unit.

Non-package operating profit increased $266 million, or 134.3%, for the year. This increase was primarily due to higher operating profit from our Supply Chain Solutions unit, which was driven by the increase in revenue as well as the cost savings produced by our integration and restructuring program. Non-package operating profit in 2002 was reduced by the $106 million restructuring charge and related expenses, and was increased by $11 million due to the change in our vacation policy for non-union employees. Non-package operating profit includes $114 million (compared to $112 million in 2002) of intersegment profit, with a corresponding amount of operating expense, which reduces operating profit, in the U.S. domestic package segment.

During 2003, we sold our Mail Technologies business unit in a transaction that increased net income by $14 million, or $0.01 per diluted share. The gain consisted of a pre-tax loss of $24 million recorded in other operating expenses within the non-package segment, and a tax benefit of $38 million recognized in conjunction with the sale. The tax benefit exceeds the pre-tax loss from this sale primarily because the goodwill impairment charge we previously recorded for the Mail Technologies business unit was not deductible for income tax purposes. Consequently, our tax basis was greater than our book basis, thus producing the tax benefit described above.

Also during 2003, we sold our Aviation Technologies business unit and recognized a pre-tax gain of $24 million ($15 million after-tax, or $0.01 per diluted share), which is recorded in other operating expenses within the non-package segment. The operating results of both the Mail Technologies unit and the Aviation Technologies unit were previously included in our non-package segment, and were not material to non-package operating results in any of the periods presented.

2002 compared to 2001

Non-package revenue increased $589 million, or 28.3% during 2002. 20.4% of this revenue growth was due to acquisitions and the remaining 7.9% was due to organic growth.

UPS Supply Chain Solutions revenue was up $490 million, or 33.1%, for the year, much of which was due to having a full year of revenue from Fritz Companies Inc., which we acquired in May 2001, and other acquisitions. Revenue growth at Supply Chain Solutions was hindered by the sale of the FedEx brokerage business in March 2002. Excluding the impact of acquisitions and dispositions, UPS Supply Chain Solutions would have reported revenue growth of approximately 8% during 2002.

Non-package operating profit decreased by $19 million, or 8.8%, for the year. In 2002, operating profit was affected by a restructuring charge and related expenses of $106 million primarily related to the integration of our Freight Services and Logistics Group operations, and an $11 million reduction to expense related to a change in our vacation policy for non-union employees. Operating profit in 2002 benefited, compared with 2001, from a $61 million reduction in goodwill expense as a result of the elimination of goodwill amortization. Non-package operating profit includes $112 million in 2002 (compared to $113 million in 2001) of intersegment profit, with a corresponding amount of operating expense, which reduces operating profit, in the U.S. domestic package segment.

Operating Expenses and Operating Margin

2003 compared to 2002

Consolidated operating expenses increased by $1.864 billion, or 6.9%, for the year, $398 million of which was due to currency fluctuations in our international package and non-package segments. Compensation and benefits increased by $1.388 billion, or 7.7%, for the year, primarily due to increased health and welfare benefit costs and higher pension expense. Stock-based compensation expense totaled $724 million in 2003, a 14.0% increase over 2002, primarily as a result of increased management incentive awards expense and adopting the measurement provisions of FAS 123 for 2003 stock-based compensation awards.

Other operating expenses increased by $476 million, or 5.2%, for the year, largely due to a 12.3% increase in occupancy costs, a 10.3% increase in fuel expense, and smaller increases in purchased transportation, repairs and maintenance, and depreciation and amortization. Other operating expenses in 2002 were affected by the $106 million restructuring charge and related expenses incurred in the integration of our Freight Services and Logistics Group operations into our UPS Supply Chain Solutions unit. The growth in other occupancy expense was impacted by higher rent expense on buildings and facilities, higher real estate taxes, and weather-related increases in natural gas and utilities expense. The fuel expense increase was due to higher fuel prices in 2003, somewhat offset by hedging gains and lower fuel usage. The increase in purchased transportation expense was influenced by the impact of currency and growth in our international package and Supply Chain Solutions businesses. The growth in depreciation and amortization reflects the addition of new aircraft, the completion of facilities projects (including UPS Worldport), and increased amortization of capitalized software. The increase in repairs and maintenance was primarily due to higher vehicle, aircraft, and equipment maintenance expense.

The increase in other expenses was due to a $75 million impairment charge recorded in the fourth quarter of 2003, resulting from an impairment evaluation performed when we permanently removed a number of Boeing 727 and DC-8 aircraft from service. Of the total $75 million impairment charge, $69 million impacted the U.S. domestic package segment and $6 million impacted the international package segment.

Our operating margin, defined as operating profit as a percentage of revenue, increased to 13.3% in 2003 from 13.1% in 2002. This increase is due to the growth in operating margin in our international package and non-package segments, which benefited from the revenue increases described previously. The operating margin for our three business segments was as follows:

	Year Ended December 31,			
		2002		
Operating Segment	**2003**	**Reported**	**As Adjusted**	**2001**
U.S. domestic package	13.1%	14.9%	14.2%	15.1%
International package	12.7%	6.9%	6.6%	2.9%
Non-package	16.0%	7.4%	11.0%	10.4%

2002 adjusted operating margins exclude the effects of the vacation change, which increased operating profit (U.S. domestic — $175 million, 0.7% effect on operating margin; international package — $11 million, 0.3%; and non-package — $11 million, 0.4%), and the effects of the restructuring charge, which reduced non-package operating profit by $106 million and operating margin by 4.0%.

2002 compared to 2001

Consolidated operating expenses increased by $817 million, or 3.1%, for the year ended December 31, 2002. Compensation and benefits increased $543 million, or 3.1%, due primarily to increased costs associated with health and retirement benefits. In 2002, compensation and benefits were reduced by the $197 million credit to expense related to the change in our vacation policy for non-union employees.

Other operating expenses increased by $274 million, or 3.1%, for the year. In 2002, other operating expenses were affected by the $106 million restructuring charge and related expenses. In 2002, depreciation and amortization benefited from the absence of $72 million of expense related to the elimination of goodwill amortization. In 2001, other operating expenses were reduced by $74 million for compensation under the Air Transportation Safety and System Stabilization Act.

The non-package segment accounted for $513 million of the $817 million total increase in operating expenses. This was principally due to acquisitions that we completed during the first nine months of 2001. Our consolidated operating margin, defined as operating profit as a percentage of revenue, remained at 13.1% during 2001 and 2002.

Investment Income/ Interest Expense

2003 compared to 2002

The decrease in investment income of $45 million in 2003 is primarily due to a $58 million impairment charge recognized during the first quarter of 2003. We periodically review our investments for indications of other than temporary impairment considering many factors, including the extent and duration to which a security's fair value has been less than its cost, overall economic and market conditions, and the financial condition and specific prospects for the issuer. During the first quarter of 2003, after considering the continued decline in the U.S. equity markets, we recognized an impairment charge of $58 million, primarily related to our investment in S&P 500 equity portfolios.

The $52 million decline in interest expense in 2003 was primarily the result of lower commercial paper balances outstanding, lower interest rates on variable rate debt, and lower floating rates on interest rate swaps.

2002 compared to 2001

The decrease in investment income of $96 million for 2002 is primarily due to a combination of lower interest rates and lower balances available for investment in 2002.

Net Income and Earnings Per Share

2003 compared to 2002

Net income for 2003 was $2.898 billion, a decrease of $284 million from the $3.182 billion achieved in 2002, resulting in a decrease in diluted earnings per share from $2.81 in 2002 to $2.55 in 2003. Net income in 2002 was favorably impacted by $776 million after-tax ($0.68 per diluted share) resulting from the reversal of a portion of the previously established tax assessment liability, and by $121 million after-tax ($0.11 per diluted share) from the credit to expense as a result of the change in our vacation policy for non-union employees. Net income in 2002 was adversely impacted by $65 million after-tax ($0.06 per diluted share) due to the restructuring charge and related expenses and by $72 million after-tax ($0.06 per diluted share) due to the FAS 142 cumulative expense adjustment. Excluding the effect of the preceeding items, net income for 2002 would have been $2.422 billion, or $2.14 per diluted share.

Net income in 2003 benefited from the $14 million after-tax gain ($0.01 per diluted share) on the sale of our Mail Technologies unit in the second quarter of 2003, the $15 million after-tax gain ($0.01 per diluted share) on the sale of our Aviation Technologies unit in the third quarter of 2003, and the $18 million after-tax gain ($0.02 per diluted share) due to the redemption of our $300 million cash-settled convertible senior notes. In addition, 2003 income tax expense was reduced by $55 million ($0.05 per diluted share) due to the resolution of various tax issues with the Internal Revenue Service during the first quarter, by $22 million ($0.02 per diluted share) due to a tax contingency accrual adjustment resulting from a favorable ruling on the tax treatment for jet engine maintenance costs during the third quarter, and by $39 million ($0.03 per share) due to a lower effective state tax rate in the fourth quarter. Net income in 2003 was adversely affected by the $37 million after-tax ($0.03 per diluted share) investment impairment charge described previously. Excluding the effect of the preceeding items, net income for 2003 would have been $2.772 billion, or $2.44 per diluted share. This would represent a 14.0% increase in diluted earnings per share over the $2.14 achieved in 2002 (after taking into account the items discussed previously).

2002 compared to 2001

Net income for 2002 was $3.182 billion, an increase of $783 million from $2.399 billion in 2001, resulting in an increase in diluted earnings per share to $2.81 in 2002 from $2.10 in 2001. Net income in 2001 was adversely impacted by the FAS 133 cumulative expense adjustment of $26 million after-tax ($0.02 per diluted share), without which net income would have been $2.425 billion, or $2.12 per diluted share. In 2002, our results were affected by the fourth quarter restructuring charge and related expenses of $65 million after-tax ($0.06 per diluted share), the FAS 142 cumulative expense adjustment of $72 million after-tax ($0.06 per diluted share), the credit to compensation and benefits resulting from the change in our vacation policy for non-union employees of $121 million after-tax ($0.11 per diluted share), and the credit related to the reversal of a portion of the previously established tax assessment liability of $776 million after-tax ($0.68 per diluted share). Excluding the effect of the preceeding items, net income for 2002 would have been $2.422 billion, or $2.14 per diluted share.

Liquidity and Capital Resources

Net Cash From Operating Activities

Net cash provided by operating activities was $4.646, $5.688 and $4.570 billion in 2003, 2002 and 2001, respectively. The decrease in 2003 operating cash flows from 2002 was primarily the result of the funding of $1.1 billion into our pension plans during 2003. As discussed in Note 5 to the consolidated financial statements, projected pension contributions in 2004 are approximately $426 million.

In November 2003, we announced rate increases, which took effect on January 5, 2004. The overall impact is in line with previous years' rate increases. We increased rates for standard ground shipments an average of 1.9% for commercial deliveries. The ground residential surcharge increased $0.25 to $1.40 over the commercial ground rate. An additional delivery area surcharge of $1.00 was implemented for commercial deliveries in certain ZIP codes. Rates for UPS Hundredweight increased 5.9%. In addition, we increased rates for UPS Next Day Air an average of 2.9% and increased rates for deferred services by 2.9%. Rates for international shipments originating in the United States (Worldwide Express, Worldwide Express Plus, UPS Worldwide Expedited and UPS International Standard service) increased an average of 3.5%. Rate changes for shipments originating outside the U.S. were made throughout the past year and varied by geographic market.

In addition, we discontinued the fuel surcharge on ground service, while a new index is being applied to our Next Day Air, deferred products, and international services. This new fuel surcharge for the domestic air products is based on the U.S. Energy Department's Gulf Coast spot price for a gallon of kerosene-type jet fuel. The index for shipments originating in Europe will be based on the Rotterdam ARA spot price of kerosene-type jet fuel.

Net Cash Used In Investing Activities

Net cash used in investing activities was $1.942, $2.194 and $3.053 billion in 2003, 2002 and 2001, respectively. The primary reason for these declines has been the slowing growth of our finance receivables portfolio, and the lack of business acquisitions during 2002 and 2003. Capital expenditures represent the primary use of cash in investing activities, as follows (in millions):

	2003	2002	2001
Buildings and facilities	$ 451	$ 528	$ 763
Aircraft and parts	1,019	638	932
Vehicles	161	41	303
Information technology	316	451	374
	$1,947	$1,658	$2,372

We anticipate capital expenditures of approximately $2.2 billion in 2004. These expenditures will provide for replacement of existing capacity and anticipated future growth and include the projected cost of capitalized software. We fund our capital expenditures with our cash from operations.

Net Cash Used In Financing Activities

Net cash used in financing activities was $2.180, $2.090 and $1.493 billion in 2003, 2002 and 2001, respectively. Our primary use of cash in financing activities has been to repay long-term debt, repurchase stock, and pay dividends. During 2003, we repaid over $1.2 billion in debt, primarily consisting of $492 million of commercial paper, $300 million in cash-convertible notes, and $411 million in repayments of UPS Notes. Issuances of debt primarily consisted of UPS Notes. We consider the overall fixed and floating interest rate mix of our portfolio and the related overall cost of borrowing when planning for future issuances and non-scheduled repayments of debt.

In August 2003, a total of $1.0 billion was authorized for share repurchases as part of our continuing share repurchase program. As of December 31, 2003, $858 million of this authorization was available for future share repurchases. We repurchased a total of $398 million of common stock in 2003.

We increased our cash dividends per share to $0.92 in 2003 from $0.76 in 2002, resulting in an increase in total cash dividends paid to $1.026 billion from $840 million. The declaration of dividends is subject to the discretion of the Board of Directors and will depend on various factors, including our net income, financial condition, cash requirements, future prospects, and other relevant factors. We expect to continue the practice of paying regular cash dividends. In February 2004, the Board of Directors declared a $0.28 per share dividend, which represents a 12% increase over the $0.25 previous quarterly dividend. The dividend is payable on March 9, 2004 to shareowners of record on February 23, 2004.

Sources of Credit

We maintain two commercial paper programs under which we are authorized to borrow up to $7.0 billion. Approximately $544 million was outstanding under these programs as of December 31, 2003, with an average interest rate of 0.96%. The entire balance outstanding has been classified as a current liability on our balance sheet. In addition, we maintain an extendible commercial notes program under which we are authorized to borrow up to $500 million. No amounts were outstanding under this program at December 31, 2003.

We maintain two credit agreements with a consortium of banks. These agreements provide revolving credit facilities of $1.0 billion each, with one expiring on April 22, 2004 and the other on April 24, 2008. Interest on any amounts we borrow under these facilities would be charged at 90-day LIBOR plus 15 basis points. There were no borrowings under either of these agreements as of December 31, 2003.

We also maintain a $1.0 billion European medium-term note program. Under this program, we may issue notes from time to time, denominated in a variety of currencies. No amounts were outstanding under this program at December 31, 2003.

In August 2003, we filed a $2.0 billion shelf registration statement under which we may issue debt securities in the United States. There was approximately $85 million issued under this shelf registration statement at December 31, 2003, all of which consists of issuances under our UPS Notes program.

Commitments

We have contractual obligations and commitments in the form of operating leases, capital leases, debt obligations, and purchase commitments. We intend to satisfy these obligations through the use of cash flow from operations. The following table summarizes our contractual obligations and commitments as of December 31, 2003 (in millions):

Year	Capitalized Leases	Operating Leases	Debt Principal	Purchase Commitments
2004	$ 68	$ 314	$ 621	$ 858
2005	96	264	2	747
2006	69	187	2	833
2007	119	128	1	798
2008	128	99	27	697
After 2008	137	457	2,697	604
Total	$ 617	$ 1,449	$3,350	$ 4,537

We believe that funds from operations and borrowing programs will provide adequate sources of liquidity and capital resources to meet our expected long-term needs for the operation of our business, including anticipated capital expenditures such as commitments for aircraft purchases, through 2009.

Contingencies

On August 9, 1999 the United States Tax Court Tax Court held that we were liable for tax on income of Overseas Partners Ltd., a Bermuda company that had reinsured EV insurance purchased by our customers beginning in 1984, and that we were liable for additional tax for the 1983 and 1984 tax years. The IRS took similar positions to those advanced in the Tax Court decision for tax years subsequent to 1984 through 1998. On June 20, 2001, the U.S. Court of Appeals for the Eleventh Circuit ruled in our favor and reversed the Tax Court decision. In January 2003, we and the IRS finalized settlement of all outstanding tax issues related to EV package insurance. Under the terms of settlement, we agreed to adjustments that will result in income tax due of approximately $562 million, additions to tax of $60 million and related interest. The amount due to the IRS as a result of the settlement is less than amounts we previously had accrued. As a result, we recorded income, before taxes, of $1.023 billion ($776 million after tax) during the fourth quarter of 2002. The refunds and credits associated with this settlement are expected to occur over the next several years.

The IRS has proposed adjustments, unrelated to the EV package insurance matters discussed above, regarding the allowance of deductions and certain losses, the characterization of expenses as capital rather than ordinary, the treatment of certain income, and our entitlement to the investment tax credit and the research tax credit in the 1985 through 1990 tax years. The proposed adjustments would result in $10 million of additional income tax. The IRS has also issued a report taking a similar position with respect to some of these issues for each of the years from 1991 through 1994. That report proposes adjustments that would result in $42 million in additional income tax. The IRS's proposed adjustments include penalties and penalty interest. We believe that the possibility that such penalties and penalty interest will be sustained is remote. In November 2002, the IRS issued a report taking a similar position with respect to some of these issues for each of the years 1995 through 1998. That report proposes adjustments that would result in $7 million in additional income tax. For the 1985 through 1998 tax years, unpaid interest on these adjustments through December 31, 2003 could aggregate up to approximately $178 million, after the benefit of related tax deductions. We expect that we will prevail on substantially all of these issues. Specifically, we believe that our practice of expensing the items that the IRS alleges should have been capitalized is consistent with the practices of other industry participants. The IRS may take similar positions with respect to some of these issues for each of the years 1999 through 2003. We believe that the eventual resolution of these issues will not have a material adverse effect on our financial condition, results of operations or liquidity.

We are named as a defendant in twenty-three pending lawsuits that seek to hold us liable for the collection of premiums for excess value ("EV") insurance in connection with package shipments since 1984. Based on state and federal tort, contract and statutory claims, these cases generally claim that we failed to remit collected EV premiums to an independent insurer; we failed to provide promised EV insurance; we acted as an insurer without complying with state insurance laws and regulations; and the price for EV insurance was excessive.

These actions all were filed after the August 9, 1999 United States Tax Court decision, in which the Tax Court held that we were liable for tax on income of Overseas Partners Ltd., a Bermuda company that had reinsured EV insurance purchased by our customers beginning in 1984, and that we were liable for additional tax for the 1983 and 1984 tax years. On June 20, 2001, the U.S. Court of Appeals for the Eleventh Circuit ruled in our favor and reversed the Tax Court decision. In January 2003, we and the IRS finalized settlement of all outstanding tax issues relating to EV package insurance.

These twenty-three cases have been consolidated for pre-trial purposes in a multi-district litigation proceeding ("MDL Proceeding") in federal court in New York. In addition to the cases in which UPS is named as a defendant, there also is an action, Smith v. Mail Boxes Etc., against Mail Boxes Etc. and its franchisees relating to UPS EV insurance and related services purchased through Mail Boxes Etc. centers. This case also has been consolidated into the MDL Proceeding.

While expressly denying any and all liability, the parties have obtained preliminary court approval of a global settlement resolving all claims and all cases in the MDL Proceeding. The proposed settlement requires several steps before it becomes final, including notice to the settlement class, and obtaining final court approval. If the proposed settlement becomes final, we would provide to qualifying settlement class members vouchers toward the purchase of specified UPS services and pay a portion of the plaintiffs' attorneys' fees, the total amount of which will be determined by the Court. The ultimate cost to us of the proposed settlement will depend on a number of factors. We do not believe that this proposed settlement will have a material effect on our financial condition, results of operations, or liquidity.

In addition, we are a defendant in various other lawsuits that arose in the normal course of business. We believe that the eventual resolution of these cases will not have a material adverse effect on our financial condition, results of operations, or liquidity.

We participate in a number of trustee-managed multi-employer pension and health and welfare plans for employees covered under collective bargaining agreements. Several factors could result in higher future contributions to these plans, including unfavorable investment performance, changes in demographics, and increased benefits to participants. At this time, we are unable to determine the amount of additional future contributions, if any, or whether any material adverse effect on our financial condition, results of operations, or cash flows could result from our participation in these plans.

Due to the events of September 11, 2001, increased security requirements for air carriers may be forthcoming; however, we do not anticipate that such measures will have a material adverse effect on our financial condition, results of operations or liquidity. In addition, our insurance premiums have risen and we have taken several actions, including self-insuring certain risks, to mitigate the expense increase.

As of December 31, 2003, we had approximately 228,000 employees (64% of our total employees) employed under a national master agreement and various supplemental agreements with local unions affiliated with the International Brotherhood of Teamsters ("Teamsters"). These agreements run through July 31, 2008. The majority of our pilots are employed under a collective bargaining agreement with the Independent Pilots Association, which became amendable January 1, 2004. Negotiations are ongoing with the assistance of the National Mediation Board. Our airline mechanics are covered by a collective bargaining agreement with Teamsters Local 2727, which becomes amendable on November 1, 2006. In addition, the majority of our ground mechanics who are not employed under agreements with the Teamsters are employed under collective bargaining agreements with the International Association of Machinists and Aerospace Workers. These agreements run through July 31, 2009.

Market Risk

We are exposed to market risk from changes in certain commodity prices, foreign currency exchange rates, interest rates, and equity prices. All of these market risks arise in the normal course of business, as we do not engage in speculative trading activities. In order to manage the risk arising from these exposures, we utilize a variety of foreign exchange, interest rate, equity and commodity forward contracts, options, and swaps.

The following analysis provides quantitative information regarding our exposure to commodity price risk, foreign currency exchange risk, interest rate risk, and equity price risk. We utilize valuation models to evaluate the sensitivity of the fair value of financial instruments with exposure to market risk that assume instantaneous, parallel shifts in exchange rates, interest rate yield curves, and commodity and equity prices. For options and instruments with non-linear returns, models appropriate to the instrument are utilized to determine the impact of market shifts. There are certain limitations inherent in the sensitivity analyses presented, primarily due to the assumption that exchange rates change in a parallel fashion and that interest rates change instantaneously. In addition, the analyses are unable to reflect the complex market reactions that normally would arise from the market shifts modeled.

A discussion of our accounting policies for derivative instruments and further disclosures are provided in Note 16 to the consolidated financial statements.

Commodity Price Risk

We are exposed to an increase in the prices of refined fuels, principally jet-A, diesel, and unleaded gasoline, which are used in the transportation of packages. Additionally, we are exposed to an increase in the prices of other energy products, primarily natural gas and electricity, used in our operating facilities throughout the world. We use a combination of options, swaps, and futures contracts to provide some protection from rising fuel and energy prices. These derivative instruments generally cover forecasted fuel and energy consumption for periods up to one year. The net fair value of such contracts subject to price risk, excluding the underlying exposures, as of December 31, 2003 and 2002 was an asset (liability) of $30 and $34 million, respectively. The potential loss in the fair value of these derivative contracts, assuming a hypothetical 10% change in the underlying commodity price, would be approximately $17 and $38 million at December 31, 2003 and 2002, respectively. This amount excludes the offsetting impact of the price risk inherent in the physical purchase of the underlying commodities.

Foreign Currency Exchange Risk

We have foreign currency risks related to our revenue, operating expenses, and financing transactions in currencies other than the local currencies in which we operate. We are exposed to currency risk from the potential changes in functional currency values of our foreign currency-denominated assets, liabilities, and cash flows. Our most significant foreign currency exposures relate to the Euro and the British Pound Sterling. We use a combination of purchased and written options and forward contracts to hedge cash flow currency exposures. As of December 31, 2003 and 2002, the net fair value of the hedging instruments described above was an asset (liability) of $(48) and $(3) million, respectively. The potential loss in fair value for such instruments from a hypothetical 10% adverse change in quoted foreign currency exchange rates would be approximately $97 and $42 million at December 31, 2003 and 2002, respectively. This sensitivity analysis assumes a parallel shift in the foreign currency exchange rates. Exchange rates rarely move in the same direction. The assumption that exchange rates change in a parallel fashion may overstate the impact of changing exchange rates on assets and liabilities denominated in a foreign currency.

Interest Rate Risk

As described in Note 8 to the consolidated financial statements, we have various debt instruments, including debt associated with capital leases, that accrue expense at fixed and floating rates of interest. We use a combination of derivative instruments, including interest rate swaps and cross-currency interest rate swaps, as part of our program to manage the fixed and floating interest rate mix of our total debt portfolio and related overall cost of borrowing. These swaps are generally entered into concurrently with the issuance of the debt that they are intended to modify, and the notional amount, interest payment, and maturity dates of the swaps match the terms of the associated debt. Our floating rate debt and interest rate swaps subject us to risk resulting from changes in short-term (primarily LIBOR) interest rates. The potential change in annual interest expense resulting from a hypothetical 100 basis point change in short-term interest rates applied to our floating rate debt and swap instruments at December 31, 2003 and 2002 would be approximately $25 and $28 million, respectively.

As described in Note 1 and Note 2 to the consolidated financial statements, we have certain investments in debt auction rate, and preferred securities that accrue income at variable rates of interest. The potential change in annual investment income resulting from a hypothetical 100 basis point change in interest rates applied to our investments exposed to variable interest rates at December 31, 2003 and 2002 would be approximately $31 and $19 million, respectively.

Additionally, as described in Note 3 to the consolidated financial statements, we hold a portfolio of finance receivables, that accrue income at fixed and floating rates of interest. The potential change in annual income resulting from a hypothetical 100 basis point change in interest rates applied to our variable rate finance receivables at December 31, 2003 and 2002 would be immaterial.

This interest rate sensitivity analysis assumes interest rate changes are instantaneous, parallel shifts in the yield curve. In reality, interest rate changes are rarely instantaneous or parallel. While this is our best estimate of the impact of the specified interest rate scenarios, these estimates should not be viewed as forecasts. We adjust the fixed and floating interest rate mix of our interest rate sensitive assets and liabilities in response to changes in market conditions.

Equity Price Risk

We hold investments in various common equity securities that are subject to price risk, and for certain of these securities, we utilize options to hedge this price risk. At December 31, 2003 and 2002, the fair value of such investments was $95 and $322 million, respectively. The potential change in the fair value of such investments, assuming a 10% change in equity prices net of the offsetting impact of any hedges, would be approximately $10 million at both December 31, 2003 and 2002.

Credit Risk

The forward contracts, swaps, and options previously discussed contain an element of risk that the counterparties may be unable to meet the terms of the agreements. However, we minimize such risk exposures for these instruments by limiting the counterparties to large banks and financial institutions that meet established credit guidelines. We do not expect to incur any losses as a result of counterparty default.

New Accounting Pronouncements

In June 2002, the FASB issued Statement No. 146 “Accounting for Costs Associated with Exit or Disposal Activities” (“FAS 146”). FAS 146 provides guidance on the recognition and measurement of liabilities associated with exit or disposal activities and requires that such liabilities be recognized when incurred. This statement was effective for exit or disposal activities initiated on or after January 1, 2003.

As discussed in Note 17, we implemented a restructuring program involving the business unit integration of our Freight Services and Logistics Group operations in the fourth quarter of 2002. As this restructuring program was initiated in 2002, we accounted for this restructuring program using the existing guidance in EITF 94-3 “Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (Including Certain Costs Incurred in a Restructuring)”. Therefore, the adoption of FAS 146 on January 1, 2003 had no effect on our results of operations or financial condition. In the fourth quarter of 2002, we recorded a pre-tax restructuring charge and related expenses in the amount of $106 million, which is classified in other operating expenses.

In November 2002, the FASB issued Interpretation No. 45 “Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others” (“FIN 45”). FIN 45 requires that a liability be recognized at fair value at the inception of certain guarantees for the obligations undertaken by the guarantor. FIN 45 also requires additional disclosures for certain guarantee contracts. The disclosure provisions of FIN 45 were effective for financial statements ending after December 15, 2002, while the recognition and initial measurement provisions were applicable on a prospective basis to guarantees issued or modified after December 31, 2002. The adoption of FIN 45 was not material to our results of operations or financial condition.

In January 2003, the FASB issued Interpretation No. 46 “Consolidation of Variable Interest Entities”, to address perceived weaknesses in accounting for entities commonly known as special purpose or off balance sheet. In addition to numerous FASB Staff Positions written to clarify and improve the application of FIN 46, the FASB recently announced a deferral for certain entities, and an amendment to FIN 46 entitled FASB Interpretation No. 46 (revised December 2003) “Consolidation of Variable Interest Entities” (“FIN 46”).

FIN 46 provides guidance for identifying the party with a controlling financial interest resulting from arrangements or financial instruments rather than voting interests. FIN 46 defines the term “variable interest entity” and is based on the premise that if a business enterprise absorbs a majority of such an entity’s expected losses and/or receives a majority of its expected residual returns, that enterprise has a controlling financial interest, and would thus require consolidation of the variable interest entity. As of December 31, 2003, we have adopted FIN 46, and the effects of adoption were not material to our results of operations or financial condition.

On July 1, 2003, we adopted FASB Statement No. 149 “Amendment of Statement 133 on Derivative Instruments and Hedging Activities” (“FAS 149”). FAS 149 amends FAS 133 for certain decisions made by the FASB as part of the Derivatives Implementation Group process. FAS 149 also amends FAS 133 to incorporate clarifications of the definition of a derivative. The adoption of FAS 149 was not material to our results of operations or financial condition.

On July 1, 2003, we adopted FASB Statement No. 150 “Accounting for Certain Instruments with Characteristics of Both Liabilities and Equity” (“FAS 150”). FAS 150 establishes how an issuer measures certain freestanding financial instruments with characteristics of both liabilities and equity, and requires that such instruments be classified as liabilities. The adoption of FAS 150 was not material to our results of operations or financial condition.

In December 2003, the FASB revised Statement No. 132, “Employers’ Disclosures about Pensions and Other Postretirement Benefits” (FAS 132). The revised standard requires new disclosures in addition to those required by the original standard about the assets, obligations, cash flows and net periodic benefit cost of defined benefit pension plans and other defined benefit postretirement plans. As revised, FAS 132 is effective for financial statements with fiscal years ending after December 15, 2003, and we have included these disclosures in Note 5 to our consolidated financial statements.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which are prepared in accordance with accounting principles generally accepted in the United States of America. As indicated in Note 1 to our consolidated financial statements, the amounts of assets, liabilities, revenue and expenses reported in our financial statements are affected by estimates and judgments that are necessary to comply with generally accepted accounting principles. We base our estimates on prior experience and other assumptions that we consider reasonable to our circumstances. Actual results could differ from our estimates, which would affect the related amounts reported in our financial statements. While estimates and judgments are applied in arriving at many reported amounts, we believe that the following matters may involve a higher degree of judgment and complexity.

Contingencies — As discussed in Note 10 to our consolidated financial statements, we are involved in various legal proceedings and contingencies. We have recorded liabilities for these matters in accordance with Statement of Financial Accounting Standards No. 5, “Accounting for Contingencies” (“FAS 5”). FAS 5 requires a liability to be recorded based on our estimate of the probable cost of the resolution of a contingency. The actual resolution of these contingencies may differ from our estimates. If a contingency is settled for an amount greater than our estimate, a future charge to income would result. Likewise, if a contingency is settled for an amount that is less than our estimate, a future credit to income would result.

Goodwill Impairment — The Financial Accounting Standards Board issued Statement No. 142, "Goodwill and Other Intangible Assets," ("FAS 142") in June 2001. As a result of the issuance of this new standard, goodwill is no longer amortized, but is subjected to annual impairment testing. Goodwill impairment testing requires that we estimate the fair value of our goodwill and compare that estimate to the amount of goodwill recorded on our balance sheet. The estimation of fair value requires that we make judgments concerning future cash flows and appropriate discount rates. Our estimate of the fair value of goodwill could change over time based on a variety of factors, including the actual operating performance of the underlying reporting units. Upon adoption of FAS 142, we recorded a non-cash impairment charge of $72 million ($0.06 per diluted share), as of January 1, 2002, related to our Mail Technologies business. The primary factor resulting in the impairment charge was the lower than anticipated growth experienced in the expedited mail delivery business. In conjunction with our annual test of goodwill in 2002, we recorded an additional impairment charge of $2 million related to our Mail Technologies business, resulting in total goodwill impairment of $74 million for 2002. Our annual impairment test performed in 2003 resulted in no goodwill impairment. As of December 31, 2003, our recorded goodwill was $1.173 billion.

Self-Insurance Accruals — We self-insure costs associated with workers' compensation claims, automotive liability, and general business liabilities, up to certain limits. Insurance reserves are established for estimates of the loss that we will ultimately incur on reported claims, as well as estimates of claims that have been incurred but not yet reported. Recorded balances are based on reserve levels determined by outside actuaries, who incorporate historical loss experience and judgments about the present and expected levels of cost per claim. Trends in actual experience are a significant factor in the determination of such reserves. We believe our estimated reserves for such claims are adequate, but actual experience in claim frequency and/or severity could materially differ from our estimates and affect our results of operations.

Pension and Postretirement Medical Benefits — The Company's pension and other postretirement benefit costs are calculated using various actuarial assumptions and methodologies as prescribed by Statement of Financial Accounting Standards No. 87, "Employers' Accounting for Pensions" and Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other than Pensions." These assumptions include discount rates, health care cost trend rates, inflation, rate of compensation increases, expected return on plan assets, mortality rates, and other factors. Actual results that differ from our assumptions are accumulated and amortized over future periods and, therefore, generally affect our recognized expense and recorded obligation in such future periods. We believe that the assumptions utilized in recording the obligations under our plans are reasonable based on input from our outside actuaries and other advisors and information as to historical experience and performance. Differences in actual experience or changes in assumptions may affect our pension and other postretirement obligations and future expense. The impact of decreasing the weighted-average expected long-term rate of return on plan assets to 8.96% and the decrease in the discount rate to 6.25%, combined with other factors such as the additional fundings which occurred during 2003, will increase our pension plan expense by approximately $18 million in 2004.

Financial Instruments — As discussed in Notes 2, 3, 8, and 16 to our consolidated financial statements, and in the "Market Risk" section of this report, we hold and issue financial instruments that contain elements of market risk. Certain of these financial instruments are required to be recorded at fair value. Fair values are based on listed market prices, when such prices are available. To the extent that listed market prices are not available, fair value is determined based on other relevant factors, including dealer price quotations. Certain financial instruments, including over-the-counter derivative instruments, are valued using pricing models that consider, among other factors, contractual and market prices, correlations, time value, credit spreads and yield curve volatility factors. Changes in the fixed income, equity, foreign exchange and commodity markets will impact our estimates of fair value in the future, potentially affecting our results of operations.

Depreciation, Residual Value, and Impairment of Fixed Assets — As of December 31, 2003, we had approximately $13.9 billion of net fixed assets, the most significant category of which is aircraft. In accounting for fixed assets, we make estimates about the expected useful lives and the expected residual values of the assets, and the potential for impairment based on the fair values of the assets and the cash flows generated by these assets.

In estimating the lives and expected residual values of aircraft, we have relied upon actual experience with the same or similar aircraft types. Subsequent revisions to these estimates could be caused by changes to our maintenance program, changes in the utilization of the aircraft, governmental regulations on aging aircraft, and changing market prices of new and used aircraft of the same or similar types. We periodically evaluate these estimates and assumptions, and adjust the estimates and assumptions as necessary. Adjustments to the expected lives and residual values are accounted for on a prospective basis through depreciation expense.

When appropriate, we evaluate our fixed assets for impairment. Factors that would indicate potential impairment may include, but are not limited to, a significant change in the extent to which an asset is utilized, a significant decrease in the market value of an asset, and operating or cash flow losses associated with the use of the asset.

In December 2003, we permanently removed from service a number of Boeing 727 and DC-8 aircraft. As a result, we conducted an impairment evaluation, which resulted in a $75 million impairment charge during the fourth quarter for these aircraft. This charge is classified in the caption "other expenses" within other operating expenses (see Note 13). UPS continues to operate all of its other aircraft and continues to experience positive cash flow.

Forward-Looking Statements

"Management's Discussion and Analysis of Financial Condition and Results of Operations," "Liquidity and Capital Resources" and other parts of this report contain "forward-looking" statements about matters that inherently are difficult to predict. These statements include statements regarding our intent, belief and current expectations about our strategic direction, prospects and future results. We have described some of the important factors that affect these statements as we discussed each subject. Forward-looking statements involve risks and uncertainties, and certain factors may cause actual results to differ materially from those contained in the forward-looking statements.

Risk Factors

The following are some of the factors that could cause our actual results to differ materially from the expected results described in our forward-looking statements:

- The effect of general economic and other conditions in the markets in which we operate, both in the United States and internationally. Our operations in international markets are also affected by currency exchange and inflation risks.

- The impact of competition on a local, regional, national and international basis. Our competitors include the postal services of the U.S. and other nations, various motor carriers, express companies, freight forwarders, air couriers and others. Our industry is undergoing rapid consolidation, and the combining entities are competing aggressively for business at low rates.

- The impact of complex and stringent aviation, transportation, environmental, labor, employment and other governmental laws and regulations, and the impact of new laws and regulations that may result from increased security concerns following the events of September 11, 2001. Our failure to comply with applicable laws, ordinances or regulations could result in substantial fines or possible revocation of our authority to conduct our operations.

- Strikes, work stoppages and slowdowns by our employees. Such actions may affect our ability to meet our customers' needs, and customers may do more business with our competitors if they believe that such actions may adversely affect our ability to provide service. We may face permanent loss of customers if we are unable to provide uninterrupted service. The terms of future collective bargaining agreements also may affect our competitive position and results of operations

- Possible disruptions of supplies, or an increase in the prices, of gasoline and fuel and jet fuel for our aircraft and delivery vehicles as a result of war or other factors. We require significant quantities of gasoline and fuel and are exposed to the commodity price risk associated with variations in the market price for petroleum products.

- Cyclical and seasonal fluctuations in our operating results due to decreased demand for our services.

Item 7A. ***Quantitative and Qualitative Disclosures about Market Risk***

Information about market risk can be found in Item 7 of this report under the caption “Market Risk.”

Item 8. ***Financial Statements and Supplementary Data***

Our financial statements are filed together with this report. See the Index to Financial Statements and Financial Statement Schedules on page F-1 for a list of the financial statements filed together with this report. Supplementary data appear in Note 19 to our financial statements.

Item 9. ***Changes in and Disagreements with Accountants on Accounting and Financial Disclosure***

None.

Item 9A. ***Controls and Procedures***

As of the end of the period covered by this report, management, including our chief executive officer and chief financial officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures. Based upon, and as of the date of that evaluation, our chief executive officer and chief financial officer concluded that the disclosure controls and procedures were effective, in all material respects, to ensure that information required to be disclosed in the reports we file and submit under the Exchange Act is recorded, processed, summarized and reported as and when required.

There have been no significant changes in our internal control over financial reporting that occurred during our last fiscal quarter that has materially affected, or is reasonably likely to materially effect, our internal controls over financial reporting. There were no significant deficiencies or material weaknesses identified in the evaluation and therefore, no corrective actions were taken.

PART III

Item 10. ***Directors and Executive Officers of the Registrant***

Information about our directors and our audit committee financial expert is presented under the captions “Election of Directors” and “Committees of the Board of Directors — Audit Committee” in our definitive Proxy Statement for the Annual Meeting of Shareowners to be held on May 6, 2004 and is incorporated herein by reference.

Information about our executive officers can be found in Part I, Item 1A, of this report under the caption “Executive Officers of the Registrant” in accordance with Instruction 3 of Item 401(b) of Regulation S-K and General Instruction G(3) of Form 10-K.

Information about our Code of Business Conduct is presented under the caption “Where You Can Find More Information” in Part I, Item 1 of this report.

Information about our compliance with Section 16 of the Exchange Act of 1934, as amended, is presented under the caption “Section 16(a) Beneficial Ownership Reporting Compliance” in our definitive Proxy Statement for the Annual Meeting of Shareowners to be held on May 6, 2004 and is incorporated herein by reference.

Item 11. ***Executive Compensation***

Information about executive compensation is presented under the caption “Compensation of Executive Officers and Directors,” excluding the information under the caption “Report of the Compensation Committee,” in our definitive Proxy Statement for the Annual Meeting of Shareowners to be held on May 6, 2004 and is incorporated herein by reference.

Item 12. ***Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters***

Information about security ownership is presented under the caption “Beneficial Ownership of Common Stock” in our definitive Proxy Statement for the Annual Meeting of Shareowners to be held on May 6, 2004 and is incorporated herein by reference.

Information about our equity compensation plans is presented under the caption “Equity Compensation Plans” in our definitive Proxy Statement for the Annual Meeting of Shareowners to be held on May 6, 2004 and is incorporated herein by reference.

Item 13. ***Certain Relationships and Related Transactions***

None.

Item 14. ***Principal Accountant and Fees and Services***

Information about aggregate fees billed to us by our principal accountant is presented under the caption “Principal Accounting Firm Fees” in our definitive Proxy Statement for the Annual Meetings of Shareowners to be held on May 6, 2004 and is incorporated herein by reference.

PART IV

Item 15. ***Exhibits, Financial Statement Schedules, and Reports on Form 8-K***

(a) 1. *Financial Statements.*

See the Index to Financial Statements on page F-1 for a list of the financial statements filed with this report.

2. *Financial Statement Schedules.*

None.

3. *List of Exhibits.*

See the Exhibit Index for a list of the exhibits incorporated by reference into or filed with this report.

(b) *Reports on Form 8-K.*

The Company furnished a Form 8-K Current Report on October 24, 2003 (Date of Earliest Event Reported: October 21, 2003), announcing its financial results for the three and nine months ended September 30, 2003.

(c) *Exhibits required by Item 601 of Regulation S-K.*

See the Exhibit Index for a list of the exhibits incorporated by reference into or filed with this report.

(d) *Financial Statement Schedules.*

None.

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, United Parcel Service, Inc. has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

UNITED PARCEL SERVICE, INC.
(REGISTRANT)

By: /s/ MICHAEL L. ESKEW

Michael L. Eskew
Chairman and
Chief Executive Officer

Date: March 5, 2004

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ D. SCOTT DAVIS D. Scott Davis	Senior Vice President, Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer)	March 5, 2004
/s/ CALVIN DARDEN Calvin Darden	Senior Vice President and Director	March 5, 2004
/s/ MICHAEL L. ESKEW Michael L. Eskew	Chairman, Chief Executive Officer and Director (Principal Executive Officer)	March 5, 2004
James P. Kelly	Director	
Ann M. Livermore	Director	
/s/ GARY E. MACDOUGAL Gary E. MacDougal	Director	March 5, 2004
/s/ VICTOR A. PELSON Victor A. Pelson	Director	March 5, 2004
/s/ LEA N. SOUPATA Lea N. Soupata	Senior Vice President and Director	March 5, 2004
/s/ ROBERT M. TEETER Robert M. Teeter	Director	March 5, 2004

Signature	Title	Date
	Director	
John W. Thompson		
	Director	
Carol B. Tomé		

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES

INDEX TO FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULES

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES

INDEPENDENT AUDITORS' REPORT

Board of Directors and Shareowners

United Parcel Service, Inc.
Atlanta, Georgia

We have audited the accompanying consolidated balance sheets of United Parcel Service, Inc. and its subsidiaries as of December 31, 2003 and 2002, and the related consolidated statements of income, shareowners' equity, and cash flows for each of the three years in the period ended December 31, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of United Parcel Service, Inc. and its subsidiaries at December 31, 2003 and 2002, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2003 in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1 to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," effective January 1, 2001; Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," effective January 1, 2002; and began applying prospectively the provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," effective January 1, 2003.

Deloitte & Touche LLP

Atlanta, Georgia

March 5, 2004

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	December 31, 2003	December 31, 2002
	(In millions, except per share amounts)	
ASSETS		
Current Assets:		
Cash & cash equivalents	$ 2,951	$ 2,211
Marketable securities & short-term investments	1,001	803
Accounts receivable, net	4,004	3,756
Finance receivables, net	840	868
Deferred income taxes	316	268
Other current assets	741	832
Total Current Assets	9,853	8,738
Property, Plant & Equipment — at cost, net of accumulated depreciation & amortization of $13,007 and $11,749 in 2003 and 2002	13,908	13,612
Prepaid Pension Costs	2,922	1,932
Goodwill and Intangible Assets, Net	1,273	1,180
Other Assets	953	895
	$28,909	$26,357
LIABILITIES AND SHAREOWNERS' EQUITY		
Current Liabilities:		
Current maturities of long-term debt and commercial paper	$ 674	$ 1,107
Accounts payable	2,003	1,908
Accrued wages & withholdings	1,166	1,084
Dividends payable	282	212
Other current liabilities	1,393	1,244
Total Current Liabilities	5,518	5,555
Long-Term Debt	3,149	3,495
Accumulated Postretirement Benefit Obligation, Net	1,335	1,251
Deferred Taxes, Credits & Other Liabilities	4,055	3,601
Shareowners' Equity:		
Preferred stock, no par value, authorized 200 shares, none issued	—	—
Class A common stock, par value $.01 per share, authorized 4,600 shares, issued 571 and 642 in 2003 and 2002	6	7
Class B common stock, par value $.01 per share, authorized 5,600 shares, issued 560 and 482 in 2003 and 2002	5	4
Additional paid-in capital	662	387
Retained earnings	14,356	12,495
Accumulated other comprehensive loss	(177)	(438)
Deferred compensation arrangements	136	84
	14,988	12,539
Less: Treasury stock (2 and 1 shares in 2003 and 2002)	(136)	(84)
	14,852	12,455
	$28,909	$26,357

See notes to consolidated financial statements.

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES

STATEMENTS OF CONSOLIDATED INCOME

	Years Ended December 31,		
	2003	2002	2001
		(In millions, except per share amounts)	
Revenue	$33,485	$31,272	$30,321
Operating Expenses:			
Compensation and benefits	19,328	17,940	17,397
Other	9,712	9,236	8,962
	29,040	27,176	26,359
Operating Profit	4,445	4,096	3,962
Other Income and (Expense):			
Investment income	18	63	159
Interest expense	(121)	(173)	(184)
Gain on redemption of long-term debt	28	—	—
Tax assessment reversal	—	1,023	—
	(75)	913	(25)
Income Before Income Taxes And Cumulative Effect of Changes In Accounting Principles	4,370	5,009	3,937
Income Taxes	1,472	1,755	1,512
Income Before Cumulative Effect of Changes In Accounting Principles	2,898	3,254	2,425
Cumulative Effect of Changes In Accounting Principles, Net of Taxes	—	(72)	(26)
Net Income	$ 2,898	$ 3,182	$ 2,399
Basic Earnings Per Share Before Cumulative Effect Of Changes In Accounting Principles	$ 2.57	$ 2.91	$ 2.15
Basic Earnings Per Share	$ 2.57	$ 2.84	$ 2.13
Diluted Earnings Per Share Before Cumulative Effect Of Changes In Accounting Principles	$ 2.55	$ 2.87	$ 2.12
Diluted Earnings Per Share	$ 2.55	$ 2.81	$ 2.10

See notes to consolidated financial statements.

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES

STATEMENTS OF CONSOLIDATED SHAREOWNERS' EQUITY

	2003		2002		2001	
	Shares	Dollars	Shares	Dollars	Shares	Dollars
			(In millions, except per share amounts)			
Class A Common Stock						
Balance at beginning of year	642	$ 7	772	$ 8	936	$ 9
Common stock purchases	(5)	—	(10)	—	(26)	—
Stock award plans	12	—	11	—	13	—
Common stock issuances	2	—	2	—	1	—
Conversions of Class A to Class B common stock	(80)	(1)	(133)	(1)	(152)	(1)
Balance at end of year	571	6	642	7	772	8
Class B Common Stock						
Balance at beginning of year	482	4	349	3	199	2
Common stock purchases	(2)	—	—	—	(10)	—
Common stock issued for acquisitions	—	—	—	—	8	—
Conversions of Class A to Class B common stock	80	1	133	1	152	1
Balance at end of year	560	5	482	4	349	3
Additional Paid-In Capital						
Balance at beginning of year		387		414		267
Stock award plans		545		477		521
Common stock issued for acquisitions		—		—		510
Common stock purchases		(398)		(604)		(954)
Common stock issuances		128		100		70
Balance at end of year		662		387		414
Retained Earnings						
Balance at beginning of year		12,495		10,162		9,684
Net income		2,898		3,182		2,399
Dividends ($0.92, $0.76, and $0.76 in 2003, 2002, and 2001 respectively)		(1,037)		(849)		(856)
Common stock purchases		—		—		(1,065)
Balance at end of year		14,356		12,495		10,162
Accumulated Other Comprehensive Income						
Foreign currency translation adjustment:						
Balance at beginning of year		(328)		(269)		(223)
Aggregate adjustment for the year		272		(59)		(46)
Balance at end of year		(56)		(328)		(269)
Unrealized gain (loss) on marketable securities, net of tax:						
Balance at beginning of year		(34)		(21)		(4)
Current period changes in fair value (net of tax effect of $13, $(9), and $0)		21		(16)		(1)
Reclassification to earnings (net of tax effect of $17, $1, and $(11))		27		3		(16)
Balance at end of year		14		(34)		(21)

	2003		2002		2001	
	Shares	Dollars	Shares	Dollars	Shares	Dollars
	(In millions, except per share amounts)					
Unrealized gain (loss) on cash flow hedges, net of tax:						
Balance at beginning of year		(26)		(49)		—
FAS 133 transition adjustment		—		—		23
Current period changes in fair value (net of tax effect of $(6), $6, and $(24))		(9)		10		(39)
Reclassification to earnings (net of tax effect of $(21), $9, and $(21))		(37)		13		(33)
Balance at end of year		(72)		(26)		(49)
Additional minimum pension liability, net of tax:						
Balance at beginning of year		(50)		—		—
Minimum pension liability adjustment (net of tax effect of $(6), $(31), and $0)		(13)		(50)		—
Balance at end of year		(63)		(50)		—
Accumulated other comprehensive income at end of year		(177)		(438)		(339)
Deferred Compensation Obligations						
Balance at beginning of year		84		47		—
Common stock held for deferred compensation arrangements		52		37		47
Balance at end of year		136		84		47
Treasury Stock						
Balance at beginning of year	(1)	(84)	(1)	(47)	—	—
Common stock held for deferred compensation arrangements	(1)	(52)	—	(37)	(1)	(47)
Balance at end of year	(2)	(136)	(1)	(84)	(1)	(47)
Total Shareowners' Equity At End Of Year		$14,852		$12,455		$10,248
Comprehensive Income		$ 3,159		$ 3,083		$ 2,287

See notes to consolidated financial statements.

Table of Contents

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES

STATEMENTS OF CONSOLIDATED CASH FLOWS

	Years Ended December 31,		
	2003	2002	2001
		(In millions)	
Cash Flows From Operating Activities:			
Net income	$ 2,898	$ 3,182	$ 2,399
Adjustments to reconcile net income to net cash from operating activities:			
Depreciation and amortization	1,549	1,464	1,396
Postretirement benefits	84	121	81
Deferred taxes, credits and other	317	162	481
Stock award plans	497	445	495
Loss (gain) on investments	57	16	4
Loss (gain) on impairment or disposal of assets	55	19	29
Provision for losses on finance receivables	39	26	7
Restructuring charge and related expenses	—	85	—
Impairment of goodwill	—	74	—
Vacation policy change	—	(121)	—
Tax assessment reversal	—	(776)	—
Changes in assets and liabilities, net of effect of acquisitions:			
Accounts receivable, net	(264)	312	415
Other current assets	13	403	(142)
Prepaid pension costs	(990)	(87)	(252)
Accounts payable	66	(56)	(313)
Accrued wages and withholdings	83	112	27
Dividends payable	70	—	20
Income taxes payable	204	16	35
Other current liabilities	(32)	291	(112)
Net cash from operating activities	4,646	5,688	4,570
Cash Flows From Investing Activities:			
Capital expenditures	(1,947)	(1,658)	(2,372)
Disposals of property, plant and equipment	118	89	136
Purchases of marketable securities and short-term investments	(6,074)	(2,303)	(3,361)
Sales and maturities of marketable securities and short-term investments	5,909	2,211	3,686
Net (increase) decrease in finance receivables	50	(495)	(637)
Cash received (paid) for business acquisitions/dispositions	8	(14)	(466)
Other asset receipts (payments)	(6)	(24)	(39)
Net cash (used in) investing activities	(1,942)	(2,194)	(3,053)
Cash Flows From Financing Activities:			
Proceeds from borrowings	361	419	2,312
Repayments of borrowings	(1,245)	(1,099)	(1,089)
Purchases of common stock	(398)	(604)	(2,019)
Issuances of common stock	154	116	219
Dividends	(1,026)	(840)	(847)
Other transactions	(26)	(82)	(69)
Net cash (used in) financing activities	(2,180)	(2,090)	(1,493)
Effect Of Exchange Rate Changes On Cash	216	(51)	(45)
Net Increase (Decrease) In Cash And Cash Equivalents	740	1,353	(21)
Cash And Cash Equivalents:			
Beginning of period	2,211	858	879
End of period	$ 2,951	$ 2,211	$ 858
Cash Paid During The Period For:			
Interest (net of amount capitalized)	$ 126	$ 190	$ 164
Income taxes	$ 1,097	$ 1,416	$ 1,042

See notes to consolidated financial statements.

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Accounting Policies

Basis of Financial Statements and Business Activities

The accompanying financial statements include the accounts of United Parcel Service, Inc., and all of its consolidated subsidiaries (collectively "UPS" or the "Company"). All intercompany balances and transactions have been eliminated.

UPS concentrates its operations in the field of transportation services, primarily domestic and international letter and package delivery. Through our non-package subsidiaries, we are also a global provider of specialized transportation, logistics, and financial services.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition

U.S. Domestic and International Package Operations — Revenue is recognized upon delivery of a letter or package.

UPS Supply Chain Solutions — Freight forwarding revenue is recognized net of the expense related to the transportation of freight at the time the services are performed. Material management and distribution revenue is recognized upon performance of the service provided. Customs brokerage revenue is recognized upon completing documents necessary for customs entry purposes.

UPS Capital — Income on loans and direct finance leases is recognized on the interest method. Accrual of interest income is suspended at the earlier of the time at which collection of an account becomes doubtful or the account becomes 90 days delinquent. Income on operating leases is recognized on the straight-line method over the terms of the underlying leases.

Cash and Cash Equivalents

Cash and cash equivalents consist of highly liquid investments (including investments in debt, auction rate securities, and other money market instruments of $2.493 and $1.780 billion at December 31, 2003 and 2002, respectively) that are readily convertible into cash. We consider securities with maturities of three months or less, when purchased, to be cash equivalents. The carrying amount of these securities approximates fair value because of the short-term maturity of these instruments.

Marketable Securities and Short-Term Investments

Marketable securities are classified as available-for-sale and are carried at fair value, with related unrealized gains and losses reported, net of tax, as other comprehensive income ("OCI"), a separate component of shareowners' equity. The amortized cost of debt securities is adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization and accretion is included in investment income, along with interest and dividends. The cost of securities sold is based on the specific identification method; realized gains and losses resulting from such sales are included in investment income.

Investment securities are reviewed for impairment in accordance with FASB Statement No. 115 "Accounting for Certain Investments in Debt and Equity Securities". Impairment of investment securities results in a charge to income when a market decline below cost is other than temporary.

Property, Plant and Equipment

Property, plant and equipment are carried at cost. Depreciation and amortization are provided by the straight-line method over the estimated useful lives of the assets, which are as follows: Vehicles — 9 years; Aircraft — 12 to 20 years; Buildings — 20 to 40 years; Leasehold Improvements — lives of leases; Plant Equipment — 5 to 8 1/3 years; Technology Equipment (including capitalized software) — 3 to 5 years. The costs of major airframe and engine overhauls, as well as routine maintenance and repairs, are charged to expense as incurred.

Interest incurred during the construction period of certain property, plant and equipment is capitalized until the underlying assets are placed in service, at which time amortization of the capitalized interest begins, straight-line, over the estimated useful lives of the related assets. Capitalized interest was $25, $25, and $47 million for 2003, 2002, and 2001, respectively.

Impairment of Long-Lived Assets

In accordance with the provisions of FASB Statement No. 144 “Accounting for the Impairment or Disposal of Long-Lived Assets” (“FAS 144”), we review long-lived assets for impairment when circumstances indicate the carrying amount of an asset may not be recoverable based on the undiscounted future cash flows of the asset. If the carrying amount of the asset is determined not to be recoverable, a write-down to fair value is recorded. Fair values are determined based on quoted market values, discounted cash flows, or external appraisals, as applicable. We review long-lived assets for impairment at the individual asset or the asset group level for which the lowest level of independent cash flows can be identified.

In December 2003, we permanently removed from service a number of Boeing 727 and DC-8 aircraft. As a result, we conducted an impairment evaluation, which resulted in a $75 million impairment charge during the fourth quarter for these aircraft, $69 million of which impacted the U.S. domestic package segment and $6 million of which impacted the international package segment. This charge is classified in the caption “other expenses” within other operating expenses (see Note 13). UPS continues to operate all of its other aircraft and continues to experience positive cash flow.

Goodwill and Intangible Assets

Costs of purchased businesses in excess of net assets acquired (goodwill), and intangible assets are accounted for under the provisions of FASB Statement No. 142 “Goodwill and Other Intangible Assets” (“FAS 142”). The amortization of goodwill and indefinite-lived intangibles ceased upon the implementation of FAS 142 on January 1, 2002. Had the non-amortization provisions of FAS 142 been applied to 2001, then our net income would have been increased by $59 million, or $0.05 per diluted share in that year.

Also upon adoption of FAS 142, we were required to test all existing goodwill for impairment as of that date, and at least annually thereafter, unless changes in circumstances indicate an impairment may have occurred sooner. We are required to test goodwill on a “reporting unit” basis. A reporting unit is the operating segment unless, for businesses within that operating segment, discrete financial information is prepared and regularly reviewed by management, in which case such a component business is the reporting unit.

A fair value approach is used to test goodwill for impairment. An impairment charge is recognized for the amount, if any, by which the carrying amount of goodwill exceeds its fair value. Fair values are established using discounted cash flows. When available and as appropriate, comparative market multiples were used to corroborate discounted cash flow results.

We recorded a non-cash goodwill impairment charge of $72 million ($0.06 per diluted share), as of January 1, 2002, related to our Mail Technologies business. This charge is reported as a cumulative effect of a change in accounting principle and resulted in a restatement of our first quarter 2002 quarterly financial statements (see Note 19). The primary factor resulting in the impairment charge was the lower than anticipated growth experienced in the expedited mail delivery business. In conjunction with our annual test of goodwill in 2002, we recorded an additional impairment charge of $2 million related to our Mail Technologies business, resulting in total goodwill impairment of $74 million for 2002. We sold the Mail Technologies business unit during the second quarter of 2003 (see Note 7). Our annual impairment test performed in 2003 resulted in no goodwill impairment.

Self-Insurance Accruals

We self-insure costs associated with workers' compensation claims, automotive liability, and general business liabilities, up to certain limits. Insurance reserves are established for estimates of the loss that we will ultimately incur on reported claims, as well as estimates of claims that have been incurred but not yet reported. Recorded balances are based on reserve levels determined by outside actuaries, who incorporate historical loss experience and judgments about the present and expected levels of cost per claim.

Income Taxes

Income taxes are accounted for under FASB Statement No. 109, "Accounting for Income Taxes" ("'FAS 109"). FAS 109 is an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in our financial statements or tax returns. In estimating future tax consequences, FAS 109 generally considers all expected future events other than proposed changes in the tax law or rates. Valuation allowances are provided if it is more likely than not that a deferred tax asset will not be realized.

Foreign Currency Translation

We translate the results of operations of our foreign subsidiaries using average exchange rates during each period, whereas balance sheet accounts are translated using exchange rates at the end of each period. Balance sheet currency translation adjustments are recorded in OCI. Net currency transaction gains and losses included in other operating expenses were pre-tax gains of $21, $27 and $16 million in 2003, 2002 and 2001, respectively.

Stock-Based Compensation

Effective January 1, 2003, we adopted the fair value measurement provisions of Financial Accounting Standards Board (FASB) Statement No. 123 "Accounting for Stock-Based Compensation" ("FAS 123"). In years prior to 2003, we used the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"). Under APB 25, we did not have to recognize compensation expense for our stock option grants and our discounted stock purchase plan, however we did recognize compensation expense for our management incentive awards and certain other stock awards (see Note 11 for a description of these plans).

Under the provisions of FASB Statement No. 148 "Accounting for Stock-Based Compensation — Transition and Disclosure," we have elected to adopt the measurement provisions of FAS 123 using the prospective method. Under this approach, all stock-based compensation granted subsequent to January 1, 2003 has been expensed to compensation and benefits over the vesting period based on the fair value at the date the stock-based compensation is granted. Stock compensation awards granted in 2003 include stock options, management incentive awards, restricted performance units, and employer matching contributions (in shares of UPS stock) for a defined contribution benefit plan. The adoption of the measurement provisions of FAS 123 reduced 2003 net income by $20 million, or $0.02 per diluted share.

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following provides pro forma information as to the impact on net income and earnings per share if we had used the fair value measurement provisions of FAS 123 to account for all stock-based compensation awards granted prior to January 1, 2003 (in millions, except per share amounts).

	2003	2002	2001
Net income	$2,898	$3,182	$2,399
Add: Stock-based employee compensation expense included in net income, net of tax effects	456	391	440
Less: Total pro-forma stock-based employee compensation expense, net of tax effects	(507)	(459)	(491)
Pro-forma net income	$2,847	$3,114	$2,348
Basic earnings per share			
As reported	$ 2.57	$ 2.84	$ 2.13
Pro forma	$ 2.52	$ 2.78	$ 2.08
Diluted earnings per share			
As reported	$ 2.55	$ 2.81	$ 2.10
Pro forma	$ 2.50	$ 2.75	$ 2.05

The fair value of each option grant is estimated using the Black-Scholes option pricing model. Compensation cost is also measured for the fair value of employees' purchase rights under our discounted stock purchase plan using the Black-Scholes option pricing model. The weighted-average assumptions used, by year, and the calculated weighted average fair value of options and employees' purchase rights granted, are as follows:

	2003	2002	2001
Stock options:			
Expected yield	1.22%	1.10%	1.10%
Risk-free interest rate	3.70%	4.67%	4.64%
Expected life in years	8	5	5
Expected volatility	19.55%	20.24%	32.40%
Weighted average fair value of options granted	$17.02	$21.27	$25.49
Discounted stock purchase plan:			
Expected yield	1.12%	1.10%	1.10%
Risk-free interest rate	1.06%	1.70%	2.36%
Expected life in years	0.25	0.25	0.25
Expected volatility	19.79%	20.45%	22.85%
Weighted average fair value of purchase rights*	$ 8.53	$ 8.20	$ 7.19

* Includes the 10% discount from the market price (see Note 11).

Derivative Instruments

Effective January 1, 2001, we adopted FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("FAS 133"), as amended by Statements No. 137 and No. 138. FAS 133, as amended, requires all financial derivative instruments to be recorded on our balance sheet at fair value. Derivatives not designated as hedges must be adjusted to fair value through income. If a derivative is designated as a hedge, depending on the nature of the hedge, changes in its fair value that are considered to be effective, as defined, either offset the change in fair value of the hedged assets, liabilities, or firm commitments through income, or are recorded in OCI until the hedged item is recorded in income. Any portion of a change in a derivative's fair value that is considered to be ineffective, or is excluded from the measurement of effectiveness, is recorded immediately in income.

At January 1, 2001, our financial statements were adjusted to record a cumulative effect of adopting FAS 133, as follows (in millions, except per share amounts):

	Income	OCI
Adjustment to fair value of derivative instruments	$ (42)	$ 37
Income tax effects	16	(14)
Adjustment, net of tax	$ (26)	$ 23
Effect on diluted earnings per share (a)	$(0.02)	

(a) For income effect, amount shown is net of adjustment to hedged items.

The cumulative effect on income resulted primarily from marking to market the time value of option contracts used in commodity and foreign currency cash flow hedging. The cumulative effect on OCI resulted primarily from marking to market swap contracts used as cash flow hedges of anticipated foreign currency cash flows and anticipated purchases of energy products.

New Accounting Pronouncements

In June 2002, the FASB issued Statement No. 146 "Accounting for Costs Associated with Exit or Disposal Activities" ("FAS 146"). FAS 146 provides guidance on the recognition and measurement of liabilities associated with exit or disposal activities and requires that such liabilities be recognized when incurred. This statement was effective for exit or disposal activities initiated on or after January 1, 2003.

As discussed in Note 17, we implemented a restructuring program involving the business unit integration of our Freight Services and Logistics Group operations in the fourth quarter of 2002. As this restructuring program was initiated in 2002, we accounted for this restructuring program using the existing guidance in EITF 94-3 "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (Including Certain Costs Incurred in a Restructuring)". Therefore, the adoption of FAS 146 on January 1, 2003 had no effect on our results of operations or financial condition. In the fourth quarter of 2002, we recorded a pre-tax restructuring charge and related expenses in the amount of $106 million, which is classified in other operating expenses.

In November 2002, the FASB issued Interpretation No. 45 "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" ("FIN 45"). FIN 45 requires that a liability be recognized at fair value at the inception of certain guarantees for the obligations undertaken by the guarantor. FIN 45 also requires additional disclosures for certain guarantee contracts. The disclosure provisions of FIN 45 were effective for financial statements ending after December 15, 2002, while the recognition and initial measurement provisions were applicable on a prospective basis to guarantees issued or modified after December 31, 2002. The adoption of FIN 45 was not material to our results of operations or financial condition.

In January 2003, the FASB issued Interpretation No. 46 "Consolidation of Variable Interest Entities", to address perceived weaknesses in accounting for entities commonly known as special purpose or off balance sheet. In addition to numerous FASB Staff Positions written to clarify and improve the application of FIN 46, the FASB recently announced a deferral for certain entities, and an amendment to FIN 46 entitled FASB Interpretation No. 46 (revised December 2003) "Consolidation of Variable Interest Entities" ("FIN 46").

FIN 46 provides guidance for identifying the party with a controlling financial interest resulting from arrangements or financial instruments rather than voting interests. FIN 46 defines the term “variable interest entity” and is based on the premise that if a business enterprise absorbs a majority of such an entity’s expected losses and/or receives a majority of its expected residual returns, that enterprise has a controlling financial interest, and would thus require consolidation of the variable interest entity. As of December 31, 2003, we have adopted FIN 46, and the effects of adoption were not material to our results of operations or financial condition.

On July 1, 2003, we adopted FASB Statement No. 149 “Amendment of Statement 133 on Derivative Instruments and Hedging Activities” (“FAS 149”). FAS 149 amends FAS 133 for certain decisions made by the FASB as part of the Derivatives Implementation Group process. FAS 149 also amends FAS 133 to incorporate clarifications of the definition of a derivative. The adoption of FAS 149 was not material to our results of operations or financial condition.

On July 1, 2003, we adopted FASB Statement No. 150 “Accounting for Certain Instruments with Characteristics of Both Liabilities and Equity” (“FAS 150”). FAS 150 establishes how an issuer measures certain freestanding financial instruments with characteristics of both liabilities and equity, and requires that such instruments be classified as liabilities. The adoption of FAS 150 was not material to our results of operations or financial condition.

In December 2003, the FASB revised Statement No. 132, “Employers’ Disclosures about Pensions and Other Postretirement Benefits” (FAS 132). The revised standard requires new disclosures in addition to those required by the original standard about the assets, obligations, cash flows and net periodic benefit cost of defined benefit pension plans and other defined benefit postretirement plans. As revised, FAS 132 is effective for financial statements with fiscal years ending after December 15, 2003, and we have included these disclosures in Note 5 — Employee Benefit Plans.

Changes in Presentation

Certain prior year amounts have been reclassified to conform to the current year presentation.

Note 2. Marketable Securities and Short-Term Investments

The following is a summary of marketable securities and short-term investments at December 31, 2003 and 2002 (in millions):

2003	Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
U.S. government & agency securities	$126	$ 1	$ —	$ 127
U.S. mortgage & asset-backed securities	315	1	—	316
U.S. corporate securities	160	2	1	161
U.S. state and local municipal securities	158	—	—	158
Other debt securities	5	—	1	4
Total debt securities	764	4	2	766
Common equity securities	66	29	—	95
Preferred equity securities	149	—	9	140
	$979	$ 33	$ 11	$ 1,001

Table of Contents

2002	Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
U.S. government & agency securities	$ 79	$ 3	$ —	$ 82
U.S. mortgage & asset-backed securities	72	3	—	75
U.S. corporate securities	147	2	1	148
U.S. state and local municipal securities	53	—	—	53
Other debt securities	4	—	1	3
Total debt securities	355	8	2	361
Common equity securities	379	5	62	322
Preferred equity securities	125	—	5	120
	$859	$ 13	$ 69	$ 803

The gross realized gains on sales of marketable securities totaled $21, $11, and $34 million in 2003, 2002, and 2001, respectively. The gross realized losses totaled $7, $10, and $7 million in 2003, 2002, and 2001, respectively. Impairment losses recognized on marketable securities and short-term investments totaled $58, $5, and $0 million during 2003, 2002, and 2001 respectively.

The following table presents the age of gross unrealized losses and fair value by investment category for all securities in a loss position as of December 31, 2003 (in millions):

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. government & agency securities	$ 24	$ —	$ 1	$ —	$ 25	$ —
U.S. mortgage & asset-backed securities	9	—	1	—	10	—
U.S. corporate securities	38	1	10	—	48	1
U.S. state and local municipal securities	10	—	—	—	10	—
Other debt securities	—	1	—	—	—	1
Total debt securities	81	2	12	—	93	2
Common equity securities	—	—	—	—	—	—
Preferred equity securities	—	—	91	9	91	9
	$ 81	$ 2	$103	$ 9	$184	$ 11

The unrealized losses in the preferred equity securities relate to securities issued by the Federal National Mortgage Association (FNMA) and the Federal Home Loan Mortgage Corporation (FHLMC), and are primarily due to changes in market interest rates. Due to the periodic interest rate adjustment features on these securities, we do not consider these losses to be other-than-temporary. We have both the intent and ability to hold the securities contained in the previous table for a time necessary to recover the cost basis.

The amortized cost and estimated fair value of marketable securities and short-term investments at December 31, 2003, by contractual maturity, are shown below (in millions). Actual maturities may differ from contractual maturities because the issuers of the securities may have the right to prepay obligations without prepayment penalties.

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	Cost	Estimated Fair Value
Due in one year or less	$ 19	$ 19
Due after one year through three years	150	150
Due after three years through five years	19	19
Due after five years	576	578
	764	766
Equity securities	215	235
	$979	$ 1,001

Note 3. Finance Receivables

The following is a summary of finance receivables at December 31, 2003 and 2002 (in millions):

	2003	2002
Commercial term loans	$ 438	$ 523
Investment in finance leases	270	218
Asset-based lending	290	381
Receivable factoring	468	400
Gross finance receivables	1,466	1,522
Less: allowance for credit losses	(52)	(38)
Balance at December 31	$1,414	$1,484

Outstanding receivable balances at December 31, 2003 and 2002 are net of unearned income of $48 and $35 million, respectively. When we "factor" (i.e., purchase) a customer invoice from a client, we record the customer receivable as an asset and also establish a liability for the funds due to the client, which is recorded in accounts payable on the consolidated balance sheet. The following is a reconciliation of receivable factoring balances at December 31, 2003 and 2002 (in millions):

	2003	2002
Customer receivable balances	$ 468	$ 400
Less: Amounts due to client	(195)	(176)
Net funds employed	$ 273	$ 224

Non-earning finance receivables were $67 and $41 million at December 31, 2003 and 2002, respectively. The following is a rollforward of the allowance for credit losses on finance receivables (in millions):

	2003	2002
Balance at January 1	$ 38	$ 30
Provisions charged to operations	39	26
Charge-offs, net of recoveries	(25)	(18)
Balance at December 31	$ 52	$ 38

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The carrying value of finance receivables at December 31, 2003, by contractual maturity, is shown below (in millions). Actual maturities may differ from contractual maturities because some borrowers have the right to prepay these receivables without prepayment penalties.

	Carrying Value
Due in one year or less	$ 872
Due after one year through three years	144
Due after three years through five years	107
Due after five years	343
	$1,466

Based on interest rates for financial instruments with similar terms and maturities, the fair value of finance receivables is approximately $1.384 and $1.492 billion as of December 31, 2003 and 2002, respectively. At December 31, 2003, we had unfunded loan commitments totaling $493 million, consisting of standby letters of credit of $68 million and other unfunded lending commitments of $425 million.

Note 4. Property, Plant and Equipment

Property, plant and equipment as of December 31 consists of the following (in millions):

	2003	2002
Vehicles	$ 3,486	$ 3,467
Aircraft (including aircraft under capitalized leases)	10,897	10,151
Land	721	704
Buildings	2,083	2,049
Leasehold improvements	2,219	2,159
Plant equipment	4,410	4,248
Technology equipment (including capitalized software)	2,366	1,998
Equipment under operating lease	53	50
Construction-in-progress	680	535
	26,915	25,361
Less: Accumulated depreciation and amortization	(13,007)	(11,749)
	$ 13,908	$ 13,612

Note 5. Employee Benefit Plans

We maintain the following defined benefit pension plans (the “Plans”): UPS Retirement Plan, UPS Excess Coordinating Benefit Plan, and the UPS Pension Plan.

The UPS Retirement Plan is noncontributory and includes substantially all eligible employees of participating domestic subsidiaries who are not members of a collective bargaining unit. The Plan provides for retirement benefits based on average compensation levels earned by employees prior to retirement. Benefits payable under this Plan are subject to maximum compensation limits and the annual benefit limits for a tax qualified defined benefit plan as prescribed by the Internal Revenue Service.

The UPS Excess Coordinating Benefit Plan is a non-qualified plan that provides benefits to participants in the UPS Retirement Plan for amounts that exceed the benefit limits described above.

The UPS Pension Plan is noncontributory and includes certain eligible employees of participating domestic subsidiaries and members of collective bargaining units that elect to participate in the plan. The Plan provides for retirement benefits based on service credits earned by employees prior to retirement.

Our funding policy is consistent with relevant federal tax regulations. Accordingly, our contributions are deductible for federal income tax purposes. Because the UPS Excess Coordinating Benefit Plan is non-qualified for federal income tax purposes, this plan is not funded.

We also sponsor postretirement medical plans that provide health care benefits to our retirees who meet certain eligibility requirements and who are not otherwise covered by multi-employer plans. Generally, this includes employees with at least 10 years of service who have reached age 55 and employees who are eligible for postretirement medical benefits from a Company-sponsored plan pursuant to collective bargaining agreements. We have the right to modify or terminate certain of these plans. In many cases, these benefits have been provided to retirees on a noncontributory basis; however, in certain cases, retirees are required to contribute toward the cost of the coverage.

Our accumulated postretirement benefit obligation and net periodic cost for our postretirement medical benefits do not reflect the effects of the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the “Act”). The provisions of the Act provide for a federal subsidy for plans that provide prescription drug benefits and meet certain qualifications. Specific authoritative guidance on the accounting for the federal subsidy is pending and when that guidance is issued, it could require us to change information related to our actuarially determined accumulated postretirement benefit obligation and net periodic cost for our postretirement medical benefit plans.

Benefit Obligations

The following table provides a reconciliation of the changes in the plans’ benefit obligations as of September 30 (in millions):

	Pension Benefits		Postretirement Medical Benefits	
	2003	2002	2003	2002
Net benefit obligation at October 1, prior year	$6,670	$5,347	$2,149	$1,759
Service cost	282	217	79	63
Interest cost	465	413	148	134
Plan participants’ contributions	—	—	6	3
Plan amendments	3	100	(22)	38
Actuarial (gain) loss	876	777	337	236
Gross benefits paid	(204)	(184)	(105)	(84)
Net benefit obligation at September 30	$8,092	$6,670	$2,592	$2,149
Weighted-average assumptions used to determine benefit obligations:				
Discount rate	6.25%	6.75%	6.25%	6.75%
Rate of annual increase in future compensation levels	4.00%	4.00%	N/A	N/A

The accumulated benefit obligation for our pension plans as of September 30, 2003 and 2002 was $7.325 and $5.977 billion, respectively. We use a measurement date of September 30 for our pension and postretirement benefit plans.

Future postretirement medical benefit costs were forecasted assuming an initial annual increase of 9.00%, decreasing to 5.00% by the year 2013 and with consistent annual increases at those ultimate levels thereafter.

Assumed health care cost trends have a significant effect on the amounts reported for the postretirement medical plans. A one-percent change in assumed health care cost trend rates would have the following effects (in millions):

	1% Increase	1% Decrease
Effect on postretirement benefit obligation	$ 78	($ 76)

Because the UPS Excess Coordinating Plan is not funded, the Company has recorded an additional minimum pension liability for this plan of $105 and $88 million at December 31, 2003 and 2002, respectively. This liability is included in the other credits and non-current liabilities portion of Note 9. As of December 31, 2003 and 2002, the Company has recorded an intangible asset of $5 and $7 million, respectively, representing the net unrecognized prior service cost for this plan. A total of $63 and $50 million at December 31, 2003 and 2002, respectively, was recorded as a reduction of other comprehensive income in Shareowners' Equity (net of the tax effect of $37 and $31 million, respectively). The unfunded accumulated benefit obligation of the UPS Excess Coordinating Benefit Plan was $154 and $121 million as of December 31, 2003 and 2002, respectively.

Plan Assets

The following table provides a reconciliation of the changes in the plans' assets as of September 30 (in millions):

	Pension Benefits		Postretirement Medical Benefits	
	2003	2002	2003	2002
Fair value of plan assets at October 1, prior year	$6,494	$6,496	$ 337	$372
Actual return on plan assets	1,143	77	47	3
Employer contributions	390	105	124	43
Plan participants' contributions	—	—	6	3
Gross benefits paid	(204)	(184)	(105)	(84)
Fair value of plan assets at September 30	$7,823	$6,494	$ 409	$337

The asset allocation for our pension and other postretirement plans as of September 30, 2003 and 2002, and the target allocation for 2004, by asset category, are as follows:

	Weighted Average Target Allocation	Percentage of Plan Assets at September 30,	
	2004	2003	2002
Equity securities	55% - 65%	60.2%	60.0%
Fixed income securities	20% - 30%	28.5%	25.4%
Real estate/other	10% - 15%	11.3%	14.6%
Total		100.0%	100.0%

Equity securities include UPS Class A shares of common stock in the amounts of $392 (4.8% of total plan assets) and $384 million (5.6% of total plan assets), as of September 30, 2003 and 2002, respectively.

The UPS benefit plan committees establish investment guidelines and strategies, and regularly monitor the performance of the funds and portfolio managers. Our investment strategy with respect to pension assets is to invest the assets in accordance with ERISA and fiduciary standards. The long-term primary objectives for our pension assets are to (1) provide for a reasonable amount of long-term growth of capital, without undue

Table of Contents

exposure to risk; and protect the assets from erosion of purchasing power, and (2) provide investment results that meet or exceed the plans' actuarially assumed long-term rate of return.

Funded Status

The funded status of the plans, reconciled to the amounts on the balance sheet, is as follows (in millions):

	Pension Benefits		Postretirement Medical Benefits	
	2003	2002	2003	2002
Fair value of plan assets at September 30	$ 7,823	$ 6,494	$ 409	$ 337
Benefit Obligation at September 30	(8,092)	(6,670)	(2,592)	(2,149)
Funded status at September 30	(269)	(176)	(2,183)	(1,812)
Amounts not yet recognized:				
Unrecognized net actuarial loss	2,085	1,712	820	516
Unrecognized prior service cost	331	364	11	35
Unrecognized net transition obligation	23	31	—	—
Employer contributions	752	1	17	10
Net asset (liability) recorded at December 31	$ 2,922	$ 1,932	$(1,335)	$(1,251)
Prepaid pension cost	$ 2,970	$ 1,964	$ —	$ —
Accrued benefit cost	(153)	(120)	(1,335)	(1,251)
Intangible asset	5	7	—	—
Accumulated other comprehensive income (pre-tax)	100	81	—	—
Net asset (liability) recorded at December 31	$ 2,922	$ 1,932	$(1,335)	$(1,251)

At September 30, 2003 and 2002, the projected benefit obligation, the accumulated benefit obligation and the fair value of plan assets for pension plans with a projected benefit obligation in excess of plan assets and for pension plans with an accumulated benefit obligation in excess of plan assets were as follows (in millions):

	Projected Benefit Obligation Exceeds the Fair Value of Plan Assets		Accumulated Benefit Obligation Exceeds the Fair Value of Plan Assets	
As of September 30	2003	2002	2003	2002
Projected benefit obligation	$6,772	$5,640	$178	$141
Accumulated benefit obligation	$6,004	$4,948	$154	$121
Fair value of plan assets	$6,479	$5,461	$ —	$ —

The accumulated postretirement benefit obligation exceeds plan assets for all of our other postretirement benefit plans.

Expected Cash Flows

Information about expected cash flows for the pension and postretirement benefit plans is as follows (in millions):

Employer Contributions:	Pension Benefits	Other Benefits
2004 (expected) to plan trusts	$ 426	$ 64

Net Periodic Benefit Cost

Information about net periodic benefit cost for the pension and postretirement benefit plans is as follows (in millions):

	Pension Benefits			Postretirement Medical Benefits		
	2003	2002	2001	2003	2002	2001
Net Periodic Cost:						
Service cost	$ 282	$ 217	$ 192	$ 79	$ 63	$ 55
Interest cost	465	413	363	148	134	118
Expected return on assets	(669)	(654)	(616)	(29)	(33)	(42)
Amortization of:						
Transition obligation	8	8	8	—	—	—
Prior service cost	37	30	30	1	(1)	(1)
Actuarial (gain) loss	28	4	(7)	15	4	—
Net periodic benefit cost (benefit)	$ 151	$ 18	$ (30)	$ 214	$ 167	$ 130
Weighted-average assumptions used to determine net cost:						
Discount rate	6.75%	7.50%	7.75%	6.75%	7.50%	7.75%
Rate of compensation increase	4.00%	4.00%	4.00%	N/A	N/A	N/A
Expected return on plan assets	9.21%	9.42%	9.50%	9.25%	9.50%	9.50%

The expected return on plan assets assumption was developed using various market assumptions in combination with the plans' asset allocations and active investment management. These assumptions and allocations were evaluated using input from a third party consultant and various pension plan asset managers, including their review of asset class return expectations and long-term inflation assumptions. The 10-year U.S. Treasury yield is the foundation for all other market assumptions and various risk premiums are added to determine the expected return for each allocation. As of our September 30, 2003 measurement date, it was projected that the funds could achieve an 8.96% net return over time, using the plans' asset allocations and active management strategy.

Assumed health care cost trends have a significant effect on the amounts reported for the postretirement medical plans. A one-percent change in assumed health care cost trend rates would have the following effects (in millions):

	1% Increase	1% Decrease
Effect on total of service cost and interest cost	$ 6	($ 6)

Other Plans

We also contribute to several multi-employer pension plans for which the above information is not determinable. Amounts charged to operations for pension contributions to these multi-employer plans were $1.066 and $1.028 billion, and $977 million during 2003, 2002, and 2001, respectively.

We also contribute to several multi-employer health and welfare plans that cover both active and retired employees for which the above information is not determinable. Amounts charged to operations for contributions to multi-employer health and welfare plans were $691, $604, and $553 million during 2003, 2002, and 2001, respectively.

We also sponsor a defined contribution plan for all employees not covered under collective bargaining agreements. The Company matches, in shares of UPS common stock, a portion of the participating employees' contributions. Matching contributions charged to expense were $87, $79, and $71 million for 2003, 2002, and 2001, respectively.

In the fourth quarter of 2002, our vacation policy for non-union employees was amended to require that vacation pay be earned ratably throughout the year. Previously, an employee became vested in the full year of vacation pay at the beginning of each year. As a result of this policy change, a credit to compensation and benefits of $197 million was taken in the fourth quarter to reduce the vacation pay liability as of December 31, 2002.

Note 6. Goodwill, Intangibles, and Other Assets

Other assets as of December 31 consist of the following (in millions):

	2003	2002
Non-current finance receivables, net of allowance for credit losses	$574	$616
Other non-current assets	379	279
	$953	$895

The following table indicates the allocation of goodwill by reportable segment (in millions):

	U.S. Domestic Package	International Package	Non-Package	Consolidated
December 31, 2001 balance	$ —	$ 102	$ 1,014	$ 1,116
Acquired	—	—	—	—
Impaired	—	—	(74)	(74)
Currency / Other	—	—	28	28
December 31, 2002 balance	—	102	968	1,070
Acquired	—	—	30	30
Impaired	—	—	—	—
Currency / Other	—	(2)	75	73
December 31, 2003 balance	$ —	$ 100	$ 1,073	$ 1,173

The goodwill added in the non-package segment resulted from the purchase of the remaining minority interest in a previously acquired company.

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following is a summary of intangible assets at December 31, 2003 and 2002 (in millions):

	Trademarks, Franchise Rights, Licenses, Patents, and Other	Intangible Pension Asset	Total Intangible Assets
December 31, 2003:			
Gross carrying amount	$ 118	$ 5	$ 123
Accumulated amortization	(23)	—	(23)
Net carrying value	$ 95	$ 5	$ 100
December 31, 2002:			
Gross carrying amount	$ 118	$ 7	$ 125
Accumulated amortization	(15)	—	(15)
Net carrying value	$ 103	$ 7	$ 110

Amortization of intangible assets was $9, $8 and $7 million during 2003, 2002 and 2001 respectively. Expected amortization of definite-lived intangibles for the next five years is as follows (in millions): 2004 — $9, 2005 — $9, 2006 — $9, 2007 — $9, and 2008 — $6.

Note 7. Business Acquisitions and Dispositions

We regularly explore opportunities to make acquisitions that would enhance our core package delivery business and our various non-package businesses. Our acquisitions include both domestic and international transactions. During the three years ended December 31, 2003, we completed 10 acquisitions that were accounted for under the purchase method of accounting. In connection with the foregoing transactions, we paid cash (net of cash acquired) in the aggregate amount of $30, $14, and $466 million in 2003, 2002, and 2001, respectively, and issued aggregate UPS Class B common shares of 8.4 million in 2001. Pro forma results of operations have not been presented for any of the acquisitions because the effects of these transactions were not material on either an individual or aggregate basis. The results of operations of each acquired company are included in our statements of consolidated income from the date of acquisition. The purchase price allocations of acquired companies can be modified up to one year after the date of acquisition, however we expect such adjustments to the purchase price allocations to be immaterial.

During 2001, we completed several acquisitions that were added to the non-package segment. We acquired Mail Boxes Etc., the world’s largest franchisor of independently owned and operated business, communication, and shipping centers worldwide, for cash of $185 million. We acquired Fritz Companies, Inc., a freight forwarding, customs brokerage and logistics company, for 7.3 million Class B common shares valued at $456 million. Additionally, we acquired First International Bancorp, Inc., a provider of structured trade finance, commercial and government-backed lending products, for 1.1 million Class B common shares valued at $54 million.

During the second quarter of 2003, we sold our Mail Technologies business unit in a transaction that increased net income by $14 million, or $0.01 per diluted share. The gain consisted of a pre-tax loss of $24 million recorded in other operating expenses within the non-package segment, and a tax benefit of $38 million recognized in conjunction with the sale. The tax benefit exceeds the pre-tax loss from this sale primarily because the goodwill impairment charge we previously recorded for the Mail Technologies business unit was not deductible for income tax purposes. Consequently, our tax basis was greater than our book basis, thus producing the tax benefit described above.

During the third quarter of 2003, we sold our Aviation Technologies business unit and recognized a pre-tax gain of $24 million ($15 million after-tax, or $0.01 per diluted share), which is recorded in other operating expenses within the non-package segment. The operating results of both the Mail Technologies unit and the Aviation Technologies unit were previously included in our non-package segment, and were not material to our consolidated operating results in any of the periods presented.

In January 2004, we announced the acquisition of the remaining 49% minority interest in UPS Yamato Express Co., which is currently joint venture with Yamato Transport Co. in Japan. UPS Yamato Express provides express package delivery services in Japan. Upon the close of the acquisition, UPS Yamato Express will become a wholly-owned subsidiary of UPS. The acquisition of UPS Yamato Express Co. will not have a material effect on our financial condition or results of operations.

Note 8. Long-Term Debt and Commitments

Long-term debt, as of December 31, consists of the following (in millions):

	2003	2002
8 3/8% debentures, due April 1, 2020(i)	$ 444	$ 424
8 3/8% debentures, due April 1, 2030(i)	276	276
Commercial paper(ii)	544	1,036
Industrial development bonds, Philadelphia Airport facilities, due December 1, 2015(iii)	100	100
Special facilities revenue bonds, Louisville Airport facilities, due January 1, 2029(iv)	149	149
Floating rate senior notes(v)	441	341
1.75% Cash-settled convertible senior notes, due September 27, 2007(vi)	—	323
Capitalized lease obligations(vii)	451	469
UPS Notes(viii)	419	568
5.50% Pound Sterling notes, due February 12, 2031	887	801
4.5% Singapore Dollar notes, due November 11, 2004	59	58
Installment notes, mortgages and bonds at various rates	53	57
	3,823	4,602
Less current maturities	(674)	(1,107)
	$3,149	$ 3,495

(i) On January 22, 1998, we exchanged $276 million of an original $700 million in debentures for new debentures of equal principal with a maturity of April 1, 2030. The new debentures have the same interest rate as the 8 3/8% debentures due 2020 until April 1, 2020, and, thereafter, the interest rate will be 7.62% for the final 10 years. The 2030 debentures are redeemable in whole or in part at our option at any time. The redemption price is equal to the greater of 100% of the principal amount and accrued interest or the sum of the present values of the remaining scheduled payouts of principal and interest thereon discounted to the date of redemption at a benchmark treasury yield plus five basis points plus accrued interest. The remaining $424 million of 2020 debentures are not subject to redemption prior to maturity. Interest is payable semiannually on the first of April and October for both debentures and neither debenture is subject to sinking fund requirements.

(ii) The weighted average interest rate on the commercial paper outstanding as of December 31, 2003 and 2002, was 0.96% and 1.3%, respectively. At December 31, 2003 and 2002, the entire commercial paper balance has been classified as a current liability. The amount of commercial paper outstanding in 2004 is expected to fluctuate. We are authorized to borrow up to $7.0 billion under the two commercial paper programs we maintain as of December 31, 2003.

(iii) The industrial development bonds bear interest at a daily variable rate. The average interest rates for 2003 and 2002 were 0.9% and 1.3%, respectively.

(iv) The special facilities revenue bonds bear interest at a daily variable rate. The average interest rates for 2003 and 2002 were 1.0% and 1.4%, respectively.

(v) The floating rate senior notes bear interest at one-month LIBOR less 45 basis points. The average interest rates for 2003 and 2002 were 0.8% and 1.4%, respectively. These notes are callable at various times after 30 years at a stated percentage of par value, and putable by the note holders at various times after 10 years at a stated percentage of par value.

(vi) The cash-settled convertible senior notes have a par value of $300 million, accrued interest at a stated rate of 1.75% and were callable after three years. The notes were exchangeable for an amount of cash that was indexed to the trading price of our Class B common stock. In conjunction with the debt offering, we entered into a swap transaction in which UPS paid 30 Day LIBOR less 38 basis points, and received the 1.75% cash coupon plus any equity appreciation payable in cash on the notes. The average interest rate payable on the swap for 2003 and 2002 was 0.9% and 1.4%, respectively.

In December 2003, we redeemed the cash-settled convertible senior notes at a price of 102.703, and also terminated the swap transaction associated with the notes. The redemption amount paid was lower than the amount recorded for the fair value of the notes at the time of redemption, which, along with the cash settlement received on the swap, resulted in a $28 million gain recorded in 2003 results.

(vii) We have capitalized lease obligations for certain aircraft, which are included in Property, Plant and Equipment at December 31 as follows (in millions):

	2003	2002
Aircraft	$1,474	$1,169
Accumulated amortization	(198)	(149)
	$1,276	$1,020

(viii) The UPS Notes program involves the periodic issuance of fixed rate notes in $1,000 increments with various terms and maturities. At December 31, 2003, the coupon rates of the outstanding notes varied between 3.00% and 6.25%, and the interest payments are made either monthly, quarterly or semiannually. The maturities of the notes range from 2006 to 2018. Substantially all of the fixed obligations associated with the notes were swapped to floating rates, based on different LIBOR indices plus or minus a spread. The average interest rate payable on the swaps for 2003 and 2002 was 0.8% and 1.5%, respectively.

Based on the borrowing rates currently available to the Company for long-term debt with similar terms and maturities, the fair value of long-term debt, including current maturities, is approximately $4.1 and $4.9 billion as of December 31, 2003 and 2002, respectively.

We lease certain aircraft, facilities, equipment and vehicles under operating leases, which expire at various dates through 2054. Certain of the leases contain escalation clauses and renewal or purchase options. Rent expense related to our operating leases was $678, $685 and $747 million for 2003, 2002 and 2001, respectively. The following table sets forth the aggregate minimum lease payments under capitalized and operating leases, the aggregate annual principal payments due under our long-term debt, and the aggregate amounts expected to be spent for purchase commitments (in millions).

Year	Capitalized Leases	Operating Leases	Debt Principal	Purchase Commitments
2004	$ 68	$ 314	$ 621	$ 858
2005	96	264	2	747
2006	69	187	2	833
2007	119	128	1	798
2008	128	99	27	697
After 2008	137	457	2,697	604
Total	617	$ 1,449	$3,350	$ 4,537
Less: imputed interest	(166)			
Present value of minimum capitalized lease payments	451			
Less: current portion	(56)			
Long-term capitalized lease obligations	$ 395			

As of December 31, 2003, we had outstanding letters of credit totaling approximately $1.667 billion issued in connection with routine business requirements.

We maintain two credit agreements with a consortium of banks that provide revolving credit facilities of $1.0 billion each, with one expiring April 22, 2004 and the other April 24, 2008. Interest on any amounts we borrow under these facilities would be charged at 90-day LIBOR plus 15 basis points. At December 31, 2003, there were no outstanding borrowings under these facilities. In addition, we maintain an extendible commercial notes program under which we are authorized to borrow up to $500 million. No amounts were outstanding under this program at December 31, 2003.

We have a $2.0 billion shelf registration statement under which we may issue debt securities in the U.S. The debt may be denominated in a variety of currencies. There was approximately $85 million issued under this shelf registration statement at December 31, 2003. We also maintain a $1.0 billion European medium-term note program. Under this program, we may issue notes from time to time, denominated in a variety of currencies. At December 31, 2003, $1.0 billion was available under this program.

Note 9. Deferred Taxes, Credits and Other Liabilities

Deferred taxes, credits and other liabilities as of December 31 consist of the following (in millions):

	2003	2002
Deferred federal and state income taxes	$2,491	$2,307
Insurance reserves	923	779
Other credits and noncurrent liabilities	641	515
	$4,055	$3,601

Note 10. Legal Proceedings and Contingencies

On August 9, 1999 the United States Tax Court Tax Court held that we were liable for tax on income of Overseas Partners Ltd., a Bermuda company that had reinsured EV insurance purchased by our customers beginning in 1984, and that we were liable for additional tax for the 1983 and 1984 tax years. The IRS took similar positions to those advanced in the Tax Court decision for tax years subsequent to 1984 through 1998. On June 20, 2001, the U.S. Court of Appeals for the Eleventh Circuit ruled in our favor and reversed the Tax Court decision. In January 2003, we and the IRS finalized settlement of all outstanding tax issues related to EV package insurance. Under the terms of settlement, we agreed to adjustments that will result in income tax due of approximately $562 million, additions to tax of $60 million and related interest. The amount due to the IRS as a result of the settlement is less than amounts we previously had accrued. As a result, we recorded income, before taxes, of $1.023 billion ($776 million after tax) during the fourth quarter of 2002. The refunds and credits associated with this settlement are expected to occur over the next several years.

The IRS has proposed adjustments, unrelated to the EV package insurance matters discussed above, regarding the allowance of deductions and certain losses, the characterization of expenses as capital rather than ordinary, the treatment of certain income, and our entitlement to the investment tax credit and the research tax credit in the 1985 through 1990 tax years. The proposed adjustments would result in $10 million of additional income tax. The IRS has also issued a report taking a similar position with respect to some of these issues for each of the years from 1991 through 1994. That report proposes adjustments that would result in $42 million in additional income tax. The IRS's proposed adjustments include penalties and penalty interest. We believe that the possibility that such penalties and penalty interest will be sustained is remote. In November 2002, the IRS issued a report taking a similar position with respect to some of these issues for each of the years 1995 through 1998. That report proposes adjustments that would result in $7 million in additional income tax. For the 1985 through 1998 tax years, unpaid interest on these adjustments through December 31, 2003 could aggregate up to approximately $178 million, after the benefit of related tax deductions. We expect that we will prevail on substantially all of these issues. Specifically, we believe that our practice of expensing the items that the IRS alleges should have been capitalized is consistent with the practices of other industry participants. The IRS may take similar positions with respect to some of these issues for each of the years 1999 through 2003. We believe that the eventual resolution of these issues will not have a material adverse effect on our financial condition, results of operations or liquidity.

We are named as a defendant in twenty-three pending lawsuits that seek to hold us liable for the collection of premiums for excess value ("EV") insurance in connection with package shipments since 1984. Based on state and federal tort, contract and statutory claims, these cases generally claim that we failed to remit collected EV premiums to an independent insurer; we failed to provide promised EV insurance; we acted as an insurer without complying with state insurance laws and regulations; and the price for EV insurance was excessive. These actions all were filed after the August 9, 1999 United States Tax Court decision.

These twenty-three cases have been consolidated for pre-trial purposes in a multi-district litigation proceeding ("MDL Proceeding") in federal court in New York. In addition to the cases in which UPS is named as a defendant, there also is an action, Smith v. Mail Boxes Etc., against Mail Boxes Etc. and its franchisees relating to UPS EV insurance and related services purchased through Mail Boxes Etc. centers. This case also has been consolidated into the MDL Proceeding.

While expressly denying any and all liability, the parties have obtained preliminary court approval of a global settlement resolving all claims and all cases in the MDL Proceeding. The proposed settlement requires several steps before it becomes final, including notice to the settlement class, and obtaining final court approval. If the proposed settlement becomes final, we would provide to qualifying settlement class members vouchers toward the purchase of specified UPS services and pay a portion of the plaintiffs' attorneys' fees, the total amount of which will be determined by the Court. The ultimate cost to us of the proposed settlement will depend on a number of factors. We do not believe that this proposed settlement will have a material effect on our financial condition, results of operations, or liquidity.

In addition, we are a defendant in various other lawsuits that arose in the normal course of business. We believe that the eventual resolution of these cases will not have a material adverse effect on our financial condition, results of operations, or liquidity.

We participate in a number of trustee-managed multi-employer pension and health and welfare plans for employees covered under collective bargaining agreements. Several factors could result in higher future contributions to these plans, including unfavorable investment performance, changes in demographics, and increased benefits to participants. At this time, we are unable to determine the amount of additional future contributions, if any, or whether any material adverse effect on our financial condition, results of operations, or cash flows could result from our participation in these plans.

Note 11. Capital Stock and Stock-Based Compensation

Capital Stock

We maintain two classes of common stock, which are distinguished from each other by their respective voting rights. Class A shares of UPS are entitled to ten votes per share, whereas Class B shares are entitled to one vote per share. Class A shares are primarily held by UPS employees, and these shares are fully convertible into Class B shares at any time. Class B shares are publicly traded on the New York Stock Exchange (NYSE) under the symbol “UPS”.

Incentive Compensation Plan

The UPS Incentive Compensation Plan permits the grant of nonqualified stock options, incentive stock options, stock appreciation rights, restricted stock, performance shares, performance units, and management incentive awards to eligible employees. The number of shares reserved for issuance under the Plan is 112 million, with the number of shares reserved for issuance as restricted stock limited to 34 million. As of December 31, 2003, management incentive awards, stock options, and restricted stock performance units had been granted under the Incentive Compensation Plan.

Management Incentive Awards

Persons earning the right to receive Management Incentive Awards are determined annually by the Compensation Committee of the UPS Board of Directors. This Committee, in its sole discretion, determines the total award, which consists of UPS Class A common stock, given in any year. Amounts expensed for Management Incentive Awards were $606, $556, and $651 million during 2003, 2002, and 2001, respectively.

Nonqualified Stock Options

We maintain fixed stock option plans under which options are granted to purchase shares of UPS Class A common stock. Prior to adoption of the Incentive Compensation Plan, these options were granted at the current price of UPS shares as determined by the UPS Board of Directors on the date of option grant. Stock options granted in connection with the Incentive Compensation Plan must have an exercise price at least equal to the NYSE closing price of UPS class B common stock on the date the option was granted.

Persons earning the right to receive stock options are determined each year by the Compensation Committee and the UPS Board of Directors. Except in the case of death, disability or retirement, options granted prior to the adoption of our Incentive Compensation Plan are exercisable only during a limited period after the expiration of five years from the date of grant, while options granted under the Incentive Compensation Plan are generally exercisable after three years from the date of grant and before the expiration of the option ten years after the date of grant. All options granted are subject to earlier cancellation or exercise under certain conditions.

The following is an analysis of options to purchase shares of Class A common stock issued and outstanding:

	2003		2002		2001	
	Weighted Average Price	Shares (in thousands)	Weighted Average Price	Shares (in thousands)	Weighted Average Price	Shares (in thousands)
Outstanding at beginning of year	$38.73	27,745	$29.64	29,224	$20.57	29,312
Exercised	18.59	(7,297)	15.91	(6,434)	13.50	(5,918)
Granted	62.40	2,860	60.22	5,760	56.90	5,522
Assumed in acquisitions	—	—	—	—	58.41	727
Forfeited / expired	44.63	(563)	46.08	(805)	19.94	(419)
Outstanding at end of year	$48.02	22,745	$38.73	27,745	$29.64	29,224

Options were granted to eligible employees under the 1996 Stock Option Plan in March 1999, but options will no longer be granted under that plan. Beginning in November 1999, options were granted under the Incentive Compensation Plan, and a limited option grant to certain employees under this plan occurred in 2000. Beginning in 2001 and in future years, options to eligible employees will generally be granted annually during the first half of each year at the discretion of the Board of Directors.

During 2001, we assumed employee stock options in connection with our acquisitions of Fritz Companies, Inc. and First International Bancorp, Inc. (see Note 7), which were converted into options to purchase UPS Class A common shares. Existing stock option plans at Fritz Companies, Inc. were assumed by UPS; however, options will no longer be granted under these plans. Existing stock option plans at First International Bancorp, Inc. were terminated upon the completion of the acquisition.

The following table summarizes information about stock options outstanding and exercisable at December 31, 2003:

	Options Outstanding			Options Exercisable	
Exercise Price Range	Shares (in thousands)	Average Life (in years)	Average Exercise Price	Shares (in thousands)	Average Exercise Price
$13.94 — $21.50	6,197	0.33	$ 21.49	10	$ 17.85
$34.37 — $50.63	2,796	5.82	49.93	2,749	49.93
$56.25 — $59.45	5,265	7.21	56.97	153	59.02
$60.22 — $60.61	5,576	8.32	60.22	—	—
$61.88 — $143.13	2,911	9.16	63.12	83	87.56
	22,745	5.69	$ 48.02	2,995	$ 51.34

Restricted Performance Units

During 2003, we issued restricted performance units under the Incentive Compensation Plan. Upon vesting, restricted performance units result in the issuance of the equivalent number of UPS Class A common shares. Persons earning the right to receive restricted performance units are determined each year by the Compensation Committee and the UPS Board of Directors. Except in the case of death, disability or retirement, restricted performance units vest five years after the date of grant. All restricted performance units granted are subject to earlier cancellation or exercise under certain conditions. During 2003, we issued 1.164 million restricted performance units with a weighted average fair value of $62.40.

Discounted Employee Stock Purchase Plan

During 2001, we initiated an employee stock purchase plan for all eligible employees. Under the plan, shares of UPS Class A common stock may be purchased at quarterly intervals at 90% of the lower of the NYSE closing price on the first or the last day of each quarterly period. Employees purchased 1.9, 1.8 and 0.4 million shares at average prices of $54.08, $50.79 and $46.78 per share during 2003, 2002, and 2001, respectively.

Deferred Compensation Arrangements

We maintain a deferred compensation plan whereby certain employees may elect to defer the gains on stock option exercises by deferring the shares received upon exercise into a rabbi trust. The shares held in this trust are classified as treasury stock, and the liability to participating employees is classified as "Deferred Compensation Arrangements" in the shareowners' equity section of the balance sheet. The amount of shares needed to settle the liability for deferred compensation arrangements is included in the denominator in both the basic and diluted earnings per share calculations.

Note 12. Segment and Geographic Information

We report our operations in three segments: U.S. domestic package operations, international package operations and non-package operations. Package operations represent our core business and are broken down into regional operations around the world. Regional operations managers are responsible for both domestic and export operations within their geographic area.

U.S. Domestic Package

Domestic package operations include the time-definite delivery of letters, documents, and packages throughout the United States.

International Package

International package operations include delivery to more than 200 countries and territories worldwide, including shipments wholly outside the U.S. as well as shipments with either origin or distribution outside the U.S. Our international package reporting segment includes the operations of our Europe, Asia-Pacific, Canada, and Americas operating segments.

Non-Package

Non-package operations include UPS Supply Chain Solutions, Mail Boxes Etc. (the franchisor of Mail Boxes Etc. and The UPS Store), UPS Capital Corp., our mail and consulting services, and our excess value package insurance business. UPS Supply Chain Solutions, which is comprised of our former UPS Freight Services and UPS Logistics Group businesses, provides supply chain design and management, freight forwarding, and customs brokerage services.

In evaluating financial performance, we focus on operating profit as a segment's measure of profit or loss. Operating profit is before investment income, interest expense, and income taxes. The accounting policies of the reportable segments are the same as those described in the summary of accounting policies (see Note 1), with certain expenses allocated between the segments using activity-based costing methods. Unallocated assets are comprised primarily of cash, marketable securities and short-term investments.

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Segment information as of, and for the years ended December 31 is as follows (in millions):

	2003	2002	2001
Revenue:			
U.S. domestic package	$25,022	$23,924	$23,997
International package	5,561	4,680	4,245
Non-package	2,902	2,668	2,079
Consolidated	$33,485	$31,272	$30,321
Operating Profit:			
U.S. domestic package	$ 3,272	$ 3,576	$ 3,620
International package	709	322	125
Non-package	464	198	217
Consolidated	$ 4,445	$ 4,096	$ 3,962
Assets:			
U.S. domestic package	$15,446	$14,662	$16,180
International package	4,287	3,271	2,969
Non-package	6,038	6,245	4,846
Unallocated	3,138	2,179	641
Consolidated	$28,909	$26,357	$24,636

Non-package operating profit included $114, $112, and $113 million for 2003, 2002, and 2001, respectively, of intersegment profit, with a corresponding amount of operating expense, which reduces operating profit, included in the U.S. domestic package segment.

Revenue by product type for the years ended December 31 is as follows (in millions):

	2003	2002	2001
U.S. domestic package:			
Next Day Air	$ 5,580	$ 5,349	$ 5,433
Deferred	2,982	2,868	2,893
Ground	16,460	15,707	15,671
Total U.S. domestic package	25,022	23,924	23,997
International package:			
Domestic	1,134	943	907
Export	4,001	3,276	2,931
Cargo	426	461	407
Total International package	5,561	4,680	4,245
Non-package:			
UPS Supply Chain Solutions	2,126	1,969	1,479
Other	776	699	600
Total Non-package	2,902	2,668	2,079
Consolidated	$33,485	$31,272	$30,321

Geographic information as of, and for the years ended, December 31 is as follows (in millions):

	2003	2002	2001
U.S.:			
Revenue	$26,968	$26,284	$26,163
Long-lived assets	$14,915	$14,129	$13,717
International:			
Revenue	$ 6,517	$ 4,988	$ 4,158
Long-lived assets	$ 3,567	$ 2,874	$ 3,050
Consolidated:			
Revenue	$33,485	$31,272	$30,321
Long-lived assets	$18,482	$17,003	$16,767

Revenue, for geographic disclosure, is based on the location in which service originates. Long-lived assets include property, plant and equipment, prepaid pension costs, long-term investments, goodwill and intangible assets.

Note 13. Other Operating Expenses

The major components of other operating expenses for the years ended December 31 are as follows (in millions):

	2003	2002	2001
Repairs and maintenance	$1,109	$1,013	$1,050
Depreciation and amortization	1,549	1,464	1,396
Purchased transportation	1,828	1,665	1,652
Fuel	1,050	952	1,000
Other occupancy	576	513	524
Restructuring charge and related expenses (Note 17)	9	106	—
Other expenses	3,591	3,523	3,340
	$9,712	$9,236	$8,962

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Note 14. Income Taxes

The income tax expense (benefit) for the years ended December 31 consists of the following (in millions):

	2003	2002	2001
Current:			
Federal	$1,103	$1,208	$1,065
State	112	148	151
Foreign	87	62	38
Total Current	1,302	1,418	1,254
Deferred:			
Federal	181	323	225
State	(11)	14	33
Total Deferred	170	337	258
Total	$1,472	$1,755	$1,512

Income before income taxes includes income of foreign subsidiaries of $237, $16, and $8 million in 2003, 2002, and 2001, respectively.

A reconciliation of the statutory federal income tax rate to the effective income tax rate for the years ended December 31 consists of the following:

	2003	2002	2001
Statutory federal income tax rate	35.0%	35.0%	35.0%
State income taxes (net of federal benefit)	1.5	2.1	3.1
Tax assessment reversal (tax portion)	—	(2.8)	—
Other	(2.8)	0.7	0.3
Effective income tax rate	33.7%	35.0%	38.4%

During the first quarter of 2003, we reduced deferred taxes by $55 million due to the favorable resolution of several outstanding contingency matters with the IRS. During the third quarter of 2003, we reduced deferred taxes by $22 million as a result of a favorable tax court ruling in relation to an outstanding contingency matter with the IRS.

After filing our 2002 state tax returns during the fourth quarter of 2003, we completed a review of the taxability of our operations in various state taxing jurisdictions and the effects of available state tax credits. As a result of this review, we recorded a decrease of $39 million in the income tax provision in the fourth quarter of 2003. This decrease includes a reduction in our estimated state tax liabilities and the effect of the estimated state income tax effective rate applied to our temporary differences.

Deferred tax liabilities and assets are comprised of the following at December 31 (in millions):

	2003	2002
Excess of tax over book depreciation	$2,802	$2,725
Pension plans	1,266	835
Other	473	550
Gross deferred tax liabilities	4,541	4,110
Other postretirement benefits	588	582
Loss carryforwards (foreign)	117	92
Insurance reserves	347	348
Vacation pay accrual	131	179
Excess deposits and interest to be refunded	627	619
Other	673	343
Gross deferred tax assets	2,483	2,163
Deferred tax assets valuation allowance	(117)	(92)
Net deferred tax assets	2,366	2,071
Net deferred tax liability	2,175	2,039
Current deferred tax (asset) liability	(316)	(268)
Long-term portion — see Note 9	$2,491	$2,307

The valuation allowance increased by $25 and $23, and decreased by $32 million during the years ended December 31, 2003, 2002 and 2001, respectively.

We have foreign loss carryforwards of approximately $1.035 billion as of December 31, 2003, the majority of which may be carried forward indefinitely. These foreign loss carryforwards have been fully reserved in the deferred tax assets valuation allowance due to the uncertainty resulting from a lack of previous foreign taxable income within certain foreign tax jurisdictions.

Undistributed earnings of our foreign subsidiaries amounted to approximately $727 million at December 31, 2003. Those earnings are considered to be indefinitely reinvested and, accordingly, no U.S. federal and state deferred income taxes have been provided thereon. Upon distribution of those earnings in the form of dividends or otherwise, we would be subject to both U.S. income taxes (subject to an adjustment for foreign tax credits) and withholding taxes payable to the various foreign countries. Determination of the amount of unrecognized deferred U.S. income tax liability is not practicable because of the complexities associated with its hypothetical calculation.

Note 15. Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share (in millions except per share amounts):

	2003	2002	2001
Numerator:			
Net income before the cumulative effect of changes in accounting principles	$2,898	$3,254	$2,425
Denominator:			
Weighted-average shares	1,125	1,117	1,124
Management incentive awards	1	1	2
Deferred compensation arrangements	2	2	—
Denominator for basic earnings per share	1,128	1,120	1,126
Effect of dilutive securities:			
Contingent shares —			
Management incentive awards	4	4	5
Stock option plans	6	10	13
Denominator for diluted earnings per share	1,138	1,134	1,144
Basic Earnings Per Share Before Cumulative Effect of Changes in Accounting Principles	$ 2.57	$ 2.91	$ 2.15
Diluted Earnings Per Share Before Cumulative Effect of Changes in Accounting Principles	$ 2.55	$ 2.87	$ 2.12

Diluted earnings per share for the years ended December 31, 2003, 2002, and 2001 exclude the effect of 0.1, 0.1, and 6.6 million shares, respectively, of common stock that may be issued upon the exercise of employee stock options because such effect would be antidilutive.

Note 16. Derivative Instruments and Risk Management

We are exposed to market risk, primarily related to foreign exchange, commodity prices, equity prices and interest rates. These exposures are actively monitored by management. To manage the volatility relating to these exposures, we enter into a variety of derivative financial instruments. Our objective is to reduce, where it is deemed appropriate to do so, fluctuations in earnings and cash flows associated with changes in foreign currency rates, commodity prices, equity prices, and interest rates. It is our policy and practice to use derivative financial instruments only to the extent necessary to manage exposures. As we use price sensitive instruments to hedge a certain portion of our existing and anticipated transactions, we expect that any loss in value for those instruments generally would be offset by increases in the value of those hedged transactions.

We do not hold or issue derivative financial instruments for trading or speculative purposes.

Commodity Price Risk Management

We are exposed to an increase in the prices of refined fuels, principally jet-A, diesel, and unleaded gasoline. Additionally, we are exposed to an increase in the prices of other energy products, principally natural gas and electricity. We use a combination of options, swaps, and futures contracts to provide partial protection from rising fuel and energy prices. The net fair value of such contracts subject to price risk, excluding the underlying exposures, as of December 31, 2003 and 2002 was an asset (liability) of approximately $30 and $34 million, respectively. We have designated and account for these contracts as cash flow hedges, and, therefore, the resulting gains and losses from these hedges are recognized as a component of fuel expense or other occupancy expense when the underlying fuel or energy product being hedged is consumed.

Foreign Currency Exchange Risk Management

We have foreign currency risks related to our revenue, operating expenses, and financing transactions in currencies other than the local currencies in which we operate. We are exposed to currency risk from the potential changes in functional currency values of our foreign currency denominated assets, liabilities, and cash flows. Our most significant foreign currency exposures relate to the Euro and the British Pound Sterling. We use a combination of purchased and written options and forward contracts to hedge currency cash flow exposures. As of December 31, 2003 and 2002, the net fair value of the hedging instruments described above was an asset (liability) of approximately $(48) and $(3) million, respectively. We have designated and account for these contracts as cash flow hedges of anticipated foreign currency denominated revenue and, therefore, the resulting gains and losses from these hedges are recognized as a component of international revenue when the underlying sales occur.

Interest Rate Risk Management

Our indebtedness under our various financing arrangements creates interest rate risk. We use a combination of derivative instruments, including interest rate swaps and cross-currency interest rate swaps, as part of our program to manage the fixed and floating interest rate mix of our total debt portfolio and related overall cost of borrowing. These swaps are entered into concurrently with the issuance of the debt that they are intended to modify, and the notional amount, interest payment, and maturity dates of the swaps match the terms of the associated debt. Interest rate swaps allow us to maintain a target range of floating rate debt.

We have designated and account for these contracts as either hedges of the fair value of the associated debt instruments, or as hedges of the variability in expected future interest payments. Any periodic settlement payments are accrued monthly, as either a charge or credit to interest expense, and are not material to net income. The net fair value of our interest rate swaps at December 31, 2003 and 2002 was an asset (liability) of approximately $(27) and $(62) million, respectively.

Equity Price Risk Management

We hold investments in various available-for-sale equity securities which are subject to price risk. We use combinations of options to hedge the price risk exposure inherent in these securities. The fair value of such options contracts designated as hedges, as of December 31, 2003 and 2002, was an asset of approximately $0 and $219 million, respectively, which is classified in marketable securities and short-term investments. A large investment derivative used to hedge equity price risk settled in 2003 (which resulted in UPS receiving cash of $222 million) resulting in the decline in value of our investment derivatives since December 31, 2002.

Credit Risk

The forward contracts, swaps, and options previously discussed contain an element of risk that the counterparties may be unable to meet the terms of the agreements. However, we minimize such risk exposures for these instruments by limiting the counterparties to large banks and financial institutions that meet established credit guidelines. We do not expect to incur any losses as a result of counterparty default.

Derivatives Not Designated As Hedges

Derivatives not designated as hedges primarily consist of interest rate swaps that are used to hedge a portfolio of small debt instruments. Although these instruments are effective as hedges from an economic perspective, they do not qualify for hedge accounting under FAS 133, as amended. The impact from these interest rate swaps on our results was immaterial. Additionally, we have a small portfolio of stock warrants in public and private companies that are held for investment purposes. These warrants are recorded at fair value, and the impact of these warrants on our results was immaterial for each of the three years ending December 31, 2003.

Income Effects of Derivatives

In the context of hedging relationships, "effectiveness" refers to the degree to which fair value changes in the hedging instrument offset corresponding changes in the hedged item. Certain elements of hedge positions cannot qualify for hedge accounting under FAS 133 whether effective or not, and must therefore be marked to market through income. Both the effective and ineffective portions of gains and losses on hedges are reported in the income statement category related to the hedged exposure. Both the ineffective portion of hedge positions and the elements excluded from the measure of effectiveness were immaterial for each of the three years ending December 31, 2003.

As of December 31, 2003, $37 million in losses related to cash flow hedges that are currently deferred in OCI are expected to be reclassified to income over the 12 month period ending December 31, 2004. The actual amounts that will be reclassified to income over the next 12 months will vary from this amount as a result of changes in market conditions. No amounts were reclassified to income during 2003 in connection with forecasted transactions that were no longer considered probable of occurring.

At December 31, 2003, the maximum term of derivative instruments that hedge forecasted transactions, except those related to cross-currency interest rate swaps on existing financial instruments, was 4 years. We maintain cross-currency interest rate swaps that extend through 2009.

Fair Value of Financial Instruments

At December 31, 2003 and 2002, our financial instruments included cash and cash equivalents, marketable securities and short-term investments, accounts receivable, finance receivables, accounts payable, short-term and long-term borrowings, and commodity, interest rate, foreign currency, and equity options, forwards, and swaps. The fair values of cash and cash equivalents, accounts receivable, and accounts payable approximate carrying values because of the short-term nature of these instruments. The fair value of our marketable securities and short-term investments is disclosed in Note 2, finance receivables in Note 3, and debt instruments in Note 8.

Note 17. Restructuring Charge and Related Expenses

In the fourth quarter of 2002, we initiated a restructuring program to combine UPS Freight Services and the UPS Logistics Group into a single business unit ("Supply Chain Solutions"). In connection with this restructuring program, we also recorded certain costs related to the integration of activities between UPS Capital and First International Bank. The program was designed to facilitate business growth, streamline management decision-making, reduce the cost structure, and provide higher levels of service to our customers. Costs of the program included employee severance costs, asset impairments, costs associated with the consolidation of facilities, and other costs directly related to the restructuring program. As of December 31, 2003, the restructuring program was substantially complete.

A summary of the amounts expensed under the restructuring program follows below. The costs incurred in connection with this program are classified in other operating expenses in the income statement (see Note 13).

(amounts in millions)	2003	2002
Employee severance	$ —	$ 19
Asset impairment	1	42
Facility consolidation	2	25
Other	6	20
	$ 9	$106

Employee severance costs relate to severance packages for approximately 800 people. The packages are involuntary and are formula-driven based on salary levels and past service. Asset impairment charges consist primarily of capitalized software that is no longer used as a result of changes in business strategy due to the restructuring. Facility consolidation costs are associated with terminating operating leases on offices, warehouses, and other facilities. Other costs consist primarily of employee relocations, legal costs associated with establishing the new organizational structure, costs associated with moving equipment, records, inventories between locations, and conforming accounting policies among recently acquired entities within Supply Chain Solutions.

Note 18. September 11, 2001 Events

In response to the September 11, 2001 terrorist attacks, the FAA issued a federal ground stop order prohibiting all flights to, from, and within the United States. Due to this order, all domestic UPS aircraft were grounded, and international flights into the United States were diverted, on September 11th and 12th. We were able to transport many of our express shipments through our extensive ground network until the FAA order was lifted and our air operations resumed on the evening of September 13th. Due to the economic disruption caused by these events, we sustained significant declines in our U.S. origin package volume during the weeks following the attacks.

On September 22, 2001, President Bush signed into law the Air Transportation Safety and System Stabilization Act (the “Act”), a $15 billion emergency economic assistance package to mitigate the dramatic financial losses experienced by the nation’s air carriers. The Act, among other things, provides for the following: (1) $5 billion in compensation for direct losses incurred as a result of the federal ground stop order, and for incremental losses incurred through December 31 as a result of the attacks, (2) $10 billion in federal loan guarantees and credits, (3) expanded war risk insurance coverage for air carriers, and (4) government assistance for short-term increases in insurance premiums. We submitted a claim for compensation to the Department of Transportation and recognized a pre-tax amount of $74 million related to this reimbursement as a credit to the other expenses line item of other operating expenses (see Note 13) in 2001 under the provisions of EITF 01-10 “Accounting for the Impact of Terrorist Attacks of September 11, 2001”.

Note 19. Quarterly Information (unaudited)

	First Quarter		Second Quarter		Third Quarter		Fourth Quarter	
	2003	2002	2003	2002	2003	2002	2003	2002
Revenue:								
U.S. domestic package	$6,020	$5,903	$6,124	$5,908	$6,219	$5,889	$6,659	$6,224
International package	1,302	1,054	1,371	1,144	1,370	1,184	1,518	1,298
Non-package	693	622	731	630	723	681	755	735
Total revenue	8,015	7,579	8,226	7,682	8,312	7,754	8,932	8,257
Operating profit (loss):								
U.S. domestic package	704	862	832	899	825	809	911	1,006
International package	134	30	158	62	176	65	241	165
Non-package	107	55	90	67	146	76	121	—
Total operating profit	945	947	1,080	1,028	1,147	950	1,273	1,171
Net income	$ 611	$ 491	$ 692	$ 611	$ 739	$ 578	$ 856	$1,502
Earnings per share:								
Basic	$ 0.54	$ 0.44	$ 0.61	$ 0.55	$ 0.66	$ 0.52	$ 0.76	$ 1.34
Diluted	$ 0.54	$ 0.43	$ 0.61	$ 0.54	$ 0.65	$ 0.51	$ 0.75	$ 1.32

Fourth quarter 2002 net income was affected by the impact of the tax assessment reversal ($776 million after-tax, $0.68 per diluted share), the credit from our vacation policy change ($121 million after-tax, $0.11 per diluted share), and the restructuring charge and related expenses ($65 million after-tax, $0.06 per diluted share). First quarter 2002 net income reflects the charge upon adoption of FAS 142 ($72 million after-tax, $0.06 per diluted share).

First quarter 2003 net income reflects a charge for an impairment of investments ($37 million after-tax, $0.03 per diluted share) and a credit to tax expense upon the resolution of various tax contingencies ($55 million, $0.05 per diluted share). Second quarter 2003 net income was impacted by the gain on the sale of Mail Technologies ($14 million after-tax, $0.01 per diluted share). Third quarter 2003 net income reflects the gain on the sale of Aviation Technologies ($15 million after-tax, $0.01 per diluted share) and the credit to tax expense from a favorable ruling on the tax treatment of jet engine maintenance costs ($22 million, $0.02 per diluted share). Fourth quarter 2003 net income was impacted by a gain on the redemption of long-term debt ($18 million after-tax, $0.02 per diluted share) and a credit to income tax expense for a lower effective state tax rate ($39 million, $0.03 per diluted share).

Table of Contents

EXHIBIT INDEX

Exhibit No.		Description
2.1	—	Agreement and Plan of Merger, dated as of September 22, 1999, among United Parcel Service of America, Inc., United Parcel Service, Inc. and UPS Merger Subsidiary, Inc. (incorporated by reference to the registration statement on Form S-4 (No. 333-83349), filed on July 21, 1999, as amended).
3.1	—	Form of Restated Certificate of Incorporation of United Parcel Service, Inc. (incorporated by reference to Exhibit 3.2 to Form 10-Q for the Quarter Ended June 30, 2002).
3.2	—	Form of Bylaws of United Parcel Service, Inc. (incorporated by reference to Exhibit 3.2 to the registration statement on Form S-4 (No. 333-83349), filed on July 21, 1999, as amended).
4.1	—	Form of Class A Common Stock Certificate (incorporated by reference to Exhibit 4.1 to the registration statement on Form S-4 (No. 333-83349), filed on July 21, 1999, as amended).
4.2	—	Form of Class B Common Stock Certificate (incorporated by reference to Exhibit 4.2 to the registration statement on Form S-4 (No. 333-83349), filed on July 21, 1999).
4.3	—	Specimen Certificate of 8 3/8% Debentures due April 1, 2020 (incorporated by reference to Exhibit 4(c) to Registration Statement No. 33-32481, filed December 7, 1989).
4.4	—	Indenture relating to 8 3/8% Debentures due April 1, 2020 (incorporated by reference to Exhibit 4(c) to Registration Statement No. 33-32481, filed December 7, 1989).
4.5	—	Specimen Certificate of 8 3/8% Debentures due April 1, 2030 (incorporated by reference to Exhibit T-3C to Form T-3 filed December 18, 1997).
4.6	—	Indenture relating to Exchange Offer Notes Due 2030 (incorporated by reference to Exhibit T-3C to Form T-3 filed December 18, 1997).
4.7	—	Indenture relating to $2,000,000,000 of debt securities (incorporated by reference to Exhibit 4.1 to Pre-Effective Amendment No. 1 to Registration Statement on Form S-3 (No. 333-08369), filed on January 26, 1999).
4.8	—	Form of Supplemental Indenture relating to $2,000,000,000 of debt securities (incorporated by reference to Exhibit 4.2 to Post-Effective Amendment No. 1 to Registration Statement on Form S-3 (No. 333-08369-01), filed on March 15, 2000).
4.9	—	Form of Second Supplemental Indenture relating to $2,000,000,000 of debt securities (incorporated by reference to Exhibit 4 to Form 10-Q for the Quarter Ended September 30, 2001).
4.10	—	Form of Indenture relating to $2,000,000,000 of debt securities (incorporated by reference to Exhibit 4.1 to Registration Statement on Form S-3 (No. 333-108272), filed on August 27, 2003).
4.11	—	Underwriting Agreement relating to 1.75% Cash-Settled Convertible Senior Notes due September 27, 2007 (incorporated by reference to Exhibit 1 to Form 10-Q for the Quarter Ended September 30, 2000).
4.12	—	Form of Underwriting Agreement relating to $2,000,000,000 of debt securities (incorporated by reference to Exhibit 1.1 to Registration Statement on Form S-3 (No. 333-108272), filed on August 27, 2003).
4.13	—	Selling Agent Agreement relating to UPS Notes with maturities of 9 months or more from date of issue (incorporated by reference to Exhibit 1.1 to Form 8-K filed September 12, 2003) and Form of Note (incorporated by reference to Exhibit 4.1 to Form 8-K filed September 12, 2003).
10.1	—	UPS Thrift Plan, as Amended and Restated, including Amendment Nos. 1 through 24 (incorporated by reference to Exhibit 10.1 to 2001 Annual Report on Form 10-K). (1) Amendment No. 25 to the UPS Thrift Plan (incorporated by reference to Exhibit 10.1(1) to 2002 Annual Report on Form 10-K).
10.2	—	UPS Retirement Plan (including Amendment Nos. 1-4) (incorporated by reference to Exhibit 9 to 1979 Annual Report on Form 10-K). (1) Amendment No. 5 to the UPS Retirement Plan (incorporated by reference to Exhibit 20(a) to 1980 Annual Report on Form 10-K). (2) Amendment No. 6 to the UPS Retirement Plan (incorporated by reference to Exhibit 19(a) to 1983 Annual Report on Form 10-K).

Table of Contents

Exhibit No.		Description
		(3) Amendment No. 7 to the UPS Retirement Plan (incorporated by reference to Exhibit 10(b)(3) to 1984 Annual Report on Form 10-K). (4) Amendment No. 8 to the UPS Retirement Plan (incorporated by reference to Exhibit 10(b)(4) to 1985 Annual Report on Form 10-K). (5) Amendment No. 9 to the UPS Retirement Plan (incorporated by reference to Exhibit 10(b)(5) to 1985 Annual Report on Form 10-K). (6) Amendment No. 10 to the UPS Retirement Plan (incorporated by reference to Exhibit 19(a) to 1988 Annual Report on Form 10-K). (7) Amendment No. 11 to the UPS Retirement Plan (incorporated by reference to Exhibit 19(b) to 1988 Annual Report on Form 10-K). (8) Amendment No. 12 to the UPS Retirement Plan (incorporated by reference to Exhibit 10(b)(8) to 1989 Annual Report on Form 10-K). (9) Amendment No. 13 to the UPS Retirement Plan (incorporated by Reference to Exhibit 10(b)(9) to 1989 Annual Report on Form 10-K). (10) Amendment No. 14 to the UPS Retirement Plan (incorporated by reference to Exhibit 10(b)(10) to 1990 Annual Report on Form 10-K). (11) Amendment No. 15 to the UPS Retirement Plan (incorporated by reference to Exhibit 10(b)(11) to 1992 Annual Report on Form 10-K). (12) Amendment No. 16 to the UPS Retirement Plan (incorporated by reference to Exhibit 10(b)(12) to 1994 Annual Report on Form 10-K). (13) Amendment No. 17 to the UPS Retirement Plan (incorporated by reference to Exhibit 10(b)(13) to 1994 Annual Report on Form 10-K). (14) Amendment No. 18 to the UPS Retirement Plan (incorporated by reference to Exhibit 10(b)(14) to 1995 Annual Report on Form 10-K). (15) Amendment No. 19 to the UPS Retirement Plan (incorporated by reference to Exhibit 10(b)(15) to 1995 Annual Report on Form 10-K). (16) Amendment No. 20 to the UPS Retirement Plan (incorporated by reference to Exhibit 10(b)(16) to 1995 Annual Report on Form 10-K). (17) Amendment No. 21 to the UPS Retirement Plan (incorporated by reference to Exhibit 10(b)(17) to 1996 Annual Report on Form 10-K). (18) Amendment No. 22 to the UPS Retirement Plan (incorporated by reference to Exhibit 10(b)(18) to 1997 Annual Report on Form 10-K). (19) Amendment No. 23 to the UPS Retirement Plan (incorporated by reference to Exhibit 10(b)(19) to 1998 Annual Report on Form 10-K). (20) Amendment No. 24 to the UPS Retirement Plan (incorporated by reference to Exhibit 10(b)(20) to 2000 Annual Report on Form 10-K). (21) Amendment No. 25 to the UPS Retirement Plan (incorporated by reference to Exhibit 10(b)(20) to 2000 Annual Report on Form 10-K). (22) Amendment No. 26 to the UPS Retirement Plan (incorporated by reference to Exhibit 10.2(22) to 2001 Annual Report on Form 10-K). (23) Amendment No. 27 to the UPS Retirement Plan (incorporated by reference to Exhibit 10.2(23) to 2002 Annual Report on Form 10-K). (24) Amendment No. 28 to the UPS Retirement Plan (incorporated by reference to Exhibit 10.2(24) to 2002 Annual Report on Form 10-K).
10.3	—	UPS Savings Plan, as Amended and Restated, including Restatement Amendment Nos. 1 through 8 (incorporated by reference to Exhibit 10.3 to 2001 Annual Report on Form 10-K).
10.4	—	Credit Agreement (364-Day Facility), as amended and restated, dated April 24, 2003 among United Parcel Service, Inc., the initial lenders named therein, Citigroup Global Markets Inc. as Arranger, Bank of America, N.A., and Bank One, NA as Co-Documentation Agents and Citibank, N.A. as Administrative and Syndication Agent (incorporated by reference to Exhibit 10(a) to Quarterly Report on Form 10-Q for the Quarter Ended March 31, 2003).

Table of Contents

Exhibit No.		Description
†10.5	—	Amendment No. 1 to amended and restated Credit Agreement (364-Day Facility) dated December 29, 2003 among United Parcel Service, Inc., the banks, financial institutions and other institutional lenders named therein, Citibank, N.A., as Administrative Agent and Bank of America, N.A. and Bank One, NA as Co-Documentation Agents.
10.6	—	Credit Agreement (Five-Year Facility) dated April 24, 2003 among United Parcel Service, Inc., the initial lenders named therein, Citigroup Global Markets Inc. as Arranger, Bank of America, N.A., and Bank One, NA, as Co-Documentation Agents and Citibank, N.A. as Administrative and Syndication Agent (incorporated by reference to Exhibit 10(b) to Quarterly Report on Form 10-Q for the Quarter Ended March 31, 2003).
†10.7	—	Amendment No. 1 to Credit Agreement (Five-Year Facility) dated December 29, 2003 among United Parcel Service, Inc., the banks, financial institutions and other institutional lenders named therein, Citibank, N.A., as Administrative Agent and Bank of America, N.A. and Bank One, NA as Co- Documentation Agents.
†10.8	—	UPS Excess Coordinating Benefit Plan.
†10.9	—	UPS 1996 Stock Option Plan, as amended and restated.
10.10	—	UPS Qualified Stock Ownership Plan and Trust Agreement (incorporated by reference to Exhibit 4.1 to Registration Statement No. 333-67479, filed November 18, 1998).
		(1) Amendment No. 1 to the UPS Qualified Stock Ownership Plan and Trust Agreement(incorporated by reference to Exhibit 10.19(1) to 1999 Annual Report on Form 10-K).
		(2) Amendment No. 2 to the UPS Qualified Stock Ownership Plan and Trust Agreement (incorporated by reference to Exhibit 10.19(2) to 1999 Annual Report on Form 10-K).
		(3) Amendment No. 3 to the UPS Qualified Stock Ownership Plan and Trust Agreement (incorporated by reference to Exhibit 10.19(3) to 1999 Annual Report on Form 10-K).
		(4) Amendment No. 4 to the UPS Qualified Stock Ownership Plan and Trust Agreement (incorporated by reference to Exhibit 10.19(4) to 2000 Annual Report on Form 10-K).
		(5) Amendment No. 5 to the UPS Qualified Stock Ownership Plan and Trust Agreement (incorporated by reference to Exhibit 10.8(5) to 2001 Annual Report on Form 10-K).
		(6) Amendment No. 6 to the UPS Qualified Stock Ownership Plan and Trust Agreement (incorporated by reference to Exhibit 10.8(6) to 2001 Annual Report on Form 10-K).
		(7) Amendment No. 7 to the UPS Qualified Stock Ownership Plan and Trust Agreement (incorporated by reference to Exhibit 10.8(7) to 2002 Annual Report on Form 10-K).
		†(8) Amendment No. 8 to the UPS Qualified Stock Ownership Plan and Trust Agreement.
		†(9) Amendment No. 9 to the UPS Qualified Stock Ownership Plan and Trust Agreement.
10.11	—	Form of United Parcel Service, Inc. Incentive Compensation Plan (incorporated by reference to the registration statement on Form S-4 (No. 333-83349), filed on July 21, 1999, as amended).
10.12	—	UPS Deferred Compensation Plan (incorporated by reference to Exhibit 10.10 to 2000 Annual Report on Form 10-K).
10.13	—	United Parcel Service, Inc. Nonqualified Employee Stock Purchase Plan (incorporated by reference to the registration statement on Form S-8 (No. 333-34054), filed on April 5, 2000.
10.14	—	Form of United Parcel Service, Inc. Discounted Employee Stock Purchase Plan (incorporated by reference to Appendix B to Definitive Proxy Statement for 2001 Annual Meeting of Shareowners).
†21	—	Subsidiaries of the Registrant.
†23	—	Consent of Deloitte & Touche LLP.
†31.1	—	Certificate of Chief Executive Officer Pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
†31.2	—	Certificate of Chief Financial Officer Pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

Exhibit No.		Description
†32.1	—	Certification of the Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
†32.2	—	Certification of the Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

† Filed herewith.

AMENDMENT NO. 1 TO SEVENTH AMENDED AND RESTATED CREDIT AGREEMENT (364-DAY FACILITY)

DATED AS OF DECEMBER 29, 2003

UNITED PARCEL SERVICE, INC., a Delaware corporation (the "Borrower"), the banks, financial institutions and other institutional lenders party to the Credit Agreement referred to below (collectively, the "Lenders"), Citibank, N.A., as administrative agent (the "Administrative Agent") for the Lenders and Bank of America, N.A. and Bank One, NA, as co-documentation agents (the "Co-Documentation Agents") for the Lenders, hereby agree as follows:

PRELIMINARY STATEMENTS

(1) The Borrower, the Lenders, the Administrative Agent and the Co-Documentation Agents have entered into a Seventh Amended and Restated Credit Agreement (364-Day Facility) dated as of April 24, 2003 (as amended, supplemented or otherwise modified through the date hereof, the "Credit Agreement"). Capitalized terms not otherwise defined in this Amendment shall have the same meanings as specified in the Credit Agreement.

(2) The Borrower and the Required Lenders have agreed to amend the Credit Agreement as hereinafter set forth.

SECTION 1. Amendments to the Credit Agreement. Effective as of the date of this Amendment and subject to the satisfaction of the conditions precedent set forth in Section 2 hereof:

(a) Section 3.02 of the Credit Agreement is hereby amended by deleting the phrase "and in subsection (h) thereof" appearing in the parenthetical to subsection (a) thereof and substituting the phrase ", subsection (h) thereof and subsection (i) thereof" therefor.

(b) Section 3.03 of the Credit Agreement is hereby amended by deleting the phrase "and in subsection (h) thereof" appearing in the parenthetical to subsection (c) (i) thereof and substituting the phrase ", subsection (h) thereof and subsection (i) thereof" therefor.

(c) Section 5.02 of the Credit Agreement is hereby amended by adding a new clause (e) thereto to read as follows:

> "(e) Consolidated Net Worth. In the case of the Borrower, permit its Consolidated Net Worth at any time to be less than $3.0 billion; provided, however, that the Borrower shall be permitted to have a Consolidated Net Worth of not less than $2.5 billion for a single period during the term of this Agreement of not more than 12 months' duration.".

(d) Section 6.01 of the Credit Agreement is hereby amended by deleting subsection (i) thereof in its entirety and substituting the phrase "Intentionally Omitted" therefor.

SECTION 2. Conditions of Effectiveness of this Amendment. This Amendment shall become effective as of the date first written above when and only if the Administrative Agent shall have received counterparts of this Amendment executed by the Borrower, each Guarantor and the Required

Lenders or, as to any of the Lenders, advice satisfactory to the Administrative Agent that such Lender has executed this Amendment.

SECTION 3. Affirmation of Guaranty. Each of the Guarantors hereby consents to the execution and delivery of this Amendment and ratifies and confirms its obligations under the Guaranty dated April 24, 2003, which obligations shall remain in full force and effect notwithstanding the effectiveness of this Amendment. Each of the Guarantors further agrees that all references to "the Borrower" in the above referenced Guaranty shall be deemed to be references to the Borrower hereunder.

SECTION 4. Reference to and Effect on the Credit Agreement and the Notes. (a) On and after the effectiveness of this Amendment, each reference in the Credit Agreement to "this Agreement", "hereunder", "hereof" or words of like import referring to the Credit Agreement, and each reference in the Notes to "the Credit Agreement", "thereunder", "thereof" or words of like import referring to the Credit Agreement, shall mean and be a reference to the Credit Agreement, as amended by this Amendment.

(b) The Credit Agreement and the Notes, as specifically amended by this Amendment, are and shall continue to be in full force and effect and are hereby in all respects ratified and confirmed.

(c) The execution, delivery and effectiveness of this Amendment shall not, except as expressly provided herein, operate as a waiver of any right, power or remedy of any Lender or the Administrative Agent under the Loan Documents, nor constitute a waiver of any provision of any of the Loan Documents.

SECTION 5. Costs and Expenses. The Borrower agrees to pay on demand all reasonable out-of-pocket costs and expenses of the Administrative Agent in connection with the preparation, execution, delivery and administration, modification and amendment of this Amendment (including, without limitation, the reasonable and documented fees and expenses of counsel for the Administrative Agent with respect hereto) in accordance with the terms of Section 8.04 of the Credit Agreement.

SECTION 6. Execution in Counterparts. This Amendment may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement. Delivery of an executed counterpart of a signature page to this Amendment by telecopier shall be effective as delivery of an original executed counterpart of such signature page.

SECTION 7. Governing Law. This Amendment shall be governed by, and construed in accordance with, the laws of the State of New York.

[Remainder of this Page Intentionally Left Blank]

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed by their respective officers thereunto duly authorized, as of the date first above written.

UNITED PARCEL SERVICE, INC.,
as Borrower

By /s/ THOMAS DELBROOK

Name: Thomas Delbrook
Title: Authorized Officer

UNITED PARCEL SERVICE, INC.,
a New York corporation, as Guarantor

By /s/ THOMAS DELBROOK

Name: Thomas Delbrook
Title: Authorized Officer

UNITED PARCEL SERVICE, INC.,
an Ohio corporation, as Guarantor

By /s/ THOMAS DELBROOK

Name: Thomas Delbrook
Title: Authorized Officer

UNITED PARCEL SERVICE CO.,
a Delaware corporation, as Guarantor

By /s/ THOMAS DELBROOK

Name: Thomas Delbrook
Title: Authorized Officer

CITIBANK, N.A.,
as Administrative Agent, Syndication Agent and Lender

By /s/ ROBERT A. DANZINGER

Name: Robert A. Danzinger
Title: Vice President

BANK OF AMERICA, N.A.,
as Co-Documentation Agent and as Lender

By /s/ CHAS MCDONELL

Name: Chas McDonell
Title: Managing Director

BANK ONE, NA,
as Co-Documentation Agent and as Lender

By /s/ CHRISTOPHER C. CAVAIANI

Name: Christopher C. Cavaiani
Title: Director

ABN AMRO BANK N.V., as Lender

By /s/ ANGELA NOIQUE

Name: Angela Noique
Title: Vice President

By /s/ TERRANCE J. WARD

Name: Terrance J. Ward
Title: Senior Vice President

JPMORGAN CHASE BANK, as Lender

By /s/ MATTHEW H. MASSIE

Name: Matthew H. Massie
Title: Managing Director

BNP PARIBAS, as Lender

By /s/ MIKE SHRYOCK

Name: Mike Shryock
Title: Director

By /s/ AURORA ABELLA

Name: Aurora Abella
Title: Vice President

Mellon Bank, N.A., as Lender
(Type or print legal name of Lender)

By /s/ DANIEL J. LENCKOS

Name: Daniel J. Lenckos
Title: First Vice President

Royal Bank of Canada, as Lender

By /s/ DANA DRATCH

Name: Dana Dratch
Title: Authorized Signatory

Wells Fargo Bank, National Association, as Lender

By /s/ WILLIAM J. DARBY

Name: William J. Darby
Title: Vice President

By /s/ ALEX IDICHANDY

Name: Alex Idichandy
Title: Vice President

BARCLAYS BANK PLC, as Lender

By /s/ DOUGLAS BERNEGGER

Name: Douglas Bernegger
Title: Director

Dresdner Bank AG, New York and Grand Cayman
Branches, as Lender

By /s/ DEBORAH CARLSON

Name: Deborah Carlson
Title: Director

By /s/ STEPHEN KOVACH

Name: Stephen Kovach
Title: Vice President

Standard Chartered Bank, as Lender
(Type or print legal name of Lender)

By /s/ ANDREW NG

Name: Andrew Ng
Title: Vice President, Senior Credit
Documentation Officer and Middle Office Support

By /s/ ANTONY JACOB

Name: Antony Jacob
Title: VP - Risk Management, C&IB, Americas

CREDIT SUISSE FIRST BOSTON, acting through its
Cayman Islands Branch, as Lender

By /s/ JAY CHALL

Name: JAY CHALL
Title: DIRECTOR

By /s/ BILL O'DALY

Name: BILL O'DALY
Title: DIRECTOR

Merrill Lynch Bank USA, as Lender

By /s/ LOUIS ALDER

Name: Louis Alder
Title: Vice President

UBS AG, Cayman Islands Branch,
as Lender

By /s/ Patricia O'Kicki

Name: Patricia O'Kicki
Title: Director

By /s/ WILFRED V. SAINT

Name: Wilfred V. Saint
Title: Associate Director
Banking Products
Services, US

EXHIBIT 10.7

AMENDMENT NO. 1 TO CREDIT AGREEMENT
(FIVE-YEAR FACILITY)

DATED AS OF DECEMBER 29, 2003

UNITED PARCEL SERVICE, INC., a Delaware corporation (the "Borrower"), the banks, financial institutions and other institutional lenders party to the Credit Agreement referred to below (collectively, the "Lenders"), Citibank, N.A., as administrative agent (the "Administrative Agent") for the Lenders and Bank of America, N.A. and Bank One, NA, as co-documentation agents (the "Co-Documentation Agents") for the Lenders, hereby agree as follows:

PRELIMINARY STATEMENTS

(1) The Borrower, the Lenders, the Administrative Agent and the Co-Documentation Agents have entered into a Credit Agreement (Five-Year Facility) dated as of April 24, 2003 (as amended, supplemented or otherwise modified through the date hereof, the "Credit Agreement"). Capitalized terms not otherwise defined in this Amendment shall have the same meanings as specified in the Credit Agreement.

(2) The Borrower and the Required Lenders have agreed to amend the Credit Agreement as hereinafter set forth.

SECTION 1. Amendments to the Credit Agreement. Effective as of the date of this Amendment and subject to the satisfaction of the conditions precedent set forth in Section 2 hereof:

(a) Section 3.02 of the Credit Agreement is hereby amended by deleting the phrase "and in subsection (h) thereof" appearing in the parenthetical to subsection (a) thereof and substituting the phrase ", subsection (h) thereof and subsection (i) thereof" therefor.

(b) Section 3.03 of the Credit Agreement is hereby amended by deleting the phrase "and in subsection (h) thereof" appearing in the parenthetical to subsection (c) (i) thereof and substituting the phrase ", subsection (h) thereof and subsection (i) thereof" therefor.

(c) Section 6.01 of the Credit Agreement is hereby amended by deleting subsection (i) thereof in its entirety and substituting the phrase "Intentionally Omitted" therefor.

SECTION 2. Conditions of Effectiveness of this Amendment. This Amendment shall become effective as of the date first written above when and only if the Administrative Agent shall have received counterparts of this Amendment executed by the Borrower, each Guarantor and the Required Lenders or, as to any of the Lenders, advice satisfactory to the Administrative Agent that such Lender has executed this Amendment.

SECTION 3. Affirmation of Guaranty. Each of the Guarantors hereby consents to the execution and delivery of this Amendment and ratifies and confirms its obligations under the Guaranty dated April 24, 2003, which obligations shall remain in full force and effect notwithstanding the effectiveness of this Amendment. Each of the Guarantors further agrees that all references to "the Borrower" in the above referenced Guaranty shall be deemed to be references to the Borrower hereunder.

SECTION 4. Reference to and Effect on the Credit Agreement and the Notes. (a) On and after the effectiveness of this Amendment, each reference in the Credit Agreement to "this Agreement", "hereunder", "hereof" or words of like import referring to the Credit Agreement, and each reference in the Notes to "the Credit Agreement", "thereunder", "thereof" or words of like import referring to the Credit Agreement, shall mean and be a reference to the Credit Agreement, as amended by this Amendment.

(b) The Credit Agreement and the Notes, as specifically amended by this Amendment, are and shall continue to be in full force and effect and are hereby in all respects ratified and confirmed.

(c) The execution, delivery and effectiveness of this Amendment shall not, except as expressly provided herein, operate as a waiver of any right, power or remedy of any Lender or the Administrative Agent under the Loan Documents, nor constitute a waiver of any provision of any of the Loan Documents.

SECTION 5. Costs and Expenses. The Borrower agrees to pay on demand all reasonable out-of-pocket costs and expenses of the Administrative Agent in connection with the preparation, execution, delivery and administration, modification and amendment of this Amendment (including, without limitation, the reasonable and documented fees and expenses of counsel for the Administrative Agent with respect hereto) in accordance with the terms of Section 8.04 of the Credit Agreement.

SECTION 6. Execution in Counterparts. This Amendment may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement. Delivery of an executed counterpart of a signature page to this Amendment by telecopier shall be effective as delivery of an original executed counterpart of such signature page.

SECTION 7. Governing Law. This Amendment shall be governed by, and construed in accordance with, the laws of the State of New York.

[Remainder of this Page Intentionally Left Blank]

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed by their respective officers thereunto duly authorized, as of the date first above written.

UNITED PARCEL SERVICE, INC.,
as Borrower

By /s/ THOMAS DELBROOK
Name: Thomas Delbrook
Title: Authorized Officer

UNITED PARCEL SERVICE, INC.,
a New York corporation, as Guarantor

By /s/ THOMAS DELBROOK
Name: Thomas Delbrook
Title: Authorized Officer

UNITED PARCEL SERVICE, INC.,
an Ohio corporation, as Guarantor

By /s/ THOMAS DELBROOK
Name: Thomas Delbrook
Title: Authorized Officer

UNITED PARCEL SERVICE CO.,
a Delaware corporation, as Guarantor

By /s/ THOMAS DELBROOK
Name: Thomas Delbrook
Title: Authorized Officer

CITIBANK, N.A.,
as Administrative Agent, Syndication Agent and Lender

By /s/ ROBERT A. DANZINGER
Name: Robert A. Danzinger
Title: Vice President

BANK OF AMERICA, N.A.,
as Co-Documentation Agent and as Lender

By /s/ CHAS MCDONELL

Name: Chas McDonell
Title: Managing Director

BANK ONE, NA,
as Co-Documentation Agent and as Lender

By /s/ CHRISTOPHER C. CAVAIANI

Name: Christopher C. Cavaiani
Title: Director

ABN AMRO BANK N.V., as Lender

By /s/ ANGELA NOIQUE

Name: Angela Noique
Title: Vice President

By /s/ TERRANCE J. WARD

Name: Terrance J. Ward
Title: Senior Vice President

JPMORGAN CHASE BANK, as Lender

By /s/ MATTHEW H. MASSIE

Name: Matthew H. Massie
Title: Managing Director

BNP PARIBAS, as Lender

By /s/ MIKE SHRYOCK

Name: Mike Shryock
Title: Director

By /s/ AURORA ABELLA

Name: Aurora Abella
Title: Vice President

Mellon Bank, N.A., as Lender
(Type or print legal name of Lender)

By /s/ DANIEL J. LENCKOS

Name: Daniel J. Lenckos
Title: First Vice President

Royal Bank of Canada, as Lender

By /s/ DANA DRATCH

Name: Dana Dratch
Title: Authorized Signatory

Wells Fargo Bank, National Association, as Lender

By /s/ WILLIAM J. DARBY

Name: William J. Darby
Title: Vice President

By /s/ ALEX IDICHANDY

Name: Alex Idichandy
Title: Vice President

BARCLAYS BANK PLC, as Lender

By /s/ DOUGLAS BERNEGGER

Name: Douglas Bernegger
Title: Director

Dresdner Bank AG, New York and Grand Cayman
Branches, as Lender

By /s/ DEBORAH CARLSON

Name: Deborah Carlson
Title: Director

By /s/ STEPHEN KOVACH

Name: Stephen Kovach
Title: Vice President

Standard Chartered Bank, as Lender

(Type or print legal name of Lender)

By /s/ ANDREW NG

Name: Andrew Ng
Title: Vice President, Senior Credit
Documentation Officer and Middle Office Support

By /s/ ANTONY JACOB

Name: Antony Jacob
Title: VP - Risk Management, C&IB, Americas

CREDIT SUISSE FIRST BOSTON, acting through its
Cayman Islands Branch , as Lender

By /s/ JAY CHALL

Name: Jay Chall
Title: Director

By /s/ KARL STUDER

Name: Karl Studer
Title: Director

Merrill Lynch Bank USA, as Lender

By /s/ LOUIS ALDER

Name: Louis Alder
Title: Vice President

UBS AG, Cayman Islands Branch,
as Lender

By /s/ PATRICIA O'KICKI

Name: Patricia O'Kicki
Title: Director

By /s/ WILFRED V. SAINT

Name: Wilfred V. Saint
Title: Associate Director
Banking Products
Services, US

.
.
.

EXHIBIT 10.8

UPS

EXCESS COORDINATING BENEFIT PLAN

TABLE OF CONTENTS

UPS

EXCESS COORDINATING BENEFIT PLAN

United Parcel Service of America, Inc. ("UPS") hereby establishes, effective as of January 29, 1998, this UPS Excess Coordinating Benefit Plan to provide to certain highly compensated and management employees of UPS or its affiliated companies who are participants in the Retirement Plan those retirement benefits that cannot be paid from the Retirement Plan as a result of the limitations imposed by Sections 401(a)(17) and 415 of the Code. This Plan amends, restates and replaces the Prior Plan to the extent that plan provided for "coordinating retirement benefits" as described in Section 3.1 of the Prior Plan or death benefits as described in Section 5.1 of the Prior Plan.

ARTICLE I--DEFINITIONS

Section 1.1 Definitions. Whenever used herein, the following words shall have the meaning set forth below unless otherwise clearly required by the context:

(a) "Board of Directors" means the Board of Directors and/or Executive Committee of UPS.

(b) "Change in Control" means

(1) the approval by the shareholders of UPS of a reorganization, merger, share exchange or consolidation, in each case, where persons who were shareholders of UPS immediately prior to such reorganization, merger, share exchange or consolidation do not, immediately thereafter, own more than 50% of the combined voting power of the reorganized, merged, surviving or consolidated company's then outstanding securities entitled to vote generally in the election of directors; or a liquidation or dissolution of UPS or of the sale of all or substantially all of UPS's assets;

(2) consummation of a business combination between UPS and any entity which has a market capitalization equal to or greater than 80% of the market capitalization of UPS;

(3) individuals who, as of the effective date of this Plan, constitute the Board of Directors (the "Incumbent Board") and who cease for any reason to constitute at least an 80% majority of the Board of Directors, provided that any person becoming a director subsequent to the effective date whose election, or nomination for election by UPS's shareholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board (other than an election or nomination of an individual whose initial assumption of office is in connection with an actual or threatened election contest relating to the election of the directors of UPS, as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Securities Exchange Act of 1934) shall be considered as though such person were a member of the Incumbent Board; or

(4) a change (other than due to retirement in the normal course) of 50% or more of the executive officers of UPS at the level of Senior Vice President and above within a consecutive twelve month period.

(c) "Code" means the Internal Revenue Code of 1986, as amended.

(d) "Committee" means the administrative committee of the Plan, the establishment and responsibilities of which are set forth in Article VII.

(e) "Coordinating Retirement Benefit" means the benefit described in Section 3.1.

(f) "Coordinating Surviving Spouse Benefit" means the benefit described in Section 4.1.

(g) "Effective Date" means January 29, 1998.

(h) "Eligible Employee" means each full-time manager and supervisor of an Employer Company (as so designated on the payroll records for such Employer Company) who has reached age 55 and completed as least 10 "years of service" as described in the Retirement Plan.

(i) "Employer Company" means an Employer Company for purposes of the Retirement Plan.

(j) "ERISA" means the Employee Retirement Income Security Act of 1974, as amended.

(k) "Participant" means an Eligible Employee and any other employee or former employee of an Employer Company or surviving spouse who becomes a participant in this Plan in accordance with Article II.

(l) "Plan" means the UPS Excess Coordinating Benefit Plan as set forth in this document and as hereafter amended by the Board of Directors from time to time.

(m) "Prior Plan" means the UPS Coordinating Benefit Plan, as established as of January 1, 1986 and as thereafter amended.

(n) "Retirement Date" means the Participant's early, normal or postponed retirement date for purposes of the Retirement Plan.

(o) "Retirement Plan" means the UPS Retirement Plan, as amended.

ARTICLE II--ELIGIBILITY AND PARTICIPATION

Section 2.1 Eligible Employees. The Committee shall designate those Eligible Employees who shall be entitled to participate in this Plan and each Eligible Employee so designated shall become a Participant upon the completion of such application or other procedures established by the Committee to commence participation.

Section 2.2 Prior Plan. Each former employee of an Employer Company who was receiving a "coordinating retirement benefit" as described in Section 3.1 of the Prior Plan and each surviving spouse who was receiving a death benefit as described in Section 5.1 of the Prior Plan immediately before the Effective Date automatically shall become a Participant in this Plan on the Effective Date to the extent of his/her coordinating retirement benefit or death benefit under the Prior Plan.

Section 2.3 Change in Control. Each employee of an Employer Company who is employed as a full-time manager or supervisor at the time of a Change in

Control (as designated on the payroll records for such Employer Company) whose benefit under the Retirement Plan is limited at any date on or after the Change in Control by Section 401(a)(17) or Section 415 of the Code automatically will become a participant in this Plan as of the latest to occur of the date his/her Retirement Plan benefit first becomes limited or the date of the Change in Control.

Section 2.4 Period of Participation. Each person who becomes a Participant in this Plan shall remain a Participant until the earlier of a) his/her benefits under the Retirement Plan are no longer limited by Section 401(a)(17) or Section 415 of the Code or b) all benefits are paid to or on behalf of such Participant in accordance with Article III or forfeited in accordance with Article V.

ARTICLE III--BENEFITS

Section 3.1 Coordinating Retirement Benefit. Upon attainment of his/her Retirement Date and retirement from service with all Employer Companies with a benefit payable from the Retirement Plan, a Participant (other than a Participant who was receiving a benefit under the Prior Plan) shall be entitled to an annual Coordinating Retirement Benefit, equal to (a) minus (b) below:

(a) The Participant's benefit from the Retirement Plan (in the same form payable to the Participant under the Retirement Plan) taking into account any reduction applicable under the Retirement Plan for benefit payments under other plans or programs, but without taking into account the additional benefits described in Exhibit D of the Retirement Plan or the limitations of Sections 401(a)(17) and 415 of the Code.

(b) The Participant's actual benefit from the Retirement Plan.

Each Participant who was receiving a coordinating retirement benefit described in Section 3.1 of the Prior Plan immediately before the Effective Date shall receive a Coordinating Retirement Benefit equal to the amount of that Prior Plan benefit.

Section 3.2 Timing. Except as provided in Sections 3.3 and 3.4, the Coordinating Retirement Benefit shall commence on the same date as payment of the Participant's benefit under the Retirement Plan, be paid thereafter on the same date as payments are made to the Participant or his/her surviving spouse or beneficiary by the Retirement Plan, and shall cease to be paid upon cessation of the payment of benefits to the Participant or his/her surviving spouse or beneficiary from the Retirement Plan.

Section 3.3 Lump Sum Option. A Participant in salary grade 25 or higher retiring after the Effective Date but on or before March 1, 1998, may make a written election in accordance with procedures established by the Committee to have the present value of all or a portion of the benefit payable to such Participant under Section 3.1 paid to him/her in a lump sum as soon as practicable following his/her retirement from service with all Employer Companies in lieu of any benefit that would have been payable to such Participant under Section 3.1. Present value shall be calculated using the "applicable interest rate" and the "applicable mortality table" as defined in Section 417 of the Code and such additional assumptions as the Committee deems appropriate to reflect the possibility that the Participant's Retirement Plan benefit will be increased when the limitations under Section 415 of the Code are increased. The applicable interest rate for any Plan Year shall be determined for the entire Plan Year based on the rate in effect for October

preceding the beginning of such Plan Year. A lump sum option must be elected before the Effective Date of this Plan and shall be irrevocable. No Coordinating Surviving Spouse Benefit shall be payable on behalf of a Participant to the extent such Participant receives a lump sum payment under this Section 3.3. A Participant who receives a lump sum in lieu of his/her entire benefit payable under Section 3.1 thereafter shall cease to be a Participant in this Plan.

I. Section 3.4 Reduced Lump Sum. Notwithstanding the foregoing, if the rating assigned to UPS senior debt securities by Standard & Poor's Rating Group becomes BBB- and the rating assigned to such securities by Moody's Investors Services, Inc. becomes Baa3 (or, if either, but not both ratings services cease to rate UPS senior debt securities, the rating of the remaining service shall control) and such ratings remain in effect for a period of 90 days, a Participant who is an employee or former employee may at any time while such ratings are in effect elect to receive a reduced benefit in lieu of the benefit that otherwise would be payable to such Participant under Section 3.1 or 3.3. Such reduced benefit shall be equal to the present value of (a)(i) the benefit remaining to be paid to him/her if the Participant has begun to receive benefits under this Plan or (ii) if the Participant has not retired, the benefit that would have been payable to him/her if he/she had terminated employment at the end of the month in which such request is made less (b) 10%. Present value shall be calculated in accordance with Section 3.3. Such reduced benefit shall be paid to such Participant in a lump sum no later than 60 days after the written request for such benefit is received by the Committee. An election of a reduced benefit under this Section 3.4 shall be irrevocable. If a Participant elects a benefit under this Section 3.4, no Coordinating Surviving Spouse Benefit shall be payable on his/her behalf and such Participant thereafter shall cease to be an eligible Participant in this Plan.

ARTICLE IV--COORDINATING SURVIVING SPOUSE BENEFIT

Section 4.1 Coordinating Surviving Spouse Benefit. Upon the death of a Participant (other than a Participant who was receiving a death benefit under the Prior Plan) before commencement of a Coordinating Retirement Benefit , such Participant's surviving spouse, if he/she is entitled to receive a Qualified Joint and Survivor (Husband and Wife) Preretirement Survivor Benefit under the Retirement Plan, shall be entitled to receive an annual Coordinating Surviving Spouse Benefit from this Plan equal to (a) minus (b) minus (c) below:

(a) The survivor benefit that would be payable to such spouse from the Retirement Plan without taking into account the additional benefits described in Exhibit D of the Retirement Plan or the limitations of Sections 401(a)(17) and 415 of the Code.

(b) The actual benefit payable to such surviving spouse from the Retirement Plan.

(c) An amount that bears the same proportion to the excess of (a) over (b) as the portion of the Participant's benefit that was paid in a lump sum under Section 3.3 bears to what would have been the Participant's entire benefit under Section 3.1 of this Plan.

Notwithstanding the foregoing, if a Participant receives his/her entire benefit in a lump sum under Section 3.3 or 3.4, no Coordinating Survivor Spouse Benefit shall be payable to his/her surviving Spouse.

Each Participant who was receiving a death benefit under Section 5.1 of the Prior Plan immediately before the Effective Date shall receive a Coordinating Survivor Spouse Benefit equal to the amount of that Prior Plan benefit.

Section 4.2 Timing and Form. Except as provided below, the Coordinating Surviving Spouse Benefit shall commence on the same date as payment of the survivor benefit under the Retirement Plan begins, be paid thereafter on the same date as payments are made to the surviving spouse by the Retirement Plan, and shall cease to be paid upon cessation of the payment of benefits to the surviving spouse from the Retirement Plan. If a Participant makes an election under Section 3.3 to have all or a portion of the benefit payable to such Participant paid to him/her in a lump sum, but dies before receiving such benefit, then all or a portion of the Coordinating Surviving Spouse Benefit payable to his/her Spouse shall be paid to such Spouse in a lump sum (calculated using the same assumptions described in Section 3.3) as soon as practicable following the Participant's death. The portion of the Coordinating Surviving Spouse Benefit payable in a lump sum shall be the same percentage of the benefit elected by the Participant to be paid to him/her in a lump sum.

ARTICLE V--FORFEITURE OF BENEFITS

Anything herein to the contrary notwithstanding, if a Participant who is receiving, or may be entitled to receive, a benefit hereunder engages in competition with UPS or any Employer Company (without prior written authorization given by the Board of Directors) or is discharged for cause, or performs acts of willful malfeasance or gross negligence in a matter of material importance to the Employer Company, payments thereafter payable hereunder to such Participant or such Participant's spouse or beneficiary will, at the sole discretion of the Board of Directors, be forfeited and neither UPS nor this Plan will have any further obligation hereunder to such Participant or his/her spouse or designated Beneficiary.

ARTICLE VI--COMMITTEE

Section 6.1 Establishment of Committee. Authority to control and manage the operation and administration of the Plan shall be vested in the Committee consisting of not less than three (3) members, who shall be appointed by the Board of Directors. The Committee shall be the agent for service of process on or with respect to the Plan. Committee members may be removed at any time by the Board of Directors and may resign at any time, such resignation to be effective when accepted by the Board of Directors. All vacancies shall be filled by the Board of Directors. The Committee may appoint from their number such committees, which may include individuals not members of the Committee, with such powers as they shall determine; may authorize one or more of their number, or any agent, to execute or deliver any instrument, or to make any payment in their behalf; and may employ legal counsel (who may be counsel to UPS), agents, and such clerical, accounting and other services as they may require in carrying out the provisions of the Plan. A majority of the members of the Committee at the time in office shall constitute a quorum for the transaction of business. All resolutions or other action taken by the Committee at a meeting shall be by the vote of the majority of the Committee at any meeting; or without a meeting, by instrument in writing signed by all of the members of the Committee.

Section 6.2 Delegation of Specific Responsibilities. The members of the Committee may agree in a writing signed by each member to allocate to any one of their number or to other persons any of the responsibilities with which they are charged pursuant hereto, provided the

responsibilities and duties so delegated are definitively set forth so that the person to whom the delegation is made is clearly aware of such duties and responsibilities. If such delegation is made to a person not a member of the Committee, that person or, in the case of a corporation, its responsible officer, shall acknowledge the acceptance and understanding of such duties and responsibilities.

Section 6.3 Power to Establish Regulations. The Committee shall establish rules and regulations for the administration of the Plan and the Committee. Except as otherwise herein expressly provided, the Committee shall have the exclusive right to interpret the Plan and decide any matters arising in the administration and operation of the Plan, and any interpretations or decisions so made shall be conclusive and binding on all persons; provided, however, that all such interpretations and decisions shall be applied in a uniform manner to all employees and Participants similarly situated.

Section 6.4 Liability of the Committee. The Committee and members thereof, to the extent of the exercise of their authority, shall discharge their duties with respect to the Plan with care, skill, prudence and diligence; provided, however, that no Committee member shall be responsible for the actions or omissions of a member or any other person, other than himself/herself, which are not in conformity hereto, unless such member knowingly participates in or knowingly conceals such conduct which he/she knows to be in breach of this standard, his/her own conduct has enabled the other member or other person to be in breach of this standard, or he/she has knowledge of such breach by another member or other person and fails to make reasonable efforts under the circumstances to remedy such breach.

Section 6.5 Reliance by Committee. Board of Directors and Committee members shall be fully protected with respect to any action taken or suffered by them in good faith in reliance upon the advice or opinion of any insurance carrier, accountant, legal counsel or physician, and all action so taken or suffered shall be conclusive upon all Participants and any other person claiming under the Plan.

Section 6.6 Books and Records. The Committee shall keep appropriate books and records.

ARTICLE VII--AMENDMENT AND TERMINATION

Section 7.1 Right of Amendment. UPS reserves the right to make any amendment or amendments to this Plan by resolutions of its Board of Directors, provided, however, that no amendment shall reduce UPS's liability to provide any benefits earned to date of amendment hereunder to employees who are Participants on the date of amendment, except as provided in Article V hereof.

Section 7.2 Right to Terminate. UPS, by action of its Board of

Directors, may terminate this Plan at any time in whole or in part. No termination of this Plan shall reduce UPS's liability to provide any benefits earned to date of termination hereunder to employees who are Participants on the date of termination based on the provisions of this Plan in effect immediately prior to the date of termination, or the amount of benefits payable to a Participant who has retired under the provisions of this Plan or the spouse or other Beneficiary of any Participant receiving benefits under this Plan, except as provided in Article V hereof. Upon termination of this Plan, no additional employees may become Participants hereunder.

ARTICLE VIII--NO FUNDING OBLIGATION

The obligation of UPS to pay any benefits under this Plan shall be unfunded and unsecured; and any payments under this Plan shall be made from the general assets of UPS. Notwithstanding the foregoing, UPS may, in its discretion, establish an irrevocable grantor trust for the purpose of funding all or part

of its obligations under this plan; provided however, that the terms of such trust require that the assets thereof remain subject to the claims of UPS's judgment creditors and are non-assignable and non-alienable by any Participant or Beneficiary prior to distribution thereof.

ARTICLE IX--MISCELLANEOUS

Section 9.1 Claims Procedure. Any claim for a benefit under this Plan shall be filed and resolved in accordance with the claims procedure provided under the Retirement Plan which is hereby incorporated in this Plan by reference, except that the Committee of this Plan shall be the entity with whom a claim for review should be filed under this Plan.

Section 9.2 No Guarantee of Employment. Nothing contained in this Plan shall be construed as a contract of employment between the Employer Company and any employee or Participant, as a right of any employee or Participant to be continued in the employment of the Employer Company, or as a limitation of the right of the Employer Company to discharge the employee or Participant with or without cause.

Section 9.3 Nonalienation of Benefits. No benefit or payment under this Plan shall be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, levy or charge, and any attempt so to anticipate, alienate, sell, transfer, assign, pledge, encumber, levy upon or charge the same shall be void except that benefits may be paid to an alternate payee under a domestic relations order that is treated as a qualified domestic relations order under the Retirement Plan. Notwithstanding this statement, if the Participant is indebted to UPS at any time when payments are required to be made under the provisions of this Plan, UPS shall have the right to reduce the amount of payments remaining to be made to the Participant or his/her spouse or beneficiary under the Plan to the extent of such indebtedness. An election by UPS not to reduce such payment shall not constitute a waiver of its claim for such indebtedness.

Section 9.4 ERISA. UPS intends that this Plan constitute an "excess benefit plan" as defined in Section 3(36) of ERISA and, therefore, be exempt from coverage under ERISA. However, to the extent this Plan does not constitute an "excess benefit plan," UPS intends that this Plan come within the various exceptions and exemptions to ERISA for a plan maintained for a "select group of management or highly compensated employees" as described in Sections 201(2), 301(a) (3), and 401(a) (1) of ERISA. Any ambiguities in this Plan shall be construed to effect the intent as described in this Section.

Section 9.5 Construction. The headings and subheadings set forth in this Plan are intended for convenience only and have no substantive meaning whatsoever. In the construction of this Plan, the singular shall include the plural. This Plan shall be construed in accordance with the laws of the State of Georgia.

Executed this 29th day of January, 1998.

ATTEST:	UNITED PARCEL SERVICE OF AMERICA, INC.
/s/ Joseph R. Moderow	/s/ James P. Kelly
Joseph R. Moderow	James P. Kelly
Secretary	Chairman

EXHIBIT 10.9

UNITED PARCEL SERVICE OF AMERICA, INC.
1996 STOCK OPTION PLAN
(As amended and restated on September 19, 1997)

1. Purpose.

The purpose of this Amended and Restated Plan is to ensure continuity of management and increase the incentive for key managerial employees and non-employee members of the Board of the Company to make major contributions to the effective management or direction of the Company by providing them with an opportunity to acquire equity interests in the Company in the manner contemplated by this Amended and Restated Plan.

2. Definitions.

As used in this Amended and Restated Plan, the following definitions shall apply:

"Amended and Restated Plan" means this United Parcel Service of America, Inc. 1996 Stock Option Plan as originally adopted by the Board on February 14, 1996 and by the shareowners of the Company at the 1996 Annual Meeting of Shareowners, as amended and restated on February 12, 1997, as amended and restated on September 19, 1997, and as further amended in accordance herewith from time to time.

"Board" means the Board of Directors of the Company or, when appropriate, the Executive Committee of the Board of Directors, acting for the Board.

"Code" means the Internal Revenue Code of 1986, as amended.

"Company" means United Parcel Service of America, Inc.

"Current Price" of a Share at any time means the price per Share which the Board shall have determined to be the fair market value at which the Company may express its willingness to purchase Shares from shareowners who offer them for sale to the Company at that time.

"Employee Optionee" means any Optionee other than an Outside Director Optionee.

"Incentive Stock Option" means an Option that qualifies as an incentive stock option within the meaning of Section 422 of the Code.

"Nonqualified Option" means an Option that is not an Incentive Stock Option.

"Officer Compensation Committee" means the Officer Compensation Committee of the Board.

"Option" means the right to purchase Shares under the terms and conditions of the Amended and Restated Plan, as evidenced by an option certificate or agreement in such form, not inconsistent with the Amended and Restated Plan, as the Committee may adopt for general use or for specific cases from time to time.

"Optionee" means the person to whom an Option has been granted under the Amended and Restated Plan and, where the context permits, the estate, personal representative or beneficiary to whom an Option has been transferred by will or the laws of descent and distribution.

"Outside Director" means any member of the Board who is not, as of the date of grant of an Option, an employee or a former employee of the Company or any Subsidiary.

"Outside Director Formula" has the meaning set forth in subparagraph E of paragraph 7 of this Amended and Restated Plan.

"Outside Director Optionee" means the Optionee who is, as of the date of grant of an Option, an Outside Director.

"Salary Committee" means the Salary Committee of the Board.

"Shares" means shares of the Company's common stock, presently having a par value of $0.10 per share.

"Subsidiary" means any corporation, limited liability company or other entity more than 50% of whose outstanding voting securities is owned by the

Company or by one or more of the Company's other Subsidiaries.

"UPS Managers Stock Trust" means a trust arrangement established by agreements conforming to the trust agreement made as of April 15, 1958, as heretofore or hereafter amended (the "UPS Managers Trust Agreement"), among certain employees of the Company and First Union National Bank, as Trustee ("First Union"), or any successor trust arrangement.

An Option shall be deemed "granted" under the Amended and Restated Plan on the date of the action taken by the Salary Committee or Officer Compensation Committee approving the grant of an Option hereunder.

3. Plan Adoption and Term.

A. The Amended and Restated Plan was originally adopted by the Board on February 14, 1996 and by the shareowners of the Company at the 1996 Annual Meeting of Shareowners. The Amended and Restated Plan was amended and restated by the Board on February 12, 1997 and the amendments received shareowner approval at the 1997 Annual Meeting of Shareowners. The Amended and Restated Plan was further amended and restated by the Executive Committee of the Board of Directors on September 19, 1997 without the need for shareowner approval.

B. No Option may be granted hereunder after March 31, 2001, but Options granted on or before that date may extend beyond such date in accordance with their terms.

4. Administration of the Amended and Restated Plan.

A. Subject to the provisions of paragraph 7 regarding grant of options and paragraph 16 regarding amendment of the Amended and Restated Plan, this Amended and Restated Plan shall be administered by the Salary Committee or, if the Salary Committee shall consist of fewer than two persons, by the Board. All actions taken by the Salary Committee with respect to the Amended and Restated Plan shall be reported to the Board at the next regular meeting of the Board.

B. The Salary Committee shall have the authority to interpret the provisions of the Amended and Restated Plan, to construe the terms of any Option, to prescribe, amend and rescind rules and regulations

relating to the Amended and Restated Plan, and to make all other determinations in the judgment of the Salary Committee necessary or desirable for the administration of the Amended and Restated Plan. The Salary Committee may correct any defect, supply any omission or reconcile any inconsistency in the Amended and Restated Plan or in any Option in the manner and to the extent it shall deem expedient to effectuate the purposes and intent of the Amended and Restated Plan.

C. Any power granted to the Salary Committee, either in this Amended and Restated Plan or by the Board, may at any time be exercised by the Board. Any determination by the Salary Committee shall be subject to review and reversal or modification by the Board on its own motion, except that the Board may not impair the rights of Optionees under Options previously granted.

D. Members of the Salary Committee, the Officer Compensation Committee, the Executive Committee, and the Board shall not be liable for any action or determination made by them in good faith.

5. Eligibility.

Key managerial employees of the Company and its Subsidiaries, and Outside Directors, shall be eligible to participate in the Amended and Restated Plan. All recipients of Options shall be selected on the basis of their having demonstrated an ability to contribute substantially to the effective management or direction of the Company and its Subsidiaries. Members of the Board shall be eligible to receive Options under the Amended and Restated Plan, provided that: (i) a member shall not participate in any decision or action affecting such member other than a decision or action affecting all participants generally; and (ii) Outside Directors shall be eligible to receive only Nonqualified Options. No Option shall be issued under this Amended and Restated Plan to any individual who at the time an Option might be granted hereunder owns stock possessing more than 10% of the total combined voting power of all classes of stock of the Company, or of any parent or Subsidiary of the Company.

6. Limitation on the Number of Shares.

Subject to adjustment as provided in paragraph 14, Options may be granted pursuant to the Amended and Restated Plan for the purchase of not more than 30,000,000 Shares. If prior to its exercise in full by an Optionee, any Option is canceled or terminates or lapses in whole or in part for any reason other than the termination of the Amended and Restated Plan as a whole, the number of Shares not purchased thereunder shall forthwith become available again for allocation under new Options, including new Options to such Optionee, in accordance with the Amended and Restated Plan.

7. Grant of Options.

A. At any time during the term of this Amended and Restated Plan, the Salary Committee may grant to any eligible employee who is (i) eligible under paragraph 5 hereof and (ii) not a member of the Board, a member of the Salary Committee, or a person who is an officer of the Company as defined in Rule 16a-1 under the Securities Exchange Act of 1934, as amended, an Option to purchase any number of the Shares reserved for issuance under the Amended and Restated Plan, subject to prior allocation of Shares to the same or other persons and to the limitation of paragraph 6.

B. At any time during the term of this Amended and Restated Plan, the Officer Compensation Committee may grant to any eligible employee who is a member of the Board, a member of the Salary Committee, or an officer of the Company as defined in Rule 16a-1 under the Securities Exchange Act of 1934, as amended, an Option to purchase any number of the Shares reserved for issuance under the Amended and Restated Plan, subject to prior allocation of Shares to the same or other persons and to the limitation of paragraph 6.

C. At the time of grant of each Option to an Employee Optionee, the Salary Committee or the Officer Compensation Committee, as appropriate, shall designate such Option as an Incentive Stock Option or as a Nonqualified Option. However, the aggregate fair market value, as determined at the time the Option is granted, of the Shares with respect to which Incentive Stock Options may become exercisable for the first time by an Optionee during any calendar year (under the Amended and Restated Plan and any other stock option plan of the Company or any entity which, at the time of the granting of such Option, is a parent or Subsidiary of the Company) shall not exceed $100,000. To the extent that an Option designated as an Incentive Stock Option may be or become exercisable for a number of Shares exceeding the limitation of the preceding sentence, such Option shall be deemed to be an Incentive Stock Option with respect to the maximum number of Shares permissible under the preceding sentence and a Nonqualified Option with respect to any remaining Shares.

D. At such time as the Salary Committee or the Officer Compensation Committee grants to any Employee Optionee an Option to purchase Shares pursuant to subparagraph A or B of paragraph 7, it may also grant to such Employee Optionee a right to receive money at the time of exercise of the Option in an amount equal to a designated percentage of the amount by which the Current Price of the Shares subject to the Option exceeds, at the time of exercise thereof, the option price.

E. On the first day of each year, during the term of this Amended and Restated Plan, on which any Option is granted to an Employee Optionee, each Outside Director shall be granted Options to purchase Shares, as provided in this subparagraph E of paragraph 7. Each Outside Director shall be granted Options to purchase that number of the Shares, equal to the Outside Director Formula, reserved for issuance under the Amended and Restated Plan, subject to prior allocation of Shares to the same or other persons and to the limitation of paragraph 6. In the case of each Outside Director, the Outside Director Formula shall be 109.5% of such Outside Director's annual director's fee as in effect on the last day of the most recently ended fiscal year of the Company, divided by the Current Price of one Share on such date. The Salary Committee may at any time and from time to time modify or amend the Outside Director Formula; provided, however, that the Salary Committee may not: (i) modify or amend the Outside Director Formula more often than once during any twelve-month period; (ii) without shareowner approval, modify or amend the Outside Director Formula in any respect that would materially increase the benefits accruing to Outside Directors under the Amended and Restated Plan; or (iii) without the consent of an Outside Director Optionee, make any modification or amendment of the Outside Director Formula that would affect such Outside Director Optionee's rights under any Option previously granted. All Options granted to Outside Director Optionees shall be designated as Nonqualified Options.

8. Purchase Price, Delivery of Shares, and Payment.

A. The purchase price for each Share represented by an Option shall be 100% of the Current Price of a Share at the time the Option is granted. Notwithstanding the foregoing, the purchase price per Share shall not be less than the par value of one Share.

B. Payment of the purchase price for Shares purchased shall be made upon exercise of an Option by payment, (i) in cash, (ii) in Shares owned by the purchaser for at least six months prior to the date of exercise and valued at their then Current Price, or (iii) in any combination of cash and such Shares. Any payment in Shares shall be effected by the delivery thereof to the Secretary of the Company, endorsed in blank or accompanied by stock powers executed in blank. For such purpose, the Optionee may notify the Trustee under the UPS Managers Stock Trust, in writing, to transmit to the Secretary of the Company, endorsed in blank, Shares held by the Trustee for the Optionee's account under the UPS Managers Stock Trust.

C. All Shares issued by the Company to Employee Optionees upon exercise of Options shall be subject to the UPS Managers Stock Trust. As a condition to the receipt of Shares upon exercise of an Option, the Employee Optionee shall execute and deliver to the Trustee of the UPS Managers Stock Trust a trust deposit agreement. The Company shall then deposit with or deliver to the Trustee the Shares issued to the Employee Optionee to be held by the Trustee in trust for such Employee Optionee's benefit pursuant and subject to the terms of the UPS Managers Trust Agreement.

D. In the event that any Shares are issued or distributed by the Company to an Employee Optionee upon exercise of an Option on a date that is later than the date of termination of the Employee Optionee's employment with the Company and Subsidiaries (the "Termination Date"), then, for purposes of the UPS Managers Stock Trust, the Company's rights to repurchase the Shares so issued or distributed shall commence on the June 15 next following the first anniversary of the Termination Date and such Shares shall be treated as securities issued as a result of the distribution of rights appurtenant UPS common stock owned by the Employee Optionee and subject to the UPS Managers Stock Trust on the Termination Date.

E. All Shares issued by the Company to Outside Director Optionees shall be subject to such agreements with respect to the repurchase of such Shares, similar in purpose and effect to the provisions of the UPS Managers Stock Trust, as the Salary Committee shall prescribe. As a condition to the receipt of Shares upon exercise of an Option, the Outside Director Optionee shall execute and deliver such agreements as the Salary Committee shall prescribe.

9. Duration of Options.

Each Option and all rights thereunder shall expire five and one-half years from the date on which the Option is granted, and shall be subject to earlier termination as provided herein.

10. Conditions Relating to Exercise.

A. Except as otherwise provided in Paragraph 11 hereof, no Option shall be exercisable until the expiration of five years from the date the Option is granted. Subject to the provisions of Paragraph 11, an Option may be exercised only in its entirety and only during the period from April 1 to April 30 in the year in which the Option becomes exercisable.

B. No Option shall be transferable by an Optionee otherwise than by will or by the laws of descent and distribution.

C. All Options granted hereunder shall be exercisable during the lifetime of the Optionee only by the Optionee or the Optionee's guardian or legal representative.

D. An Option shall be exercised as follows:

(1) By delivering to the Company, at its principal office, to the attention of its Secretary, written notice of the number of Shares with respect to which the Option is being exercised; and

(2) By paying the purchase price for the Shares in accordance with paragraph 8 hereof and any withholding tax required to be paid pursuant to paragraph 15 hereof.

E. Notwithstanding any other provision in this Amended and Restated Plan, no Option shall be exercisable unless and until (i) the Shares may be legally issued and sold to the Optionee and (ii) the Optionee shall have executed such documents and taken such action as the Salary Committee reasonably shall deem advisable to assist the Company in complying with the requirements of any applicable law.

11. Effect of Termination of Employment or Service.

A. In the event an Employee Optionee's employment with the Company and Subsidiaries shall terminate by reason of such Employee Optionee's retirement with the consent of the Company or in accordance with an applicable retirement plan, any Incentive Stock Option then held by such Employee Optionee, which shall not have lapsed or expired shall, at the election of the Employee Optionee: (i) be or immediately become fully exercisable but only for a period ending on the earlier of a date three months following the date of retirement or the date of expiration of the Option in accordance with its terms; or (ii) be unaffected by such retirement. Any Nonqualified Option held by such an Employee Optionee shall be unaffected by such retirement.

B. In the event an Employee Optionee's employment with the Company and Subsidiaries shall terminate by reason of such Employee Optionee's disability (within the meaning of Section 22(e)(3) of the Code), any Incentive Stock Option then held by such Employee Optionee, which shall not have lapsed or expired shall, at the election of the Employee Optionee: (i) be or immediately become fully exercisable but only for a period ending on the earlier of a date one year following the date of termination of employment or the date of expiration of the Option in accordance with its terms; or (ii) be unaffected by such termination of employment. Any Nonqualified Option held by such an Employee Optionee shall be unaffected by such termination of employment.

C. In the event of an Employee Optionee's death (including death while retired or disabled), any Option then held by such Employee Optionee which shall not have lapsed or expired shall be or immediately become fully exercisable at any time before the date of expiration of the Option in accordance with its terms.

D. In the event an Employee Optionee shall cease to be employed by the Company and Subsidiaries for any reason other than those specified in subparagraphs A, B and C above, any Option then held by such Employee Optionee shall immediately terminate.

E. Whether an authorized leave of absence or absence in government or military service constitutes a termination of employment shall be determined by the Salary Committee, and the Salary Committee's determination shall be final and conclusive on all persons affected thereby; provided, however, that if such leave of absence or other absence shall be deemed a termination of employment for purposes of the UPS Managers Stock Trust, it will also constitute a termination of employment for purposes of the Amended and Restated Plan.

F. In the case of any Option granted to an Outside Director Optionee, if such Outside Director Optionee ceases for any reason to be a member of the Board, then such Option shall be exercisable according to the following provisions, and shall terminate upon the expiration of the applicable exercise period, if any, specified in this subparagraph F of paragraph 11:

(i) If an Outside Director Optionee ceases to be a member of the Board for any reason other than resignation, removal for cause or death, any such Option held by such Outside Director Optionee which shall not have lapsed or expired shall, at the election of the Outside Director Optionee: (I) be or immediately become fully exercisable but only for a period ending on the earlier of a date three months following the date on which such Outside Director Optionee ceases to be a member of the Board or the date of expiration of the Option in accordance with its terms; or (II) be unaffected.

(ii) Except as provided in clause (iii) of this subparagraph F of paragraph 11, if during his term of office as a member of the Board an Outside Director Optionee resigns from the Board or is removed from office for cause, any Option held by the Outside Director Optionee which is not exercisable by the Outside Director Optionee immediately prior to resignation or removal shall terminate as of the date of resignation or removal, and any Option held by the Outside Director Optionee which is exercisable by the Outside Director Optionee immediately prior to resignation or removal shall be exercisable in accordance with its terms.

(iii) If during his term of office as a member of the Board an Outside Director Optionee's service on the Board shall terminate by reason of such Outside Director Optionee's disability (within the meaning of Section 22(e)(3) of the Code), any Option then held by such Outside Director Optionee, which shall not have lapsed or expired shall, at the election of the Outside Director Optionee: (I) be or immediately become fully exercisable but only for a period ending on the earlier of a date one year following the date on which such Outside Director Optionee ceases to be a member of the Board or the date of expiration of the Option in accordance with its terms; or (II) be unaffected.

(iv) Following the death of an Outside Director Optionee (including death after ceasing, for any reason other than resignation or removal for cause, to be a member of the Board) any Option held by the Outside Director Optionee which shall not have lapsed or expired shall be or immediately become fully exercisable at any time before the date of expiration of the Option in accordance with its terms.

12. No Special Rights Respecting Employment or Rate of Compensation.

Nothing contained in the Amended and Restated Plan or in any Option shall confer upon any Employee Optionee any right with respect to the continuation of his or her employment by the Company or any Subsidiary or interfere in any way with the right of the Company or any Subsidiary at any time to terminate an Employee Optionee's employment or

to increase or decrease the compensation of any Optionee from the rate in existence at the time of the grant of an Option.

13. Rights as a Shareowner.

The holder of an Option shall have no rights as a shareowner with respect to any Shares covered by the Option until the date such Shares are issued as provided in paragraph 8. Except as provided in paragraph 14 below, no adjustment shall be made for rights for which the record date occurs prior to the date such Shares are issued.

14. Antidilution Provisions.

A. In the event of a stock dividend, stock split, or other subdivision, reclassification or combination of the common stock of the Company, the Salary Committee may make such adjustments in the number of Shares for which Options may be granted under the Amended and Restated Plan, the number of Shares subject to unexercised Options, and the option prices as it deems equitable.

B. In the event that the outstanding common stock of the Company is changed or converted into, or exchanged or exchangeable for, a different number or kind of shares or other securities of the Company or of another corporation, by reason of reorganization, merger, consolidation or combination, the Salary Committee may make such adjustments in the number and kind of Shares for which Options may be or may have been awarded under the Amended and Restated Plan as it deems equitable; provided, however, that in the event of any contemplated transaction which may constitute a change in control of the Company, the Salary Committee, with the approval of a majority of the members of the Board who are not then holding Options, may modify any and all outstanding Options so as to accelerate, as a consequence of or in connection with such transaction, an Optionee's right to exercise any such Option.

C. Each Optionee will be notified of any such adjustment and any such adjustment, or the failure to make such adjustment, shall be binding on the Optionee.

15. Withholding Taxes.

Whenever Shares are to be issued or cash paid to an Optionee upon exercise of an Option, the Company shall have the right to require the Optionee to remit to the Company, as a condition of exercise of the Option, an amount sufficient to satisfy federal, state and local withholding tax requirements at the time of exercise.

16. Modification or Amendment of the Amended and Restated Plan.

The Amended and Restated Plan may at any time or from time to time be modified or amended by the affirmative votes of a majority of the Shares present, or represented, and entitled to vote at a meeting of the Company's shareowners. The Board or the Executive Committee of the Board may at any time and from time to time modify or amend the Amended and Restated Plan in any respect, or terminate the Amended and Restated Plan, except that, without shareowner approval the Board or the Executive Committee of the Board may not (a) materially increase the benefits accruing to participants under the Amended and Restated Plan, (b) materially increase the number of Shares which may be issued under

the Amended and Restated Plan, or (c) materially modify the requirements as to eligibility for participation in the Amended and Restated Plan. The termination, modification or amendment of the Amended and Restated Plan shall not, without the consent of an Optionee, affect the Optionee's rights under an Option previously granted. With the consent of the Optionee, the Board or the Executive Committee of the Board may amend outstanding Options in a manner not inconsistent with the Amended and Restated Plan.

EXHIBIT 10.10(8)

AMENDMENT NO. 8
TO THE
UPS QUALIFIED STOCK OWNERSHIP PLAN
AND TRUST AGREEMENT

WHEREAS, United Parcel Service of America, Inc. and certain of its affiliated companies ("UPS") established the UPS Qualified Stock Ownership Plan and Trust ("Plan") effective as of January 1, 1998, to provide their eligible employes with a matching contribution invested in the common stock of UPS ("UPS Stock") and to permit eligible employees to transfer amounts from the UPS Savings Plan to the Plan for the purpose of investing in UPS Stock; and

WHEREAS, UPS wishes to appoint Boston Safe Deposit and Trust Company ("Boston Safe" or "Trustee") as trustee and Boston Safe is willing to accept such appointment;

WHEREAS, it is desired to amend the Plan to clarify and supplement the Trustee's rights, duties and responsibilities as set forth in the UPS Qualified Stock Ownership Plan and Trust Agreement, as amended, (the "Agreement").

NOW, THEREFORE, pursuant to the authority vested in the Board by Section 12.1 of the Plan, the Agreement is hereby amended as follows:

1. Pursuant to Section 9.15 of the Plan UPS hereby appoints Boston Safe Deposit and Trust Company as trustee of the trust established by the Plan and Boston Safe hereby accepts its appointment as trustee, acknowledges that it assumes the duties established by the Plan and agrees to be bound by the terms contained in the Plan effective March 1, 2003.

2. Section 9.5 is hereby deleted and replaced as follows:

   "Section 9.5 INVESTMENT OF TRUST FUND. The Committee or an Investment Manager appointed by the Committee shall have sole and exclusive responsibility, authority and discretion to manage, control, invest and reinvest the assets of the Trust Fund. The Trustee shall not have any investment responsibility under the Agreement."

3. Section 9.6 is hereby deleted and replaced as follows:

   "Section 9.6 Investment in UPS Stock. The purpose of this Plan is to invest primarily in UPS Stock. Accordingly, the Trustee is directed to invest 100% of the Trust Fund in qualifying employer securities, namely Class A shares of UPS Stock except as otherwise may be directed by the Committee or an Investment Manager appointed by the Committee. The Trustee may purchase UPS Stock from any source, provided that the Trustee will pay no more than Fair Market Value for any share. The Trustee may purchase either outstanding shares, newly issued shares, or treasury shares. To the extent that the Trustee needs to obtain cash, the Trustee may sell UPS Stock to the Employer for no less than Fair Market Value. The Committee shall direct the Trustee as to its responsibilities to suspend purchases of UPS Stock when such suspension is necessary to comply with any applicable law or applicable stock exchange rule or regulation in which event purchases will be made or resumed when the Committee reasonably concludes that purchases are permitted under applicable law. The recordkeeper selected by the Committee will account for the cost or other basis of all UPS Stock held in the Trust Fund in accordance with section 1.402(a)-1(b)(2)(ii) of the income tax regulations under the Code.

4. Section 9.7 is hereby deleted and replaced as follows:

   "Section 9.7 OTHER INVESTMENTS. The Committee or the Investment Manager appointed by the Committee shall have sole and exclusive responsibility, authority and discretion to manage, control, invest and reinvest the Trust Fund in assets other than UPS Stock in its discretion. The Employer agrees that at no time will the assets of the Plan be invested in real estate or foreign securities."

5. Section 9.8(a) is hereby deleted and replaced as follows:

   "(a) As directed by the Committee or an Investment Manager, to sell, exchange, or otherwise dispose of any property at any time held or acquired by the Trust Fund, at public or private sale, for cash or on terms, without advertisement, including the right to lease for any term."

6. Section 9.8(1) is hereby deleted and replaced as follows:

   "(1) to use reasonable efforts to assist the Employer in meeting any tax obligations of the Plan to the extent requested by the Employer.

The Employer shall provide the Trustee with any information needed for the Trustee to meet any such obligations and direct the Trustee to pay any amounts due. The Trustee shall have no responsibility or liability with respect to any tax obligations, now or hereafter imposed on the Employer or the Plan by any taxing authorities, except as provided by applicable law. The Employer shall prepare and file Form 990, based on information in part supplied by the Trustee, as required by law;"

7. Section 9.12 is hereby amended by inserting the following under "UPS Shares" and before Section 9.12(a)(1):

"(a) UPS SHARES. The Employer has engaged a third party recordkeeper, which has the responsibility to maintain Participant records, including the names, addresses and number of shares of Participants and Beneficiaries holding UPS Stock. The recordkeeper's duties with regard to proxies is to provide the Trustee with a list which includes the name, address and number of shares held for each Participant and Beneficiary as of the applicable date. The Trustee has the responsibility to furnish Participants and Beneficiaries with the information set forth in Section 9.12(a)(3) of the Agreement, to reconcile the number of shares that are voted or tendered by Participants and Beneficiaries and to vote or tender the remaining shares pursuant to Sections 9.12(a)(1) and 9.12(a)(2)."

8. Section 9.12(b) is amended by deleting the first two sentences and replacing them with the following:

"With respect to Securities held in the Trust Fund other than UPS Stock, the Trustee will be obligated to vote, tender or exercise other similar rights in accordance with the direction of the Committee or an Investment Manager, and the Trustee will be precluded from exercising such rights except in accordance with such directions."

9. Section 9.14 is hereby amended by deleting the second sentence and inserting the following:

"In preparing such report the Trustee will be entitled to rely completely on the Fair Market Value of UPS Stock as determined by the Board or an independent appraiser each acting as a named fiduciary for such valuation purposes."

10. Section 9.16 is hereby amended by adding at the end the following:

"The Trustee shall not be responsible for (i) the title, validity or genuineness of any property or evidence of title thereto received by it or delivered by it pursuant to the Agreement, (ii) losses or damages suffered by the Trust Fund as a result of the insolvency of any custodian, subtrustee or subcustodian, except to the extent that the Trustee is an affiliate of such entity or was negligent in its selection or continued retention of such entity, (iii) any diminution of value of any securities or other property held by the Trustee (or its subcustodians) absent the Trustee's breach of the Agreement, or (iv) indirect, consequential or special damages with respect to its role as Trustee. The Trustee shall be protected in relying upon the

directions of the Employer, the Committee, any Investment Manager, or any other Named Fiduciary and their designees."

11. A new Section 9.17 is hereby created and added after Section 9.16 as follows:

"Section 9.17 INDEMNIFICATION OF THE TRUSTEE. The Employer agrees to indemnify and hold harmless the Trustee from all claims, liabilities, losses, damages and expenses, including reasonable attorneys' fees and expenses, incurred by the Trustee in connection with the Agreement, except as a result of the Trustee's (or its affiliates' and agents') error, negligence, breach of the Agreement, or willful misconduct."

12. A new Section 9.18 is hereby created and added at the end of Article IX as follows:

"Section 9.18. FORCE MAJEURE. Except as provided otherwise by ERISA and notwithstanding anything in the Agreement to the contrary, the Trustee shall not be responsible or liable for its failure to perform under the Agreement or for any losses to the Trust Fund resulting from any event beyond the reasonable control of the Trustee, its agents, or subcustodians, including but not limited to nationalization, strikes, expropriation, devaluation, seizure, or similar action by any governmental authority of currency restrictions, exchange controls, levies or other charges affecting the Trust Fund's property; or the breakdown or malfunction of any utilities or telecommunications systems; or any order or regulation of any banking or securities industry including changes in market rules and market conditions affecting the execution or settlement of transactions; or acts of war, terrorism, insurrection or revolution, or acts of God; or any other similar event."

13. Article X is hereby amended to add the following paragraph at the end thereof:

"If the Trustee advances cash or securities for any purpose or is assessed taxes, interest, charges, expenses, assessments, or other liabilities in connection with the performance of its duties under the Agreement, except such as may arise from its own negligent action, negligent failure to act or willful misconduct, any property at any time held in the Trust Fund shall be security therefor and the Trustee shall be entitled to collect from the Trust Fund sufficient cash for reimbursement, and if such cash is insufficient, dispose of the assets of the Trust Fund to the extent necessary to obtain reimbursement. To the extent that the Trustee advances funds to the Plan for disbursements or to effect the settlement of purchase transactions, the Trustee shall be entitled to collect from the Trust Fund an amount equal to

what would have been earned on the sums advanced (an amount approximating the "federal funds" interest rate)."

14. The Employer and the Trustee hereby each represent and warrant to the other that it has full authority to enter into this Amendment upon the terms and conditions hereof and that the individual executing this Amendment on its behalf has the requisite authority to bind the Employer or Trustee to this Amendment.

15. Capitalized terms not specifically defined herein shall have the same meaning ascribed to them under the Agreement.

16. Except as specifically amended hereby, the Agreement shall remain in full force and effect in accordance with its terms.

IN WITNESS WHEREOF, the undersigned certify that United Parcel Service of America, Inc. based upon action by its Board of Directors dated the 13th day of February, 2003, has caused this Amendment No. 8 to be adopted.

<Table>
<Caption>

<S>	<C>
UNITED PARCEL SERVICE OF AMERICA, INC.	ATTEST:
/s/ Michael L. Eskew	/s/ Joseph R. Moderow
Michael L. Eskew Chairman	Joseph R. Moderow Secretary
BOSTON SAFE DEPOSIT AND TRUST COMPANY	ATTEST:
By: /s/ Melissa A. Kennedy	By: /s/ Terrence S. King
Name: Melissa A. Kennedy	Terrence S. King
Title: Vice President	
Date: February 25, 2003	

</Table>

EXHIBIT 10.10(9)

AMENDMENT NO. 9

TO THE

UPS QUALIFIED STOCK OWNERSHIP PLAN

AND TRUST AGREEMENT

WHEREAS, United Parcel Service of America, Inc. and certain of its affiliated companies established the UPS Qualified Stock Ownership Plan and Trust ("Plan") effective as of January 1, 1998 to provide their eligible employees with a matching contribution invested in the common stock of UPS ("UPS Stock") and to permit eligible employees to transfer amounts from the UPS Savings Plan to the Plan for the purpose of investing in UPS Stock; and

WHEREAS, it is desired to amend the Plan to (1) limit Eligible Compensation for purposes of the SavingsPLUS contribution for those Participants who become eligible for the Plan mid-year after participating in another Affiliate plan that provides a match on compensation earned in that year, (2) change the SavingsPLUS contribution formula for ConnectShip, Inc. to 100% of the first 3% of Eligible Compensation and (3) add Code ss. 401(a)(9) model amendment provisions in Appendix 8.4;

NOW THEREFORE, pursuant to the authority vested in the Board by Section 12.1 of the Plan, the Plan is hereby amended as follows:

1. Section 1.20, Eligible Compensation, is hereby amended, effective January 1, 2004, to (1) remove the word "and" from the end of paragraph (j) and the period following paragraph (k) and (2) add the following language immediately following paragraph (k):

; and

(l) with respect to an individual who was covered under another qualified plan of an Affiliate that provides a matching contribution (other than a Merged Plan) and who becomes a Participant in the Plan during a Plan Year, compensation paid in such Plan Year prior to the Entry Date such individual becomes a Participant.

2. Appendix 4.1(a)(1)(C) is hereby amended, effective as of January 1, 2004, to add ConnectShip, Inc. to such Appendix.

3. Section 8.4, Required Beginning Date, is hereby amended, effective January 1, 2003, to add the following paragraph at the end thereof:

Effective January 1, 2003, the Plan will apply the minimum distribution requirements of Section 401(a)(9) of the Code in accordance with Appendix 8.4 to the Plan and the regulations under Section 401(a)(9) that were published in the Federal Register on April 17, 2002.

4. The Plan is hereby amended effective January 1, 2003 to add Appendix 8.4 as follows:

UPS QUALIFIED STOCK OWNERSHIP PLAN

APPENDIX 8.4

MINIMUM DISTRIBUTION REQUIREMENTS

Section 1. General Rules

1.1. Effective Date. The provisions of this Appendix 8.4 will apply for purposes of determining required minimum distributions for calendar years beginning with the 2003 calendar year.

1.2. Precedence. The requirements of this Appendix 8.4 will take precedence over any inconsistent provisions of the Plan. However, the only benefit payment options available from the Plan are contained in Article VIII of the Plan. This Appendix 8.4 does not provide any benefit payment option that is not provided in such Article.

1.3. Requirements of Treasury Regulations Incorporated. All distributions required under this Appendix 8.4 will be determined and made in accordance with the Treasury regulations under Code ss. 401(a)(9).

Section 2. Time and Manner of Distribution.

2.1. Required Beginning Date. The Participant's entire interest will be distributed to the Participant no later than the Participant's Required Beginning Date.

2.2. Death of Participant Before Distributions Begin. If the Participant dies before distributions begin, the Participant's entire interest will be distributed no later than as follows:

(a) If the Participant's surviving spouse is the Participant's sole designated beneficiary, then, distributions to the surviving spouse will begin by December 31

of the calendar year immediately following the calendar year in which the Participant died, or by December 31 of the calendar year in which the Participant would have attained age 70-1/2, if later.

(b) If the Participant's surviving spouse is not the Participant's sole designated beneficiary, then, except as provided in the adoption agreement. If there is no designated Beneficiary as of September 30 of the year following the year of the Participant's death, the Participant's entire interest will be distributed by December 31 of the calendar year containing the fifth anniversary of the Participant's death. If the Participant's surviving spouse is the Participant's sole designated beneficiary and the surviving spouse dies after the Participant but before distributions to the surviving spouse begin, this section 2.2, other than section 2.2(a), will apply as if the surviving spouse were the Participant.

For purposes of this section 2.2 and section 4, unless section 2.2(d) applies, distributions are considered to begin on the Participant's required beginning date. If section 2.2(d) applies, distributions are considered to begin on the date distributions are required to begin to the surviving spouse under section 2.2(a). If distributions under an annuity purchased from an insurance company irrevocably commence to the Participant before the Participant's required beginning date (or to the Participant's surviving spouse before the date distributions are required to begin to the surviving spouse under section 2.2(a)), the date distributions are considered to begin is the date distributions actually commence. Section 2.2 and section 4, distributions are considered to begin on the Participant's Required Beginning Date.

2.3. Forms of Distribution. Unless the Participant's interest is distributed in a single sum on or before the Required Beginning Date, as of the first distribution calendar year all benefit payments from the Plan will be made in accordance with sections 3 and 4 of this Appendix 8.4. If the Participant's interest is distributed in a benefit payment option other than a single sum, such payments will be made in accordance with the requirements of Code ss. 401(a)(9) and the Treasury regulations thereunder.

Section 3. Required Minimum Distributions During Participant's Lifetime.

3.1. Amount of Required Minimum Distribution For Each Distribution Calendar Year. During the Participant's lifetime, the minimum amount that will be distributed for each distribution calendar year is the lesser of:

(a) the quotient obtained by dividing the Participant's Account balance by the distribution period in the Uniform Lifetime Table set forth in Treasury regulation 1.401(a)(9)-9, using the Participant's age as of the Participant's birthday in the distribution calendar year; or

(b) if the Participant's sole designated Beneficiary for the distribution calendar year is the Participant's spouse, the quotient obtained by dividing the Participant's Account balance by the number in the Joint and Last Survivor Table set forth in Treasury regulation 1.401(a)(9)-9, using the Participant's and spouse's attained ages as of the Participant's and spouse's birthdays in the distribution calendar year.

3.2. Lifetime Required Minimum Distributions Continue Through Year of Participant's Death. Required minimum distributions will be determined under this section 3 beginning with the first distribution calendar year and up to and including the distribution calendar year that includes the Participant's date of death.

Section 4. Required Minimum Distributions After Participant's Death.

4.1. Death On or After Date Distributions Begin.

(a) Participant Survived by Designated Beneficiary. If the Participant dies on or after the date distributions begin and there is a designated Beneficiary, the minimum amount that will be distributed for each distribution calendar year after the year of the Participant's death is the quotient obtained by dividing the Participant's Account balance by the longer of the remaining life expectancy of the Participant or the remaining life expectancy of the Participant's designated Beneficiary, determined as follows:

(1) The Participant's remaining life expectancy is calculated using the age of the Participant in the year of death, reduced by one for each subsequent year.

(2) If the Participant's surviving spouse is the Participant's sole designated Beneficiary, the remaining life expectancy of the surviving spouse is calculated for each distribution calendar year after the year of the Participant's death using the surviving spouse's age as of the spouse's birthday in that year. For distribution calendar years after the year of the surviving spouse's death, the remaining life expectancy of the surviving spouse is calculated using the age of the surviving spouse as of the spouse's birthday in the calendar year of the spouse's death, reduced by one for each subsequent calendar year.

(3) If the Participant's surviving spouse is not the Participant's sole designated Beneficiary, the designated Beneficiary's remaining life expectancy is calculated using the age of the designated Beneficiary in the year following the year of the Participant's death, reduced by one for each subsequent year.

(b) No Designated Beneficiary. If the Participant dies on or after the date distributions begin and there is no designated Beneficiary as of September 30 of the year after the year of the Participant's death, the minimum amount that will be distributed for each distribution calendar year after the year of the Participant's death is the quotient obtained by dividing the Participant's Account balance by the

Participant's remaining life expectancy calculated using the age of the Participant in the year of death, reduced by one for each subsequent year.

4.2. Death Before Date Distributions Begin.

(a) Participant Survived by Designated Beneficiary. If the Participant dies before the date distributions begin and there is a designated Beneficiary, the minimum amount that will be distributed for each distribution calendar year after the year of the Participant's death is the quotient obtained by dividing the Participant's Account balance by the remaining life expectancy of the Participant's designated Beneficiary, determined as provided in section 4.1.

(b) No Designated Beneficiary. If the Participant dies before the date distributions begin and there is no designated Beneficiary as of September 30 of the year following the year of the Participant's death, distribution of the Participant's entire interest will be completed by December 31 of the calendar year containing the fifth anniversary of the Participant's death.

(c) Death of Surviving Spouse Before Distributions to Surviving Spouse Are Required to Begin. If the Participant dies before the date distributions begin, the Participant's surviving spouse is the Participant's sole designated Beneficiary, and the surviving spouse dies before distributions are required to begin to the surviving spouse under section 2.2(a), this section 4.2 will apply as if the surviving spouse were the Participant.

Section 5. Definitions. The following terms have the following meanings for purposes of this Appendix 8.4.

5.1. Designated Beneficiary. The individual who is designated as the Beneficiary under Section 8.5 of the Plan and is the designated Beneficiary under Codess. 401(a)(9) and Treasury Regulation 1.401(a)(9)-4, Q&A-1.

5.2. Distribution calendar year. A calendar year for which a minimum distribution is required. For distributions beginning before the Participant's death, the first distribution calendar year is the calendar year immediately preceding the calendar year which contains the Participant's Required Beginning Date. For distributions beginning after the Participant's death, the first distribution calendar year is the calendar year in which distributions are required to begin under section 2.2 of this Appendix 8.4. The required minimum distribution for the Participant's first distribution calendar year will be made on or before the Participant's Required Beginning Date. The required minimum distribution for other distribution calendar years, including the required minimum distribution for the distribution calendar year in which the Participant's Required Beginning Date occurs, will be made on or before December 31 of that distribution calendar year.

5.3. Life expectancy. Life expectancy as computed by use of the Single Life Table in Treasury Regulation 1.401(a)(9)-9.

5.4. Participant's Account balance. The Account balance as of the last valuation date in the calendar year immediately preceding the distribution calendar year (valuation calendar year) increased by the amount of any contributions made and allocated or forfeitures allocated to the Account balance as of dates in the valuation calendar year after the valuation date and decreased by distributions made in the valuation calendar year after the valuation date. The Account balance for the valuation calendar year includes any amounts rolled over or transferred to the Plan either in the valuation calendar year or in the distribution calendar year if distributed or transferred in the valuation calendar year.

5.5 Required Beginning Date. The date specified in Section 8.4 of the Plan.

IN WITNESS WHEREOF, the undersigned certify that United Parcel Service of America, Inc. based upon action by its Board of Directors dated December 23, 2003, has caused this Amendment No. 9 to be adopted.

ATTEST:	UNITED PARCEL SERVICE OF AMERICA, INC.
/s/ Joseph R. Moderow	/s/ Michael L. Eskew
Joseph R. Moderow	Michael L. Eskew
Secretary	Chairman

.
.
.

EXHIBIT 21

SUBSIDIARIES OF UNITED PARCEL SERVICE, INC.
AS OF MARCH 5, 2004

<TABLE>
<CAPTION>

NAME OF SUBSIDIARY	JURISDICTION OF ORGANIZATION
<S>	<C>
United Parcel Service of America, Inc.	Delaware
United Parcel Service General Services Co.	Delaware
United Parcel Service Co.	Delaware
UPS Worldwide Forwarding, Inc.	Delaware
United Parcel Service, Inc.	Ohio
United Parcel Service, Inc.	New York
UPICO Corporation	Delaware
UPS Supply Chain Solutions, Inc.	Delaware
UPS Re Ltd.	Bermuda
UPS International, Inc.	Delaware
United Parcel Service Deutschland Inc.	Delaware

</TABLE>

The names of particular subsidiaries are omitted pursuant to Item 601(b)(21)(ii) of Regulation S-K.

EXHIBIT 23

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statements No. 333-08369-01, 333-108272, and 333-112329 of United Parcel Service, Inc. on Form S-3 and in Registration Statements No. 333-90792, 333-93213, 333-34054, 333-61112, 333-65096, 333-65606, and 333-70708 of United Parcel Service, Inc. on Form S-8 and in Registration Statements No. 333-72127, 333-24805, 333-23969, and 333-23971 of United Parcel Service of America, Inc. on Form S-8 of our report dated March 5, 2004 (which report expresses an unqualified opinion and includes an explanatory paragraph relating to the Company's change in its method of accounting for derivative instruments and hedging activities to conform with Statement of Financial Accounting Standards No. 133, as amended, and to the Company's change in its method of accounting for goodwill and other intangible assets to conform with Statement of Financial Accounting Standards No. 142 and to the Company's change in its method of accounting for stock compensation to conform with Statement of Financial Accounting Standards No. 123), appearing in this Annual Report on Form 10-K of United Parcel Service, Inc. for the year ended December 31, 2003.

/s/ Deloitte & Touche LLP

Atlanta, Georgia
March 5, 2004

EXHIBIT 31.1

CERTIFICATE OF CHIEF EXECUTIVE OFFICER

I, Michael L. Eskew, certify that:

1. I have reviewed this annual report on Form 10-K of United Parcel Service, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

    a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    c. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Michael L. Eskew
- -----------------------------
Michael L. Eskew
Chairman and Chief Executive Officer
Date: March 5, 2004

EXHIBIT 31.2

CERTIFICATE OF CHIEF FINANCIAL OFFICER

I, D. Scott Davis, certify that:

1. I have reviewed this annual report on Form 10-K of United Parcel Service, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   c. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ D. Scott Davis
- -----------------------
D. Scott Davis

Chief Financial Officer
Date: March 5, 2004

EXHIBIT 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE
SARBANES-OXLEY ACT OF 2002

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and in connection with the Annual Report on Form 10-K of United Parcel Service, Inc. (the "Corporation") for the year ended December 31, 2003, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, the Chairman and Chief Executive Officer of the Corporation, certifies that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

/s/ MICHAEL L. ESKEW

Michael L. Eskew
Chairman and Chief Executive Officer
March 5, 2004

EXHIBIT 32.2

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE
SARBANES-OXLEY ACT OF 2002

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and in connection with the Annual Report on Form 10-K of United Parcel Service, Inc. (the "Corporation") for the year ended December 31, 2003, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, the Chief Financial Officer of the Corporation, certifies that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

/s/ D. SCOTT DAVIS

D. Scott Davis
Chief Financial Officer
March 5, 2004