# 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, 2004

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** | **58-2480149** |
| ***(State or Other Jurisdiction of Incorporation or Organization)*** | ***(I.R.S. Employer Identification No.)*** |
| **55 Glenlake Parkway, N.E. Atlanta, Georgia** | **30328** |
| ***(Address of Principal Executive Offices)*** | ***(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 28, 2005 was approximately $47,836,058,376 (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 28, 2005, non-affiliates held 482,968,228 shares of class A common stock and 617,319,117 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 28, 2005, there were 501,743,812 outstanding shares of class A common stock and 617,479,339 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 5, 2005 are incorporated by reference into Part III of this report.

## PART I

**Item 1.** ***Business***

**Overview**

UPS is the world's largest package delivery company and a global leader in supply chain solutions. We were founded in 1907 as a private messenger and delivery service in Seattle, Washington. Today, we deliver packages each business day for 1.8 million shipping customers to 6.1 million consignees in over 200 countries and territories. In 2004, we delivered an average of more than 14.1 million pieces per day worldwide. In addition, our supply chain solutions capabilities are available to clients in 175 countries.

Total revenue in 2004 was over $36.5 billion. Although our primary business is the time-definite delivery of packages and documents, we have extended our capabilities in recent years to encompass the broader spectrum of services known as supply chain solutions, such as freight forwarding, customs brokerage, fulfillment, returns, financial transactions and even repairs. We have established a global transportation infrastructure and a comprehensive portfolio of services and integrated solutions. We support these services with advanced operational and customer-facing technology. Our supply chain solutions provide visibility into moving inventory across the global supply chain.

We believe the future is bright for this industry.

- Globalization of trade is a worldwide economic reality, which we believe will continue to expand as trade barriers are eliminated and large consumer markets, in particular China and India, experience economic expansion.
- We believe direct-to-consumer shipments will continue to increase as a result of just-in-time inventory management and increased use of the Internet for ordering goods. UPS is enhancing its ability to be a "warehouse in motion" for inventory on the move. The company is also the industry leader in the delivery of goods purchased over the Internet.
- We believe the drive toward outsourcing supply chain management will continue, as customers increasingly view effective management of their supply chains as a strategic advantage rather than a cost center.

Our vision for the future is to synchronize the world of commerce, managing the complexities of our customers' supply chain needs. Our goal is to develop business solutions for all size customers that create value and competitive advantages for them through product differentiation, market penetration, better customer service and improved cash flow.

**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. It is the only network that handles all levels of service (express, ground, domestic, international, commercial, residential) through one integrated pickup and delivery service system.

We operate a ground fleet of more than 88,000 vehicles, ranging from custom-built package cars to large tractors and trailers, and nearly 600 airplanes. In the contiguous U.S., we reach all business and residential addresses. We are the ninth largest airline in North America and eleventh largest in the world. Our primary air hub is in Louisville, KY. Regional air hubs are located in Columbia, SC; Dallas, TX; Hartford, CT; Ontario, CA; Philadelphia, PA; and Rockford, IL. Our primary international air hub is in Cologne, Germany, with regional hubs in Hong Kong, Singapore, Taiwan, Miami, FL and Pampanga, Philippines.

In Europe, where we have operated for nearly 30 years, we maintain a well developed air and ground network, much like that in the U.S. We believe we have the most comprehensive integrated delivery and information services portfolio of any carrier in Europe. In other regions of the world, we rely on both our own and local service providers' capabilities to meet our service commitments.

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. The two fastest growing economies in the world, China and India, are among our most promising opportunities.

We are also the largest air cargo carrier and a leading logistics provider in Latin America and the Caribbean.

Our Canadian operations include both intra-Canada and import/export capabilities. We deliver to all addresses throughout Canada. We are also the only carrier to offer guaranteed 8:00 a.m. next day delivery to most major metropolitan cities in Canada.

*Technology.* We are a global leader in developing technology that improves our customers' business processes. We have a strong global capability as a mover of electronic information. We currently collect electronic data on 95% of the packages that move through our U.S. system each day – more than any of our competitors.

In 2003 we announced plans to re-engineer our package pick-up and delivery processes. Over several years, beginning in 2003, we expect to invest $600 million to simplify and optimize these processes, which we believe will result in significant gains in efficiency, reliability and flexibility. Once the new technology is fully deployed in over 1,000 of our package sorting facilities, which we estimate will be completed in 2007, we anticipate achieving hundreds of millions of dollars in reduced operating costs annually. These savings will be realized through productivity improvements, as well as in reduced fuel usage from driving an estimated 100 million fewer miles each year. By the end of 2004 we had deployed this technology in 273 of our package centers for use by almost 45% of our drivers.

Technology powers virtually every service we offer and every operation we perform. Our technology initiatives are driven by our customers' needs. 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 customers with better information services. We provide the infrastructure for an Internet presence that extends to tens of thousands of customers who have integrated UPS tools directly into their own web sites.

*E-Commerce Capabilities.* We are a leading facilitator of global e-commerce. According to Forrester Research, by 2008, U.S. online retail sales are forecasted to reach $271 billion.[1] We enable our customers around the world to thrive in this environment by providing a portfolio of technology solutions that streamlines their shipment processing and integrate critical transportation information into their business applications.

*Broad, Flexible Range of Services and Integrated Solutions.* Our portfolio of services enables customers to choose the delivery option that is most appropriate for their requirements. All of our general service offering small package delivery services are guaranteed.

Our express air services are integrated with our vast ground delivery system – one system handling all products. This integrated air and ground network enhances efficiency, improves productivity and asset utilization, 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. This unique, integrated global business model creates consistent and superior returns – by far the best in our industry.

---

[1] U.S. eCommerce Overview: 2004 to 2010, Forrester Research, Inc., August 2004.

Increasingly, our customers benefit from business solutions that integrate many UPS services in addition to package delivery. We offer over 60 supply chain services – such as freight forwarding, customs brokerage, order fulfillment, and returns management – that help improve efficiency of the supply chain management process.

*Customer Relationships.* We focus on building and maintaining long-term customer relationships. Thousands of customers access us daily through UPS On-Call Pickup℠ for air and ground delivery services. In addition, there are almost 150,000 domestic and international access points to UPS. These include: nearly 40,000 drop-boxes, more than 1,000 UPS Customer Centers, over 2,300 Alliance partner locations, over 5,000 independently-owned Authorized Shipping Outlets (ASOs), almost 1,300 national ASO chains, approximately 10,200 commercial counters, more than 5,000 independently owned and operated The UPS Store® and Mail Boxes Etc.® locations worldwide (over 4,000 in the U.S.) – along with 80,000 UPS drivers who can accept packages given to them.

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 19 service factors. Results from this survey for 2004 continue to show high levels of customer satisfaction.

*Brand Equity.* We have built a leading and trusted brand in our industry – a brand that stands for quality service, reliability and product innovation. 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 signaled 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 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 spent their entire careers with us. Our chief executive officer and many of our executive officers have more than 30 years of service with UPS 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 our shareowners.

*Financial Strength.* Our balance sheet reflects financial strength that few companies can match. As of December 31, 2004, we had a balance of cash, cash equivalents, marketable securities and short-term investments of approximately $5.2 billion and shareowners' equity of $16.4 billion. Long-term debt was $3.3 billion. We carry long-term debt ratings of AAA/Aaa from Standard & Poor's and Moody's, respectively, reflecting our low use of debt and strong capacity to service our obligations. Our financial strength gives us the resources to achieve global scale and to make investments in technology, transportation equipment and buildings 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.* 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 domestic revenue 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.

*Continued International Expansion.* We have built a strong international presence through significant investments over several decades. The international package delivery market continues to grow at a faster rate than that of the U.S. We will use our worldwide infrastructure and broad product portfolio 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 – accounting for half of our international revenue. Both Europe and Asia 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 global demand, leading to improved 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. 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 large and small companies in 175 countries, with about 35 million square feet of distribution space and over 1,000 facilities worldwide.
- We focus on supply chain redesign, freight forwarding, international trade services 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, IT systems 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 provides customers with short- and long-term financing, secured lending, working capital, government guaranteed lending, letters of credit, global trade financing, credit cards and equipment leasing.

*Leverage Our Leading-Edge Technology and E-Commerce Advantage.* Our goal is 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 better 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.

*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 global package business;
- build our global brand;
- enhance our technological capabilities or service offerings;
- lower our costs; or
- expand our geographic presence.

**Products and Services**

*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. We offer same-day pick-up of air and ground packages.

In addition to our standard ground delivery product, *UPS Hundredweight Service®* offers guaranteed, time-definite service at 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 75% 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.

Additional products and services, such as UPS CampusShip, Consignee Billing, Quantum View Manage, Delivery Confirmation and UPS Returns℠, are available to customers who 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 delivery within one to two business days to the world’s major business centers. We offer a complete portfolio of import, export and domestic services. This portfolio includes guaranteed early morning, morning and noon delivery to major cities around the world, as well as scheduled day-definite air and ground services. We offer worldwide customs clearance service for any mode of transportation.

We classify our service as export (packages that cross national borders) and domestic (packages that stay within a single country’s boundaries). We have a portfolio of domestic services in 20 major countries throughout the world.

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 are expanding and further automating 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 obtained landing slots on the new runway at Tokyo’s Narita Airport, which have enhanced access and connections to the intra-Asia hub.

In 2003, 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. We continue our development efforts in the fast-growing China market. In 2004, the U.S. Department of Transportation authorized us to significantly expand our air operations in that country with the award of 12 new frequencies. The decision tripled UPS’s access to China. We began flying six new frequencies to Shanghai in 2004. We will begin flying another six frequencies in April 2005, providing non-stop service from the U.S. to Guangzhou for the first time.

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 business. We developed the UPS Trade Direct℠ Cross Border service to manage package movements between the U.S. and these countries. This service combines our 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.

The Trade Direct portfolio of services integrates our small package and supply chain solutions capabilities to provide additional value to our customers. In essence, the Trade Direct service consolidates individually labeled packages or pallets into one movement across borders. When the goods arrive in the destination country, packages are deconsolidated and entered into the UPS system for delivery, often 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.

In 2004 we expanded UPS Trade Direct Ocean, a service that transforms ocean container movements into pre-labeled small packages or less-than-truckload (LTL) shipments. This service is now available from over 70 international origin ports to three U.S. entry ports. In addition, a faster Trade Direct Air option is now available.

*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 Forwarding:* air, ocean, rail and ground freight utilizing UPS and other carriers, and multimodal transportation network management.
- *Consulting Services:* strategic supply chain design and re-engineering.

Asset-based lending, global trade finance and export-import lending services are available through UPS Capital℠.

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

- *UPS 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.
- *Quantum View®* is a suite of three visibility services (Quantum View Manage, Quantum View Data and Quantum View Notify) that give customers proactive status information about UPS shipments. The services can be used separately or together, depending on customer needs.
- *UPS Tradeability℠* is a software tool that helps customers navigate the complex process of international shipping by identifying harmonized tariff codes, generating landed cost estimates, and locating up-to-date compliance information.

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 are all available at the customer's desktop. The site also displays full domestic and international service information.

*UPS.com* receives more than 145 million hits and processes over 10 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. 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 of corporate initiatives while also managing limited promotional and public relations activities pertinent to their local markets.

**Employees**

As of December 31, 2004, we had approximately 384,000 employees.

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

- In February 2004, we were was rated the "World's Most Admired" company in our industry in a FORTUNE magazine survey, as well as ranking in the Top 10 among the world's companies.
- For the 21st consecutive year, we were ranked "America's Most Admired" company in its industry in a survey published in *FORTUNE* magazine in March 2004.
- In 2004, we were named one of *DiversityInc* magazine's "Top 50 Companies for Diversity" and "Top 10 Companies for Latinos."
- In 2004, we were ranked number nine in *Computer World's* "100 Best Places to Work in IT".
- *Hispanic Magazine* recognized us in 2004 as a leader in its annual "Corporate 100," a list of companies providing the most opportunities for Hispanics.
- We received the National Urban League's Corporate Leadership Award in 2003 for our long-standing support of the National Urban League.
- In 2003, for the fourth 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, 2004, we had approximately 229,000 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. Every year we survey all our employees to determine their level of job satisfaction. Areas of concern receive management attention as we strive to keep UPS the employer of choice among our employees.

**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.

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 solutions service offerings, we compete with a number of participants in the supply chain, financial services and information technology industries.

**Government Regulation**

The U.S. Department of Homeland Security, through the Transportation Security Administration (TSA), the U.S. Department of Transportation (DOT) and the Federal Aviation Administration (FAA) regulates air transportation services.

The TSA regulates various security aspects of air cargo transportation in a manner consistent with the TSA mission statement to "protect[s] the Nation's transportation systems to ensure freedom of movement for people and commerce."

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.

FAA regulations mandate an aircraft corrosion control program, and aircraft inspection and repair at periodic intervals specified by approved programs and procedures, for all aircraft. Our total expenditures under these programs for 2004 were about $11 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.shareholder.com/ups*, 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.shareholder.com/ups*. 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<br>Senior Vice President and President, UPS International | 49 | Senior Vice President and President, UPS International (2003 to present), UPS/Fritz Companies Integration Manager (2001 to 2002), UPS SonicAir® Manager (1995 to 2000). |
| David A. Barnes<br>Senior Vice President and Chief Information Officer | 49 | Senior Vice President and Chief Information Officer (2005 to present), Corporate IS Portfolio Coordinator (2001 to 2004), CIM Process Manager (1998 to 2001). |
| John J. Beystehner<br>Senior Vice President, Chief Operating Officer and President — UPS Airlines | 53 | Chief Operating Officer and President — UPS Airlines (2004 to present), Director (2005 to present), Senior Vice President (1999 to present), Marketing Group Manager (2001 to 2003), Worldwide Sales Group Manager (1997 to 2003). |
| D. Scott Davis<br>Senior Vice President, Chief Financial Officer and Treasurer | 53 | 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<br>Chairman and Chief Executive Officer | 55 | 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). |
| Allen E. Hill<br>Senior Vice President and Secretary | 49 | Senior Vice President, Secretary and Legal and Public Affairs Group Manager (2004 to present), Corporate Legal Department Manager (1995 to 2003). |
| Kurt P. Kuehn<br>Senior Vice President | 50 | Senior Vice President and Worldwide Sales and Marketing Group Manager (2004 to present), Vice President, Investor Relations (1999 to 2003). |

| Name and Office | Age | Principal Occupation and Employment For the Last Five Years |
|---|---|---|
| Christopher D. Mahoney<br>Senior Vice President | 57 | Senior Vice President, (1998 to present), Transportation Group Manager and Labor Relations Group Manager (2001 to 2005), U.S. Operations Manager (1998 to 2001), Region Manager (1990 to 1998). |
| John J. McDevitt<br>Senior Vice President | 46 | Senior Vice President, Transportation Group Manager and Labor Relations Group Manager (2005 to present), Senior Vice President, Strategic Integration (2003 to 2005), Air Region Manager (2001 to 2002), Corporate Labor Relations Manager (1997 to 2000). |
| Lea N. Soupata<br>Senior Vice President and Director | 54 | Senior Vice President and Human Resources Group Manager (1995 to present), Director (1998 to present). |
| Robert E. Stoffel<br>Senior Vice President | 49 | Senior Vice President of Supply Chain Group (2004 to present), President, UPS Supply Chain Solutions, Inc. (2002 to 2003), Vice President, UPS Logistics Group, Inc. (2000 to 2002), Department Manager (1995 to 2000) |
| James F. Winestock<br>Senior Vice President | 53 | Senior Vice President and U.S. Operations Manager (2004 to present), Region Manager (1998 to 2003) |

## 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 1,090 facilities that support our non-package operations. Our non-package operations maintain facilities with about 30 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., known as Worldport, is located in Louisville, KY. The Worldport facility consists of over 3.5 million square feet and the site includes approximately 350 acres. We are able to sort over 300,000 packages per hour in the Worldport facility. We also have regional air hubs in Columbia, SC; Dallas, TX; Dayton, OH, Hartford, CT; Ontario, CA; Philadelphia, PA; and Rockford, IL. These hubs house facilities for the sorting, transfer and delivery of packages. In February 2005, we announced our intention to transfer operations currently taking place at the Menlo facility in Dayton, OH to other UPS facilities over approximately 12 to 18 months. We are currently evaluating our plans for this facility, including potential alternate uses or closure. 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, 2004:

| Description | Owned and Capital Leases | Short-term Leased or Chartered From Others | On Order | Under Option |
|---|---|---|---|---|
| McDonnell-Douglas DC-8-71 | 21 | — | — | — |
| McDonnell-Douglas DC-8-73 | 26 | — | — | — |
| Boeing 727-100 | 44 | — | — | — |
| Boeing 727-200 | 2 | — | — | — |
| Boeing 747-100 | 9 | — | — | — |
| Boeing 747-200 | 4 | 1 | — | — |
| Boeing 757-200 | 75 | — | — | — |
| Boeing 767-300 | 32 | — | — | — |
| Boeing MD-11 | 15 | — | 2 | — |
| Airbus A300-600 | 40 | — | 13 | — |
| Airbus A380-800 | — | — | 10 | 10 |
| Other | — | 300 | — | — |
| Total | 268 | 301 | 25 | 10 |

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 2004, we took delivery of three Boeing MD-11 aircraft and eight Airbus A300-600 aircraft. We have firm commitments to purchase two Boeing MD-11 aircraft in 2005, and we expect to take delivery of an additional four Boeing MD-11 aircraft during 2005. In December 2004, we amended our existing aircraft purchase agreement with Airbus. The amended agreement reduced our purchase commitment for Airbus A300-600 from 50 to 13 aircraft, and reduced the number of aircraft options from 37 to zero. In addition, we have a firm commitment to purchase 10 Airbus A380 aircraft and options to purchase 10 additional A380 aircraft. The Airbus A300-600 aircraft are expected to be delivered by July 2006, and the A380 aircraft are expected to be delivered between 2009 and 2012. In 2005, we expect to take delivery of seven Airbus A300-600 aircraft.

*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 40,000 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 are certified 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 retrain 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 3,600 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***

On August 9, 1999, the United States Tax Court held that we were liable for tax on income of Overseas Partners Ltd., a Bermuda company that had reinsured excess value ("EV") package 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. In the first quarter of 2004, we received a refund of $185 million pertaining to the 1983 and 1984 tax years.

The IRS had 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 tax credits in the 1985 through 1998 tax years. In the third quarter of 2004, we settled all outstanding issues related to each of the tax years 1991 through 1998. In the fourth quarter of 2004, we received a refund of $425 million pertaining to the 1991 through 1998 tax years. We expect to receive the $371 million of refunds related to the 1985 through 1990 tax years within the next six months.

The IRS may take similar positions with respect to some of the non-EV package insurance matters for each of the years 1999 through 2004. If challenged, 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. 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 were named as a defendant in twenty-three now-dismissed lawsuits that sought to hold us liable for the collection of premiums for EV insurance in connection with package shipments since 1984. Based on state and federal tort, contract and statutory claims, these cases generally claimed 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 were all filed after the August 9, 1999 U.S. Tax Court decision, discussed above, which the U.S. Court of Appeals for the Eleventh Circuit later reversed.

These twenty-three cases were 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 was named as a defendant, there also was 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. That case also was consolidated into the MDL Proceeding.

In late 2003, the parties reached a global settlement resolving all claims and all cases in the MDL proceeding. In reaching the settlement, we and the other defendants expressly denied any and all liability. On July 30, 2004, the court issued an order granting final approval to the substantive terms of the settlement. No appeals were filed and the settlement became effective on September 8, 2004.

Pursuant to the settlement, UPS has provided qualifying settlement class members with vouchers toward the purchase of specified UPS services and will pay the plaintiffs' attorneys' fees, the total amount of which still remains to be determined by the court. Other defendants have contributed to the costs of the settlement, including the attorneys' fees. The ultimate cost to us of the proposed settlement will depend on a number of factors, including how many vouchers settlement class members actually use. We do not believe that this proposed settlement will have a material effect on our financial condition, results of operations, or liquidity.

We are a defendant in a number of lawsuits filed in state courts containing various class-action allegations under state wage-and-hour laws. In one of these cases, Marlo v. UPS, which has been certified as a class action in California state court, plaintiffs allege that they improperly were denied overtime, penalties for missed meal and rest periods, interest and attorneys' fees. Plaintiffs purport to represent a class of 1,200 full-time supervisors.

We have denied any liability with respect to these claims and intend to vigorously defend ourselves in these cases. At this time, we have not determined the amount of any liability that may result from these matters or whether such liability, if any, would have a material adverse 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 potential funding deficiencies which could cause us to make significantly 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, Related Stockholder Matters and Issuer Purchases of Equity Securities***

Our 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 our Class A common stock is convertible into one share of our Class B common stock.

The following is a summary of our Class B common stock price activity and dividend information for 2004 and 2003. Our Class B common stock is listed on the New York Stock Exchange under the symbol "UPS."

| | High | Low | Close | Dividends Declared |
|---|---|---|---|---|
| **2004:** | | | | |
| First Quarter | $74.46 | $67.51 | $69.84 | $ 0.28 |
| Second Quarter | $75.26 | $68.57 | $75.17 | $ 0.28 |
| Third Quarter | $76.00 | $69.15 | $75.92 | $ 0.28 |
| Fourth Quarter | $87.70 | $75.76 | $85.46 | $ 0.28 |
| **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 |

As of February 28, 2005, there were 168,651 and 15,728 record holders of Class A and Class B common 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 9, 2005, our Board declared a dividend of $0.33 per share, which was payable on March 9, 2005 to shareowners of record on February 22, 2005.

In May 2004, a total of $1.0 billion was authorized for share repurchases as part of our continuing share repurchase program. In October 2004, the Board of Directors authorized an increase in our share repurchase program to a total of $2.0 billion, which superceded any previous remaining share repurchase authorization. Unless terminated earlier by the resolution of our Board, the program will expire when we have purchased all shares authorized for repurchase under the program.

A summary of repurchases of our Class A and Class B common stock during the fourth quarter of 2004 is as follows (in millions, except per share amounts):

| | Total Number of Shares Purchased(1) | Average Price Paid Per Share(1) | Total Number of Shares Purchased as Part of Publicly Announced Program | Approximate Dollar Value of Shares that May Yet be Purchased Under the Program |
|---|---|---|---|---|
| October 1 – October 20, 2004 | 0.2 | $ 77.72 | 0.2 | $ 459 |
| October 21 – October 31, 2004 | 0.6 | 77.72 | 0.6 | 1,954 |
| November 1 – November 30, 2004 | 0.3 | 82.91 | 0.2 | 1,937 |
| December 1 – December 31, 2004 | 1.4 | 86.25 | 1.4 | 1,817 |
| Total October 1 – December 31, 2004 | 2.5 | $ 83.02 | 2.4 | $ 1,817 |

(1) Includes shares repurchased through our publicly announced share repurchase program and shares tendered to pay the exercise price and tax withholding on employee stock options.

**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, 2004 (amounts in millions, except per share amounts). This financial data should be read together with our consolidated financial statements and related notes, Management's Discussion and Analysis of Financial Condition and Results of Operations, and other financial data appearing elsewhere in this report.

| | Years Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2004 | 2003 | 2002 | 2001 | 2000 |
| **Selected Income Statement Data** | | | | | |
| Revenue: | | | | | |
| U.S. domestic package | $26,610 | $25,022 | $23,924 | $23,997 | $24,002 |
| International package | 6,762 | 5,561 | 4,680 | 4,245 | 4,078 |
| Non-package | 3,210 | 2,902 | 2,668 | 2,079 | 1,418 |
| Total revenue | 36,582 | 33,485 | 31,272 | 30,321 | 29,498 |
| Operating expenses: | | | | | |
| Compensation and benefits | 20,916 | 19,328 | 17,940 | 17,397 | 16,546 |
| Other | 10,677 | 9,712 | 9,236 | 8,962 | 8,440 |
| Total operating expenses | 31,593 | 29,040 | 27,176 | 26,359 | 24,986 |
| Operating profit (loss): | | | | | |
| U.S. domestic package | 3,345 | 3,272 | 3,576 | 3,620 | 3,929 |
| International package | 1,121 | 709 | 322 | 125 | 277 |
| Non-package | 523 | 464 | 198 | 217 | 306 |
| Total operating profit | 4,989 | 4,445 | 4,096 | 3,962 | 4,512 |
| Other income (expense): | | | | | |
| Investment income | 82 | 18 | 63 | 159 | 527 |
| Interest expense | (149) | (121) | (173) | (184) | (205) |
| Gain on redemption of long-term debt | — | 28 | — | — | — |
| Tax assessment | — | — | 1,023 | — | — |
| Income before income taxes | 4,922 | 4,370 | 5,009 | 3,937 | 4,834 |
| Income taxes | (1,589) | (1,472) | (1,755) | (1,512) | (1,900) |
| Cumulative effect of changes in accounting principles | — | — | (72) | (26) | — |
| Net income | $ 3,333 | $ 2,898 | $ 3,182 | $ 2,399 | $ 2,934 |
| Per share amounts: | | | | | |
| Basic earnings per share | $ 2.95 | $ 2.57 | $ 2.84 | $ 2.13 | $ 2.54 |
| Diluted earnings per share | $ 2.93 | $ 2.55 | $ 2.81 | $ 2.10 | $ 2.50 |
| Dividends declared per share | $ 1.12 | $ 0.92 | $ 0.76 | $ 0.76 | $ 0.68 |
| Weighted Average Shares Outstanding | | | | | |
| Basic | 1,129 | 1,128 | 1,120 | 1,126 | 1,153 |
| Diluted | 1,137 | 1,138 | 1,134 | 1,144 | 1,175 |

| | As of December 31, | | | | |
|---|---|---|---|---|---|
| | 2004 | 2003 | 2002 | 2001 | 2000 |
| **Selected Balance Sheet Data** | | | | | |
| Working capital | $ 6,122 | $ 4,335 | $ 3,183 | $ 2,811 | $ 2,623 |
| Long-term debt | 3,261 | 3,149 | 3,495 | 4,648 | 2,981 |
| Total assets | 33,026 | 29,734 | 26,868 | 24,636 | 21,662 |
| Shareowners' equity | 16,384 | 14,852 | 12,455 | 10,248 | 9,735 |

**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 | |
|---|---|---|---|---|
| | **2004** | **2003** | **$** | **%** |
| Revenue (in millions): | | | | |
| U.S. domestic package: | | | | |
| Next Day Air | $ 6,040 | $ 5,580 | $ 460 | 8.2% |
| Deferred | 3,161 | 2,982 | 179 | 6.0 |
| Ground | 17,409 | 16,460 | 949 | 5.8 |
| Total U.S. domestic package | 26,610 | 25,022 | 1,588 | 6.3 |
| International package: | | | | |
| Domestic | 1,346 | 1,134 | 212 | 18.7 |
| Export | 4,944 | 4,001 | 943 | 23.6 |
| Cargo | 472 | 426 | 46 | 10.8 |
| Total International package | 6,762 | 5,561 | 1,201 | 21.6 |
| Non-package: | | | | |
| UPS Supply Chain Solutions | 2,346 | 2,126 | 220 | 10.3 |
| Other | 864 | 776 | 88 | 11.3 |
| Total Non-package | 3,210 | 2,902 | 308 | 10.6 |
| Consolidated | $36,582 | $33,485 | $3,097 | 9.2% |
| | | | **#** | |
| Average Daily Package Volume (in thousands): | | | | |
| U.S. domestic package: | | | | |
| Next Day Air | 1,194 | 1,185 | 9 | 0.8% |
| Deferred | 910 | 918 | (8) | (0.9) |
| Ground | 10,676 | 10,268 | 408 | 4.0 |
| Total U.S. domestic package | 12,780 | 12,371 | 409 | 3.3 |
| International package: | | | | |
| Domestic | 815 | 786 | 29 | 3.7 |
| Export | 541 | 481 | 60 | 12.5 |
| Total International package | 1,356 | 1,267 | 89 | 7.0 |
| Consolidated | 14,136 | 13,638 | 498 | 3.7% |
| Operating days in period | 254 | 252 | | |
| Average Revenue Per Piece: | | | | |
| | | | **$** | |
| U.S. domestic package: | | | | |
| Next Day Air | $ 19.92 | $ 18.69 | $ 1.23 | 6.6% |
| Deferred | 13.68 | 12.89 | 0.79 | 6.1 |
| Ground | 6.42 | 6.36 | 0.06 | 0.9 |
| Total U.S. domestic package | 8.20 | 8.03 | 0.17 | 2.1 |
| International package: | | | | |
| Domestic | 6.50 | 5.73 | 0.77 | 13.4 |
| Export | 35.98 | 33.01 | 2.97 | 9.0 |
| Total International package | 18.26 | 16.08 | 2.18 | 13.6 |
| Consolidated | $ 9.16 | $ 8.77 | $ 0.39 | 4.4% |

| | 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% |

**Operating Profit**

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

| | Year Ended December 31, | | Change | |
|---|---|---|---|---|
| | 2004 | 2003 | $ | % |
| *Operating Segment* | | | | |
| U.S. domestic package | $3,345 | $3,272 | $ 73 | 2.2% |
| International package | 1,121 | 709 | 412 | 58.1 |
| Non-package | 523 | 464 | 59 | 12.7 |
| Consolidated Operating Profit | $4,989 | $4,445 | $ 544 | 12.2% |

| | Year Ended December 31, | | Change | |
|---|---|---|---|---|
| | 2003 | 2002 | $ | % |
| *Operating Segment* | | | | |
| 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% |

***U.S. Domestic Package Operations***

*2004 compared to 2003*

U.S. domestic package revenue increased $1.588 billion, or 6.3%, for the year, which resulted from a 3.3% increase in average daily package volume and a 2.1% increase in revenue per piece. Ground volume increased 4.0% during the year, driven in part by the improving U.S. economy, and reflects growth in both commercial and residential deliveries. Ground volume increased 4.8% during the first nine months of the year, but slowed to 1.5% during the fourth quarter. Total Next Day Air volume (up 0.8%) and total deferred volume (down 0.9%) were both significantly affected by declines in letter volume, but offset by an increase in Next Day Air package volume. The 2004 decline in Next Day Air and deferred letter volume is largely due to the slowdown in mortgage refinancing, which was notably strong in 2003.

Ground revenue per piece increased 0.9% for the year primarily due to the impact of a rate increase that took effect in 2004, but growth was adversely impacted by approximately 130 basis points due to the removal of the fuel surcharge on ground products, as discussed below. Next Day Air revenue per piece increased 6.6%, while deferred revenue per piece increased 6.1%, primarily due to the shift in product mix from letters to packages, the rate increase, and the modified fuel surcharge on domestic air products.

On January 5, 2004, a rate increase took effect which was 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%.

In addition, we discontinued the fuel surcharge on ground products, while we began to apply a new indexed surcharge to domestic air products. This indexed 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. Based on published rates, the average fuel surcharge applied to our air products during 2004 was 7.07%, compared with the average surcharge of 1.47% applied to both air and ground products in 2003, resulting in an increase in domestic fuel surcharge revenue of $290 million during the year.

U.S. domestic package operating profit increased $73 million, or 2.2%, primarily due to the increase in volume and revenue growth discussed previously, but somewhat offset by increased aircraft impairment charges ($91 million in 2004 compared to $69 million in 2003) and a $63 million pension charge related to the consolidation of data systems used to collect and accumulate plan participant data.

*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%.

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 discontinued the fuel surcharge on ground service, while an indexed surcharge was applied to our Next Day Air and deferred products. This indexed fuel surcharge for the domestic air products was based on the U.S. Energy Department’s Gulf Coast spot price for a gallon of kerosene-type jet fuel.

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. 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.

***International Package Operations***

*2004 compared to 2003*

International package revenue improved $1.201 billion, or 21.6%, for the year primarily due to the 12.5% volume growth for our export products and strong revenue per piece improvements. Revenue increased $295 million during the year due to currency fluctuations. Revenue growth was also impacted by the change to our fuel surcharge (discussed below) as well as rate changes, which vary by geographical market and occur throughout the year. 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%.

In January 2004, changes were made to the calculation of our fuel surcharge on international products (including U.S. export products). The surcharge is now indexed to fuel prices in our different international regions, depending on where the shipment takes place. The current surcharge is only applied to our international express products, while the previous surcharge was applied to all international products. These changes, along with higher fuel prices, had the effect of increasing international package revenue by $231 million during the year.

We experienced double-digit export volume growth in each region throughout the world, with the Asia-Pacific region leading with 24% export volume growth, including a 101% increase in China export volume. Export volume continues to benefit from our expanding international network, such as the six additional flights to Shanghai, China that were added in the fourth quarter. European export volume grew in excess of 10%, and was positively influenced by the addition of 10 countries to the European Union. Non-U.S. domestic volume increased 3.7% for the year, and primarily reflects improvements in our European and Canadian domestic delivery businesses.

Export revenue per piece increased 9.0% for the year (3.1% currency-adjusted), benefiting from rate increases and the impact of the fuel surcharge. In total, international average daily package volume increased 7.0% and average revenue per piece increased 13.6% (6.7% currency-adjusted).

The improvement in operating profit for our international package operations was $412 million, or 58.1%, for the year, $54 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, and a strong increase in operating margin through better network utilization. International operating profit was adversely affected by aircraft impairment charges of $19 million in 2004, compared to a $6 million charge in 2003.

*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, reversing a 3.2% decline from the previous year, which 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.

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.

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.

### *Non-Package Operations*

*2004 compared to 2003*

Non-package revenue increased $308 million, or 10.6%, for the year. UPS Supply Chain Solutions increased revenue by 10.3% during the year, with strong growth in our air and ground freight forwarding businesses, as well as our logistics business. Favorable currency fluctuations provided $73 million of the increase in revenue for the year. The remainder of our non-package operations, which includes Mail Boxes Etc. (the franchisor of Mail Boxes Etc. and The UPS Store), UPS Capital, our mail and consulting services, and our excess value package insurance business, increased revenue by 11.3% for the year, largely due to strong double-digit franchise and royalty revenue growth at Mail Boxes Etc. resulting from an expanding store base, as well as higher excess value insurance revenue. Menlo Worldwide Forwarding, which was acquired in December 2004, added $33 million in revenue.

Non-package operating profit increased $59 million, or 12.7%, for the year, primarily due to improved results from our UPS Capital, mail services, and excess value insurance business. Mail Boxes Etc. experienced strong profit growth, due to the increased franchise and royalty revenue noted previously. Non-package operating profit includes $112 million (compared to $114 million in 2003) of intersegment profit for the year, with a corresponding amount of operating expense, which reduces operating profit, in the U.S. domestic package segment.

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 exceeded 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.

*2003 compared to 2002*

Non-package revenue increased $234 million, or 8.8%, for the year. UPS Supply Chain Solutions, 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 United States, 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, 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 improvements 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.

***Operating Expenses and Operating Margin***

*2004 compared to 2003*

Consolidated operating expenses increased by $2.553 billion, or 8.8%, for the year, $311 million of which was due to currency fluctuations in our international package and non-package segments. Compensation and benefits increased by $1.588 billion, or 8.2%, for the year, largely due to increased payroll costs, increased health and welfare expense, and higher pension expense for our union pension plans. Stock-based compensation expense increased $167 million, or 23.2%, during the year, primarily as a result of increased management incentive awards expense and adopting the measurement provisions of FAS 123 prospectively beginning with 2003 stock-based compensation awards.

Other operating expenses increased by $965 million, or 9.9%, for the year, largely due to a 34.9% increase in fuel expense and a 12.6% increase in purchased transportation, but were somewhat offset by a decline in depreciation and amortization expense. The increase in fuel expense was primarily due to higher prices for Jet-A, diesel, and unleaded gasoline, in addition to somewhat higher fuel usage and lower hedging gains. The increase in purchased transportation expense was influenced by the impact of currency, higher fuel prices, and volume growth in our international package business. The decline in depreciation and amortization for the year was impacted by lower depreciation expense on aircraft engines, largely due to the retirement of some older aircraft. The increase in repairs and maintenance expense was affected by increased expense on vehicle parts and airframe and engine maintenance. The increase in other occupancy expense was largely related to higher rent expense, but somewhat offset by lower real estate taxes. The increase in other expenses was affected by the $110 million impairment of aircraft, engines, and parts, as well as the $63 million pension charge discussed previously, in addition to higher advertising costs.

Our consolidated operating margin, defined as operating profit as a percentage of revenue, increased in 2004 compared with 2003. The operating margins for our three business segments were as follows:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2004 | 2003 | 2002 |
| *Operating Segment* | | | |
| U.S. domestic package | 12.6% | 13.1% | 14.9% |
| International package | 16.6% | 12.7% | 6.9% |
| Non-package | 16.3% | 16.0% | 7.4% |
| Consolidated | 13.6% | 13.3% | 13.1% |

*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 primarily 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.

***Investment Income/Interest Expense***

*2004 compared to 2003*

Investment income increased by $64 million during the year, primarily due to a $58 million impairment charge recognized during 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. Investment income also increased in 2004 due to higher interest rates earned on cash balances, but was somewhat offset by increased equity-method losses on certain investment partnerships.

The $28 million increase in interest expense during 2004 was primarily due to the impact of higher interest rates on variable rate debt and certain interest rate swaps, as well as the impact of currency exchange rates and imputed interest expense associated with certain investment partnerships. The impact of higher interest rates was somewhat offset by lower average debt balances outstanding in 2004 compared to 2003.

In December 2003, we redeemed $300 million in 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 non-operating gain recorded in 2003 results.

*2003 compared to 2002*

The decrease in investment income of $45 million in 2003 is primarily due to the $58 million impairment charge recognized during the first quarter of 2003. 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.

***Net Income and Earnings Per Share***

*2004 compared to 2003*

2004 net income was $3.333 billion, a 15.0% increase from the $2.898 billion in 2003, resulting in an increase in diluted earnings per share to $2.93 in 2004 from $2.55 in 2003. Net income in 2004 was adversely impacted by a $70 million after-tax impairment charge ($0.06 per diluted share) on Boeing 727, 747, and McDonnell Douglas DC-8 aircraft, engines, and parts, as well as a $40 million after-tax charge ($0.04 per diluted share) to pension expense resulting from the consolidation of data systems used to collect and accumulate plan participant data. Net income was positively impacted by credits to income tax expense totaling $142 million ($0.13 per diluted share) related to various items, including the resolution of certain tax matters, the removal of a portion of the valuation allowance on certain deferred tax assets on net operating loss carryforwards, and an adjustment for identified tax contingency items.

Net income in 2003 was favorably impacted by the $14 million after-tax gain ($0.01 per diluted share) on the sale of Mail Technologies, the $15 million after-tax gain ($0.01 per diluted share) on the sale of Aviation Technologies, and the $18 million after-tax gain ($0.02 per diluted share) recognized upon redemption of our $300 million cash-settled senior convertible notes. Net income in 2003 was adversely impacted by the $37 million after-tax investment impairment charge ($0.03 per diluted share) described previously. Net income in 2003 was also favorably impacted by reductions in income tax expense of $116 million ($0.10 per diluted share) due to the resolution of various tax issues with the IRS, a favorable court ruling on the tax treatment of jet engine maintenance costs, and a lower effective state tax rate.

*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 to $2.55 in 2003 from $2.81 in 2002. Net income in 2003 was affected by the items noted above. Net income in 2002 was favorably impacted by a $776 million after-tax ($0.68 per diluted share) benefit 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.

**Liquidity and Capital Resources**

*Net Cash From Operating Activities*

Net cash provided by operating activities was $5.331, $4.576, and $5.688 billion in 2004, 2003 and 2002, respectively. The increase in 2004 operating cash flows compared with 2003 was primarily due to higher net income, decreased pension and retirement plan fundings, and cash received upon the resolution of various tax matters. In 2004, we funded $450 million to our pension plans as compared to $1.136 billion in 2003. As discussed in Note 5 to the consolidated financial statements, projected pension contributions to plan trusts in 2005 are approximately $723 million. In 2004, we received $610 million from our previously disclosed settlement with the Internal Revenue Service (IRS) primarily on tax matters related to excess value package insurance for tax years 1983-84 and 1991-98 (see “Contingencies” section below). As of December 31, 2004, we had a $371 million receivable recorded for the settlement related to tax years 1985-90.

On October 28, 2004, we announced a rate increase and a change in the fuel surcharge that will take effect on January 3, 2005. We increased rates 2.9% on UPS Next Day Air, UPS 2nd Day Air, UPS 3 Day Select, and UPS Ground. We also increased rates 2.9% for international shipments originating in the United States (Worldwide Express, Worldwide Express Plus, UPS Worldwide Expedited and UPS International Standard service). Other pricing changes include an increase of $0.25 for delivery area surcharge on both residential and commercial services to certain ZIP codes. The residential surcharge will increase $0.10 for UPS Ground services and $0.35 for UPS Next Day Air, UPS 2nd Day Air and UPS 3 Day Select. These rate changes are customary, and are consistent with previous years’ rate increases. Additionally, in January 2005 we will modify the fuel surcharge on domestic and international air services by setting a maximum cap of 9.5%. A fuel surcharge of 2% will be applied to UPS Ground services that will fluctuate after January 2005 based on the U.S. Energy Department’s On-Highway Diesel Fuel Price. Rate changes for shipments originating outside the U.S. were made throughout the past year and varied by geographic market.

*Net Cash Used In Investing Activities*

Net cash used in investing activities was $3.638, $2.742, and $3.281 billion in 2004, 2003 and 2002, respectively. The primary reason for the increased cash used in investing activities has been the increasing net purchases of marketable securities, due to the excess of cash generated over our capital investment needs. The increase in funds used for business acquisitions is primarily due to the Menlo Worldwide Forwarding and UPS

Yamato Express Co. acquisitions in 2004 (see Note 7 to the consolidated financial statements). The cash generated from finance receivables was primarily due to principal payments on finance receivables and sales of portions of our portfolio, primarily in the receivable factoring business.

Capital expenditures represent a primary use of cash in investing activities, as follows (in millions):

| | 2004 | 2003 | 2002 |
|---|---|---|---|
| Buildings and facilities | $ 547 | $ 451 | $ 528 |
| Aircraft and parts | 829 | 1,019 | 638 |
| Vehicles | 393 | 161 | 41 |
| Information technology | 358 | 316 | 451 |
| | $ 2,127 | $ 1,947 | $ 1,658 |

As described in the "Commitments" section below, we have commitments for the purchase of aircraft, vehicles, equipment and other fixed assets to provide for the replacement of existing capacity and anticipated future growth. We fund our capital expenditures with our cash from operations.

*Net Cash Used In Financing Activities*

Net cash used in financing activities was $2.014, $2.110 and $2.090 billion in 2004, 2003 and 2002, respectively. Our primary use of cash in financing activities has been to repurchase stock, pay dividends, and repay long-term debt. In October 2004, a total of $2.0 billion was authorized for share repurchases as part of our continuing share repurchase program. As of December 31, 2004, $1.817 billion of this authorization was available for future share repurchases. We repurchased a total of $1.310 billion of common stock in 2004.

We increased our cash dividends per share to $1.12 in 2004 from $0.92 in 2003, resulting in an increase in total cash dividends paid to $1.208 billion from $956 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 2005, the Board of Directors declared a $0.33 per share dividend, which represents a 17.9% increase over the $0.28 previous quarterly dividend. The dividend is payable on March 9, 2005 to shareowners of record on February 22, 2005.

During 2004, we repaid $468 million in debt, primarily consisting of $264 million in commercial paper, $56 million in redemptions of UPS Notes, $57 million in scheduled principal payments on capital lease obligations, and $60 million for the redemption of our Singapore Dollar notes issue. Issuances of debt primarily consisted of $735 million in commercial paper and $41 million in 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.

*Sources of Credit*

We maintain two commercial paper programs under which we are authorized to borrow up to $7.0 billion. Approximately $1.015 billion was outstanding under these programs as of December 31, 2004, with an average interest rate of 2.10%. The entire balance outstanding has been classified as a current liability in our balance sheet. In addition, we maintain an extendable commercial notes program under which we are authorized to borrow up to $500 million. No amounts were outstanding under this program at December 31, 2004.

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 21, 2005 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, 2004.

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 $126 million issued under this shelf registration statement at December 31, 2004, all of which consists of issuances under our UPS Notes program.

Our existing debt instruments and credit facilities do not have cross-default or ratings triggers, however these debt instruments and credit facilities do subject us to certain financial covenants. These covenants generally require us to maintain a $3.0 billion minimum net worth and limit the amount of secured indebtedness available to the company. These covenants are not considered material to the overall financial condition of the company, and all covenant tests were passed as of December 31, 2004.

*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, 2004 (in millions):

| Year | Capitalized Leases | Operating Leases | Debt Principal | Purchase Commitments |
|---|---|---|---|---|
| 2005 | $ 97 | $ 370 | $ 1,110 | $ 1,012 |
| 2006 | 70 | 327 | 6 | 488 |
| 2007 | 121 | 242 | — | 223 |
| 2008 | 132 | 169 | 27 | 274 |
| 2009 | 76 | 128 | 84 | 637 |
| After 2009 | 62 | 590 | 2,777 | 1,129 |
| Total | 558 | $ 1,826 | $ 4,004 | $ 3,763 |

In December 2004, we amended our existing aircraft purchase agreement with Airbus Industries. The amended agreement will reduce Airbus A300-600 aircraft on order from 50 to 13, and the number of options on this aircraft from 37 to zero. These 13 aircraft remaining on order will be delivered to UPS by July 2006. Additionally, we placed a firm order for 10 Airbus A380 freighter aircraft, and obtained options to purchase 10 additional A380 aircraft. The Airbus A380 aircraft will be delivered to UPS between 2009 and 2012. The purchase commitments information above reflects the amended agreement.

In January 2005, we also announced an agreement to purchase an additional 11 Boeing MD-11 pre-owned aircraft. These aircraft will be delivered to UPS between 2005 and 2007.

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, for the foreseeable future.

*Contingencies*

On August 9, 1999, the United States Tax Court held that we were liable for tax on income of Overseas Partners Ltd., a Bermuda company that had reinsured excess value (“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. In the first quarter of 2004, we received a refund of $185 million pertaining to the 1983 and 1984 tax years.

The IRS had 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 tax credits in the 1985 through 1998 tax years. In the third quarter of 2004, we settled all outstanding issues related to each of the tax years 1991 through 1998. In the fourth quarter of 2004, we received a refund of $425 million pertaining to the 1991 through 1998 tax years. We expect to receive the $371 million of refunds related to the 1985 through 1990 tax years within the next six months.

The IRS may take similar positions with respect to some of the non-EV package insurance matters for each of the years 1999 through 2004. If challenged, 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. 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 were named as a defendant in twenty-three now-dismissed lawsuits that sought to hold us liable for the collection of premiums for EV insurance in connection with package shipments since 1984. Based on state and federal tort, contract and statutory claims, these cases generally claimed 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 were all filed after the August 9, 1999 U.S. Tax Court decision, discussed above, which the U.S. Court of Appeals for the Eleventh Circuit later reversed.

These twenty-three cases were 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 was named as a defendant, there also was 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. That case also was consolidated into the MDL Proceeding.

In late 2003, the parties reached a global settlement resolving all claims and all cases in the MDL proceeding. In reaching the settlement, we and the other defendants expressly denied any and all liability. On July 30, 2004, the court issued an order granting final approval to the substantive terms of the settlement. No appeals were filed and the settlement became effective on September 8, 2004.

Pursuant to the settlement, UPS has provided qualifying settlement class members with vouchers toward the purchase of specified UPS services and will pay the plaintiffs' attorneys' fees, the total amount of which still remains to be determined by the court. Other defendants have contributed to the costs of the settlement, including the attorneys' fees. The ultimate cost to us of the proposed settlement will depend on a number of factors, including how many vouchers settlement class members actually use. We do not believe that this proposed settlement will have a material effect on our financial condition, results of operations, or liquidity.

We are a defendant in a number of lawsuits filed in state courts containing various class-action allegations under state wage-and-hour laws. In one of these cases, Marlo v. UPS, which has been certified as a class action in California state court, plaintiffs allege that they improperly were denied overtime, penalties for missed meal and rest periods, interest and attorneys' fees. Plaintiffs purport to represent a class of 1,200 full-time supervisors.

We have denied any liability with respect to these claims and intend to vigorously defend ourselves in these cases. At this time, we have not determined the amount of any liability that may result from these matters or whether such liability, if any, would have a material adverse 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 potential funding deficiencies which could cause us to make significantly 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, 2004, we had approximately 229,000 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 of one to three years. The net fair value of such contracts subject to price risk, excluding the underlying exposures, as of December 31, 2004 and 2003 was an asset of $101 and $30 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 $32 and $17 million at December 31, 2004 and 2003, 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, the British Pound Sterling and the Canadian Dollar. We use a combination of purchased and written options and forward contracts to hedge cash flow currency exposures. These derivative instruments generally cover forecasted foreign currency exposures for periods up to one year. As of December 31, 2004 and 2003, the net fair value of the hedging instruments described above was a liability of $(28) and $(48) 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 $117 and $97 million at December 31, 2004 and 2003, 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 issued 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, 2004 and 2003 would be approximately $29 and $25 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, 2004 and 2003 would be approximately $45 and $31 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 the annual income resulting from a hypothetical 100 basis point change in interest rates applied to our variable rate finance receivables at December 31, 2004 and 2003 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, 2004 and 2003, the fair value of such investments was $77 and $95 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 $8 and $10 million at December 31, 2004 and 2003.

*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 December 2004, the FASB issued Statement No. 123 (revised 2004), “Share-Based Payment” (“FAS 123R”), which replaces FAS 123 and supercedes APB 25. FAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values, beginning with the first interim or annual period after June 15, 2005, with early adoption encouraged. We will adopt FAS 123R in the third quarter of 2005, using the prospective method of adoption. The prospective method requires that compensation expense be recorded for all unvested stock options and restricted stock at the beginning of the first quarter of adoption of FAS 123R. There will be no impact upon adoption, as we will already be expensing all unvested option and restricted stock awards.

In December 2004, the FASB issued FASB Staff Position (“FSP”) No. 109-2, “Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004” (“FSP 109-2”). FSP 109-2 provides guidance under FAS 109 with respect to recording the potential impact of the repatriation provisions of the American Jobs Creation Act of 2004 (the “Jobs Act”) on enterprises’ income tax expense and deferred tax liability. The Jobs Act was enacted on October 22, 2004. FSP 109-2 states that an enterprise is allowed time beyond the financial reporting period of enactment to evaluate the effect of the Jobs Act on its plan for reinvestment or repatriation of foreign earnings for purposes of applying FAS 109. We have not yet completed our evaluation of the impact of the repatriation provisions of the Jobs Act. Accordingly, as provided for in FSP 109-2, we have not adjusted our income tax provision or deferred tax liabilities to reflect the repatriation provisions of the Jobs Act.

The adoption of the following recent accounting pronouncements did not have a material impact on our results of operations or financial condition:

- FASB Interpretation No. 45, “Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others—An Interpretation of FASB Statements No. 5, 57, and 107 and Rescission of FASB Interpretation No. 34”;
- FASB Interpretation No. 46(R), “Consolidation of Variable Interest Entities—An Interpretation of ARB No. 51”;
- FASB Statement No. 132(R) (revised 2003), “Employer’s Disclosures about Pensions and Other Post-Retirement Benefits—An Amendment of FASB Statements No. 87, 88, and 106”;
- FASB Statement No. 146, “Accounting for Costs Associated with Exit or Disposal Activities”;
- FASB Statement No. 149, “Amendment of Statement 133 on Derivative Instruments and Hedging Activities”;

- FASB Statement No. 150, “Accounting for Certain Instruments with Characteristics of Both Liabilities and Equity”; and
- FSP 106-2, “Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003”.

**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 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 tests performed in 2003 and 2004 resulted in no goodwill impairment. As of December 31, 2004, our recorded goodwill was $1.255 billion.

*Self-Insurance Accruals*—We self-insure costs associated with workers’ compensation claims, automotive liability, health and welfare, 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.

*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, 2004, we had approximately $14.0 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 McDonnell Douglas 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 (including the related engines), $69 million of which impacted the U.S. domestic package segment and $6 million of which impacted the international package segment.

In December 2004, we permanently removed from service a number of Boeing 727, 747 and McDonnell Douglas DC-8 aircraft. As a result of the actual and planned retirement of these aircraft, we conducted an impairment evaluation, which resulted in a $110 million impairment charge during the fourth quarter for these aircraft (including the related engines and parts), $91 million of which impacted the U.S. domestic package segment and $19 million of which impacted the international package segment.

These charges are classified in the caption “other expenses” within other operating expenses (see Note 13 to the consolidated financial statements). UPS continues to operate all of its other aircraft and continues to experience positive cash flow.

*Income Taxes*—We operate in numerous countries around the world and are subject to income taxes in many jurisdictions. We estimate our annual effective income tax rate based on statutory income tax rates in these jurisdictions and taking into consideration items that are treated differently for financial reporting and tax purposes. The process of estimating our effective income tax rate involves judgments related to tax planning and expectations regarding future events. The increasing profitability of our International segment increases the significance of our non-U.S. income tax provision to our overall effective income tax rate. We recognize deferred tax assets for items that will generate tax deductions or credits in future years. Realization of deferred tax assets requires sufficient future taxable income (subject to any carry-forward limitations) in the applicable jurisdictions. We make judgments regarding the realizability of deferred tax assets based, in part, on estimates of future taxable income. A valuation allowance is established for the portion, if any, of the deferred tax assets that we conclude cannot be realized. Income tax related contingency matters also affect our effective income tax rate. In this regard, we make judgments related to the identification and quantification of income tax related contingency matters.

**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. The words "believes," "expects," "anticipates," "we see," and similar expressions are intended to identify forward-looking statements. 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.
- 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 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 disruption of supplies, or an increase in the prices, of gasoline, diesel and jet fuel for our aircraft and delivery vehicles as a result of war or other factors. We require significant quantities of 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 has been no significant change in our internal control over financial reporting that occurred during the fourth quarter of 2004 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

See page F-2 for management's report on internal control over financial reporting.

**Item 9B.** ***Other Information***

None.

## 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 5, 2005 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 5, 2005 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 5, 2005 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 5, 2005 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 5, 2005 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 5, 2005 and is incorporated herein by reference.

## PART IV

**Item 15.** ***Exhibits and Financial Statement Schedules***

(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) *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.

(c) *Financial Statement Schedules*.

None.

## 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 10, 2005

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/ JOHN J. BEYSTEHNER<br>**John J. Beystehner** | Chief Operating Officer and Director | March 10, 2005 |
| /S/ CALVIN DARDEN<br>**Calvin Darden** | Senior Vice President and Director | March 10, 2005 |
| /S/ D. SCOTT DAVIS<br>**D. Scott Davis** | Senior Vice President, Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer) | March 10, 2005 |
| /S/ MICHAEL L. ESKEW<br>**Michael L. Eskew** | Chairman, Chief Executive Officer and Director (Principal Executive Officer) | March 10, 2005 |
| /S/ JAMES P. KELLY<br>**James P. Kelly** | Director | March 10, 2005 |
| /S/ ANN M. LIVERMORE<br>**Ann M. Livermore** | Director | March 10, 2005 |
| /S/ GARY E. MACDOUGAL<br>**Gary E. MacDougal** | Director | March 10, 2005 |
| /S/ VICTOR A. PELSON<br>**Victor A. Pelson** | Director | March 10, 2005 |
| /S/ LEA N. SOUPATA<br>**Lea N. Soupata** | Senior Vice President and Director | March 10, 2005 |
| /S/ JOHN W. THOMPSON<br>**John W. Thompson** | Director | March 9, 2005 |
| /S/ CAROL B. TOMÉ<br>**Carol B. Tomé** | Director | March 10, 2005 |

**UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES**

**INDEX TO FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULES**

**Item 8—Financial Statements**

## Management's Report on Internal Control Over Financial Reporting

UPS management is responsible for establishing and maintaining adequate internal controls over financial reporting for United Parcel Service, Inc. and subsidiaries ("the Company"). Based on the criteria for effective internal control over financial reporting established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission, management has assessed the Company's internal control over financial reporting as effective as of December 31, 2004. The scope of management's assessment of the effectiveness of internal control over financial reporting includes all of the Company's businesses except for Menlo Worldwide Forwarding, a business acquired on December 20, 2004. Menlo constituted less than 3% of total assets as of December 31, 2004 and less than 1% of total revenue and net income for the year then ended. Further discussion of this acquisition can be found in Note 7 to our consolidated financial statements. The registered independent public accounting firm of Deloitte & Touche LLP, as auditors of the consolidated balance sheet of United Parcel Service, Inc. and its subsidiaries as of December 31, 2004 and the related consolidated statements of income, shareowners' equity and cash flows for the year ended December 31, 2004, has issued an attestation report on management's assessment of the Company's internal control over financial reporting.

United Parcel Service, Inc.
March 14, 2005

**Report of Independent Registered Public Accounting Firm on Internal Control over Financial Reporting**

Board of Directors and Shareowners
United Parcel Service, Inc.
Atlanta, Georgia

We have audited management's assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting, that United Parcel Service, Inc. and its subsidiaries (the "Company") maintained effective internal control over financial reporting as of December 31, 2004, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. As described in Management's Report on Internal Control over Financial Reporting, management excluded from their assessment the internal control over financial reporting at Menlo Worldwide Forwarding, Inc., which was acquired on December 20, 2004 and whose financial statements reflect total assets and revenues constituting less than 3% and 1%, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2004. Accordingly, our audit did not include the internal control over financial reporting at Menlo Worldwide Forwarding, Inc. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of December 31, 2004, is fairly stated, in all material respects, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2004, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of United Parcel Service, Inc. and its subsidiaries as of December 31, 2004, and the related consolidated statements of income, shareowners equity, and cash flows for the year ended December 31, 2004 of the Company and our report dated March 14, 2005 expressed an unqualified opinion on those financial statements.

Deloitte & Touche LLP

Atlanta, Georgia
March 14, 2005

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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, 2004 and 2003, and the related consolidated statements of income, shareowners' equity, and cash flows for each of the three years in the period ended December 31, 2004. 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 the standards of the Public Company Accounting Oversight Board (United States). 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, 2004 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2004 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. 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.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2004, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 14, 2005 expressed an unqualified opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting and an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Deloitte & Touche LLP

Atlanta, Georgia
March 14, 2005

**UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEETS**
**(In millions, except per share amounts)**

| | December 31, 2004 | December 31, 2003 |
|---|---|---|
| **ASSETS** | | |
| Current Assets: | | |
| Cash & cash equivalents | $ 739 | $ 1,064 |
| Marketable securities & short-term investments | 4,458 | 2,888 |
| Accounts receivable, net | 5,156 | 4,004 |
| Finance receivables, net | 524 | 840 |
| Income tax receivable | 371 | — |
| Deferred income taxes | 392 | 316 |
| Other current assets | 965 | 847 |
| Total Current Assets | 12,605 | 9,959 |
| Property, Plant & Equipment—at cost, net of accumulated depreciation & amortization of $13,505 and $12,516 in 2004 and 2003 | 13,973 | 13,298 |
| Prepaid Pension Costs | 3,160 | 2,922 |
| Goodwill and Intangible Assets, Net | 1,924 | 1,883 |
| Other Assets | 1,364 | 1,672 |
| | $33,026 | $29,734 |
| **LIABILITIES AND SHAREOWNERS' EQUITY** | | |
| Current Liabilities: | | |
| Current maturities of long-term debt and commercial paper | $ 1,187 | $ 674 |
| Accounts payable | 2,266 | 2,003 |
| Accrued wages & withholdings | 1,197 | 1,166 |
| Dividends payable | 315 | 282 |
| Other current liabilities | 1,518 | 1,499 |
| Total Current Liabilities | 6,483 | 5,624 |
| Long-Term Debt | 3,261 | 3,149 |
| Accumulated Postretirement Benefit Obligation, Net | 1,516 | 1,335 |
| Deferred Taxes, Credits & Other Liabilities | 5,382 | 4,774 |
| 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 515 and 571 in 2004 and 2003 | 5 | 6 |
| Class B common stock, par value $.01 per share, authorized 5,600 shares, issued 614 and 560 in 2004 and 2003 | 6 | 5 |
| Additional paid-in capital | 417 | 662 |
| Retained earnings | 16,192 | 14,356 |
| Accumulated other comprehensive loss | (236) | (177) |
| Deferred compensation obligations | 169 | 136 |
| | 16,553 | 14,988 |
| Less: Treasury stock (3 and 2 shares in 2004 and 2003) | (169) | (136) |
| | 16,384 | 14,852 |
| | $33,026 | $29,734 |

See notes to consolidated financial statements.

**UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES**

**STATEMENTS OF CONSOLIDATED INCOME**
**(In millions, except per share amounts)**

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2004 | 2003 | 2002 |
| Revenue | $36,582 | $33,485 | $31,272 |
| Operating Expenses: | | | |
| Compensation and benefits | 20,916 | 19,328 | 17,940 |
| Other | 10,677 | 9,712 | 9,236 |
| | 31,593 | 29,040 | 27,176 |
| Operating Profit | 4,989 | 4,445 | 4,096 |
| Other Income and (Expense): | | | |
| Investment income | 82 | 18 | 63 |
| Interest expense | (149) | (121) | (173) |
| Gain on redemption of long-term debt | — | 28 | — |
| Tax assessment reversal | — | — | 1,023 |
| | (67) | (75) | 913 |
| Income Before Income Taxes And Cumulative Effect of Change In Accounting Principle | 4,922 | 4,370 | 5,009 |
| Income Taxes | 1,589 | 1,472 | 1,755 |
| Income Before Cumulative Effect of Change In Accounting Principle | 3,333 | 2,898 | 3,254 |
| Cumulative Effect of Change In Accounting Principle, Net of Taxes | — | — | (72) |
| Net Income | $ 3,333 | $ 2,898 | $ 3,182 |
| Basic Earnings Per Share Before Cumulative Effect Of Change In Accounting Principle | $ 2.95 | $ 2.57 | $ 2.91 |
| Basic Earnings Per Share | $ 2.95 | $ 2.57 | $ 2.84 |
| Diluted Earnings Per Share Before Cumulative Effect Of Change In Accounting Principle | $ 2.93 | $ 2.55 | $ 2.87 |
| Diluted Earnings Per Share | $ 2.93 | $ 2.55 | $ 2.81 |

See notes to consolidated financial statements.

## UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES

## STATEMENTS OF CONSOLIDATED SHAREOWNERS' EQUITY
**(In millions, except per share amounts)**

| | 2004 | | 2003 | | 2002 | |
|---|---|---|---|---|---|---|
| | Shares | Dollars | Shares | Dollars | Shares | Dollars |
| **Class A Common Stock** | | | | | | |
| Balance at beginning of year | 571 | $ 6 | 642 | $ 7 | 772 | $ 8 |
| Common stock purchases | (12) | — | (5) | — | (10) | — |
| Stock award plans | 12 | — | 12 | — | 11 | — |
| Common stock issuances | 3 | — | 2 | — | 2 | — |
| Conversions of Class A to Class B common stock | (59) | (1) | (80) | (1) | (133) | (1) |
| Balance at end of year | 515 | 5 | 571 | 6 | 642 | 7 |
| **Class B Common Stock** | | | | | | |
| Balance at beginning of year | 560 | 5 | 482 | 4 | 349 | 3 |
| Common stock purchases | (5) | — | (2) | — | — | — |
| Conversions of Class A to Class B common stock | 59 | 1 | 80 | 1 | 133 | 1 |
| Balance at end of year | 614 | 6 | 560 | 5 | 482 | 4 |
| **Additional Paid-In Capital** | | | | | | |
| Balance at beginning of year | | 662 | | 387 | | 414 |
| Stock award plans | | 677 | | 545 | | 477 |
| Common stock purchases | | (1,075) | | (398) | | (604) |
| Common stock issuances | | 153 | | 128 | | 100 |
| Balance at end of year | | 417 | | 662 | | 387 |
| **Retained Earnings** | | | | | | |
| Balance at beginning of year | | 14,356 | | 12,495 | | 10,162 |
| Net income | | 3,333 | | 2,898 | | 3,182 |
| Dividends ($1.12, $0.92, and $0.76) | | (1,262) | | (1,037) | | (849) |
| Common stock purchases | | (235) | | — | | — |
| Balance at end of year | | 16,192 | | 14,356 | | 12,495 |
| **Accumulated Other Comprehensive Income** | | | | | | |
| Foreign currency translation adjustment: | | | | | | |
| Balance at beginning of year | | (56) | | (328) | | (269) |
| Aggregate adjustment for the year | | (71) | | 272 | | (59) |
| Balance at end of year | | (127) | | (56) | | (328) |
| Unrealized gain (loss) on marketable securities, net of tax: | | | | | | |
| Balance at beginning of year | | 14 | | (34) | | (21) |
| Current period changes in fair value (net of tax effect of $(10), $13, and $(9)) | | (18) | | 21 | | (16) |
| Reclassification to earnings (net of tax effect of $(1), $17, and $1) | | (1) | | 27 | | 3 |
| Balance at end of year | | (5) | | 14 | | (34) |
| Unrealized gain (loss) on cash flow hedges, net of tax: | | | | | | |
| Balance at beginning of year | | (72) | | (26) | | (49) |
| Current period changes in fair value (net of tax effect of $21, $(6), and $6) | | 37 | | (9) | | 10 |
| Reclassification to earnings (net of tax effect of $4, $(21), and $9) | | 6 | | (37) | | 13 |
| Balance at end of year | | (29) | | (72) | | (26) |
| Additional minimum pension liability, net of tax: | | | | | | |
| Balance at beginning of year | | (63) | | (50) | | — |
| Minimum pension liability adjustment (net of tax effect of $(5), $(6), and $(31)) | | (12) | | (13) | | (50) |
| Balance at end of year | | (75) | | (63) | | (50) |
| Accumulated other comprehensive income at end of year | | (236) | | (177) | | (438) |
| **Deferred Compensation Obligations** | | | | | | |
| Balance at beginning of year | | 136 | | 84 | | 47 |
| Common stock held for deferred compensation obligations | | 33 | | 52 | | 37 |
| Balance at end of year | | 169 | | 136 | | 84 |
| **Treasury Stock** | | | | | | |
| Balance at beginning of year | (2) | (136) | (1) | (84) | (1) | (47) |
| Common stock held for deferred compensation obligations | (1) | (33) | (1) | (52) | — | (37) |
| Balance at end of year | (3) | (169) | (2) | (136) | (1) | (84) |
| **Total Shareowners' Equity at End of Year** | | $ 16,384 | | $ 14,852 | | $ 12,455 |
| **Comprehensive Income** | | $ 3,274 | | $ 3,159 | | $ 3,083 |

See notes to consolidated financial statements.

## UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES

## STATEMENTS OF CONSOLIDATED CASH FLOWS
**(In millions)**

| | Years Ended December 31, | | |
|---|---|---|---|
| | **2004** | **2003** | **2002** |
| **Cash Flows From Operating Activities:** | | | |
| Net income | $ 3,333 | $ 2,898 | $ 3,182 |
| Adjustments to reconcile net income to net cash from operating activities: | | | |
| Depreciation and amortization | 1,543 | 1,549 | 1,464 |
| Postretirement benefits | 135 | 84 | 121 |
| Deferred taxes, credits and other | 289 | 317 | 162 |
| Stock award plans | 610 | 497 | 445 |
| Tax assessment reversal | — | — | (776) |
| Vacation policy change | — | — | (121) |
| Restructuring charge and related expenses | — | — | 85 |
| Loss (gain) on impairment or disposal of assets | 129 | 55 | 19 |
| Other (gains) losses | 15 | 96 | 116 |
| Changes in assets and liabilities, net of effect of acquisitions: | | | |
| Accounts receivable, net | (686) | (264) | 312 |
| Other assets | 390 | 13 | 403 |
| Prepaid pension costs | (238) | (990) | (87) |
| Accounts payable | 318 | 66 | (56) |
| Accrued wages and withholdings | (73) | 83 | 112 |
| Income taxes payable | (399) | 204 | 16 |
| Other current liabilities | (35) | (32) | 291 |
| Net cash from operating activities | 5,331 | 4,576 | 5,688 |
| **Cash Flows From Investing Activities:** | | | |
| Capital expenditures | (2,127) | (1,947) | (1,658) |
| Disposals of property, plant and equipment | 75 | 118 | 89 |
| Purchases of marketable securities and short-term investments | (6,322) | (8,083) | (3,833) |
| Sales and maturities of marketable securities and short-term investments | 4,724 | 7,118 | 2,654 |
| Net (increase) decrease in finance receivables | 318 | 50 | (495) |
| Cash received (paid) for business acquisitions / dispositions | (238) | 8 | (14) |
| Other investing activities | (68) | (6) | (24) |
| Net cash (used in) investing activities | (3,638) | (2,742) | (3,281) |
| **Cash Flows From Financing Activities:** | | | |
| Proceeds from borrowings | 811 | 361 | 419 |
| Repayments of borrowings | (468) | (1,245) | (1,099) |
| Purchases of common stock | (1,310) | (398) | (604) |
| Issuances of common stock | 193 | 154 | 116 |
| Dividends | (1,208) | (956) | (840) |
| Other financing activities | (32) | (26) | (82) |
| Net cash (used in) financing activities | (2,014) | (2,110) | (2,090) |
| **Effect Of Exchange Rate Changes On Cash** | (4) | 216 | (51) |
| **Net Increase (Decrease) In Cash And Cash Equivalents** | (325) | (60) | 266 |
| **Cash And Cash Equivalents:** | | | |
| Beginning of period | 1,064 | 1,124 | 858 |
| End of period | $ 739 | $ 1,064 | $ 1,124 |
| **Cash Paid During The Period For:** | | | |
| Interest (net of amount capitalized) | $ 120 | $ 126 | $ 190 |
| Income taxes | $ 2,037 | $ 1,097 | $ 1,416 |

See 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 and the expense related to the transportation of freight is recognized at the time the services are performed in accordance with EITF 99-19 "Reporting Revenue Gross as a Principal Versus Net as an Agent". 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 effective 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 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.

In 2004, we began classifying all auction rate preferred and debt instruments as marketable securities. Previously, such securities were classified as cash equivalents if the auction reset periods were three months or less. Auction rate securities held at December 31, 2003 totaling $1.887 billion were reclassified from cash equivalents into marketable securities for consistent presentation on our consolidated balance sheet.

*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 accumulated 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" and EITF 03-01 "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments." 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. 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—8 $^{1}/_{3}$ years; Technology Equipment—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 million for each of the years 2004, 2003, and 2002, 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," 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 McDonnell Douglas 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 (including the related engines), $69 million of which impacted the U.S. domestic package segment and $6 million of which impacted the international package segment.

In December 2004, we permanently removed from service a number of Boeing 727, 747 and McDonnell Douglas DC-8 aircraft. As a result of the actual and planned retirement of these aircraft, we conducted an impairment evaluation, which resulted in a $110 million impairment charge during the fourth quarter for these aircraft (including the related engines and parts), $91 million of which impacted the U.S. domestic package segment and $19 million of which impacted the international package segment.

These charges are 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"). Upon adoption of FAS 142, we were required to test all existing goodwill for impairment as of January 1, 2002, 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 was reported as a cumulative effect of a change in accounting principle. 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 tests performed in 2004 and 2003 resulted in no goodwill impairment.

Finite-lived intangible assets, including trademarks, licenses, patents, and franchise rights are amortized over the estimated useful lives of the assets, which range from 5 to 20 years. Capitalized software is amortized over periods ranging from 3 to 5 years. In 2004, we began classifying software as intangible assets. Previously, capitalized software was classified within property, plant and equipment. Capitalized software at December 31, 2003 totaling $610 million was reclassified from property, plant and equipment into intangible assets for consistent presentation on our consolidated balance sheet.

*Self-Insurance Accruals*

We self-insure costs associated with workers' compensation claims, automotive liability, health and welfare, 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.

We record accruals for tax contingencies related to potential assessments by tax authorities. Such accruals are based on management's judgment and best estimate as to the ultimate outcome of any potential tax audits. Actual tax audit results could vary from these estimates.

*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 $44, $21, and $27 million in 2004, 2003 and 2002, respectively.

*Stock-Based Compensation*

Effective January 1, 2003, we adopted the fair value measurement provisions of 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 will be 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 to date 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 2004 and 2003 net income by $35 million ($0.03 per diluted share) and $20 million ($0.02 per diluted share), respectively.

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).

| | 2004 | 2003 | 2002 |
|---|---|---|---|
| Net income | $3,333 | $2,898 | $3,182 |
| Add: Stock-based employee compensation expense included in net income, net of tax effects | 563 | 456 | 391 |
| Less: Total pro forma stock-based employee compensation expensse, net of tax effects | (588) | (507) | (459) |
| Pro forma net income | $3,308 | $2,847 | $3,114 |
| Basic earnings per share | | | |
| As reported | $ 2.95 | $ 2.57 | $ 2.84 |
| Pro forma | $ 2.93 | $ 2.52 | $ 2.78 |
| Diluted earnings per share | | | |
| As reported | $ 2.93 | $ 2.55 | $ 2.81 |
| Pro forma | $ 2.91 | $ 2.50 | $ 2.75 |

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:

| | 2004 | 2003 | 2002 |
|---|---|---|---|
| **Stock options:** | | | |
| Expected dividend yield | 1.50% | 1.22% | 1.10% |
| Risk-free interest rate | 4.31% | 3.70% | 4.67% |
| Expected life in years | 7 | 8 | 5 |
| Expected volatility | 15.69% | 19.55% | 20.24% |
| Weighted average fair value of options granted | $16.24 | $17.02 | $21.27 |
| **Discounted stock purchase plan:** | | | |
| Expected dividend yield | 1.42% | 1.12% | 1.10% |
| Risk-free interest rate | 1.18% | 1.06% | 1.70% |
| Expected life in years | 0.25 | 0.25 | 0.25 |
| Expected volatility | 16.83% | 19.79% | 20.45% |
| Weighted average fair value of purchase rights* | $ 9.56 | $ 8.53 | $ 8.20 |

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

*Derivative Instruments*

Derivative instruments are accounted for in accordance with FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("FAS 133"), as amended, which 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.

*New Accounting Pronouncements*

In December 2004, the FASB issued Statement No. 123 (revised 2004), "Share-Based Payment" ("FAS 123R"), which replaces FAS 123 and supercedes APB 25. FAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values, beginning with the first interim or annual period after June 15, 2005, with early adoption encouraged. We will adopt FAS 123R in the third quarter of 2005, using the prospective method of adoption. The prospective method requires that compensation expense be recorded for all unvested stock options and restricted stock at the beginning of the first quarter of adoption of FAS 123R. There will be no impact upon adoption, as we will already be expensing all unvested option and restricted stock awards.

In December 2004, the FASB issued FASB Staff Position ("FSP") No. 109-2, "Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004" ("FSP 109-2"). FSP 109-2 provides guidance under FAS 109 with respect to recording the potential impact of the repatriation provisions of the American Jobs Creation Act of 2004 (the "Jobs Act") on enterprises' income tax expense and deferred tax liability. The Jobs Act was enacted on October 22, 2004. FSP 109-2 states that an enterprise is allowed time beyond the financial reporting period of enactment to evaluate the effect of the Jobs Act on its plan for reinvestment or repatriation of foreign earnings for purposes of applying FAS 109. We have not yet completed our evaluation of the impact of the repatriation provisions of the Jobs Act. Accordingly, as provided for in FSP 109-2, we have not adjusted our income tax provision or deferred tax liabilities to reflect the repatriation provisions of the Jobs Act.

The adoption of the following recent accounting pronouncements did not have a material impact on our results of operations or financial condition:

- FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others—An Interpretation of FASB Statements No. 5, 57, and 107 and Rescission of FASB Interpretation No. 34";
- FASB Interpretation No. 46(R), "Consolidation of Variable Interest Entities—An Interpretation of ARB No. 51";
- FASB Statement No. 132(R) (revised 2003), "Employer's Disclosures about Pensions and Other Post-Retirement Benefits—An Amendment of FASB Statements No. 87, 88, and 106";
- FASB Statement No. 146, "Accounting for Costs Associated with Exit or Disposal Activities";
- FASB Statement No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities";
- FASB Statement No. 150, "Accounting for Certain Instruments with Characteristics of Both Liabilities and Equity"; and
- FSP 106-2, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003".

*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, 2004 and 2003 (in millions):

| | Cost | Unrealized Gains | Unrealized Losses | Estimated Fair Value |
|---|---|---|---|---|
| **2004** | | | | |
| U.S. government & agency securities | $ 269 | $ 1 | $ 1 | $ 269 |
| U.S. mortgage & asset-backed securities | 1,042 | 1 | 1 | 1,042 |
| U.S. corporate securities | 446 | 1 | 1 | 446 |
| U.S. state and local municipal securities | 1,098 | — | — | 1,098 |
| Other debt securities | 2 | — | — | 2 |
| Total debt securities | 2,857 | 3 | 3 | 2,857 |
| Common equity securities | 63 | 14 | — | 77 |
| Preferred equity securities | 1,546 | — | 22 | 1,524 |
| | $4,466 | $ 17 | $ 25 | $ 4,458 |

| | Cost | Unrealized Gains | Unrealized Losses | Estimated Fair Value |
|---|---|---|---|---|
| **2003** | | | | |
| U.S. government & agency securities | $ 151 | $ 1 | $ — | $ 152 |
| U.S. mortgage & asset-backed securities | 474 | 1 | — | 475 |
| U.S. corporate securities | 192 | 2 | 1 | 193 |
| U.S. state and local municipal securities | 561 | — | — | 561 |
| Other debt securities | 4 | — | 1 | 3 |
| Total debt securities | 1,382 | 4 | 2 | 1,384 |
| Common equity securities | 66 | 29 | — | 95 |
| Preferred equity securities | 1,418 | — | 9 | 1,409 |
| | $2,866 | $ 33 | $ 11 | $ 2,888 |

The gross realized gains on sales of marketable securities totaled $7, $21, and $11 million in 2004, 2003, and 2002, respectively. The gross realized losses totaled $5, $7, and $10 million in 2004, 2003, and 2002, respectively. Impairment losses recognized on marketable securities and short-term investments totaled $0, $58, and $5 million during 2004, 2003, and 2002, 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, 2004 (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 | $ 189 | $ 1 | $ 5 | $ — | $194 | $ 1 |
| U.S. mortgage & asset-backed securities | 111 | 1 | 2 | — | 113 | 1 |
| U.S. corporate securities | 197 | 1 | 22 | — | 219 | 1 |
| U.S. state and local municipal securities | — | — | — | — | — | — |
| Other debt securities | — | — | — | — | — | — |
| Total debt securities | 497 | 3 | 29 | — | 526 | 3 |
| Common equity securities | — | — | — | — | — | — |
| Preferred equity securities | 10 | — | 98 | 22 | 108 | 22 |
| | $ 507 | $ 3 | $127 | $ 22 | $634 | $ 25 |

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, 2004, 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.

| | Cost | Estimated Fair Value |
|---|---|---|
| Due in one year or less | $ 37 | $ 37 |
| Due after one year through three years | 459 | 458 |
| Due after three years through five years | 75 | 75 |
| Due after five years | 2,286 | 2,287 |
| | 2,857 | 2,857 |
| Equity securities | 1,609 | 1,601 |
| | $4,466 | $ 4,458 |

**NOTE 3. FINANCE RECEIVABLES**

The following is a summary of finance receivables at December 31, 2004 and 2003 (in millions):

| | 2004 | 2003 |
|---|---|---|
| Commercial term loans | $ 360 | $ 438 |
| Investment in finance leases | 188 | 270 |
| Asset-based lending | 285 | 290 |
| Receivable factoring | 191 | 468 |
| Gross finance receivables | 1,024 | 1,466 |
| Less: Allowance for credit losses | (25) | (52) |
| Balance at December 31 | $ 999 | $1,414 |

Outstanding receivable balances at December 31, 2004 and 2003 are net of unearned income of $35 and $48 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, 2004 and 2003 (in millions):

| | 2004 | 2003 |
|---|---|---|
| Customer receivable balances | $ 191 | $ 468 |
| Less: Amounts due to client | (112) | (195) |
| Net funds employed | $ 79 | $ 273 |

Non-earning finance receivables were $38 and $67 million at December 31, 2004 and 2003, respectively. The following is a rollforward of the allowance for credit losses on finance receivables (in millions):

| | 2004 | 2003 |
|---|---|---|
| Balance at January 1 | $ 52 | $ 38 |
| Provisions charged to operations | 14 | 39 |
| Charge-offs, net of recoveries | (41) | (25) |
| Balance at December 31 | $ 25 | $ 52 |

The carrying value of finance receivables at December 31, 2004, 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 | $ 530 |
| Due after one year through three years | 81 |
| Due after three years through five years | 99 |
| Due after five years | 314 |
| | $ 1,024 |

Based on interest rates for financial instruments with similar terms and maturities, the estimated fair value of finance receivables is approximately $991 million and $1.384 billion as of December 31, 2004 and 2003, respectively. At December 31, 2004, we had unfunded loan commitments totaling $344 million, consisting of standby letters of credit of $53 million and other unfunded lending commitments of $291 million.

## NOTE 4. PROPERTY, PLANT AND EQUIPMENT

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

| | 2004 | 2003 |
|---|---|---|
| Vehicles | $ 3,784 | $ 3,486 |
| Aircraft (including aircraft under capitalized leases) | 11,590 | 10,897 |
| Land | 760 | 721 |
| Buildings | 2,164 | 2,083 |
| Leasehold improvements | 2,347 | 2,219 |
| Plant equipment | 4,641 | 4,410 |
| Technology equipment | 1,596 | 1,495 |
| Equipment under operating lease | 57 | 53 |
| Construction-in-progress | 539 | 450 |
| | 27,478 | 25,814 |
| Less: Accumulated depreciation and amortization | (13,505) | (12,516) |
| | $ 13,973 | $ 13,298 |

## 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.

***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 | |
|---|---|---|---|---|
| | 2004 | 2003 | 2004 | 2003 |
| Net benefit obligation at October 1, prior year | $8,092 | $6,670 | $2,592 | $2,149 |
| Service cost | 332 | 282 | 91 | 79 |
| Interest cost | 521 | 465 | 164 | 148 |
| Plan participants' contributions | — | — | 9 | 6 |
| Plan amendments | 3 | 3 | (115) | (22) |
| Acquired businesses | — | — | 46 | — |
| Actuarial (gain) loss | 290 | 876 | 36 | 337 |
| Gross benefits paid | (201) | (204) | (129) | (105) |
| Net benefit obligation at September 30 | $9,037 | $8,092 | $2,694 | $2,592 |
| **Weighted-average assumptions used to determine benefit obligations:** | | | | |
| Discount rate | 6.25% | 6.25% | 6.25% | 6.25% |
| 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, 2004 and 2003 was $8.113 and $7.325 billion, respectively. We use a measurement date of September 30 for our pension and postretirement benefit plans.

In December 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "Act") was enacted. The Act established a prescription drug benefit under Medicare, known as "Medicare Part D", and a federal subsidy to sponsors of retiree health care plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. We believe that benefits provided to certain participants will be at least actuarially equivalent to Medicare Part D, and, accordingly may be entitled to a subsidy.

In May 2004, the FASB issued FSP 106-2, which requires (a) that the effects of the federal subsidy be considered an actuarial gain and recognized in the same manner as other actuarial gains and losses and (b) certain disclosures for employers that sponsor postretirement health care plans that provide prescription drug benefits. We determined the effects of the Act were not a significant event requiring an interim remeasurement under FAS 106. Consequently, as permitted by FSP 106-2, net periodic benefit cost for 2004 does not reflect the effects of the Act. The accumulated postretirement benefit obligation (APBO) was remeasured as of September 30, 2004 to reflect the effects of the Act, which resulted in an immaterial reduction in the APBO and expected net employer benefit payments.

Future postretirement medical benefit costs were forecasted assuming an initial annual increase of 9.0%, decreasing to 5.0% by the year 2009 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 | $ 69 | $ (75) |

Because the UPS Excess Coordinating Plan is not funded, the Company has recorded an additional minimum pension liability for this plan of $91 and $105 million at December 31, 2004 and 2003, respectively. This liability is included in the other credits and non-current liabilities portion of Note 9. As of December 31, 2004 and 2003, the Company has recorded an intangible asset of $4 and $5 million, respectively, representing the net unrecognized prior service cost for this plan. A total of $55 and $63 million at December 31, 2004 and 2003, respectively, were recorded as a reduction of other comprehensive income in shareowners' equity (net of the tax effect of $32 and $37 million, respectively). The unfunded accumulated benefit obligation of the UPS Excess Coordinating Benefit Plan was $160 and $154 million as of December 31, 2004 and 2003, respectively.

Additionally, we maintain several non-U.S. defined benefit pension plans. As of December 31, 2004, we have recorded a prepaid pension asset of $5 million, an additional minimum pension liability of $30 million, and a $20 million (net of the tax effect of $11 million) reduction of other comprehensive income in shareowners' equity. The impact of these non-U.S. plans is not material to our operating results or financial position.

***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 | |
|---|---|---|---|---|
| | 2004 | 2003 | 2004 | 2003 |
| Fair value of plan assets at October 1, prior year | $7,823 | $6,494 | $ 409 | $ 337 |
| Actual return on plan assets | 1,140 | 1,143 | 51 | 47 |
| Employer contributions | 1,200 | 390 | 115 | 124 |
| Plan participants' contributions | — | — | 9 | 6 |
| Gross benefits paid | (201) | (204) | (129) | (105) |
| Fair value of plan assets at September 30 | $9,962 | $7,823 | $ 455 | $ 409 |

Employer contributions and benefits paid under the pension plans include $6 million and $5 million paid from employer assets in 2004 and 2003, respectively. Employer contributions and benefits paid (net of participant contributions) under the postretirement medical benefit plans include $57 and $45 million paid from employer assets in 2004 and 2003, respectively.

The asset allocation for our pension and other postretirement plans as of September 30, 2004 and 2003 and the target allocation for 2005, by asset category, are as follows:

| | Weighted Average Target Allocation 2005 | Percentage of Plan Assets at September 30, 2004 | 2003 |
|---|---|---|---|
| Equity securities | 55% - 65% | 60.6% | 60.2% |
| Fixed income securities | 20% - 30% | 28.0% | 28.5% |
| Real estate / other | 10% - 15% | 11.4% | 11.3% |
| Total | | 100.0% | 100.0% |

Equity securities include UPS Class A shares of common stock in the amounts of $466 (4.5% of total plan assets) and $392 million (4.8% of total plan assets), as of September 30, 2004 and 2003, 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 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 | |
|---|---|---|---|---|
| | 2004 | 2003 | 2004 | 2003 |
| Fair value of plan assets at September 30 | $ 9,962 | $ 7,823 | $ 455 | $ 409 |
| Benefit Obligation at September 30 | (9,037) | (8,092) | (2,694) | (2,592) |
| Funded status at September 30 | 925 | (269) | (2,239) | (2,183) |
| Amounts not yet recognized: | | | | |
| Unrecognized net actuarial loss | 1,918 | 2,085 | 810 | 820 |
| Unrecognized prior service cost | 297 | 331 | (104) | 11 |
| Unrecognized net transition obligation | 18 | 23 | — | — |
| Employer contributions | 2 | 752 | 17 | 17 |
| Net asset (liability) recorded at December 31 | $ 3,160 | $ 2,922 | $(1,516) | $(1,335) |
| Prepaid pension cost | $ 3,227 | $ 2,970 | $ — | $ — |
| Accrued benefit cost | (188) | (153) | (1,516) | (1,335) |
| Intangible asset | 4 | 5 | — | — |
| Accumulated other comprehensive income (pre-tax) | 117 | 100 | — | — |
| Net asset (liability) recorded at December 31 | $ 3,160 | $ 2,922 | $(1,516) | $(1,335) |

At September 30, 2004 and 2003, 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 | |
|---|---|---|---|---|
| | 2004 | 2003 | 2004 | 2003 |
| **As of September 30** | | | | |
| Projected benefit obligation | $ 200 | $ 6,772 | $ 200 | $ 178 |
| Accumulated benefit obligation | $ 160 | $ 6,004 | $ 160 | $ 154 |
| Fair value of plan assets | $ — | $ 6,479 | $ — | $ — |

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):

| | Pension Benefits | Other Benefits |
|---|---|---|
| **Employer Contributions:** | | |
| 2005 (expected) to plan trusts | $ 723 | $ 62 |
| 2005 (expected) to plan participants | 7 | 56 |
| **Expected Benefit Payments:** | | |
| 2005 | $ 214 | $ 126 |
| 2006 | 257 | 133 |
| 2007 | 266 | 141 |
| 2008 | 303 | 150 |
| 2009 | 332 | 158 |
| 2010 - 2014 | 2,363 | 975 |

Expected benefit payments for pensions will be primarily paid from plan trusts. Expected benefit payments for postretirement benefits will be paid from plan trusts and corporate assets.

***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 | | |
|---|---|---|---|---|---|---|
| | 2004 | 2003 | 2002 | 2004 | 2003 | 2002 |
| **Net Periodic Cost:** | | | | | | |
| Service cost | $ 332 | $ 282 | $ 217 | $ 91 | $ 79 | $ 63 |
| Interest cost | 521 | 465 | 413 | 164 | 148 | 134 |
| Expected return on assets | (800) | (669) | (654) | (34) | (29) | (33) |
| Amortization of: | | | | | | |
| Transition obligation | 6 | 8 | 8 | — | — | — |
| Prior service cost | 37 | 37 | 30 | — | 1 | (1) |
| Actuarial (gain) loss | 119 | 28 | 4 | 30 | 15 | 4 |
| Net periodic benefit cost (benefit) | $ 215 | $ 151 | $ 18 | $ 251 | $ 214 | $ 167 |
| **Weighted-average assumptions used to determine net cost:** | | | | | | |
| Discount rate | 6.25% | 6.75% | 7.50% | 6.25% | 6.75% | 7.50% |
| Rate of compensation increase | 4.00% | 4.00% | 4.00% | N/A | N/A | N/A |
| Expected return on plan assets | 8.96% | 9.21% | 9.42% | 9.00% | 9.25% | 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, 2004 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 | $ 5 | $ (5) |

***Other Plans***

We also contribute to several multi-employer pension plans for which the previous disclosure information is not determinable. Amounts charged to operations for pension contributions to these multi-employer plans were $1.163, $1.066, and $1.028 billion during 2004, 2003, and 2002, respectively.

We also contribute to several multi-employer health and welfare plans that cover both active and retired employees for which the previous disclosure information is not determinable. Amounts charged to operations for contributions to multi-employer health and welfare plans were $761, $691, and $604 million during 2004, 2003, and 2002, 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 $94, $87, and $79 million for 2004, 2003, and 2002, 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

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

| | U.S. Domestic Package | International Package | Non-Package | Consolidated |
|---|---|---|---|---|
| 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 |
| Acquired | — | 41 | 38 | 79 |
| Impaired | — | — | — | — |
| Currency / Other | — | — | 3 | 3 |
| December 31, 2004 balance | $ — | $ 141 | $1,114 | $ 1,255 |

The goodwill acquired in the non-package segment during 2004 resulted primarily from the purchase of Menlo Worldwide Forwarding. The purchase price allocation for this acquisition was not complete as of December 31, 2004, therefore we anticipate that future purchase price adjustments may change the amount allocated to goodwill. The goodwill acquired in the International package segment during 2004 resulted from the purchase of the remaining minority interest in UPS Yamato Express Co. (See Note 7 for further discussion of these acquisitions). The currency/other balance in the Non-Package segment includes escrow reimbursements and the resolution of other pre-acquisition contingencies from acquisitions completed prior to 2004.

The following is a summary of intangible assets at December 31, 2004 and 2003 (in millions):

| | Trademarks, Licenses, Patents, and Other | Franchise Rights | Capitalized Software | Intangible Pension Asset | Total Intangible Assets |
|---|---|---|---|---|---|
| December 31, 2004: | | | | | |
| Gross carrying amount | $ 29 | $ 97 | $ 1,249 | $ 4 | $ 1,379 |
| Accumulated amortization | (16) | (18) | (676) | — | (710) |
| Net carrying value | $ 13 | $ 79 | $ 573 | $ 4 | $ 669 |
| December 31, 2003: | | | | | |
| Gross carrying amount | $ 30 | $ 88 | $ 1,101 | $ 5 | $ 1,224 |
| Accumulated amortization | (10) | (13) | (491) | — | (514) |
| Net carrying value | $ 20 | $ 75 | $ 610 | $ 5 | $ 710 |

Amortization of intangible assets was $221, $196, and $129 million during 2004, 2003 and 2002, respectively. Expected amortization of finite-lived intangible assets recorded as of December 31, 2004 for the next five years is as follows (in millions): 2005—$198; 2006—$198; 2007—$198; 2008—$12; 2009—$11. Amortization expense in future periods will be affected by business acquisitions, software development, and other factors.

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

| | 2004 | 2003 |
|---|---|---|
| Non-current finance receivables, net of allowance for credit losses | $ 475 | $ 574 |
| Other non-current assets | 889 | 1,098 |
| | $ 1,364 | $ 1,672 |

**NOTE 7. BUSINESS ACQUISITIONS AND DISPOSITIONS**

We regularly explore opportunities to make acquisitions that would enhance our package delivery business and our various non-package businesses. During the three years ended December 31, 2004, we completed several acquisitions, including both domestic and international transactions, which 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 $238, $30, and $14 million in 2004, 2003, and 2002, respectively. 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 generally expect such adjustments to the purchase price allocations to be immaterial.

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 exceeded 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 was 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 March 2004, we acquired the remaining 49% minority interest in UPS Yamato Express Co., which was previously a joint venture with Yamato Transport Co. in Japan, for $65 million in cash. UPS Yamato Express provides express package delivery services in Japan. Upon the close of the acquisition, UPS Yamato Express became a wholly-owned subsidiary of UPS. The acquisition had no material effect on our financial condition or results of operations.

In December 2004, we acquired the Menlo Worldwide Forwarding unit from CNF Inc. for $150 million in cash (net of cash acquired) plus the assumption of $110 million in par value of debt and capital lease obligations. Menlo Worldwide Forwarding is a global freight forwarder that provides a full suite of heavy air freight forwarding services, ocean services and international trade management, including customs brokerage. The acquisition had no material effect on our results of operations in 2004.

We are in the process of finalizing the independent appraisals for certain assets and liabilities to assist management in allocating the Menlo purchase price to the individual assets acquired and liabilities assumed. This may result in adjustments to the carrying values of Menlo's recorded assets and liabilities, including the amount of any residual value allocated to goodwill. We are also completing our analysis of integration plans that may result in additional purchase price adjustments. The preliminary allocation of the purchase price included in the current period balance sheet is based on the current best estimates of management and is subject to revision based on final determination of fair values of acquired assets and assumed liabilities. We anticipate the valuations and other studies will be completed prior to the anniversary date of the acquisition.

In February 2005, we announced our intention to transfer operations currently taking place at the Menlo facility in Dayton, Ohio to other UPS facilities over approximately 12 to 18 months. This action is being taken to remove redundancies between the Menlo and existing UPS transportation networks, and thus provide efficiencies and better leverage the current UPS facilities in the movement of air freight. We are currently evaluating our plans for this facility, including potential alternate uses or closure. As a result, we anticipate possibly incurring costs related to employee severance, lease terminations, fixed asset impairments, and related items. Depending upon the nature of these costs, some of these items could result in charges to expense, while other items could result in adjustments to the purchase price allocation. We are in process of finalizing our plan for this facility, and therefore the purchase price allocation does not reflect liability accruals or fair value adjustments that may result from this decision.

The preliminary allocation of the total purchase price of Menlo resulted in the following condensed balance sheet of assets acquired and liabilities assumed as of December 31, 2004 (in millions):

| | Assets | | Liabilities |
|---|---|---|---|
| Cash and cash equivalents | $ 47 | Accounts payable | $ 28 |
| Accounts receivable | 466 | Accrued wages and withholdings | 104 |
| Other current assets | 21 | Other current liabilities | 161 |
| Property, plant, and equipment | 141 | Long-term debt | 124 |
| Goodwill and intangible assets | 26 | Deferred Taxes, Credits and Other Liabilities | 45 |
| Other assets | 4 | Accumulated postretirement benefit obligation | 46 |
| | $705 | | $ 508 |

In December 2004, we announced an agreement with Sinotrans to acquire direct control of the international express operations in 23 cities within China, and to purchase Sinotrans' interest in our current joint venture in China. The agreement requires a payment of $100 million to Sinotrans in 2005, which can be increased or decreased based on certain contingent factors. The acquisition will be completed in stages throughout 2005. In February 2005, we took direct control of operations in five locations, while the additional 18 locations will be acquired by December 2005. The operations being acquired will be reported within our International package reporting segment.

In February 2005, we announced an agreement to acquire Messenger Service Stolica S.A., one of the leading parcel and express delivery companies in Poland. Stolica offers customers a full suite of domestic delivery services, and had 2004 revenue of approximately $64 million. Upon completion of the transaction, which is expected in the second quarter of 2005, Stolica will be included in our International package reporting segment.

## NOTE 8. LONG-TERM DEBT AND COMMITMENTS

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

| | 2004 | 2003 |
|---|---|---|
| 8.38% debentures, due April 1, 2020 (i) | $ 463 | $ 444 |
| 8.38% debentures, due April 1, 2030 (i) | 276 | 276 |
| Commercial paper (ii) | 1,015 | 544 |
| 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 | 441 |
| Capitalized lease obligations (vi) | 401 | 451 |
| UPS Notes (vii) | 393 | 419 |
| 5.50% Pound Sterling notes, due February 12, 2031 | 961 | 887 |
| 4.50% Singapore Dollar notes, due November 11, 2004 | — | 59 |
| Special facilities revenue bonds, Dayton, OH facilities (viii) | 121 | — |
| Installment notes, mortgages, and bonds at various rates | 128 | 53 |
| | 4,448 | 3,823 |
| Less current maturities | (1,187) | (674) |
| | $ 3,261 | $3,149 |

(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 8.38% 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 payout 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, 2004 and 2003, was 2.10% and 0.96%, respectively. At December 31, 2004 and 2003, the entire commercial paper balance has been classified as a current liability. The amount of commercial paper outstanding in 2005 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, 2004.

(iii) The industrial development bonds bear interest at a daily variable rate. The average interest rates for 2004 and 2003 were 1.08% and 0.89%, respectively.

(iv) The special facilities revenue bonds bear interest at a daily variable rate. The average interest rates for 2004 and 2003 were 1.20% and 1.02%, respectively.

(v) The floating rate senior notes bear interest at one-month LIBOR less 45 basis points. The average interest rates for 2004 and 2003 were 1.00% and 0.78%, 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. The notes have maturities ranging from 2049 through 2053.

(vi) We have certain aircraft subject to capital leases. Some of the obligations associated with these capital leases have been legally defeased. The recorded value of aircraft subject to capital leases, which are included in Property, Plant and Equipment is as follows as of December 31 (in millions):

| | 2004 | 2003 |
|---|---|---|
| Aircraft | $1,795 | $1,474 |
| Accumulated amortization | (257) | (198) |
| | $1,538 | $1,276 |

(vii) The UPS Notes program involves the periodic issuance of fixed rate notes in $1,000 increments with various terms and maturities. At December 31, 2004, the coupon rates of the outstanding notes varied between 3.00% and 6.20%, and the interest payments are made either monthly, quarterly or semiannually. The maturities of the notes range from 2006 to 2024. 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 2004 and 2003 was 1.13% and 0.81%, respectively.

(viii) The special facilities revenue bonds were assumed in the acquisition of Menlo Worldwide Forwarding in December 2004 (see Note 7). The bonds have a par value of $108 million, $62 million of which is due in 2009, while the remaining $46 million is due in 2018. The bonds due in 2018 are callable beginning in 2008. The bonds due in 2018 bear interest at a fixed rate of 5.63%, while the bonds due in 2009 bear interest at fixed rates ranging from 6.05% to 6.20%. The bonds were recorded at fair value on the date of acquisition.

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 $4.708 and $4.109 billion as of December 31, 2004 and 2003, 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 $693, $678 and $685 million for 2004, 2003 and 2002, 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 |
|---|---|---|---|---|
| 2005 | $ 97 | $ 370 | $ 1,110 | $ 1,012 |
| 2006 | 70 | 327 | 6 | 488 |
| 2007 | 121 | 242 | — | 223 |
| 2008 | 132 | 169 | 27 | 274 |
| 2009 | 76 | 128 | 84 | 637 |
| After 2009 | 62 | 590 | 2,777 | 1,129 |
| Total | 558 | $ 1,826 | $ 4,004 | $ 3,763 |
| Less: imputed interest | (157) | | | |
| Present value of minimum capitalized lease payments | 401 | | | |
| Less: current portion | (78) | | | |
| Long-term capitalized lease obligations | $ 323 | | | |

As of December 31, 2004, we had outstanding letters of credit totaling approximately $2.161 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 21, 2005 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, 2004, there were no outstanding borrowings under these facilities. In addition, we maintain an extendable commercial notes program under which we are authorized to borrow up to $500 million. No amounts were outstanding under this program at December 31, 2004.

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 $126 million issued under this shelf registration statement at December 31, 2004.

Our existing debt instruments and credit facilities do not have cross-default or ratings triggers, however these debt instruments and credit facilities do subject us to certain financial covenants. These covenants generally require us to maintain a $3.0 billion minimum net worth and limit the amount of secured indebtedness available to the company. These covenants are not considered material to the overall financial condition of the company, and all covenant tests were passed as of December 31, 2004.

In December 2003, we redeemed our $300 million 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 pre-tax gain recorded in 2003 results.

## NOTE 9. DEFERRED TAXES, CREDITS, AND OTHER LIABILITIES

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

| | 2004 | 2003 |
|---|---|---|
| Deferred income taxes (see Note 14) | $ 3,274 | $ 3,118 |
| Insurance reserves | 1,136 | 923 |
| Other credits and non-current liabilities | 972 | 733 |
| | $ 5,382 | $ 4,774 |

## NOTE 10. LEGAL PROCEEDINGS AND CONTINGENCIES

On August 9, 1999, the United States Tax Court held that we were liable for tax on income of Overseas Partners Ltd., a Bermuda company that had reinsured excess value (“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. In the first quarter of 2004, we received a refund of $185 million pertaining to the 1983 and 1984 tax years.

The IRS had 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 tax credits in the 1985 through 1998 tax years. In the third quarter of 2004, we settled all outstanding issues related to each of the tax years 1991 through 1998. In the fourth quarter of 2004, we received a refund of $425 million pertaining to the 1991 through 1998 tax years. We expect to receive the $371 million of refunds related to the 1985 through 1990 tax years within the next six months.

The IRS may take similar positions with respect to some of the non-EV package insurance matters for each of the years 1999 through 2004. If challenged, 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. 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 were named as a defendant in twenty-three now-dismissed lawsuits that sought to hold us liable for the collection of premiums for EV insurance in connection with package shipments since 1984. Based on state and federal tort, contract and statutory claims, these cases generally claimed 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 were all filed after the August 9, 1999 U.S. Tax Court decision, discussed above, which the U.S. Court of Appeals for the Eleventh Circuit later reversed.

These twenty-three cases were 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 was named as a defendant, there also was 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. That case also was consolidated into the MDL Proceeding.

In late 2003, the parties reached a global settlement resolving all claims and all cases in the MDL proceeding. In reaching the settlement, we and the other defendants expressly denied any and all liability. On July 30, 2004, the court issued an order granting final approval to the substantive terms of the settlement. No appeals were filed and the settlement became effective on September 8, 2004.

Pursuant to the settlement, UPS has provided qualifying settlement class members with vouchers toward the purchase of specified UPS services and will pay the plaintiffs' attorneys' fees, the total amount of which still remains to be determined by the court. Other defendants have contributed to the costs of the settlement, including the attorneys' fees. The ultimate cost to us of the proposed settlement will depend on a number of factors, including how many vouchers settlement class members actually use. We do not believe that this proposed settlement will have a material effect on our financial condition, results of operations, or liquidity.

We are a defendant in a number of lawsuits filed in state courts containing various class-action allegations under state wage-and-hour laws. In one of these cases, Marlo v. UPS, which has been certified as a class action in California state court, plaintiffs allege that they improperly were denied overtime, penalties for missed meal and rest periods, interest and attorneys' fees. Plaintiffs purport to represent a class of 1,200 full-time supervisors.

We have denied any liability with respect to these claims and intend to vigorously defend ourselves in these cases. At this time, we have not determined the amount of any liability that may result from these matters or whether such liability, if any, would have a material adverse 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 potential funding deficiencies which could cause us to make significantly 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 10 votes per share, whereas Class B shares are entitled to one vote per share. Class A shares are primarily held by UPS employees and retirees, 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, 2004, management incentive awards, stock options, and restricted 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 $738, $606, and $556 million during 2004, 2003, and 2002, respectively.

*Nonqualified Stock Options*

We maintain fixed stock option plans, under which options are granted to purchase shares of UPS Class A common stock. 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 of the UPS Board of Directors. Except in the case of death, disability, or retirement, options granted under the Incentive Compensation Plan are generally exercisable three to five years from the date of grant and before the expiration of the option 10 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:

| | 2004 | | 2003 | | 2002 | |
|---|---|---|---|---|---|---|
| | Weighted Average Price | Shares (in thousands) | Weighted Average Price | Shares (in thousands) | Weighted Average Price | Shares (in thousands) |
| Outstanding at beginning of year | $ 48.02 | 22,745 | $ 38.73 | 27,745 | $ 29.64 | 29,224 |
| Exercised | 26.97 | (7,351) | 18.59 | (7,297) | 15.91 | (6,434) |
| Granted | 70.70 | 2,663 | 62.40 | 2,860 | 60.22 | 5,760 |
| Forfeited / expired | 58.70 | (356) | 44.63 | (563) | 46.08 | (805) |
| Outstanding at end of year | $ 59.96 | 17,701 | $ 48.02 | 22,745 | $ 38.73 | 27,745 |

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 Compensation Committee of the UPS Board of Directors.

The following table summarizes information about stock options outstanding and exercisable at December 31, 2004:

| | 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 - $ 50.63 | 2,424 | 4.82 | $49.89 | 2,397 | $49.89 |
| $ 56.25 - $ 57.50 | 4,467 | 6.24 | 56.90 | 4,467 | 56.90 |
| $ 59.38 - $ 60.61 | 5,381 | 7.27 | 60.20 | 141 | 59.54 |
| $ 61.88 - $ 65.00 | 2,757 | 8.32 | 62.41 | 11 | 64.20 |
| $ 68.44 - $ 143.13 | 2,672 | 9.23 | 71.23 | 48 | 99.88 |
| | 17,701 | 7.13 | $59.96 | 7,064 | $54.88 |

*Restricted Performance Units*

Beginning in 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 after required tax withholdings. Persons earning the right to receive restricted performance units are determined each year by the Compensation Committee of 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 vesting under certain conditions. Dividends earned on restricted performance units are reinvested in additional restricted performance units at each dividend payable date. During 2004 and 2003, the Company issued 1.083 and 1.164 million restricted performance units with a weighted average fair value of $70.70 and $62.40, respectively. As of December 31, 2004, we had the following restricted performance units outstanding:

| Year of Award | Units Outstanding (in thousands) | Remaining Vesting Period (in years) | Avg. Fair Value at Grant Date |
|---|---|---|---|
| 2003 | 1,140 | 3.33 | $ 62.40 |
| 2004 | 1,074 | 4.33 | 70.70 |
| | 2,214 | 3.82 | $ 66.43 |

*Discounted Employee Stock Purchase Plan*

We maintain 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 1.8, 1.9, and 1.8 million shares at average prices of $62.75, $54.08, and $50.79 per share during 2004, 2003, and 2002, respectively.

*Deferred Compensation Obligations*

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 obligations” in the shareowners’ equity section of the balance sheet. The amount of shares needed to settle the liability for deferred compensation obligations 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 most significant 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 United States, as well as shipments with either origin or distribution outside the United States. 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, our mail and consulting services, and our excess value package insurance business. UPS Supply Chain Solutions, which comprises 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.

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

| | 2004 | 2003 | 2002 |
|---|---|---|---|
| Revenue: | | | |
| U.S. domestic package | $ 26,610 | $ 25,022 | $ 23,924 |
| International package | 6,762 | 5,561 | 4,680 |
| Non-package | 3,210 | 2,902 | 2,668 |
| Consolidated | $ 36,582 | $ 33,485 | $ 31,272 |
| Operating Profit: | | | |
| U.S. domestic package | $ 3,345 | $ 3,272 | $ 3,576 |
| International package | 1,121 | 709 | 322 |
| Non-package | 523 | 464 | 198 |
| Consolidated | $ 4,989 | $ 4,445 | $ 4,096 |
| Assets: | | | |
| U.S. domestic package | $ 16,978 | $ 16,271 | $ 15,173 |
| International package | 4,728 | 4,287 | 3,271 |
| Non-package | 6,380 | 6,038 | 6,245 |
| Unallocated | 4,940 | 3,138 | 2,179 |
| Consolidated | $ 33,026 | $ 29,734 | $ 26,868 |

Non-package operating profit included $112, $114, and $112 million for 2004, 2003, and 2002, 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):

| | 2004 | 2003 | 2002 |
|---|---|---|---|
| U.S. domestic package: | | | |
| Next Day Air | $ 6,040 | $ 5,580 | $ 5,349 |
| Deferred | 3,161 | 2,982 | 2,868 |
| Ground | 17,409 | 16,460 | 15,707 |
| Total U.S. domestic package | 26,610 | 25,022 | 23,924 |
| International package: | | | |
| Domestic | 1,346 | 1,134 | 943 |
| Export | 4,944 | 4,001 | 3,276 |
| Cargo | 472 | 426 | 461 |
| Total International package | 6,762 | 5,561 | 4,680 |
| Non-package: | | | |
| UPS Supply Chain Solutions | 2,346 | 2,126 | 1,969 |
| Other | 864 | 776 | 699 |
| Total Non-package | 3,210 | 2,902 | 2,668 |
| Consolidated | $ 36,582 | $ 33,485 | $ 31,272 |

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

| | 2004 | 2003 | 2002 |
|---|---|---|---|
| U.S.: | | | |
| Revenue | $ 28,035 | $ 26,968 | $ 26,284 |
| Long-lived assets | $ 15,971 | $ 15,634 | $ 14,640 |
| International: | | | |
| Revenue | $ 8,547 | $ 6,517 | $ 4,988 |
| Long-lived assets | $ 3,975 | $ 3,567 | $ 2,874 |
| Consolidated: | | | |
| Revenue | $ 36,582 | $ 33,485 | $ 31,272 |
| Long-lived assets | $ 19,946 | $ 19,201 | $ 17,514 |

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):

| | 2004 | 2003 | 2002 |
|---|---|---|---|
| Repairs and maintenance | $ 1,005 | $ 955 | $ 873 |
| Depreciation and amortization | 1,543 | 1,549 | 1,464 |
| Purchased transportation | 2,059 | 1,828 | 1,665 |
| Fuel | 1,416 | 1,050 | 952 |
| Other occupancy | 752 | 730 | 653 |
| Restructuring charge and related expenses | — | 9 | 106 |
| Other expenses | 3,902 | 3,591 | 3,523 |
| | $ 10,677 | $ 9,712 | $ 9,236 |

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 ("UPS 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.

## NOTE 14. INCOME TAXES

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

| | 2004 | 2003 | 2002 |
|---|---|---|---|
| Current: | | | |
| U.S. Federal | $1,675 | $1,103 | $1,208 |
| U.S. State & Local | 71 | 112 | 148 |
| Non-U.S. | 98 | 86 | 62 |
| Total Current | 1,844 | 1,301 | 1,418 |
| Deferred: | | | |
| U.S. Federal | (155) | 181 | 323 |
| U.S. State & Local | (84) | (11) | 14 |
| Non-U.S. | (16) | 1 | — |
| Total Deferred | (255) | 171 | 337 |
| Total | $1,589 | $1,472 | $1,755 |

Income before income taxes includes income of foreign subsidiaries of $270, $237, and $16 million in 2004, 2003, and 2002, 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:

| | 2004 | 2003 | 2002 |
|---|---|---|---|
| Statutory U.S. federal income tax rate | 35.0% | 35.0% | 35.0% |
| U.S. state & local income taxes (net of federal benefit) | 1.2 | 1.5 | 2.1 |
| Tax assessment reversal (tax portion) | — | — | (2.8) |
| Other | (3.9) | (2.8) | 0.7 |
| Effective income tax rate | 32.3% | 33.7% | 35.0% |

During the third quarter of 2004, we recognized a $99 million reduction of income tax expense related to the favorable settlement of various U.S. federal tax contingency matters with the IRS pertaining to tax years 1985 through 1998, and various state and non-U.S. tax contingency matters.

During the fourth quarter of 2004, we recognized a $109 million reduction of income tax expense primarily related to the favorable resolution of a U.S. state tax contingency matter, improvements in U.S. state and non-U.S. effective tax rates, and the reversal of valuation allowances associated with certain U.S. state & local and non-U.S. net operating loss and credit carryforwards due to sufficient positive evidence that the related subsidiaries will be profitable and generate taxable income before such carryforwards expire.

During the first quarter of 2003, we recognized a $55 million reduction of income tax expense due to the favorable resolution of several outstanding contingency matters with the IRS. During the third quarter of 2003, we recognized a $22 million credit to income tax expense 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 U.S. 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):

| | 2004 | 2003 |
|---|---|---|
| Property, plant and equipment | $2,624 | $2,453 |
| Goodwill and intangible assets | 428 | 349 |
| Pension plans | 1,481 | 1,266 |
| Other | 167 | 473 |
| Gross deferred tax liabilities | 4,700 | 4,541 |
| Other postretirement benefits | 684 | 588 |
| Loss carryforwards (non-U.S. and state) | 113 | 117 |
| Insurance reserves | 469 | 347 |
| Vacation pay accrual | 145 | 131 |
| Other | 471 | 673 |
| Gross deferred tax assets | 1,882 | 1,856 |
| Deferred tax assets valuation allowance | (64) | (117) |
| Net deferred tax assets | 1,818 | 1,739 |
| Net deferred tax liability | 2,882 | 2,802 |
| Current deferred tax asset | (392) | (316) |
| Long-term liability—see Note 9 | $3,274 | $3,118 |

The valuation allowance increased (decreased) by $(53), $25 and $23 million during the years ended December 31, 2004, 2003 and 2002, respectively. We reclassified $719 million from deferred income taxes to other non-current assets as of December 31, 2003. This amount represents various income tax receivable items that had previously been netted against our deferred tax liabilities.

As of December 31, 2004, we have U.S. state & local operating loss and credit carryforwards of approximately $428 million and $25 million, respectively. The operating loss carryforwards expire at varying dates through 2024. The majority of the credit carryforwards may be carried forward indefinitely. We also have non-U.S. loss carryforwards of approximately $874 million as of December 31, 2004, the majority of which may be carried forward indefinitely. As indicated in the table above, we have established a valuation allowance for certain non-U.S. and state loss carryforwards, due to the uncertainty resulting from a lack of previous taxable income within the applicable tax jurisdictions.

Undistributed earnings of our non-U.S. subsidiaries amounted to approximately $728 million at December 31, 2004. Those earnings are considered to be indefinitely reinvested and, accordingly, no U.S. federal or 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 U.S. income taxes and withholding taxes payable in various non-U.S. jurisdictions, which could potentially be offset by foreign tax credits. Determination of the amount of unrecognized deferred U.S. income tax liability is not practicable because of the complexities associated with its hypothetical calculation.

We have not changed our position with respect to the indefinite reinvestment of foreign earnings to take into account the possible election of the repatriation provisions contained in the American Jobs Creation Act of 2004. The American Jobs Creation Act of 2004 (the "Jobs Act"), as enacted on October 22, 2004, provides for a temporary 85% dividends received deduction on certain foreign earnings repatriated during a one-year period. The deduction would result in an approximate 5.25% U.S. federal tax rate on any repatriated earnings. To qualify for the deduction, the earnings must be reinvested in the United States pursuant to a domestic reinvestment plan established by the Company's Chief Executive Officer and approved by the Company's Board of Directors. Certain other criteria in the Jobs Act must be satisfied as well. The maximum amount of our foreign earnings that qualify for the temporary deduction under the Jobs Act is $500 million.

We are in the process of evaluating whether we will repatriate foreign earnings under the repatriation provisions of the Jobs Act, and if so, the amount that will be repatriated. We are considering repatriating any amount up to $500 million under the Jobs Act. We are awaiting the issuance of further regulatory guidance and passage of statutory technical corrections with respect to certain provisions in the Jobs Act prior to determining the amounts we could repatriate. We expect to determine the amounts and sources of foreign earnings to be repatriated, if any, during the fourth quarter of 2005. We cannot reasonably estimate the impact of a qualifying repatriation, should we choose to make one, on our income tax expense for 2005 at this time.

## 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):

| | 2004 | 2003 | 2002 |
|---|---|---|---|
| Numerator: | | | |
| Net income before the cumulative effect of change in accounting principle | $ 3,333 | $ 2,898 | $ 3,254 |
| Denominator: | | | |
| Weighted average shares | 1,125 | 1,125 | 1,117 |
| Management incentive awards | 1 | 1 | 1 |
| Deferred compensation obligations | 3 | 2 | 2 |
| Denominator for basic earnings per share | 1,129 | 1,128 | 1,120 |
| Effect of dilutive securities: | | | |
| Management incentive awards | 4 | 4 | 4 |
| Stock option plans | 4 | 6 | 10 |
| Denominator for diluted earnings per share | 1,137 | 1,138 | 1,134 |
| Basic earnings per share before cumulative effect of change in accounting principle | $ 2.95 | $ 2.57 | $ 2.91 |
| Diluted earnings per share before cumulative effect of change in accounting principle | $ 2.93 | $ 2.55 | $ 2.87 |

Diluted earnings per share for the years ended December 31, 2004, 2003, and 2002 exclude the effect of 2.7, 2.9, and 0.1 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 rates, commodity prices, equity prices, and interest rates. These exposures are actively monitored by management. To manage the volatility relating to certain of 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, 2004 and 2003 was an asset of $101 and $30 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, the British Pound Sterling, and the Canadian Dollar. We use a combination of purchased and written options and forward contracts to hedge currency cash flow exposures. As of December 31, 2004 and 2003, the net fair value of the hedging instruments described above was a liability of $(28) and $(48) 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, 2004 and 2003 was a liability of $(32) and $(27) million, respectively.

*Credit Risk Management*

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 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 2004, 2003 and 2002.

*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 2004, 2003 and 2002.

As of December 31, 2004, $13 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, 2005. 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 2004 in connection with forecasted transactions that were no longer considered probable of occurring.

At December 31, 2004, the maximum term of derivative instruments that hedge forecasted transactions, except those related to cross-currency interest rate swaps on existing financial instruments, was three years. We maintain cross-currency interest rate swaps that extend through 2009.

*Fair Value of Financial Instruments*

At December 31, 2004 and 2003, 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. QUARTERLY INFORMATION (unaudited)**

| | First Quarter | | Second Quarter | | Third Quarter | | Fourth Quarter | |
|---|---|---|---|---|---|---|---|---|
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| Revenue: | | | | | | | | |
| U.S. domestic package | $ 6,540 | $ 6,020 | $ 6,480 | $ 6,124 | $ 6,494 | $ 6,219 | $ 7,096 | $ 6,659 |
| International package | 1,619 | 1,302 | 1,613 | 1,371 | 1,666 | 1,370 | 1,864 | 1,518 |
| Non-package | 760 | 693 | 778 | 731 | 792 | 723 | 880 | 755 |
| Total revenue | 8,919 | 8,015 | 8,871 | 8,226 | 8,952 | 8,312 | 9,840 | 8,932 |
| Operating profit: | | | | | | | | |
| U.S. domestic package | 831 | 704 | 892 | 832 | 857 | 825 | 765 | 911 |
| International package | 269 | 134 | 272 | 158 | 262 | 176 | 318 | 241 |
| Non-package | 117 | 107 | 146 | 90 | 139 | 146 | 121 | 121 |
| Total operating profit | 1,217 | 945 | 1,310 | 1,080 | 1,258 | 1,147 | 1,204 | 1,273 |
| Net income | $ 759 | $ 611 | $ 818 | $ 692 | $ 890 | $ 739 | $ 866 | $ 856 |
| Earnings per share: | | | | | | | | |
| Basic | $ 0.67 | $ 0.54 | $ 0.73 | $ 0.61 | $ 0.79 | $ 0.66 | $ 0.77 | $ 0.76 |
| Diluted | $ 0.67 | $ 0.54 | $ 0.72 | $ 0.61 | $ 0.78 | $ 0.65 | $ 0.76 | $ 0.75 |

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 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).

Third quarter 2004 net income includes a credit to tax expense ($99 million, $0.09 per diluted share) related to the resolution of various tax matters. Fourth quarter 2004 net income includes an impairment charge ($70 million after-tax, $0.06 per diluted share) on Boeing 727, 747, and McDonnell Douglas DC-8 aircraft, and related engines and parts, and a charge to pension expense ($40 million after-tax, $0.04 per diluted share) resulting from the consolidation of data collection systems. Fourth quarter 2004 net income also includes credits to income tax expense ($43 million, $0.04 per diluted share) related to various items, including the resolution of certain tax matters, the removal of a portion of the valuation allowances on certain deferred tax assets on net operating loss carryforwards, and an adjustment for identified tax contingency items.

## 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). |

| Exhibit No. | | Description |
|---|---|---|
| 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). |
| | | (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). |

| Exhibit No. | | Description |
|---|---|---|
| | | (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). |
| | | †(1) Amendment No. 1 to the UPS Savings Plan. |
| | | †(2) Amendment No. 2 to the UPS Savings Plan. |
| 10.4 | — | Credit Agreement (364-Day Facility), as amended and restated, dated April 22, 2004 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 to Quarterly Report on Form 10-Q for the Quarter Ended March 31, 2004). |
| 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 (incorporated by reference to Exhibit 10.5 to 2003 Annual Report on Form 10-K). |
| 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 (incorporated by reference to Exhibit 10.7 to 2003 Annual Report on Form 10-K). |
| 10.8 | — | UPS Excess Coordinating Benefit Plan (incorporated by reference to Exhibit 10.8 to 2003 Annual Report on Form 10-K). |
| 10.9 | — | UPS 1996 Stock Option Plan, as amended and restated (incorporated by reference to Exhibit 10.9 to 2003 Annual Report on Form 10-K). |
| 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). |

| Exhibit No. | | Description |
|---|---|---|
| | | (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 (incorporated by reference to Exhibit 10.10(8) to 2003 Annual Report on Form 10-K). |
| | | (9) Amendment No. 9 to the UPS Qualified Stock Ownership Plan and Trust Agreement (incorporated by reference to Exhibit 10.10(9) to 2003 Annual Report on Form 10-K). |
| 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). |
| | | †(1) Form of Non-Qualified Stock Option Award Agreement and Restricted Performance Unit Award Agreement. |
| 10.12 | — | UPS Deferred Compensation Plan (incorporated by reference to Exhibit 10.10 to 2000 Annual Report on Form 10-K). |
| | | †(1) Amendment to the UPS Deferred Compensation Plan. |
| 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). |
| †12 | — | Ratio of Earnings to Fixed Charges. |
| †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. |
| †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.

**Exhibit 10.3(1)**

**AMENDMENT NUMBER ONE**
**TO THE**
**UPS SAVINGS PLAN**
**EFFECTIVE AS OF JANUARY 1, 1998**

**WHEREAS**, The United Parcel Service (the "Company") maintains the UPS Savings Plan (the "Plan") as amended and restated effective January 1, 1998; and

**WHEREAS**, the Board reserved the right in Section 14.1 of the Plan to amend, modify or change the Plan from time to time; and

**WHEREAS**, it is desired to further amend the Plan to reflect certain provisions of the Economic Growth and Tax Relief Reconciliation Act of 2001 ("EGTRRA"); and

**WHEREAS**, this amendment is intended as a good faith compliance with the requirements of EGTRRA and is to be construed in accordance with EGTRRA and guidance issued thereunder; and

**WHEREAS**, except as otherwise provided, this amendment shall be effective as of the first day of the first Plan Year beginning after December 31, 2001; and

**NOW, THEREFORE**, the Plan is hereby amended as follows:

1. Article I is amended effective as of August 1, 2002 to renumber Sections 1.13 to 1.54 as Sections 1.14 to 1.55, respectively, (and any internal Plan cross-references are amended accordingly) and to add a new Section 1.13 which reads as follows:

Section 1.13 Catch-Up Contributions—means a contribution to the Plan at the election of a Participant in accordance with Section 3.1(b) and Code § 414(v) that is not includible in gross income for federal income tax purposes solely by reason of the application of Code §401(k).

2. Section 1.16(c) is amended to read as follows:

(c) The annual Compensation of each Participant taken into account under the Plan shall not exceed $200,000 for Plan Years beginning on or after January 1, 2002, as adjusted for cost-of-living increases in accordance with Code § 401(a)(17)(B). For Plan Years beginning before January 1, 2002, the annual Compensation of each Participant taken into account under the Plan shall not exceed $150,000 for Plan Years, as adjusted for cost-of-living increases in accordance with Code § 401(a)(17). The cost-of-living adjustment in effect for a calendar year applies to any Plan Year beginning in such calendar year. If a Plan Year consists of fewer than 12 months, the annual compensation limit will be multiplied by a fraction, the numerator of which is the number of months in the short Plan Year, and the denominator of which is 12. The annual compensation limit does not apply for purposes of Section 5.2.

3. Article I is amended to renumber Sections 1.17 to 1.53 as Sections 1.18 to 1.54, respectively, (and any internal Plan cross-references are amended accordingly) and to add a new Section 1.17 which reads as follows:

Section 1.17 Disability - means a medically determinable physical or mental impairment as a result of which the Participant is disabled and qualified for disability benefits under (a) the United States Social Security Act, (b) a long term disability plan to which an Employer Company contributes for the Participant or (c) workers compensation laws.

4. The last paragraph of Section 1.18 (formerly Section 1.17) is amended to read as follows:

The annual Eligible Compensation of each Participant taken into account under the Plan shall not exceed $200,000 for Plan Years beginning on or after January 1, 2002, as adjusted for cost-of-living increases in accordance with Code § 401(a)(17)(B). For Plan Years beginning before January 1, 2002, the annual Eligible Compensation of each Participant taken into account under the Plan shall not exceed $150,000 for Plan Years, as adjusted for cost-of-living increases in accordance with Code § 401(a)(17). The cost-of-living adjustment in effect for a calendar year applies to any Plan Year beginning in such calendar year. If a Plan Year consists of fewer than 12 months, the annual compensation limit will be multiplied by a fraction, the numerator of which is the number of months in the short Plan Year, and the denominator of which is 12. The annual compensation limit does not apply for purposes of Section 5.2.

For any Plan Year beginning on or after January 1, 1997, in determining the Compensation of an Eligible Employee, the family aggregation rules of former Code § 414(q)(6) shall not apply.

5. Section 1.50(a) (formerly Section 1.49(a)) is amended to read as follows:

(a)

(1) Effective as of January 1, 2002, the date on which an individual terminates employment with all Affiliates by reason of a voluntarily quit, retirement, death, period of Disability of more than 52 weeks, discharge, failure to return from layoff or authorized leave of absence, or for any other reason (unless a grievance is pending) provided for periods before January 1, 2002, such separation constitutes a “separation from service” within the meaning of Code § 401(k) and for periods on or after January 1, 2002, such separation constitutes a “severance from employment” within the meaning of Code § 401(k); provided, however, that a “separation from employment” shall not occur with respect to any Participant as a result of a transaction if his or her new employer following the transaction agrees to assume this Plan or agrees to assume assets and liabilities of this Plan attributable to such Participant. A discharge will not be treated as a Separation from Service while a grievance is pending but, if the discharge is upheld, will be treated as a Separation from Service as of the date of the discharge.

(2) Effective before January 1, 2002 but on or after May 1, 2000, the date on which an individual terminates employment with all Affiliates by reason of a voluntarily quit, retirement, death, the end of a period of disability of more than 52 weeks at which time a physician certifies that the individual is currently disabled and unable to return to

work for an Affiliate, discharge, failure to return from layoff or authorized leave of absence, or for any other reason (unless a grievance is pending) provided for periods before January 1, 2002, such separation constitutes a "separation from service" within the meaning of Code § 401(k) and for periods on or after January 1, 2002, such separation constitutes a "severance from employment" within the meaning of Code § 401(k); provided, however, that a "separation from employment" shall not occur with respect to any Participant as a result of a transaction if his or her new employer following the transaction agrees to assume this Plan or agrees to assume assets and liabilities of this Plan attributable to such Participant. A discharge will not be treated as a Separation from Service while a grievance is pending but, if the discharge is upheld, will be treated as a Separation from Service as of the date of the discharge.

(3) Effective before May 1, 2000, the earlier of the date under Section 1.49(a)(1) or the date on which a 12-consecutive month period ends during which the individual did not perform an Hour of Service.

6. Section 3.1 is amended effective August 1, 2002 to read as follows:

Section 3.1 Pre-Tax Contributions.

(a) General. Subject to the rules and limitations in this Section 3 and in Section 5, each Participant who is an Eligible Employee (other than an Eligible Employee employed in Puerto Rico) may make Pre-Tax Contributions through authorizing the pretax payroll deduction of

(1) from 1% to 25% (for periods before August 1, 2002, from 1% to 17%) in 1% increments of his or her Eligible Compensation (excluding those items set forth in Section 3.l(a)(2),(3) and (4) below') for each pay period;

(2) all or a part of his or her half month bonus;

(3) effective as of July 1, 2001, quarterly bonuses; and

(4) all or a part of his or her discretionary days pay off.

(b) Catch-Up Contributions. Effective as of August 1, 2002, subject to the rules and limitations in this Section 3 and in Section 5 except as otherwise provided, each Participant who is an Eligible Employee (other than an Eligible Employee employed in Puerto Rico) who will attain age 50 before the close of the Plan Year shall be eligible to make Catch-Up Contributions effective August 1, 2002, in 1% increments from 1% to 20% and, effective January 1, 2003, in 1% increments from 1% to 10% of his or her Eligible Compensation (excluding those items set forth in Section 3. 1(a)(2),(3) and (4)) and in accordance with, and subject to the limitations of, Code § 414(v). Such Catch-Up Contributions shall not be taken into account for purposes of the provisions of the Plan implementing the required limitations of Code §§ 402(g) and 415. The Plan shall not be treated as failing to satisfy the provisions of the Plan implementing the requirements of Code §§ 401(k)(3), 410(b), or 416, as applicable, by reason of the making of such Catch-Up Contributions. Catch-Up Contributions shall be treated as Pre-Tax Contributions for purposes of Sections 3.3, 3.4, 3.5, 6.2 and Article VII. Catch-Up Contributions shall be credited to a Participant's Pre-Tax Contribution Account unless the Committee determines that such contributions (and investment gains or losses on such contributions) should be credited to a separate subaccount.

(c) Puerto Rico. Subject to the rules and limitations in this Section 3 and in Section 5, each Participant who is an Eligible Employee employed in Puerto Rico may make Pre-Tax Contributions through authorizing the pre-tax payroll deduction of

(1) from 1% to 10% (in 1% increments) of his or her Eligible Compensation (including those items set forth in Section 3.1(c)(2),(3) and (4) below) for each pay period;

(2) all or a part of his or her half month bonus;

(3) effective as of July 1, 2001, quarterly bonuses; and

(4) all or a part of his or her discretionary days pay off.

Notwithstanding the foregoing, a Participant who is an Eligible Employee employed in Puerto Rico may not contribute total Pre-Tax Contributions under this Section 3.1(c) in excess of 10% of his or her Eligible Compensation.

An election under this Section 3.1(a), (b) or (c) must be made via VRU or in accordance with such other procedures prescribed by the Committee or its designee. A Participant may make an election to begin making Pre-Tax Contributions on any business day that coincides with or follows the date he or she becomes a Participant. A Participant's initial payroll deduction contribution election will be effective for the first pay period beginning after his or her election is processed and will continue while the Participant is an Eligible Employee until the Participant changes his or her election in accordance with Section 3.3 or suspends his or her contributions in accordance with Section 3.4.

The Committee has the right at any time unilaterally to reduce prospectively the amount or percentage of Pre-Tax Contributions elected by any Participant who is a Highly Compensated Employee or by all Highly Compensated Employees as a group if it determines that reduction is appropriate in light of the limitations under Section 5.4.

(d) Accounts. The Pre-Tax Contributions elected by a Participant under Sections 3.1(a), (b) and (c) will be credited to such Participant's Pre-Tax Contribution Account.

7. Section 3.4(c) is amended effective for hardship withdrawals made after December 31, 2002 to read as follows:

(c) Hardship Withdrawal. A Participant will be treated as if he or she had elected to completely suspend all Pre-Tax and After-Tax Contributions for the 6-month period following a hardship withdrawal in accordance with Section 9.8(c), and a Participant who was not making any Pre-Tax or After-Tax Contributions at the time of the withdrawal will not be allowed to resume making Pre-Tax Contributions or After-Tax contributions for the 6-month period following a hardship withdrawal. Following the suspension, Participant may elect to resume making Pre-Tax Contributions and/or After-Tax Contributions in accordance with Section 3.1 or Section 3.2, respectively. With respect to a hardship withdrawal made before January 1, 2003, this provision shall be applied by substituting "12-month period" for "6-month period."

8. Section 5.2(a) is amended effective for limitation years beginning after December 31, 2001 to read as follows:

(a) General Rule. The term "limitation year" as defined in Code § 415 and the corresponding regulations means the calendar year. Except to the extent permitted under Section 3.1(b) (Catch-Up Contributions), the total annual additions (as described in Section 5.2(b)) allocated to a Participant's Account for any limitation year when added to the contributions that are treated as made on behalf of such Participant for such limitation year under the coordination rules in Section 5.2(c) will not exceed the lesser of:

(1) 100% (25% for limitation years before January 1, 2002) of the Participant's Compensation for the limitation year;

(2) $40,000 ($30,000 for limitation years beginning after December 31, 1994 but before January 1, 2002) as adjusted for cost-of-living increases in accordance with Code § 415(d)), or

(3) such lesser amount as the Committee deems necessary or appropriate to satisfy the requirements of Code § 415 in light of Section 5.2(c) and the benefits, if any, accrued and the contributions, if any, made for such Participant under any other employee benefit plan maintained by an Affiliate.

If a short limitation year (less than 12 months) is created because of an amendment, the limitation described in (2) above will be prorated.

9. Section 5.5(c) is to read as follows:

(c) Multiple Use Limitation.

(1) For Plan Years beginning after January 1, 2002, the multiple use test described in Treas. Reg.1.401(m)-2 and Section 5.5(c)(2) below shall not apply.

(2) For Plan Years beginning before January 1, 2002, the ACPs of all Highly Compensated Employees will be reduced (beginning with the highest of such percentages) to the extent required under Code § 401(m) and the regulations issued under that section to prevent multiple use of the alternative test described in Code § 401(k)(3)(A)(ii)(II) and in Code § 401(m)(2)(A)(ii) in the same Plan Year. The reduction will be treated as an Excess Aggregate Contribution.

10. Section 9.1 is amended to read as follows:

Section 9.1 General. A Participant may request distribution of his or her Account when he or she has a Separation from Service and a Participant may request a withdrawal from his or her Account before a Separation from Service to the extent provided in Sections 9.8, 9.8A and 9.9.

11. Section 9.8(c)(3) is amended effective for hardship distributions made after December 31, 2002 to read as follows:

(3) Suspension of Contributions and Adjusted Limits. If any portion of the hardship withdrawal comes from the Participant's Pre-Tax Account, the following restrictions apply to the extent applicable:

(i) For the six (6) month period following the date of the withdrawal, the Participant cannot make any Pre-Tax Contributions or After-Tax Contributions under this Plan or elective deferrals or employee contributions under any other plans maintained by the Employer and any of its Affiliates. For this purpose, "other plans" means all qualified and nonqualified plans of deferred compensation, including a stock option, stock purchase or other similar plan, but excluding a health or welfare benefit plan (even if it is part of a cafeteria plan described in Code § 125). With respect to a hardship withdrawal made before January 1, 2003, this provision shall be applied by substituting "12-month period" for "6-month period."

(ii) For hardship withdrawals made before January 1, 2003, for the calendar year immediately following the calendar year in which the withdrawal occurs, the Participant's Pre-Tax Contributions under this Plan and elective deferrals under all other plans maintained by the Affiliates cannot exceed the dollar limitation under Code § 402(g) for that calendar year (as described in Section 5.3) reduced by the amount of the Participant's Pre-Tax Contributions and elective deferrals under those other plans for the calendar year in which the withdrawal occurs.

12. Article IX is amended to add a new Section 9.8A which follows Section 9.8 and precedes Section 9.9 and which reads as follows:

Section 9.8A Disability. A Participant who has been absent for more than 52 weeks on account of Disability (but who has not experienced a Separation from Service) and whose Disability continues through the date of withdrawal under this Section 9.8A may withdraw all or any portion of his or her Account at any time by submitting a request for withdrawal in accordance with the procedures adopted by the Committee for this purpose. Such withdrawal shall be subject to any additional restrictions, uniformly applied with respect to Participants similarly situated, as are prescribed by the Committee regarding the frequency and minimum amount of such withdrawal.

13. Section 9.12 is amended effective for distributions made after December 31, 2001 to read as follows:

Section 9.12 Eligible Rollover Distribution

(a) General. Notwithstanding any provision of this Plan to the contrary that would otherwise limit a Distributee's election under this Section 9.12, a Distributee may elect, at the time and in the manner prescribed by the Committee, to have any portion of an Eligible Rollover Distribution of two hundred dollars ($200) or more transferred to an Eligible Retirement Plan specified by the Distributee in a Direct Rollover.

(b) Definitions.

(1) Eligible Rollover Distribution. An Eligible Rollover Distribution is any distribution of all or any portion of the balance to the credit of the Distributee, except that an Eligible Rollover Distribution does not include:

(i) any distribution that is one of a series of substantially equal periodic payments (not less frequently than annually) made for the life (or life expectancy) of the Distributee or the joint lives (or joint life expectancies) of the Distributee and the Distributee's designated beneficiary, or for a specified period of ten (10) years or more;

(ii) any distribution to the extent that distribution is required under Code § 401(a)(9);

(iii) any distribution of Pre-Tax Contributions or pre-tax contributions under a Merged Plan on account of hardship on or after January 1, 1999; and

(iv) effective for distributions made before January 1, 2002, the portion of any distribution that is not includible in gross income.

Effective for distributions made after December 31, 2001, a portion of a distribution shall not fail to be an Eligible Rollover Distribution merely because the portion consists of after-tax employee contributions which are not includible in gross income. However, such portion which consists of after-tax contributions may be paid only to an individual retirement annuity described in Code § 408(a) or Code § 408(b), or to a qualified defined contribution plan described in Code § 401(a) or Code § 403(a) that agrees to account separately for amounts so transferred, including separately accounting for the portion of such distribution which is includible in gross income and the portion of such portion which is not so includible.

(2) Eligible Retirement Plan. An Eligible Retirement Plan is an individual retirement account described in Code § 408(a), an individual retirement annuity described in Code § 408(b), an annuity plan described in Code § 403(a), a qualified trust described in Code § 401(a) and, effective for distributions made

after December 31, 2001, an annuity contract described in Code § 403(b) or an eligible plan under Code § 457(b) which is maintained by a state, political subdivision of a state, or any agency or instrumentality of a state or political subdivision of a state and which agrees to separately account for amounts transferred into such Plan from this Plan in order to be an Eligible Retirement Plan. The definition of Eligible Retirement Plan shall also apply in the case of a distribution to a surviving spouse, or to a spouse or former spouse who is the alternate payee under a qualified domestic relations order, as defined in Code § 414(p).

(3) Distributee. A Distributee includes an employee or former employee. In addition, the employee's or former employee's surviving spouse and the employee's or former employee's spouse or former spouse who is the alternate payee under a qualified domestic relations order, as defined in Code § 414(p), are Distributees with regard to the interest of the spouse or former spouse.

(4) Direct Rollover. A Direct Rollover is a payment by this Plan to the Eligible Retirement Plan specified by the Distributee.

(5) Additional Limitations. Notwithstanding the foregoing,

(i) if the Distributee elects to have his or her Eligible Rollover Distribution paid in part to him or her and paid in part as a Direct Rollover, the Direct Rollover must be in an amount of two hundred dollars ($200) or more; and

(ii) a Direct Rollover to more than one Eligible Retirement Plan will not be permitted.

14. Section 15.9 is amended to read as follows:

15.9 Top Heavy Plan.

(a) Determination. The Committee as of the last day of each Plan Year (the "determination date") will determine the sum of the present value of the accrued benefits of "key employees" (as defined in Code § 416(i)(1)) and the sum of the present value of the accrued benefits of all other Employees in accordance with the rules set forth in Code § 416(g), or will take such other action as the Committee deems appropriate to conclude that no such determination is necessary under the circumstances. If the sum of the present value of the accrued benefits of such key employees exceeds sixty percent (60%) of the sum of the present value of the accrued benefits of all employees as of the determination date, this Plan will be "top-heavy" for the immediately following Plan Year. For purposes of this Section, the present value of the accrued benefit of each employee will be equal to the sum of

(1) the balance of the employee's Account under this Plan (determined for this purpose as of the last day of each Plan Year, which is the "valuation date" for this Plan);

(2) the present value of the employee's accrued benefit, if any, (determined as of the most recent valuation date occurring within a twelve (12)-month period ending on the determination date) under

(i) each qualified plan (as described in Code § 401(a)) maintained by an Affiliate (A) in which a key employee is a participant or (B) that enables any plan described in subclause (i) to meet the requirements of Code § 401(a)(4) or § 410 (the "required aggregation group"), and

(ii) each other qualified plan maintained by an Affiliate (other than a plan described in clause (a) that may be aggregated with this Plan and the plans described in clause (a), provided such aggregation group (including a plan described in this clause (b) continues to meet the requirements of Code § 401(a)(4) and § 410 (the "permissive aggregation group"); and

(3)

(i) for Plan Years beginning on or after January 1, 2002, the value of any withdrawals and distributions made from this Plan and the plans described in (2) above during the 1-year period ending on such determination date and the value of any contributions due under this Plan and the defined contribution plans described in (2) above but as yet unpaid as of such determination date. The preceding sentence shall also apply to distributions under a terminated plan which, had it not been terminated, would have been required to be aggregated with the Plan under Code § 416(g)(2)(A)(i). In the case of a distribution made for a reason other than separation from service, death or disability, this provision shall be applied by substituting "5-year period" for "1-year period."

(ii) for Plan Years beginning before January 1, 2002, the value of any withdrawals and distributions made from this Plan and the plans described in (2) above during the 5 year period ending on such determination date and the value of any contributions due under this Plan and the defined contribution plans described in (2) above but as yet unpaid as of such determination date;

provided, however, effective for Plan Year beginning on or after January 1, 2002, the accrued benefit of any employee will be disregarded if such employee has not performed any services for any Affiliate at any time during the one (1) year period ending on the date as of which such determination is made and, effective for Plan Years beginning before January 1, 2002, the accrued benefit of any employee will be disregarded if such employee has not performed any services for any Affiliate at any time during the five (5) year period ending on the date as of which such determination is made.

(b) Special Top-Heavy Contribution. If the Committee determines that this Plan is "top-heavy" for any Plan Year, the following special rules will apply notwithstanding any other rules to the contrary set forth elsewhere in this Plan.

(1) A contribution will be made to the QSOP for each Participant who is an Eligible Employee on the last day of such Plan Year that, when added to the employer contribution and forfeitures otherwise allocated on behalf of such individual for such Plan Year under this Plan and any other defined contribution plan maintained by an Affiliate, is equal to:

(i) for each such Eligible Employee who is not a participant in a top-heavy defined benefit plan maintained by the Employer or an Affiliate, the lesser of (a) three percent (3%) of such Eligible Employee's Compensation for such year or (b) the percentage at which contributions are made (or are required to be made) for such year to the key employee for whom such percentage is the highest; or

(ii) for each such Eligible Employee who also participates in a top-heavy defined benefit plan maintained by the Employer or an Affiliate, five percent (5%) of such Eligible Employee's Compensation for such year;

provided, however, that no such contribution will be made under this Section for any Eligible Employee to the extent such Eligible Employee receives the top-heavy minimum contributions (as described in Code § 416(c)) under another defined contribution plan maintained by the Employer or an Affiliate for such Plan Year.

Effective for Plan Years beginning after January 1, 2002, Savings*PLUS* Contributions made under the QSOP shall be taken into account for purposes of satisfying the minimum contribution requirements of Code § 416(c)(2) and the Plan. The preceding sentence shall apply with respect to Savings*PLUS* Contributions made under the QSOP or, if the minimum contribution requirement is met in another defined contribution plan, such other plan. Savings*PLUS* Contributions that are used to satisfy the minimum contribution requirements shall be treated as employer matching contributions for purposes of the actual contribution percentage test and the other requirements of Code § 401(m)

(2) For Plan Years beginning before January 1, 2000, if the sum of the present value of the accrued benefits of key employees (computed as described in Section 16.9(a)) exceeds ninety percent (90%) of the sum of the present value of the accrued benefits of all employees (computed as described in Section 16.9(a)) as of the determination date this Plan will be "super top-heavy" for the immediately following Plan Year. With respect to "limitation years" (within the

meaning of Section 5.2) which begin prior to January 1, 2000, in computing the denominators of the defined benefit and defined contribution fractions described in Code § 415(e), (i) a factor of 1.0 will be used instead of 1.25 while the Plan is super top-heavy and (ii) if the Plan is top-heavy, but not super top-heavy and the Plan uses a factor of 1.25, the minimum contribution described in Section 16.9(b)(1)(ii) is increased to 7½% of Compensation. The Committee will take such other action as necessary to satisfy the requirements of Code § 4 15(e) and § 416(h) if the Committee determines that this Plan fails to meet the requirements set forth in Code § 416(h)(2)(B).

15. This amendment is intended as good faith compliance with the requirements of EGTRRA and is to be construed in accordance with EGTRRA and guidance issued thereunder. This amendment shall supersede the provisions of the Plan to the extent those provisions are inconsistent with the provisions of this amendment.

IN WITNESS WHEREOF, the undersigned certify that United Parcel Service of America, Inc., based upon action by its Board of Directors on December 20, 2002, has caused this Amendment Number One 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 10.3(2)**

**AMENDMENT NUMBER TWO
TO THE
UPS SAVINGS PLAN
EFFECTIVE AS OF JANUARY 1, 1998**

**WHEREAS,** The United Parcel Service (the "Company") maintains the UPS Savings Plan (the "Plan") as amended and restated effective January 1, 1998; and

**WHEREAS,** the Board reserved the right in Section 14.1 of the Plan to amend, modify or change the Plan from time to time; and

**WHEREAS,** it is desired to further amend the Plan to (1) add Code § 401(a)(9) model amendment provisions in Appendix 9.4, (2) permit Plan Trustees to establish a charge for distributions from the Plan and (3) cease loan rollovers into the Plan; and

**WHEREAS,** except as otherwise provided, this Amendment Number Two shall be effective as of the dates set forth below; and

**NOW, THEREFORE,** the Plan is hereby amended as follows:

1. Section 3.6(e), related to rollovers from qualified plans or Conduit IRA's, is amended, effective January 1, 2004, to read as follows:

(e) After-tax employee contributions and loans distributed from a qualified retirement plan, annuity contract or IRA may not be contributed to the Plan under this Section 3.6.

2. Section 9.4, Required Beginning Date, is amended, effective January 1, 2003, to add the following paragraph to the end of such Section.

Effective January 1, 2003, the Plan will apply the minimum distribution requirements of Code § 401(a)(9) in accordance with Appendix 9.4 to the Plan and the Code § 401(a)(9) Regulations that were published in the Federal Register on April 17, 2002.

3. Article XII., EXPENSES, is amended, effective January 1, 2004, to read as follows:

All reasonable and proper expenses of the Plan and the Trust Fund (within the meaning of ERISA § 403(c)(l) and § 404(a)(l)(A)), including (1) the compensation of each Investment Manager and the Trustee, (2) the expenses related to the Plan's administration and (3) any taxes that may be levied or assessed against the Trustee on account of the Trust Fund will be paid from the Trust Fund, unless the payment of the expense would constitute a "prohibited transaction" within the meaning of ERISA § 406 or Code § 4975. Charges for processing distributions, rollovers and loans will be allocated directly to the Account of each Participant or Beneficiary who has requested a distribution, rollover or loan. The charges shall be established by the Committee from time to time and may vary depending on the type of distribution, rollover or loan requested by the Participant or Beneficiary. All other expenses shall be paid from forfeitures or to the extent forfeitures are insufficient, shall be allocated among all of the Accounts on a pro rata basis. The Employer Companies, however, will have the right to pay all or any part of any expenses and to be reimbursed from the Trust Fund for any expenses paid by them that are properly payable from the Trust Fund. Any expenses that cannot be paid from the Trust Fund will be paid by the Employer Companies.

4. The Plan is amended, effective January 1, 2003, to insert the following Appendix 9.4 at the end of the Plan:

APPENDIX 9.4

MINIMUM DISTRIBUTION REQUIREMENTS.

Section 1. General Rules.

1.1. Effective Date. The provisions of this Appendix 9.4 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 article will take precedence over any inconsistent provisions of the Plan. However, the only benefit payment options available from the Plan are contained in Section 9.5 of the Plan. This Appendix 9.4 does not provide any benefit payment option that is not provided in such Section.

1.3. Requirements of Treasury Regulations Incorporated. All distributions required under this Appendix 9.4 will be determined and made in accordance with the Code § 401(a)(9) Treasury Regulations.

Section 2. Time and Manner of Distribution.

2.1. Required Beginning Date. The Participant’s entire interest will be distributed, or begin to 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, or begin to 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 December 31 of the calendar year in which the Participant would have attained age 70½, if later.

(b) If the Participant's surviving spouse is not the Participant's sole designated Beneficiary, then distributions to the designated Beneficiary will be completed by December 31 of the calendar year containing the fifth anniversary of the Participant's death.

(c) 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.

(d) 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), wilt 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.

2.3. Forms of Distribution. Unless the Participant's interest is distributed in the form of an annuity purchased from an insurance company or 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. 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 § 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 9.4.

5.1. Designated Beneficiary. The individual who is designated as the Beneficiary under Section 9.6 of the Plan and is the designated Beneficiary under Code § 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. 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 § 9.4 of the Plan.

**IN WITNESS WHEREOF,** the undersigned certify that United Parcel Service of America, Inc., based upon action by its Board of Directors on December 23, 2003, has caused this Amendment Number Two to be adopted.

| | |
|---|---|
| **ATTEST:** | **UNITED PARCEL SERVICE OF AMERICA, INC.** |
| /s/ JOSEPH R. MODEROW | /s/ MICAHEL L. ESKEW |
| **Joseph R. Moderow**<br>**Secretary** | **Michael L. Eskew**<br>**Chairman** |

**Exhibit 10.11(1)**

**Account No.** **Option No.**
«TAXID»
«NQ_OPTION_NO»

**UNITED PARCEL SERVICE, INC.**
**NON-QUALIFIED STOCK OPTION AWARD AGREEMENT**
**(Not Transferable)**

THIS CERTIFIES THAT **«EE_NAME2»** has been granted a non-qualified stock option to purchase**«NQ_SHARES_AWARDED»** shares of the Class A common stock of UNITED PARCEL SERVICE, INC., a Delaware corporation, at a price of **«STRIKE_PRICE»** per share.

This option is granted under and pursuant to the United Parcel Service, Inc. Incentive Compensation Plan, (the "Plan"), and is subject to the conditions and limitations set forth in the Plan Document as the same may be amended from time to time. All of the terms and provisions of the Plan, as set forth in the Plan Document and the Participant Brochure/Prospectus ("Governing Documents"), are incorporated herein by reference and shall govern with respect to the specific terms and conditions under which this option is granted.

THIS OPTION SHALL EXPIRE AND BE VOID AND SHALL NOT BE EXERCISABLE AFTER THE EXPIRATION OF TEN YEARS FROM THE DATE HEREOF, AND MAY BE EXERCISED ONLY IN THE MANNER PROVIDED IN THE GOVERNING DOCUMENTS.

This option is not transferable except by will or the laws of descent and distribution.

IN WITNESS WHEREOF, UNITED PARCEL SERVICE, INC. has caused this Stock Option to be issued as of May 3, 2004.

ATTEST: UNITED PARCEL SERVICE, INC.

Secretary

**Chairman and Chief Executive Officer**

«RRDD»
«DEPT»

**Account No.**
«TAXID».

**RPU No.**
«RPU_NO».

**UNITED PARCEL SERVICE, INC.**
**RESTRICTED PERFORMANCE UNIT AWARD AGREEMENT**
**(Not Transferable)**

THIS CERTIFIES THAT **«EE_NAME2»** has been granted **«RPU_INITIAL_SHARES_AWARDED»** Restricted Performance Units. Each performance unit has a value which equals the value of one share of the Class A common stock of UNITED PARCEL SERVICE, INC., a Delaware corporation.

This award is granted under and pursuant to the United Parcel Service, Inc. Incentive Compensation Plan (the "Plan"), and is subject to the conditions and limitations set forth in the Plan document as the same may be amended from time to time. All of the terms and provisions of the Plan, as set forth in the Plan document and the Participant Brochure/Prospectus ("Governing Documents"), are incorporated herein by reference and shall govern with respect to the specific terms and conditions under which this award is granted.

This award is not transferable except by will or the laws of descent and distribution.

IN WITNESS WHEREOF, UNITED PARCEL SERVICE, INC. has caused this Restricted Performance Unit Award to be issued as of May 3, 2004.

ATTEST:

UNITED PARCEL SERVICE, INC.

Secretary

**Chairman and Chief Executive Officer**

«RRDD»
«DEPT»

**Exhibit 10.12(1)**

# UPS Deferred Compensation Plan

## Enrollment 2005

This communication summarizes the UPS Deferred Compensation Plan. There are two components of the UPS Deferred Compensation Plan—the Salary Deferral Feature and the Stock Option Deferral Feature. The Salary Deferral Feature is described in the first section of this booklet and the Stock Option Deferral Feature is described in the second section of this booklet. Complete details regarding the Plan are contained in the Plan Document.

The UPS Deferred Compensation Plan is a non-qualified plan that does not meet the tax code requirements for a qualified retirement plan and is not subject to most of the requirements of ERISA. Amounts deferred under the Salary Deferral Feature of the Plan remain part of UPS's general assets and are subject to the claims of UPS's and your employer's creditors. UPS and its subsidiaries have established grantor trusts for shares of UPS Stock deferred under the Stock Option Deferral Feature of the Plan. The assets of those trusts are subject to the claims of UPS's and your employer's creditors. In the event of UPS's or your employer's insolvency or bankruptcy, your benefit under this Pan could be entirely lost.

This booklet constitutes part of the official prospectus covering securities that have been registered under the Securities Act of 1933.

Neither the U.S. Securities and Exchange Commission nor any state securities commission has approved or disapproved the securities offered by this prospectus or determined that this prospectus is accurate or complete. Any representation to the contrary is a criminal offense.

UPS DEFERRED COMPENSATION PLAN

TABLE OF CONTENTS

Plan Description – Salary Deferral Feature

Q. What is the Salary Deferral Feature of the UPS Deferred Compensation Plan?

A. The UPS Deferred Compensation Plan (the "Plan") is a non-qualified plan that has been established to allow you to defer up to 25 percent of your compensation. You may also elect to defer up to 100 percent of your half month pay into the Plan. The Plan also allows non-employee directors of United Parcel Service, Inc. to defer 100 percent of their retainer and meeting fees. Please note that your deferrals into this Feature will be in addition to your deferrals into the UPS Savings Plan. You may defer one to 25 percent of pay on a pre-tax basis into the Savings Plan, to a maximum of $14,000 in 2005. If you are age 50 by the end of 2005, you may also elect a catch-up contribution to the Savings Plan, to a 2005 maximum of $4,000.

Q. What is a non-qualified plan?

A. A non-qualified plan is a plan which does not meet the tax code requirements for a qualified retirement plan and which is not subject to most of the ERISA requirements. Amounts contributed to a non-qualified plan remain part of the company's general assets or are contributed to a "grantor trust." These assets remain subject to the claims of UPS's and your employer's creditors, and in the event of UPS's or your employer's insolvency or bankruptcy, your interest in the Plan could be entirely lost. Because of the additional risk associated with non-qualified plans, only non-employee directors and senior level employees may be offered the opportunity to participate.

Q. What are the advantages of participating in the Salary Deferral Feature of the UPS Deferred Compensation Plan?

A. Participation in the Salary Deferral Feature of the Plan allows you to reduce your current taxable income and permits the amount you contribute to grow on a tax-deferred basis until you receive a distribution from the Plan.

Example: A manager's base salary is $11,750 per month plus half month pay of $5,875 for a total eligible compensation of $146,875 annually. The manager would like to defer the maximum 25 percent of base pay and 100 percent of the half month pay to the UPS Deferred Compensation Plan versus only contributing the maximum $14,000 per year in the UPS Savings Plan.

| | UPS Savings Plan and UPS Deferred Compensation Plan | UPS Savings (only) |
|---|---|---|
| Total Eligible Pay (base salary and half month) | $ 146,875 | $146,875 |
| Salary Deferrals: | | |
| UPS Savings Plan (max. $14,000) | -14,000 | -14,000 |
| UPS Deferred Compensation Plan | -35,250 | N/A |
| Half Month Pay (100 percent) | -5,875 | N/A |
| Taxable Income | $ 91,750 | $132,875 |

Q. How does salary deferral under the qualified UPS Savings Plan differ from the non-qualified Salary Deferral Feature of the UPS Deferred Compensation Plan?

A. Principal Characteristics:

| | Qualified UPS Savings Plan | Non-qualified UPS Deferred Compensation Plan |
|---|---|---|
| Deferral on pre-tax basis | Yes | Yes |
| FICA/Medicare withheld on deferrals | Yes | Yes |
| Earnings accumulate tax free | Yes | Yes |
| Actual funds or assets held in trust safe from creditors | Yes | No |
| Distributions subject to income taxes | Yes | Yes |
| Federal income tax withholding on lump sum payments | Yes(1) | Yes |
| Rollover into an IRA allowed | Yes | No |
| 10 year income tax averaging available | Yes | No |
| Hardship withdrawals available | Yes | Yes(2) |
| Loans against accounts available | Yes | No |

(1) If not rolled over.

(2) "Hardship" definition is more stringent than in the UPS Savings Plan.

Q. Does this mean I will have two separate salary deferral accounts?

A. Yes, the UPS Savings Plan and the UPS Deferred Compensation Plan are two separate plans. You will receive a separate itemized annual statement for the UPS Deferred Compensation Plan. Statements may be viewed online at any time through the UPS Savings Advantage Web site, http://upssavings.csplans.com.

Eligibility

Q. Who is eligible to participate in the Salary Deferral Feature of the Plan?

A. You are eligible to participate in the Salary Deferral Feature of the Plan on an annual basis if you are a region department manager or have equal or greater managerial responsibilities at UPS or one of the UPS authorized subsidiaries, are eligible to participate in the UPS Savings Plan, and are not domiciled in Puerto Rico. In addition, non-employee directors of United Parcel Service, Inc. are eligible to participate in the Salary Deferral Feature of the Plan.

Q. Can I participate if I am promoted mid-year?

A. Yes, you are eligible to participate in the Salary Deferral Feature of the Plan once you are promoted to a region department manager or have equal or greater managerial responsibilities. Your eligibility begins 60 days after you are promoted (based on the Promotion Processing Form date). You will have 60 days from your promotion date to enroll in the Plan. If you fail to enroll during the 60-day window, you will not be able to participate this year. However, you will be able to enroll for next year during the October enrollment period. Newly elected non-employee directors may also elect to participate in the Salary Deferral Feature of the Plan within the 60-day period following his or her election.

Deferral Elections

Q. When can I make an election to defer?

A. Each year during the fall enrollment period (generally, October 1 to October 31) you can elect to defer up to 25 percent of your monthly base salary and/or up to 100 percent of your half month pay. Because October 31 falls on a Sunday in 2004, the 2005 enrollment period will be October1 to November 1, 2004. Newly eligible employees must make their first deferral election within 60 days after being promoted to region department manager or above. During the fall enrollment period, non-employee directors may elect to defer 100 percent of their retainer and meeting fees. New non-employee directors may make their first deferral election within 60 days after being named a director.

Q. Should I maximize my contribution into the UPS Savings Plan before making a contribution to this Plan?

A. Generally, yes. The UPS Savings Plan is a qualified retirement plan where assets are held in trust for future payment to you. Depending upon which UPS or UPS subsidiary you work for, you may be eligible for matching contributions on your pre-tax contributions to the UPS Savings Plan. Additionally, payments from the UPS Savings Plan are eligible for special tax treatment (e.g., rollover to an IRA). Because the UPS Deferred Compensation Plan is non-qualified, any assets set aside to fund these benefits will be subject to the claims of UPS's and your employer's creditors. Distributions to you from the Plan will be subject to immediate taxation and are not eligible for special tax treatment (e.g., rollover, loan, IRA). UPS does not match your contributions to the UPS Deferred Compensation Plan.

Salary Deferral Feature Example 1:

This manager elects to defer 10 percent from base salary and 50 percent from half month pay into the Salary Deferral Feature. The manager also elects to defer 10 percent of base salary into the UPS Savings Plan.

| | |
|---|---|
| Manager's base salary is $11,750 per month x 12 months | $141,000 |
| Manager's half month pay is $5,875 | + 5,875 |
| Total Annual Eligible Compensation | $146,875 |

Here’s what the monthly activity would look like for the UPS Deferred Compensation Plan and the UPS Savings Plan in this example.

| 2005 | UPS Savings Plan | UPS Deferred Compensation Plan |
|---|---|---|
| | 10% | 10% |
| January | $ 1,175 | $ 1,175 |
| February | $ 1,175 | $ 1,175 |
| March | $ 1,175 | $ 1,175 |
| April | $ 1,175 | $ 1,175 |
| May | $ 1,175 | $ 1,175 |
| June | $ 1,175 | $ 1,175 |
| July | $ 1,175 | $ 1,175 |
| August | $ 1,175 | $ 1,175 |
| September | $ 1,175 | $ 1,175 |
| October | $ 1,175 | $ 1,175 |
| November | $ 1,175 | $ 1,175 |
| December | $ 1,075 | $ 1,175 |
| Half month | $ 0 | $ 2,937.50 |
| TOTAL | $ 14,000 | $ 17,037.50 |
| TOTAL DEFERRED | $ 31,037.50 | |

It is recommended that you choose a percentage that results in the contribution of the maximum permissible contribution to the UPS Savings Plan ($14,000 in 2005) before calculating any amount to be deferred into the UPS Deferred Compensation Plan. The manager also may receive Savings***PLUS***, the match on certain amounts deferred under the UPS Savings Plan.

Salary Deferral Feature Example 2:

*This manager elects to defer the maximum 25 percent from base salary and 100 percent from half month pay into the Salary Deferral Feature. The manager also elects to defer 10 percent of base salary into the UPS Savings Plan.*

| | |
|---|---|
| Manager's base salary is $11,750 per month x 12 months | $141,000 |
| Manager's half month pay is $5,875 | + 5,875 |
| Total Annual Eligible Compensation | $146,875 |

Here's what the monthly activity would look like for the UPS Savings Plan and the UPS Deferred Compensation Plan in this example.

| 2005 | UPS Savings Plan | UPS Deferred Compensation Plan |
|---|---|---|
| | 10% | 25% |
| January | $ 1,175 | $ 2,937.50 |
| February | $ 1,175 | $ 2,937.50 |
| March | $ 1,175 | $ 2,937.50 |
| April | $ 1,175 | $ 2,937.50 |
| May | $ 1,175 | $ 2,937.50 |
| June | $ 1,175 | $ 2,937.50 |
| July | $ 1,175 | $ 2,937.50 |
| August | $ 1,175 | $ 2,937.50 |
| September | $ 1,175 | $ 2,937.50 |
| October | $ 1,175 | $ 2,937.50 |
| November | $ 1,175 | $ 2,937.50 |
| December | $ 1,075 | $ 2,937.50 |
| Half Month | $ 0 | $ 5,875.00 |
| TOTAL | $ 14,000 | $ 41,125.00 |
| TOTAL DEFERRED | $55,125 | |

It is recommended that you choose a percentage that results in the contribution of the maximum permissible contribution ($14,000 in 2005) to the UPS Savings Plan before calculating any amount to be deferred to the UPS Deferred Compensation Plan. The manager also may receive Savings***PLUS***, the match on certain amounts deferred under the UPS Savings Plan.

Salary Deferral Feature Example 3:

*This manager elects to defer 5 percent from base salary and zero percent from half month pay into the Salary Deferral Feature. The manager also elects to defer 10 percent of base salary into the UPS Savings Plan.*

| | |
|---|---|
| Manager's base salary is $11,750 per month x 12 months | $141,000 |
| Manager's half month pay is $5,875 | +5,875 |
| Total Annual Eligible Compensation | $146,875 |

Here's what the monthly activity would look like for the UPS Savings Plan and the UPS Deferred Compensation Plan in this example.

| **2005** | **UPS Savings Plan** | **UPS Deferred Compensation Plan** |
|---|---|---|
| | **10%** | **5%** |
| January | $ 1,175 | $ 587.50 |
| February | $ 1,175 | $ 587.50 |
| March | $ 1,175 | $ 587.50 |
| April | $ 1,175 | $ 587.50 |
| May | $ 1,175 | $ 587.50 |
| June | $ 1,175 | $ 587.50 |
| July | $ 1,175 | $ 587.50 |
| August | $ 1,175 | $ 587.50 |
| September | $ 1,175 | $ 587.50 |
| October | $ 1,175 | $ 587.50 |
| November | $ 1,175 | $ 587.50 |
| December | $ 1,075 | $ 587.50 |
| Half month | $ 0 | $ 0 |
| TOTAL | $ 14,000 | $ 7,050.00 |
| TOTAL DEFERRED | $21,050 | |

It is recommended that you choose a percentage that results in the contribution of the maximum permissible contribution ($14,000 in 2005) to the UPS Savings Plan before calculating any amount to be deferred to the UPS Deferred Compensation Plan. The manager also may receive Savings***PLUS***, the match on certain amounts deferred under the UPS Savings Plan.

Q. Will I need to wait until my UPS Savings Plan pre-tax deferral reaches the maximum for 2005 ($14,000) before I begin to defer funds into the UPS Deferred Compensation Plan?

A. No. However, it is to your advantage to defer the maximum amount into the UPS Savings Plan. Before you decide what percentage to defer into the UPS Deferred Compensation Plan, make sure you are deferring the maximum $14,000 into the UPS Savings Plan. The amount you defer into the UPS Savings Plan can be changed monthly. Your deferral percentage into the UPS Deferred Compensation Plan cannot be changed for the entire calendar year.

Q. When will my salary deferrals under the UPS Deferred Compensation Plan begin?

A. The first deferral amount will reduce your January 2005 base pay and continue through December 2005. If you elect to have money deferred from your half month check, this amount will be deducted from your December 2005 half month pay. Your deferral into the UPS Savings Plan will occur simultaneously.

Q. When will my salary deferrals be credited to my account?

A. If you make a Salary Deferral election, a bookkeeping account will be established for you under the Plan (your "Salary Deferral Account"). The deferrals will be credited to your Salary Deferral Account as soon as practicable following each pay period, but generally no later than ten business days after you receive the paycheck from which the deduction was made.

Q. Can I change my UPS Deferred Compensation Plan annual deferral elections?

A. No, your annual election to defer salary to the UPS Deferred Compensation Plan, once made, cannot be changed for that calendar year. Your initial election must be made during the October enrollment period and must be postmarked by November 1, 2004. Once you make your annual deferral election, you cannot change the deferral percentage amount until the next annual deferral election period (usually in October for the next calendar year).

Investment Options

Q. What are my investment options?

A. Your Salary Deferral Account will accrue earnings based on the investment option(s) you select. These investment options are the same core funds offered in the UPS Savings Plan, as well as UPS Stock. The investment options currently available to you in the UPS Deferred Compensation Plan are:

| | |
|---|---|
| Government Short-term Investment Fund | Russell 2000 Index Fund |
| Stable Value Fund | EAFE Index Fund* |
| Bond Market Index Fund | Bright Horizon 2005 |
| Balanced Fund | Bright Horizon 2015 |
| S&P 500 Equity Index Fund | Bright Horizon 2025 |
| S&P Midcap 400 Index Fund | Bright Horizon 2035 |
| Fidelity Magellan Fund | UPS Stock* |

* The Plan will assess a 2 percent short-term trading fee for money transferred out of the EAFE Fund and/or paid out as a distribution within 30 days of investment in the Fund. The 2 percent redemption fee is assessed against the gross proceeds from the sales transaction. This short-term trading fee will only apply to a sale of the Fund due to a transfer request and/or a distribution. For this purpose, units held longest will be liquidated first and units held the shortest will be liquidated last. The redemption fees assessed are reinvested into the UPS EAFE Trust Fund for the benefit of all participants in the Plan with balances in the Fund. This fee is designed to offset market impact and other costs associated with fluctuations in the UPS EAFE Fund caused by short-term shareholder trading.

Note:

- ALL purchases and sales of UPS Stock, whether through the UPS Deferred Compensation Plan or otherwise, are subject to the UPS Insider Trading Guidelines.
- There is no limit on the amount you may invest in UPS Stock.
- The Self-Managed Account is not available as an investment option for the Salary Deferral Feature of the UPS Deferred Compensation Plan.
- Please see the summary plan description and summaries of material modifications for the UPS Savings Plan for a description of each investment option. If you have any questions, you may call the UPS Deferred Compensation Plan Administrator.

Q. Can I reallocate my account balance in my Salary Deferral Account between the investment options?

A. Yes, you may reallocate your Salary Deferral Account balance among the different investment options on a daily basis. (Please note that all purchases and sales of UPS Stock, whether in the UPS Deferred Compensation Plan or otherwise, are subject to the UPS Insider Trading Guidelines.) You will be able to change your investment selections by accessing your account online at http://upssavings.csplans.com. You may also change your investment selections by calling the UPS Savings Advantage service center at 1-800-541-6154 and speaking to a Participant Service Representative Monday through Friday from 7:30 a.m. to 5:00 p.m. (Eastern Time), except for stock market holidays. This reallocation capability includes both the new deferrals being deferred into your account and existing investment account balances. Your account will continue to accrue earnings or losses based on your investment elections until your Salary Deferral Account balance is fully distributed.

Note: Because the Plan is non-qualified, your investment selections are for recordkeeping purposes only and no funds will be set aside or invested in the options you select. Your selections will be used solely for purposes of determining the value of your Salary Deferral Account.

Q. What are the investment risks?

A. Due to the risks inherent in all investment activities, the total value of your account may be greater or smaller than your total deferrals. Additionally, because your account is unfunded, your rights to receive payments in the event of UPS's or your employer's bankruptcy or insolvency (as remote as that may seem) will be the same as that of any other unsecured general creditor.

Distribution Options

Q. When am I eligible to receive a distribution of my Salary Deferral Account?

A. You are eligible to receive a distribution of your Salary Deferral Account when you terminate employment from UPS, retire, become disabled or die.

Q. What are my distribution options?

A. When you initially enroll, you can select one of the five distribution options listed below. You may change your distribution option at any time. However, for tax reasons, changes to your distribution election must be on file for at least 12 months in order to be effective. The five options are:

Option 1: 3 Year Installment (36 monthly payments)
Option 2: 5 Year Installment (60 monthly payments)
Option 3: 7 Year Installment (84 monthly payments)
Option 4: 10 Year Installment (120 monthly payments) – DEFAULT (if not on file)
Option 5: Lump Sum Payment (one payment)

Note: If your total Salary Deferral Account balance is less than $20,000 (determined as of your termination date), you will receive a lump sum payment regardless of the option you have selected.

Q. Does the distribution option I selected for my Salary Deferral Account apply to my Stock Option Account?

A. No, your selection of a distribution option for your Salary Deferral Account is separate from, and may be different than, the distribution option you select for your Stock Option Account.

Q. How do I select a distribution option?

A. You must select a distribution option upon your initial enrollment in the Plan. You may change your distribution option at any time. However, to be effective the change must be on record for a period of not less than 12 months before your distribution eligibility date (the date distributions are scheduled to commence). If you fail to select a distribution option, your final distribution will be paid over 10 years (120 monthly installments) if your account balance is equal to or greater than $20,000.

Q. How do I change my distribution option?

A. In order to change your distribution option, you may go to our Web site, http://upssavings.csplans.com, and print a Distribution Election Form from the Forms section of Plan Information. You may also direct your request to the UPS Savings Advantage service center at 1-800-541-6154 and speak with a Participant Service Representative. The representative will send you a Distribution Election Form. You must complete and return the updated form to the UPS Deferred Compensation Plan Administrator at the address printed on the form. To be effective, the change must be on record for a period of not less than 12 months before your distribution eligibility date.

Q. Can I decide to withdraw all of my Salary Deferral Account balance when I retire, become disabled or terminate employment from UPS, even if I have a valid monthly installment distribution option on file or I am already receiving monthly installments?

A. You may withdraw all of your Salary Deferral Account balance at any time. However, you will forfeit 10 percent of the total value of your account at the time of the withdrawal. Withdrawals will be paid in a lump sum.

Q. What happens to my Salary Deferral Account if I should die prior to receiving distribution of the entire account balance?

A. The balance in your account will be paid to your designated beneficiary(ies) in accordance with your distribution election in effect at the time of your death. In other words, your beneficiary(ies) will not be able to select a distribution option. However, your beneficiary may elect to withdraw your entire Salary Deferral Account balance at any time. Ten percent of the total value of the account at the time of the withdrawal will be forfeited. Withdrawals will be paid as a lump sum.

Q. How do I designate a beneficiary?

A. When you initially enroll, you may designate a beneficiary by completing the Beneficiary Designation Form. This beneficiary designation can be changed at any time.

*Note: Your beneficiary designation applies to both your Salary Deferral Account and your Stock Option Account.*

Q. How do I change my beneficiary?

A. In order to change your beneficiary designation(s), you may go to our Web site, http://upssavings.csplans.com, and print a Beneficiary Designation Form from the Forms section. You may also direct your request to the UPS Savings Advantage service center at 1-800-541-6154 and speak with a Participant Service Representative. The representative will send you a Beneficiary Designation Form. You must complete and return the updated beneficiary form to UPS Deferred Compensation Plan Administrator at the address printed on the form.

## Withdrawal Options

Q. May I take a hardship withdrawal?

A. Hardship withdrawals are available. In the event of unusual extraordinary expenses or unforeseen financial hardship, you may petition the UPS Deferred Compensation Plan Committee for a distribution of the amount reasonably necessary to meet your financial need. This definition of hardship is more stringent than the hardship provision in a qualified 401(k) plan, and does not, for instance, include college expenses or costs in connection with a home purchase. It generally encompasses hardship generated by unforeseen circumstances, such as medical expenses, family loss of income by layoff and the like. The Committee may approve or deny the request in its sole discretion. Hardship withdrawals will be paid in a lump sum.

Q. May I take a withdrawal for reasons other than hardship?

A. You may withdraw all of your Salary Deferral Account balance at any time. However, you will forfeit 10 percent of the total value of your account. Withdrawals will be paid in a lump sum.

Q. May I take a loan?

A. Unlike the UPS Savings Plan or other qualified 401(k) plans, loans are not permitted under the UPS Deferred Compensation Plan.

Q. May I roll over my deferred account balance?

A. Unlike qualified 401(k) plans, rollovers are not permitted under the UPS Deferred Compensation Plan.

## Taxes

Q. Am I taxed on my deferrals or earnings that are credited to my account?

A. Under current law, neither the deferrals nor the earnings on those amounts are subject to federal income tax until they are withdrawn from the Plan, as long as you make your election before you earn the income. All states with income taxes, except New Jersey and Pennsylvania, follow the federal law. As a result, there will be no income tax liability until you actually receive a distribution. Distributions from the Plan will be taxed as ordinary income upon receipt. You should consult with your legal counsel or tax advisor concerning your specific state or local city and county tax laws.

Q. What about Social Security and Medicare Taxes?

A. Deferred amounts are subject to Social Security and Medicare taxes at the time of the deferral (when they are deducted from your pay). However, the distributions from the UPS Deferred Compensation Plan, including the earnings, are not subject to these taxes under current law. Payments from the Plan will not reduce the Social Security benefits after retirement, as they do not represent wages for service performed at that time.

*Note: Non-employee directors are not subject to Social Security and Medicare taxes on amounts deferred under the Plan.*

Q. How will my distribution payments be reported?

A. Whether you are an active, terminated, or retired employee, your distribution payments will be reported to you on a Form W-2. Payments to beneficiaries, in the event of your death, will be reported on a Form 1099. Payments to non-employee directors will be reported on a Form 1099-MISC.

Q. How will my distributions be taxed?

A. Under current law, distributions from the UPS Deferred Compensation Plan are taxed as ordinary income when received, and no special tax advantages or penalties apply. Federal, state and local income taxes (see above for exceptions – New Jersey and Pennsylvania) will be withheld from your distribution payments when they are actually made.

*Note: No federal, state or local income taxes will be withheld from payments made to non-employee directors, unless requested by the non-employee directors.*

Q. Is my distribution eligible to be rolled over to an IRA?

A. No, because this is not a tax-qualified plan under the Internal Revenue Code, distributions are not eligible to be rolled over into an IRA.

Q. Will benefits paid to my beneficiaries be included in my gross estate for federal tax purposes?

A. Yes, the cumulative amounts in your account at the time of death will be included in your estate.

*Note: You should consult with your own legal counsel or tax advisor concerning your beneficiary(ies) designations and plan to obtain the most appropriate result for your personal situation.*

Enrollment Process

Q. How do I enroll in the Salary Deferral Feature of the UPS Deferred Compensation Plan?

A. If you are currently a Plan participant, complete the UPS Deferred Compensation Plan Salary Deferral Feature Enrollment Form. For those joining the Plan on January 1, 2005, complete the UPS Deferred Compensation Plan Salary Deferral Feature Initial Enrollment Form and the Beneficiary Designation Form. All forms must be completed and postmarked by November 1, 2004.

The completed form must be returned to CitiStreet at:

UPS Deferred Compensation Plan Administrator
CitiStreet
P.O. Box 5166
Boston, MA 02206-5166

Q. What is the Stock Option Deferral Feature of the UPS Deferred Compensation Plan?

A. The UPS Deferred Compensation Plan is a non-qualified plan that allows you to defer receipt of shares of UPS Stock that otherwise would be taxable to you upon the exercise of a non-qualified stock option granted under the UPS Stock Option Plan or the UPS Incentive Compensation Plan. As a general rule, you will not be able to defer the gain on stock options granted in substitution of options granted by a company acquired by UPS. You may also elect to defer the receipt of shares of UPS Stock that would otherwise be subject to the alternative minimum tax (“AMT”) upon the exercise of an incentive stock option granted under the UPS Stock Option Plan or the UPS Incentive Compensation Plan. *It is important that you fully understand the tax consequences associated with the election of this deferral. Please read the tax discussion in this section carefully and consult with your tax advisor prior to making any election to defer incentive stock option gain shares.*

In order to take advantage of the Stock Option Deferral Feature, you must agree to pay the option exercise price with shares of class “A” UPS Stock that you have owned for at least 6 months before the option is exercised. The number of shares subject to your option in excess of the number of shares tendered as the exercise price will be deferred under the Plan. Your Stock Option Account under the Plan will be invested in the UPS Stock Account, and all distributions from your Stock Option Account will be made in UPS Stock.

Q. What is a non-qualified plan?

A. A non-qualified plan is a plan which does not meet the tax code requirements for a qualified retirement plan and which is not subject to most of the ERISA requirements. UPS and each participating UPS subsidiary has established an irrevocable “grantor” trust for the benefit of each employee who participates in the Stock Option Deferral Feature of the Plan. Amounts contributed to the trusts remain subject to the claims of UPS’s and your employer’s creditors, and in the event of UPS’s or your employer’s insolvency or bankruptcy, your interest in the Plan could be entirely lost. Because of the additional risk associated with non-qualified plans, only non-employee directors and senior level employees may be offered the opportunity to participate.

Q. What are the advantages of participating in the Stock Option Deferral Feature?

A. Ordinarily, when you exercise a non-qualified stock option, you will have ordinary income equal to the difference between the value of UPS Stock at the time of exercise and the exercise price. This difference often is referred to as the “spread.” Participation in the Stock Option Deferral Feature of the Plan allows you to avoid income upon exercise of the option and permits the value of the number of shares deferred to grow with the value of UPS Stock on a tax deferred basis until you receive a distribution from the Plan.

When you exercise an *incentive stock option*, you are not subject to ordinary income tax on the spread (the difference between the value of UPS Stock at the time of exercise and the exercise price). However, the gain attributable to the exercise of an incentive stock option is considered alternative minimum taxable income and, as a result, you may be subject to the alternative minimum tax. If you elect to defer your incentive stock option gain shares under the UPS Deferred Compensation Plan, you may defer the recognition of alternative minimum taxable income until you receive a distribution from the Plan. *Again, it is important that you fully understand the tax consequences associated with this feature. Please read the tax discussion in this section carefully and consult with your tax advisor prior to making any election to defer incentive stock option gain shares.*

Q. Are there any disadvantages of participating in the Stock Option Deferral Feature?

A. Your Stock Option Account will be invested in UPS Stock. You will not be able to diversify your account into any other investment options, so the value of your Stock Option Account will rise or fall with the value of UPS Stock. If you elect to defer the spread on your non-qualified or incentive stock option, you will have to use shares of class "A" UPS Stock owned by you for at least 6 months to pay the option exercise price. *If you make a stock option deferral election, but you do not have sufficient class "A" shares to pay the exercise price, you cannot exercise your option and it will expire.* If you do not elect to defer the spread on your non-qualified or incentive stock option, you may choose to use either cash or shares of class "A" UPS Stock owned for at least 6 months to exercise the option. With respect to the exercise of a non-qualified stock option, even though you will not be taxed on the spread for federal income tax purposes, you will be taxed on the value of the spread for federal Social Security and Medicare purposes. The amount of the Social Security and Medicare taxes owed by you on the spread will be deducted from your pay. Note that the spread on an incentive stock option is not taxable for either Social Security or Medicare purposes.

*Note: Non-employee directors are not subject to Social Security and Medicare taxes on deferred amounts.*

Eligibility

Q. Who is eligible to participate in the Stock Option Deferral feature?

A. You are eligible to participate in the Stock Option Deferral Feature of the Plan if, as of the beginning of the enrollment period, you are a region department manager or have equal or greater responsibilities at UPS or one of the UPS authorized subsidiaries, are eligible to participate in the UPS Savings Plan and are not domiciled in Puerto Rico. In addition, non-employee directors of United Parcel Service, Inc. are eligible to participate in the Stock Option Deferral Feature of the Plan.

Q. Can I participate if I am promoted mid-year?

A. No, unlike the Salary Deferral Feature of the Plan, promotion to eligible status after the beginning of the enrollment period will not trigger a special enrollment window for the Stock Option Deferral Feature.

Deferral Elections

Q. When can I make an election to defer?

A. Each year during the fall enrollment period (October 1 to November 1, 2004) you can elect to defer receipt of the shares of UPS Stock representing the spread upon the exercise of a non-qualified or incentive stock option scheduled to vest in the next calendar year.

| Deferral Grant Year | Type | Vests | Expires | Period |
|---|---|---|---|---|
| 2002 | IS/NQ | 4/25/2005 | 4/25/2012 | 10/2004 |
| 2003 | NQ | 5/02/2008 | 5/02/2013 | 10/2007 |
| 2004 | NQ | 5/03/2009 | 5/03/2014 | 10/2008 |

Q. When will my deferral be credited to my account?

A. If you make a Stock Option Deferral election, a bookkeeping account will be established for you under the Plan (your "Stock Option Account"). The number of shares representing the spread will be credited to your Stock Option Account when you exercise your option. In addition, your Stock Option Account will be credited with dividend equivalent amounts equal to any cash or stock dividends paid on UPS Stock while you have your Stock Option Account under the Plan. Separate sub-accounts will be established to track your non-qualified and incentive shares. All dividends on incentive shares will be credited to your non-qualified sub-account so that we will be able to appropriately identify your incentive shares upon distribution.

Q. May I elect to defer only part of the spread upon the exercise of my stock option?

A. No. A stock option deferral election will apply to the entire amount of the spread on the exercise of your stock option. However, you may elect to defer your non-qualified stock option and/or your incentive stock option.

Q. Can I change my deferral election?

A. No. Your stock option deferral election will be irrevocable — that is, once made it cannot be changed. Your election must be made during the October enrollment period and must be postmarked by November 1, 2004. Your election, however, only applies to options scheduled to vest in the next calendar year, i.e., April 25, 2005, and does not carry over to options that vest in later years.

Q. What happens if after I have made a stock option deferral election, but before I exercise my option, I retire or otherwise terminate my employment with UPS?

A. If you retire or otherwise terminate employment after you have made a stock option deferral election, but before you have exercised your option, your deferral election will be void. You may still be able to exercise your stock option if you retire with the consent of UPS or in accordance with the UPS Retirement Plan; however, you will not be permitted to defer the spread. The terms of the UPS Stock Option Plan or the UPS Incentive Compensation Plan (whichever is applicable) govern the extent, if any, to which you may exercise your stock option after your employment with UPS terminates.

Option Exercise

Q. If I have made a stock option deferral election, can I nevertheless decide to exercise my option using cash to pay the option exercise price?

A. No. If you make a stock option deferral election, you must pay the exercise price using shares of class "A" UPS Stock that you have owned for at least 6 months prior to the date of exercise of the option. *Additionally, if you do not have sufficient class "A" shares to pay the exercise price, you cannot exercise your option and it will expire.*

Q. After I have made my stock option deferral election, what happens if I decide not to exercise my stock option or don't exercise before the expiration date?

A. If you make a stock option deferral election, you are not required to exercise your stock option. If you choose not to exercise your option, both your option and your stock option deferral election will expire.

Investment

Q. What are my investment options?

A. Your Stock Option Account will be invested in UPS Stock. Thus, the value of your Stock Option Account will rise and fall to the same extent that the value of UPS Stock rises and falls.

Q. Can I reallocate my Stock Option Account balance among other investment options?

A. No, your Stock Option Account cannot be reallocated among any investment options other than the UPS Stock.

*Note: Because the Plan is non-qualified, shares of UPS Stock contributed to the grantor trust are subject to UPS's and your employer's creditors.*

Q. What are the investment risks?

A. Because the value of your Stock Option Account depends on the value of UPS Stock, the total value of your account may be greater or smaller than your total deferrals. Additionally, because your account is unfunded, your rights to receive payments in the event of UPS's or your employer's bankruptcy or insolvency (as remote as that may seem) will be the same as that of any other unsecured general creditor.

Distribution Options

Q. When am I eligible to receive a distribution from my Stock Option Account?

A. You are eligible to receive a distribution of your account if you terminate employment with UPS, retire, become disabled or die. Distributions will be processed once per year at the end of March. The first distribution to you or your beneficiary will be made at the end of March in the year following the year in which you terminate employment, retire, become disabled or die. If your distribution will be in a form other than a lump sum distribution and you have shares in both the non-qualified and incentive stock option sub-accounts, your distribution will automatically be pro-rated across the sub-accounts. You may not choose which sub-account from which you would like your shares to be distributed.

Q. What are my distribution alternatives?

A. When you make your initial stock option deferral election, you can select one of the five distribution options listed below:

Alternative 1: 3 Year Installment (3 annual payments)

Alternative 2: 5 Year Installment (5 annual payments)

Alternative 3: 7 Year Installment (7 annual payments)

Alternative 4: 10 Year Installment (10 annual payments) – DEFAULT (if not on file)

Alternative 5: Lump Sum Payment (one payment)

*Note: If your total Stock Option Account balance is less than $20,000 (determined as of your termination date), you will receive a lump sum payment regardless of the option you have selected.*

Q. Does the distribution alternative I select for my Stock Option Account apply to my Salary Deferral Account?

A. No. Your selection of a distribution alternative for your Stock Option Account is separate from, and may be different than, the distribution option you select for your Salary Deferral Account.

Q. How do I select a distribution alternative?

A. You must select a distribution alternative when you make your initial stock option deferral election under the Plan. You may change your distribution alternative at any time. However, to be effective the change must be on record for a period of not less than 12 months before your distribution date. If you fail to select a distribution alternative, your final distribution will be paid over 10 years (10 annual installments) if your Stock Option Account balance is equal to or greater than $20,000.

Q. How do I change my distribution alternative?

A. In order to change your distribution alternative, you should access your account online at http://upssavings.csplans.com and print a Stock Option Deferral Feature Change of Distribution Option Form from the Forms section. You may also direct your request to the UPS Savings Advantage service center at 1-800-541-6154 and speak with a Participant Service Representative. The representative will send you a Stock Option Deferral Feature Change of Distribution Option Form. You must complete and return the updated form to the UPS Deferred Compensation Plan Administrator at the address printed on the form. To be effective, the change must be on record for a period of not less than 12 months before your distribution date.

Q. Can I decide to withdraw all of my Stock Option Account balance when I retire, become disabled or terminate employment from UPS, even if I have a valid annual installment distribution option on file or I am already receiving annual installments?

A. You may withdraw all of your Stock Option Deferral Account balance at any time. However, you will forfeit 10 percent of the total value of your account at the time of the withdrawal. Withdrawals will be paid in a lump sum in whole shares of UPS Stock.

Q. Will my distribution be paid in cash or shares of UPS Stock?

A. Any distributions made to you from the non-qualified or incentive sub-accounts of your Stock Option Account will be paid in whole shares of class “A” UPS Stock. The value of any fractional non-qualified share will be added to the amount withheld for taxes.

Q. What happens to my account if I should die prior to receiving distribution of the entire account balance?

A. The balance in your account will be paid to your designated beneficiary(ies) in accordance with your distribution election in effect on the date of your death. In other words, your beneficiary(ies) will not be able to select a distribution alternative. However, your beneficiary may elect to withdraw your entire Stock Option Deferral Account balance at any time. Ten percent of the total value of the account at the time of the withdrawal will be forfeited. Withdrawals will be paid as a lump sum in whole shares of UPS Stock.

Q. How do I designate a beneficiary?

A. If you already have designated a beneficiary under the Plan, your beneficiary(ies) with respect to your Stock Option Account will be the same as your beneficiary(ies) for your Salary Deferral Account under the Plan. *Note: Your beneficiary designation applies to both your Stock Option Account and your Salary Deferral Account.*

If you have not yet designated a beneficiary under the Plan, you may access your account online at http://upssavings.csplans.com and print a UPS Deferred Compensation Plan Beneficiary Designation Form. You may also request a UPS Deferred Compensation Plan Beneficiary Designation Form from a Participant Service representative at the UPS Savings Advantage service center at 1-800-541-6154. The representative will send you a UPS Deferred Compensation Plan Beneficiary Designation Form. You must complete and return the beneficiary form to the UPS Deferred Compensation Plan Administrator at the address printed on the form.

Q. How do I change my beneficiary?

A. In order to change your beneficiary designation(s), you may access your account online at http://upssavings.csplans.com and print a UPS Deferred Compensation Plan Beneficiary Designation Form. You may also direct your request to the UPS Savings Advantage services center at 1-800-541-6154 and speak with a Participant Service Representative. The representative will send you a UPS Deferred Compensation Plan Beneficiary Designation Form. You must complete and return the updated beneficiary form to the UPS Deferred Compensation Plan Administrator at the address printed on the form.

Withdrawal Options

Q. May I take a hardship withdrawal?

A. Hardship withdrawals are available. In the event of unusual extraordinary expenses or unforeseen financial hardship, you may petition the UPS Deferred Compensation Plan Committee for a distribution of the amount reasonably necessary to meet your financial need. This definition of hardship is more stringent than the hardship provision in a qualified 401(k) plan, and does not, for instance, include college expenses or costs in connection with a home purchase. It generally encompasses hardship generated by unforeseen circumstances, such as medical expenses, family loss of income by layoff and the like. The Committee may approve or deny the request in its sole discretion. Hardship withdrawals will be paid in a lump sum in whole shares of class “A” UPS Stock.

Q. May I take a withdrawal for reasons other than hardship?

A. You may withdraw all of your Stock Option Account balance at any time. However, you will forfeit 10 percent of the total value of your account. Withdrawals will be paid in a lump sum in whole shares of class “A” UPS Stock

Q. May I take a loan?

A. Loans are not permitted under the UPS Deferred Compensation Plan. Taxes

Q. Am I taxed on my deferrals or appreciation on shares that are credited to my Stock Option Account?

A. Under current law, neither the deferrals nor any appreciation in the non-qualified stock option shares credited to your Stock Option Account are subject to federal income tax until they are withdrawn from the Plan. All states with income taxes, except New Jersey and Pennsylvania, follow the federal law. As a result, there will be no income tax liability until you actually receive a distribution. Distributions from your non-qualified sub-account will be taxed as ordinary income upon receipt. You should consult with your legal counsel or tax advisor concerning your specific state or local city and county tax laws.

We believe that current law supports the position that neither the deferrals nor any appreciation in the incentive stock option shares credited to your Stock Option Account are subject to either the regular income tax or the alternative minimum tax until they are withdrawn from the Plan. We also believe that current law supports the position that upon distribution of incentive stock option shares, the shares will not be subject to regular income tax, but will be included in determining your alternative minimum taxable income. *It is important to note, however, that* the Internal Revenue Service has not issued any rulings approving the deferral of incentive stock options or the tax treatment of the shares upon distribution. As a result, we strongly *recommend that you consult your attorney or tax advisor prior to electing to defer your incentive stock options.*

Q. What about Social Security and Medicare Taxes?

A. With respect to the exercise of a non-qualified stock option, deferred amounts are subject to Social Security and Medicare taxes at the time of the deferral (when your non-qualified stock option is exercised). UPS will deduct the applicable Social Security and Medicare taxes from your pay. However, the distributions from the Plan are not subject to these taxes under current law. Payments from the Plan will not reduce the Social Security benefits after retirement, as they do not represent wages for service performed at that time.

The spread on the exercise of an incentive stock option is not subject to either Social Security or Medicare taxes.*Note: Non-employee directors are not subject to Social Security and Medicare taxes on deferred amounts.*

Q. How will my distribution payments be reported?

A. Whether you are an active, terminated, or retired employee, distributions from your nonqualified option sub-account will be reported to you on a Form W-2. Payments to beneficiaries, in the event of your death, will be reported on a Form 1099-R. Payments to non-employee directors will be reported on a Form 1099-MISC.

Payments from your incentive stock option sub-account will not be reported on either a Form W-2 or Form 1099. You will be provided a statement reflecting the number of incentive option shares distributed in a calendar year so that you can properly compute your alternative minimum taxable income. If you have shares in both the non-qualified and incentive stock option sub-accounts, your distribution will automatically be pro-rated across the sub-accounts. You may not choose which sub-account from which you would like your shares to be distributed.

Q. How will my distributions be taxed?

A. Under current law, distributions from your non-qualified stock option sub-account are taxed as ordinary income when received, and no special tax advantages or penalties apply. UPS will withhold shares from your distribution payments to pay federal, state and local income taxes (see above for exceptions—New Jersey and Pennsylvania). *Note: No federal, state or local income taxes will be withheld from payments made to non-employee directors.*

As noted above, we believe that current law supports the position that upon distribution of incentive stock option shares, the shares will not be subject to the regular income tax, but will be included in determining your alternative minimum taxable income. *It is important to note, however, that the Internal Revenue Service has not issued any rulings approving the deferral of incentive stock options or the tax treatment of the shares upon distribution. As a result, we strongly recommend that you consult your attorney or tax advisor prior to electing to defer your incentive stock options.* No federal, state or local income taxes will be withheld from payments made from your incentive stock option sub-account.

Q. Is my distribution eligible to be rolled over to an IRA?

A. No, because this is not a tax-qualified plan under the Internal Revenue Code, distributions are not eligible to be rolled over into an IRA.

Election Process

Q. How do I elect to make a stock option deferral under the UPS Deferred Compensation Plan?

A. To make a stock option deferral election, you must complete and return the UPS Deferred Compensation Plan Stock Option Deferral Election Form by November 1, 2004. As part of this election, you will agree to pay the option exercise price in shares of class "A" UPS Stock that you have owned for at least 6 months prior to the option exercise. All forms must be completed and postmarked by November 1, 2004.

The completed form must be returned to CitiStreet at:

UPS Deferred Compensation Plan Administrator
CitiStreet
P.O. Box 5166
Boston, MA 02206-5166

Q. Does my participation in this Plan change the time frame during which I would normally exercise my 2002 Stock Option?

A. No, the terms of your 2002 Stock Option grant remain unchanged. Your 2002 option grant will vest on April 25, 2005, and you must exercise your option between April 25, 2005 and April 25, 2012 (subject to the applicable insider trading guidelines).

Additional Information

Plan Administrator

Q. Who is the administrator and how can I check my account balance?

A. The administrator for the UPS Deferred Compensation Plan is CitiStreet, the same company that administers the UPS Savings Advantage. Although you will receive an annual statement, you can determine the balance in your account at any time by accessing your account online at http://upssavings.csplans.com. You can also call 1-800-541-6154 and speak to a Participant Service Representative. Participant Service Representatives are available from 7:30 a.m. to 5:00 p.m. (Eastern Time) Monday through Friday, except for stock market holidays. No annual fees will be charged to you for the Plan. All fees associated with the Plan will be paid by UPS until and unless you are notified otherwise.

Plan Amendment or Termination

Q. Can the Plan be amended or discontinued?

A. Yes. UPS has established the Plan with the expectation that it will be continued indefinitely. Nevertheless, UPS retains the right to amend or terminate all or part of the Plan at any time. However, your Salary Deferral Account and the number of shares credited to your Stock Option Account, at the time of any amendment, suspension or termination of the Plan cannot be reduced (except by reason of future investment losses).

Miscellaneous

Q. Can I transfer, pledge or assign my accounts?

A. No. Rights to your Salary Deferral Account and Stock Option Account cannot be transferred, assigned, pledged or alienated. You may not pledge or assign your account balances to secure a bank loan or other indebtedness.

Q. Are there any restrictions on my ability to sell shares of UPS Stock that I receive in a distribution under the Plan?

A. Each person who controls, or is a member of a group that controls, or who is under common control with, UPS and who distributes any shares of UPS Stock obtained through a distribution under the Plan, and any broker or dealer who participates in any such distribution, may, in connection with such a distribution, be deemed to be an “underwriter” within the meaning of the Securities Act of 1933 unless the shares are sold pursuant to Rule 144 under the Securities Act. This brochure may not be used in connection with any resales of any shares received by such a person.

In addition, the filing requirements of Section 16(a) of the Securities Exchange Act of 1934 and the short-swing profit rules under Section 16(b) of the Exchange Act may apply to purchases and sales of UPS Stock, including shares received in a distribution under the Plan and subsequent resales of these shares, by any person who is an executive officer, director or beneficial owner of 10% or more of UPS’s outstanding common stock. Officers and directors should consult with the UPS Legal Department before offering for sale any of the shares of UPS Stock received in a distribution under the Plan so that we may ensure compliance with Rule 144, Section 16 and any other applicable provisions of federal and state securities laws.

Q. What happens if there is a sale or merger of UPS or other change in control of UPS?

A. In the event of a sale or merger of UPS or other change in control of UPS, the UPS Deferred Compensation Plan Committee will determine the effect of the transaction on the Plan.

Where You Can Find Additional Information

Q. Where can I find more information about UPS?

A. We file annual, quarterly and current reports, proxy statements and other information with the SEC. Our SEC filings are available to the public over the Internet at the SEC's Web site at http://www.sec.gov. You may also read and copy any document we file with the SEC at its public reference facilities at 450 Fifth Street, N.W., Washington, DC 20549. You can also obtain copies of the documents at prescribed rates by writing to the Public Reference Section of the SEC at 450 Fifth Street, N.W., Washington, DC 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference facilities. Our SEC filings are also available at the office of the New York Stock Exchange. For further information on obtaining copies of our public filings from the New York Stock Exchange, you should call 212-656-5060.

The SEC allows us to "incorporate by reference" into this document the information that we file with it. This means that we can disclose important information by referring you to those documents. The information incorporated by reference is an important part of this prospectus, and information in documents that we file after the date of this prospectus and before the termination of the offering will automatically update information in this prospectus.

We incorporate by reference the documents listed below and any future filings we make with the SEC under Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 until our offering is completed:

- our annual report on Form 10-K for the year ended December 31, 2003 and our quarterly reports on Form 10-Q for the quarters ended March 31 and June 30, 2004; and
- the description of United Parcel Service of America, Inc.'s common stock, $.10 par value per share, contained in its registration statement on Form 8-A, filed with the SEC in April 1970, as updated by item 5 of its annual report on Form 10-K for the year ended December 31, 1998, as modified by the description of the class A-1 common stock contained in our registration statement on Form S-4 (no. 333-83349). We succeeded to the Exchange Act registration of United Parcel Service of America, Inc. pursuant to Rule 12g-3 under the Exchange Act.

Q. How can I obtain copies of this information?

A. We will provide, without charge, to each person to whom a copy of this prospectus is delivered, upon written or oral request a copy of any and all of the documents incorporated by reference in this prospectus, other than the exhibits to such documents, unless such exhibits are specifically incorporated by reference into the documents that this prospectus incorporates. Requests for copies of such documents should be directed to United Parcel Service, Inc., 55 Glenlake Parkway, N.E., Atlanta, Georgia 30328, attn: Investor Services, telephone number (404) 828-6059. In addition, we will furnish to each participant in the Plan a copy of our Annual Report to Shareowners. We will provide additional copies of our annual report, without charge, upon written or oral request to the address or telephone number listed above.

## Ratio of Earnings to Fixed Charges

| (in millions) | Twelve Months Ended December 31, 2002 | 2003 | 2004 |
|---|---|---|---|
| Earnings: | | | |
| Earnings before income taxes and accounting changes | $5,009 | $4,370 | $4,922 |
| Add: Interest expense | 173 | 121 | 149 |
| Add: One-third of rental expense (a) | 228 | 226 | 231 |
| Total earnings | $5,410 | $4,717 | $5,302 |
| Fixed Charges: | | | |
| Interest expense | $ 173 | $ 121 | $ 149 |
| Interest capitalized | 25 | 25 | 25 |
| One-third of rental expense (a) | 228 | 226 | 231 |
| Total fixed charges | $ 426 | $ 372 | $ 405 |
| Ratio of Earnings to Fixed Charges | 12.7 | 12.7 | 13.1 |

(a) Considered to be representative of interest factor in rental expense.

EXHIBIT 21

SUBSIDIARIES OF UNITED PARCEL SERVICE, INC.
AS OF MARCH 14, 2005

| NAME OF SUBSIDIARY OF ORGANIZATION | JURISDICTION |
|---|---|
| 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 International, Inc. | Delaware |
| United Parcel Service Deutschland Inc. | Delaware |

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

**Exhibit 23**

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

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 reports dated March 14, 2005 relating to the financial statements of United Parcel Service, Inc. (which report expresses an unqualified opinion and includes an explanatory paragraph relating 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) and management's report of the effectiveness of internal control over financial reporting, appearing in this Annual Report on Form 10-K of United Parcel Service, Inc. for the year ended December 31, 2004.

/s/ Deloitte & Touche LLP

Atlanta, Georgia
March 14, 2005

**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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c. 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
   d. 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**

March 14, 2005

**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)) ) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. 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

   d. 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**

March 14, 2005

**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, 2004, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, the Chairman of the Board 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 14, 2005

**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, 2004, 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 14, 2005