



operating in unison

UPS 2002 Corporate Sustainability Report

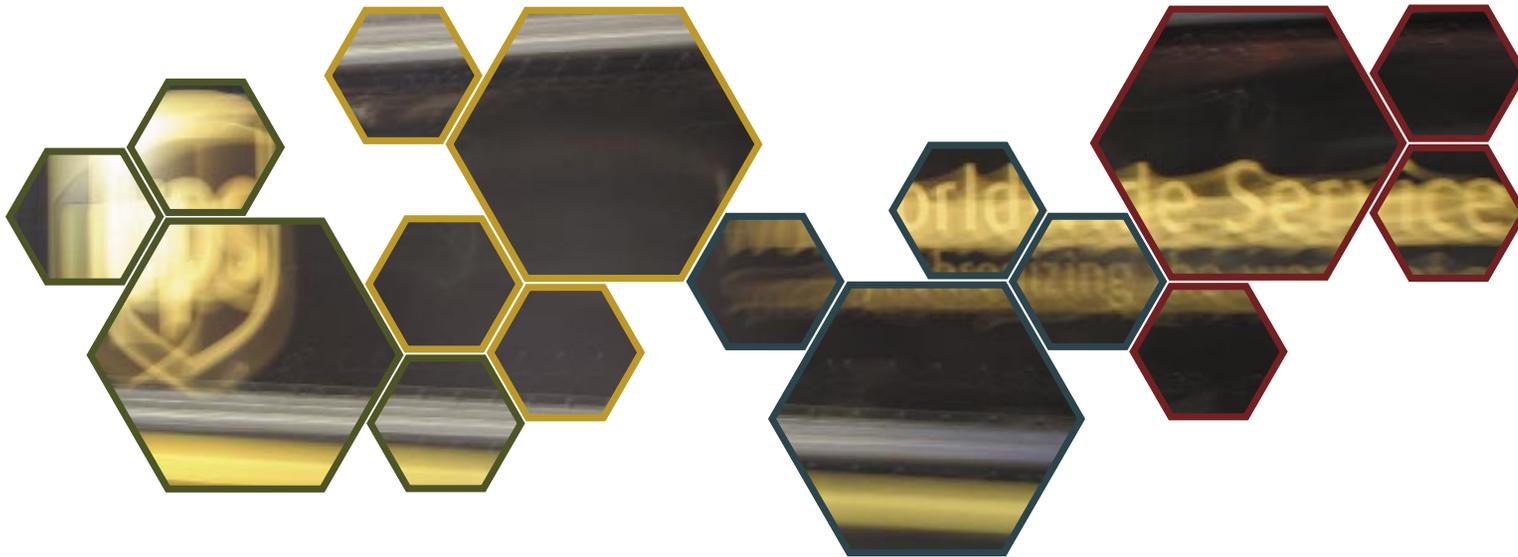


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Our Sustainability Statement

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

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

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

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



A Letter from the Chairman

For a company that is entrusted with a significant portion of the world's gross domestic product on any given day, operating in unison is not only critical to UPS's survival, but is vital to the health of the global economy.

Operating in Unison is an appropriate theme for UPS's first sustainability report. It reflects our belief that a healthy balance must exist between economic success, social responsibility and environmental stewardship.

Operating in Unison is also a description of UPS's unique business model that sustains significant economic, environmental and societal benefits.

Today these three areas of sustainability are fast becoming mutually dependent. They are business issues just as much as they are social and environmental issues.

We recognize that we have a significant impact on society and the environment. Our package cars, aircraft and 360,000 employees are a part of the fabric of everyday life worldwide. This report represents our official stake in the ground to identify areas for improvement and set goals by which to measure ourselves.

While the term "sustainability" might be relatively new, its spirit has been guiding our company's progress for nearly a century. Our prosperity and sustainability over the years are largely due to four attributes.

The first is our ability to transform our company to meet the needs of customers and tap into emerging business opportunities.

The second is our unique and sound business model that maximizes efficiency and generates superior customer benefits with minimal environmental impact — a model that is not easily replicated.

The third is a culture that promotes human achievement, innovation and results — a philosophy of “constructive dissatisfaction” that is ingrained in all of us. We will not count on our past results to guarantee our future success.

The fourth is our long-term commitment to the environment and the communities we serve — commitments that stem from the fact that we operate in tens of thousands of communities in more than 200 countries around the world.

Operating in Unison is a report on our company's approach to sustainability, the progress we've made and areas where we remain constructively dissatisfied. Our employees are one of the most important audiences for this report because they will ensure UPS continues to live up to our promises. Our people understand and support UPS's commitment to act and operate responsibly.

This report was created with 2007 in mind — the 100th anniversary of our company. Many of the goals you'll see in the pages that follow are tied specifically to that year. They will serve as the foundation for another century of sustainable business practices. As this is our first formal sustainability report, we do not yet have enough data to establish goals for all elements, but will in the future. We believe our stakeholders have a right to know where we stand on our sustainability efforts, where we're headed and how

we plan to get there. We place great value in the transparency of our business and the ways in which we hold ourselves accountable for our actions.

Operating in Unison is published at an important time in the history of our company. Our business is moving rapidly into a new frontier of synchronizing global commerce, easing the restrictions that stand in the way of the seamless flow of goods, information and funds among trading partners — whether those partners are located across the street from each other or on the other side of the world. We believe synchronizing commerce is an inherently sustainable business practice that will have a positive impact on the health of the global economy in the coming years.

Our goal is to continue to thrive as a successful organization in a responsible way that benefits the millions of people we touch directly and indirectly every day. That's our vision of sustainability. That's our vision of operating a balanced business — one that future generations of UPSers will inherit and take to even greater heights in the coming century.

Regards,



Mike Eskew
Chairman and CEO

What is synchronized commerce?

The overall effectiveness of commerce today depends on precise, harmonious interactions among all the people, processes and moving parts of the global economy.

Traditionally, each part of the global trade process — from sourcing, warehousing and inbound logistics to trade financing, freight and package delivery — has been treated as a stand-alone discipline with its own specialists. These disciplines have been primarily treated as cost centers: necessary, yet operationally driven parts of doing business.

Synchronized commerce is the next evolution of global commerce in which the three flows — goods, information and funds — are seamlessly connected to benefit customers worldwide. Synchronized commerce will turn individual disciplines into a precise, engineered whole. It will redefine the way people and businesses connect.

Economic

Sustaining positive economic performance.



Social

Providing opportunity and benefits to employees, communities and stakeholders worldwide.





Environmental



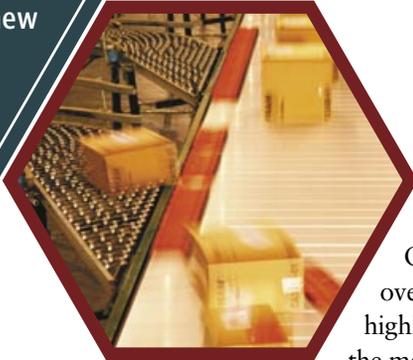
Focusing on an efficient business model linked with new technologies.



The Future



Ensuring the areas of sustainable development continue to operate in unison.



The UPS Business Model



Our business — which serves eight million customers daily in over 200 countries by 360,000 employees — is built on a single, highly integrated network structure. We believe this model is the most efficient, cost effective, environmentally responsible and profitable in the industry. All goods — air and ground, domestic and international, commercial and residential — are processed through the same network. This results in very efficient use of assets and lower costs.

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

UPS Facts at a Glance
(as of 12/31/02)

Founded
August 28, 1907, in Seattle, Wash.

Headquarters
Atlanta, Ga.

World Wide Web Address
UPS.com

Chairman and CEO
Michael L. Eskew

2002 Revenue
U.S. \$31.3 billion

2002 Delivery Volume
3.4 billion packages and documents

Average Daily Delivery Volume
13.3 million packages and documents

Average Daily U.S. Air Volume
2 million packages and documents

Average Daily International Volume
1.2 million packages and documents

Service Area
More than 200 countries and territories
Every address in the United States

Employees
360,000 (320,000 U.S.; 40,000
International)

Customers
7.9 million daily (1.8 million pickup,
6.1 delivery)

Operating Facilities
2,850

Delivery Fleet
88,000 package cars, vans, tractors,
and motorcycles

UPS Jet Aircraft
257

Chartered Aircraft
326

UPS Company Profile

Overview

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

From moving huge cargo containers across the ocean to expediting customs paperwork at international ports to simply delivering a small package to a local neighborhood, we handle the seamless movement of 2 percent of the world's commerce. As a result, the UPS brand is recognized from Seattle to Singapore. We serve more than 200 countries and territories worldwide and own the world's largest franchiser of retail shipping, postal and business service centers.

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

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

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

Complementing UPS's unique network structure, technology powers virtually every service we offer and every operation we perform. Today, we process electronic data from more than 90 percent of the shipments that move through our system each day.

A three-year deployment of a suite of new technologies, initiated in 2003, marks a major re-engineering of our U.S. package operations. This suite pulls together multiple, industry-leading operational technology advances developed in the past several years. The package flow technologies include software, hardware and process changes. As a result, we can route packages and schedule equipment literally down to the individual package. An investment of over \$600 million in these technologies is expected to result in cost savings of more than \$600 million annually when fully deployed.

Financial Information

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

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

- (1) Excludes (on an after-tax basis) \$121 million gain related to change in vacation policy, \$65 million restructuring charge and related expenses, \$72 million charge related to the adoption of FAS 142, and \$776 million gain related to the settlement of a previously established tax assessment liability.
- (2) Excludes \$26 million after-tax charge related to the adoption of FAS 133.
- (3) Excludes (on an after-tax basis) \$145 million in investment gains, a \$29 million gain on the sale of our UPS Truck Leasing subsidiary, and a \$35 million charge related to an arbitration ruling under our 1997 contract with the Teamsters.

Governance

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

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

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

UPS has had a focus on employee ownership since the 1920s. Since our 1999 initial public offering, employees, retirees and founders’ families still retain about 50 percent of the company’s stock. Therefore, we have a long history of focus on shareowner interests.

Our governance practices are explained in detail on the UPS Investor Relations web site, www.shareholder.com/ups/corpgov.cfm, including information about the composition, committees, elections and compensation of our Board of Directors. Detailed information about our structure and management philosophy is also available on the web site.

Report Overview

We used the Global Reporting Initiative (GRI)* as the foundation for writing our first Corporate Sustainability Report. The GRI helped identify key performance indicators (KPIs) particularly relevant to our performance. The mission of the GRI is to promote international harmonization in the reporting of relevant and credible corporate environmental, social and economic performance information to enhance responsible decision making.

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

All measurements in the report uniquely reflect our culture, business model, quality of management and impact on natural resources. A few additional notes about the data and measurements:

- Approximately 50 percent of our KPI's include global data; 50 percent are based on U.S. data. Whenever available, global data is used as the basis for performance measurement. Acquiring global data is an ongoing challenge for UPS, but one that is referenced throughout the report as one of our goals.
- For additional information regarding the scope and details of UPS data, see www.sustainability.ups.com.

Special thanks to Business for Social Responsibility and World Resources Institute for their review of and comments to this report.

Moving Forward

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

Feedback

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

Mailing Address:

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

Email Address:

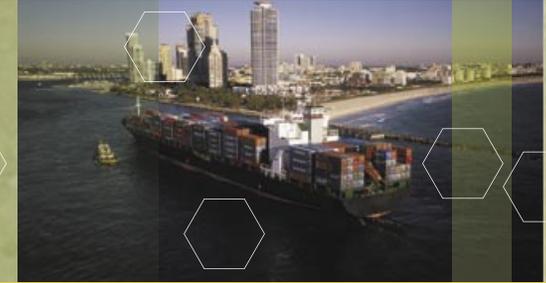
sustainability@ups.com

**GRI has not verified the contents of this report, nor does it take a position on the reliability of information reported herein. For further information about the GRI, please visit: www.globalreporting.org*

Except for historical information contained herein, the statements made in this report constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Such forward-looking statements, including statements regarding the intent, belief or current expectations of UPS and its management regarding the company's strategic directions, prospects and future results, involve certain risks and uncertainties. Certain factors may cause actual results to differ materially from those contained in the forward-looking statements, including economic and other conditions in the markets in which we operate, governmental regulations, our competitive environment, strikes, work stoppages and slowdowns, increases in aviation and motor fuel prices, cyclical and seasonal fluctuations in our operating results, and other risks discussed in the company's Form 10-K and other filings with the Securities and Exchange Commission, which discussions are incorporated herein by reference.



Economic



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

— From UPS Mission Statement

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

The service UPS provides has inherent economic benefits:

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

Industry Overview

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



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

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

Globalization

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

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

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

Consolidation

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

Shift to smaller, more frequent shipments

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

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

Outsourcing Logistics

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

We believe the well-managed supply chain is one of the primary sources of future innovation and competitive advantage. It is estimated that 10 percent of the world's GDP is spent on supply chain activities; a \$3 trillion global market of which only \$0.06 per dollar is represented by small package delivery. We believe there is substantial growth opportunity for supply chain management service providers.



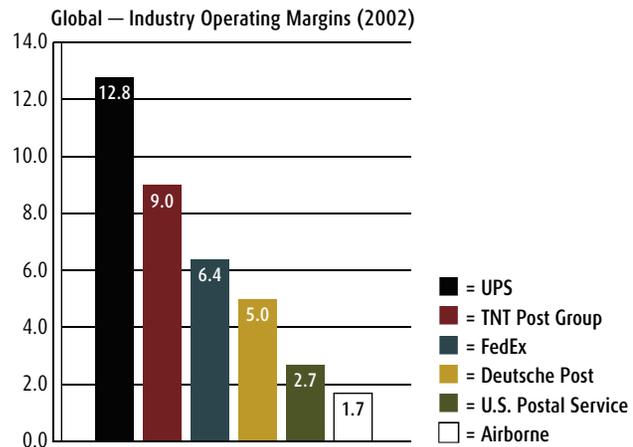
“Stock ownership has been and will continue to be a key component of our partnership legacy. As a UPS manager and shareowner, I know that when I make smart business decisions, I’m taking care of my investment. If I take care of UPS, it will take care of me.”

— Albert Wright
Employee-owner since 1979



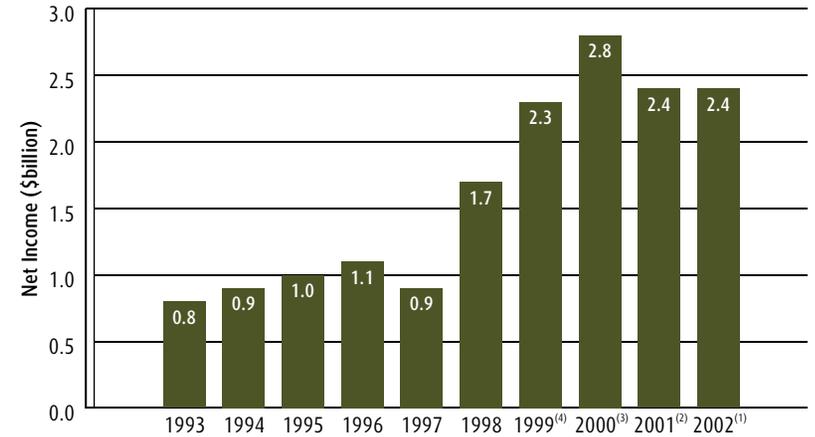
Financial Performance

Our business generates the best margins in the industry, even as we compete with large, government-subsidized postal systems. Our investor relations web site at www.shareholders.com/ups provides an in-depth view of UPS’s financial performance.

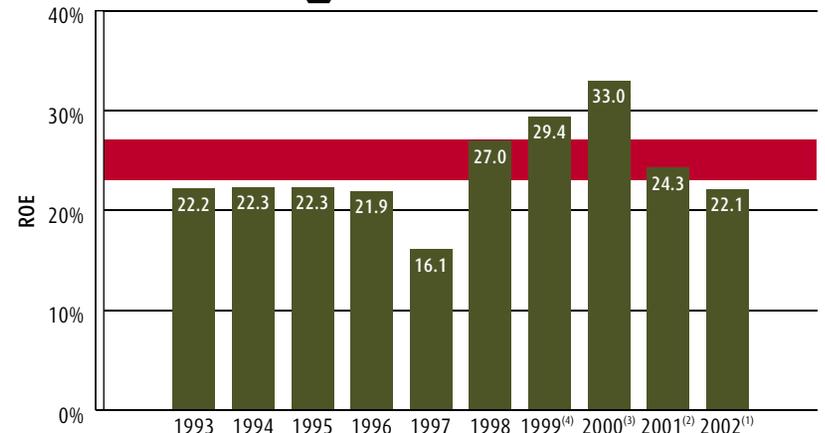


We have averaged 12 percent annual growth in earnings over the past decade and have generated a return on equity (ROE) generally in excess of 20 percent. Our goal is to maintain ROE in the mid-20s.

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



KPI Global — Return On Equity



■ Goal = Average ROE percent in mid-20s.

(1) (2) (3) Refer to footnotes on page 7

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



Additional attributes that make UPS economically sustainable:

- **Transparency**

Package delivery service is an easy-to-understand business with clear revenue recognition — the service is provided, then invoiced and payment recorded. This business requires virtually no inventory with its risk of obsolescence.

- **Financial quality**

UPS maintains a strong balance sheet. It is one of only seven companies with a AAA credit rating from both Standard & Poor's and Moody's. In addition, the company generates exceptional cash flow.

- **Employee-owner culture**

Financial prudence is part of UPS's cultural mind set. Employees have owned UPS for decades. Emphasis is on the long-term, with financial returns well in excess of the company's cost of capital. This employee/owner mentality results in close alignment of management's interests with public shareholders' interests.

Growth Opportunities

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

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

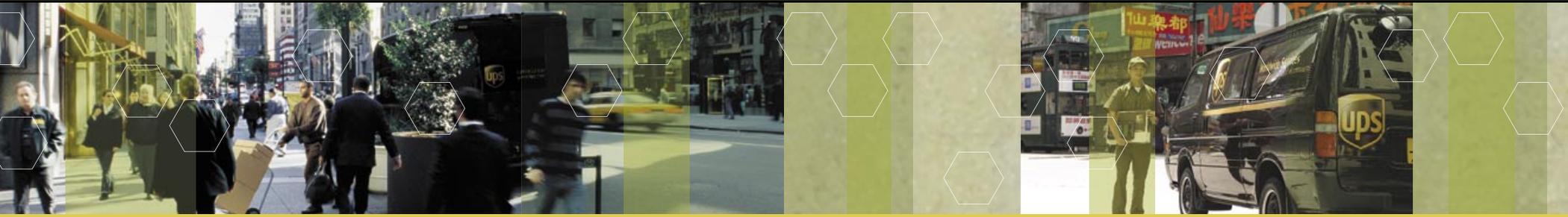
Supply Chain Management: We have used our global network, technological expertise, financial strength and brand equity to develop a leading presence in the global supply chain solutions arena. In the last four years, we have acquired more than 20 supply chain businesses that expand our geographic presence,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

UPS manages supply chains for major companies in 120 countries. Our focus is on technology, re-engineering and management-based solutions rather than on more traditional asset-based logistics such as operating warehouses and vehicle fleets. We provide a broad range of transportation solutions to customers worldwide, including air, ocean and ground freight, as well as customs brokerage and trade/materials management. In addition, we offer a portfolio of financial services to facilitate our customers' ability to take advantage of the opportunities global trade offers.

"UPS has synchronized the way we do business. Not only do we count on UPS to pickup and deliver our packages on time, but UPS has also provided us with strategic planning and cost saving software for our fleet of trucks, and consulting services to analyze our business operations. We look to UPS as a full-service solution for our operation."

— Steve Mancini
Logistics Manager
Belknap White Group





Examples of Our Economic Impact

Louisville, Ky. is home to our worldwide air hub, UPS Worldport®. In 2002, we completed a seven-year, \$1 billion expansion of this facility — an exceptionally large investment that has had a very significant impact on the community. It created 14,000 new jobs (at UPS and in the community), resulting in:

- 8,900 new residents
- 2,200 new single-family homes
- 4,400 additional car registrations

The annual impact of these jobs is:

- \$478 million in new payroll
- \$646 million increase in personal income for Louisville residents
- \$136 million in increased retail sales

Economic Impact

UPS has a significant impact on local economies worldwide.

In 2002, we paid \$2.5 billion in federal, state and local taxes across the globe.

Additional economic impact in 2002 included:

- Over \$12.1 billion in salary and wages
- \$5.8 billion in employee benefits
- \$1.04 billion in repairs and maintenance
- \$513 million in occupancy expenditures (lights, heat, power, utilities, etc.)
- \$849 million in dividends

In addition to expenditures, we have an economic impact on a variety of stakeholders through the course of our daily operations:

- **The award of air rights to fly directly between the U.S. and China.**
Fair competition benefits an entire market. Throughout 2002, our first full year of operating direct service to China, the incumbent carriers made significant changes and improvements to their service. This response to a new entrant benefits customers by allowing for better service, additional access points, guaranteed delivery and lower prices.
- **Establishment of our Asian hub in the Philippines.**
In 2002, we established our major Asian air hub at the former Clark Air Force Base in Manila. This underutilized facility enabled development of our intra-Asian network which, in turn, stimulated trade among countries in that region.
- **Development of the Target Search system at the Worldport air hub.**
Target Search eliminates the need for separate facilities and systems to process imported packages. It alerts customs officials when packages are due to arrive so they can electronically identify packages for

inspection. The imports are unloaded along with all other types of packages, regardless of the kind of delivery service each requires, and the selected imported packages are then routed to Customs. Target Search has reduced processing time by one-half and saved millions of dollars in facilities and labor costs for us and for the Customs Service.

- **Facilitating Free Trade Agreements.** We were instrumental in working with the U.S. and Singapore governments to make the Free Trade Agreement between these countries a reality. We were also involved in a similar effort between the U.S. and Chile. As trade barriers are eliminated, goods flow more easily between countries — opening new markets, creating jobs and improving living standards.
- **Delivery to every address in the U.S.** With guaranteed, time-definite delivery to every address in the continental U.S., we ensure our customers can provide optimal service to their customers.

Conclusion

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



Social



Our company has grown because our people have grown, and our people have grown because our company has grown. And so it will be in the future...

—Jim Casey, UPS Founder, 1945

A Culture of Commitment

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

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

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

Corporate Culture

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

Employee ownership

For 92 years, UPS was a privately held company with employees owning the majority of shares since 1929. We believe that when employees' interests are aligned with the best interests of the company, better decisions are made with long-term success in mind rather than short-term gains.



The company's initial public offering in November 1999 did not change that philosophy. Today, employees, retirees and the families of the company's founders own about 50 percent of outstanding shares. Of our 360,000 employees, approximately 112,000 (32 percent) own shares in the company. This includes over 50 percent of our full-time workforce.

We believe that our employee-owner philosophy has been and will continue to be a critical factor contributing to the success of our company. In the 1950s, we began awarding a percentage of profits to our managers to foster the company's partnership culture. Through our annual Managers Incentive Plan, we distribute approximately 15 percent of the company's pre-tax profits in the form of stock to approximately 30,000 managers. Management employees are offered additional incentives to hold and accumulate UPS stock. In addition, we have smaller stock option and restricted stock awards for approximately 10 percent of the management team.

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

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

Ethics and Compliance

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

— UPS Corporate Compliance Mission Statement

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

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

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

We use several tools to communicate compliance standards to employees. Our *Code of Business Conduct* has been translated into 29 languages and distributed worldwide. To view our *Code of Business Conduct*, please visit www.sustainability.ups.com. Employees around the globe have access to the UPS Help Line, a toll-free number they can call to ask advice or report concerns.

Several tools are in place to monitor the effectiveness of our compliance initiatives globally, including the UPS Business Ethics Questionnaire (BEQ), an annual compliance Report and Certification Process, and Regulatory Compliance Reviews.

- The BEQ audits and monitors compliance with the company's ethical responsibilities. More than 10,000 UPS managers are required to complete the BEQ on a regular basis. Results and subsequent investigations are reported to the Board of Directors' Audit Committee by the Corporate Compliance Officer.
- Senior level managers in all business units are required to complete an Annual Report and Certification Process regarding compliance activities in their areas of responsibility. Administered by the Corporate Compliance Department, the results of this process are reported to the Board of Directors' Audit Committee.
- The UPS Internal Audit Department conducts Regulatory Compliance Reviews to monitor the effectiveness of our regulatory programs to determine if we are operating in a manner consistent with our policies, procedures and legal requirements.



“I was able to make my part-time job work for me, developing my skills through cross training, and taking advantage of tuition reimbursement to earn my master’s degree. I also knew UPS had a policy of promoting from within, and, today, I help manage our business.”

— Addie Schroeder,
Small Business Account Executive



Opportunity and Diversity

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

— UPS Charter

With 360,000 employees and 8 million daily customers in more than 200 countries, equal opportunity is part of the social fabric at UPS. It reflects a mindset of inclusiveness, respect and cooperation — a core value that drives our relationships with employees, customers, suppliers and communities.

Promotion from within

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

- In 2002, 6,000 part-time employees advanced to full-time positions
- 50 percent of our current full-time drivers were once part-time employees.
- 72 percent of our full-time management employees were promoted from non-management positions.
- 75 percent of our vice president level employees started in non-management positions
- Nine of the 12 members of our Management Committee started in non-management positions.

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

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

The average UPS manager has been with the company 16 years and has held seven different jobs with the company.

Fair Treatment

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

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

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



- Our *Professional Conduct and Anti-Harassment Policy* prohibits harassment based on race, sex, national origin, disability, sexual orientation, age or religion. Training is provided to employees on this policy upon joining UPS.

2002 Year-End UPS Workforce Diversity in the United States

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

Women as a percentage of officials and managers = 25%

Minorities as a percentage of officials and managers = 28.2%

Asian = 3.4%

Black = 15.8%

Hispanic = 8.4%

Native American = 0.6%

Women on the Board of Directors = 25%

Minorities on the Board of Directors = 17%

Supplier Diversity

Formally launched in 1992, the UPS Supplier Diversity Program is committed to providing business opportunities to small, minority- and women-owned businesses — more than 25,000 businesses are part of the program. In 2002, we awarded more than \$400 million in contracts through this program.

While our commitment thus far has been significant, there is more to be done. We are currently working to improve the level of engagement in the Supplier Diversity Program throughout our business units worldwide. Since 2001, we have been part of an initiative sponsored by the National Minority Supplier Development Council (NMSDC) to establish programs in Europe, Canada and South America. Our Vice President of Supplier Diversity is a member of the NMSDC International Advisory Committee.

In-depth program information and applications are available online at www.community.ups.com.

Workforce Development

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

As we have expanded globally, we have learned it is best to have local people manage our operations. At the end of 2002, we had less than 40 expatriates out of 40,000 employees in our international package operations. This practice enables us to integrate our operations seamlessly into any culture or economy, while ensuring that we are sensitive to the cultural needs of the local workforce.

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

Part-Time

Part-time employees are a critical part of our workforce — 49 percent of our employees hold part-time positions. The nature of the package delivery business — alternating bursts of activity throughout the day — requires carriers like UPS to use part-time employees. While meeting the needs of the company, our part-time jobs also meet the needs of thousands of people, like students, retirees and others who want flexible hours, competitive wages and benefits.

Managing turnover in a large part-time workforce is a challenge industry-wide, and UPS shares that challenge. In 2002, turnover in our part-time workforce totaled 59.5 percent.

In order to address turnover in key locations, we provide education and development opportunities for our people. We offer a wide range of tuition assistance programs to help us recruit and retain college students. In the U.S., college students made up more than 50 percent of our new part-time hires in 2002. It's an ideal match — we pay for a significant amount of their college tuition plus an hourly wage and full benefits. Reducing turnover reduces hiring and training costs significantly, creating a worthwhile return on our tuition assistance investment.

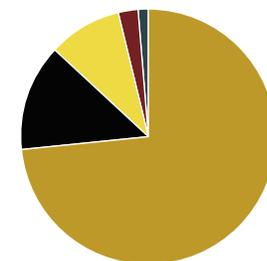
UPS 2002 Workforce

360,000 employees worldwide

U.S. = 320,000

International = 40,000

U.S. — Part-time Workforce

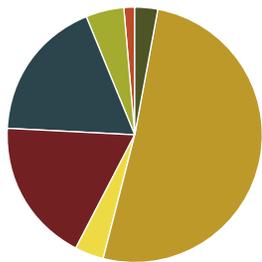


- = 130,000 Package Handlers
- = 24,000 Management
- = 17,000 Administrative & Clerical
- = 4,000 Drivers
- = 2,000 Other

177,000 Total



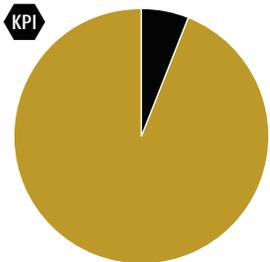
Global — Full-time Workforce



- = 94,000 Drivers
- = 7,000 Mechanics
- = 33,000 Administrative & Clerical
- = 33,000 Management
- = 9,000 Other
- = 2,000 Pilots
- = 5,000 Specialists

183,000 Total

Global — Full-time Workforce Retention and Turnover



- = 94% Retention
- = 6% Turnover

2007 Goal: Above 92 percent

Our average part-time employee in the U.S. is with us for more than three years before pursuing full-time opportunities within the company or pursuing opportunities elsewhere.

Since it began in 1999, the UPS Earn and Learn program has helped more than 38,000 part-time employees pay for their college education. Learn more at www.pressroom.ups.com.

Full-Time

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

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

2007 Goal:

To maintain a full-time workforce retention rate of greater than 92 percent. While our current retention level is higher, we know that attrition, acquisitions and market conditions will cause this number to fluctuate. Keeping retention at no less than 92 percent perpetuates organizational knowledge while also allowing for a steady influx of new talent and ideas. We will pursue the following strategies to accomplish this goal:

- Maintaining our culture of employee ownership
- Continuing focus on career development opportunities and promotion-from-within philosophy
- Responding to annual employee survey feedback
- Providing competitive compensation and benefits

Compensation and Benefits

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

In 2002, UPS ranked 8th on *MONEY* magazine's list of "Corporate America's Best Benefits." The magazine ranked *FORTUNE 200* companies based on defined contribution plans, like 401(k) and profit-sharing programs, defined benefit pension plans, health care options, vacations and stock options.

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

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

In 2002, we invested \$17.9 billion in our employees, which is 57 percent of total annual revenue of \$31.3 billion. This investment includes \$6 billion in indirect pay, including income protection, healthcare benefits and retirement plans. It also includes \$79 million in 401(k) SavingsPLUS stock matches.



Employee Feedback

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

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

Employee Opinion Survey

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

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

In 2002, the survey was administered globally, with 89 percent of employees participating.

2007 Goals:

To increase the global employee participation rate to 95 percent. It is important for every employee to have the opportunity to voice his or her opinion. Participation in the EOS will continue to be voluntary. We plan to achieve our goal of increased employee participation by:

- Focusing on employee communication
- Leveraging technology to ensure ease of use
- Responding effectively each year to concerns identified in the survey

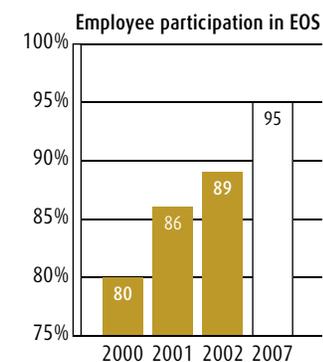
Employer of Choice Index

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

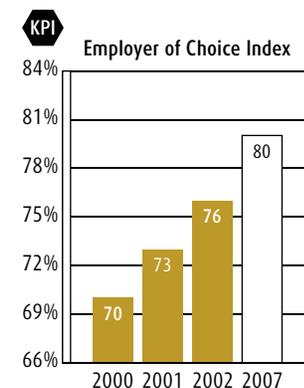
2007 Goal:

To achieve an 80 percent favorable rating among our employees. We will achieve our goal by:

- Implementing effective employee communication programs, including the continued development and execution of the employee web site worldwide
- Ensuring competitive compensation plans
- Focusing on career development opportunities
- Responding to work-life balance issues
- Providing effective new-hire training and job-specific training



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



Percentage of employees who view UPS as an employer of choice.



Feeding the homeless, repairing homes and tutoring inmates are not the activities you would typically find in a training course for senior level managers — except at UPS. Founded in 1968, the UPS Community Internship Program (CIP) is an intense one-month management training program designed to immerse upper management executives in the community, exposing them to a variety of social and economic challenges facing today's workforce. More than 1,200 senior managers have benefited from the experience.

Learn more about our Community Internship Program at www.community.ups.com

Health and Safety

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

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

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

— *The UPS Policy Book*

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

Even as we continue to increase the level of technological sophistication in our operations, the primary job of our employees is moving more than 13 million packages and documents each day. You are more likely to find a UPS employee driving a package car or sorting packages in a bustling hub, than behind a desk. Because of the physical nature of many of our jobs, safety is a significant challenge and a top priority. Therefore, we direct significant resources to train our people to avoid injuries and accidents.

Training

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

Operations

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

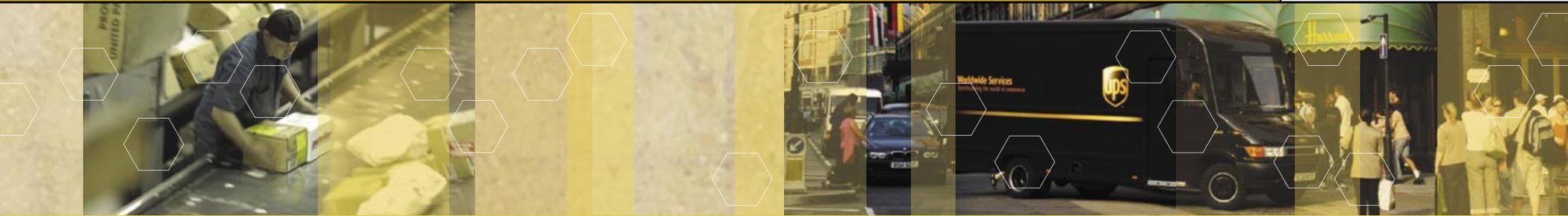
Despite our safety initiatives, controls and procedures, there were seven fatal employee accidents globally in 2002. All accidents require a substantive investigation to identify the root cause. The results of those investigations are used to examine what can be done to prevent accidents in the future.

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

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

Between 1996 and 2002, CHSP helped reduce lost workdays due to injuries by 57 percent.

- **Facility and equipment improvements:** Over the past five years, more than 40 individual design improvements have been made by UPS engineers to the company's buildings, vehicles and equipment. Some of these improvements include: the widening of the door in our delivery vehicles; the user-friendly design of hand trucks and handheld computers used by drivers; the layout of new buildings to include "no lift" work areas where packages are pushed or pulled instead of lifted. Some of these ideas came directly from drivers and package handlers through focus group meetings and CHSP committees.



- **Safe Driving:** UPS drivers are among the safest on the road. Our 94,000 drivers worldwide log more than two billion miles a year and average less than one accident per million miles driven. We have certified management trainers who educate drivers on an annual and periodic basis. UPS tractor-trailer drivers receive 80 hours of classroom and on-the-road training before operating equipment. Delivery drivers undergo an intensive six-day training program, including 20 hours of behind-the-wheel and classroom training, plus periodic training rides through their evaluation period. UPS drivers globally receive annual safety training rides and follow-up training in the event of an avoidable accident.

The foundation of our safe driving platform is space and visibility training that focuses on the Five Seeing Habits — proven safe driving methods that focus on avoiding potential accident scenarios versus reacting to them. Learn more about them at www.community.ups.com.

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

Two key performance indicators measure our progress in reducing injuries and accidents in our facilities and on the road: lost-time injuries per 200,000 employee hours and automotive accident frequency per 100,000 driver hours.

Lost-Time Injuries per 200,000 hours

This measurement reflects the injury rate per 200,000 hours on an annual basis. By reducing frequencies from 2000 to 2002 by 43 percent, we avoided more than 17,000 injuries to our people.

2007 Goal:

To reduce lost-time injury frequency to 3.2 globally, which equals a 49 percent reduction. We plan to achieve this goal by:

- Continued reinforcement and implementation of CHSP in our global operations

- Continued training on proper work methods
- Continued implementation of behavior-based safety training
- Continued automation of package sorting facilities

Automotive Accident Frequency per 100,000 driver hours

Since 2000, our frequency of accidents on the road has trended downward. This trend is due to an increased focus on refresher training for drivers and on certification courses for our trainers.

While many trucking companies measure their automotive accident frequency per million miles driven, UPS measures the frequency per 100,000 driver hours. Our drivers operate in very different conditions from long-haul truckers. We operate in heavily congested commercial and residential areas as well as in remote locations. Normalizing accident frequency per 100,000 hours of driver time more accurately reflects the nature of our operations.

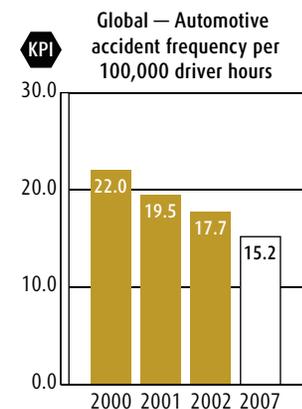
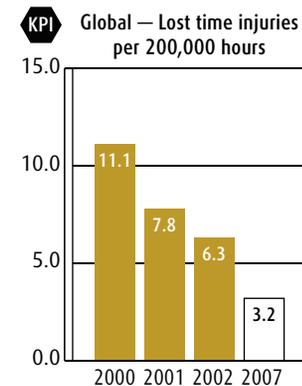
In addition, we report all accidents, not just those deemed reportable by the U.S. Department of Transportation.

2007 Goal:

To reduce automotive accident frequency worldwide to 15.2 per 100,000 driver hours by 2007. We plan to achieve this goal by:

- Global implementation of safe driving programs, including more on-road training
- Continued certification training of trainers
- Continued focus on the Five Seeing Habits
- Enhanced driver orientation training
- Global implementation of backing cameras

We recognize the achievements of our safe drivers through the **Circle of Honor**, which rewards UPS drivers who have achieved 25 years or more of safe driving. More than 3,191 drivers are members of this elite group. The company invests nearly \$5 million a year in awards to recognize safe drivers.





“The people of UPS have incredible innovative spirits. Together, we’ve developed and deployed safety and technology programs that have had industry-wide implications for safer and more efficient flight operations.”

— Bob Brown, Safety Chairman for Independent Pilot Association



UPS Airlines

Since gaining our airline operating certificate in 1988, UPS Airlines has maintained an impeccable safety record. Much of that safety record is due to our Flight Operational Quality Assurance (FOQA) program. Established in 1995, FOQA is a partnership between UPS Airlines and the Independent Pilots Association (IPA) to identify and prevent potential airline safety issues. UPS Airlines is the first cargo airline to have a FOQA program.

FOQA analysts from UPS and the IPA routinely collect and analyze digital flight data to identify events that fall outside normal operating parameters, as determined by UPS’s operational and training standards, as well as the manufacturer’s aircraft operating limitations.

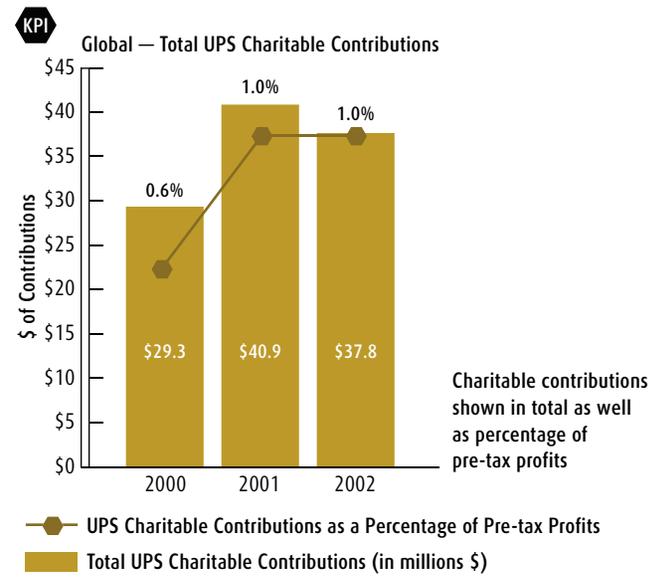
Community Engagement

The UPS Foundation

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

Because we provide service to homes and businesses in 200 countries and territories worldwide, we see the needs of communities very closely. Our experiences have shaped the company’s philanthropic approach profoundly. The desire to make a tangible difference in communities extends companywide, and drives our belief that dirt under our fingernails is just as important as writing a check. Grants and donations must be accompanied by employee volunteerism.

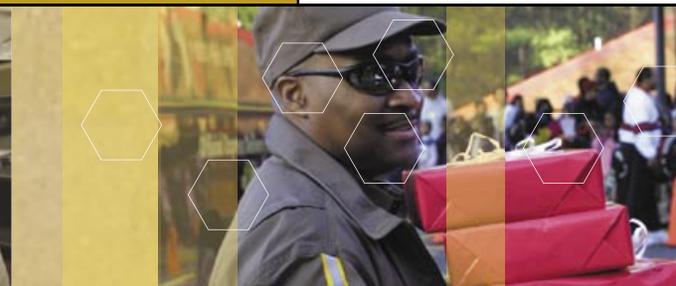
Developing a global philanthropy strategy is the most significant challenge facing the company in this area. As UPS has evolved into a global company, so too must The UPS Foundation. Although we currently provide global aid, our commitment is to begin implementation of a comprehensive strategy to direct our investments in the global community during 2004.



Community Investment Strategy

Annual reports for The UPS Foundation are available at www.community.ups.com.

To ensure that our contributions meet critical needs, as well as continuing to mirror the values of the company, The UPS Foundation is implementing a new investment strategy for its philanthropy. The strategy will be implemented over time. We will maintain support in our focus areas of hunger, literacy, and volunteerism, while leveraging the vast expertise of UPS people by employing four giving strategies: leadership, operations, sustainability and effective volunteerism.



Focus Areas

Hunger: Our support has historically focused on food rescue. Our plan is to serve as a catalyst addressing the broader issues within the anti-hunger and food distribution field.

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

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

Giving Strategies

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

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

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

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

Employee Volunteerism: Learn more about Neighbor to Neighbor, our employee volunteer program, at www.community.ups.com.

United Way

In 2002, United Way awarded UPS with the Spirit of America Award, the organization's highest honor for corporate involvement and commitment to building better communities. UPS supports United Way and its agencies throughout Canada, Mexico, Puerto Rico, and the United States.

Our 2002 contribution of \$53.3 million marked the second consecutive year in which UPS and its people surpassed \$50 million in an annual campaign — the first company to ever do so. More than 226,000 employees participated in the campaign, contributing \$44 million, and the company contributed approximately \$9.3 million.

Conclusion

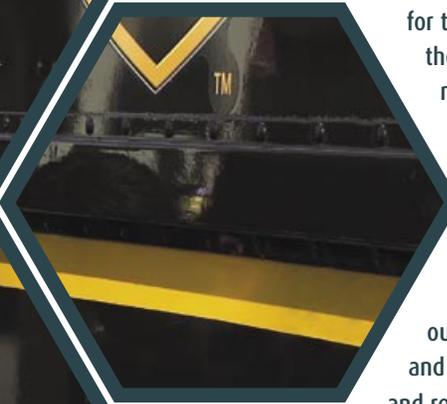
As our business continues to grow globally, we face many challenges, including preventing workplace injuries and reducing part-time turnover. However, UPS has been in business for nearly a century because we've backed our words with action and opportunities for employees, customers, suppliers and communities. Our strong culture and values will continue to guide our efforts as we develop plans to address each challenge to provide the most benefit to our stakeholders.

"Through the UPS Community Internship Program, I've learned new skills that will help me manage tough situations, and I feel that I have a better understanding of the challenges facing many of my employees. Living and working in Lower Manhattan for a month was an amazing experience, both personally and professionally."

— Flynn Bowen,
Community Relations Manager



Environmental



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

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

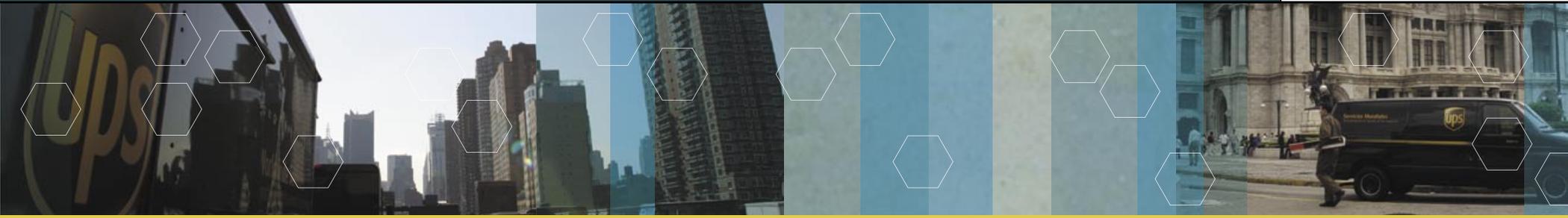
— *Environmental Policy Statement*

Greening the Supply Chain

As the world's largest package delivery company, UPS delivers more than 13 million packages daily.

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

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



With more than 88,000 vehicles, 2,850 facilities and as the 11th largest airline worldwide, UPS faces significant challenges to reduce environmental impact. We take those challenges seriously and have identified specific goals for the company. At the same time, we are working to advance new industry technologies to reduce emissions and conserve energy. Most importantly, environmental concerns are a core part of UPS's daily activities and engineering processes.

Fuel Use and Emissions

Managing greenhouse gas emissions is a business opportunity — one that can improve the bottom line, reduce our impact and our customers' impact on the environment and increase the long-term viability of our company. That's why we operate one of the world's largest fleets of alternative fuel vehicles, which includes over 1,800 compressed natural gas, liquefied natural gas, propane and hybrid electric vehicles.

Moving more than 13 million packages around the world each day requires operating a large ground and air fleet. Reducing emissions is a constant priority and challenge. Our long-term goal is to minimize dependence on fossil fuels by improving operational efficiencies and advancing new technologies. Our emissions reduction strategy includes reducing fuel consumption and deploying alternative fuel vehicles and low emissions vehicles.

Ground Fleet

To actively participate in advancing the development of future generations of delivery vehicles that reduce dependence on fossil fuels and significantly reduce fuel consumption and emissions.

— *Ground Fleet Strategy*

UPS's ground fleet strategy has two specific practical applications. In the short term, this strategy means that as older vehicles are retired, they are replaced with low emission, fuel efficient vehicles. In the long term, we are working towards reduced dependence on fossil fuels.

Using the year 2000 as a baseline, we have made significant progress in managing fuel consumption. Our success in this area is directly attributed to three factors: 1) the sophistication of our intermodal network, 2) implementation of new operational technologies and 3) deployment of fuel efficient technologies.

Ground Fleet Characteristics

Our practice is to buy low emission or ultra-low emission vehicles as defined by the U.S. Environmental Protection Agency (EPA). As of 2002, we operated 1,788 ultra low emission vehicles and 1,437 low emission vehicles throughout North America. That number will continue to rise as older delivery vehicles reach the end of their life cycles and are replaced. For instance, we recently added 1,800 DaimlerChrysler Sprinter delivery vans to our U.S. fleet. 750 Sprinters have been deployed in our Western Europe fleet for several years. These vans have twice the fuel economy of the vehicles they replaced.

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

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

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

In 2002 alone, UPS's fleet of over 1,800 alternative fuel vehicles traveled 13.9 million miles making deliveries to homes and businesses.



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

In 2003, UPS's Automotive Study Group redesigned the PMI for our delivery vehicles. The redesigned process is built around the individual characteristics of the delivery fleet, essentially giving each vehicle its own fingerprint. Through rigorous part testing, real-time duty cycle analysis and fleet-wide assessments, the Study Group developed a detailed matrix of vehicle characteristics, including engine type, vehicle group, miles driven, days of service and manufacturers' recommendations for oil changes and other types of engine service. This process allows us to better gauge how frequently a vehicle type needs an oil change. This effort will result in a net savings of 330,000 quarts of oil annually.

Alternative Fuel Fleet

In 2002 alone, UPS's fleet of over 1,800 alternative fuel vehicles traveled 13.9 million miles making deliveries to homes and businesses.

Fuel accounts for an average of three percent of our operating costs. We believe this is the lowest percentage in the industry, but it is still a significant cost that must be managed. We have a responsibility to our customers and shareowners to control and potentially reduce that cost.

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

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

Alternative Fuel Fleet Overview

Detailed information about our alternative fuel fleet is available at www.community.ups.com.

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

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

Hybrid Electric Vehicles: UPS was the first package delivery company to introduce a hybrid electric vehicle (HEV) into daily operations. We have been researching and testing HEV technology since early 1998. In 2000, we deployed a hybrid electric vehicle in our Huntsville, Ala. operations on a 31-mile route, making 150 pickups and deliveries each day. HEV technology offers significant potential to dramatically decrease emissions and fuel consumption by primarily operating on batteries and electric drive motors.

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

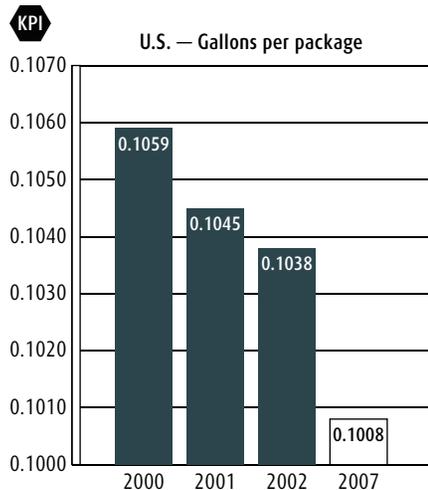
Fuel Cell Vehicles: UPS began running a DaimlerChrysler Sprinter fuel cell vehicle in Stuttgart, Germany in October 2003. In addition, we have a unique alliance with the EPA and DaimlerChrysler to test North America's first medium-duty fuel cell vehicles in a delivery fleet. DaimlerChrysler will



supply the fuel cell vehicles for UPS, while the EPA will supply a hydrogen refueling station at its national fuel emissions laboratory in Ann Arbor, Mich. The fueling station will be operational by late 2003 and will provide compressed hydrogen fuel to the UPS Sprinter fuel cell vehicles, which will be deployed in early 2004. Fuel cells work by converting energy into electricity without combustion. Water vapor and heat are the only emissions produced.

Fuel Consumption

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



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

2007 Goal:

To decrease gallons per package to 0.1008. We will achieve this goal through:

- Vehicle innovations
- Continued use of intermodal options
- Improved operational practices through technology advances

Diesel

We realize that diesel emissions are a source of concern. However, manufacturers have made significant improvements in diesel engines and the fuel itself over the past 20 years. In addition to improvements made in the industry, we remain focused on reducing diesel emissions through practical operational strategies and methods:

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

Solutions to greenhouse gases and carbon dioxide pollution depend on business, government, academia and nongovernmental organizations working together in the research and development of new technologies. Through involvement in the 21st Century Truck Partnership, U.S. EPA SmartWay Transport Program and Business for Social Responsibility’s Green Freight Working Group, UPS is working toward solutions to reduce pollution and greenhouse gas emissions from ground freight carriers.



Air Fleet

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

— Air Fleet Strategy

Aircraft Noise

UPS operates the 11th largest airline in the world, and we continue to lead the industry in deploying noise and emission reduction technologies. Our strategy for purchasing aircraft focuses on managing operational costs and ensuring landing rights around the world by flying a quiet, fuel efficient and low emission fleet. This strategy has resulted in a fleet that meets and exceeds the noise and emission reduction regulations established by the International Civil Aviation Organization (ICAO.)

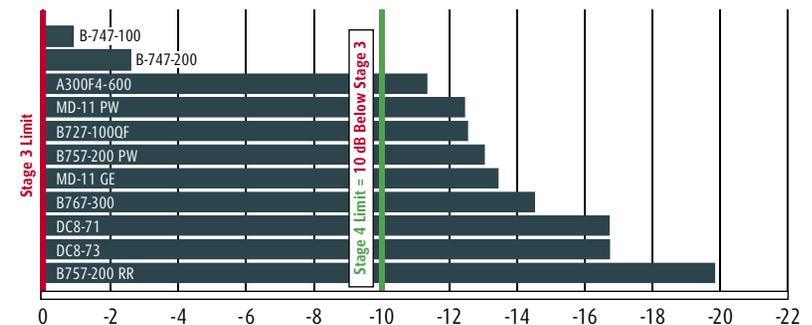
We have consistently pursued a “beyond compliance” strategy to ensure a quiet and highly fuel efficient air fleet. Instead of installing hush kits on our engines, a low-cost, short-term solution to ICAO’s noise regulations in the mid-1990s, we replaced 100 percent of the engines in our 727-100 and DC-8 jet freighter fleet.

We still lead the industry in this area today. ICAO’s new regulation applies a higher noise standard for aircraft types built after 2006. UPS, however, is voluntarily applying the standard to its entire fleet — 100 percent of the aircraft we operate in Europe and 92 percent of our total fleet meet this standard today.

2007 Goal:

To have 97 percent of our total aircraft fleet meet ICAO’s 2006 guidelines for new aircraft.

KPI Global — UPS Compliance with ICAO’s Noise Regulations



UPS aircraft noise characteristics versus Stage 3 (required Dec. 1999) and Stage 4 ICAO requirements (required 2006 for newly certified aircraft) UPS achieved Stage 3 compliance in Feb. 1997.

We will continue to exceed ICAO’s guidelines by:

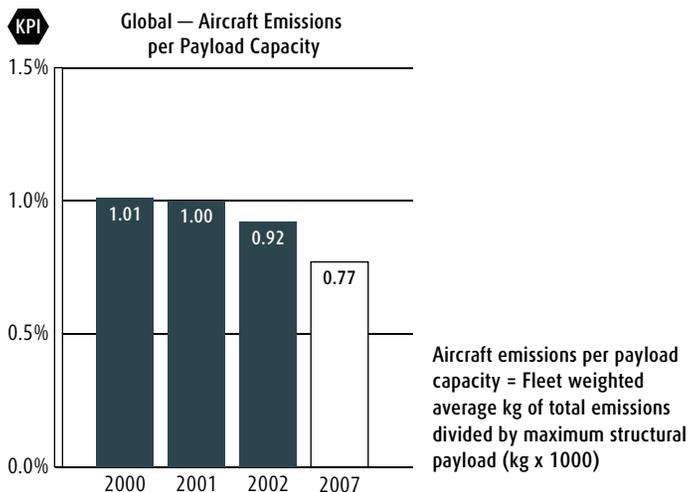
- Acquiring more efficient aircraft.
- Retiring older 747s.

Our long term investment approach allows us to reduce cost through significant fuel efficiency gains and minimized aircraft noise. UPS operates the quietest, cleanest fleet in the air express industry.

For more details about UPS’s jet aircraft fleet, visit the UPS Pressroom at www.pressroom.ups.com.

Aircraft Emissions

Our aircraft engineers developed a measurement that links the amount of emissions produced by our aircraft with the number of packages the fleet can carry. In 2002, UPS had 0.92 kilograms of aircraft emissions per 1,000 kilograms of payload capacity (the maximum weight a plane can safely carry.) The positive trend reflects the increasing role that modern, efficient aircraft play in our airline operations.



2007 Goal:
To improve aircraft emissions per payload capacity to 0.77. We will achieve this goal by:

- Acquiring more efficient aircraft.
- Retiring older 727s and 747s.
- Continuing efficiency improvements in airline operating procedures.

Energy

We manage our facility needs to obtain the highest energy efficiencies for existing facilities, new construction and equipment replacement. We also seek to be on the forefront of developing technologies which may decrease our dependence on fossil fuels in the future.

— Corporate Energy Mission Statement

Because UPS operates nearly 2,850 facilities worldwide to sort millions of packages daily, we invest significant resources to reduce energy use. UPS faces many challenges in reducing energy consumption and seeks new technologies to address the issue.

Energy Consumption

Our energy consumption in the United States is comprised of stationary sources of energy (electricity, natural gas, propane and heating oil) and mobile sources of energy (gasoline, diesel, jet A, and compressed natural gas.)

KPI

U.S. — 2002 Energy Consumed in Package Operations - Absolute	
UPS Total Energy Consumption	88.41 million Gigajoules

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

Energy Conservation Initiatives

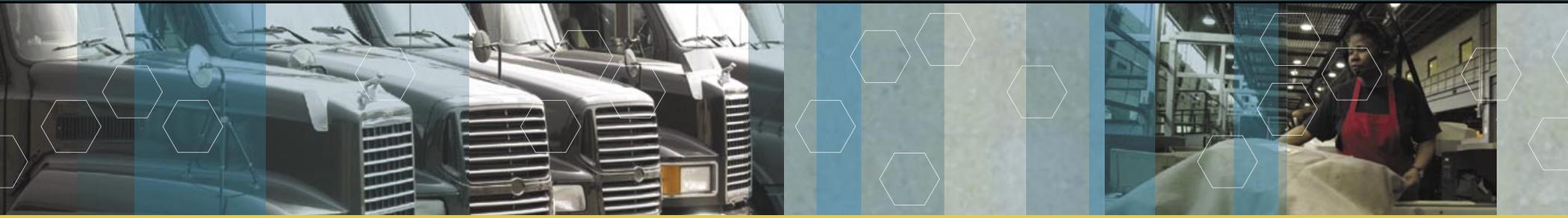
Energy conservation initiatives range from lighting upgrades to implementing alternate sources of energy, like solar and wind power.

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

UPS Solar Project In 2003, more than 800 solar panels were installed at our Palm Springs facility to capture light from the sun and turn that light directly into electricity. The panels occupy an area the size of a football field on the roof of the facility. Their use will decrease CO₂ emissions by approximately 257,000 pounds annually.

This system will be a testing ground for learning how to develop a facility that produces and operates on clean, renewable energy in both its sorting and delivery operations. This project will provide engineering insight and practical experience in solar technology. It will also be used to perform an economic evaluation of the functional application of this technology.

Visit www.community.ups.com for more details about the project.



UPS is a charter partner in the U.S. Environmental Protection Agency's (EPA) SmartWay Transport Program, which recognizes top environmental performers in the freight industry. SmartWay captures the benefits of applying fuel efficient strategies over time, as compared to an identical hypothetical fleet that does not. Output from the EPA

Freight Logistics Energy & Environmental Tracking Model (FLEET model) indicates that UPS has reduced CO₂ output by 55.6 percent or 67 million tons.

This voluntary partnership between industry and the EPA establishes incentives for fuel efficiency improvements and greenhouse gas emissions reductions. SmartWay's goal by 2012 is to reduce annually between 36 -72 million tons of carbon dioxide (CO₂) emissions and 200,000 tons of nitrogen oxide (NO_x) emissions. The initiative will also produce fuel savings of up to 150 million barrels of oil annually.

Learn more about SmartWay at www.community.ups.com or www.epa.gov/smartway.

Greenhouse Gas Emissions

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

With 2002 as our baseline year for measurement purposes, UPS's carbon footprint is comprised of stationary sources of energy (electricity, natural gas, propane and heating oil) and mobile sources of energy (gasoline, diesel, jet A, and compressed natural gas.) It is expressed in million metric tons of CO₂ emissions.

KPI U.S. — 2002 CO ₂ Emissions - Absolute	
Total CO ₂ emissions from UPS U.S. operations	6.59 million metric tons
U.S. — 2002 CO ₂ Emissions - Normalized Per piece and per revenue dollar	
CO ₂ emissions per 1,000 Packages	2.16 metric tons
CO ₂ emissions per \$100,000 revenue	23.01 metric tons

Emissions Reduction Strategy

Please refer to previous sections about our air and ground fleet for more information. Following is an overview of emissions reduction strategies:

- Increase fuel efficiency of vehicles and aircraft
- Support and maintain current alternative fuel fleet
- Focus on new fleet technologies such as hybrid electric vehicles and hydrogen fuel cell vehicles
- Focus on new technologies for our facilities including solar, wind and distributed power
- Focus on energy conservation in facilities

- Implement operational technologies that improve efficiency and reduce miles driven
- Continue to take advantage of our integrated network and intermodal capabilities

Recycling & Waste Management

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

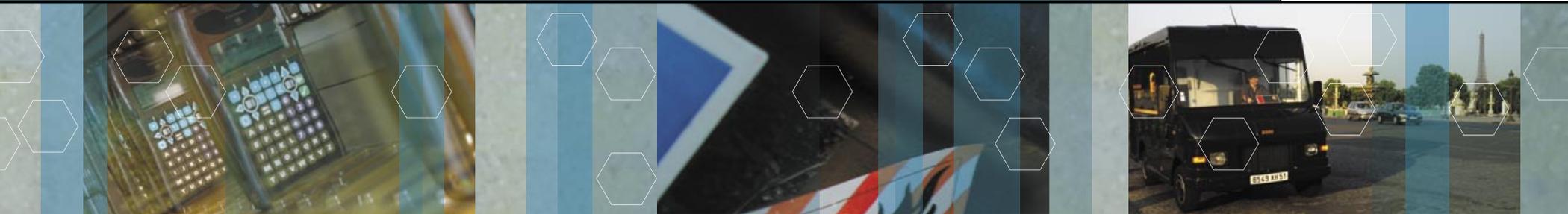
Recycling and Source Reduction

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

Electronic Waste Recycling: Outdated or defective computer equipment, or "e-waste," is fast becoming a significant global problem. Tens of millions of computers become obsolete every year and less than 10 percent are collected for recycling, with the rest of them stored in homes and offices or disposed in landfills. Computers contain toxic chemicals and plastics that must be properly disposed.

UPS's e-waste recycling program ensures that our electronic equipment is refurbished or disposed of properly. Since 2000, we have recycled more than 6.3 million pounds of electronic equipment.

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



Reusable bags: In 2002 we used more than 2.1 million reusable bags in the U.S. and Germany to bundle and sort small packages within our system. Each reusable bag eliminates the need for more than 600 plastic bags. Since the program's beginning in 1994, our reusable bags have prevented more than 21,000 tons of plastic from entering landfills.

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

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

Corporate Office Recycling Program: In 2002, 56 percent of waste produced by our corporate office was recycled, including paper, cardboard, lamps and ballasts. Since 2000, we have reduced wastes by 40 pounds per person at this location.

Delivery Information Acquisition Device (DIAD): The DIAD is a hand-held computer that our drivers carry to electronically record delivery information, including recipient signature. The DIAD eliminates the use of 59 million sheets of paper each year. Currently, UPS drivers in 43 countries, including the U.S., Canada, Mexico, China, Japan and most of Western Europe use the DIAD.

Hazardous and Nonhazardous Wastes

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

Hazardous wastes are managed through select vendors to ensure responsible disposal. We audit our vendors with third-party consultants on a regular basis to ensure compliance and proper management of wastes. In 2002, UPS's operating facilities in the U.S. generated 539 tons of hazardous waste.

2007 Goals:

- To ensure the consistent, responsible management of hazardous and nonhazardous wastes.
- To reduce the amount of hazardous waste generated by our operations through recycling and source reduction initiatives.

Water Consumption and Conservation

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

UPS consumes 1.75 billion gallons of water each year in its facilities, maintenance operations and vehicle washing operations. We are committed to researching and implementing conservation initiatives.

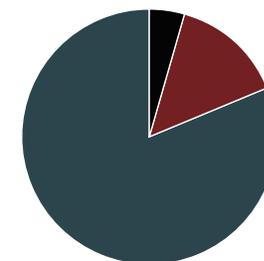


U.S. — 2002 Water Consumption in Package Operations - Absolute	
UPS Total water used	6.63 million meters ³

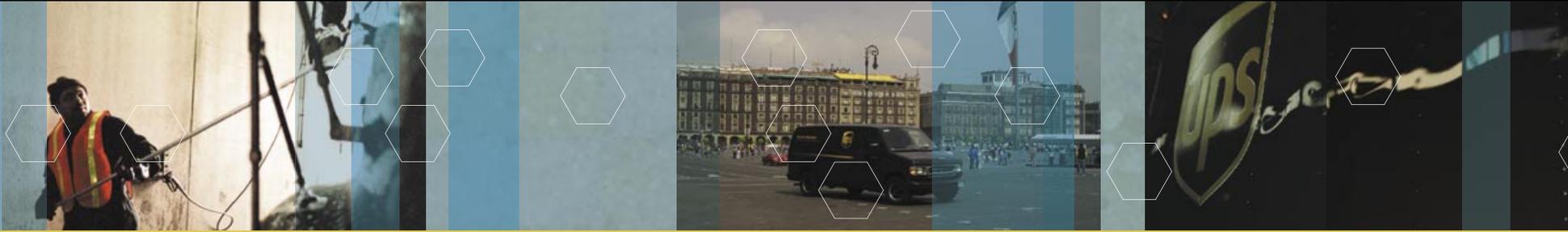
U.S. — 2002 Water Consumption in Package Operations - Normalized	
Water Consumption per 1,000 Packages	2.17 meters ³
Water Consumption per \$ of Revenue (in '000)	.231 meters ³

It is a long-held UPS tradition to operate clean delivery vehicles on the streets — that shiny brown truck has become an icon symbolizing commerce. While the appearance of our vehicles remains a top priority, we have identified the washing process as an area where we aim to reduce the amount of water we use.

U.S. — 2002 Hazardous Waste Management Methods



Total of 539 tons
 ■ = 438 Incinerated
 ■ = 77 Recycled
 ■ = 24 Treated & Land-filled



Vehicle Washing Policy: In 1995, we changed our policy for washing delivery vehicles, saving 365 million gallons of water annually. Instead of washing them every day, we wash them as needed to maintain their appearance.

Water reclamation systems: 24 UPS facilities have wash tunnels equipped with active systems to reclaim water for reuse.

Vehicle Wash Agent (VWA): In 2003, UPS began new procedures for washing our vehicles that incorporate an environmentally friendly enzyme wash agent that has the following benefits:

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

Environmental Management System

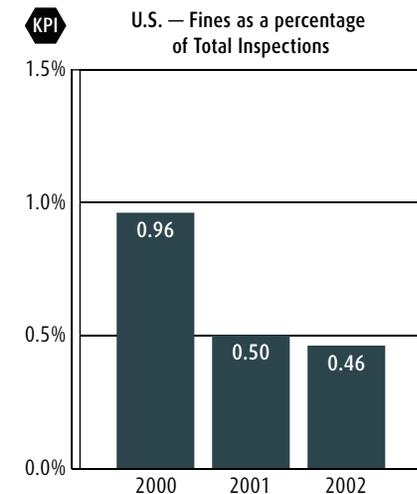
Patterned after the ISO 14001 standard, UPS's environmental management system provides guidance to our plant engineering staff regarding their responsibilities for regulatory compliance and waste minimization programs. We have 440 employees whose responsibilities include carrying out our environmental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

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

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

Agency Environmental Inspections

In 2002, U.S. federal and state environmental agencies conducted 433 inspections at UPS facilities. Only two of those inspections resulted in fines, totaling \$6,100. This measurement is a snapshot of our past performance. While the number of inspections is controlled by federal and state agencies, the extremely low number of fines is a direct reflection of the quality of our environmental management system.



Underground Storage Tanks

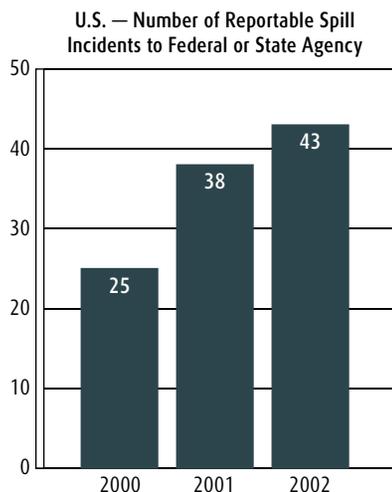
To comply with EPA regulations set forth in 1988, UPS removed, replaced or upgraded all of our underground storage tanks two years before the deadline at a cost of more than \$100 million. Today, we have approximately 1,135 total gas and diesel tanks in the U.S. These tanks utilize extensive protective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



Incidental Spills

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

We have a “zero spill” objective in our operations, which is an aggressive goal for a company delivering 13 million packages daily with 88,000 vehicles. In 2002, UPS had 43 reportable spills totaling 1,548 gallons. As the breakdown to the right indicates, 70 percent are from vehicle accidents.



2007 Goals:

- Reduce auto accidents (see Safety section on page 23 for more.)
- Maintain environmental management controls.
- Reduce improperly packaged items by educating customers on proper packaging techniques.

Aircraft Deicing Runoff

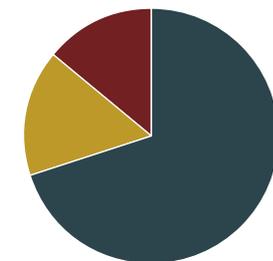
In inclement weather conditions, airlines are required to use deicing fluids to ensure that planes are safe to fly. UPS carefully manages the runoff generated by these fluids, from capturing and recycling the fluids to routing runoff to publicly owned water treatment facilities for proper treatment.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

Conclusion

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

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

U.S. — Breakdown of 2002 Spill Incidents by Type



- = 70% Vehicular Accidents
- = 63% Accidents
- = 23% Equipment Failure
- = 13% Road Debris
- = 1% Other
- = 16% Damaged Packages
- = 14% Other

The Future



Our horizon is as distant as our mind's eye wishes it to be.

— Jim Casey, UPS Founder, 1954

Significant advances in technology, globalization and consumerism over the past several years have brought all businesses to a new age of commerce.

To date, the supply chain has generally been managed in a linear fashion, where the movement of goods, information and funds are at best loosely connected disciplines. The emerging practice of “synchronizing commerce” is creating a \$3.2 trillion marketplace in which goods, information and funds flow with speed, precision, security and efficiency.

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

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

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

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

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

Economic

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

Social

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

Environmental

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

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

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

Awards and Recognition

For a complete listing, please visit the UPS Pressroom, www.pressroom.ups.com.

Business Excellence

- UPS included in the Dow Jones Sustainability World Index, 2002 and 2003
- *iSource Business* magazine readers name UPS Supply Chain Solutions as a company whose customer-driven solutions and services set them apart from the competition, 2003
- *FORTUNE* magazine names UPS “World’s Most Admired” company in its industry for fourth consecutive year, 2003
- *FORTUNE* magazine names UPS as “America’s Most Admired” company in its industry for the 20th consecutive year, 2003
- UPS receives the inaugural American Business Award for “Most Innovative Company” for the technological advancements of its WorldportSM global air hub in Louisville, KY, U.S.A., 2003
- UPS Supply Chain Solutions wins *World Trade* magazine’s Supply Chain Technology Innovation Award, 2003
- UPS named best logistics company in *Global Finance* magazine’s “World’s Best Companies,” 2002
- Georgia Minority Supplier Development Council names UPS “Corporation of the Year,” 2002
- Women’s Business Enterprise National Council names UPS among America’s Top Corporations for Women Business Enterprises, 2002
- *Business Mexico* magazine names UPS one of Mexico’s 50 Most Prestigious Companies, citing UPS’s leadership in e-commerce, 2002

Environment

- The State of Pennsylvania recognizes UPS with the Governor’s Award for Environmental Excellence in the Resource Protection category, 2003

- The City of Santa Cruz, California recognizes UPS as a “Clean Ocean Business,” for the company’s efforts to help protect water and wildlife from pollution, 2002
- The Environmental Careers Organization honors UPS with the Excellence in Diversity and Environmental Stewardship Award, 2000
- The State of California and the Environmental Protection Agency award UPS the Waste Reduction Awards Program (WRAP) Award for its efforts to reduce nonhazardous waste and send less garbage to landfills, 2000
- The National Paperboard Packaging Council recognizes UPS with the 1998 Excellence Award for the development of the Reusable Next Day Air Envelope, 1998

Employer of Choice and Corporate Citizenship

- *Computerworld* ranks UPS 20th in 100 Best Places to Work in I.T., 2003
- UPS named to *FORTUNE* magazine’s “50 Best Companies for Minorities” list for fifth straight year, 2003
- Hewitt Associates Inc. in partnership with *The Asian Wall Street Journal* and the *Far Eastern Economic Review* ranks UPS Taiwan 10th in the “Best Employers in Asia” list, 2003
- UPS is named “Corporation of the Year” by the Native American Business Alliance, 2003
- *Hispanic* magazine features UPS on Corporate 100 list for its efforts to provide opportunities to Hispanic employees and suppliers, 2001
- The National Association for the Advancement of Colored People (NAACP) awards UPS with Corporate Citizen of the Year Award, 2002
- UPS wins first Organization of Chinese Americans (OCA) Outstanding Corporate Partner Award, 2001
- UPS wins the Ron Brown Award for Corporate Leadership for its leadership efforts on welfare to work issues, 2001
- *Worth* magazine names UPS to its list of The Fifty Companies that Gave the Most, 2001



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The Paper

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Astrolite PC 100SM Cover

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Astrolite PC 100SM Text

Recycled Brilliant White, Smooth / 100 lb. (148 g/m²)

The paper used in this report is one of the most environmentally friendly substrates available for commercial printing use. It is made of 100 percent post-consumer waste fiber. The paper is alkaline pH and Calcium Carbonate. It meets ANSI standards for longevity and archival properties. No Chlorine or Chlorine derivatives are used in pulping the waste fiber or in the papermaking process. All recycled fibers are secondary bleached via a *Totally Chlorine Free* (TCF) process.

The Inks

Flint Inks

4 Color Process

Vegetable oils are renewable resources, which are the foundation of Flint's product line. The sheet fed inks used in this report are oxidizing and polymerizing inks that require good film formation and drying oil in order to properly catalyze. These oils are comprised of linseed and soy which are 100 percent solid and do not emit any *Volatile Organic Compound* (VOC). This helps create a more recyclable product for the environment.

Flint Ink pigments are also low in heavy metal content. Flint owns its own pigment company, which makes it much easier to control the formulation of their pigments and resins that go into the products. Metals like arsenic, lead, cadmium, and barium are just a few that Flint controls to the lowest limits possible.