



United Parcel Service, Inc.

£500,000,000

5.5 per cent. Notes due 2031

**issued under the United Parcel Service, Inc.
U.S.\$1,000,000,000 Euro Medium-Term Note Program**

United Parcel Service, Inc. ("we" or "UPS") is offering £500,000,000 of its 5.5 per cent. Notes due 2031 (the "Notes"). The Notes will mature at par on 12 February 2031. The Notes will bear interest at the rate of 5.5 per cent. per annum, payable semi-annually in arrears on 12 February and 12 August of each year, commencing 12 August 2001.

This Supplementary Offering Circular is prepared in conjunction with the United Parcel Service, Inc. U.S.\$1,000,000,000 Euro Medium-Term Note Program for the Issuance of Notes (the "Program") and is supplemental to and should be read in conjunction with the Offering Circular dated 12 September 2000 attached hereto (the "Offering Circular"). When used below and in the Offering Circular, the terms "herein" and "this Offering Circular" shall mean this Supplementary Offering Circular together with the Offering Circular, both of which together comprise listing particulars. Unless otherwise indicated, terms defined in the Offering Circular have the same meaning when used in this Supplementary Offering Circular.

The Notes will initially be represented by a single temporary global Note that will be deposited on the issue date with a common depository on behalf of Euroclear Bank, as operator of the Euroclear System ("Euroclear") and Clearstream Banking, société anonyme ("Clearstream, Luxembourg"). Beneficial interests in the temporary global Note will be exchangeable for beneficial interests in a permanent global Note upon certification as to non-U.S. beneficial ownership as required by U.S. Treasury Regulations. Thereafter, the permanent global Note may be exchanged in whole but not in part for definitive Notes upon request. Beneficial interests in the temporary and permanent global Notes will be exchangeable only in the manner and upon compliance with the procedures described in "Form of the Notes" in the Offering Circular. The temporary and permanent global Notes and definitive Notes will be issued in bearer form only.

Issue Price: 99.028 per cent.

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act"), and are subject to United States tax law requirements. Subject to certain exceptions, Notes may not be offered, sold or delivered within the United States or to or for the account or benefit of U.S. persons (as such terms are defined in Regulation S under the Securities Act).

Application has been made to list the Notes on the Luxembourg Stock Exchange.

Goldman Sachs International

**Credit Suisse First Boston Morgan Stanley Dean Witter UBS Warburg
Barclays Capital**

The date of this Supplementary Offering Circular is 8 February 2001.

UPS has taken all reasonable care to ensure that the facts stated in this Offering Circular in relation to UPS and the Notes are true and accurate in all material respects and that there are no other material facts the omission of which would make misleading any statement herein. UPS accepts responsibility accordingly.

The Dealers have not separately verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility is accepted by the Dealers as to the accuracy or completeness of the information contained in this Offering Circular or any other information provided by UPS in connection with the Notes. The Dealers do not accept any liability with respect to any purchaser in relation to the information contained in this Offering Circular or any other information provided by UPS in connection with the Program.

No person has been authorized to give any information or to make any representation not contained in or not consistent with this Offering Circular or any other information supplied in connection with the Program or the Notes and, if given or made, such information or representation must not be relied upon as having been authorized by UPS or any of the Dealers.

Neither this Offering Circular nor any other information supplied in connection with the Program or the Notes is intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by UPS or the Dealers that any recipient of this Offering Circular or any other information supplied in connection with the Notes should purchase any of the Notes. Each investor contemplating purchasing any of the Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of UPS. Neither this Offering Circular nor any other information supplied in connection with the Notes constitutes an offer or invitation by or on behalf of UPS or the Dealers to any person to purchase any of the Notes.

The delivery of this Offering Circular does not at any time imply that the information contained herein is correct at any time subsequent to the date hereof or, if earlier, the date as of which specific information is provided, or that any other information supplied in connection with the Notes is correct as of any time subsequent to the date indicated in the document containing that information. The Dealers expressly do not undertake to review the financial condition or affairs of UPS and its subsidiaries during the life of the Program. Investors should review, *inter alia*, the most recent financial statements of UPS when deciding whether or not to purchase any of the Notes.

In the Offering Circular, references to "\$", "U.S.\$" and "U.S. Dollars" are to United States dollars and references to "Sterling" and "£" are to United Kingdom pounds sterling.

IN CONNECTION WITH THIS ISSUE, GOLDMAN SACHS INTERNATIONAL MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE NOTES AT A LEVEL WHICH MIGHT NOT OTHERWISE PREVAIL. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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SELECTED FINANCIAL DATA

The following table sets forth selected financial information for UPS for the periods indicated. The financial information is derived from UPS's audited financial statements for each year in the five-year period ended December 31, 1999⁽¹⁾. The financial information for the nine months ended September 30, 2000 and 1999 is derived from UPS's unaudited financial statements. The results of operations for the nine months ended September 30, 2000 are not necessarily indicative of results to be expected for the full year. The following financial information should be read in conjunction with UPS's Consolidated Financial Statements and the notes thereto, Management's Discussion and Analysis of Financial Condition and Results of Operations and other financial data appearing in UPS's Annual Report on Form 10-K for the fiscal year ended December 31, 1999 and UPS's Quarterly Report on Form 10-Q for the quarter ended September 30, 2000.

	Year Ended December 31,					Nine Months Ended September 30,	
	1999	1998	1997	1996	1995	2000	1999
						(unaudited)	
	(In U.S.\$ millions except per share amounts)						
SELECTED INCOME STATEMENT DATA							
Revenue:							
U.S. domestic package	\$22,313	\$20,650	\$18,868	\$18,881	\$17,773	\$17,659	\$16,239
International package	3,730	3,399	3,067	3,074	2,958	3,074	2,702
Non-package	1,009	739	523	413	314	1,138	665
Total revenue	27,052	24,788	22,458	22,368	21,045	21,871	19,606
Operating expenses:							
Compensation and benefits	15,285	14,346	13,289	13,326	12,401	12,189	11,226
Other	7,779	7,352	7,471	7,013	6,478	6,274	5,522
Restructuring charge	—	—	—	—	372	—	—
Total operating expenses	23,064	21,698	20,760	20,339	19,251	18,463	16,748
Operating profit (loss):							
U.S. domestic package	3,568	2,899	1,654	2,181	1,937	2,954	2,603
International package	252	56	(67)	(281)	(250)	207	170
Non-package	168	135	111	129	107	247	85
Total operating profit	3,988	3,090	1,698	2,029	1,794	3,408	2,858
Other income (expense):							
Investment income	177	84	70	39	26	466	115
Interest expense	(228)	(227)	(187)	(95)	(77)	(158)	(170)
Tax assessment	(1,786)	—	—	—	—	—	(1,786)
Miscellaneous, net	(63)	(45)	(28)	(63)	(35)	(32)	(30)
Income before income taxes	2,088	2,902	1,553	1,910	1,708	3,684	987
Income taxes	1,205	1,161	644	764	665	1,474	765
Net income	\$ 883	\$ 1,741	\$ 909	\$ 1,146	\$ 1,043	\$ 2,210	\$ 222
Per share amounts:							
Basic earnings per share	\$ 0.79	\$ 1.59	\$ 0.82	\$ 1.03	\$ 0.93	\$ 1.91	\$ 0.20
Diluted earnings per share	\$ 0.77	\$ 1.57	\$ 0.81	\$ 1.01	\$ 0.92	\$ 1.87	\$ 0.20
Dividends declared per share	\$ 0.58	\$ 0.43	\$ 0.35	\$ 0.34	\$ 0.32	\$ 0.51	\$ 0.275
Weighted Average Shares Outstanding:							
Basic	1,121	1,093	1,103	1,114	1,118	1,158	1,107
Diluted	1,141	1,108	1,116	1,129	1,131	1,181	1,126
As Adjusted Net Income Data:							
Net income before impact of tax assessment in 1999	\$ 2,325	\$ 1,741	\$ 909	\$ 1,146	\$ 1,043	2,210	1,664
As a percentage of revenue	8.6%	7.0%	4.0%	5.1%	5.0%	10.1%	8.5%
Basic earnings per share	\$ 2.07	\$ 1.59	\$ 0.82	\$ 1.03	\$ 0.93	\$ 1.91	\$ 1.50
Diluted earnings per share	\$ 2.04	\$ 1.57	\$ 0.81	\$ 1.01	\$ 0.92	\$ 1.87	\$ 1.48

	As of December 31,					As of
	1999	1998	1997	1996	1995	September 30,
						2000
						(unaudited)
	(In U.S.\$ millions)					
SELECTED BALANCE SHEET DATA						
Working capital	\$ 6,940	\$ 1,708	\$ 1,079	\$ 1,097	\$ 261	\$ 3,488
Long-term debt	1,912	2,191	2,583	2,573	1,729	2,052
Total assets	23,043	17,067	15,912	14,954	12,645	21,412
Shareowners equity	12,474	7,173	6,087	5,901	5,151	9,266

- (1) Certain financial information for the years ended December 31, 1995, 1996, 1997 and 1998 has been retroactively restated to give effect to the November 1999 merger in which United Parcel Service of America, Inc. became a wholly owned subsidiary of UPS.

RATIO OF EARNINGS TO FIXED CHARGES

The following table sets forth UPS's consolidated ratio of earnings to fixed charges for the periods indicated.

	Year Ended December 31,					Nine Months Ended	
	1999	1998	1997	1996	1995	September 30, 2000	1999
						(unaudited)	
Ratio of earnings to fixed charges ⁽¹⁾	6.7	8.9	4.9	8.2	7.6	15.4	4.7

- (1) For purposes of calculating the ratio of earnings to fixed charges, earnings is defined as income before income taxes and fixed charges (excluding capitalized interest). Fixed charges include interest (whether capitalized or expensed), amortization of debt expense and any discount or premium relating to any indebtedness (whether capitalized or expensed) and the portion of rent expense considered to represent interest.

CAPITALIZATION

The following table sets forth the capitalization of UPS as of September 30, 2000. The following financial information should be read in conjunction with UPS's Consolidated Financial Statements and the notes thereto, Management's Discussion and Analysis of Financial Condition and Results of Operations and other financial data appearing in UPS's Annual Report on Form 10-K for the fiscal year ended December 31, 1999 and UPS's Quarterly Report on Form 10-Q for the quarter ended September 30, 2000.

	September 30, 2000
	(in U.S.\$ millions, except share data)
Debt:	
Current maturities of long-term debt	\$ 263
Long-term debt	2,052
Total debt	<u>2,315</u>
Shareowners' Equity:	
Preferred stock: no par value; 200,000,000 shares authorized; no shares issued . .	—
Class A common stock: \$.01 par value; 4,600,000,000 shares authorized; 988,395,928 shares issued	10
Class B common stock: \$.01 par value; 5,600,000,000 shares authorized; 146,553,441 shares issued	1
Additional paid-in capital	345
Retained earnings	9,152
Accumulated other comprehensive loss	<u>(242)</u>
Total shareowners' equity	<u>9,266</u>
Total capitalization	<u><u>\$11,581</u></u>

Other than as set forth in this Offering Circular, there has been no material change in the consolidated capitalization of UPS since September 30, 2000.

BUSINESS

Overview

We are the world's largest express carrier, the world's largest package delivery company and a leading global provider of specialized transportation and logistics services. We were founded in 1907 to provide private messenger and delivery services in the Seattle, Washington area. Over the past 93 years, we have expanded our small regional parcel delivery service into a global company. We deliver packages each business day for 1.8 million shipping customers to six million consignees. In 1999, we delivered an average of more than 12.9 million pieces per day worldwide, generating revenue of over U.S.\$27 billion.

Our primary business is the time-definite delivery of packages and documents throughout the United States and in over 200 other countries and territories. We have established a vast and reliable global transportation infrastructure, developed a comprehensive, competitive and guaranteed portfolio of services and consistently support these services with advanced technology. We provide logistics services, including integrated supply chain management, for major companies worldwide and we serve each of the Fortune 1000 companies. We believe we are the industry leader in the delivery of goods purchased over the Internet. We seek to position ourselves as an indispensable branded component of e-commerce and to focus on the movement of goods, information and funds.

Competitive Strengths

Global Reach and Scale. We believe that our integrated worldwide ground and air network is the most extensive in the industry. We operate approximately 150,000 delivery vehicles and over 500 aircraft, and we estimate that our end-to-end delivery system carries goods having a value in excess of 6 per cent. of the U.S. gross domestic product.

Technology Systems. Over the past decade, we invested extensively in technology to capture and move electronic information to serve our customers and support our operations. We currently collect electronic data on 9.5 million packages each day—more than any of our competitors. As a result, we have improved our efficiency and price competitiveness, and we provide improved customer solutions.

E-Commerce Capabilities. We believe we are the leader in shipments of goods purchased over the Internet. We have teamed with over 100 e-commerce leaders to offer to our existing and potential customers web-based solutions that integrate our delivery products and information services into their websites.

Broad, Flexible Range of Distribution Services. We offer to our customers as broad and flexible a range of delivery services as any provider in the industry. All of our air, international and business-to-business ground delivery service offerings are guaranteed and time-definite, which means that they arrive at times specified by our customers. Our integrated air and ground network enhances pickup and delivery density and provides us with the flexibility to transport packages using the most efficient and cost-effective transportation mode or combination of modes.

Customer Relationships. We focus on building and maintaining long-term customer relationships. We serve the ongoing package distribution requirements of our customers worldwide and provide additional services that both enhance customer relationships and complement our position as the foremost provider of package distribution services.

Brand Equity. We have built strong brand equity by being a leader in service quality and product innovation in our industry. We have been rated the second strongest business-to-business brand in the U.S. in an Image Power® survey and have been Fortune magazine's Most Admired Transportation Company in the mail, package and freight category for 17 consecutive years. Forbes Magazine recognized us as its 1999 Company of the Year.

Distinctive People and Culture. Our people are our most valuable asset. We believe that the dedication of our employees results in large part from our distinctive “employee-owner” concept. Currently, active employees own approximately 25 per cent. of our outstanding shares. Each of our executive officers has a significant tenure of service with UPS, and each has accumulated a meaningful ownership stake in our company.

RECENT DEVELOPMENTS

Significant Aircraft Order. On 9 January 2001, we announced a firm order for 60 A300-600 freighters from Airbus Industrie for a list price of approximately \$6 billion. The order includes options for an additional 50 aircraft and supercedes options for 30 aircraft taken in 1998. The acquisition of these aircraft, together with an additional 30 A300-600 freighters that we ordered in late 1998, will be spread over a nine year period.

China Air Rights. On 10 January 2001, the U.S. Department of Transportation finalized an order granting us the right to operate six weekly flights from the U.S. to China. Currently, we serve China through Hong Kong. We now are completing operating plans and receiving operational authority from the Chinese government, which we expect will permit service to begin by 1 April 2001.

Fritz Acquisition. On 10 January 2001, we agreed to acquire Fritz Companies, Inc. for approximately U.S.\$450 million in UPS Class B common stock. Fritz is one of the world's leading freight forwarding, customs brokerage and logistics concerns, with U.S.\$1.6 billion in gross revenue in its most recent fiscal year. The acquisition is structured as a tax-free, stock-for-stock merger in which Fritz shareholders will receive our Class B common stock in exchange for their shares of common stock. Each share of Fritz common stock will be exchanged for 0.2 shares of UPS Class B common stock, for a total issuance of approximately 7.4 million shares of Class B common stock. The transaction is valued at approximately U.S.\$450 million based on the closing price of our Class B common stock on 9 January 2001. We expect to complete the transaction during the second quarter of 2001. The transaction is subject to customary closing conditions, including approval by Fritz shareholders, Hart-Scott-Rodino review and other regulatory clearance. Fritz Chairman and CEO Lynn C. Fritz and certain family members and trusts, who together hold approximately 36 per cent. of the outstanding shares of Fritz, have entered into agreements to vote their shares in favor of the merger.

First International Acquisition. On 16 January 2001, we agreed to acquire First International Bancorp, Inc., the parent company of First International Bank, for approximately U.S.\$78 million in UPS Class B common stock, based on the closing price of the Class B common stock on 12 January 2001. First International is a national leader in the use of U.S. government-guaranteed loan programs made available by the Small Business Administration, the Department of Agriculture and the Export-Import Bank of the United States (Ex-Im Bank). As of 30 September 2000, it had a managed loan portfolio of approximately U.S.\$1.2 billion, approximately two-thirds of which is substantially guaranteed or insured by U.S. government agencies and other sources.

Based on First International having approximately 8.3 million shares outstanding as of 30 September 2000, we would issue approximately 1.3 million shares of our Class B common stock in the merger, or approximately 0.16 shares of Class B common stock for each share of First International Bancorp, Inc. common stock. The exchange ratio is subject to a "collar" if the transaction is completed after 31 July 2001. The transaction is subject to bank regulatory approvals, the approval of First International Bancorp, Inc.'s shareholders, review under Hart-Scott-Rodino and other customary closing conditions. In connection with the execution of the merger agreement, key shareholders of First International Bancorp, Inc., controlling approximately 53 per cent. of the outstanding shares, have agreed to vote their shares of First International Bancorp stock in favor of the transaction. The transaction is expected to close mid-to-late second quarter 2001.

We will be filing a joint proxy statement/prospectus and other relevant documents concerning each of these mergers with the United States Securities and Exchange Commission. These documents will contain important information, and investors are urged to read them. Investors will be able to obtain the documents free of charge at the SEC's website, www.sec.gov.

ADDITIONAL INFORMATION

Authorization

The sale and issuance of the Notes were approved by the Executive Committee of our Board of Directors on 7 February 2001.

Material Change

Except as disclosed in the Offering Circular and attached documents, there has been no material adverse change in the financial position of UPS and consolidated subsidiaries since 31 December 1999.

Forward-Looking Statements

Except for historical information contained herein, statements made in this Offering Circular 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. Forward-looking statements include statements regarding our and our management's intent, belief or current expectations regarding our strategic directions, prospects and future results. Such forward-looking statements involve certain risks and uncertainties. Important factors may cause actual results to differ materially from those contained in forward-looking statements. These include the competitive environment in which we operate, economic and other conditions in the markets in which we operate, strikes, work stoppages and slowdowns, governmental regulation, increases in aviation and motor fuel prices, cyclical and seasonal fluctuations in operating results and other risks discussed in filings that we have made with the U.S. Securities and Exchange Commission, including our Annual Report on Form 10-K for the fiscal year ended 31 December 1999, and Quarterly Report on Form 10-Q for the fiscal quarter ended 30 September 2000, which are attached to this Offering Circular.

Litigation

Except as disclosed in this Offering Circular and attached documents, neither we nor any of our subsidiaries is engaged in any legal or arbitration proceedings (including any proceedings which are pending or threatened of which we are aware) that we believe are reasonably likely to have a significant effect on the financial position of UPS and our consolidated subsidiaries.

Clearance Systems

The Notes have been accepted for clearance through the Euroclear and Clearstream, Luxembourg systems. The Common Code assigned to the Notes is 12455461, and the ISIN allocated to the Notes is XS0124554618. Transactions will normally be effected for settlement not earlier than three days after the date of the transaction.

Pricing Supplement dated 8 February 2001

**United Parcel Service, Inc.
Issue of £500,000,000 5.5 per cent. Notes due 2031**

Under the United Parcel Service, Inc.
U.S.\$1,000,000,000
Euro Medium-Term Note Program
(the "Program")

This document constitutes the Pricing Supplement relating to the issue of Notes described herein. Terms used shall be deemed to be defined as such for the purposes of the Conditions set forth in the Offering Circular dated 12 September 2000, and the Supplementary Offering Circular dated 8 February 2001. This Pricing Supplement must be read in conjunction with such Offering Circular as so supplemented.

- | | |
|---|---|
| 1. Issuer: | United Parcel Service, Inc. |
| 2. (i) Series Number: | 2001-01 |
| (ii) Tranche Number: | 1 |
| 3. Specified Currency or Currencies: | Pounds Sterling |
| 4. Aggregate Nominal Amount | £500,000,000 |
| 5. (1) Issue Price: | 99.028 per cent. of the Aggregate Nominal Amount |
| (2) Net proceeds: | £492,015,000 |
| 6. Specified Denomination(s): | £1,000, £10,000 and £100,000 |
| 7. Issue Date and Interest Commencement Date: | 12 February 2001 |
| 8. Maturity Date: | 12 February 2031 |
| 9. Interest Basis: | 5.5 per cent. Fixed Rate
(Further particulars specified below) |
| 10. Redemption/Payment Basis: | Redemption at par |
| 11. Change of Interest or Redemption/Payment Basis: | Not Applicable |
| 12. Put/Call Options: | Not Applicable |
| 13. Status of the Notes: | Unsecured Unsubordinated |
| 14. Listing: | Luxembourg Stock Exchange |
| 15. Method of distribution: | Syndicated |

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

- | | |
|--------------------------------|---|
| 16. Fixed Rate Note Provisions | Applicable |
| (i) Rate of Interest: | 5.5 per cent. per annum payable semi-annually in arrears |
| (ii) Interest Payment Date(s): | 12 February and 12 August in each year |
| (iii) Fixed Coupon Amount: | £27.50 per £1,000 in Nominal Amount, £275 per £10,000 in Nominal Amount and £2,750 per £100,000 in Nominal Amount |
| (iv) Broken Amount(s): | Not Applicable |

(v) Fixed Day Count Fraction:	Actual/Actual (ISMA)
(vi) Other terms relating to the method of calculating interest for Fixed Rate Notes:	Not Applicable
17. Floating Rate Note Provisions	Not Applicable
18. Zero Coupon Note Provisions	Not Applicable
19. Index-Linked Interest Note Provisions:	Not Applicable
20. Dual Currency Note Provisions:	Not Applicable

PROVISIONS RELATING TO REDEMPTION

21. Issuer Call	Not Applicable
22. Investor Put	Not Applicable
23. Final Redemption Amount and/or the method, if any, of calculating the same (if required or if different from that set out in the Conditions):	Par
24. Early Redemption Amount(s) payable on redemption for taxation reasons or on event of default and/or the method of calculating the same (if required or if different from that set out in the Conditions):	Par

GENERAL PROVISIONS APPLICABLE TO THE NOTES

25. Form of Notes:	Bearer Notes only On or after the date that is 40 days after the date of issuance, the temporary global Note is exchangeable for one or more permanent global Notes, which is/are exchangeable for definitive Notes on 90 days' written notice
26. Additional Financial Center(s) or other special provisions relating to Payment Dates:	Not applicable
27. Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature):	Yes
28. Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment:	Not Applicable

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|--|----------------|
| 29. Details relating to Installment Notes: | Not Applicable |
| 30. Redenomination, renominatisation and reconventioning provisions: | Not Applicable |
| 31. Other terms or special conditions: | Not Applicable |

DISTRIBUTION

- | | |
|---|---|
| 32. (i) If syndicated, names of Managers: | Goldman Sachs International
Credit Suisse First Boston (Europe) Limited
Morgan Stanley & Co. International Limited
UBS AG, acting through its business group
UBS Warburg
Barclays Bank PLC |
| (ii) Stabilizing Manager (if any): | Goldman Sachs International |
| 33. If non-syndicate, name of Dealer: | Not Applicable |
| 34. Whether TEFRA D rules applicable or TEFRA rules not applicable: | TEFRA D rules applicable |
| 35. Additional selling restrictions: | Not Applicable |

OPERATIONAL INFORMATION

- | | |
|--|--------------------------|
| 36. ISIN Code: | XS0124554618 |
| 37. Common Code: | 12455461 |
| 38. Any clearing system(s) other than Euroclear and Clearstream, Luxembourg and the relevant identification number(s): | Not Applicable |
| 39. Delivery: | Delivery against payment |
| 40. Additional Paying Agent(s) (if any): | Not Applicable |

LISTING APPLICATION

This Pricing Supplement comprises the details required to list the issue of Notes described herein pursuant to the listing of the U.S.\$1,000,000,000 Euro Medium-Term Note Program of United Parcel Service, Inc.

The Notes constitute longer term debt securities issued in accordance with regulations made under Section 4 of the Banking Act 1987. The Issuer of the Notes is United Parcel Service, Inc., which is not an authorised institution or a European authorised institution (as such terms are defined in the Banking Act 1987 (Exempt Transactions) Regulations 1997). The Issuer confirms that it will have complied with its obligations under the relevant rules in relation to the admission to listing of the Notes by the time the Notes are so admitted. In this context "relevant rules" has the meaning set out in the Banking Act 1987 (Exempt Transactions) Regulations 1997. The Issuer has complied and will continue to comply with its obligations under the Banking Act 1987 (Exempt Transactions) Regulations 1997 to lodge all relevant information in relation to the Notes with the UK Listing Authority.

RESPONSIBILITY

The Issuer accepts responsibility for the information contained in this Pricing Supplement.
Signed on behalf of the Issuer:

By _____
Duly authorized

ANNEX I
Offering Circular dated 12 September 2000



United Parcel Service, Inc.

U.S.\$1,000,000,000

Euro Medium-Term Note Program

for the issuance of Notes

with a minimum maturity of one month

Under this U.S.\$1,000,000,000 Euro Medium-Term Note Program (the "Program"), United Parcel Service, Inc. ("UPS" or the "Issuer"), may from time to time issue Notes (as further defined herein, the "Notes") denominated in any currency agreed upon by the Issuer and the relevant Dealer(s) (as defined below). The Notes will have maturities of one month or longer (except in the case of Notes denominated in Sterling, which will have maturities of one year or longer or such other minimum or maximum maturity as may be allowed or required from time to time by the relevant central bank (or equivalent governing body) or any laws or regulations applicable to the relevant currency) and, subject as set out herein, the maximum aggregate principal amount of all Notes from time to time outstanding will not exceed U.S.\$1,000,000,000 (or its equivalent in other currencies) calculated as described herein (see "General Description of the Program").

The Notes are subject to redemption at the option of the Issuer in the event of certain changes affecting United States taxation or upon the imposition of certain information reporting requirements. The Notes will not otherwise be subject to redemption at the option of the Issuer or the holder unless the applicable Pricing Supplement (as defined herein) so provides.

The Notes will be issued on a continuing basis to one or more Dealers specified herein and any additional Dealers appointed under the Program from time to time, which appointment may be for a specific issue or on an ongoing basis (each a "Dealer" and together the "Dealers"). Notes may also be issued to third parties other than Dealers.

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act"), and are Notes in bearer form that are subject to U.S. tax law requirements. Subject to certain exceptions, Notes may not be offered, sold or delivered within the United States or to or for the account of U.S. persons (other than distributors) unless registered under the Securities Act or an exemption from the registration requirements of the Securities Act exists (see "Subscription and Sale").

Application has been made to list the Notes issued under the Program on the Luxembourg Stock Exchange (the "Stock Exchange"). Notice of the aggregate principal amount of, interest (if any) payable with respect to, the issue price of, and any other terms and conditions not contained herein which are applicable to, each Tranche (as defined on page 17) of Notes will be set forth in a pricing supplement (the "Pricing Supplement") which, with respect to Notes to be listed, will be delivered to the Stock Exchange on or before the date of issue of such Notes. The Program provides that Notes may be listed on such other or further stock exchanges as may be agreed between the Issuer and the relevant Dealer in relation to each issue. The Issuer may also issue unlisted Notes.

The Notes of each Tranche will initially be represented by a single temporary global Note which will be deposited on the issue date thereof with a common depository on behalf of Morgan Guaranty Trust Company of New York, Brussels Office, as operator of the Euroclear System ("Euroclear") and Clearstream Banking, société anonyme, ("Clearstream, Luxembourg"), and/or such other clearing system as otherwise agreed, as further described in "Form of the Notes" herein. Beneficial interests in a temporary global Note will be exchangeable for beneficial interests in a permanent global Note or definitive Notes upon certification as to non-U.S. beneficial ownership as required by U.S. Treasury Regulations and thereafter, any permanent global Note may be exchanged in whole but not in part for definitive Notes upon request. Beneficial interests in temporary and permanent global Notes will be exchangeable only in the manner and upon compliance with the procedures described in "Form of the Notes" herein. Temporary and permanent global Notes and definitive Notes will be issued in bearer form only.

The Issuer may agree with any Dealer(s) that Notes may be issued in a form other than that contemplated in "Terms and Conditions of the Notes" herein, in which event a supplementary Offering Circular, if appropriate, will be made available which will describe the effect of the agreement reached with respect to such Notes.

The Program has been rated AAA by Standard & Poor's Ratings Services, a division of the McGraw Hill Companies Inc. ("Standard & Poor's") and Aaa by Moody's Investors Service Limited ("Moody's"). Notes issued pursuant to the Program may be rated or unrated. Where an issue of Notes is rated, its rating will not necessarily be the same as the rating applicable to the Program. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

This Offering Circular may only be used for a period of one year from the date hereof.

Arranger

Credit Suisse First Boston

Dealers

Credit Suisse First Boston
Merrill Lynch International

Goldman Sachs International
Schroder Salomon Smith Barney

Offering Circular dated September 12, 2000.

The Issuer has taken all reasonable care to ensure that the facts stated in this Offering Circular in relation to the Issuer and the Notes are true and accurate in all material respects and that there are no other material facts the omission of which would make misleading any statement herein. The Issuer accepts responsibility accordingly.

This Offering Circular is to be read in conjunction with all the documents which are deemed to be incorporated herein by reference (collectively, the "Incorporated Documents") (see "Documents Incorporated by Reference"). This Offering Circular shall be read and construed on the basis that the Incorporated Documents are made a part of this Offering Circular.

The Dealers have not separately verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility is accepted by the Dealers as to the accuracy or completeness of the information contained in this Offering Circular or any other information provided by the Issuer in connection with the Notes. The Dealers do not accept any liability with respect to any purchaser in relation to the information contained in this Offering Circular or any other information provided by the Issuer in connection with the Program.

No person has been authorized to give any information or to make any representation not contained in or not consistent with this Offering Circular or any other information supplied in connection with the Program or any Notes and, if given or made, such information or representation must not be relied upon as having been authorized by the Issuer, or any of the Dealers.

Neither this Offering Circular nor any other information supplied in connection with the Program or any Notes is intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by the Issuer or the Dealers that any recipient of this Offering Circular or any other information supplied in connection with the Notes, should purchase any of the Notes. Each investor contemplating purchasing any of the Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer. Neither this Offering Circular nor any other information supplied in connection with the Notes constitutes an offer or invitation by or on behalf of the Issuer or the Dealers to any person to purchase any of the Notes.

The delivery of this Offering Circular does not at any time imply that the information contained herein concerning the Issuer is correct at any time subsequent to the date hereof or, if earlier, the date as of which specific information is provided, or that any other information supplied in connection with the Notes is correct as of any time subsequent to the date indicated in the document containing the same. The Dealers expressly do not undertake to review the financial condition or affairs of the Issuer and its subsidiaries during the life of the Program. Investors should review, *inter alia*, the most recent financial statements of the Issuer when deciding whether or not to purchase any of the Notes.

The distribution of this Offering Circular and the offer or sale of the Notes may be restricted by law in certain jurisdictions. Persons into whose possession this Offering Circular or any Notes come must inform themselves about, and observe, any such restrictions. In particular, there are restrictions on the distribution of this Offering Circular and the offer or sale of the Notes in the United States, the United Kingdom, Japan and Germany (see "Subscription and Sale").

The Notes have not been and will not be registered under the Securities Act, as amended (the "Securities Act"), and are subject to United States tax law requirements. Subject to certain exceptions, Notes may not be offered, sold or delivered within the United States or to or for the account or benefit of U.S. persons (other than distributors) unless registered under the Securities Act or an exemption from the registration requirements of the Securities Act exists (see "Subscription and Sale"). Certain terms used herein shall have the meanings ascribed to them in Regulation S under the Securities Act.

In this Offering Circular, references to "\$", "U.S.\$" and "U.S. Dollars" are to United States dollars, references to "Sterling" and "£" are to United Kingdom pounds sterling and references to "euro" and "€" are references to the currency introduced at the start of the third stage (the "Third Stage") of the European economic and monetary union ("EMU") pursuant to the Treaty establishing the European Community, as amended by the Treaty on the European Union (together, the "Treaty").

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In connection with the issue of any Tranche of listed Notes, the Dealer (if any) disclosed as stabilizing manager in the applicable Pricing Supplement may over-allot or effect transactions which stabilize or maintain the market price of such Notes at a level which might not otherwise prevail. Such stabilizing, if commenced, may be discontinued at any time. Such transactions will be carried out in accordance with applicable laws and relevant regulations.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents shall be deemed to be incorporated in, and to form part of, this Offering Circular:

(a) the Issuer's Annual Report on Form 10-K for the fiscal year ended December 31, 1999 (which includes the Issuer's audited consolidated financial statements for the year ended December 31, 1999) and all documents subsequently filed by the Issuer pursuant to the U.S. Securities Exchange Act of 1934, as amended, (including the Issuer's Quarterly Reports on Form 10-Q for the period ending June 30, 2000 (filed August 14, 2000) and for the period ending March 31, 2000 (filed June 15, 2000) which include the Issuer's unaudited interim consolidated financial statements) prior to the termination of the offering of the Notes offered hereby; and

(b) all supplements to the Offering Circular circulated from time to time in accordance with the undertaking given by the Issuer in the Program Agreement described in "Subscription and Sale" below.

Any statement contained herein or in a document which is incorporated by reference herein shall be deemed to be modified or superseded for the purpose of this Offering Circular to the extent that a statement contained in any subsequent document which is deemed to be incorporated by reference herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise).

The Issuer will provide, without charge, to any person, including each person to whom a copy of this Offering Circular has been delivered, upon the written request of such person, a copy of any or all of the documents or portions of documents which are incorporated herein by reference. Written requests for such documents should be directed to the Issuer at its principal executive office, the address of which is set out at the back of this Offering Circular. In addition, if and for so long as any Notes are listed on the Luxembourg Stock Exchange, such documents will be available, without charge, from the specified office of the Paying Agent, the name and address of which is set out at the back of this Offering Circular.

The Issuer will, so long as any Note remains outstanding, in the event of any material change in or affecting the earnings, operations or business prospects of the Issuer and its subsidiaries that makes any statement in this Offering Circular false or misleading or that is not disclosed in this Offering Circular, prepare a further supplement to the Offering Circular or publish a new Offering Circular for use in connection with any subsequent issue of Notes.

If the terms of the Program are modified or amended in a manner which would make the Offering Circular, as supplemented, inaccurate or misleading, a new Offering Circular will be prepared for use in connection with any subsequent issue of Notes.

GENERAL DESCRIPTION OF THE PROGRAM

Under the Program, the Issuer may from time to time issue Notes denominated in any currency agreed upon by the Issuer and the relevant Dealer(s) having maturities of 1 month or longer (except in the case of Notes denominated in Sterling which will have maturities of one year or longer or such other minimum or maximum maturity as may be allowed or required from time to time by the relevant central bank (or equivalent governing body) or any laws or regulations applicable to the relevant currency). A summary of the terms and conditions of the Program and the Notes appears on pages 20 to 44. The applicable terms of any Notes will be agreed upon by the Issuer and the relevant Dealer(s) prior to the issue of the Notes and will be set out in the Terms and Conditions of the Notes attached to, incorporated by reference into, or endorsed on the Notes, as such Terms and Conditions may be modified and supplemented by the applicable Pricing Supplement attached to, or endorsed on, such Notes, as more fully described under "Form of the Notes".

Subject as set out herein, this Offering Circular and any supplement hereto will only be valid for issuing and, if applicable, listing Notes on the Stock Exchange and/or any other relevant stock exchange in an aggregate principal amount which, when added to the aggregate principal amount then outstanding of all Notes previously or simultaneously issued under this Program (including unlisted Notes), does not exceed U.S.\$1,000,000,000 or its equivalent in other currencies or such other amount as may be substituted pursuant to the Program Agreement as specified in the applicable Pricing Supplement in relation to the relevant Notes, under "Form of Pricing Supplement" on page 13. For the purpose of calculating the U.S. Dollar equivalent of the aggregate principal amount of Notes issued under the Program from time to time:

(a) the U.S. Dollar equivalent of Notes denominated in another Specified Currency (as specified in the applicable Pricing Supplement in relation to the relevant Notes, under "Form of Pricing Supplement" on page 13) shall be determined by the Agent (as defined under "Form of the Notes"), either as of the Agreement Date for such Notes or on the preceding day on which commercial banks and foreign exchange markets are open for business in London, at the discretion of the Issuer, in each case on the basis of the spot rate displayed on a page on the Reuter Monitor Money Rates Service or the appropriate Associated Press-Dow Jones Telerate Service or such other service as is agreed upon by the Agent and the Issuer from time to time;

(b) the U.S. Dollar equivalent of Dual Currency Notes, Index-Linked Notes and Partly Paid Notes (each as specified in the applicable Pricing Supplement in relation to the relevant Notes, under "Form of Pricing Supplement" on page 13) shall be calculated in the manner specified above by reference to the original nominal amount of such Notes (in the case of Partly Paid Notes regardless of the amount of the subscription price paid); and

(c) the U.S. Dollar equivalent of Zero Coupon Notes (as specified in the applicable Pricing Supplement in relation to the relevant Notes, under "Form of Pricing Supplement" on page 13) and other Notes issued at a discount or a premium shall be calculated in the manner specified above by reference to the net proceeds received by the Issuer for the relevant issue.

The aggregate principal amount of Notes of the Issuer that may be outstanding at any time under the Program is determined and established by the Board of Directors of the Issuer or an authorized committee thereof. This Offering Circular will be amended or supplemented to indicate any increase in the maximum aggregate principal amount of the Notes that may be outstanding at any time under the Program.

SUMMARY OF TERMS AND CONDITIONS OF THE PROGRAM AND THE NOTES

The following summary does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Offering Circular and, in relation to the terms and conditions of any particular Series (as defined in "Terms and Conditions of the Notes" below) of Notes, the applicable Pricing Supplement. Words and expressions defined in "Form of the Notes", "Form of Pricing Supplement" and "Terms and Conditions of the Notes" below shall have the same meanings in this summary.

Issuer:	United Parcel Service, Inc.
Description:	Euro Medium-Term Note Program.
Arranger:	Credit Suisse First Boston (Europe) Limited.
Dealers:	Credit Suisse First Boston (Europe) Limited. Goldman Sachs International. Merrill Lynch International. Salomon Brothers International Limited.* Notes may also be issued to third parties other than Dealers.
Regulatory Matters:	<p>Each issue of Notes denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see "Subscription and Sale"), including, without limitation, the following:</p> <p>Each issue of Notes (including Notes denominated in Sterling) in respect of which the issue proceeds are accepted by the Issuer in the United Kingdom shall comply with all applicable laws, regulations and guidelines (as amended from time to time) of United Kingdom authorities which are relevant in the context of the issue of such Notes.</p> <p>Each issue of Notes denominated in Swiss Francs or carrying a Swiss Franc related element with a maturity of more than one year (other than Notes privately placed with a single investor with no publicity) will be effected in compliance with the relevant regulations of the Swiss National Bank based on article 7 of the Federal Law on Banks and Savings Banks of November 8, 1934 (as amended) and article 15 of the Federal Law on Stock Exchanges and Securities Trading of March 24, 1995 in connection with article 2, paragraph 2, of the Ordinance of the Federal Banking Commission on Stock Exchanges and Securities Trading of December 2, 1996. Under these regulations, the relevant Dealer or, in the case of a syndicated issue, the lead manager (the "Swiss Dealer") must be a bank domiciled in Switzerland (which includes branches or subsidiaries of a foreign bank located in Switzerland) or a securities dealer duly licensed by the Swiss Federal Banking Commission pursuant to the Federal Law on Stock Exchanges and Securities Trading of March 24, 1995. The Swiss Dealer must report certain details of the relevant transaction to the Swiss National Bank no later than the Issue Date of the relevant Notes.</p>
Fiscal and Principal Paying Agent and Agent Bank:	Citibank, N.A.
Other Paying Agents:	Banque Internationale à Luxembourg. Citibank (Switzerland) (only for issues made under the Program on or before September 11, 2000).
Amount:	Up to U.S.\$1,000,000,000 (or its equivalent in other currencies calculated on the relevant day of calculation as described herein) outstanding at any time. The Issuer will have the option at any time to increase the aggregate principal amount of the Program, subject to the satisfaction of certain conditions, in accordance with the terms of the Program Agreement.

* Schroder is a trademark of Schroders Holdings plc and is used under license by Salomon Brothers International Limited.

Distribution:	Notes may be distributed by way of private or public placement, in each case on a syndicated or non-syndicated basis.
Currencies:	Subject to any applicable legal or regulatory restrictions, such currencies as may be agreed upon by the Issuer and the relevant Dealer(s), (as indicated in the applicable Pricing Supplement).
Redenomination:	If the Specified Currency of an issue of Notes is a currency of one of the countries that subsequently participates in the Third Stage or otherwise participates in the EMU in a manner with similar effect to the Third Stage, the Issuer may specify in the applicable Pricing Supplement that such Notes will include a redenomination clause providing for the redenomination of the Specified Currency into euro, and, if so specified, the wording of the redenomination clause will be set out in full in the applicable Pricing Supplement.
Maturities:	Any maturity of one month or longer, as indicated in the applicable Pricing Supplement (except in the case of Notes denominated in Sterling (assuming the Issuer has become eligible to issue Notes in Sterling), which will have maturities of one year or longer or such other minimum or maximum maturity as may be allowed or required from time to time by the relevant central bank (or equivalent governing body) or any laws or regulations applicable to the relevant currency and/or the Issuer).
Issue Price:	Notes may be issued on a fully paid or a partly paid basis and at an issue price which is equal to, less than or more than their principal amount.
Form of Notes:	The Notes will be in bearer form. Each Tranche of Notes will initially be represented by a single temporary global Note which will be deposited on the relevant Issue Date with a common depositary for Euroclear and Clearstream, Luxembourg and/or any other agreed upon clearance system and which will be exchangeable, in the manner and upon compliance with the procedures described herein, (i) for one or more permanent global Notes or (ii) for definitive Notes, in each case, not earlier than 40 days after the Issue Date upon certification of non-U.S. beneficial ownership. Upon 90 days prior written notice and in compliance with the procedures described under “Form of the Notes”, definitive Notes with Receipts with respect to installments of principal (if any) attached and (unless they are Zero Coupon Notes) interest Coupons and Talons for further Coupons (if any) attached will be issued and delivered, in full exchange for a permanent global Note, to Euroclear and/or Clearstream, Luxembourg and/or any other agreed upon clearance system for the accounts of the holders of interests in such permanent global Note. Any interest in a temporary or permanent global Note will be transferable only in accordance with the rules and procedures for the time being of Euroclear or Clearstream, Luxembourg or any other agreed clearance system, as appropriate.
Fixed Rate Notes:	<p>Fixed rate interest will be payable in arrears on such date or dates as may be agreed upon by the Issuer and the relevant Dealer(s) (as indicated in the applicable Pricing Supplement) and on redemption.</p> <p>Interest will be calculated on the basis of such Fixed Day Count Fraction as may be agreed upon by the Issuer and the relevant Dealer(s) (as indicated in the applicable Pricing Supplement).</p>

Floating Rate Notes:

Floating Rate Notes will bear interest calculated either (i) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 1991 ISDA Definitions, as supplemented by the 1998 Supplement and the 1998 Euro Definitions (each as published by the International Swap and Derivatives Association Inc., and as amended, updated or replaced as of the Issue Date of the first Tranche of Notes of the relevant Series) (the "ISDA Definitions"); or (ii) on the basis of a reference rate appearing on an agreed screen page of a commercial quotation system; or (iii) on such other basis as may be agreed between the Issuer and the relevant Dealer(s) (each as indicated in the applicable Pricing Supplement). In the event that any terms or provisions of the ISDA Definitions shall conflict with or be inconsistent with the applicable Pricing Supplement, the terms and provisions of such Pricing Supplement shall control.

The Margin (if any) relating to such floating rate will be agreed upon by the Issuer and the relevant Dealer(s) for each issue of Floating Rate Notes.

Floating Rate Notes may also have a maximum interest rate, a minimum interest rate or both (as indicated in the applicable Pricing Supplement).

Interest on Floating Rate Notes will be payable on Interest Payment Dates as selected prior to issue by the Issuer and the relevant Dealer(s) and will be calculated on the basis of such Floating Day Count Fraction as may be agreed upon by the Issuer and the relevant Dealer(s) (as indicated in the applicable Pricing Supplement).

Interest Period(s) or Interest Payment Date(s) for Floating Rate Notes:

Such period(s) or date(s) as the Issuer and the relevant Dealer(s) may agree (as indicated in the applicable Pricing Supplement).

Dual Currency Notes:

Payments (whether with respect to principal or interest and whether at maturity or otherwise) with respect to Dual Currency Notes will be made in such currencies, and based on such rates of exchange, as the Issuer and the relevant Dealer(s) may agree (as indicated in the applicable Pricing Supplement).

Index-Linked Notes:

Payments of principal (with respect to Index-Linked Redemption Notes) or payments of interest (with respect to Index-Linked Interest Notes) will be calculated by reference to such index and/or formula as the Issuer and the relevant Dealer(s) may agree (as indicated in the applicable Pricing Supplement). Index-Linked Notes may have a maximum interest rate, a minimum interest rate or both (as indicated in the applicable Pricing Supplement).

Interest on Index-Linked Notes will be payable on Interest Payment Dates as selected prior to issue by the Issuer and the relevant Dealer(s) and will be calculated on the basis of such Day Count Fraction as may be agreed upon by the Issuer and the relevant Dealer(s) (as indicated in the applicable Pricing Supplement).

Zero Coupon Notes:

Zero Coupon Notes may be offered and sold at a discount to their principal amount and will not bear interest except in the case of late payment as provided in Condition 4.

Tax Redemption:

The Notes are subject to redemption at the option of the Issuer, as a whole but not in part, at the Early Redemption Price thereof, if certain events occur involving United States withholding taxes or information reporting requirements. (See "Terms and Conditions of the Notes—Redemption for Tax Reasons" and "Payment of Additional Amounts").

Redemption:

The Pricing Supplement relating to each Tranche of Notes will indicate either that the Notes of that Series cannot be redeemed prior to their stated maturity (other than in specified installments, where applicable, for certain tax reasons or following an Event of Default) or that such Notes will be redeemable at the option of the Issuer and/or the Noteholders upon giving not more than 60 nor less than 30 days irrevocable notice (or such other notice period (if any) as is indicated in the applicable Pricing Supplement) to the Noteholders or the Issuer (with a copy to the Agent), as the case may be, on a date or dates specified prior to such stated maturity and at a price or prices and on such terms as are indicated in the applicable Pricing Supplement.

The Pricing Supplement may provide that the Notes may be repayable in two or more installments of such amounts and on such dates as indicated in the applicable Pricing Supplement.

Unless otherwise permitted by the current laws and regulations, Notes (including Notes denominated in Sterling) in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom must have a minimum redemption amount of £100,000 (or its equivalent in any other Specified Currency), unless such Notes may not be redeemed (other than for taxation reasons or following an Event of Default) until the third anniversary of their Issue Date and are to be listed on the Stock Exchange or any other stock exchange of the European Economic Area.

Denomination of Notes:

Such denominations as may be agreed upon by the Issuer, the relevant Dealer(s) and the Agent and as indicated in the applicable Pricing Supplement (except that (i) unless otherwise permitted by then current laws and regulations the minimum denomination of each Note (including Notes denominated in Sterling (assuming the Issuer has become eligible to issue Notes in Sterling)) in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom will be £100,000 (or its equivalent in any other Specified Currency), unless such Notes may not be redeemed (other than for taxation reasons or following an Event of Default) until the third anniversary of their Issue Date and are to be listed on the Stock Exchange or any other stock exchange of the European Economic Area, (ii) the minimum denomination of all Notes with a maturity of 183 days or less will be U.S.\$500,000 (or its equivalent in any other Specified Currency) determined by reference to the spot rate on the Issue Date and (iii) in any case, the minimum denomination of each Note will be such as may be allowed or required from time to time by the relevant central bank (or equivalent governing body) or any laws or regulations applicable to the relevant Specified Currency).

Taxation:

All payments with respect to principal, premium, if any, and interest, if any, on the Notes will be made without withholding or deduction for or on account of any taxes or other charges imposed by any governmental authority or agency in the United States, except as provided in Condition 9. The relevant Pricing Supplement will state if any payments made with respect to Dual Currency Notes or Index-Linked Notes are subject to such deduction or withholding. (See "Taxation—United States Federal Income and Estate Taxes".)

Status of the Notes:

The Notes will be unsecured (subject to the limitations on secured indebtedness as provided in Condition 10) and unsubordinated and will rank *pari passu* with all other unsecured and unsubordinated indebtedness of the Issuer (subject to such mandatory exceptions as are from time to time applicable under U.S. law).

Listing:	Application has been made to list the Notes issued under the Program on the Luxembourg Stock Exchange. The Notes may also be listed on such other or additional stock exchange(s) as may be agreed upon by the Issuer and the relevant Dealer(s) in relation to each issue. Unlisted Notes may also be issued. The Pricing Supplement relating to each issue will state whether or not (and if so, on what stock exchange(s)) the Notes are to be listed.
Governing Law:	The Notes will be governed by, and construed in accordance with, the laws of the State of New York, United States of America, without regard to its conflict of laws provisions.
Selling Restrictions:	The Notes will be subject to selling restrictions under the laws of the United States, United Kingdom, Japan and Germany, and such other restrictions as may apply in connection with a particular issue of Notes (see “Subscription and Sale”). In connection with the offering and sale of particular Notes, additional restrictions may be imposed which will be set out in the applicable Pricing Supplement.
Negative Pledge:	There are certain restrictions on the ability of the Issuer to issue secured debt so long as any of the Notes remains outstanding. See “Terms and Conditions of the Notes—Limitation on Secured Indebtedness; Limitation on Sale and Leaseback Transactions”.
Rating:	The Program has been rated AAA by Standard & Poor’s and Aaa by Moody’s. Notes issued pursuant to the Program may be rated or unrated. Where an issue of Notes is rated, its rating will not necessarily be the same as the rating applicable to the Program. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

FORM OF THE NOTES

Each issue of Notes will initially be represented by a single temporary global Note, without Receipts, Coupons or Talons (each as defined on page 17), which will be delivered to a common depository for Euroclear and Clearstream, Luxembourg. Any reference herein to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearance system approved by the Issuer and the Agent (as defined below).

If an interest payment date for any Tranche of Notes occurs while such Notes are represented by a temporary global Note, the related interest payment will be made against presentation of the temporary global Note outside the United States and its possessions and only to the extent that certification of non-U.S. beneficial ownership (in the form set out in the temporary global Note) has been received by Euroclear or Clearstream, Luxembourg. On or after the date (the "Exchange Date") which is 40 days after the date on which distribution of the Notes of the Tranche is completed, provided that certification of non-U.S. beneficial ownership has been received, interests in the temporary global Note will be exchangeable (provided that, if it is a Partly Paid Note (as defined on page 12), all installments of the subscription monies due before the date of such exchange have been paid) either for interests in a permanent global Note or definitive Notes, as indicated in the applicable Pricing Supplement. On and after the Exchange Date, the holder of an interest in a temporary global Note will not be entitled to receive any payment of interest or principal thereon unless upon due certification exchange of the temporary global Note is improperly withheld or refused. Payments of principal or interest (if any) with respect to a permanent global Note will be made through Euroclear and Clearstream, Luxembourg against presentation or surrender, as the case may be, of the permanent global Note outside of the United States and its possessions without any requirement for further certification. Upon 90 days written notice (which period shall not be deemed to expire until at least 30 days after the Exchange Date) from Euroclear or Clearstream, Luxembourg (as the case may be) acting on instructions from any holder of an interest in the permanent global Note, security printed definitive Notes with, where applicable, Receipts, Coupons and Talons attached will be issued and delivered, in full exchange for the permanent global Note, to Euroclear and Clearstream, Luxembourg for the accounts of the holders of interests in the permanent global Note. No definitive Note delivered in exchange for a permanent global Note will be mailed or otherwise delivered to any location in the United States in connection with such exchange. An exchange for definitive Notes will be made at no charge to the holders of the interests in the permanent global Note being exchanged. Notwithstanding the foregoing, from and after such time as definitive Notes are issued in exchange for a permanent global Note, any remaining interest in the temporary global Note will be exchangeable only for definitive Notes. Temporary and permanent global Notes and definitive Notes will be authenticated and delivered by Citibank, N.A., as fiscal and principal paying agent (the "Agent", which expression includes any successor to Citibank, N.A., in its capacities as such) pursuant to an Amended and Restated Fiscal Agency Agreement dated September 12, 2000 (as may be amended from time to time, the "Agency Agreement"), among the Issuer, the Agent and the other paying agents named therein (together with the Agent, the "Paying Agents", which expression includes any additional or successor paying agents), on behalf of the Issuer. Until exchanged in full, the holder of an interest in any global Note shall in all respects be entitled to the same benefits as a holder of definitive Notes, receipts and interest coupons, except as set out in the terms and conditions applicable thereto.

Temporary and permanent global Notes and definitive Notes will be issued in bearer form only.

The following legend will appear on all advertisements issued during the distribution compliance period (as defined in Regulation S) and all global Notes, definitive Notes, Receipts and interest Coupons:

"This Note has not been registered under the United States Securities Act of 1933, as amended (the "Securities Act"), and may not be offered, sold or delivered within the United States or to or for the account or benefit of U.S. persons (other than distributors) unless registered under the Securities Act or an exemption from the registration requirements of the Securities Act exists. Terms used herein shall have the meanings ascribed to them in Regulation S under the Securities Act."

The following legend will appear on all global Notes and definitive Notes, Coupons and Receipts with a maturity of more than 183 days:

"Any United States person (as defined in the Internal Revenue Code of the United States) who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in sections 165(j) and 1287(a) of the Internal Revenue Code of the United States."

The sections of the Internal Revenue Code of the United States referred to above provide that United States holders, with certain exceptions, will not be entitled to deduct any loss on Notes, Receipts or interest Coupons and will not be entitled to capital gains treatment of any gain on any sale, disposition or payment of principal with respect to Notes, Receipts or interest Coupons.

The following legend will appear on all global Notes, definitive Notes, Coupons and Receipts with a maturity at issuance of 183 days or less:

“By accepting this obligation, the holder represents and warrants that it is not a United States person (other than an exempt recipient described in Section 6049(b)(4) of the Internal Revenue Code of the United States and the regulations thereunder) and that it is not acting for or on behalf of a United States person (other than an exempt recipient described in Section 6049(b)(4) of the Internal Revenue Code and the regulations thereunder).”

For so long as any of the Notes are represented by a global Note, each person who is shown on the records of Euroclear and/or Clearstream, Luxembourg as the holder of a particular nominal amount of such Notes shall be treated by the Issuer, the Agent and any other Paying Agent as a holder of such nominal amount of such Notes for all purposes other than for the payment of principal, premium (if any) and interest on such Notes, the right to which shall be vested solely in the bearer of the global Note in accordance with and subject to its terms (and the expressions “Noteholder”, “holder of Notes” and related expressions shall be construed accordingly). A certificate or other document issued by Euroclear and/or Clearstream, Luxembourg stating the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes except in the case of manifest error. Notes which are represented by a global Note will be transferable only in accordance with the rules and procedures of Euroclear and/or Clearstream, Luxembourg, as the case may be, in effect at the time of transfer.

The Pricing Supplement relating to each Tranche of Notes will be in substantially the same form as, and will contain substantially the same information (to the extent such information is applicable) as, the Form of Pricing Supplement set forth in “Form of Pricing Supplement”. The Terms and Conditions of the Notes may be modified in relation to any particular issue of Notes by agreement among the Issuer, the Agent and the relevant Dealer(s) in respect of such Notes (all references to numbered Conditions being to the Terms and Conditions of the relevant Notes).

FORM OF PRICING SUPPLEMENT

A pro forma Pricing Supplement for use in connection with the Program is set out below. This pro forma Pricing Supplement is subject to completion and amendment to set out the terms upon which each Tranche of Notes is to be issued.

Pricing Supplement dated []

United Parcel Service, Inc.
Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]
under the U.S.\$1,000,000,000
Euro Medium-Term Note Program

This document constitutes the Pricing Supplement relating to the issue of Notes described herein. Terms used shall be deemed to be defined as such for the purposes of the Conditions set forth in the Offering Circular dated September 12, 2000 [and the supplemental Offering Circular dated []]. This Pricing Supplement must be read in conjunction with such Offering Circular [as so supplemented].

[Include whichever of the following apply or specify as "Not Applicable" (N/A). Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or sub-paragraphs. Italics denote directions for completing the Pricing Supplement.]

1. Issuer: United Parcel Service, Inc.
2. [(i)] Series Number: []
[(ii)] Tranche Number: []
(If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible)
3. Specified Currency or Currencies: []
4. Aggregate Nominal Amount
[(i)] Series: []
[(ii)] Tranche: []
5. [(i)] Issue Price: [] percent of the Aggregate Nominal Amount [plus accrued interest from *[insert date]*]
(In the case of fungible issues only, if applicable)
[(ii)] Net proceeds: []
(Required only for listed issues)
6. Specified Denomination(s): []
7. (i) Issue Date: []
(ii) Interest Commencement Date (if different from the Issue Date): []
8. Maturity Date: *[Specify date or (for Floating Rate Notes) Interest Payment Date falling in the relevant month and year]*
9. Interest Basis: [[] percent Fixed Rate]
[Specify reference rate: LIBOR/EURIBOR] +/-
[] percent Floating Rate]
[Zero Coupon]
[Index-Linked Interest]
[Dual Currency]
[Other (specify)]
(Further particulars specified below)

10. Redemption/Payment Basis: [Redemption at par]
[Index-Linked Redemption]
[Dual Currency]
[Party Paid]
[Installment]
[Other (*specify*)]
11. Change of Interest or Redemption/Payment Basis: [*Specify details of any provision for convertibility of Notes into another interest or redemption/ payment basis*]
12. Put/Call Options: [Investor Put]
[Issuer Call]
[(Further particulars specified below)]
13. Status of the Notes: [Secured/Unsecured/Subordinated/Unsubordinated (*specify*)]
14. Listing: [Luxembourg/Other (*specify*)]
15. Method of Distribution: [Syndicated/Non-syndicated]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

16. Fixed Rate Note Provisions: [Applicable/Not Applicable]
(*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
- (i) Rate[(s)] of Interest: [] percent per annum [payable [annually/ semi-annually/quarterly/ monthly] in arrears]
- (ii) Interest Payment Date(s): [] in each year
- (iii) Fixed Coupon Amount[(s)]: [] per [] in Nominal Amount
- (iv) Broken Amounts(s): [*Insert particulars of any initial or final broken interest amounts which do not correspond with the Fixed Coupon Amount[(s)]*]
- (v) Fixed Day Count Fraction: [30/360 or Actual/Actual (ISMA) or *specify other*]
(*Note that if interest is not payable on a regular basis (for example, if there are Broken Amounts specified), Actual/Actual (ISMA) may not be a suitable Fixed Day Count Fraction*)
- (vi) Other terms relating to the method of calculating interest for Fixed Rate Notes: [*Not Applicable/give details*]
(*Consider if Fixed Day Count Fraction, particularly for euro-denominated issues, should be on an Actual/ Actual basis*)

17. Floating Rate Note Provisions: [Applicable/Not Applicable]
- (If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Specified Period(s)/ Specified Interest Payment Dates: []
- (ii) Business Day Convention: [Floating Rate Convention/ Following Business Day Convention/Modified Following Business Convention/Preceding Business Day Convention/ Other *(give details)*]
- (iii) Additional Business Center(s): []
- (iv) Manner in which the Rate(s) of Interest is/are to be determined: [Screen Rate Determination/ ISDA Determination/Other *(give details)*]
- (v) Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the Agent): []
- (vi) Screen Rate Determination:
- (a) Reference Rate: []
(Either LIBOR/EURIBOR or other, although additional information is required if other, including fallback provisions in the Agency Agreement)
- (b) Interest Determination Date(s): []
(Second London Business Day prior to the start of each Interest Period if LIBOR, second TARGET Business Day prior to the start of each Interest Period if EURIBOR, or other (give details))
- (c) Relevant Screen Pages: []
(In the case of EURIBOR, if not Telerate 248 ensure it is a page which shows a composite rate)
- (vii) ISDA Determination:
- (a) Floating Rate Option: []
- (b) Designated Maturity: []
- (c) Reset Date(s): []
- (viii) Margin(s): [+/-][] percent per annum
- (ix) Minimum Rate of Interest: [] percent per annum
- (x) Maximum Rate of Interest: [] percent per annum
- (xi) Floating Day Count Fraction: []
- (xii) Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions: []

18. Zero Coupon Note Provisions: [Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (i) Amortization/Accrual Yield: [] percent per annum
- (ii) Reference Price: []
- (iii) Any other formula/ basis of determining amount payable: (Consider applicable Day Count Fraction if euro-denominated)
- (iv) Day Count Fraction in relation to Early Redemption Amounts and late payment: [Condition 5(f)(iii) applies/ *specify other*]
19. Index-Linked Interest Note Provisions: [Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (i) Index/Formula: [Give or annex details]
- (ii) Party responsible for calculating the interest due (if not the Agent): []
- (iii) Provisions for determining Coupon where calculation by reference to Index and/or Formula is impossible or impracticable: []
- (iv) Specified Period(s)/ Specified Interest Payment Dates: []
- (v) Business Day Convention: [Floating Rate Convention/ Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/ Other (*give details*)]
- (vi) Additional Business Center(s): []
- (vii) Minimum Rate of Interest: [] percent per annum
- (viii) Maximum Rate of Interest: [] percent per annum
- (ix) Day Count Fraction: []
20. Dual Currency Note Provisions: [Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (i) Rate of Exchange/method of calculating Rate of Exchange: [Give details]
- (ii) Party, if any, responsible for calculating the principal and/or interest due (if not the Agent): []
- (iii) Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable: []
- (iv) Person at whose option Specified Currency(ies) is/are payable: []

PROVISIONS RELATING TO REDEMPTION

21. Issuer Call: [Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (i) Optional Redemption Date(s): []
- (ii) Optional Redemption Amount(s) and method, if any, of calculation of such amount(s): []
- (iii) if redeemable in part:
- (a) Minimum Redemption Amount: []
- (b) Higher Redemption Amount: []
- (iv) Notice period (if other than as set out in the Conditions): []
22. Investor Put: [Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (i) Optional Redemption Date(s): []
- (ii) Optional Redemption Amount(s) and method, if any, of calculation of such amount(s): []
- (iii) Notice period (if other than as set out in the Conditions): []
23. Final Redemption Amount and/or the method, if any, of calculating the same (if required or if different from that set out in the Conditions): [Par/other/see Appendix]
(Fallback provisions must be inserted)
24. Early Redemption Amount(s) payable on redemption for taxation reasons or on event of default and/or the method of calculating the same (if required or if different from that set out in the Conditions): []

GENERAL PROVISIONS APPLICABLE TO THE NOTES

25. Form of Notes: Bearer Notes only
- [On or after the date that is 40 days after the date of issuance, the temporary global Note is exchangeable for one or more permanent global Notes, which is/are exchangeable for definitive Notes on 90 days' written notice]
- [On or after the date that is 40 days after the date of issuance, the temporary global Note is exchangeable for definitive Notes]
- [Permanent global Note(s) is/are exchangeable for definitive Notes on 90 days' written notice]

26. Additional Financial Center(s) or other special provisions relating to Payment Dates: [Not applicable/give details]
(Note that this item relates to the place of payment and not interest period and dates, to which item 17(iii) relates)
27. Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature): [Yes/No. If yes, give details]
28. Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment: [Not Applicable/give details]
29. Details relating to Installment Notes: [Not Applicable/Give details]
(i) Installment Amount(s): []
(ii) Installment Date(s): []
30. Redenomination, renominatisation and reconventioning provisions: [Not Applicable/The provisions annexed to this Pricing Supplement apply]
(If Redenomination is applicable, specify either the applicable Day Count Fraction or any provisions necessary to deal with floating rate interest calculations (including alternative reference rates))
31. Other terms or special conditions: [Not Applicable/Give details]

DISTRIBUTION

32. (i) If syndicated, names of Managers: [Not Applicable/Give names]
(ii) Stabilizing Manager (if any): [Not Applicable/Give names]
33. If non-syndicate, name of Dealer: [Not Applicable/Give names]
34. Whether TEFRA D rules applicable or TEFRA rules not applicable: [TEFRA D/TEFRA not applicable]
35. Additional selling restrictions: [Not Applicable/Give details]

OPERATIONAL INFORMATION

36. ISIN Code: []
37. Common Code: []
38. Any clearing system(s) other than Euroclear and Clearstream, Luxembourg and the relevant identification number(s): [Not Applicable/Give name(s) and number(s)]

39. Delivery: Delivery [against/free of] payment
40. Additional Paying Agent(s) (if any): []

[LISTING APPLICATION]

This Pricing Supplement comprises the details required to list the issue of Notes described herein pursuant to the listing of the U.S.\$1,000,000,000 Euro Medium-Term Note Program of United Parcel Service, Inc.]

RESPONSIBILITY

The Issuer accepts responsibility for the information contained in this Pricing Supplement.

Signed on behalf of the Issuer:

By _____
Duly authorized

TERMS AND CONDITIONS OF THE NOTES

The following are the Terms and Conditions of the Notes which (subject to completion and amendment) will be attached to or incorporated by reference into each global Note and which will be endorsed on each definitive Note. The applicable Pricing Supplement for any Tranche of Notes may specify other terms and conditions which, to the extent they modify or are inconsistent with the Terms and Conditions, shall replace or modify the following Terms and Conditions for the purpose of such Notes. The applicable Pricing Supplement (or the relevant provisions thereof) will be endorsed upon, or attached to, each temporary global Note, permanent global note and definitive Note. Reference should be made to "Form of Notes" above for a description of the content of Pricing Supplements which will include the definitions of certain terms used in the following Terms and Conditions or specify which of such terms are to apply in relation to the relevant Notes.

This Note is issued by United Parcel Service, Inc., a Delaware corporation (the "Issuer"). This Note is one of a Series (as defined below) of Notes (Notes of this Series being called the "Notes", which expression shall mean (i) in relation to any Notes represented by a global Note, units of the lowest Specified Denomination in the Specified Currency (each as specified in the applicable Pricing Supplement) of the relevant Notes, (ii) definitive Notes issued in exchange for a permanent global Note, and (iii) any global Note) issued subject to, and with the benefit of an Amended and Restated Fiscal Agency Agreement, dated September 12, 2000 (as amended from time to time, the "Agency Agreement"), among the Issuer, Citibank, N.A., as fiscal agent and principal paying agent and, if so specified in the applicable Pricing Supplement, calculation agent (the "Agent", which expression shall include any successor thereto) and the other paying agents named therein (together with the Agent, the "Paying Agents", which expression shall include any additional or successor paying agents). All Paying Agents will be located outside of the United States, except as described in Condition 6.

Interest-bearing definitive Notes will (unless otherwise indicated in the applicable Pricing Supplement) have interest coupons ("Coupons") and, if indicated in the applicable Pricing Supplement, talons for further Coupons ("Talons") attached on issue. Any reference herein to Coupons shall, unless the context otherwise requires, be deemed to include a reference to Talons. Definitive Notes repayable in installments will have receipts ("Receipts") for the payment of the installments of principal (other than the final installment) attached on issue.

As used herein, "Series" means all Notes which are denominated in the same Specified Currency and which have the same Maturity Date, Interest Basis and Interest Payment Dates (if any) (all as indicated in the applicable Pricing Supplement) and the terms of which (except for the Issue Date, Interest Commencement Date and/or the Issue Price, as indicated in the applicable Pricing Supplement) are otherwise identical (including whether or not the Notes are listed), and the expressions "Notes of the relevant Series" and "holders of Notes of the relevant Series" and related expressions shall be construed accordingly. As used herein, "Tranche" means all Notes of the same Series with the same Issue Date or Interest Commencement Date, as the case may be.

The Pricing Supplement applicable to this Note is attached hereto or endorsed hereon. Such Pricing Supplement supplements these Terms and Conditions and may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with these Terms and Conditions, replace or modify these Terms and Conditions for the purposes of this Note. References herein to the "applicable Pricing Supplement" shall mean the Pricing Supplement attached hereto or endorsed hereon.

Copies of the Agency Agreement, the form of Pricing Supplement and the Pricing Supplement applicable to this Note if listed are available for inspection at, and copies of such Pricing Supplement may be obtained without charge from, the specified offices of the Agent and the other Paying Agent. If this Note is unlisted, the applicable Pricing Supplement will only be available for inspection by a Noteholder holding one or more unlisted Notes of the same Series, and such Noteholder must produce evidence satisfactory to the relevant Paying Agent as to its identity. The Noteholders, the Couponholders and the Receiptholders are deemed to have notice of, and are entitled to the benefit of, all the provisions of the Agency Agreement and the applicable Pricing Supplement, which are binding on them.

Words and expressions defined in the Agency Agreement or used in the applicable Pricing Supplement shall have the same meanings in these Terms and Conditions unless otherwise stated and provided that, in the event of inconsistency between the Agency Agreement or these Terms and Conditions and the applicable Pricing Supplement, the applicable Pricing Supplement will prevail.

1. Form and Title

The Notes of this Series are in bearer form and, in the case of definitive Notes, serially numbered in the Specified Currency or Currencies and in the Specified Denomination(s) specified in the applicable Pricing Supplement.

This Note may be a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, a Dual Currency Note or an Index-Linked Interest Note, or any appropriate combination thereof, depending upon the Interest Basis specified in the applicable Pricing Supplement. It may also be also an Index-Linked Redemption Note, a Dual Currency Note, a Partly Paid Note or an Installment Note or any appropriate combination thereof, depending on the Redemption/Payment Basis specified in the applicable Pricing Supplement.

Notes in definitive form are issued with Coupons attached, unless they are Zero Coupon Notes or otherwise non-interest bearing, in which case references to interest (other than interest due after the Maturity Date), Coupons and Couponholders in these Terms and Conditions are not applicable.

Except as set out below, title to the Notes, Receipts and Coupons will pass by delivery. The Issuer and any Paying Agent may deem and treat the bearer of any Note, Receipt or Coupon as the absolute owner thereof (whether or not overdue and notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof) for all purposes but, in the case of any global Note, without prejudice to the provisions set out in the next succeeding paragraph.

For so long as any of the Notes are represented by a global Note, each person who is shown in the records of Morgan Guaranty Trust Company of New York, Brussels Office, as operator of the Euroclear System ("Euroclear"), or of Clearstream, Luxembourg as the holder of a particular nominal amount of Notes shall be treated by the Issuer, the Agent and any other Paying Agent as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal, premium (if any) and interest on the Notes, the right to which shall be vested solely in the bearer of the relevant global Note in accordance with and subject to its terms (and the expressions "Noteholder" and "holder of Notes" and related expressions shall be construed accordingly). Any certificate or other document issued by Euroclear or Clearstream, Luxembourg stating the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes except in the case of manifest error. Notes which are represented by a global Note will be transferable only in accordance with the rules and procedures of Euroclear or of Clearstream, Luxembourg, as the case may be, in effect at the time of transfer.

Any reference herein to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearance system approved by the Issuer, the relevant Dealer, the Agent, and in the case of Notes listed on the Luxembourg Stock Exchange, the Luxembourg Stock Exchange.

2. Status of Notes

The Notes constitute direct, unsecured (subject to the provisions of Condition 10), unsubordinated and general obligations of the Issuer and the Notes rank *pari passu* with all other unsecured and unsubordinated indebtedness of the Issuer, currently outstanding or to be issued (subject to such mandatory exceptions as are from time to time applicable under U.S. and New York law).

3. Redenomination

If the Specified Currency of an issue of Notes is a currency of one of the countries that subsequently participates in the Third Stage or otherwise participates in the EMU in a manner with similar effect to the Third Stage, the Issuer may specify in the applicable Pricing Supplement that such Notes will include a redenomination clause providing for the redenomination of the Specified Currency in euro, and, if so specified, the wording of the redenomination clause will be set out in full in the applicable Pricing Supplement.

4. Interest

(a) Interest on Fixed Rate Notes

Each Fixed Rate Note bears interest on its principal amount (or, if it is a Partly Paid Note, the amount paid up) from and including the Issue Date, or if the Interest Commencement Date is different than the Issue Date, from and including the Interest Commencement Date specified in the applicable Pricing Supplement at the rate(s) per annum equal to the Rate(s) of Interest specified in the applicable Pricing Supplement payable in arrears on the Interest Payment Date(s) in each year and on the Maturity Date so specified if it does not fall on an Interest Payment Date.

If interest is required to be calculated for a period ending other than on an Interest Payment Date, such interest shall be calculated by applying the Rate of Interest to each Specified Denomination, multiplying such sum by the applicable Fixed Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention.

In this Condition 4(a), the following expressions have the following meanings:

“Fixed Day Count Fraction” means:

(i) if “Actual/Actual” (ISMA) is specified in the applicable Pricing Supplement, the actual number of days in the relevant period from and including the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to but excluding the relevant payment date divided by the product of the actual number of days in the period from and including the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to but excluding the next scheduled Interest Payment Date (an “Interest Period”) and the number of Interest Payment Dates that would occur in one year assuming interest was to be payable in respect of the whole of that year; and

(ii) if “30/360” is specified in the applicable Pricing Supplement, the number of days in the period from and including the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to but excluding the relevant payment date (such number of days being calculated on the basis of 12 30-day months) divided by 360; and

“sub-unit” means, with respect to any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to euro, means one cent.

(b) Interest on Floating Rate Notes and Index-Linked Interest Notes

(i) Interest Payment Dates

Each Floating Rate Note and Index-Linked Interest Note bears interest on its outstanding nominal amount (or, if it is a Partly Paid Note, the amount paid up) from and including the Issue Date or, if the Interest Commencement Date is different than the Issue Date, from and including the Interest Commencement Date specified in the applicable Pricing Supplement and such interest will be payable in arrears on either: (A) the Specified Interest Payment Date(s) (each an “Interest Payment Date”) in each year specified in the applicable Pricing Supplement or (B) if no express Interest Payment Date(s) is/are specified in the applicable Pricing Supplement, each date which falls the number of months or other period specified as the Specified Period in the applicable Pricing Supplement after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

Such interest will be payable in respect of each Interest Period (which expression shall in these Terms and Conditions mean the period from (and including) the most recent Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date, each an “Interest Period”).

If a Business Day Convention is specified in the applicable Pricing Supplement and (x) if there is no numerically corresponding day in the calendar month in which an Interest Payment Date should occur or (y) if any Interest Payment Date would otherwise fall on a day that is not a Business Day, then, if the Business Day Convention specified is:

(1) in any case where Specified Periods are specified in accordance with paragraph 4(b)(i)(B) above, the Floating Rate Convention, such Interest Payment Date (or other date) (i) in the case of (x) above, shall be the last day that is a Business Day in such month and the provisions of (B) below of this subparagraph 1 shall apply *mutatis mutandis* or (ii) in the case of (y) above, shall be postponed to the next day which is a Business Day unless, in the case of a Specified Period specified in months, it would thereby fall into the next calendar month, in which event (A) such Interest Payment Date (or other date) shall be brought forward to the immediately preceding Business Day and (B) each subsequent Interest Payment Date (or other date) shall be the last Business Day in the month which falls the Specified Period after the preceding applicable Interest Payment Date (or other date) occurred; or

(2) the Following Business Day Convention, such Interest Payment Date (or other date) shall be postponed to the next day which is a Business Day; or

(3) the Modified Following Business Day Convention, such Interest Payment Date (or other date) shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date (or other such date) shall be brought forward to the immediately preceding Business Day; or

(4) the Preceding Business Day Convention, such Interest Payment Date (or other date) shall be brought forward to the immediately preceding Business Day.

In this Condition 4, “Business Day” means (unless otherwise provided in the applicable Pricing Supplement) a day which is both:

(A) a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets are open for general business (including dealing in foreign exchange and foreign currency deposits) and settle payments in London, New York City and any Additional Business Center specified in the applicable Pricing Supplement; and

(B) either (1) with respect to interest payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments in the principal financial center of the country of the relevant Specified Currency (if other than London, New York City or any Additional Business Center and which if the Specified Currency is New Zealand dollars shall be Auckland) or (2) in relation to interest payable in euro, a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET) System (“TARGET System”) is operating (a “TARGET Business Day”). Unless otherwise provided in the applicable Pricing Supplement, the principal financial center of any country for the purpose of these Terms and Conditions shall be as provided in the 1991 ISDA Definitions except that the principal financial center of Australia shall be Sydney and the principal financial center of Canada shall be Toronto. Unless otherwise provided in the applicable Pricing Supplement, the principal financial center of any country for the purpose of these Terms and Conditions shall be as provided in the ISDA Definitions except that the principal financial center of Australia shall be Sydney and the principal financial center of Canada shall be Toronto.

(ii) Interest payments

Interest will be paid, with respect to Floating Rate Notes and Index-Linked Interest Notes in definitive form, against surrender of the appropriate Coupons, subject to and in accordance with the provisions of Condition 6.

(iii) Rate of Interest

The Rate of Interest payable from time to time with respect to each Series of Floating Rate Notes and Index-Linked Interest Notes shall be determined in the manner specified in the applicable Pricing Supplement.

(A) ISDA Determination

Where ISDA Determination is specified in the applicable Pricing Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA

Rate plus or minus (as indicated in the applicable Pricing Supplement) the Margin (if any). For the purposes of this sub-paragraph (A), "ISDA Rate" for an Interest Period means a rate equal to the Floating Rate that would be determined by the Agent or other person specified in the applicable Pricing Supplement under an interest rate swap transaction if the Agent or that other person were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

- (1) the Floating Rate Option is specified in the applicable Pricing Supplement;
 - (2) the Designated Maturity is a period specified in the applicable Pricing Supplement;
- and
- (3) the relevant Reset Date is either (i) if the applicable Floating Rate Option is based on the London inter-bank offered rate ("LIBOR") or on the Euro-zone inter-bank offered rate ("EURIBOR") for a currency, the first day of that Interest Period or (ii) in any other case, as specified in the applicable Pricing Supplement.

For the purposes of this sub-paragraph (A), (i) "Floating Rate", "Calculation Agent", "Floating Rate Option", "Designated Maturity" and "Reset Date" have the meanings given to those terms in the ISDA Definitions, (ii) the definition of "Banking Day" in the ISDA Definitions shall be amended to insert after the words "are open for" in the second line the word "general" and (iii) "Euro-zone" means the region comprised of member states of the European Union that adopt the single currency in accordance with the Treaty.

When this sub-paragraph (A) applies, for each relevant Interest Period:

- (1) the Rate of Interest for such Interest Period will be the Floating Rate determined by the Agent in accordance with this sub-paragraph (A); and
- (2) the Agent will be deemed to have discharged its obligations under Condition 4(b)(v) with respect to the determination of the Rate of Interest if it has determined the Rate of Interest for such Interest Period in the manner provided in this sub-paragraph (A).

(B) Screen Rate Determination

Where Screen Rate Determination is specified in the applicable Pricing Supplement as the manner in which the Rate of Interest is to be determined,

- (1) the Rate of Interest for each Interest Period shall, subject as provided below, be either:
 - (I) the offered quotation; or
 - (II) the arithmetic mean (rounded, if necessary, to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations,

(expressed as a percentage rate per annum) for the interest rate (the "Reference Rate") for deposits in the Specified Currency for that Interest Period which appears on the Relevant Screen Page as at 11:00 a.m. (London time in the case of LIBOR, or Brussels time in the case of EURIBOR) on the Interest Determination Date (as defined below) in question plus or minus (as indicated in the applicable Pricing Supplement) the Margin (if any), all as determined by the Calculation Agent. If five or more such offered quotations are available on the Relevant Screen Page, the highest (or if there is more than one such highest quotation one only of such quotations) and the lowest (or if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Calculation Agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations;

(2) if the Relevant Screen Page is not available or in the case of (I) above, no such offered quotation appears or, in the case of (II) above, fewer than three of such offered quotations appear at such time or if the offered quotation or quotations which appears or appear, as the case may be, as at such time do not apply to a period of a duration equal to the relevant Interest Period, the Rate of Interest for such Interest Period shall, subject as provided below, be the arithmetic mean (rounded, if necessary, to the fifth decimal place, with 0.000005 being rounded upwards) of the quotations (expressed as a percentage rate per annum) at which the Calculation Agent is advised by the London offices (in the case of LIBOR) or Euro-zone offices (in the case of EURIBOR) of four leading banks engaged in the Eurodollar market (the "Reference Banks") as at 11:00 a.m. (London time in the case of LIBOR, or

Brussels time in the case of EURIBOR) on the Interest Determination Date plus or minus (as appropriate) the Margin (if any), all as determined by the Calculation Agent;

(3) if on any Interest Determination Date to which Condition 4(b)(iii)(B)(2) applies two or three of the Reference Banks advise the Calculation Agent of their offered quotations, the Rate of Interest for the next Interest Period shall, subject as provided below, be determined as in Condition 4(b)(iii)(B)(2) on the basis of the rates of those Reference Banks providing such offered quotations;

(4) if on any Interest Determination Date to which Condition 4(b)(iii)(B)(2) applies only one or none of the Reference Banks provides the Calculation Agent with such quotations, the Rate of Interest for the relevant Interest Period shall, subject as provided below, be whichever is the higher of:

(I) the Rate of Interest in effect for the last preceding Interest Period to which Condition 4(b)(iii)(B) shall have applied (plus or minus (as appropriate), where a different Margin is to be applied to the next Interest Period to that which applied to the last preceding Interest Period, the Margin relating to that last preceding Interest Period, plus or minus (as appropriate) the Margin for the next Interest Period) and

(II) the reserve interest rate (the "Reserve Interest Rate") which shall be the rate per annum which the Calculation Agent determines to be either (x) the arithmetic mean (rounded, if necessary, to the fifth decimal place, with 0.000005 being rounded upwards) of the lending rates for the Specified Currency quoted by banks selected by the Calculation Agent in the principal financial center of the country of the Specified Currency or, if the Specified Currency is euro, in the Euro-zone are quoting on the relevant Interest Determination Date for the next Interest Period to the Reference Banks or those of them (being at least two in number) to which such quotations are, in the opinion of the Calculation Agent, being so made plus or minus (as appropriate) the Margin (if any), or (y) in the event that the Calculation Agent can determine no such arithmetic mean, the lowest lending rate for the Specified Currency quoted by banks selected by the Calculation Agent in the principal financial center of the country of the Specified Currency or, if the Specified Currency is euro, in the Euro-zone are quoting on the first day of the relevant Interest Period to leading European banks in the London inter-bank market (in the case of LIBOR) or the Euro-zone inter-bank market (in the case of EURIBOR) for the next Interest Period plus or minus (as appropriate) the Margin (if any), provided that if the banks selected as aforesaid by the Calculation Agent are not quoting as mentioned above, the Rate of Interest shall be the Rate of Interest specified in (I) above;

(5) the expression "Relevant Screen Page" means such page, whatever its designation, on which LIBOR or, in the case of euro, EURIBOR or, if there is only one such rate, that rate, for deposits in the Specified Currency of prime banks are for the time being displayed on the Reuters Monitor Money Rates Service or the appropriate Associated Press-Dow Jones Telerate Service, as specified in the applicable Pricing Supplement;

(6) the expression "Interest Determination Date" means, unless otherwise specified in the applicable Pricing Supplement, (x) other than in the case of Condition 4(b)(iii)(B)(4), with respect to Notes denominated in any Specified Currency other than Sterling and euro, the second Banking Day in London prior to the commencement of the relevant Interest Period and, in the case of Condition 4(b)(iii)(B)(4), the second Banking Day in the principal financial center of the country of the Specified Currency or, if the Specified Currency is euro, in the Euro-zone prior to the commencement of the relevant Interest Period, (y) with respect to Notes denominated in Sterling, the first Banking Day in London of the relevant Interest Period and (z) with respect to Notes denominated in euro, the second TARGET Business Day in the Euro-zone prior to the commencement of the relevant Interest Period; and

(7) the expression "Banking Day" means, (i) in the case of a Specified Currency other than euro, a day on which commercial banks and foreign exchange banks settle payment in the principal financial center of the country of the Specified Currency, (ii) in the case of euro, a TARGET Business Day, and (iii) in the case of a Specified Currency and/or one or more specified financial centers, any day on which commercial banks are open for business (including dealings in foreign exchange and foreign currency deposits) in that place or, as the case may be, as indicated in the applicable Pricing Supplement.

(iv) Minimum and/or Maximum Rate of Interest

Except as provided below, if the applicable Pricing Supplement specifies a Minimum Rate of Interest for any Interest Period, then in no event shall the Rate of Interest for such period be less than such Minimum Rate of Interest, and if the applicable Pricing Supplement specifies a Maximum Rate of Interest for any Interest Period, then in no event shall the Rate of Interest for such Interest Period be greater than such Maximum Rate of Interest.

(v) Determination of Rate of Interest and calculation of Interest Amount

The Agent, in the case of Floating Rate Notes, and the Calculation Agent, in the case of Index-Linked Interest Notes, will, on or as soon as practicable after 11:00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR, or, if appropriate, such other time as is customary in the principal financial center of the country of the Specified Currency) on each Interest Determination Date, determine the Rate of Interest (subject to any Minimum or Maximum Rate of Interest specified in the applicable Pricing Supplement). In the case of Index-Linked Interest Notes, the Calculation Agent will notify the Agent of the Rate of Interest or the relevant Interest Period as soon as practicable after calculating the same. The Agent will calculate the amount of interest (the "Interest Amount") payable on the Floating Rate Notes or the Index-Linked Interest Notes with respect to each Specified Denomination for the relevant Interest Period. Each Interest Amount shall be calculated by applying the Rate of Interest to the Specified Denomination, multiplying such sum by the actual number of days in the Interest Period concerned divided by the applicable Floating Day Count Fraction and rounding the resultant figure to the nearest sub-unit of the Specified Currency), half of any such sub-unit being rounded upwards. "Floating Day Count Fraction" means, in respect of the calculation of an amount of interest for any Interest Period:

- (1) if "Actual/365" or "Actual/Actual" (ISDA) is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);
- (2) if "Actual/365 (Fixed)" is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 365;
- (3) if "Actual/360" is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 360;
- (4) if "30/360", "360/360" or "Bond Basis" is specified in the applicable Pricing Supplement, the number of days in the Interest Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 months of 30 days (unless (a) the last day of the Interest Period is the 31st day of a month but the first day of the Interest Period is a day other than the 30th or 31st day of a month, in which case the month that includes that last day shall not be considered to be shortened to a 30-day month, or (b) the last day of the Interest Period is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month)); and
- (5) if "30E/360" or "Eurobond Basis" is specified in the applicable Pricing Supplement, the number of days in the Interest Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 months of 30 days, without regard to the date of the first day or last day of the Interest Period unless, in the case of an Interest Period ending on the Maturity Date, the Maturity Date is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month).

(vi) Notification of Rate of Interest and Interest Amount

Provided that, if applicable, the Calculation Agent has notified the Agent, the Agent will notify the Issuer and any stock exchange on which the relevant Floating Rate Notes or Index-Linked Interest Notes are listed of the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date, and will cause the same to be published in accordance with Condition 16 as soon as possible after their determination but in no event later than the fourth London Business Day thereafter. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made

by way of adjustment) without publication as aforesaid in the event of an extension or shortening of the Interest Period in accordance with the provisions hereof. Each stock exchange on which the relevant Floating Rate Notes or Index-Linked Interest Notes are listed shall be promptly notified of any such amendment. For the purposes of this subparagraph (vi), the expression "London Business Day" means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets settle payments in London.

(vii) Certificates to be final

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this paragraph (b) by the Agent or, if applicable, the Calculation Agent, shall (in the absence of manifest error) be final, conclusive and binding on the Issuer, the Agent, the Calculation Agent, the other Paying Agents and any Noteholders, Receiptholders and Couponholders and (in the absence of manifest error) no liability to the Noteholders, the Receiptholders or the Couponholders shall attach to the Issuer, the Agent, the Calculation Agent or the other Paying Agents in connection with the exercise or non-exercise by the Agent or, if applicable, the Calculation Agent of their respective powers, duties and discretions pursuant to such provisions.

(viii) Limitations on Interest

In addition to any Maximum Interest Rate which may be applicable to any Floating Rate Note or Index-Linked Interest Note pursuant to Condition 4(b)(iv) above, the Rate of Interest on Floating Rate Notes shall in no event be higher than the maximum rate then permitted by the laws of the State of New York, as the same may be modified by United States law of general application.

(c) Dual Currency Notes

In the case of Dual Currency Notes, if the Rate of Interest or amount of interest is to be determined by reference to an exchange rate, such rate or amount of interest payable shall be determined in the manner specified in the applicable Pricing Supplement.

(d) Zero Coupon Notes

When a Zero Coupon Note becomes due and repayable prior to the Maturity Date and is not paid when due, the amount due and repayable shall be the Amortized Face Amount of such Note as determined in accordance with Condition 5(f)(iii). From and after the Maturity Date, any overdue principal of such Note shall bear interest at a rate per annum equal to the Amortization or Accrual Yield set forth in the applicable Pricing Supplement.

(e) Partly Paid Notes

In the case of Partly Paid Notes (other than Partly Paid Notes which are Zero Coupon Notes), interest will accrue on the paid up principal amount of such Notes and otherwise as specified in the applicable Pricing Supplement.

(f) Accrual of Interest

Each Note (or in the case of the redemption of part of a Note, that part of such Note redeemed) will cease to bear interest (if any) from the due date for its redemption unless, upon due presentation thereof, payment of principal is improperly withheld or refused. In such event, interest will continue to accrue until whichever is the earlier of (i) the day on which all sums due with respect to such Note up to that day are received by or on behalf of the holder of such Note; and (ii) the day on which the Agent has notified the holder thereof (either in accordance with Condition 16 or individually) of receipt of all sums due in respect thereof up to that date.

5. Redemption and Purchase

(a) At Maturity

Unless previously redeemed or purchased and cancelled as specified below, this Note will be redeemed by the Issuer at its Final Redemption Amount in the relevant Specified Currency on the Maturity Date specified in, or determined in the manner specified in, the applicable Pricing Supplement.

(b) Redemption for Tax Reasons

The Issuer may redeem the Notes of this Series in whole but not in part at any time at their Early Redemption Amount, together, if appropriate, with accrued interest to but excluding the date fixed for redemption, if the Issuer shall determine, based upon a written opinion of independent counsel selected by the Issuer that a substantial risk exists that the Issuer would be required to pay additional amounts, as provided in Condition 9, on the occasion of the next payment due with respect to the Notes of this Series because of a Tax Law Change (as hereinafter defined). A "Tax Law Change" is (i) any change in or amendment to the laws (or any regulations or rulings promulgated thereunder) of the United States of America or of any political subdivision or taxing authority thereof or therein affecting taxation, (ii) any change in application or official interpretation of such laws, regulations or rulings, (iii) any action which shall have been taken by any taxing authority, or any court of competent jurisdiction of the United States of America or any political subdivision or taxing authority thereof or therein, whether or not such action was taken or brought with respect to the Issuer, or (iv) any change, amendment, application, interpretation or execution of the laws of the United States of America (or any regulations or ruling promulgated thereunder) shall have been officially proposed, which change, amendment, action, application, interpretation or execution would have effect on or after the latest Issue Date of the Notes of this Series.

The Notes of this Series are also subject to redemption as a whole but not in part in the other circumstances described in Condition 9.

Notice of intention to redeem Notes will be given at least once in accordance with Condition 16 not less than 30 days nor more than 60 days prior to the date fixed for redemption, provided that no such notice of redemption shall be given earlier than 90 days prior to the effective date of such change or amendment and that at the time notice of such redemption is given, such obligation to pay such additional amounts remains in effect and cannot be avoided by the Issuer's taking reasonable measures available to it. From and after any redemption date, if monies for the redemption of Notes shall have been made available for redemption on such redemption date, such Notes shall cease to bear interest, if applicable, and the only right of the holders of such Notes and any Receipts or Coupons appertaining thereto shall be to receive payment of the Early Redemption Amount and, if appropriate, all unpaid interest accrued to such redemption date.

(c) Optional Redemption

The Pricing Supplement applicable to the Notes of this Series indicates either:

- (i) that the Notes of this Series cannot be redeemed prior to their Maturity Date; or
- (ii) that such Notes will be redeemable at the option of the Issuer and/or the holders of the Notes prior to such Maturity Date.

(d) Redemption at the Option of the Issuer ("Issuer Call")

If Issuer Call is specified in the applicable Pricing Supplement, the Issuer may, having (unless otherwise specified in the applicable Pricing Supplement) given not more than 60 nor less than 30 days notice to the Agent and, in accordance with Condition 16, the holders of the Notes of this Series (which notice shall be irrevocable), repay all or some portion of the Notes of this Series then outstanding on the Optional Redemption Date(s) at the Optional Redemption Amount(s) indicated in the applicable Pricing Supplement together, if appropriate, with accrued interest. In the event of a redemption of a portion of such Notes of this Series, such redemption must be for an amount equal to the Minimum Redemption Amount or a Higher Redemption Amount, as indicated in the applicable Pricing Supplement. In the case of a partial redemption of definitive Notes of this Series, the Notes of this Series to be repaid will be selected individually by lot not more than 60 days prior to the date fixed for redemption and a list of the Notes of this Series called for redemption will be published in accordance with Condition 16 not less than 30 days prior to such date. In the case of a partial redemption of Notes which are represented by a global Note, the relevant Notes will be redeemed in accordance with the rules of Euroclear and/or Clearstream, Luxembourg.

(e) Redemption at the Option of the Noteholders (“Investor Put”)

If Investor Put is specified in the applicable Pricing Supplement, upon the holder of any Note of this Series giving to the Issuer in accordance with Condition 16 not more than 60 nor less than 30 days notice (or such lesser period if so specified in the Pricing Supplement) (which notice shall be irrevocable) the Issuer shall, upon the expiration of such notice, redeem, subject to and in accordance with the terms specified in the applicable Pricing Supplement, in whole (but not in part) such Note on the Optional Redemption Date and at the Optional Redemption Amount indicated in the applicable Pricing Supplement together, if appropriate, with accrued interest.

(f) Early Redemption Amounts

For the purposes of Condition 5(b) above and Condition 13, Notes will be redeemed at an amount (the “Early Redemption Amount”) calculated as follows:

(i) in the case of Notes with a Final Redemption Amount equal to the Issue Price, at the Final Redemption Amount thereof; or

(ii) in the case of Notes (other than Zero Coupon Notes) with a Final Redemption Amount which is or may be greater or less than the Issue Price or which is payable in a Specified Currency other than that in which the Notes are denominated, at the amount set out in, or determined in the manner set out in, the applicable Pricing Supplement or if no such amount or manner is set out in the Pricing Supplement, at their principal amount; or

(iii) in the case of Zero Coupon Notes, at an amount (the “Amortized Face Amount”) equal to:

(A) the sum of (x) the Reference Price specified in the applicable Pricing Supplement and (y) the product of the Amortization or Accrual Yield specified in the applicable Pricing Supplement (compounded annually) being applied to the Reference Price from and including the Issue Date to but excluding the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable; or

(B) if the amount payable with respect to any Zero Coupon Note upon redemption of such Zero Coupon Note pursuant to Condition 5(b) above or upon its becoming due and repayable as provided in Condition 13 is not paid or available for payment when due, the amount due and repayable with respect to such Zero Coupon Note shall be the Amortized Face Amount of such Zero Coupon Note calculated as provided above as though the references in sub-paragraph (A) to the date fixed for redemption or the date upon which the Zero Coupon Note becomes due and repayable were replaced by references to the date (the “Reference Date”) which is the earlier of:

(1) the date on which all amounts due with respect to the Note have been paid;

(2) the date on which the full amount of the monies repayable has been received by the Agent and notice to that effect has been given in accordance with Condition 16.

The calculation of the Amortized Face Amount in accordance with this sub-paragraph (B) will continue to be made until the Reference Date unless the Reference Date falls on or after the Maturity Date, in which case the amount due and repayable shall be the principal amount of such Note together with interest at a rate per annum equal to the Amortization or Accrual Yield.

Where any such calculation is to be made for a period of less than a full year, it shall be made on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed or such other calculation as may be specified in the applicable Pricing Supplement.

(g) Installments

Any Note which is repayable in installments will be redeemed in the Installment Amounts and on the Installment Dates specified in the applicable Pricing Supplement.

(h) Partly Paid Notes

If the Notes of this Series are Partly Paid Notes, they will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition 5 as amended or varied by the applicable Pricing Supplement.

(i) Purchases

The Issuer may at any time purchase Notes of this Series (provided that, in the case of definitive Notes, all unmatured Receipts and Coupons appertaining thereto are surrendered therewith) in the open market at any price. If purchases are made by tender offer, such tender offer must be available to all holders of Notes of this Series alike.

(j) Cancellation

All Notes redeemed or purchased as aforesaid will be cancelled forthwith, together with all unmatured Receipts and Coupons attached thereto or surrendered or purchased therewith, and may not be resold or reissued.

6. Payments

(a) Method of Payment

Subject to the provisions of this Condition 6,

(i) payments in a currency other than euro will be made by credit or transfer to an account in the Specified Currency maintained by the payee with, or at the option of the payee by a check in the Specified Currency drawn on, a bank in the principal financial center of the country of such Specified Currency, and

(ii) payments in euro will be made by credit to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by a euro check,

provided, however, that, subject as provided below, no payments shall be made either by check mailed to an address in the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia, its territories, its possessions and other areas subject to its jurisdiction)) or by transfer to an account maintained in the United States.

Payments will be subject in all cases to any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 9.

(b) Presentation of Notes, Receipts, Coupons and Talons

Payments of principal with respect to definitive Notes will (subject as provided below) be made in the Specified Currency against surrender of definitive Notes and payments of interest with respect to the definitive Notes will (subject as provided below) be made in the Specified Currency against surrender of Coupons, in each case at the specified office of any Paying Agent outside the United States and its possessions.

In the case of definitive Notes, payments of principal with respect to installments (if any), other than the final installment, will (subject as provided below) be made against presentation and surrender of the relevant Receipt at the specified office of any Paying Agent outside the United States and its possessions. Each Receipt must be presented for payment of the relevant installment together with the relevant definitive Note against which the amount will be payable with respect to that installment. If any definitive Note is redeemed or becomes repayable prior to the stated Maturity Date (in the case of a Note other than a Floating Rate Note or an Index-Linked Interest Note) or prior to the stated Maturity Date in respect thereof, principal will be payable on surrender of such definitive Note together with all unmatured Receipts appertaining thereto. Receipts presented without the definitive Note to which they appertain and unmatured Receipts do not constitute valid obligations of the Issuer.

Fixed Rate Notes in definitive form (other than Dual Currency Notes or Index-Linked Notes) should be presented for payment together with all unmatured Coupons appertaining thereto. The amount of any missing

unmatured Coupon (or, in the case of a partial payment, the same proportion of the amount of such missing unmaturing Coupon as the partial payment made bears to the total amount due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid against surrender of the missing coupon at any time before the expiration of five years after the Relevant Date (as defined in Condition 15) with respect to such principal (whether or not such Coupon would otherwise have become void under Condition 15). Upon any Fixed Rate Note becoming due and repayable prior to its Maturity Date, all unmaturing Talons (if any) appertaining thereto will become void and no further Coupons will be issued in respect thereof.

Upon the date on which any Floating Rate Note, Dual Currency Note or Index-Linked Note in definitive form becomes due and repayable, all unmaturing Coupons and Talons (if any) relating thereto (whether or not attached) shall become void and no payment or exchange for further Coupons, as the case may be, shall be made in respect thereof.

If the due date for redemption of any Note in definitive form is not an Interest Payment Date, interest (if any) accrued with respect to such Note from and including the preceding Fixed Interest Date or Interest Payment Date or, as the case may be, the Interest Commencement Date shall be payable only against surrender of the relevant definitive Note.

Payments of principal and interest (if any) with respect to Notes of this Series represented by any global Note will be made in the manner specified above in accordance with the terms of the relevant global Note against presentation or surrender, as the case may be, of such global Note at the specified office of the Agent outside the United States and its possessions. A record of each payment made against presentation or surrender of such global Note, distinguishing between any payment of principal and any payment of interest, will be made on such global Note by the Agent and such record shall be prima facie evidence that the payment in question has been made.

The holder of a global Note shall be the only person entitled to receive payments with respect to Notes represented by such global Note and the Issuer will be discharged by payment to, or to the order of, the holder of such global Note with respect to each amount so paid. Each of the persons shown in the records of Euroclear or Clearstream, Luxembourg as the holder of a particular principal amount of Notes must look solely to Euroclear and/or Clearstream, Luxembourg, as the case may be, for his share of each payment so made by the Issuer to, or to the order of, the holder of the relevant global Note. No person other than the holder of the relevant global Note shall have any claim against the Issuer with respect to payments due on that global Note.

Payments with respect to the Notes may be made at the specified office of a Paying Agent in the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia), its territories, its possessions and other areas subject to its jurisdiction) only under the following conditions:

(i) the Issuer has appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment at such specified offices outside the United States of the full amount owing with respect to the Notes in the manner provided above when due;

(ii) payment of the full amount owing with respect to the Notes at such specified offices outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions; and

(iii) such payment is then permitted under United States law and, in the sole opinion of the Issuer, will not result in the imposition of any tax withholding obligation, the payment of any amounts under Condition 9, or any other adverse tax-related consequence to the Issuer.

(c) Payment Business Day

If the date for payment of any amount with respect to any Note, Receipt or Coupon is not a Payment Business Day in a place of presentation, the holder thereof shall not be entitled to payment until the next following Payment Business Day in the relevant place and shall not be entitled to further interest or other payment with respect to such delay. For these purposes, unless otherwise specified in the applicable Pricing Supplement, "Payment Business Day" means any day which is a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in the relevant place of presentation and a Business Day as defined in Condition 4.

(d) Interpretation of Principal and Interest

Any reference in these Terms and Conditions to principal with respect to the Notes of this Series shall be deemed to include, as applicable:

- (i) any additional amounts which may be payable under Condition 9 with respect to principal;
- (ii) the Final Redemption Amount of the Notes;
- (iii) the Early Redemption Amount of the Notes;
- (iv) with respect to Notes redeemable in installments, the Installment Amounts;
- (v) any premium and any other amounts which may be payable under or with respect to the Notes;
- (vi) in relation to Zero Coupon Notes, the Amortized Face Amount; and
- (vii) the Optional Redemption Amount(s) (if any) of the Notes.

Any reference in these Terms and Conditions to interest with respect to the Notes shall be deemed to include, as applicable, any additional amounts which may be payable under Condition 9.

7. Agent and Paying Agents

The names of the Agent and the other Paying Agents and their specified offices are as follows: Citibank, N.A., as Agent, and Banque Internationale à Luxembourg société anonyme and Citibank (Switzerland), as the other Paying Agents. In acting under the Agency Agreement, the Agent and the Paying Agents will act solely as agents of the Issuer and do not assume any obligations towards or relationships of agency or trust for or with the Noteholders, Receiptholders or Couponholders, except that (without affecting the obligations of the Issuer to the Noteholders, Receiptholders and Couponholders to repay Notes and pay interest thereon) funds received by the Agent for the payment of the principal of or interest on the Notes shall be held by it in a segregated account for the Noteholders and/or Receiptholders and/or Couponholders until the expiration of the relevant period of prescription under Condition 15, whereupon all liability of the Agent or any other Paying Agent with respect to the payment of principal or interest to the Noteholders, Receiptholders or Couponholders shall cease, and the holder of a Note or Coupon shall thereafter look only to the Issuer for any payment which such holder may be entitled to collect. The Issuer, the Agent and the other Paying Agents have undertaken to perform and observe the obligations imposed upon them under the Agency Agreement. The Agency Agreement contains provisions for the indemnification of the Agent and the other Paying Agents and entitles each of the Agent and the other Paying Agents and their officers, directors and employees to become the owner of, or acquire any interest in, any Notes, Receipts, Coupons or Talons, or to engage or be interested in any financial or other transaction with the Issuer.

The Issuer is entitled to vary or terminate the appointment of any Paying Agent or any other paying agent appointed under the terms of the Agency Agreement and/or appoint additional or other paying agents and/or approve any change in the specified office through which any paying agent acts, provided that for so long as any Note is outstanding, or until moneys for the payment of all amounts with respect to all outstanding Notes have been made available to the Agent and have not been returned to the Issuer:

- (i) so long as the Notes of this Series are listed on any stock exchange, there will at all times be a Paying Agent with a specified office in each location required by the rules and regulations of the relevant stock exchange, including, so long as any Notes are listed on the Luxembourg Stock Exchange, a Paying Agent having a specified office in Luxembourg;

- (ii) there will at all times be a Paying Agent with a specified office in a principal financial center in the European Union;
- (iii) there will at all times be an Agent; and
- (iv) the Agent will at all times be located outside the United States.

In addition, the Issuer shall appoint a Paying Agent having a specified office in New York City in the circumstances described in the final paragraph of Condition 6(b). Any variation, termination, appointment or change of the Agent or any other Paying Agent shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not less than 30 nor more than 45 days prior notice thereof shall have been given to the Agent and the Noteholders in accordance with Condition 16 provided that no such variation, termination, appointment or change shall take effect (except in the case of insolvency) within 15 days before or after any Interest Payment Date.

Citibank (Switzerland) shall serve as a Paying Agent only with respect to issues made under the Program on or before September 11, 2000 and shall share not serve in any capacity with respect to any issues made under the Program after that date. For avoidance of doubt, Citibank (Switzerland) will not act as Paying Agent for any issues made under the Program on or after September 12, 2000.

8. Exchange of Talons

On and after the Fixed Interest Date or the Interest Payment Date, as appropriate, on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of the Agent or any other Paying Agent (located outside the United States and its possessions) in exchange for a further Coupon sheet including (if such further Coupon sheet does not include Coupons to, and including, the final date for the payment of interest due with respect to the Note to which it appertains) a further Talon, subject to the provisions of Condition 15. Each Talon shall, for the purposes of these Terms and Conditions, be deemed to mature on the Fixed Interest Date or the Interest Payment Date (as the case may be) on which the final Coupon of the relative Coupon sheet matures.

9. Payment of Additional Amounts

The Issuer will, subject to certain limitations and exceptions (set forth below), pay to a Noteholder, Receiptholder or Couponholder who is a United States Alien (as defined below) such additional amounts as may be necessary so that every net payment of principal or interest with respect to the Notes, Receipts or Coupons after deduction or withholding for or on account of any present or future tax, assessment or other governmental charge imposed upon such Noteholder, Receiptholder or Couponholder, or by reason of the making of such payment, by the United States or any political subdivision or taxing authority thereof or therein (collectively referred to as "Taxes"), will not be less than the amount provided for in the Notes, Receipts or Coupons. However, the Issuer shall not be required to make any payment of additional amounts for or on account of:

(a) any Taxes that would not have been so imposed but for (i) the existence of any present or former connection between such holder (or between a fiduciary, settlor, beneficiary, member or shareholder of, or a person having a power over, such holder, if such holder is an estate, a trust, a partnership or a corporation) and the United States or any political subdivision or taxing authority thereof (a "Taxing Jurisdiction") including, without limitation, such holder (or such fiduciary, settlor, beneficiary, member, shareholder or person having such a power) being or having been a citizen or resident or treated as a resident of, being or having been engaged in a trade or business in, or being or having been present therein or having or having had a permanent establishment in, a Taxing Jurisdiction (ii) such holder's present or former status for United States tax purposes as a domestic or foreign personal holding company, a controlled foreign corporation, a passive foreign investment company, a foreign private foundation or a corporation that accumulates earnings to avoid United States federal income tax, or (iii) payment being made in the United States on a Note in accordance with the circumstances described in the final paragraph of Condition 6(b);

(b) any Taxes imposed by reason of the holder (i) owning or having owned, directly or indirectly, actually or constructively, 10% or more of the total combined voting power of all classes of stock of the Issuer entitled to vote, (ii) receiving interest that is received by a bank on an extension of credit pursuant to a loan agreement entered into in the ordinary course of its trade or business, or (iii) being a controlled foreign corporation for United States tax purposes that is related to the Issuer by actual or constructive stock ownership;

(c) any Taxes that would not have been so imposed but for the presentation by the holder of such Note, Receipt or Coupon for payment on a date more than 15 days after the date on which such payment became due and payable or the date on which payment thereof is duly provided for, whichever occurs later;

(d) any estate, inheritance, gift, sales, transfer, personal property, wealth, interest equalization or any similar Taxes;

(e) any Taxes that are payable otherwise than by withholding from payment of principal of or interest on such Note, Receipt or Coupon;

(f) any Taxes that would not have been imposed but for the failure to comply with certification, information, documentation or other reporting requirements concerning the nationality, residence, identity or connection with the United States of the holder or beneficial owner of such Note, Receipt or Coupon, if, without regard to any tax treaty, such compliance is required by statute or by regulation of the United States Treasury Department as a precondition to relief or exemption from such tax, assessment or other governmental charge;

(g) any Taxes that would not be required to be withheld if made by a different Paying Agent;

(h) any Taxes that are payable by a holder that is not the beneficial owner of such Note, Receipt or Coupon or portion of either, or that is a foreign partnership, but only to the extent that a beneficial owner or member of the partnership would not have been entitled to the payment of any additional amounts had the beneficial owner or member received directly its beneficial or distributive share of the payment;

(i) except as provided in the applicable Pricing Supplement, any Taxes imposed on interest described in Section 871(h)(4)(A) of the United States Internal Revenue Code of 1986, as amended, and the regulations thereunder; or

(j) any combination of items (a), (b), (c), (d), (e), (f), (g), (h) and (i).

For purposes of the foregoing, the holding of or the receipt of any payment with respect to a Note shall not constitute a connection between the holder (or between a fiduciary, settlor, beneficiary, member or shareholder of, or a person having a power over, such holder if such holder is an estate, a trust, a partnership or a corporation) and the United States.

“United States Alien”, as used in this Offering Circular, means any individual, corporation, trust, other entity or fiduciary that is not a United States Person (as defined below), and any foreign partnership having no partner that is a United States Person. A “United States Person” is any of the following: (i) a citizen or resident of the United States (including a person treated as such a resident for United States federal income tax purposes by virtue of his physical presence therein or otherwise); (ii) a corporation, partnership, or other entity created or organized under the laws of the United States (or any political subdivision thereof unless, in the case of an entity treated as a partnership for U.S. federal income tax purposes, the Secretary of the Treasury provides otherwise by regulations); (iii) an estate the income of which is subject to United States federal income taxation regardless of its source; (iv) a trust if (A) a court within the United States is able to exercise primary supervision over the administration of the trust and (B) one or more United States Persons have the authority to control all substantial decisions of the trust; and (v) a trust that was in existence on August 20, 1996, that was treated for U.S. federal income tax purposes as a domestic trust on August 19, 1996, and that has properly elected to continue treatment as a domestic trust.

If the Issuer shall determine, based upon a written opinion of independent counsel selected by the Issuer, that any payment made outside the United States by the Issuer or any of its Paying Agents of the full amount of the next scheduled payment of either principal or interest due with respect to any Note, Receipt or Coupon of this Series would be subject, under any present or future laws or regulations of the United States affecting taxation or otherwise, to any certification, information or other reporting requirements of any kind, the effect of which requirements is the disclosure to the Issuer, any of its Paying Agents or any governmental authority of the nationality, residence or identity (as distinguished from status as a United States Alien) of a beneficial owner of such Note, Receipt or Coupon who is a United States Alien (other than such requirements which (i) would not be applicable to a payment made directly to the beneficial owner, (ii) would not be applicable to a payment made

to a custodian, nominee or other agent of the beneficial owner, or which can be satisfied by such a custodian, nominee or other agent certifying to the effect that such beneficial owner is a United States Alien, *provided, however*, in each case that payment by such custodian, nominee or agent to such beneficial owner is not otherwise subject to any requirements referred to in this sentence, (iii) are applicable only to payment by a custodian, nominee or other agent of the beneficial owner to or on behalf of such beneficial owner, or (iv) would not be applicable to a payment made by at least one of the paying agents of the Issuer), the Issuer shall redeem the Notes of this Series as a whole but not in part at a redemption price equal to the Early Redemption Amount together, if appropriate, with accrued interest to, but excluding, the date fixed for redemption, such redemption to take place on such date not later than one year after the publication of notice of such determination. If the Issuer becomes aware of an event that might give rise to such certification, information or other reporting requirements, the Issuer shall, as soon as practicable, solicit advice of independent counsel selected by the Issuer to establish whether such certification, information or other reporting requirements will apply and, if such requirements will, in the written opinion of such counsel, apply, the Issuer shall give prompt notice of such determination (a "Tax Notice") in accordance with Condition 16 stating in such notice the effective date of such certification, information or other reporting requirements and, if applicable, the date by which the redemption shall take place. In the event the Notes are to be redeemed as described above, notice of such redemption will be given to holders of the Notes not more than 60 nor less than 30 days prior to the date fixed for such redemption. Notwithstanding the foregoing, the Issuer shall not redeem the Notes if the Issuer, based upon the written opinion of independent counsel selected by the Issuer, shall subsequently determine not less than 30 days prior to the date fixed for redemption that subsequent payments would not be subject to any such requirements, in which case the Issuer shall give prompt notice of such determination in accordance with Condition 16 and any earlier redemption notice shall thereby be revoked and of no further effect.

Notwithstanding the foregoing, if and so long as the certification, information or other reporting requirements referred to in the preceding paragraph would be fully satisfied by payment of a backup withholding tax or similar charge, the Issuer may elect prior to publication of the Tax Notice to have the provisions described in this paragraph apply in lieu of the provisions described in the preceding paragraph, in which case the Tax Notice shall state the effective date of such certification, information or reporting requirements and that the Issuer has elected to pay additional amounts rather than redeem the Notes. In such event, the Issuer will pay as additional amounts such amounts as may be necessary so that every net payment made following the effective date of such certification, information or reporting requirements outside the United States by the Issuer or any of its Paying Agents of principal or interest due with respect to a Note, Receipt or Coupon to a holder who certifies to the effect that the beneficial owner of such Note, Receipt or Coupon is a United States Alien (provided that such certification shall not have the effect of communicating to the Issuer or any of its Paying Agents or any governmental authority the nationality, residence or identity of the beneficial owner) after deduction or withholding for or on account of such backup withholding tax or similar charge (other than a backup withholding tax or similar charge which (i) would not be applicable in the circumstances referred to in the second parenthetical clause of the first sentence of the preceding paragraph, or (ii) is imposed as a result of the fact that the Issuer or any of its Paying Agents has actual knowledge that the holder or beneficial owner of such Note, Receipt or Coupon is not a United States Alien but is within the category of persons, corporations or other entities described in clause (a)(i) of this Condition 9, or (iii) is imposed as a result of presentation of such Note, Receipt or Coupon for payment more than 15 days after the date on which such payment becomes due and payable or on which payment thereof is duly provided for, whichever occurs later), will not be less than the amount provided for in such Note, such Receipt or such Coupon to be then due and payable. In the event the Issuer elects to pay such additional amounts, the Issuer will have the right, at its sole option, at any time thereafter but subject to the provisions of the preceding paragraph, to redeem the Notes of this Series, as a whole but not in part at a redemption price equal to their Early Redemption Amount, together, if appropriate, with accrued interest to the date fixed for redemption including any additional amounts required to be paid under this paragraph. If the Issuer has made the determination described in the preceding paragraph with respect to certification, information or other reporting requirements applicable to interest only and subsequently makes a determination in the manner and of the nature referred to in such preceding paragraph with respect to such requirements applicable to principal, the Issuer will redeem the Notes of this Series in the manner and on the terms described in the preceding paragraph (except as provided below), unless the Issuer elects to have the provisions of this paragraph apply rather than the provisions of the immediately preceding paragraph. If in such circumstances the Notes are to be redeemed, the Issuer will be obligated to pay additional amounts with respect

to interest, if any, accrued to the date of redemption. If the Issuer has made the determination described in the preceding paragraph and subsequently makes a determination in the manner and of the nature referred to in such preceding paragraph that the level of withholding applicable to principal or interest has been increased, the Issuer will redeem the Notes of this Series in the manner and on the terms described in the preceding paragraph (except as provided below), unless the Issuer elects to have the provisions of this paragraph apply rather than the provisions of the immediately preceding paragraph. If in such circumstances the Notes are to be redeemed, the Issuer will be obligated to pay additional amounts with respect to the original level of withholding on principal and interest, if any, accrued to the date of redemption. If the Issuer elects to pay additional amounts pursuant to this paragraph and the condition specified in the first sentence of this paragraph should no longer be satisfied, then the Issuer shall redeem the Notes pursuant to the provisions of the preceding paragraph.

10. Limitation on Secured Indebtedness; Limitation on Sale and Leaseback Transactions

(a) The Issuer will not create, assume, incur or guarantee, and will not permit any Restricted Subsidiary to create, assume, incur or guarantee, any Secured Indebtedness without making provision whereby all the Notes shall be secured equally and ratably with (or prior to) such Secured Indebtedness (together with, if the Issuer shall so determine, any other Indebtedness of the Issuer or such Restricted Subsidiary then existing or thereafter created which is not subordinate to the Notes) so long as such Secured Indebtedness shall be outstanding unless such Secured Indebtedness, when added to (a) the aggregate amount of all Secured Indebtedness then outstanding (not including in this computation Secured Indebtedness if the Notes are secured equally and ratably with (or prior to) such Secured Indebtedness and further not including in this computation any Secured Indebtedness which is concurrently being retired) and (b) the aggregate amount of all Attributable Debt then outstanding pursuant to Sale and Leaseback Transactions entered into by the Issuer after June 6, 1996, or entered into by a Restricted Subsidiary after June 6, 1996 or, if later, the date on which it became a Restricted Subsidiary (not including in this computation any Attributable Debt which is concurrently being retired), would not exceed 10% of Consolidated Net Tangible Assets.

(b) The Issuer will not, and will not permit any Restricted Subsidiary to, enter into any Sale and Leaseback Transaction unless (a) the sum of (i) the Attributable Debt to be outstanding pursuant to such Sale and Leaseback Transaction, (ii) all Attributable Debt then outstanding pursuant to all other Sale and Leaseback Transactions entered into by the Issuer after June 6, 1996, or entered into by a Restricted Subsidiary after June 6, 1996 or, if later, the date on which it became a Restricted Subsidiary, and (iii) the aggregate of all Secured Indebtedness then outstanding (not including in this computation Secured Indebtedness if the Notes are secured equally and ratably with (or prior to) such Secured Indebtedness) would not exceed 10% of Consolidated Net Tangible Assets or (b) an amount equal to the greater of (i) the net proceeds to the Issuer or the Restricted Subsidiary of the sale of the Principal Property sold and leased back pursuant to such Sale and Leaseback Transaction and (ii) the amount of Attributable Debt to be outstanding pursuant to such Sale and Leaseback Transaction is applied to the retirement of Funded Debt of the Issuer or any Restricted Subsidiaries (other than Funded Debt which is subordinate to the Notes or which is owing to the Issuer or any Restricted Subsidiaries) within 180 days after the consummation of such Sale and Leaseback Transaction.

For the purposes of this Condition 10:

“*Attributable Debt*” means, as of the date of its determination, the present value (discounted semiannually at an interest rate of 5½% per annum) of the obligation of a lessee for rental payments pursuant to any Sale and Leaseback Transaction (reduced by the amount of the rental obligations of any sublessee of all or part of the same property) during the remaining term of such Sale and Leaseback Transaction (including any period for which the lease relating thereto has been extended), such rental payments not to include amounts payable by the lessee for maintenance and repairs, insurance, taxes, assessments and similar charges and for contingent rents (such as those based on sales). In the case of any Sale and Leaseback Transaction in which the lease is terminable by the lessee upon the payment of a penalty, such rental payments shall be considered for purposes of this definition to be the lesser of (a) the rental payments to be paid under such Sale and Leaseback Transaction until the first date (after the date of such determination) upon which it may be so terminated plus the then applicable penalty upon such termination and (b) the rental payments required to be paid during the remaining term of such Sale and Leaseback Transaction (assuming such termination provision is not exercised).

“*Board of Directors*” means either the board of directors of the Issuer or committee of that board duly authorized to act for it in respect hereof.

“*Board Resolution*” means a copy of a resolution certified by the Secretary or an Assistant Secretary of the Issuer to have been duly adopted by the Board of Directors and to be in full force and effect on the date of such certification.

“*Capitalized Lease Obligation*” means any obligation to pay rent or other amounts under a lease of (or other agreement conveying the right to use) real or personal property that is required to be classified and accounted for as a capital lease obligation under generally accepted accounting principles, and, for the purposes hereof, the amount of such obligation at any date shall be the capitalized amount thereof at such date, determined in accordance with such principles.

“*Consolidated Net Tangible Assets*” means at any date, the total assets appearing on the most recently prepared consolidated balance sheet of the Issuer and the Subsidiaries as of the end of a fiscal quarter of the Issuer, prepared in accordance with generally accepted accounting principles, less (a) all current liabilities as shown on such balance sheet and (b) intangible assets. “*Intangible assets*” means the value (net of any applicable reserves), as shown on or reflected in such balance sheet, of: (i) all trade names, trademarks, licenses, patents, copyrights and goodwill; (ii) organizational and development costs; (iii) deferred charges (other than prepaid items such as insurance, taxes, interest, commissions, rents and similar items and tangible assets being amortized); and (iv) unamortized debt discount and expense, less unamortized premium.

“*Indebtedness*” means (a) any liability of any Person (1) for borrowed money, or under any reimbursement obligation relating to a letter of credit, or (2) evidenced by a bond, note, debenture or similar instrument (including a purchase money obligation) given in connection with the acquisition of any business, properties or assets of any kind or with services incurred in connection with capital expenditures (other than a trade payable or a current liability arising in the ordinary course of business), or (3) for the payment of money relating to a Capitalized Lease Obligation, or (4) for Interest Rate Protection Obligations; (b) any liability of others described in the preceding clause (a) that the Person has guaranteed or that is otherwise its legal liability; and (c) any amendment, supplement, modification, deferral, renewal, extension or refunding of any liability of the types referred to in clauses (a) and (b) above.

“*Interest Rate Protection Obligations*” of any Person means the obligations of such Person pursuant to any arrangement with any other Person whereby, directly or indirectly, such Person is entitled to receive from time to time periodic payments calculated by applying a fixed rate of interest on a stated notional amount in exchange for periodic payments made by such Person calculated by applying a floating rate of interest on the same notional amount.

“*Liens*” means any mortgage, lien, pledge, security interest, charge or encumbrance.

“*Person*” means any individual, corporation, partnership, joint venture, trust, unincorporated organization or government or any agency or political subdivision thereof or any other entity.

“*Principal Property*” means any land, land improvements, buildings and associated factory, distribution, laboratory and office equipment (excluding any products marketed by the Issuer or any Subsidiary) constituting a distribution facility, operating facility, manufacturing facility, development facility, warehouse facility, service facility or office facility (including any portion thereof), which facility (a) is owned by or leased to the Issuer or any Restricted Subsidiary, (b) is located within the United States and (c) has an acquisition cost plus capitalized improvements in excess of 0.50% of Consolidated Net Tangible Assets as of the date of such determination, other than (i) any such facility, or portion thereof, which has been financed by obligations issued by or on behalf of a State, a Territory or a possession of the United States, or any political subdivision of any of the foregoing, or the District of Columbia, the interest on which is excludable from gross income of the holders thereof (other than a “substantial user” of such facility or a “related Person” as those terms are used in Section 103 of the Internal Revenue Code of 1986, as amended (the “Code”)) pursuant to the provisions of Section 103 of the Code (or any similar provision hereafter enacted) as in effect at the time of issuance of such obligations, (ii) any such facility which the Board of Directors may by Board Resolution declare is not of material importance to the Issuer and the Restricted Subsidiaries taken as a whole and (iii) any such facility, or portion thereof, owned or leased jointly or in common with one or more Persons other than the Issuer and any Subsidiary and in which the interest of the Issuer and all Subsidiaries does not exceed 50%.

“*Restricted Securities*” means any shares of the capital stock or Indebtedness of any Restricted Subsidiary.

“*Restricted Subsidiary*” means (a) any Subsidiary (i) which has substantially all its property within the United States of America, (ii) which owns or is a lessee of any Principal Property, and (iii) in which the investment of the Issuer and all other Subsidiaries exceeds 0.50% of Consolidated Net Tangible Assets as of the date of such determination; provided, however, that the term “*Restricted Subsidiary*” shall not include (A) any Subsidiary (x) primarily engaged in the business of purchasing, holding, collecting, servicing or otherwise dealing in and with installment sales contracts, leases, trust receipts, mortgages, commercial paper or other financing instruments, and any collateral or agreements relating thereto, including in the business, individually or through partnerships, of financing (whether through long- or short-term borrowings, pledges, discounts or otherwise) the sales, leasing or other operations of the Issuer and the Subsidiaries or any of them, or (y) engaged in the business of financing the assets and operations of third parties, (z) in any case, not, except as incidental to such financing business, engaged in owning, leasing or operating any property which but for this proviso would qualify as Principal Property or (B) any Subsidiary acquired or organized after June 6, 1996, for the purpose of acquiring the stock or business or assets of any Person other than the Issuer or any Restricted Subsidiary, whether by merger, consolidation, acquisition of stock or assets or similar transaction analogous in purpose or effect, so long as such Subsidiary does not acquire by merger, consolidation, acquisition of stock or assets or similar transaction analogous in purpose or effect all or any substantial part of the business or assets of the Issuer or any Restricted Subsidiary; and (b) any other Subsidiary which is hereafter designated by the Board of Directors as a Restricted Subsidiary.

“*Sale and Leaseback Transaction*” means any arrangement with any Person providing for the leasing by the Issuer or any Restricted Subsidiary of any Principal Property (whether such Principal Property is now owned or hereafter acquired) that has been or is to be sold or transferred by the Issuer or such Restricted Subsidiary to such Person, other than (a) temporary leases for a term, including renewals at the option of the lessee, of not more than three years; (b) leases between the Issuer and a Restricted Subsidiary or between Restricted Subsidiaries; and (c) leases of Principal Property executed by the time of, or within 180 days after the latest of, the acquisition, the completion of construction or improvement (including any improvements on property which will result in such property becoming Principal Property), or the commencement of commercial operation of such Principal Property.

“*Secured Indebtedness*” means (a) Indebtedness of the Issuer or a Restricted Subsidiary which is secured by any Lien upon any Principal Property or Restricted Securities and (b) Indebtedness of the Issuer or a Restricted Subsidiary in respect of any conditional sale or other title retention agreement covering Principal Property or Restricted Securities; but “*Secured Indebtedness*” shall not include any of the following:

(i) Indebtedness of the Issuer and the Restricted Subsidiaries outstanding on June 6, 1996, secured by then existing Liens upon, or incurred in connection with conditional sales agreements or other title retention agreements with respect to, Principal Property or Restricted Securities;

(ii) Indebtedness which is secured by (A) purchase money Liens upon Principal Property acquired after June 6, 1996, or (B) Liens placed on Principal Property after June 6, 1996, during construction or improvement thereof (including any improvements on property which will result in such property becoming Principal Property) or place thereon within 180 days after the later of acquisition, completion of construction or improvement or the commencement of commercial operation of such Principal Property or improvement, or placed on Restricted Securities acquired after June 6, 1996, or (C) conditional sale agreements or other title retention agreements with respect to any Principal Property or Restricted Securities acquired after June 6, 1996, if (in each case referred to in this subparagraph (ii)) (x) such Lien or agreement secures all or any part of the Indebtedness incurred for the purpose of financing all or any part of the purchase price or cost of construction of such Principal Property or improvement or Restricted Securities and (y) such Lien or agreement does not extend to any Principal Property or Restricted Securities other than the Principal Property so acquired or the Principal Property, or portion thereof, on which the property so constructed or such improvement is located; *provided, however*, that the amount by which the aggregate principal amount of Indebtedness secured by any such Lien or agreement exceeds the cost to the Issuer or such Restricted Subsidiary of the related acquisition, construction or improvement shall be considered to be “*Secured Indebtedness*”;

(iii) Indebtedness which is secured by Liens on Principal Property or Restricted Securities, which Liens exist at the time of acquisition (by any manner whatsoever) of such Principal Property or Restricted Securities by the Issuer or a Restricted Subsidiary;

(iv) Indebtedness of Restricted Subsidiaries owing to the Issuer or any other Restricted Subsidiary and Indebtedness of the Issuer owing to any Restricted Subsidiary;

(v) In the case of any corporation which becomes (by any manner whatsoever) a Restricted Subsidiary after June 6, 1996, Indebtedness which is secured by Liens upon, or conditional sale agreements or other title retention agreements with respect to, its property which constitutes Principal Property or Restricted Securities, which Liens exist at the time such corporation becomes a Restricted Subsidiary;

(vi) Guarantees by the Issuer of Secured Indebtedness and Attributable Debt of any Restricted Subsidiaries and guarantees by a Restricted Subsidiary of Secured Indebtedness and Attributable Debt of the Issuer and any other Restricted Subsidiaries;

(vii) Indebtedness arising from any Sale and Leaseback Transaction;

(viii) Indebtedness secured by Liens on property of the Issuer or a Restricted Subsidiary in favor of the United States of America, any State, Territory or possession thereof, or the District of Columbia, or any department, agency or instrumentality or political subdivision of the United States of America or any state, Territory or possession thereof, or the District of Columbia, or in favor of any other country or any political subdivision thereof, if such Indebtedness was incurred for the purpose of financing all or any part of the purchase price or the cost of construction of the property subject to such Lien; *provided, however*, that the amount by which the aggregate principal amount of Indebtedness secured by any such Lien exceeds the cost to the Issuer or such Restricted Subsidiary of the related acquisition or construction shall be considered to be "Secured Indebtedness";

(ix) Indebtedness secured by Liens on aircraft, airframes or aircraft engines, aeronautic equipment or computers and electronic data processing equipment; and

(x) The replacement, extension or renewal (or successive replacements, extensions or renewals) of any Indebtedness (in whole or in part) excluded from the definition of "Secured Indebtedness" by subparagraphs (i) through (viii) above; *provided, however*, that no Lien securing, or conditional sale or title retention agreement with respect to, such Indebtedness shall extend to or cover any Principal Property or any Restricted Securities, other than such property which secured the Indebtedness so replaced, extended or renewed (plus improvements on or to any such Principal Property); *provided further, however*, that to the extent that such replacement, extension or renewal increases the principal amount of Indebtedness secured by such Lien or is in a principal amount in excess of the principal amount of Indebtedness excluded from the definition of "Secured Indebtedness" by subparagraphs (i) through (ix) above, the amount of such increase or excess shall be considered to be "Secured Indebtedness".

In no event shall the foregoing provisions be interpreted to mean or their operation to cause the same Indebtedness to be included more than once in the calculation of "Secured Indebtedness" as that term is used in this Indenture.

"*Subsidiary*" means any corporation of which, at the time of determination, the Issuer and/or one or more Subsidiaries owns or controls directly or indirectly more than 50% of the shares of voting stock. "*Wholly owned*", when used with reference to a Subsidiary, means a Subsidiary of which all of the outstanding capital stock is owned by the Issuer or by one or more wholly owned Subsidiaries. "*Voting Stock*", when used with reference to a Subsidiary, means stock of the class or classes having general voting power under ordinary circumstances to elect at least a majority of the board of directors, managers or trustees of such corporation provided that, for the purposes hereof, stock which carries only the right to vote conditionally on the happening of an event shall not be considered voting stock whether or not such event shall have happened.

11. Consolidation, Merger or Sale of Assets

The Issuer shall not consolidate with or merge with or into any other Person or convey, transfer or lease all or substantially all of its properties and assets substantially as an entirety to any Person unless:

(a) either (i) the Issuer shall be the continuing corporation or (ii) the Person (if other than the Issuer) formed by such consolidation or into which the Issuer is merged or the Person which acquires by

conveyance, transfer, or lease, the properties and assets of the Issuer substantially as an entirety shall be a corporation, partnership or trust, shall be organized and validly existing under the laws of the United States of America, any State thereof or the District of Columbia and shall expressly assume in form satisfactory to the Agent, the due and punctual payment of the principal of and any premium and interest on all the Notes and the performance of every covenant herein on the part of the Issuer to be performed or observed;

(b) immediately after giving effect to such transaction (and treating any Indebtedness which becomes an obligation of the Issuer or any Subsidiary in connection with or as a result of such transaction as having been incurred at the time of such transaction), no Event of Default, and no event which, after notice or lapse of time or both, would become an Event of Default, shall have occurred and be continuing; and

(c) the Issuer or such Person has delivered to the Agent an Officers' Certificate and an opinion of counsel (as to which opinion, counsel may rely on the Officer's Certificate as to factual matters), each stating that such consolidation, merger, conveyance, transfer or lease comply with this Condition and that all conditions precedent herein provided for, or relating to, such transaction have been complied with.

Upon any such consolidation or merger or any conveyance, transfer or lease of the properties and assets of the Issuer substantially as an entirety, the successor Person formed by such consolidation, or into which the Issuer is merged or the successor Person to which such conveyance, transfer or lease is made, shall succeed to, and be substituted for, and may exercise every right and power of the Issuer under the Notes and the Agency Agreement with the same effect as if such successor had been named as the Issuer herein; and thereafter, except in the case of a lease, the Issuer shall be discharged from all obligations and covenants under the Agency Agreement and the Notes.

12. Meetings, Modifications and Waivers

The Agency Agreement contains provisions for convening meetings of Noteholders to consider matters affecting their interests, including modifications by Extraordinary Resolution (as defined in Schedule VI of the Agency Agreement) of the Terms and Conditions of the Notes. The quorum for any meeting convened to transact business shall be one or more persons present holding or representing not less than 25% of the nominal amount of the Notes outstanding. The quorum for any meeting convened to consider a resolution proposed as an Extraordinary Resolution shall be one or more persons holding or representing not less than 50% in nominal amount of the Notes outstanding, and the quorum at any adjourned meeting shall be one or more persons being or representing Noteholders (whatever the nominal amount of the Notes outstanding so held or represented shall be); *provided, however*, that at any meeting, the business of which includes any of the following matters, namely:

(i) modification of the Maturity Date of the Notes or reduction or cancellation of the nominal amount payable at maturity or otherwise, or variation of the method of calculating the amount of principal payable at maturity or otherwise;

(ii) reduction or cancellation of the amount payable or modification of the payment date in respect of any interest in respect of the Notes or variation of the method of calculating the rate of interest in respect of the Notes;

(iii) reduction of any Minimum Interest Rate and/or Maximum Interest Rate specified in the applicable Pricing Supplement of any Note;

(iv) modification of the currency in which payments under the Notes, Coupons or Receipts are to be made;

(v) modification of the majority required to pass an Extraordinary Resolution;

(vi) sanction of any proposal for the exchange or sale of the Notes for, or the conversion of the Notes into, or the cancellation of the Notes in consideration of, securities of the Issuer or any company formed or to be formed, as described in the Agency Agreement; and

(vii) alteration of the provisions of the Agency Agreement concerning this exception.

the necessary quorum for passing an Extraordinary Resolution will be one or more persons holding or representing not less than 75% of the nominal amount of the Notes outstanding, or at any adjourned meeting, not less than 50% of the nominal amount of the Notes outstanding. Any Extraordinary Resolution duly passed at any such meeting will be binding on all Noteholders (whether or not they are present at such meeting) and on all Receiptholders and Couponholders.

The Agent and the Issuer may agree, without the consent of the Noteholders, Receiptholders or Couponholders to any modification to any of the provisions of the Agency Agreement or the Notes which is of a formal, minor or technical nature or is made to correct a manifest error. Any such modification shall be binding on all the Noteholders, Receiptholders and Couponholders and, if the Agent so requires, shall be notified to the Noteholders as soon as practicable thereafter in accordance with Condition 16.

Notes authenticated and delivered after the execution of any amendment to the Agency Agreement, Notes, Receipts or Coupons may bear a notation in form approved by the Agent as to any matter provided for in such amendment to the Agency Agreement, the Notes, the Receipts or the Coupons.

New Notes so modified as to conform, in the opinion of the Agent and the Issuer, to any modification contained in any such amendment may be prepared by the Issuer, authenticated by the Agent and delivered in exchange for the Notes then outstanding.

For the purposes of this Condition 12 and Condition 13 below, the term "outstanding" means, in relation to the Notes, all Notes of this Series issued under the Agency Agreement other than (i) those which have been redeemed in full in accordance with the Agency Agreement or these Terms and Conditions, (ii) those for which the date for redemption in accordance with the Agency Agreement and these Terms and Conditions has occurred and the redemption monies wherefor (including all interest (if any) accrued thereon to the date for such redemption and any interest (if any) payable under these Terms and Conditions after such date) have been duly paid to the Agent as provided in the Agency Agreement (and, where appropriate, notice has been given to the Noteholders in accordance with Condition 16) and remain available for payment against presentation of the Notes, (iii) those which have become void under Condition 15, (iv) those which have been purchased and cancelled as provided in Condition 5, (v) those mutilated or defaced notes which have been surrendered in exchange for replacement Notes pursuant to Condition 14, (vi) (for the purposes only of determining how many Notes are outstanding and without prejudice to their status for any other purpose) those Notes alleged to have been lost, stolen or destroyed and with respect to which replacement Notes have been issued pursuant to Condition 14, (vii) temporary global Notes to the extent that they shall have been duly exchanged for permanent global Notes and permanent global Notes to the extent that they shall have been duly exchanged for definitive Notes, in each case pursuant to their respective provisions and (viii) temporary global notes and permanent global notes which have become void in accordance with their terms; *provided, however*, that for each of the following purposes, namely (i) the right to attend and vote at any meeting of the Noteholders or any of them; and (ii) the determination of how many and which Notes are for the time being outstanding for the purposes of paragraphs 2, 5 and 6 of Schedule VI to the Agency Agreement, those Notes (if any) which are for the time being held by any person, the Issuer or any of its respective Subsidiaries for the benefit of the Issuer or any of its respective Subsidiaries shall (unless and until ceasing to be so held) be deemed not to be outstanding.

13. Default and Acceleration

(a) In the event of:

(i) a default in the payment of the principal of, or premium (if any), on any Note of this Series when it becomes due and payable, by declaration or otherwise; or

(ii) a default in the payment of any interest on any Note of this Series when it becomes due and payable, and continuance of such default for a period of 30 days; or

(iii) a default in the performance, or breach, of any covenant or warranty of the Issuer contained in these Terms and Conditions (other than a default in the performance, or breach of a covenant or warranty specifically dealt with elsewhere in this Section or which has expressly been included herein solely for the benefit of Series of Notes other than this Series), and continuance of such default or breach for a period of 60 days after written notice of such default has been given, by registered or certified mail,

to the Issuer and the Agent by the Holders of at least 25% in principal amount of the outstanding Notes of that Series specifying such default or breach and stating that such notice is a "Notice of an Event of Default" hereunder; or

(iv) the entry by a court having jurisdiction in the premises of (A) a decree or order for relief in respect of the Issuer in an involuntary case or proceeding under any applicable Federal or State bankruptcy, insolvency, reorganization or other similar law or (B) a decree or order adjudging the Issuer a bankrupt or insolvent, or approving as properly filed a petition seeking reorganization, arrangement, adjustment or composition of or in respect of the Issuer under any applicable Federal or State law, or appointing a custodian, receiver, liquidator, assignee, trustee, sequestrator or other similar official of the Issuer or of any substantial part of its property, or ordering the winding up or liquidation of its affairs, and the continuance of any such decree or order for relief or any such other decree or order unstayed and in effect for a period of 60 consecutive days; or

(v) the commencement by the Issuer of a voluntary case or proceeding under any applicable Federal or State bankruptcy, insolvency, reorganization or other similar law or of any other case or proceeding to be adjudicated a bankrupt or insolvent, or the consent by it to the entry of a decree or order for relief in respect of the Issuer in an involuntary case or proceeding under any applicable Federal or State bankruptcy, insolvency, reorganization or other similar law or to the commencement of any bankruptcy or insolvency case or proceeding against it, or the filing by it of a petition or answer or consent seeking reorganization or relief under any applicable Federal or State law, or the consent by it to the filing of such petition or to the appointment of or taking possession by a custodian, receiver, liquidator, assignee, trustee, sequestrator or other similar official of the Issuer or of any substantial part of its property, or the making by it of an assignment for the benefit of creditors, or the admission by it in writing of its inability to pay its debts generally as they become due, or the taking of corporate action by the Issuer in furtherance of any such action; or

(vi) the due acceleration of outstanding indebtedness of the Issuer or any Restricted Subsidiary in a principal amount in excess of U.S.\$100,000,000 under the terms of instrument under which such indebtedness was issued, if such acceleration is not annulled within 30 days after written notice is given; or

(vii) any other Event of Default provided with respect to Notes of this Series;

then the holders of not less than 25% in aggregate principal amount of the outstanding Notes of the Issuer may, at their option, declare the principal of the Notes and the interest, if any, accrued thereon (or, in the case of Zero Coupon Notes, such portion of the principal amount of such Notes as may be specified by the terms thereof) to be due and payable immediately by written notice to the Issuer and the Agent at its main office in London, and unless all such defaults shall have been cured by the Issuer prior to receipt of such written notice, the principal of this Note and the interest, if any, accrued hereon shall become and be immediately due and payable. If an Event of Default specified in subparagraphs (iv) and (v) occurs with respect to Notes of any Series at the time outstanding, the principal amount of all the Notes of that Series (or, if any Notes of that Series are Zero Coupon Notes, such portion of the principal amount of such Notes as may be specified by the terms thereof) shall automatically, and without any declaration or other action on the part of any Noteholder, become immediately due and payable.

At any time after such a declaration of acceleration with respect to the Notes has been made and before a judgment or decree for payment of the money due with respect to any Note has been obtained by any Noteholder, such declaration and its consequences may be rescinded and annulled upon the written consent of holders of a majority in aggregate principal amount of such Notes then outstanding, or by resolution adopted by a majority in aggregate principal amount of such Notes outstanding present or represented at a meeting of holders of such Notes at which a quorum is present, as provided in the Agency Agreement, if:

(1) the Issuer has paid or deposited with the Agent a sum sufficient to pay

(A) all overdue amounts of interest on such Notes,

(B) the principal of such Notes which has become due otherwise than by such declaration of acceleration and interest thereon at the rate borne by the Notes; and

(C) to the extent that payment of such interest is lawful, interest upon overdue interest at the rate borne by the Notes; and

(D) all sums paid or advanced by the Paying Agents and the reasonable compensation, expenses, disbursements and advances of the Agent, the Paying Agent and their counsel;

(2) all Events of Default with respect to such Notes, other than the non-payment of the principal of such Notes which has become due solely by such declaration of acceleration, have been cured or waived as provided in paragraph (b) below.

No such rescission shall affect any subsequent default or impair any right consequent thereon.

(b) Any default by the Issuer, other than the events described in paragraph (a)(i) or (a)(ii) above or with respect to a covenant or provision which cannot be modified and amended without the written consent of the holders of all outstanding Notes of the Issuer, may be waived by the written consent of holders of a majority in aggregate principal amount of the Notes then outstanding affected thereby, or by resolution adopted by a majority in aggregate principal amount of such Notes then outstanding present or represented at a meeting of holders of such Notes affected thereby at which a quorum is present, as provided in the Agency Agreement.

14. Replacement of Notes, Receipts, Coupons and Talons

Should any Note, Receipt, Coupon or Talon be mutilated, defaced or destroyed or be lost or stolen, it may be replaced at the specified office of the Agent in London (or such other place located outside the United States and its possessions as the Agent may specify to the Noteholders), in accordance with all applicable laws and regulations, upon payment by the claimant of the expenses incurred by the Issuer and the Agent in connection therewith and on such terms as to evidence, indemnity, security or otherwise as the Issuer and the Agent may require. Mutilated or defaced Notes, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

15. Prescription

The Notes, Receipts and Coupons will become void unless presented for payment within a period of five years from the Relevant Date (as defined below) relating thereto. Any monies paid by the Issuer to the Agent for the payment of principal or interest with respect to the Notes and remaining unclaimed when the Notes, Receipts or Coupons become void shall forthwith be repaid to the Issuer and all liability with respect thereto shall thereupon cease.

As used herein, the "Relevant Date" means:

(A) the date on which such payment first becomes due; or

(B) if the full amount of the monies payable has not been received by the Agent on or prior to such due date, the date on which, the full amount of such monies having been so received, notice to that effect shall have been given to the Noteholders in accordance with Condition 16.

No Coupon or Talon shall be included in any Coupon sheet issued upon the exchange of a Talon for which payment or exchange would be prescribed pursuant to this Condition 15 or Condition 6(b).

16. Notices

All notices regarding the Notes (whether in global or definitive form) shall be published (i) in one leading English language daily newspaper with circulation in London (which may be the *Financial Times* in London) and (ii) if and for so long as the Notes are listed on the Luxembourg Stock Exchange, a daily newspaper of general circulation in Luxembourg (which may be the *Luxembourger Wort* in Luxembourg) or, if in either case such publication is not practicable, one other English language newspaper with general circulation in Europe as the Issuer, in consultation with the Agent, shall decide. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules and regulations of any stock exchange on which Notes are listed at the time of such notice. Any such notice shall be deemed to have been given on the date of the first publication.

Notices to be given by any holder of the Notes of this Series shall be in writing and given by depositing the same, together with the relative Note or Notes, with the Agent. While any of the Notes of this Series are represented by a global Note, such notice may be given by any holder of a Note of this Series to the Agent via Euroclear and/or Clearstream, Luxembourg, as the case may be, in such manner as the Agent and Euroclear and/or Clearstream, Luxembourg, as the case may be, may approve for this purpose.

17. Governing Law

The Agency Agreement, the Program Agreement, the Notes, the Receipts and the Coupons are governed by, and shall be construed in accordance with, the laws of the State of New York, United States of America, without regard to its provisions regarding conflict of laws.

18. Further Issues

The Issuer shall be at liberty from time to time, without the consent of the Noteholders, Receiptholders or Couponholders, to create and issue further notes ranking *pari passu* in all respects (or in all respects except for the first payment of interest thereon) with the outstanding Notes and so that the same shall be consolidated and form a single series with the outstanding Notes.

USE OF PROCEEDS

The net proceeds from the sale of the Notes issued by the Issuer will be used for general corporate purposes.

BUSINESS

UPS, a corporation organized under the laws of the state of Delaware in the United States, is the world's largest express carrier, the world's largest package delivery company and a leading global provider of specialized transportation and logistics services. UPS was founded in 1907 to provide private messenger and delivery services in the Seattle, Washington area. Over the past 93 years, UPS has expanded its small regional parcel delivery service into a global company. UPS delivers packages each business day for 1.8 million shipping customers to six million consignees. In 1999, UPS delivered an average of more than 12.92 million pieces per day worldwide, generating revenue of over \$27 billion.

The primary business of UPS is the time-definite delivery of packages and documents throughout the United States and in over 200 other countries and territories. UPS has established a vast and reliable global transportation infrastructure, developed a comprehensive, competitive and guaranteed portfolio of services and consistently supported these services with advanced technology. UPS provides logistics services, including integrated supply chain management, for major companies worldwide. UPS is the industry leader in the delivery of goods purchased over the Internet. UPS seeks to position itself as an indispensable branded component of e-commerce and to focus on the movement of goods, information and funds.

SELECTED FINANCIAL DATA

The following table sets forth selected financial data for the Issuer for each of the five years in the period ended December 31, 1999.⁽¹⁾ This financial data should be read in conjunction with the Issuer's Consolidated Financial Statements, Management's Discussion and Analysis of Financial Condition and Results of Operations and other financial data appearing in the Issuer's Annual Report on Form 10-K for the fiscal year ended December 31, 1999.

	Years Ended December 31,				
	1999	1998	1997	1996	1995
(In millions except per share amounts)					
SELECTED INCOME STATEMENT DATA					
Revenue:					
U.S. domestic package	\$22,313	\$20,650	\$18,868	\$18,881	\$17,773
International package	3,730	3,399	3,067	3,074	2,958
Non-package	1,009	739	523	413	314
Total revenue	27,052	24,788	22,458	22,368	21,045
Operating expenses:					
Compensation and benefits	15,285	14,346	13,289	13,326	12,401
Other	7,779	7,352	7,471	7,013	6,478
Restructuring charge	—	—	—	—	372
Total operating expenses	23,064	21,698	20,760	20,339	19,251
Operating profit (loss):					
U.S. domestic package	3,568	2,899	1,654	2,181	1,937
International package	252	56	(67)	(281)	(250)
Non-package	168	135	111	129	107
Total operating profit	3,988	3,090	1,698	2,029	1,794
Other income (expense):					
Investment income	177	84	70	39	26
Interest expense	(228)	(227)	(187)	(95)	(77)
Tax assessment	(1,786)	—	—	—	—
Miscellaneous, net	(63)	(45)	(28)	(63)	(35)
Income before income taxes	2,088	2,902	1,553	1,910	1,708
Income taxes	1,205	1,161	644	764	665
Net income	\$ 883	\$ 1,741	\$ 909	\$ 1,146	\$ 1,043
Per share amounts:					
Basic earnings per share	\$ 0.79	\$ 1.59	\$ 0.82	\$ 1.03	\$ 0.93
Diluted earnings per share	\$ 0.77	\$ 1.57	\$ 0.81	\$ 1.01	\$ 0.92
Dividends declared per share	\$ 0.58	\$ 0.43	\$ 0.35	\$ 0.34	\$ 0.32
Weighted Average Shares Outstanding:					
Basic	1,121	1,093	1,103	1,114	1,118
Diluted	1,141	1,108	1,116	1,129	1,131
As Adjusted Net Income Data:					
Net income before impact of tax assessment in 1999	\$ 2,325	\$ 1,741	\$ 909	\$ 1,146	\$ 1,043
As a percentage of revenue	8.6%	7.0%	4.0%	5.1%	5.0%
Basic earnings per share	\$ 2.07	\$ 1.59	\$ 0.82	\$ 1.03	\$ 0.93
Diluted earnings per share	\$ 2.04	\$ 1.57	\$ 0.81	\$ 1.01	\$ 0.92

	December 31,				
	1999	1998	1997	1996	1995
(In millions)					
SELECTED BALANCE SHEET DATA					
Working capital	\$ 6,940	\$ 1,708	\$ 1,079	\$ 1,097	\$ 261
Long-term debt	1,912	2,191	2,583	2,573	1,729
Total assets	23,043	17,067	15,912	14,954	12,645
Shareowners' equity	12,474	7,173	6,087	5,901	5,151

⁽¹⁾ These financial statements have been retroactively restated to give effect to the November 1999 merger in which United Parcel Service of America, Inc. became a wholly-owned subsidiary of the Issuer.

CAPITALIZATION

The following table sets forth the capitalization of the Issuer as of June 30, 2000.

You should read this table in conjunction with the consolidated financial statements and the notes to those statements, which are incorporated by reference into this Offering Circular.

	<u>June 30, 2000</u>
Debt:	
Current maturities of long-term debt	\$1,449
Long-term debt	1,748
Total debt	<u>3,197</u>
Shareowners' Equity:	
Preferred stock: no par value; 200,000,000 shares authorized; no shares issued	—
Class A common stock: \$.01 par value; 4,600,000,000 shares authorized; 1,004,932,270 shares issued	10
Class B common stock: \$.01 par value; 5,600,000,000 shares authorized; 138,159,361 shares issued	1
Additional paid-in capital	811
Retained earnings	8,644
Accumulated other comprehensive loss	(205)
Total shareowners' equity	<u>9,261</u>
Total capitalization	<u><u>12,458</u></u>

Other than as set forth in this Offering Circular (including the documents incorporated by reference herein), there has been no material change in the consolidated capitalization of the Issuer since June 30, 2000.

MANAGEMENT

Directors

The directors of the Issuer and their principal occupations as of June 30, 2000 are as follows:

William H. Brown, III, Senior Counsel to the law firm of Schnader Harrison Segal & Lewis LLP
Robert J. Clanin, Senior Vice President, Chief Financial Officer and Treasurer
Michael L. Eskew, Executive Vice President
James P. Kelly, Chairman of the Board and Chief Executive Officer
Ann M. Livermore, Vice President of Hewlett-Packard Company
Gary E. MacDougal, Former Chairman and Chief Executive Officer of Mark Controls Corporation
Joseph R. Moderow, Senior Vice President and Secretary
Kent C. Nelson, Former Chairman and Chief Executive Officer of UPS
Victor A. Pelson, Senior Advisor of Warburg Dillon Read, LLC
Charles L. Schaffer, Senior Vice President and Chief Operating Officer
Lea N. Soupata, Senior Vice President—Human Resources
Robert M. Teeter, President of Coldwater Corporation
Thomas H. Weidemeyer, Senior Vice President, President—UPS Airlines

Officers

In addition to the directors and officers named above, the following persons are senior officers of the Issuer.

John J. Beystehner, Senior Vice President
Calvin Darden, Senior Vice President
John A. Duffy, Senior Vice President
Kenneth W. Lacy, Senior Vice President and Chief Information Officer
Christopher D. Mahoney, Senior Vice President
Joseph M. Pyne, Senior Vice President
Ronald G. Wallace, Senior Vice President, President—International Operations

INDEPENDENT AUDITORS

The consolidated financial statements of United Parcel Service, Inc. and its subsidiaries as of December 31, 1999 and 1998 and for each of the three years in the period ended December 31, 1999, incorporated in this Offering Circular by reference from United Parcel Service, Inc.'s Annual Report on Form 10-K for the year ended December 31, 1999, have been audited by Deloitte & Touche LLP, independent auditors, as stated in their report appearing therein.

SUBSCRIPTION AND SALE

Pursuant to an Amended and Restated Program Agreement dated September 12, 2000 (as amended from time to time, the "Program Agreement") among the Issuer and the Dealers, the Issuer has agreed to issue and the Dealers have agreed to purchase Notes from time to time. Such agreement contemplates the provisions set forth under "Form of the Notes" and "Terms and Conditions of the Notes" above. In the Program Agreement, the Issuer has agreed to reimburse the Dealers for certain of their expenses in connection with the establishment of the Program and the distribution of Notes under the Program.

The following is a summary of the provisions regarding subscription for and sale of the Notes in the Program Agreement.

United States

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act"), and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. Persons except in accordance with Regulation S under the Securities Act or pursuant to an exemption from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

The Notes are in bearer form and are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a U.S. person, except in certain transactions permitted by U.S. tax regulations.

Each Dealer has represented and agreed that, except as permitted by the Program Agreement, it will not offer or sell the Notes of any Series (i) as part of their distribution at any time and (ii) otherwise until 40 days after the completion of the distribution of all Notes of such Series (as determined by such Dealer or, in the case of a syndicated placement, the Lead Manager (as defined in the applicable syndicate purchase agreement)) (the "Distribution Compliance Period"), within the United States or to, or for the account or benefit of, U.S. Persons except in accordance with Rule 903 of Regulation S under the Securities Act and the U.S. tax law requirements, and it will have sent to each distributor, dealer or other person who receives a selling concession to which it sells Notes during the Distribution Compliance Period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. Persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act and the Code.

In addition, until 40 days after the commencement of the offering of Notes of any Series (as determined by the applicable Dealer or, in the case of a syndicated placement, the Lead Manager (as defined in the applicable syndicate purchase agreement)), an offer or sale of Notes of such Series within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

Each issuance of Notes will be subject to such additional United States selling restrictions as indicated in the applicable Pricing Supplement. Each Dealer has agreed that it will offer, sell or deliver such Notes only in compliance with such additional selling restrictions.

United Kingdom

Each Dealer has represented and agreed, and each additional Dealer appointed under the Program will be required to represent and agree, that:

- (i) in relation to Notes which have a maturity of one year or more, it has not offered or sold and, prior to the expiry of the period of six months from the Issue Date of such Notes, will not offer or sell any such Notes to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses, or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995 (as amended);

- (ii) it has only issued or passed on and will only issue or pass on in the United Kingdom any document received by it in connection with the issue of any Notes to a person who is of a kind described in Article 11(3) of the Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1996 (as amended) or is a person to whom such document may otherwise lawfully be issued or passed on; and
- (iii) it has complied and will comply with all applicable provisions of the Financial Services Act 1986 with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Japan

The Notes have not been and will not be registered under the Securities and Exchange Law of Japan (the “Securities and Exchange Law”) and each Dealer has represented and agreed that it will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan), or to others for reoffering or resale, directly or indirectly, in Japan or to any resident of Japan except in compliance with the Securities and Exchange Law and any other applicable laws, regulations and ministerial guidelines of Japan taken as a whole.

Germany

In connection with the initial placement of any Notes in Germany, each Dealer agrees that it will offer and sell Notes (i) unless otherwise provided in the relevant syndication agreement or Pricing Supplement in the case of an issue made on a syndicated basis, only for an aggregate purchase price per purchaser of at least DM80,000 (or the foreign currency equivalent) or such other amount as may be stipulated from time to time by applicable German law or (ii) in accordance with the provisions of the German Securities Prospectus Act of 13 December 1990, as amended, or as may otherwise be permitted in accordance with applicable German law.

General

No action has been taken by the Issuer that would permit a public offering of the Notes or possession or distribution of the Offering Circular or any other offering material in any jurisdiction where action for that purpose is required. Accordingly, each Dealer has agreed (and each further Dealer appointed under the Program will be required to agree) that it will comply with all applicable laws and regulations in force in any jurisdiction in which it purchases, offers or sells Notes or possesses or distributes the Offering Circular or any other offering material and will obtain any consent, approval or permission required by it for the purchase, offer or sale by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers or sales and the Issuer or any other Dealer shall have no responsibility therefor.

With regard to each Series, the relevant Dealer(s) will be required to comply with such other additional restrictions as the Issuer and the relevant Dealer(s) shall agree and as shall be set out in the applicable Pricing Supplement.

TAXATION

General

The discussion of taxation under the headings “United States Federal Income and Estate Taxes” and “Proposed European Union Withholding Taxes” in this section is only an indication of certain tax implications under the laws of those jurisdictions as they may affect investors and does not constitute tax advice. The Issuer makes no representations as to the completeness of the information set forth below. **Potential investors are strongly advised to consult with their own professional advisors on the tax implications of investing in the Notes.**

United States Federal Income and Estate Taxes

General

It is the understanding of the Issuer that, under present United States federal income and estate tax law and applicable regulations thereunder, and subject to the discussion of contingent interest and backup withholding below:

- (a) principal of and interest on any Note paid by the Issuer or any paying agent thereof to any United States Alien holder that does not have a U.S. Business Connection (as defined below) will not be subject to United States federal withholding tax, provided that, in the case of interest (including original issue discount, if any) (i) the holder does not actually or constructively own 10% or more of the total combined voting power of all classes of stock of the Issuer entitled to vote within the meaning of Section 871(h)(3) of the Code (the “Voting Power”), (ii) the holder is not a controlled foreign corporation within the meaning of Section 957 of the Code (a “CFC”) that is related to the Issuer through stock ownership, (iii) the holder is not a bank receiving interest on the Note on an extension of credit pursuant to a loan agreement entered into in the ordinary course of its trade or business, and (iv) the holder is not a foreign private foundation;
- (b) any gain or income realized upon the sale, exchange, or redemption of any Note by a United States Alien holder that does not have a U.S. Business Connection and in the case of an individual, who is not present in the United States for 183 days or more in the taxable year of such sale, exchange or redemption, will not be subject to United States federal withholding tax; and
- (c) a Note or Coupon held by an individual who at the time of his death is not a citizen or resident of the United States will not be subject to United States federal estate tax as a result of his death provided that he does not (i) actually or constructively own 10% or more of the Voting Power or (ii) have a U.S. Business Connection.

A holder of a Note has a “U.S. Business Connection” if its Note, or the income or gain from its Note, is effectively connected with a trade or business of such holder in the United States.

Under Section 871(h)(4)(A) of the Code, payments of certain types of contingent interest to a United States Alien holder may be subject to United States withholding tax equal to 30 percent of each such payment (or such lower amount as provided by treaty). Contingent interest subject to such withholding tax includes interest that is determined by reference to the cash flow or income or profits of the issuer of the debt instrument (or a related person), equity distributions made by such issuer (or related person) or changes in the value of property of such issuer (or related person). Such interest may include interest on Index-Linked Notes or Dual Currency Notes, depending upon the terms of those Notes.

Information Reporting and Backup Withholding

A 31% “backup” withholding tax and certain information reporting requirements apply, in certain cases, to payments of principal and interest to holders of an obligation, and to proceeds of sales (including sales pursuant to an option) of an obligation before maturity. Backup withholding and information reporting generally will not apply to payments made on the Notes outside the United States by the Issuer or any of its paying agents provided that the payor does not have actual knowledge that the holder is a United States Person. In addition, if the foreign office of a foreign custodian, nominee, or other agent collects interest or principal on behalf of the

beneficial owner of a Note, backup withholding and information reporting generally will not apply to such payments made by the foreign office of the foreign custodian, nominee, or other agent to the owner. However, if the foreign office of the foreign custodian, nominee, or other agent is a CFC or, during the three-year period ending with the close of its taxable year preceding the payment, derived 50% or more of its gross income from the conduct of a United States trade or business, information reporting, but not backup withholding, may apply unless such custodian, nominee, or agent has documentary evidence in its records that the beneficial owner is not a United States Person and certain conditions are met, or the beneficial owner otherwise establishes an exemption.

If the foreign office of a foreign broker that is not a CFC and that did not derive 50% or more of its gross income, during the three-year period ending with the close of its taxable year preceding the payment, from the conduct of a United States trade or business (a "Specified Broker") pays the proceeds from the sale of a Note to the seller thereof, backup withholding and information reporting generally will not apply to such payment. The payment of such sale proceeds by the foreign office of a broker that is not a Specified Broker will not be subject to backup withholding or information reporting if the broker has documentary evidence in its records that the beneficial owner is not a United States Person and certain conditions are met or the beneficial owner otherwise establishes an exemption.

Recently finalized regulations effective after December 31, 2000, would modify the information reporting and backup withholding tax rules applicable to United States Alien holders.

The United States federal income and estate tax discussion set forth above is included for general information only and may not be applicable depending upon a holder's particular situation. Holders should consult their tax advisers with respect to the tax consequences under state, local, foreign and other tax laws and the possible effects of changes in federal or other tax laws.

Proposed European Union Withholding Taxes

In June 1998, the European Commission presented to the Council of Ministers of the European Union a proposal to oblige member states of the EMU ("Member States") to adopt either a "withholding tax system" or an "information reporting system" in relation to interest, discounts and premiums. However, at the recent Maria De Feira Summit in June 2000 it was agreed in principle to adopt an information reporting regime in preference to a withholding tax. The European Commission and the Council of Ministers of the European Union have committed themselves to seeking agreement on the substantial content of the Directive by the end of 2000 and adopting the proposal no later than 31 December 2002.

United Kingdom Finance Bill

The United Kingdom Finance Bill 2000 contains provisions abolishing from April 1, 2001 the collecting and paying agent rules summarized above in relation to interest on the Notes. In place of the obligation on collecting agents to withhold tax in certain circumstances, the UK Inland Revenue is extending its information powers so that paying and collecting agents can be obliged to provide certain information in relation to quoted Eurobonds and the recipients of interest therefrom.

GENERAL INFORMATION

Listing

Application has been made to list the Notes issued under the Program on the Luxembourg Stock Exchange. A legal notice relating to the Program and the Certificate of Incorporation and Bylaws of the Issuer are being lodged with the Chief Registrar of the District Court in Luxembourg (*Greffier en Chef du Tribunal d'Arrondissement de et à Luxembourg*) where such documents may be examined and copies obtained on request. The Luxembourg Stock Exchange has allocated to the Program the number 11196 for Listing purposes.

Authorization

The Program has been established and Notes will be issued thereunder pursuant to authority granted by the Executive Committee of the Board of Directors of the Issuer on September 1, 2000.

Financial Statements

The most recently published audited annual consolidated financial statements (included in the Annual Report on Form 10-K) and any subsequently published unaudited interim consolidated financial statements (included in the Quarterly Reports on Form 10-Q) of the Issuer shall be deemed to be incorporated in, and to form part of, this Offering Circular. The Issuer does not publish unconsolidated financial statements.

Material Change

Except as disclosed in this Offering Circular and in the documents incorporated by reference into this Offering Circular, there has been no material adverse change in the financial position of the Issuer and consolidated subsidiaries, since December 31, 1999.

Litigation

On August 9, 1999, the U.S. Tax Court issued an opinion unfavorable to UPS regarding a Notice of Deficiency asserting that UPS is liable for additional tax due for the 1983 and 1984 tax years. UPS believes that a number of aspects of the Tax Court decision are incorrect, and UPS has appealed the decision to the U.S. Court of Appeals for the Eleventh Circuit. See Note 4 to the Issuer's Unaudited Consolidated Financial Statements for the three months ended June 30, 2000 for a discussion of this case.

Various other legal proceedings are pending against the Issuer and its subsidiaries. Except as otherwise disclosed herein and in the documents incorporated by reference into this Offering Circular, the Issuer considers that the aggregate liability, if any, resulting from these proceedings will not be material to its financial position. See Note 4 to the Consolidated Financial Statements for the Year Ended December 31, 1999 and Note 4 to the Consolidated Financial Statements contained in the Issuer's most recent Form 10-Q for a discussion of certain legal proceedings.

Clearance Systems

The Notes have been accepted for clearance through the Euroclear and Clearstream, Luxembourg systems. The appropriate Common Code and ISIN for each Tranche allocated by Euroclear and Clearstream, Luxembourg and details of any other agreed clearance system will be contained in the relevant Pricing Supplement. Transactions will normally be effected for settlement not earlier than three days after the date of the transaction.

Documents Available for Collection and Inspection

Throughout the lifetime of the Program and from the date hereof, copies of the Issuer's Certificate of Incorporation and Bylaws, Annual Reports on Form 10-K for the last five fiscal years, all other documents filed with the United States Securities and Exchange Commission subsequent to the filing of its most recent Annual Report on Form 10-K (including Quarterly Reports on Form 10-Q), this Offering Circular and any future offering circulars and supplements to this Offering Circular (including the Pricing Supplements with respect to Notes except that a Pricing Supplement relating to an unlisted Note will only be able for inspection by a holder of such Note and such holder must produce evidence satisfactory to the Agent as to its identity), the Agency Agreement (incorporating the forms of the temporary global, permanent global and definitive Notes, Receipts, Coupons and Talons), the Program Agreement and, in the case of a syndicated issue of listed Notes, the Syndication Agreement will be available at the principal office of the Agent in London, England and the Paying Agent in Luxembourg.

ARRANGER

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London E14 4QJ

DEALERS

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55 Glenlake Parkway N.E.
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AND PRINCIPAL PAYING AGENT**

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ANNEX II
UPS Annual Report on Form 10-K
for the Year Ended 31 December 1999

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

FOR ANNUAL AND TRANSITION REPORTS
PURSUANT TO SECTIONS 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

(Mark One)

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

For the fiscal year ended December 31, 1999
OR

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

For the transition period from _____ to _____
Commission File Number 001-15451

UNITED PARCEL SERVICE, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

55 Glenlake Parkway, N.E.
Atlanta, Georgia

(Address of Principal Executive Offices)

58-2480149
(I.R.S. Employer
Identification No.)

30328
(Zip Code)

(404) 828-6000

(Registrant's telephone number, including area code)

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

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

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

Class A-1 common stock, par value \$.01 per share
Class A-2 common stock, par value \$.01 per share
Class A-3 common stock, par value \$.01 per share
(Title of Class)

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

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

As of February 29, 2000, the aggregate market value of the class B common stock held by non-affiliates of the registrant was approximately \$5,975,974,945. As of February 29, 2000, non-affiliates held 1,050,759,900 shares of class A common stock and 109,399,999 shares of class B common stock. There is no active market for the class A common stock.

As of February 29, 2000, there were 1,101,353,454 outstanding shares of class A common stock and 109,400,000 outstanding shares of class B common stock.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement for its annual meeting of shareowners scheduled for May 12, 2000 are incorporated by reference into Part III of this Report.

PART I

Item 1. *Business*

Overview

We are the world's largest express carrier, the world's largest package delivery company and a leading global provider of specialized transportation and logistics services. We were founded in 1907 to provide private messenger and delivery services in the Seattle, Washington area. Over the past 93 years, we have expanded our small regional parcel delivery service into a global company. We deliver packages each business day for 1.8 million shipping customers to six million consignees. In 1999, we delivered an average of more than 12.92 million pieces per day worldwide, generating revenue of over \$27 billion.

Our primary business is the time-definite delivery of packages and documents throughout the United States and in over 200 other countries and territories. We have established a vast and reliable global transportation infrastructure, developed a comprehensive, competitive and guaranteed portfolio of services and consistently supported these services with advanced technology. We provide logistics services, including integrated supply chain management, for major companies worldwide. We are the industry leader in the delivery of goods purchased over the Internet. We seek to position ourselves as an indispensable branded component of e-commerce and to focus on the movement of goods, information and funds.

Competitive Strengths

We have the following competitive strengths:

Global Reach and Scale. We believe that our integrated worldwide ground and air network is the most extensive in the industry. We operate more than 150,000 delivery vehicles and over 500 airplanes. We estimate that our integrated end-to-end delivery system carries goods having a value in excess of 6% of the U.S. gross domestic product and covers virtually all U.S. businesses and residential addresses. We have invested billions of dollars in information technology, a fleet of airplanes and many other improvements across our vast global delivery network. Based on number of jet aircraft operated, we are now the ninth largest airline in North America, with our primary air hub in Louisville, Kentucky.

We established our first international operation when we entered Canada in 1975, and we first entered Europe in 1976 when we established a domestic operation in West Germany. In the 1980s and early 1990s, we expanded our operations throughout Europe as we identified opportunities presented by the development of the single market and responded to the need for pan-European delivery services. Today, we offer the broadest portfolio of time-definite services available, ranging from same-day service to logistics solutions for total supply chain management. We currently have what we believe is the most comprehensive integrated delivery and information services portfolio of any carrier in Europe.

In the last decade, we entered into more than two dozen alliances with various Asian delivery companies, and we currently serve more than 40 Asia Pacific countries and territories. Our primary focus has been on the transport of express packages to and from the region, and our volumes remained strong throughout the economic downturn in Asia. We also have established operations in Latin America and the Caribbean, and we are positioned to capitalize upon the growth potential in those regions. This is exemplified by our 1999 agreement to acquire the assets and air routes of Challenge Air Cargo, through which we will become the largest air cargo carrier in Latin America. In addition, we have formed alliances with a number of service partners in countries throughout our Americas region.

In 1999, *Fortune* magazine recognized us as the World's Most Admired Global Mail, Package and Freight Delivery Company.

Technology Systems. We have expanded our reputation as a leading package distribution company by developing an equally strong capability as a mover of electronic information. We currently collect electronic data on about 9.5 million packages each day—more than any of our competitors. As a result, we have improved our efficiency and price competitiveness, and we provide improved customer solutions.

We have made significant investments in technology over the past decade. CIO magazine ranked us 35th in the U.S. for our corporate information systems, and we have won two Computerworld Smithsonian Awards for our technology. The state-of-the-art technology that we currently deploy over our network enables us to serve our customers globally in the most efficient ways. This technology provides our customers with total order visibility and improves customer service, receiving, order management and accounting operations. Currently, approximately 76% of our volume is with shipping customers that are connected to us electronically.

The following are examples of our technology:

- we built and maintain the world's largest private DB2 database
- we recently introduced DIAD III, which provides the fastest and most complete delivery information of any hand-held computer used by any delivery company in the world
- we are the only company to provide electronic capture and retrieval of package recipients' signatures
- in selected hubs, we have installed sophisticated, automated sortation systems to improve processing speed and operational efficiency
- we developed an array of UPS Online Solutions, which are proprietary software and hardware packages that we provide to our customers that enable them to send, manage and track their shipments and provide us with electronic package-level detail to support these functions

E-Commerce Capabilities. We are a leading participant in and facilitator of e-commerce, which we define as the use of networked computer technology to facilitate the buying and selling of goods and services. According to Deloitte Consulting, business-to-business e-commerce sales have risen from almost zero a few years ago to more than \$100 billion today, and Deloitte projects that 91% of U.S. businesses will do their purchasing over the Internet by the end of 2001. We have teamed with over 100 e-commerce leaders to offer fully integrated Web-enabled solutions for our customers. Over two-thirds of ActivMedia, Inc.'s top 50 websites that use transportation services are UPS customers.

We have integrated our systems with software produced by leading manufacturers of enterprise resource planning, Internet transactions, e-procurement and systems integration solutions. Our e-commerce alliance partners include AT&T, Harbinger, IBM, Oracle and PeopleSoft. These solutions give our customers the integration of UPS delivery options into their websites, including real-time package delivery information. This integration allows our customers to lower their package tracking costs, to improve their collections through closed-loop billing and to provide better customer service. At the same time, we gain a competitive advantage as the preferred transportation solution.

Our website strategy is to provide our customers with the convenience of all the functions that they otherwise would perform over the phone or at one of our shipping outlets. On a daily basis, our site, www.ups.com, receives over three million separate page views and more than 1.5 million package tracking transactions. This technology allows us to strengthen ties to our customers. Our customers can easily download our tools on to their own websites for direct use by their customers. This allows users to access our tools without leaving our customers' websites. Our Internet tools include enhanced tracking, rate calculation, service selection, address validation, time-in-transit detail, service mapping and electronic manifesting. Matrix Media and The Economist both rated our website as the top transportation website in the world. Business Marketing's NetMarketing also named our website one of the top 25 business-to-business sites.

Broad, Flexible Range of Distribution Services. We offer to our customers the broadest range of day-definite and time-definite delivery services in the industry. All of our air, international and business-to-business

ground delivery service offerings are guaranteed. Our portfolio of services enables customers to choose the delivery option that is most appropriate for their requirements.

Our express air services are integrated with our vast ground delivery system. This integrated air and ground network enhances pickup and delivery density and provides us with the flexibility to transport packages using the most efficient and cost-effective transportation mode or combination of modes. Our sophisticated engineering systems allow us to optimize our network efficiency and asset utilization.

We make guaranteed international shipments to more than 200 countries and territories worldwide, including guaranteed overnight delivery of documents to the world's major business centers. We offer a complete portfolio of time-definite services for customers in major markets.

We pioneered technologies that allow for secure, encrypted and trackable digital file deliveries over the Internet, such as UPS OnLine CourierSM in 1998. To make our services more easily available and to integrate our presence on the Web wherever e-commerce is taking place, we have developed a wide range of Internet tools accessible both from our website and from the websites of many of our customers. We recently began offering free Internet access to UPS websites via UPS OnLine World Link. UPS OnLine World Link enables companies to take advantage of the speed and ease of online shipping and secure digital document delivery without additional charge.

Our technological capabilities and our broad portfolio of services have contributed to our volume and revenue growth in recent years. Our sales and marketing strategies have enabled us to grow our volume and thereby improve the utilization of our network. These factors, together with a robust economy, provide us the opportunity to continue to grow our business in the future.

Customer Relationships. We serve the ongoing package distribution requirements of our customers worldwide and provide additional services that both enhance customer relationships and complement our position as the foremost provider of package distribution services.

We focus on building and maintaining long-term customer relationships. We deliver packages each business day for 1.8 million shipping customers. In addition, thousands of our other customers access us daily through on-call pick-up for air delivery services, about 51,000 letter drop-boxes and over 25,000 independently owned shipping locations.

We place significant importance on the quality of our customer relationships and conduct comprehensive market research to monitor customer service. Since 1992, we have conducted telephone interviews with shipping decision makers virtually every business day to determine their satisfaction with delivery providers and perception of performance on 17 key service factors. We use the telephone interview data to develop a statistical model that identifies those service factors that have the greatest impact on improving customer satisfaction, leading to enhanced profitability. This proprietary Customer Satisfaction Index allows us to continuously monitor satisfaction levels and helps us to focus our sales and communications efforts and new service development. One particular area of UPS strength relative to all the competitors measured was in the area of customer communications. This service advantage is attributable in large part to our Preferred Customer Loyalty program, aggressive ongoing communications through customer publications, direct marketing, teleservicing and personal contact programs through our drivers, sales force and other management personnel.

Brand Equity. We have built strong brand equity as a leader in quality service and product innovation in our industry. A recent survey of senior business executives, called Image Power, rated UPS as the second strongest business-to-business brand in the U.S., behind Microsoft, and a 1999 *Equitrend* survey report ranked UPS as one of the top ten brands of the decade. Among the factors that contribute to our brand equity are our:

- friendly, professional delivery employees and familiar brown delivery vehicles
- long history of service reliability

- comprehensive service portfolio
- state-of-the-art technology
- history of innovation and industry firsts
- competitive pricing
- consistent advertising and communications to customers and the public about our evolving capabilities
- longstanding and significant contributions to the communities in which we live and work

Our brand has successfully made the transition from a U.S.-based ground delivery company to a global time-definite service provider with the ability to launch innovative new products and services around the globe. For example, we were the first company to offer next day delivery to every address in the 48 contiguous states and guaranteed next business day delivery of packages and documents by 8:00 a.m. or 8:30 a.m. We also were the first full-service carrier to introduce same-day delivery services in the U.S. and the first company to provide guaranteed nationwide ground service in the U.S. Increasingly, our customers recognize that we are not just a reliable carrier of packages, but an innovator of transportation and information-based business solutions on a broadening global scale. For example, in June 1999 we introduced *UPS Imports*, with which we became the first in our industry to publish import rates in a single currency for all customers.

One of the many ways that we have supported our brand is through sponsorship arrangements, such as our status globally as a Worldwide Olympic Partner, as the official package delivery company of the National Football League and as the official express delivery company of NASCAR in the U.S. We have been *Fortune* magazine's Most Admired Transportation Company in the mail, package and freight category for 17 consecutive years.

Distinctive People and Culture. Our people are our most valuable asset. We believe that the dedication of our employees results in large part from our distinctive "employee-owner" concept. Our employee stock ownership tradition dates from 1927, when our founders, who believed that employee stock ownership was a vital foundation for successful business, first offered stock to our employees. To facilitate stock ownership by employees, we have maintained several stock-based compensation plans. Currently, employees and retirees own about two-thirds of our outstanding class A common stock, and the founders' families and foundations own the remaining shares of class A common stock. These groups continue to own about 90% of our total outstanding shares and control about 99% of the voting power of our stock.

Complementing our tradition of employee ownership, we also have a long-standing policy of "promotion from within," and this policy has significantly reduced our need to hire managers and executive officers from outside UPS. A majority of the members of our management team began their careers as full-time or part-time hourly UPS employees, and have since spent their entire careers with us. Every one of our executive officers, including our CEO, has more than 25 years of service with us and has accumulated a meaningful ownership stake in our company. Therefore, our executive officers have a strong incentive to effectively manage UPS, which benefits all of our shareowners.

We have a legacy of commitment to the communities in which our employees live and work. Our many community service activities include:

- *UPS Foundation.* Since 1951, our Foundation has provided financial support to alleviate social problems—most notably programs that support family and workplace literacy, food distribution and nationwide volunteerism. Our Foundation also supports high-impact educational and urgent human needs programs.
- *Community Internship Program.* For the past 30 years, selected managers have participated in four weeks of intense community service in underprivileged areas. We designed this initiative to educate managers about the needs of a diverse work force and customer base and to allow these managers to apply their problem solving skills in the community.

- *Neighbor to Neighbor.* Through an ongoing company-wide initiative, we match our employees' and their families' volunteer efforts with local programs. In 1999, about 17,000 volunteers donated about 240,000 hours to this program.
- *United Way.* Since our first campaign in 1982, we and our employees have contributed over \$355 million to the United Way, making us the United Way's second largest corporate giver in the U.S.
- *Welfare to Work.* In 1997, we became one of the five founding members of the White House-sponsored Welfare-to-Work program, which places people on public assistance into private sector jobs. We have developed, trained and mentored over 20,000 qualified candidates nationwide for positions at UPS.
- *School to Work.* We have introduced a school-to-work program, which promotes education and real-world work experience for at-risk youth.

Financial Strength. Our balance sheet gives us financial strength that few companies can match. We are one of the few companies—and the only transportation company—with a triple-A credit rating from both Standard & Poor's and Moody's. This credit rating reflects the strength of our competitive position, our consistent earnings and cash flow growth and our conservative balance sheet. As of December 31, 1999, we had a balance of cash, cash equivalents, marketable securities and short-term investments of approximately \$6.3 billion and shareowners' equity of \$12.5 billion. Long-term debt was \$1.9 billion, slightly lower than at the end of 1998. Our financial strength has given us the resources to achieve global scale and to make needed investments in technology and fleet to position us for growth.

Growth Strategy

Our growth strategy is designed to take advantage of our competitive strengths while maintaining our focus on meeting or exceeding our customers' requirements. The principal components of our growth strategy are as follows:

Expand Our Leadership Position in Our Core Domestic Business. Our U.S. package operation is the foundation of our business and the primary engine for our future growth. We believe that our tradition of reliable parcel service, our experienced and dedicated employees and our unmatched delivery system provide us with the advantages of reputation, service quality and economies of scale that differentiate us from our competitors. Our strategy is to increase core domestic revenues through cross-selling of our existing and new services to our large and diverse customer base, to limit the rate of expense growth and to employ technology-driven efficiencies to increase operating profit. Our core business also is a springboard for our growth in all other areas, including international, e-commerce, logistics, supply chain management and financial services.

We plan to focus on maintaining and improving service quality, meeting customer demands and providing innovative service offerings in order to continue to grow domestic package revenues. A good example of our implementation of this plan is our 1998 introduction of the first nationwide guaranteed ground package delivery service.

Continue International Expansion. We have built a strong international presence through significant investments over a number of years. In 1999, our international package operations generated \$3.7 billion of revenue. The international package delivery market has grown, and continues to grow, at a faster rate than the U.S. market. We plan to leverage our worldwide infrastructure and broad product portfolio to continue to improve our international business mix, to grow high margin premium services and to implement cost, process and technology improvements.

Europe, which includes our operations in Africa and the Middle East, remains our largest regional market outside of the U.S., accounting for more than half of our international revenue. As the European Community

evolves into a single marketplace, with well-established regional standards and regulations, we believe that our business will benefit from additional growth within Europe as well as continued growth in imports and exports worldwide. We plan to solidify and expand our market position in Europe, where we already have created a pan-European network. We have introduced new aircraft and additional capacity in Europe to support volume growth and add flexibility to our European air operations. In addition, we have gained operating rights and enhanced our European hubs. We believe that we have the strongest portfolio of pan-European services of any integrated carrier in Europe, combining time-definite delivery options and related information capabilities. We plan to continue to expand our service offerings in Eastern Europe and the Middle East.

Our primary focus has been on the transport of express packages to and from Asia, and our volumes remained strong throughout the economic downturn in that region. We are investing in our Asian air network to enhance our operations. We recently developed new multi-million dollar hubs in Hong Kong and Taiwan. We also acquired operating rights to provide service to points in Asia and beyond from Tokyo, and we are seeking to acquire additional air operating authority from a number of countries. We also are seeking rights to fly directly between the U.S. and the People's Republic of China.

We believe that there is significant untapped potential for us to expand our service offerings in Latin America. To this end, we are introducing overnight delivery between key cities in the Mercosur and other trade blocs, introducing 8:00 a.m. delivery to the U.S., Canada and Europe. Most importantly, through our 1999 agreement to acquire the assets and air routes of Challenge Air Cargo, we will become the largest air cargo carrier in Latin America. This position will enable us to further develop our cargo business and provide advantages in pursuit of additional express package volume, a market that is less developed in the region.

Provide Comprehensive Logistics and Financial Solutions. Many businesses have decided to outsource the management of all or part of their supply chains to cut costs and to improve service. The domestic third-party logistics market was estimated to be between \$18 billion and \$20 billion in 1998, and this market is expected to grow at 15% to 20% annually. We believe that this trend, evident in North America, Asia and Europe, will be closely followed by further demand for a service offering that incorporates transportation and logistics supply chain services with complete financial support and information services. We believe that we are well positioned to capitalize on this growth for the following reasons:

- we now redesign and operate supply chains for major companies in 45 countries, with about five million square feet of distribution space and 35 centralized locations worldwide, and we recently acquired Finon Sofecome, a leading French service parts and supply chain management services provider
- we focus on technology and management-based solutions for our customers rather than the more traditional logistics focus on trucks, warehouses and assets
- we maintain long-term relationships with our customers, which allows us to share our expertise in organizing supply chain management, to establish an innovative way to speed products to market and to recommend to our customers more efficient services for their customers

To complement our existing logistics and supply chain solutions, we plan to design a portfolio of financial products and services that capitalizes on our financial strength, customer relationships and extensive package-level data on our customers' shipments. We have recently developed UPS Capital™ Corporation to provide customers with funding in a variety of forms.

Leverage Our Leading-Edge Technology and E-Commerce Advantage. Forrester Research projects that the worldwide e-commerce business will grow to over \$3.2 trillion in 2003. E-commerce is an important part of our future growth because we believe that it will drive smaller and more frequent shipments and provide a strong complement to our core delivery service offerings.

Our goal is to integrate our technology into the business processes of our customers, providing information to assist them in serving their customers and improving their cash flows. We also will use our technology and our physical infrastructure to help provide the operational backbone to businesses striving to create new business models in e-commerce. These new business models will operate in just-in-time or manufacturer-direct distribution modes, which are heavily dependent on smaller, more frequent shipments. In the process, we will gain knowledge of new repeatable business models and market this expertise elsewhere. A key component of this strategy is to expand relationships with technology providers in areas such as enterprise resource planning, e-procurement and systems integration and to integrate our technologies into their solutions and into the websites and systems of their customers.

To date, our leading-edge technology has enabled our e-commerce partners to integrate our shipping functionality into their e-commerce product suites. Our partners' products are being installed throughout the Internet, and we expect these integrated systems to provide us with a competitive advantage. In addition, the technology we integrate into our partners' products creates significant value for our customers through reduced cycle times, lower operating costs, improved customer service, enhanced collections and the ability to offer strong delivery commitments.

Our website at www.ec.ups.com supports our commitment to e-commerce, promotes the advantages of e-commerce and spotlights our unique position with regard to the facilitation of e-commerce.

Pursue Strategic Acquisitions and Global Alliances. In order to remain the pre-eminent global company in our industry, we will continue to make strategic acquisitions and enter into global alliances. Our initial public offering better positioned us to aggressively pursue strategic acquisitions and enter into global alliances that can:

- complement our core business
- build our global brand
- enhance our technological capabilities or service offerings
- lower our costs
- expand our geographic presence and managerial expertise

Products and Services—Package Operations

Domestic Ground Services

For most of our history, we have been engaged primarily in the delivery of packages traveling by ground transportation. We expanded this service gradually, and today standard ground service is available for interstate and intrastate destinations, serving every address in the 48 contiguous states and intrastate in Alaska and Hawaii. We restrict this service to packages that weigh no more than 150 pounds and are no larger than 108 inches in length and 130 inches in combined length and girth. In 1998, we introduced *UPS Guaranteed Ground*SM, which gives guaranteed, time-definite delivery of all commercial ground packages.

In addition to our standard ground delivery product, *UPS Hundredweight Service*[®] offers discounted rates to customers sending multiple package shipments having a combined weight of 200 pounds or more, or air shipments totaling 100 pounds or more, addressed to one recipient at one address and shipped on the same day. Customers can realize significant savings on these shipments compared to regular ground or air service rates. UPS Hundredweight Service is available in all 48 contiguous states.

Domestic Air Services

We provide domestic air delivery throughout the United States. *UPS Next Day Air*[®] offers guaranteed next business day delivery by 10:30 a.m. to more than 75% of the United States population and delivery by noon to areas covering an additional 14%. We offer Saturday delivery for UPS Next Day Air shipments for an additional fee.

UPS Early A.M.[®] guarantees next business day delivery of packages and documents by 8:00 a.m. or 8:30 a.m. to more than 55% of the United States population. *UPS Early A.M.* is available from virtually all overnight shipping locations coast to coast. In addition, *UPS Next Day Air Saver*[®] offers next day delivery by 3:00 or 4:30 p.m. to commercial destinations and by the end of the day to residential destinations in all 48 contiguous states.

We offer three options for customers who desire guaranteed delivery services but do not require overnight delivery:

- *UPS 2nd Day Air A.M.*[®] provides guaranteed delivery of packages and documents to commercial addresses by noon of the second business day
- *UPS 2nd Day Air*[®] provides guaranteed delivery of packages and documents in two business days
- *3 Day Select*[®] provides guaranteed delivery in three business days

In 1999, we expanded our packaging portfolio to include additional Next Day Air and 2nd Day Air box options at no charge to our customers.

International Delivery Services

We deliver international shipments to more than 200 countries and territories worldwide, and we provide guaranteed overnight delivery to the world's major business centers. Throughout 1999, we continued to develop our global delivery and logistics network. We offer a complete portfolio of import, export and domestic services that is designed to provide a uniform service offering across major countries, including *UPS Worldwide Express*SM and *UPS Worldwide Expedited*SM. This portfolio includes guaranteed 8:00 a.m., 8:30 a.m., 10:30 a.m., 12:00 p.m. and 3:00 p.m. next business day delivery to major cities, as well as scheduled day-definite air and ground services. We offer complete customs clearance service for any mode of transportation, regardless of carrier, at all UPS Customhouse Brokerage sites in the U.S. and Canada.

*UPS Worldwide Express*SM provides guaranteed door-to-door, customs-cleared delivery to more than 200 countries and territories. This service includes guaranteed overnight delivery of documents from major cities worldwide to many international business centers. For package delivery from the U.S., *UPS Worldwide Express* provides guaranteed overnight delivery to major cities in Mexico and Canada and guaranteed second business day delivery for packages to more than 290 cities in Europe. Shipments to other destinations via *UPS Worldwide Express* generally are delivered in two or three business days.

*UPS Worldwide Express Plus*SM complements our regular express service by providing guaranteed early morning delivery options from international locations to major cities around the world. These options include guaranteed early morning second business day delivery from the United States to over 150 cities in Europe and other early morning delivery from major business centers around the world.

In February 1998, we introduced two shipment pricing options in our major international markets for *UPS Worldwide Express* and *UPS Worldwide Express Plus*: the *UPS 10KG Box*[®] and the *UPS 25KG Box*[™]. These options offer a simple, convenient, door-to-door fixed-rate shipping solution for express shipments up to 10 kilograms and 25 kilograms. Customers using these packaging options receive flat rates based on destination.

We also offer *UPS Worldwide Expedited*SM service, a guaranteed alternative that is faster and more reliable than traditional air freight. From the United States, shipments to Mexico and Canada are delivered within three business days, and shipments to most major destinations in Europe, South America and Asia generally are delivered in four to five business days. Customers outside the United States enjoy similar qualities of service and transit.

*UPS 3 Day Select*SM from Canada is an example of our ability to support customers' commerce needs between the major trading lanes of the U.S. and Canada. *3 Day Select* is an economical service with guaranteed delivery from most locations in Canada to every address in the 48 contiguous states within three business days.

UPS Standard service provides scheduled delivery of shipments within and between the European Union countries, within Canada and between the United States and Canada. This service includes day-specific delivery of less-than-urgent package shipments. The service offers delivery typically between one and five days, depending on the distance.

Delivery Service Options

We offer additional services such as Consignee Billing, Delivery Confirmation and Call Tag Service to those customers who require customized package distribution solutions. We designed Consignee Billing for customers who receive large volumes of merchandise from a number of vendors. We bill these consignee customers directly for their shipping charges, enabling the customer to obtain tighter control over inbound transportation costs. Delivery Confirmation provides automatic confirmation and weekly reports of deliveries and is available throughout the United States and Puerto Rico. Immediate confirmation is also available upon request. Call Tag Service provides prompt pick-up and return of packages previously delivered by UPS from any address in the 48 contiguous states.

Products and Services—Non-Package Operations

We provide other services that are distinct from our package operations. Key service offerings are:

- *Global supply chain management*, in which we provide solutions for the re-engineering and managing of supply chains—from supplier through manufacturer, distributor, dealer and/or end consumer. These services include warehouse operations, inventory and order management, fulfillment, returns management and value-added services like product inspection and configuration, kitting, packaging, cross-docking and vendor-managed inventory.
- *Service parts logistics*, in which we bring together a number of our competencies to the management of field service technicians for manufacturers of computers and other high-tech equipment. Our services include call center and technical service hotline management, inventory financing, just-in-time inventory stocking and transportation, critical and urgent parts delivery networks and high-tech repair and return.
- *Transportation services*, in which we manage multi-modal shipments and distribution networks around the world, including carrier selection, network optimization and fleet management services. We offer both contractual and transaction freight services.
- *Supply chain technologies*, in which we provide integrated logistics information systems and services to give visibility of inventory and shipments across the supply chain and to better manage the flow of goods, capital and information on a global basis.

We formed UPS Logistics Group, Inc. in 1995. UPS Logistics Group is the parent company for a number of operating subsidiaries.

- *UPS Worldwide Logistics®*, Inc. provides third-party supply chain management solutions for a number of industries, including high-tech, telecommunications, apparel, automotive and electronics. It operates distribution and technology centers in the United States, Mexico, Singapore, Hong Kong, Japan, The Netherlands, Germany, Taiwan, France and the United Kingdom, using state-of-the-art information systems that reduce customers' distribution and capital costs.
- *SonicAir®*, Inc. provides same-day and next-flight-out delivery services to virtually any location in the United States and locations in more than 180 countries. SonicAir also provides service parts logistics that include strategic stocking locations for critical parts and high-tech repair and return services.
- *Roadnet® Technologies, Inc.* develops supply chain management software. Roadnet has been recognized for its leadership in fleet management software, including routing and scheduling systems and MOBILECAST, a wireless system that connects dispatchers with drivers.

- *Diversified Trimodal, Inc.*, also known as *Martrac®*, offers transactional and contractual freight services as part of the transportation services offering. Diversified Trimodal also transports produce and other commodities in temperature-controlled trailers over railroads.
- *UPS Autogistics, Inc.* manages the network and tracking to support the delivery of finished automobiles from manufacturer to dealer.
- *Worldwide Dedicated Services, Inc.* provides dedicated contract fleet management services.

We also have subsidiaries that provide financial and other value-added services, such as consulting, call-center operation, equipment leasing and e-commerce solutions.

- *UPS Capital Corporation* offers a portfolio of financial products, including C.O.D. services, accounts receivable financing and equipment leasing.
- *UPS Professional Services, Inc.* provides global management consulting delivering strategic business solutions.
- *UPS Business Communications Services, Inc.* offers call-center services and telecommunications consulting.
- *UPS e-Ventures, Inc.* identifies and rapidly develops new businesses adjacent to our core business that focus on e-commerce.
- *UPS e-Logistics, Inc.* currently is being developed to provide comprehensive turnkey supply chain management solutions for quick launch of e-businesses.

Electronic Services

We provide a variety of *UPS OnLine®* solutions that support automated shipping and tracking. *UPS OnLine WorldShip®* is software that helps shippers streamline their shipping activities. It processes shipments, prints address labels, tracks packages and provides management reports from a desktop computer. WorldShip supports both domestic and international shipments and quickly prepares any needed export documentation. *UPS Internet Shipping* is a quick and convenient way to ship packages from the Web without installing additional software. All a shipper needs to process a shipment is a computer with Internet access and a laser printer. *UPS OnLine Host Access* provides electronic connectivity between us and the shipper's host computer system, linking UPS shipping information directly to all parts of the customer's organization. UPS OnLine Host Access can be used to enhance and streamline the customer's sales, service, distribution and accounting functions by providing direct access to vital transportation planning, shipment status and merchandise delivery information. *UPS OnLine Compatible Solutions*, provided by third-party vendors, offer similar benefits to customers who want to automate their shipping and tracking processes.

UPS Document ExchangeSM, featuring *UPS OnLine CourierSM Service*, is a delivery solution that utilizes the Internet as the mode of transport. This service offers features not found in traditional e-mail applications, such as document tracking, version translation, scheduled delivery, delivery confirmation, security options and the ability to carry any type of digital file. This gives customers the ability to send any digitally produced material in a secured environment, which allows them to take advantage of the speed and efficiencies of electronic delivery.

Our website, *www.ups.com*, brings a wide array of information services to customers worldwide. Package tracking, pick-up requests, rate quotes, service mapping, drop-off locator, transit times and supply ordering services all are available at the customer's desktop. The site also displays full domestic and international service information and provides an avenue for customers to download our software.

Sales and Marketing

Our sales force consists of about 3,700 account executives worldwide, spread across our 14 regions. Account executives, except for regional management account executives, are further allocated to individual operating districts. For our largest multi-site customers, we have an organization of regionally based account managers who report directly to our corporate office.

We recently instituted our new Sales Force 2000 initiative, which realigned our sales force based on an assessment of customer revenue and potential. Account responsibilities were rationalized and account executives' workloads were distributed based on the size and strategic importance of individual customers.

We also have provided each of our U.S. account executives with laptop computers loaded with our proprietary "Link" account management software, and we plan to deploy laptops loaded with Link to all of our account executives worldwide by the end of 2000. These systems provide account executives with useful productivity tools, and we have determined that the systems will increase the time our account executives are able to spend with customers and potential customers and improve their overall effectiveness.

In addition to our general sales force, we have overlaid three supplemental sales forces: international business, focused on international business out of major U.S. business centers; UPS HundredWeight Service business; and e-commerce. Within these specialty sales forces, account executives report to their respective districts. Our logistics operations and other subsidiaries maintain their own sales forces.

Our marketing organization is generally organized along similar lines. At the corporate level, the marketing group is engaged in brand management, rate-making and revenue management policy, market and customer research, product development, brand management, product management, marketing alliances and e-commerce, including the non-technical aspects of our web presence. Advertising, public relations and most formal marketing communications are centrally conceived and controlled.

Individual district and region marketing personnel are engaged in business planning, bid preparation and other revenue management activities, and in coordinating alignment with corporate marketing initiatives. Individual regions and districts may engage in local promotional and public relations activities pertinent to their locales.

Employees

During 1999, we had approximately 344,000 employees. We recently were named one of *Fortune* magazine's "Diversity Elite—50 Best Companies for Blacks, Asians and Hispanics."

As of December 31, 1999, we employed approximately 206,000 of our employees (60% of our total employees) under a national master agreement and various supplemental agreements with local unions affiliated with the International Brotherhood of Teamsters. These agreements run through July 31, 2002. We employ the majority of our pilots under a collective bargaining agreement with the Independent Pilots Association. This agreement becomes amendable on January 1, 2004. The majority of our mechanics who are not employed under agreements with the Teamsters are employed under collective bargaining agreements with the International Association of Machinists. These agreements have various expiration dates between July 31, 2002 and August 4, 2003.

We believe that our relations with our employees are good.

Competition

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

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

Government Regulation

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

The DOT's authority primarily relates to economic aspects of air transportation, such as discriminatory pricing, non-competitive practices, interlocking relations or cooperative agreements. The DOT also regulates, subject to the authority of the President of the United States, international routes, fares, rates and practices, and is authorized to investigate and take action against discriminatory treatment of United States air carriers abroad. The FAA's authority primarily relates to safety aspects of air transportation, including aircraft standards and maintenance, personnel and ground facilities. In 1988, the FAA granted us an operating certificate, which remains in effect so long as we meet the operational requirements of federal aviation regulations.

The FAA has issued rules mandating repairs on all Boeing Company and McDonnell-Douglas Corporation aircraft that have completed a specified number of flights, and also has issued rules requiring a corrosion control program for Boeing Company aircraft. Our total expenditures under these programs for 1999 were about \$13.7 million. The future cost of repairs pursuant to these programs may fluctuate. All mandated repairs have been completed or are scheduled to be completed within the timeframes specified by the FAA.

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

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

Postal Rate Proceedings

The Postal Reorganization Act of 1970 created the postal service as an independent establishment of the executive branch of the federal government, and vested the power to recommend domestic postal rates in a regulatory body, the Postal Rate Commission. We believe that the postal service consistently attempts to set rates for its monopoly services, particularly first class letter mail, above the cost of providing these services, in order to use the excess revenues to subsidize its expedited, parcel, international and other competitive services. Therefore, we participate in the postal rate proceedings before the Postal Rate Commission in an attempt to secure fair postal rates for competitive services.

Legislation has been proposed that would result in significant amendments to the Postal Reorganization Act. If adopted, it would introduce a form of rate-cap regulation of monopoly services, loosen regulation of competitive services and, for some matters, strengthen the powers of the Postal Rate Commission.

Item 1A. Executive Officers of the Registrant

<u>Name and Office</u>	<u>Age</u>	<u>Principal Occupation and Employment During at Least the Last Five Years</u>
John J. Beystehner Senior Vice President	48	Senior Vice President (1999 to present), Worldwide Sales Group Manager (1997 to present), Airline Operations Manager (1994 to 1997), District Manager (1992 to 1994), Legal and Regulatory Air Operations Manager (1987 to 1992)
Robert J. Clanin Senior Vice President, Treasurer, Chief Financial Officer and Director	56	Director (1996 to present), Senior Vice President, Treasurer and Chief Financial Officer (1994 to present), Finance Manager (1990 to 1994)
Calvin Darden Senior Vice President	50	Senior Vice President and U.S. Operations Manager (1998 to present), Corporate Quality Manager (1995 to 1998), Region Manager (1993 to 1995), District Manager (1991 to 1993)
John A. Duffy Senior Vice President	53	Senior Vice President (1999 to present), Corporate Strategy Group Manager (1996 to present), Strategic Operations Planning Group Manager (1994 to 1996), International Marketing Manager (1993 to 1994), District Manager (1989 to 1993)
Michael L. Eskew Executive Vice President and Director	50	Executive Vice President (1999 to present), Director (1998 to present), Corporate Development Group Manager (1999 to 2000), Senior Vice President (1996 to 1999), Engineering Group Manager (1996 to 2000), Corporate Industrial Engineering Manager (1993 to 1996), District Manager (1991 to 1993)
James P. Kelly Chairman of the Board, Chief Executive Officer and Director	56	Director (1991 to present), Chairman of the Board and Chief Executive Officer (1997 to present), Vice Chairman (1996), Executive Vice President (1994 to 1996), Chief Operating Officer (1992 to 1996), U.S. Operations Manager (1990 to 1992)
Kenneth W. Lacy Senior Vice President and Chief Information Officer	50	Senior Vice President and Chief Information Officer (1996 to present), Vice President-Information Services (1994 to 1996), Corporate Controller (1992 to 1994), Financial Manager (1989 to 1992)
Christopher D. Mahoney Senior Vice President	52	Senior Vice President and U.S. Operations Manager (1998 to present), Region Manager (1988 to 1998)
Joseph R. Moderow Senior Vice President, Secretary and Director	51	Director (1988 to present), Senior Vice President and Secretary (1986 to present), Legal and Public Affairs Group Manager (1989 to present)

<u>Name and Office</u>	<u>Age</u>	<u>Principal Occupation and Employment During at Least the Last Five Years</u>
Joseph M. Pyne Senior Vice President	52	Senior Vice President and Marketing Group Manager (1996 to present), Corporate Development Group Manager (2000 to present), Vice President-Marketing (1995 to 1996), National Marketing Planning Manager (1989 to 1995)
Charles L. Schaffer Senior Vice President, Chief Operating Officer and Director	54	Director (1992 to present), Chief Operating Officer (1998 to present), Senior Vice President (1990 to present), U.S. Operations Manager (1996 to 1998), Engineering Group Manager (1990 to 1996)
Lea N. Soupata Senior Vice President and Director	49	Director (1998 to present), Senior Vice President and Human Resources Group Manager (1995 to present), Vice President-Human Resources (1994 to 1995), District Manager (1990 to 1994)
Ronald G. Wallace Senior Vice President and President— International Operations	55	Senior Vice President and President-International Operations (1998 to present), Region Manager (1994 to 1998), District Manager (1979 to 1994)
Thomas H. Weidemeyer Senior Vice President, President—UPS Airlines and Director	52	Director (1998 to present), Senior Vice President (1994 to present), Engineering Group Manager (2000 to present), Transportation Group Manager (1997 to present), Labor Relations Group Manager (1997 to present), Airline Operations Manager (1990 to 1994), President—UPS Airlines (1994 to present)

Item 2. *Properties*

Operating Facilities

We own our headquarters, which are located in Atlanta, Georgia and consist of about 735,000 square feet of office space on an office campus.

We also own our 28 principal U.S. package operating facilities, which have floor spaces that range from about 378,000 to 838,000 square feet. In addition, we have a 1.9 million square foot operating facility near Chicago, Illinois, which is designed to streamline shipments between East Coast and West Coast destinations.

We also own about 760, and lease about 881, smaller operating facilities throughout the United States for our package operations. The smaller of these facilities have vehicles and drivers stationed for the pickup of packages and facilities for the sorting, transfer and delivery of packages. The larger of these facilities have additional facilities for servicing our vehicles and equipment and employ specialized mechanical installations for the sorting and handling of packages. We also own or lease other facilities that support our international package and non-package operations. We believe that our facilities are adequate to support our current operations.

Our aircraft are operated in a hub and spokes pattern in the United States. Our principal air hub in the United States is located in Louisville, Kentucky, with regional air hubs in Columbia, South Carolina, Dallas, Texas, Hartford, Connecticut, Ontario, California, Philadelphia, Pennsylvania and Rockford, Illinois. These hubs house facilities for the sorting, transfer and delivery of packages. Our Louisville, Kentucky hub handles the largest volume of packages for air delivery in the United States. Our European air hub is located in Cologne, Germany,

and our Asia-Pacific air hub is located in Taipei, Taiwan. Regional air hubs in Canada include facilities located in Hamilton, Ontario and Montreal, Quebec. Our new automated sorting facility, "Hub 2000," currently is under construction in Louisville, Kentucky, and we expect it to commence partial operations in Fall 2000. We expect this new facility to add efficiency and to increase our hub capacity by over 40% in Louisville.

Our computer operations are consolidated in a 435,000 square foot leased facility, the Ramapo Ridge facility, which is located on a 39-acre site in Mahwah, New Jersey. We have leased this facility for an initial term ending in 2019 for use as a data processing, telecommunications and operations facility. We also own a 160,000 square foot facility located on a 25-acre site in the Atlanta, Georgia area, which serves as a backup to the main computer operations facility in New Jersey. This facility provides production functions and backup capacity in case a power outage or other disaster incapacitates the main data center. It also helps us to meet communication needs.

Fleet

Aircraft

The following table shows information about our fleet as of December 31, 1999:

<u>Description</u>	<u>Owned</u>	<u>Leased or Chartered from Others</u>	<u>On Order</u>	<u>Under Option</u>
McDonnell-Douglas DC-8-71	23	—	—	—
McDonnell-Douglas DC-8-73	26	—	—	—
Boeing 727-100	51	—	—	—
Boeing 727-200	10	—	—	—
Boeing 747-100	12	—	—	—
Boeing 747-200	4	—	—	—
Boeing 757-200	71	4	—	31
Boeing 767-300	24	6	—	30
Airbus A300-600	—	—	30	30
Other	—	344	—	—
Total	<u>221</u>	<u>354</u>	<u>30</u>	<u>91</u>

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

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

During 1999, we took delivery of two Boeing 757-200 and three Boeing 767-300 aircraft. We also exercised options to purchase five Boeing 757-200 aircraft that we previously accounted for under operating leases. We have firm commitments to purchase seven Airbus A300-600 aircraft during 2000 and 23 Airbus A300-600 aircraft between 2001 and 2004, and we have options to purchase 30 Airbus A300-600 aircraft between 2002 and 2009.

Vehicles

We operate a fleet of more than 150,000 delivery vehicles, ranging from panel delivery vehicles to large tractors and trailers, including about 1,500 temperature-controlled trailers owned by Martrac.

Our management believes that these aircraft and vehicles are adequate to support our operations over the next year.

Safety

We promote safety throughout our operations.

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

- *Selection.* Six out of every seven drivers come from our part-time ranks. Therefore, many of our new drivers are familiar with our philosophies, policies, practices and training programs.
- *Training.* Training is the cornerstone of our Fleet Safety Program. Our approach starts with training the trainer. All trainers undergo a rigorous training workshop to ensure that they have the skills and motivation to effectively train novice drivers. The first 30 days of a new driver's employment includes eight hours of classroom "space and visibility" training followed by three safety training rides integrated into his or her training cycle.
- *Responsibility.* Our operations managers are responsible for their drivers' safety records. We investigate every accident. If we determine that an accident could have been prevented, we re-train the driver.
- *Preventive Maintenance.* An integral part of our Fleet Safety Program is a comprehensive Preventive Maintenance Program. Our fleet is tracked by computer to ensure that each vehicle is serviced before a breakdown or accident is likely to occur.
- *Honor Plan.* A well-defined safe driver honor plan recognizes and rewards our drivers when they achieve success. We have about 2,850 drivers who have driven for 25 years or more without an avoidable accident.

Our workplace safety program consists of a comprehensive health and safety program that is monitored by our employee-management health and safety committees. The workplace safety process focuses on employee conditioning and safety-related habits. We enlist employees' help in designing facilities and work processes.

Item 3. Legal Proceedings

On August 9, 1999, the U.S. Tax Court issued an opinion unfavorable to us regarding a Notice of Deficiency asserting that we are liable for additional tax for the 1983 and 1984 tax years. The Court held that we are liable for tax on income of Overseas Partners Ltd., a Bermuda company, which had reinsured excess value package insurance purchased by our customers beginning in 1984. The Court held that for the 1984 tax year we are liable for taxes of \$31 million on income reported by OPL, penalties and penalty interest of \$93 million and interest for a total after-tax exposure estimated at approximately \$246 million. In February 2000, the Court entered a decision in accord with its opinion.

In addition, during the first quarter of 1999, the IRS issued two Notices of Deficiency asserting that we are liable for additional tax for the 1985 through 1987 tax years, and the 1988 through 1990 tax years. The primary assertions by the IRS relate to the reinsurance of excess value package insurance, the issue raised for the 1984 tax year. The IRS has based its assertions on the same theories included in the 1983-1984 Notice of Deficiency.

We anticipate that the IRS will take similar positions for tax years subsequent to 1990. Based on the Tax Court opinion, we currently estimate that our total after-tax exposure for the tax years 1984 through 1999 could be as high as \$2.353 billion. We believe that a number of aspects of the Tax Court decision are incorrect, and we intend to appeal the decision to the U.S. Court of Appeals for the Eleventh Circuit.

In the second quarter 1999 financial statements, we recorded a tax assessment charge of \$1.786 billion, which included an amount for related state tax liabilities. The charge included taxes of \$915 million and interest of \$871 million. This assessment resulted in a tax benefit of \$344 million related to the interest component of

the assessment. As a result, our net charge to net income for the tax assessment was \$1.442 billion, increasing our total after-tax reserve at that time with respect to these matters to \$1.672 billion. The tax benefit of deductible interest is included in income taxes; since none of the income on which this tax assessment is based is our income, however, we have not classified the tax charge as income taxes.

We determined the size of our reserve with respect to these matters in accordance with generally accepted accounting principles based on our estimate of our most likely liability. In making this determination, we concluded that it was more likely that we would be required to pay taxes on income reported by OPL and interest, but that it was not probable that we would be required to pay any penalties and penalty interest. If penalties and penalty interest ultimately are determined to be payable, we would have to record an additional charge of up to \$681 million.

On August 31, 1999, we deposited \$1.349 billion with the IRS related to these matters for the 1984 through 1994 tax years. We included the profit of the excess value package insurance program, using the IRS's methodology for calculating these amounts, for both 1998 and 1999 in filings we made with the IRS in the fourth quarter of 1999. In February 2000, we deposited \$339 million with the IRS related to these matters for the 1995 through 1997 tax years. These deposits and filings were made in order to stop the accrual of interest, where applicable, on that amount of the IRS's claim, without conceding the IRS's position or giving up our right to appeal the Tax Court's decision.

Effective October 1, 1999, we implemented a new arrangement for providing excess value package insurance for our customers through UPS subsidiaries. This new arrangement results in including in our non-package operating segment the operations of the excess value package insurance program offered to our customers. This revised arrangement should eliminate the issues considered by the Tax Court in the Notices of Deficiency relating to OPL for periods after September 1999.

The IRS has proposed adjustments, unrelated to the OPL matters discussed above, regarding the timing of deductions, the characterization of expenses as capital rather than ordinary, and our entitlement to the investment tax credit and the research tax credit in the 1985 through 1990 tax years. These proposed adjustments, if sustained, would result in \$82 million in additional income tax expense.

We believe that our practice of expensing the items that the IRS alleges should have been capitalized is consistent with the practices of other industry participants. We expect that we will prevail on substantially all of these issues. Should the IRS prevail, however, unpaid interest on these adjustments through 1999 could aggregate up to \$270 million, after the benefit of related tax deductions. The IRS's proposed adjustments include penalties and penalty interest. We believe that the possibility that such penalties and penalty interest will be sustained is remote. The IRS may take similar positions with respect to some of these issues for each of the years from 1991 through 1999. We believe the eventual resolution of these issues will not result in a material adverse effect upon our financial condition, results of operations or liquidity.

We are a defendant in various employment-related lawsuits. In one of these actions, which alleges employment discrimination by UPS, class action status has been granted, and the United States Equal Employment Opportunity Commission has been granted the right to intervene. In our opinion, none of these cases is expected to have a material effect upon our financial condition, results of operations or liquidity.

We recently have been named as a defendant in nine lawsuits which seek to hold us (and in two cases, other defendants) liable for the collection of premiums for excess value coverage, or "EVC", in connection with package shipments since 1984. These cases generally claim that we acted as an insurer without complying with state insurance laws and regulations, and that the price for EVC was excessive. All of these cases currently are pending in federal courts, and we have requested that the cases be consolidated for pre-trial purposes in a multi-district litigation proceeding before a single federal court. Each of these cases is in its initial stages, no discovery

has commenced and no class has been certified. These actions all developed after the August 9, 1999 Tax Court opinion was rendered. We believe the allegations have no merit and intend to defend them vigorously. The ultimate resolution of these matters cannot presently be determined. The nine lawsuits are:

- *Allen, et al., v. UPS, Overseas Partners, Ltd., American International Group, Inc., AIG Risk Management, Inc., National Union Fire Insurance Company of Pittsburgh, PA, Frank B. Hall Insurance Brokers, Inc., Prometheus Funding Corp., Aon Group (Bermuda) Ltd., and Aon Corporation*, United States District Court for the Southern District of Ohio (Western Division), Case No. C-3-99-653, filed November 18, 1999;
- *Camp v. UPS*, United States District Court for the District of Colorado, Case No. 99-Z-2492, filed November 24, 1999;
- *Tseffos v. UPS*, United States District Court for the District of Arizona, Case No. CIV-99-2256-PHX-SMM, filed November 24, 1999;
- *Prestige Fabric Co. v. UPS*, United States District Court for the Central District of California, Case No. CV 00-00830 RSWL (BQRx), filed December 7, 1999;
- *Dyer Enterprises v. UPS*, United States District Court for the District of Colorado, Case No. 00-Z-46, filed December 20, 1999;
- *Busby v. UPS*, United States District Court for the Middle District of Louisiana, Civil Action No. 00109 Division "C", filed December 28, 1999;
- *Cantor Jewelry v. UPS*, United States District Court for the Southern District of New York, Case No. 00 CV 0306 (RMB), filed January 4, 2000;
- *Poppe v. UPS, Overseas Partners, Ltd., American International Group, Inc., AIG Risk Management, Inc., National Union Fire Insurance Company of Pittsburgh, PA, Frank B. Hall Insurance Brokers, Inc., Prometheus Funding Corp., Aon Group (Bermuda) Ltd., and Aon Corporation*, United States District Court for the Southern District of Ohio, Western Division (Cincinnati), Case No. C-1-00-0107, filed January 27, 2000; and
- *Farina, et al. v. UPS*, United States District Court for the Eastern District of Pennsylvania, Civil Action No. 00-CV-0586, filed February 1, 2000.

As part of our 1997-2002 collective bargaining agreement with the Teamsters, we agreed that we would create 2,000 new full-time jobs from existing part-time jobs during each year of the contract. There was a provision, however, which nullified this obligation if there was a reduction in volume that resulted in layoffs. At the end of the first contract year (July 31, 1998), our shipping volume was still below pre-strike levels and employees were laid off. Therefore, we believed that we were not obligated to create the 2,000 jobs for the first year of the contract. The Teamsters filed a grievance concerning this issue, and the case was submitted to an arbitrator. In February 2000, the arbitrator ruled against us and ordered us to create the 2,000 new full-time jobs from existing part-time positions within 90 days of the arbitrator's decision, and to make whole the employees selected for the full-time positions for any lost wages or benefits. We are in the process of creating these full-time jobs, identifying the employees that will fill the new jobs and quantifying the financial impact of this matter. Our package volume surpassed pre-strike levels in 1999, and thus we are in the process of creating the 2,000 full-time jobs called for in the third year of the contract. We have agreed to create the 2,000 full-time jobs for the second year of the contract by June 10, 2000, and to make whole the employees selected for the full-time positions for any lost wages or benefits. We do not believe that the eventual amount will be material to our financial condition or liquidity.

On November 22, 1999, the U.S. Occupational Safety and Health Administration proposed regulations to mandate an ergonomics standard that would require American industry to make significant changes in the workplace in order to reduce the incidence of musculoskeletal complaints such as low back pain. If adopted as proposed, these regulations would require us to make extensive changes in the physical layout of our distribution centers and to hire significant numbers of additional full-time and part-time employees. Should this occur, we

believe that the cost of compliance could be material to our financial condition, results of operations and liquidity. Our competitors, as well as the remainder of American industry, would incur similar costs. We have filed comments with OSHA challenging the medical support and economic and technical feasibility of the proposed regulations.

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

We held a special meeting of shareowners on October 25, 1999. The matters voted upon at the special meeting, and the results of the voting, were as follows:

	Number of Votes	Percent of Total Voting
To approve an Agreement and Plan of Merger, dated as of September 22, 1999, among United Parcel Service of America, Inc., United Parcel Service, Inc. and UPS Merger Subsidiary, Inc.	For: 489,845,484	97.3%
	Against: 13,066,966	2.6%
	Abstain: 677,782	0.1%
	Number of Votes	Percent of Total Voting
To approve the United Parcel Service, Inc. Incentive Compensation Plan	For: 480,242,241	95.4%
	Against: 16,223,355	3.2%
	Abstain: 7,124,636	1.4%

PART II

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

In October 1999, the shareowners of United Parcel Service of America, Inc. approved the merger of that company with a subsidiary of United Parcel Service, Inc. As a result of the merger, which was completed in November 1999, United Parcel Service of America, Inc. became a wholly owned subsidiary of United Parcel Service, Inc., and each share of common stock of United Parcel Service of America, Inc. was converted into two shares of class A common stock of United Parcel Service, Inc.

We are authorized to issue 10,400,000,000 shares of stock, of which 1,533,333,333 shares are class A-1 common stock, par value \$0.01 per share, 1,533,333,333 shares are class A-2 common stock, par value \$0.01 per share, 1,533,333,334 shares are class A-3 common stock, par value \$0.01 per share, 5,600,000,000 shares are class B common stock, par value \$0.01 per share, and 200,000,000 shares are preferred stock, par value \$0.01 per share. As of February 29, 2000, 1,101,353,454 shares of class A common stock, 109,400,000 shares of class B common stock and no shares of preferred stock were issued and outstanding.

The net proceeds from our initial public offering, which we completed in November 1999, were \$5.266 billion. We used the majority of the IPO proceeds to fund a cash tender offer to purchase class A-1 shares from shareowners. The tender offer, which was announced on February 4, 2000, and expired on March 3, 2000, was for up to 100,893,277 shares at a price of \$60 per share. The actual number of shares validly tendered and accepted for purchase by us was 68,312,335, which resulted in a cash expenditure of approximately \$4.099 billion and reduced our outstanding class A shares accordingly. The remaining IPO proceeds will be available for general corporate purposes, which may include future additional purchases of UPS shares.

Holders of class A common stock are entitled to ten votes per share and holders of class B common stock are entitled to one vote per share on all matters voted on by shareowners. The voting rights of any shareowner or shareowners as a group, other than any of our employee benefit plans, that beneficially own more than 25% of our voting power are limited so that the shareowner or group may cast only one one-hundredth of a vote with respect to each vote in excess of 25% of the outstanding voting power.

Before November 10, 1999, we would notify our shareowners periodically of our willingness to purchase a limited number of shares of our common stock at specified prices determined by the board of directors. In determining the share price, the board would consider a variety of factors, including past and current earnings, earnings estimates, the ratio of our common stock to our debt, other factors affecting our business and long-range prospects, and general economic conditions, as well as opinions furnished from time to time by investment counselors acting as independent appraisers.

Before November 10, 1999, we also had a preferential right to purchase our own shares. We had been the principal purchaser of our common stock, which we had used primarily for awards under the UPS Managers Incentive Plan, awards under the UPS Stock Option Plans, the matching contribution of our stock under the UPS Qualified Stock Ownership Plan and sales under the UPS 1997 Managers Stock Purchase Plan, the UPS 1997 Employee Stock Purchase Plan and the UPS Qualified Stock Ownership Plan.

The prices at which we published notices of our willingness to purchase shares of common stock from January 1, 1998 to November 9, 1999 are as follows, as adjusted to reflect the 2-for-1 merger exchange ratio effective in November 1999:

1998	
<u>Dates</u>	<u>Price</u>
January 1 to February 26	\$15.38
February 27 to May 21	\$16.00
May 22 to August 19	\$17.00
August 20 to November 18	\$18.50
November 19 to February 17, 1999	\$20.00
1999	
<u>Dates</u>	<u>Price</u>
February 18 to May 19	\$21.50
May 20 to August 18	\$23.50
August 19 to November 9	\$25.50

Our class A common stock is not listed on a national securities exchange or traded in an organized over-the-counter market. On November 10, 1999, our class B common stock began to trade on the New York Stock Exchange under the ticker symbol "UPS". From November 10 to December 31, 1999, the quoted price on the New York Stock Exchange for our class B common stock fluctuated between \$61.00 and \$76.94, with a December 31, 1999 closing price of \$69.00. Because our class B shares have the same equitable interest in our earnings and the same dividend payments as our class A shares, we expect that the market price of our class B common stock will determine the value of our class A common stock.

In February 1999, we distributed an aggregate of 6,354,858 shares of United Parcel Service of America, Inc. common stock under the UPS Managers Incentive Plan to a total of 26,278 employees at a managerial or supervisory level. In March 1999, we granted options to our directors and management employees under our 1996 Stock Option Plan, and in November 1999, we granted options to our directors and management employees under our Incentive Compensation Plan. No options will be granted to these directors and management employees under the Incentive Compensation Plan in 2000.

During 1999, 7,571,160 shares of United Parcel Service of America, Inc. common stock and no shares of our class A common stock were distributed to management employees upon the exercise of stock options granted under our 1991 Stock Option Plan. On December 31, 1999, 99,240 active employees owned approximately 380 million shares of our class A common stock.

During the fiscal year ended December 31, 1999, as adjusted to reflect the 2-for-1 merger exchange ratio effective in November 1999, we paid a cash dividend of \$0.23 a share in January 1999 and \$0.28 a share in June 1999. During the fiscal year ended December 31, 1998, as adjusted to reflect the 2-for-1 merger exchange ratio effective in November 1999, we paid a cash dividend of \$0.18 a share in January 1998 and \$0.20 a share in June 1998.

In November 1999, we declared a cash dividend of \$0.30 per share, which we paid in January 2000. In February 2000, we announced that we plan to begin paying dividends quarterly rather than semi-annually, and we declared a cash dividend of \$0.17 a share, payable in March 2000.

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

As of March 10, 2000, there were 125,100 record holders of our class A common stock and 6,250 record holders of our class B common stock.

Item 6. Selected Financial Data

The following table sets forth selected financial data for each of the five years in the period ended December 31, 1999. This financial data should be read in conjunction with our Consolidated Financial Statements, Management's Discussion and Analysis of Financial Condition and Results of Operations and other financial data appearing elsewhere in this document.

Selected Income Statement Data	Years Ended December 31,				
	1999	1998	1997	1996	1995
	(In millions except per share amounts)				
Revenue:					
U.S. domestic package	\$22,313	\$20,650	\$18,868	\$18,881	\$17,773
International package	3,730	3,399	3,067	3,074	2,958
Non-package	1,009	739	523	413	314
Total revenue	27,052	24,788	22,458	22,368	21,045
Operating expenses:					
Compensation and benefits	15,285	14,346	13,289	13,326	12,401
Other	7,779	7,352	7,471	7,013	6,478
Restructuring charge	—	—	—	—	372
Total operating expenses	23,064	21,698	20,760	20,339	19,251
Operating profit (loss):					
U.S. domestic package	3,568	2,899	1,654	2,181	1,937
International package	252	56	(67)	(281)	(250)
Non-package	168	135	111	129	107
Total operating profit	3,988	3,090	1,698	2,029	1,794
Other income (expense):					
Investment income	177	84	70	39	26
Interest expense	(228)	(227)	(187)	(95)	(77)
Tax assessment	(1,786)	—	—	—	—
Miscellaneous, net	(63)	(45)	(28)	(63)	(35)
Income before income taxes	2,088	2,902	1,553	1,910	1,708
Income taxes	1,205	1,161	644	764	665
Net income	\$ 883	\$ 1,741	\$ 909	\$ 1,146	\$ 1,043
Per share amounts:					
Basic earnings per share	\$ 0.79	\$ 1.59	\$ 0.82	\$ 1.03	\$ 0.93
Diluted earnings per share	\$ 0.77	\$ 1.57	\$ 0.81	\$ 1.01	\$ 0.92
Dividends declared per share	\$ 0.58	\$ 0.43	\$ 0.35	\$ 0.34	\$ 0.32
Weighted Average Shares Outstanding	1,121	1,093	1,103	1,114	1,118
Basic	1,141	1,108	1,116	1,129	1,131
Diluted	1,141	1,108	1,116	1,129	1,131
As Adjusted Net Income Data:					
Net income before impact of tax assessment in 1999	\$ 2,325	\$ 1,741	\$ 909	\$ 1,146	\$ 1,043
As a percentage of revenue	8.6%	7.0%	4.0%	5.1%	5.0%
Basic earnings per share	\$ 2.07	\$ 1.59	\$ 0.82	\$ 1.03	\$ 0.93
Diluted earnings per share	\$ 2.04	\$ 1.57	\$ 0.81	\$ 1.01	\$ 0.92
Selected Balance Sheet Data	December 31,				
	1999	1998	1997	1996	1995
	(In millions)				
Working capital	\$ 6,940	\$ 1,708	\$ 1,079	\$ 1,097	\$ 261
Long-term debt	1,912	2,191	2,583	2,573	1,729
Total assets	23,043	17,067	15,912	14,954	12,645
Shareowners' equity	12,474	7,173	6,087	5,901	5,151

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

Operations

1999 Compared to 1998

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

	Year Ended December 31,		Change	
	1999	1998	\$	%
<u>Revenue (in millions):</u>				
U.S. domestic package:				
Next Day Air	\$ 5,240	\$ 4,690	\$ 550	11.7%
Deferred	2,694	2,464	230	9.3
Ground	14,379	13,496	883	6.5
	<u>22,313</u>	<u>20,650</u>	<u>1,663</u>	<u>8.1</u>
International package:				
Domestic	924	953	(29)	(3.0)
Export	2,479	2,176	303	13.9
Cargo	327	270	57	21.1
	<u>3,730</u>	<u>3,399</u>	<u>331</u>	<u>9.7</u>
Non-package	1,009	739	270	36.5
Consolidated	<u>\$27,052</u>	<u>\$24,788</u>	<u>\$2,264</u>	<u>9.1%</u>
<u>Average Daily Package Volume (in thousands):</u>			#	
U.S. domestic package:				
Next Day Air	1,039	938	101	10.8%
Deferred	852	783	69	8.8
Ground	10,016	9,645	371	3.8
	<u>11,907</u>	<u>11,366</u>	<u>541</u>	<u>4.8</u>
International package:				
Domestic	711	730	(19)	(2.6)
Export	303	256	47	18.4
	<u>1,014</u>	<u>986</u>	<u>28</u>	<u>2.8</u>
Consolidated	<u>12,921</u>	<u>12,352</u>	<u>569</u>	<u>4.6%</u>
<u>Average Revenue Per Piece:</u>			\$	
U.S. domestic package:				
Next Day Air	\$ 19.86	\$19.69	\$ 0.17	0.9%
Deferred	12.45	12.39	0.06	0.5
Ground	5.65	5.51	0.14	2.5
Total	7.38	7.15	0.23	3.2
International package:				
Domestic	5.12	5.14	(0.02)	(0.4)
Export	32.21	33.46	(1.25)	(3.7)
Total	13.21	12.49	0.72	5.8
Consolidated	<u>\$ 7.84</u>	<u>\$ 7.58</u>	<u>\$ 0.26</u>	<u>3.4%</u>

U.S. domestic package revenue increased more than \$1.6 billion primarily due to a 4.8% increase in average daily package volume combined with a 3.2% improvement in revenue per piece. Package volume growth was experienced in all products, with average volumes for our Next Day Air and Deferred products growing at 10.8% and 8.8%, respectively. We generated substantial growth in our Ground revenue, which comprises 64% of our U.S. domestic package revenue, based on average volume growth of 3.8% and a 2.5% improvement in average revenue per piece.

During the first quarter of 1999, we increased rates for standard ground shipments an average of 2.5% for commercial deliveries. The ground residential charge continued to be \$1.00 over the commercial ground rate, with an additional delivery area surcharge added to certain less accessible areas. In addition, we increased rates for UPS Next Day Air, UPS Next Day Air Saver and UPS 2nd Day Air an average of 2.5%, while we decreased the rate for UPS 2nd Day Air A.M. by 2.2%. The rate for UPS Next Day Air Early A.M. did not change. Rates for international shipments originating in the United States did not increase for UPS Worldwide Express, Worldwide Express Plus, UPS Worldwide Expedited and UPS International Standard service. Rate changes for shipments originating outside the U.S. were made throughout the past year and varied by geographic market.

The increase in international package revenue was primarily due to an overall improvement in product mix, specifically volume growth for our export products. All international operations posted double-digit volume growth in export services, with the largest increases experienced in our Asia Pacific and European operations. Due to the strong growth of our international export products, our total average revenue per piece for the international segment increased \$0.72, or 5.8%.

We have added a "Cargo" line item within the international package revenue category. Previously, this revenue was included in the international export and the non-package revenue amounts. Amounts for all periods presented have been restated to reflect this change.

The growth in non-package revenue resulted primarily from the continued growth of the UPS Logistics Group. This growth reflects both new business and increased business with existing customers. Revenue for the non-package segment was also increased by the new arrangement for providing excess value package insurance for our customers.

Operating expenses increased by \$1.366 billion, or 6.3%, which was less than our increase in revenue of 9.1%. Compensation and benefit expenses accounted for \$939 million of this increase. Purchased transportation costs increased by \$160 million and fuel costs increased by \$77 million. The operating margin, defined as operating profit as a percentage of revenue, for 1999 was 14.7 compared to 12.5 in 1998. This improvement was largely due to containment of operating expense growth through better utilization of existing capacity and from continued company-wide cost containment efforts.

The following table shows the change in operating profit, both in dollars and in percentage terms:

	Year Ended December 31,		Change	
	1999	1998	\$	%
	(in millions)			
<u>Operating Segment</u>				
U.S. domestic package	\$3,568	\$2,899	\$669	23.1%
International package	252	56	196	350.0
Non-package	168	135	33	24.4
Consolidated operating profit	<u>\$3,988</u>	<u>\$3,090</u>	<u>\$898</u>	29.1%

U.S. domestic package operating profit improved due to the volume and revenue improvements discussed previously, combined with the containment of operating expense growth.

Our international package operating profit improved significantly in 1999 due to a shift to higher yielding export packages. Average daily volume for our export products grew 18.4% over 1998. The Europe and Asia Pacific regions contributed significantly to overall operating profit improvements.

The increase in non-package operating profit is largely due to the new arrangement for providing excess value package insurance for our customers. The new arrangement for excess value package insurance, which was implemented in the fourth quarter of 1999, increased non-package operating profit by \$60 million. This increase was offset somewhat by continued start-up costs at UPS Capital Corporation, higher third party underwriting losses for UPINSCO, our captive insurance company, and a reduction in intersegment profit. The UPS Logistics Group experienced a small decrease in operating profit compared to last year. This decrease was due to third-party transportation costs for the group's SonicAir subsidiary and higher fuel costs for its UPS Truck Leasing subsidiary. These decreases were offset somewhat by higher operating profits for the group's Worldwide Logistics subsidiary.

In 1999 quarterly financial statements, we did not allocate capitalized software to individual segments, and reported the amounts capitalized as a separate "Corporate" line item. However, for the year ended December 31, 1999, all capitalized software costs, including amounts capitalized in prior quarters, have been allocated to the individual segments which benefit from the software.

The increase in investment income of \$93 million for the year is due to large cash, cash equivalents, marketable securities and short-term investments balances we have maintained during 1999, including the IPO proceeds received in November.

Net income for 1999 decreased by \$858 million from 1998, resulting in a decrease in diluted earnings per share from \$1.57 in 1998 to \$0.77 in 1999. These results reflect the charge we recorded during the second quarter of 1999, resulting from an unfavorable ruling of the U.S. Tax Court. Excluding the impact of this one-time charge of \$1.442 billion, our net income for 1999 would have been \$2.325 billion, with an associated diluted earnings per share of \$2.04. Further discussion of this matter is included in the Liquidity and Capital Resources section.

1998 Compared to 1997

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

	Year Ended December 31,		Change	
	1998	1997	\$	%
<u>Revenue (in millions):</u>				
U.S. domestic package:				
Next Day Air	\$ 4,690	\$ 4,054	\$ 636	15.7%
Deferred	2,464	2,314	150	6.5
Ground	13,496	12,500	996	8.0
	<u>20,650</u>	<u>18,868</u>	<u>1,782</u>	<u>9.4</u>
International package:				
Domestic	953	919	34	3.7
Export	2,176	1,922	254	13.2
Cargo	270	226	44	19.5
	<u>3,399</u>	<u>3,067</u>	<u>332</u>	<u>10.8</u>
Non-package	739	523	216	41.3
Consolidated	<u>\$24,788</u>	<u>\$22,458</u>	<u>\$2,330</u>	<u>10.4%</u>
<u>Average Daily Package Volume (in thousands):</u>				
			#	
U.S. domestic package:				
Next Day Air	938	822	116	14.1%
Deferred	783	771	12	1.6
Ground	9,645	9,521	124	1.3
	<u>11,366</u>	<u>11,114</u>	<u>252</u>	<u>2.3</u>
International package:				
Domestic	730	678	52	7.7
Export	256	217	39	18.0
	<u>986</u>	<u>895</u>	<u>91</u>	<u>10.2</u>
Consolidated	<u>12,352</u>	<u>12,009</u>	<u>343</u>	<u>2.9%</u>
<u>Average Revenue Per Piece:</u>				
			\$	
U.S. domestic package:				
Next Day Air	\$ 19.69	\$ 19.49	\$ 0.20	1.0%
Deferred	12.39	11.86	0.53	4.5
Ground	5.51	5.19	0.32	6.2
Total	7.15	6.71	0.44	6.6
International package:				
Domestic	5.14	5.36	(0.22)	(4.1)
Export	33.46	35.01	(1.55)	(4.4)
Total	12.49	12.55	(0.06)	(0.5)
Consolidated	<u>\$ 7.58</u>	<u>\$ 7.15</u>	<u>\$ 0.43</u>	<u>6.0%</u>

The increase in U.S. domestic package revenue in 1998 resulted from continued improvement in product mix, combined with generally higher revenue per piece. The 1997 revenues were adversely affected by the 15-day Teamsters strike. The Teamsters union, which, at the time, represented about 203,000 of our employees, was on strike from August 4 through August 19, 1997. In addition, the Independent Pilots Association, which represents all of our non-management pilots, observed picket lines in support of the Teamsters strike. Excluding the period of the strike, average daily domestic volume in 1998 was 2.2% below 1997, reflecting residual lost volume following the strike. Domestic express volume, however, increased by 4.0%.

During the first quarter of 1998, we increased rates for standard ground shipments an average of 3.6% for commercial deliveries, and increased the ground residential premium from \$.80 to \$1.00 over the commercial ground rate. In addition, we increased rates for each of UPS Next Day Air, UPS 2nd Day Air and UPS 3 Day Select about 3.3%. Rates for international shipments originating in the U.S. did not change for UPS Worldwide Express, UPS Worldwide Expedited and UPS Standard Service to Canada. Rate changes for shipments originating outside the U.S. were made throughout 1998 and varied by geographic market.

The increase in international package revenue in 1998 was attributable primarily to a 10.2% increase in volume and an improvement in product mix. The revenue increase was partially offset by the stronger U.S. dollar. Europe was a significant contributor to international revenue growth in 1998 as a result of a 12.2% volume increase and improved product mix. The increase in non-package revenue in 1998 was driven mainly by continued growth of the UPS Logistics Group.

Consolidated operating expenses increased \$938 million, or 4.5%, in 1998 over 1997, while the operating margin improved from 7.6 during 1997 to 12.5 during 1998. Compensation and benefits expenses increased \$1.057 billion in 1998, in part due to labor costs not incurred during the Teamsters strike in August 1997. Other operating expenses decreased \$119 million from 1997 to 1998, mainly driven by lower fuel costs and the reduction of overhead costs in 1998.

The following table shows the change in operating profit, both in dollars and in percentage terms:

	Year Ended December 31,		Change	
	1998	1997	\$	%
	(in millions)			
<u>Operating Segment</u>				
U.S. domestic package	\$2,899	\$1,654	\$1,245	75.3%
International package	56	(67)	123	*
Non-package	135	111	24	21.6
Consolidated operating profit	<u>\$3,090</u>	<u>\$1,698</u>	<u>\$1,392</u>	<u>82.0%</u>

* Not meaningful

Approximately \$703 million of the U.S. domestic package operating profit increase resulted from improvements in U.S. domestic revenue per piece, improved product mix and containment of operating expense growth. The remaining \$542 million of the increase reflects the change between August 1998 and August 1997, the period in which the Teamsters strike occurred.

The favorable trend in international operations resulted primarily from higher volume, improved product mix and better utilization of existing capacity. Most of this improvement was due to the Europe region. Despite the economic problems in Asia, operating results associated with the Asia Pacific region continued to improve in 1998.

Net income increased by \$832 million in 1998 over 1997. Approximately \$496 million of this improvement was due primarily to higher revenue per piece on U.S. domestic products, improved product mix, improved international operating results and the containment of operating expense growth. The remaining increase of \$336 million resulted from the change in net income for August 1998 as compared to August 1997, the period in which the Teamsters strike occurred.

Liquidity and Capital Resources

Our primary source of liquidity is our cash flow from operations. We maintain significant cash, cash equivalents, marketable securities and short-term investments, amounting to \$6.278 billion at December 31, 1999. Of this amount, \$5.266 billion represents the net proceeds from our initial public offering, which was completed in November 1999. We used the majority of the IPO proceeds to fund a cash tender offer to purchase class A-1 shares from shareowners. The tender offer, which was announced on February 4, 2000, and expired on March 3, 2000, was for up to 100,893,277 shares at a price of \$60 per share. The actual number of shares validly tendered and accepted for purchase by us was 68,312,335, which resulted in a cash expenditure of approximately \$4.099 billion and reduced our outstanding class A shares accordingly. The remaining IPO proceeds will be available for general corporate purposes, which may include future additional purchases of UPS shares.

We maintain a commercial paper program under which we are authorized to borrow up to \$2.0 billion. Approximately \$102 million was outstanding as of December 31, 1999. The average interest rate on the amount outstanding at December 31, 1999 was 5.8%.

We maintain two credit agreements with a consortium of banks. These agreements provide revolving credit facilities of \$1.25 billion each, with one expiring in April 2000 and the other expiring in April 2003. Interest on any amounts we borrow under these facilities would be charged at 90-day LIBOR plus 15 basis points. There were no borrowings under either of these agreements as of December 31, 1999.

We also maintain a European medium-term note program with a borrowing capacity of \$1.0 billion. Under this program, we may issue notes from time to time denominated in a variety of currencies. At December 31, 1999, \$500 million was available under this program. Of the amount outstanding at December 31, 1999, \$200 million bears interest at a stated interest rate of 6.625% and \$300 million bears interest at a stated interest rate of 6.25%.

In January 1999, we filed a shelf registration statement with the SEC, under which we may issue debt in the U.S. marketplace of up to \$2.0 billion. The debt may be denominated in a variety of currencies. There is approximately \$55 million issued under this shelf registration statement at December 31, 1999.

On August 9, 1999, the U.S. Tax Court issued an opinion unfavorable to us regarding a Notice of Deficiency asserting that we are liable for additional tax for the 1983 and 1984 tax years. The Court held that we are liable for tax on income of Overseas Partners Ltd., a Bermuda company, which had reinsured excess value package insurance purchased by our customers beginning in 1984. The Court held that for the 1984 tax year we are liable for taxes of \$31 million on income reported by OPL, penalties and penalty interest of \$93 million and interest for a total after-tax exposure estimated at approximately \$246 million. In February 2000, the Court entered a decision in accord with its opinion.

In addition, during the first quarter of 1999, the IRS issued two Notices of Deficiency asserting that we are liable for additional tax for the 1985 through 1987 tax years, and the 1988 through 1990 tax years. The primary assertions by the IRS relate to the reinsurance of excess value package insurance, the issue raised for the 1984 tax year. The IRS has based its assertions on the same theories included in the 1983-1984 Notice of Deficiency.

We anticipate that the IRS will take similar positions for tax years subsequent to 1990. Based on the Tax Court opinion, we currently estimate that our total after-tax exposure for the tax years 1984 through 1999 could be as high as \$2.353 billion. We believe that a number of aspects of the Tax Court decision are incorrect, and we intend to appeal the decision to the U.S. Court of Appeals for the Eleventh Circuit.

In the second quarter 1999 financial statements, we recorded a tax assessment charge of \$1.786 billion, which included an amount for related state tax liabilities. The charge included taxes of \$915 million and interest of \$871 million. This assessment resulted in a tax benefit of \$344 million related to the interest component of the assessment. As a result, our net charge to net income for the tax assessment was \$1.442 billion, increasing

our total after-tax reserve at that time with respect to these matters to \$1.672 billion. The tax benefit of deductible interest is included in income taxes; however, since none of the income on which this tax assessment is based is our income, we have not classified the tax charge as income taxes.

We determined the size of our reserve with respect to these matters in accordance with generally accepted accounting principles based on our estimate of our most likely liability. In making this determination, we concluded that it was more likely that we would be required to pay taxes on income reported by OPL and interest, but that it was not probable that we would be required to pay any penalties and penalty interest. If penalties and penalty interest ultimately are determined to be payable, we would have to record an additional charge of up to \$681 million.

On August 31, 1999, we deposited \$1.349 billion with the IRS related to these matters for the 1984 through 1994 tax years. We included the profit of the excess value package insurance program, using the IRS's methodology for calculating these amounts, for both 1998 and 1999 in filings we made with the IRS in the fourth quarter of 1999. In February 2000, we deposited \$339 million with the IRS related to these matters for the 1995 through 1997 tax years. These deposits and filings were made in order to stop the accrual of interest, where applicable, on that amount of the IRS's claim, without conceding the IRS's position or giving up our right to appeal the Tax Court's decision.

Effective October 1, 1999, we implemented a new arrangement for providing excess value package insurance for our customers through UPS subsidiaries. This new arrangement results in including in our non-package operating segment the operations of the excess value package insurance program offered to our customers. This revised arrangement should eliminate the issues considered by the Tax Court in the Notices of Deficiency relating to OPL for periods after September 1999.

We recently have been named as a defendant in nine lawsuits which seek to hold us (and in two cases, other defendants) liable for the collection of premiums for excess value coverage, or "EVC", in connection with package shipments since 1984. These cases generally claim that we acted as an insurer without complying with state insurance laws and regulations, and that the price for EVC was excessive. All of these cases currently are pending in federal courts, and we have requested that the cases be consolidated for pre-trial purposes in a multi-district litigation proceeding before a single federal court. Each of these cases is in its initial stages, no discovery has commenced, and no class has been certified. These actions all developed after the August 9, 1999, Tax Court opinion was rendered. We believe the allegations have no merit and intend to defend them vigorously. The ultimate resolution of these matters cannot presently be determined.

As part of our 1997-2002 collective bargaining agreement with the Teamsters, we agreed that we would create 2,000 new full-time jobs from existing part-time jobs during each year of the contract. There was a provision, however, which nullified this obligation if there was a reduction in volume that resulted in layoffs. At the end of the first contract year (July 31, 1998), our shipping volume was still below pre-strike levels and employees were laid off. Therefore, we believed that we were not obligated to create the 2,000 jobs for the first year of the contract. The Teamsters filed a grievance concerning this issue, and the case was submitted to an arbitrator. In February 2000, the arbitrator ruled against us and ordered us to create the 2,000 new full-time jobs from existing part-time positions within 90 days of the arbitrator's decision, and to make whole the employees selected for the full-time positions for any lost wages or benefits. We are in the process of creating these full-time jobs, identifying the employees that will fill the new jobs and quantifying the financial impact of this matter. Our package volume surpassed pre-strike levels in 1999, and thus we are in the process of creating the 2,000 full-time jobs called for in the third year of the contract. We have agreed to create the 2,000 full-time jobs for the second year of the contract by June 10, 2000, and to make whole the employees selected for the full-time positions for any lost wages or benefits. We do not believe that the eventual amount owed will be material to our financial condition or liquidity.

On November 22, 1999, the U.S. Occupational Safety and Health Administration proposed regulations to mandate an ergonomics standard that would require American industry to make significant changes in the workplace in order to reduce the incidence of musculoskeletal complaints such as low back pain. If adopted as proposed, these regulations would require us to make extensive changes in the physical layout of our distribution centers and to hire significant numbers of additional full-time and part-time employees. Should this

occur, we believe that the cost of compliance could be material to our financial condition, results of operations and liquidity. Our competitors, as well as the remainder of American industry, would incur similar costs. We have filed comments with OSHA challenging the medical support and economic and technical feasibility of the proposed regulations.

We believe that funds from operations and borrowing programs will provide adequate sources of liquidity and capital resources to meet our expected long-term needs for the operation of our business, including anticipated capital expenditures such as commitments for aircraft purchases through 2004.

Following is a summary of capital expenditures:

	Year Ended December 31,		
	1999	1998	1997
	(in millions)		
Buildings and facilities	\$ 579	\$ 408	\$ 523
Aircraft and parts	433	942	907
Vehicles	139	141	333
Information technology	325	154	221
	<u>\$1,476</u>	<u>\$1,645</u>	<u>\$1,984</u>

Our capital expenditures have declined over the past three years primarily as a result of better utilization of our existing transportation system and other assets and our focus on return on invested capital.

We anticipate capital expenditures of approximately \$2.1 billion in 2000, and \$2.3 billion in 2001. These expenditures will provide for replacement of existing capacity and anticipated future growth and include the projected cost of capitalized software.

Market Risk

We are exposed to a number of market risks in the ordinary course of business. These risks, which include interest rate risk, foreign currency exchange risk and commodity price risk, arise in the normal course of business rather than from trading. We have examined our exposures to these risks and concluded that none of our exposures in these areas is material to fair values, cash flows or earnings. We have engaged in several strategies to manage these market risks.

Our indebtedness under our various financing arrangements creates interest rate risk. In connection with each debt issuance and as a result of continual monitoring of interest rates, we may enter into interest rate swap agreements for purposes of managing our borrowing costs.

For all foreign currency-denominated borrowing and certain lease transactions, we simultaneously entered into currency exchange agreements to lock in the price of the currency needed to pay the obligations and to hedge the foreign currency exchange risk associated with such transactions. We are exposed to other foreign currency exchange risks in the ordinary course of our business operations due to the fact that we provide our services in more than 200 countries and territories and collection of revenues and payment of certain expenses may give rise to currency exposure.

We require significant quantities of gasoline, diesel fuel and jet fuel for our aircraft and delivery vehicles. We therefore are exposed to commodity price risk associated with variations in the market price for energy products. We manage this risk with a hedging strategy designed to minimize the impact of sudden, catastrophic increases in the prices of energy products, while allowing us to benefit if fuel prices decline. Our hedging program is designed to moderate the impact of fluctuating crude oil prices and maintain our competitive position relative to our industry peers.

Future Accounting Changes

In June 1998, the FASB issued Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("FAS 133"), as amended by Statement No. 137, which provides a comprehensive and consistent standard for the recognition and measurement of derivatives and hedging activities. The new statement is effective for fiscal years beginning after June 15, 2000, with earlier adoption encouraged but not required. We have not yet completed our analysis of the effects of adopting this standard.

Impact of the Year 2000 Issue

Introduction

The term "year 2000 issue" is a general term used to describe the various problems that may result from the improper processing of dates and date-sensitive calculations by computers and other machinery as the year 2000 was approached and reached. Our failure to appropriately address a material year 2000 issue, or the failure by any third parties who provide goods or services that are critical to our business activities to appropriately address their year 2000 issues, could have a material adverse effect on our financial condition, liquidity or results of operations.

State of Readiness

Since entering the year 2000, we have not experienced any significant disruptions related to the year 2000 issue, nor are we aware of any significant year 2000-related disruptions impacting our customers and suppliers. While we will continue to monitor our business critical information technology assets, we do not anticipate that we will experience any significant year 2000-related disruptions to our internal systems, nor to those of our customers and suppliers.

Costs to Address the Year 2000 Issue

Costs incurred to achieve year 2000 readiness were charged to expense as incurred. Such costs include both internal resources dedicated to achieving year 2000 compliance, as well as the costs of independent consultants retained to assess our year 2000 initiative. The costs related to our year 2000 initiative will total approximately \$104 million, substantially all of which were incurred prior to December 31, 1999.

Contingency Plans

In the normal course of business, we maintain and deploy contingency plans designed to address potential business interruptions. We completed risk assessment reviews under our year 2000 initiative for each business unit, and developed further contingency plans specifically related to the year 2000 issue. These contingency plans remain in place in the case of a year 2000-related disruption to our internal systems, or to the systems of our customers and suppliers.

Forward-Looking Statements

"Management's Discussion and Analysis of Financial Condition and Results of Operations," "Liquidity and Capital Resources" and other parts of this report contain "forward-looking" statements about matters that are inherently difficult to predict. These statements include statements regarding our intent, belief and current expectations. We have described some of the important factors that affect these statements as we discussed each subject. Forward-looking statements involve risks and uncertainties that may affect future developments. These risks include, for example, our continued ability to successfully compete, especially with foreign competition, the reliability and availability of rail transportation, the growth rate of e-commerce in relation to our expectations, adverse weather conditions and changing fuel prices. Additional information concerning these risks and uncertainties, and other factors you may wish to consider, are provided in the "Risk Factors" section of our prospectus dated November 9, 1999, as filed with the SEC.

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

See Item 7.

Item 8. *Financial Statements and Supplementary Data*

Our financial statements are filed together with this report. See the Index to Financial Statements and Financial Statement Schedules on page F-1 for a list of the financial statements filed herewith. Supplementary data appear in note 12 to our financial statements.

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

None.

PART III

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

Information regarding our directors is presented under the caption "Election of Directors" in our definitive Proxy Statement for the Annual Meeting of Shareowners to be held on May 12, 2000, which we filed with the SEC on March 22, 2000, and is incorporated herein by reference.

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

Information concerning our compliance with Section 16 is presented under the caption "Section 16(a) Beneficial Ownership Reporting Compliance" in our definitive Proxy Statement for the Annual Meeting of Shareowners to be held on May 12, 2000, which we filed with the SEC on March 22, 2000, and is incorporated herein by reference.

Item 11. *Executive Compensation*

Information in answer to Item 11 is presented under the captions "Compensation of Executive Officers and Directors," excluding the information under the caption "Report of the Compensation Committee on Executive Compensation" in our definitive Proxy Statement for the Annual Meeting of Shareowners to be held on May 12, 2000, which we filed with the SEC on March 22, 2000, and is incorporated herein by reference.

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

Information in answer to Item 12 is presented under the caption "Beneficial Ownership of Common Stock" in our definitive Proxy Statement for the Annual Meeting of Shareowners to be held on May 12, 2000, which we filed with the SEC on March 22, 2000, and is incorporated herein by reference.

Item 13. *Certain Relationships and Related Transactions*

Information in answer to Item 13 is presented under the captions "Certain Business Relationships" and "Common Relationships with Overseas Partners Ltd." in our definitive Proxy Statement for the Annual Meeting of Shareowners to be held on May 12, 2000, which we filed with the SEC on March 22, 2000, and is incorporated herein by reference.

PART IV

Item 14. *Exhibits, Financial Statement Schedules, and Reports on Form 8-K.*

(a) 1. *Financial Statements.*

See the Index to Financial Statements and Financial Statement Schedules on page F-1 for a list of the financial statements filed herewith.

2. *Financial Statement Schedules.*

Not applicable.

3. *List of Exhibits.*

See the Exhibit Index beginning on page E-1 for a list of the exhibits incorporated by reference herein or filed herewith.

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

None.

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

See the Exhibit Index beginning on page E-1 for a list of the exhibits incorporated by reference herein or filed herewith.

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

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

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UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES
INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheets of United Parcel Service, Inc., and its subsidiaries as of December 31, 1999 and 1998, and the related consolidated statements of income, shareowners' equity, and cash flows for each of the three years in the period ended December 31, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of United Parcel Service, Inc., and its subsidiaries at December 31, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1999 in conformity with generally accepted accounting principles.

As discussed in Note 1, United Parcel Service, Inc. became the parent of United Parcel Service of America, Inc. as a result of a merger in 1999, and the consolidated financial statements have been retroactively restated for all periods presented to give effect to the exchange of securities in the merger and the capital structure of United Parcel Service, Inc.

DELOITTE & TOUCHE LLP

Atlanta, Georgia
January 31, 2000

CONSOLIDATED BALANCE SHEETS
UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES
(In millions except share and per share amounts)

ASSETS	December 31,	
	1999	1998
Current Assets:		
Cash and cash equivalents	\$ 4,204	\$ 1,240
Marketable securities and short-term investments	2,074	389
Accounts receivable	3,167	2,713
Prepaid employee benefit costs	1,327	703
Materials, supplies and other prepaid expenses	366	380
Total Current Assets	<u>11,138</u>	<u>5,425</u>
Property, Plant and Equipment:		
Vehicles	3,444	3,482
Aircraft (including aircraft under capitalized leases)	8,173	7,739
Land	656	651
Buildings	1,467	1,478
Leasehold improvements	1,902	1,803
Plant equipment	4,334	4,144
Construction-in-progress	494	257
	<u>20,470</u>	<u>19,554</u>
Less accumulated depreciation and amortization	8,891	8,170
	<u>11,579</u>	<u>11,384</u>
Other Assets	326	258
	<u>\$23,043</u>	<u>\$17,067</u>
LIABILITIES AND SHAREOWNERS' EQUITY		
Current Liabilities:		
Accounts payable	\$ 1,295	\$ 1,322
Accrued wages and withholdings	998	1,092
Dividends payable	361	247
Tax assessment	457	—
Current maturities of long-term debt	512	410
Other current liabilities	575	646
Total Current Liabilities	<u>4,198</u>	<u>3,717</u>
Long-Term Debt (including capitalized lease obligations)	1,912	2,191
Accumulated Postretirement Benefit Obligation	990	969
Deferred Taxes, Credits and Other Liabilities	<u>3,469</u>	<u>3,017</u>
Shareowners' Equity:		
Preferred stock, no par value, authorized 200,000,000 shares, none issued	—	—
Class A common stock, par value \$.01 per share, authorized 4,600,000,000 shares, issued 1,101,295,534 and 1,118,000,000 in 1999 and 1998	11	11
Class B common stock, par value \$.01 per share, authorized 5,600,000,000 shares, issued 109,400,000 and -0- in 1999 and 1998	1	—
Additional paid-in capital	5,096	325
Retained earnings	7,536	7,325
Accumulated other comprehensive loss	(170)	(63)
	<u>12,474</u>	<u>7,598</u>
Treasury stock, at cost (-0- and 23,211,904 shares in 1999 and 1998)	—	(425)
	<u>12,474</u>	<u>7,173</u>
	<u>\$23,043</u>	<u>\$17,067</u>

See notes to consolidated financial statements.

STATEMENTS OF CONSOLIDATED INCOME
UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES
(In millions except per share amounts)

	Years Ended December 31, 1999		
	1999	1998	1997
Revenue	<u>\$27,052</u>	<u>\$24,788</u>	<u>\$22,458</u>
Operating Expenses:			
Compensation and benefits	15,285	14,346	13,289
Other	<u>7,779</u>	<u>7,352</u>	<u>7,471</u>
	<u>23,064</u>	<u>21,698</u>	<u>20,760</u>
Operating Profit	<u>3,988</u>	<u>3,090</u>	<u>1,698</u>
Other Income and (Expense):			
Investment income	177	84	70
Interest expense	(228)	(227)	(187)
Tax assessment	(1,786)	—	—
Miscellaneous, net	<u>(63)</u>	<u>(45)</u>	<u>(28)</u>
	<u>(1,900)</u>	<u>(188)</u>	<u>(145)</u>
Income Before Income Taxes	2,088	2,902	1,553
Income Taxes	<u>1,205</u>	<u>1,161</u>	<u>644</u>
Net Income	<u>\$ 883</u>	<u>\$ 1,741</u>	<u>\$ 909</u>
Basic Earnings Per Share	<u>\$ 0.79</u>	<u>\$ 1.59</u>	<u>\$ 0.82</u>
Diluted Earnings Per Share	<u>\$ 0.77</u>	<u>\$ 1.57</u>	<u>\$ 0.81</u>

See notes to consolidated financial statements.

STATEMENTS OF CONSOLIDATED SHAREOWNERS' EQUITY
UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES
(In millions except per share amounts)

	Class A Common Stock		Class B Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock		Total Shareowners' Equity
	Shares	Amount	Shares	Amount				Shares	Amount	
Balance, January 1, 1997	1,140	\$11	—	\$—	\$ 141	\$5,728	\$ 21	—	—	\$ 5,901
Comprehensive income:										
Net income	—	—	—	—	—	909	—	—	—	909
Foreign currency adjustments	—	—	—	—	—	—	(102)	—	—	(102)
Comprehensive income										807
Dividends (\$.35 per share)	—	—	—	—	—	(385)	—	—	—	(385)
Gain on issuance of treasury stock	—	—	—	—	27	—	—	—	—	27
Stock award plans	—	—	—	—	(26)	—	—	—	—	(26)
Constructive retirement of common stock	(16)	—	—	—	(142)	(95)	—	—	—	(237)
Balance, December 31, 1997	1,124	11	—	—	—	6,157	(81)	—	—	6,087
Comprehensive income:										
Net income	—	—	—	—	—	1,741	—	—	—	1,741
Foreign currency adjustments	—	—	—	—	—	—	19	—	—	19
Unrealized loss on marketable securities	—	—	—	—	—	—	(1)	—	—	(1)
Comprehensive income										1,759
Constructive retirement of common stock	(6)	—	—	—	—	(90)	—	—	—	(90)
Dividends (\$.43 per share)	—	—	—	—	—	(466)	—	—	—	(466)
Gain on issuance of treasury stock	—	—	—	—	70	—	—	—	—	70
Stock award plans	—	—	—	—	255	(17)	—	—	—	238
Reclassification of common stock held for stock plans	—	—	—	—	—	—	—	(23)	(425)	(425)
Balance, December 31, 1998	1,118	11	—	—	325	7,325	(63)	(23)	(425)	7,173
Comprehensive income:										
Net income	—	—	—	—	—	883	—	—	—	883
Foreign currency adjustments	—	—	—	—	—	—	(104)	—	—	(104)
Unrealized loss on marketable securities	—	—	—	—	—	—	(3)	—	—	(3)
Comprehensive income										776
Dividends (\$.58 per share)	—	—	—	—	—	(672)	—	—	—	(672)
Gain on issuance of treasury stock	—	—	—	—	5	—	—	—	—	5
Stock award plans	7	—	—	—	91	—	—	21	434	525
Treasury stock purchases	—	—	—	—	—	—	—	(54)	(1,232)	(1,232)
Treasury stock issuances	—	—	—	—	—	—	—	32	633	633
Issuance of Class B common stock in public offering, net of issuance costs	—	—	109	1	5,265	—	—	—	—	5,266
Retirement of treasury stock	(24)	—	—	—	(590)	—	—	24	590	—
Balance, December 31, 1999	1,101	\$11	109	\$ 1	\$5,096	\$7,536	\$(170)	—	\$ —	\$12,474

See notes to consolidated financial statements.

STATEMENTS OF CONSOLIDATED CASH FLOWS
UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES
(In millions)

	Years Ended December 31,		
	1999	1998	1997
Cash flows from operating activities:			
Net income	\$ 883	\$ 1,741	\$ 909
Adjustments to reconcile net income to net cash from operating activities:			
Depreciation and amortization	1,139	1,112	1,063
Postretirement benefits	21	58	70
Deferred taxes, credits and other	575	23	406
Stock award plans	443	347	162
Changes in assets and liabilities:			
Accounts receivable	(454)	(308)	(64)
Prepaid employee benefit costs	(624)	(34)	(268)
Materials, supplies and other prepaid expenses	(18)	37	164
Accounts payable	(27)	115	52
Accrued wages and withholdings	(94)	(137)	(169)
Dividends payable	114	56	(3)
Tax assessment	226	—	—
Other current liabilities	39	(93)	184
Net cash from operating activities	2,223	2,917	2,506
Cash flows from investing activities:			
Capital expenditures	(1,476)	(1,645)	(1,984)
Disposals of property, plant and equipment	213	216	111
Purchases of marketable securities and short-term investments	(3,981)	(390)	—
Sales and maturities of marketable securities and short-term investments	2,290	—	—
Construction funds in escrow	(111)	—	—
Other asset receipts (payments)	(60)	164	46
Net cash (used in) investing activities	(3,125)	(1,655)	(1,827)
Cash flows from financing activities:			
Proceeds from borrowings	502	287	2,097
Repayments of borrowings	(679)	(310)	(2,065)
Purchases of treasury stock	(1,232)	(823)	(719)
Issuances of treasury stock pursuant to stock awards and employee stock purchase plans	741	785	487
Issuance of Class B common stock in public offering, net of issuance costs	5,266	—	—
Dividends	(672)	(466)	(385)
Other transactions	(21)	45	1
Net cash from (used in) financing activities	3,905	(482)	(584)
Effect of exchange rate changes on cash	(39)	—	(27)
Net increase in cash and cash equivalents	2,964	780	68
Cash and cash equivalents:			
Beginning of year	1,240	460	392
End of year	\$ 4,204	\$ 1,240	\$ 460
Cash paid during the period for:			
Interest, net of amount capitalized	\$ 982	\$ 298	\$ 130
Income taxes	\$ 773	\$ 1,181	\$ 319

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES

NOTE 1. SUMMARY OF ACCOUNTING POLICIES

Reporting Entity

During November 1999, in connection with becoming a publicly traded company, United Parcel Service of America, Inc. completed a merger in which it became a subsidiary of a newly-formed company, United Parcel Service, Inc. In the merger, each share of United Parcel Service of America, Inc. common stock was exchanged for two shares of United Parcel Service, Inc. Class A common stock. United Parcel Service, Inc. then completed a public offering of Class B common shares as discussed below. Shareowners' equity, share and per share amounts have been restated to give effect to the 2-for-1 merger exchange ratio and to reflect the capital structure of United Parcel Service, Inc. The restatement had no effect on other amounts, including net income, previously reported by United Parcel Service of America, Inc.

Initial Public Offering of Common Shares

After the completion of the merger, we sold 109.4 million Class B shares in an initial public offering ("IPO") that raised \$5.266 billion, net of issuance costs. On November 10, 1999, our Class B shares began trading on the New York Stock Exchange under the ticker symbol "UPS". Although the Class B shares contain the same economic interests in the Company as the Class A shares, the Class A shares entitle holders to ten votes per share while the Class B shareowners are entitled to one vote per share. After the completion of the IPO transaction, Class A shares constituted about 90% of our total outstanding stock and about 99% of our total voting power, while the Class B shares constituted about 10% of our total outstanding shares and about 1% of our total voting power.

The shares of Class A stock resulting from the merger were equally allocated among Class A-1, A-2, and A-3 common stock. The different types of Class A common stock are identical, except for the applicable transfer restriction periods. Shares of Class A common stock will not be freely transferable or convertible into Class B shares until the relevant restriction period expires. The restriction periods expire 180 days after the IPO for Class A-1 shares (May 8, 2000), 360 days after the IPO for Class A-2 shares (November 4, 2000), and 540 days after the IPO for Class A-3 shares (May 3, 2001). When Class A shares are sold or transferred, they will generally convert to Class B shares.

We used the majority of the IPO proceeds for a tender offer for Class A shares. In early February 2000, we announced an offer to purchase up to 100,893,277 shares of Class A-1 common stock for \$60 per share. The actual number of shares validly tendered and accepted for purchase by us was 68,312,335, which will result in a cash expenditure of approximately \$4.099 billion and reduce our outstanding Class A shares accordingly.

Basis of Financial Statements and Business Activities

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

UPS concentrates its operations in the field of transportation services, primarily domestic and international letter and package delivery. Revenue is recognized upon delivery of a letter or package.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES

As of December 31, 1999, we had approximately 206,000 employees (60% of total employees) employed under collective bargaining agreements with various locals of the International Brotherhood of Teamsters ("Teamsters"). These agreements expire on July 31, 2002. The majority of our pilots are employed under a collective bargaining agreement with the Independent Pilots Association ("IPA"), which becomes amendable January 1, 2004. In addition, the majority of our mechanics who are not employed under agreements with the Teamsters are employed under collective bargaining agreements with the International Association of Machinists. These agreements have various expiration dates between July 31, 2002 and August 4, 2003.

Cash and Cash Equivalents

Cash and cash equivalents consist of highly liquid investments (including investments in debt and auction rate securities of \$3.933 billion and \$936 million at December 31, 1999 and 1998, respectively) that are readily convertible into cash. The carrying amount approximates fair value because of the short-term maturity of these instruments.

Marketable Securities

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

Common Stock Held for Stock Plans

Prior to December 31, 1998, we accounted for our common stock held for awards and distributions under various UPS stock and benefit plans as a current asset. Common stock held in excess of current requirements was constructively retired and accounted for as a reduction in Shareowners' Equity.

As a result of a change in position by the Securities and Exchange Commission ("SEC") as well as a change by the Financial Accounting Standards Board ("FASB"), we reclassified our Common Stock Held for Stock Plans from Current Assets to Treasury Stock, a separate component of Shareowners' Equity.

Property, Plant and Equipment

Property, plant and equipment are carried at cost. Depreciation (including amortization) is provided by the straight-line method over the estimated useful lives of the assets, which are as follows: Vehicles — 9 years; Aircraft — 12 to 20 years; Buildings — 20 to 40 years; Leasehold Improvements — lives of leases; Plant Equipment — 5 to 8½ years.

The costs of major airframe and engine overhauls, as well as other routine maintenance and repairs, are charged to expense as incurred.

Costs in Excess of Net Assets Acquired

Costs of purchased businesses in excess of net assets acquired are amortized over a 10-year period using the straight-line method.

Impairment of Long-Lived Assets

We review long-lived assets for impairment when circumstances indicate the carrying amount of an asset may not be recoverable. If the carrying amount of the asset is determined not to be recoverable, a write-down to fair value is recorded.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Income Taxes

Income taxes are accounted for under FASB Statement No. 109, "Accounting for Income Taxes" ("FAS 109"). FAS 109 is an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in our financial statements or tax returns. In estimating future tax consequences, FAS 109 generally considers all expected future events other than proposed changes in the tax law or rates.

Capitalized Interest

Interest incurred during the construction period of certain property, plant and equipment is capitalized until the underlying assets are placed in service, at which time amortization of the capitalized interest begins, straight-line, over the estimated useful lives of the related assets. Capitalized interest was \$20, \$27 and \$43 million for 1999, 1998 and 1997, respectively.

Derivative Instruments

We have entered into interest rate swap agreements, cross-currency interest rate swap agreements and forward currency contracts. All of these agreements relate to our long-term debt and are specifically matched to the underlying cash flows. They have been entered into for the purposes of reducing our borrowing costs and to protect us against adverse changes in foreign currency exchange rates. Any periodic settlement payments are accrued monthly, as either a charge or credit to interest expense, and are not material to net income. Based on estimates provided by third party investment bankers, we have determined that the fair value of these agreements is not material to our financial statements.

We also purchase options to reduce the impact of changes in foreign currency rates on our foreign currency purchases and purchase options and forward contracts to moderate the impact of price increases in the cost of crude oil on fuel expense. The forward contracts and options are adjusted to fair value at period end based on market quotes and are not material to our financial statements.

We do not utilize derivatives for trading or other speculative purposes. We are exposed to credit loss in the event of nonperformance by the other parties to the interest rate swap agreements. However, we do not anticipate nonperformance by the counterparties. We are exposed to market risk based upon changes in interest rates, foreign currency exchange rates and fuel prices.

Stock Option Plans

We have adopted Statement of Financial Accounting Standards No. 123 ("FAS 123"), "Accounting for Stock-Based Compensation." FAS 123 encourages the use of a fair value method of accounting for stock-based awards under which the fair value of stock options is determined on the date of grant and expensed over the vesting period. Under FAS 123, companies have the option to measure compensation costs for stock option plans using the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25 ("APB 25"), "Accounting for Stock Issued to Employees." Under APB 25, compensation expense is generally not recognized when both the exercise price is the same as the market price and the number of shares to be issued is set on the date the employee stock option is granted. Since our employee stock options are granted on this basis, and we have chosen to use the intrinsic value method, we do not recognize compensation expense for grants under our plans. We do, however, include in Note 6 pro forma disclosures of net income and earnings per share as if the fair value method of accounting had been applied.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Segment Information

Effective January 1, 1998, we adopted FASB Statement No. 131, "Disclosures about Segments of an Enterprise and Related Information" ("FAS 131"), which changed the method we had used to report information about our operating segments. FAS 131 establishes standards to be used by enterprises to identify and report information about operating segments and for related disclosures about products and services, geographic areas and major customers. The adoption of FAS 131 did not affect our results of operations or financial position, but did affect the disclosure of segment information contained in Note 10.

Capitalized Software

Effective January 1, 1999, we adopted the Accounting Standards Executive Committee Statement of Position ("SOP") 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use," which requires that certain costs to develop or obtain computer software for internal use be capitalized. Prior to the adoption of SOP 98-1, we expensed all internal use software costs as incurred. The effect of adopting the SOP was to increase net income for 1999 by \$89 million, or \$0.08 per share on a basic and diluted basis. Capitalized costs for this software are amortized using the straight-line method over periods ranging from three to five years.

Changes in Presentation

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

NOTE 2. LONG-TERM DEBT AND COMMITMENTS

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

	<u>1999</u>	<u>1998</u>
8¾% debentures, due April 1, 2020 (i)	\$ 424	\$ 424
8¾% debentures, due April 1, 2030 (i)	276	276
Commercial paper (ii)	102	112
Industrial development bonds, Philadelphia Airport facilities, due December 1, 2015 (iii) . . .	100	100
Special facilities revenue bonds, Louisville Airport facilities, due January 1, 2029 (iv)	149	—
Floating rate senior notes, due October 26, 2049 (v)	55	—
Capitalized lease obligations (vi)	558	598
5.5% Eurobond notes, due January 4, 1999	—	200
3.25% 200 million Swiss Franc notes, due October 22, 1999	—	166
6.875% 100 million Pound Sterling notes, due February 25, 2000	166	166
6.625% EuroNotes, due April 25, 2001	200	200
6.25% EuroNotes, due July 7, 2000	300	301
4.5% 100 million Singapore Dollar notes, due November 11, 2004	60	—
Installment notes, mortgages and bonds at various rates from 4.1% to 7.0%	34	58
	<u>2,424</u>	<u>2,601</u>
Less current maturities	<u>(512)</u>	<u>(410)</u>
	<u>\$1,912</u>	<u>\$2,191</u>

(i) On January 22, 1998, we exchanged \$276 million of the original \$700 million debentures for new debentures of equal principal with a maturity of April 1, 2030. The new debentures have the same interest rate as the 8 3/8% debentures due 2020 until April 1, 2020, and, thereafter, the interest rate will be 7.62% for the

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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final 10 years. The new 2030 debentures are redeemable in whole or in part at the option of the Company at any time. The redemption price is equal to the greater of 100% of the principal amount and accrued interest or the sum of the present values of the remaining scheduled payouts of principal and interest thereon discounted to the date of redemption at a benchmark treasury yield plus five basis points plus accrued interest. The remaining \$424 million of 2020 debentures are not subject to redemption prior to maturity. Interest is payable semiannually on the first of April and October for both debentures and neither debenture is subject to sinking fund requirements.

(ii) The weighted average interest rate on the commercial paper outstanding as of December 31, 1999 and 1998, was 5.8% and 5.1%, respectively. The commercial paper has been classified as long-term debt in accordance with our intention and ability to refinance such obligations on a long-term basis under our revolving credit facilities. However, the amount of commercial paper outstanding in 2000 is expected to fluctuate. We are authorized to borrow up to \$2.0 billion under this program as of December 31, 1999.

(iii) The industrial development bonds bear interest at a daily variable rate. The average interest rates for 1999 and 1998 were 3.1% and 3.3%, respectively.

(iv) The special facilities revenue bonds bear interest at a daily variable rate. The average interest rate for 1999 was 3.3%.

(v) The floating rate senior notes bear interest at one-month LIBOR less 45 basis points. The average interest rate for 1999 was 5.1%.

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

	<u>1999</u>	<u>1998</u>
Aircraft	\$614	\$614
Accumulated amortization	(59)	(38)
	<u>\$555</u>	<u>\$576</u>

The aggregate annual principal payments for the next five years, excluding commercial paper and capitalized leases, are (in millions): 2000 — \$470; 2001 — \$203; 2002 — \$1; 2003 — \$1; and 2004 — \$60.

Based on the borrowing rates currently available to the Company for long-term debt with similar terms and maturities, the fair value of long-term debt, including current maturities, is approximately \$2.5 billion and \$2.8 billion as of December 31, 1999 and 1998.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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We lease certain aircraft, facilities, equipment and vehicles under operating leases, which expire at various dates through 2034. Total aggregate minimum lease payments under capitalized leases and under operating leases are as follows (in millions):

Year	Capitalized Leases	Operating Leases
2000	\$ 67	\$ 182
2001	67	157
2002	67	121
2003	67	85
2004	67	72
After 2004	459	414
Total minimum lease payments	794	<u>\$1,031</u>
Less imputed interest	(236)	
Present value of minimum capitalized lease payments	558	
Less current portion	(42)	
Long-term capitalized lease obligations	<u>\$ 516</u>	

As of December 31, 1999, we have outstanding letters of credit totaling approximately \$1.2 billion issued in connection with routine business requirements.

As of December 31, 1999, we have commitments outstanding for capital expenditures under purchase orders and contracts of approximately \$2.9 billion, with the following amounts expected to be spent during the next five years (in millions): 2000 — \$983; 2001 — \$669; 2002 — \$493; 2003 — \$423; and 2004 — \$286.

We maintain two credit agreements with a consortium of banks which provide revolving credit facilities of \$1.25 billion each, with one expiring April 30, 2000, and the other April 30, 2003. Interest on any amounts we borrow under these facilities would be charged at 90-day LIBOR plus 15 basis points. At December 31, 1999, there were no outstanding borrowings under these facilities.

We also maintain a European medium-term note program with a borrowing capacity of \$1.0 billion. Under this program, we may, from time to time, issue notes denominated in a variety of currencies. There is currently \$500 million available under this program. Of the amount outstanding at December 31, 1999, \$200 million bears interest at a stated interest rate of 6.625% and \$300 million bears interest at a stated interest rate of 6.25%.

In January 1999, we filed a shelf registration statement with the SEC, under which we may issue debt in the U.S. marketplace of up to \$2.0 billion. The debt may be denominated in a variety of currencies. As of December 31, 1999, there was approximately \$55 million issued under this shelf registration statement.

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NOTE 3. EARNINGS PER SHARE

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

	<u>1999</u>	<u>1998</u>	<u>1997</u>
Numerator:			
Numerator for basic and diluted earnings per share—net income	\$ 883	\$1,741	\$ 909
Denominator:			
Weighted-average shares	1,119	1,090	1,101
Contingent shares—Management Incentive Awards	2	3	2
Denominator for basic earnings per share	1,121	1,093	1,103
Effect of dilutive securities:			
Additional contingent shares—Management Incentive Awards	9	9	8
Stock option plans	11	6	5
Denominator for diluted earnings per share	1,141	1,108	1,116
Basic earnings per share	<u>\$ 0.79</u>	<u>\$ 1.59</u>	<u>\$ 0.82</u>
Diluted earnings per share	<u>\$ 0.77</u>	<u>\$ 1.57</u>	<u>\$ 0.81</u>

NOTE 4. LEGAL PROCEEDINGS AND CONTINGENCIES

On August 9, 1999, the U.S. Tax Court issued an opinion unfavorable to UPS regarding a Notice of Deficiency asserting that we are liable for additional tax for the 1983 and 1984 tax years. The Court held that we are liable for tax on income of Overseas Partners Ltd. ("OPL"), a Bermuda company, which had reinsured excess value package insurance purchased by our customers beginning in 1984. The Court held that for the 1984 tax year we are liable for taxes of \$31 million on income reported by OPL, penalties and penalty interest of \$93 million and interest for a total after-tax exposure estimated at approximately \$246 million. In February 2000, the U.S. Tax Court entered a decision in accord with its opinion.

In addition, during the first quarter of 1999, the IRS issued two Notices of Deficiency asserting that we are liable for additional tax for the 1985 through 1987 tax years, and the 1988 through 1990 tax years. The primary assertions by the IRS relate to the reinsurance of excess value package insurance, the issue raised for the 1984 tax year. The IRS has based its assertions on the same theories included in the 1983-1984 Notice of Deficiency.

We anticipate that the IRS will take similar positions for tax years subsequent to 1990. Based on the Tax Court opinion, we currently estimate that our total after-tax exposure for the tax years 1984 through 1999 could be as high as \$2.353 billion. We believe that a number of aspects of the Tax Court decision are incorrect, and we intend to appeal the decision to the U.S. Court of Appeals for the Eleventh Circuit.

In the second quarter 1999 financial statements, we recorded a tax assessment charge of \$1.786 billion, which included an amount for related state tax liabilities. The charge included taxes of \$915 million and interest of \$871 million. This assessment resulted in a tax benefit of \$344 million related to the interest component of the assessment. As a result, our net charge to net income for the tax assessment was \$1.442 billion, increasing our total after-tax reserve at that time with respect to these matters to \$1.672 billion. The tax benefit of deductible interest is included in income taxes; however, since none of the income on which this tax assessment is based is our income, we have not classified the tax charge as income taxes.

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We determined the size of our reserve with respect to these matters in accordance with generally accepted accounting principles based on our estimate of our most likely liability. In making this determination, we concluded that it was more likely that we would be required to pay taxes on income reported by OPL and interest, but that it was not probable that we would be required to pay any penalties and penalty interest. If penalties and penalty interest ultimately are determined to be payable, we would have to record an additional charge of up to \$681 million.

On August 31, 1999, we deposited \$1.349 billion with the IRS related to these matters for the 1984 through 1994 tax years. We included the profit of the excess value package insurance program, using the IRS's methodology for calculating these amounts, for both 1998 and 1999 in filings we made with the IRS in the fourth quarter of 1999. In February 2000, we deposited \$339 million with the IRS related to these matters for the 1995 through 1997 tax years. The above described deposits and filings were made in order to stop the accrual of interest, where applicable, on that amount of the IRS's claim, without conceding the IRS's position or giving up our right to appeal the Tax Court's decision.

Effective October 1, 1999, we implemented a new arrangement for providing excess value package insurance for our customers through UPS subsidiaries. This new arrangement results in including in our non-package operating segment the operations of the excess value package insurance program offered to our customers. This revised arrangement should eliminate the issues considered by the Tax Court in the Notices of Deficiency relating to OPL for periods after September 1999.

The IRS has proposed adjustments, unrelated to the OPL matters discussed above, regarding the timing of deductions, the characterization of expenses as capital rather than ordinary, and our entitlement to the investment tax credit and the research tax credit in the 1985 through 1990 tax years. These proposed adjustments, if sustained, would result in \$82 million in additional income tax expense.

We believe that our practice of expensing the items that the IRS alleges should have been capitalized is consistent with the practices of other industry participants. We expect that we will prevail on substantially all of these issues. Should the IRS prevail, however, unpaid interest on these adjustments through 1999 could aggregate up to \$270 million, after the benefit of related tax deductions. The IRS's proposed adjustments include penalties and penalty interest. We believe that the possibility that such penalties and penalty interest will be sustained is remote. The IRS may take similar positions with respect to some of these issues for each of the years from 1991 through 1999. We believe the eventual resolution of these issues will not result in a material adverse effect upon our financial condition, results of operations or liquidity.

We are a defendant in various employment-related lawsuits. In one of these actions, which alleges employment discrimination by UPS, class action status has been granted, and the United States Equal Employment Opportunity Commission has been granted the right to intervene. In our opinion, none of these cases is expected to have a material effect upon our financial condition, results of operations or liquidity.

We recently have been named as a defendant in nine lawsuits which seek to hold us (and in two cases, other defendants) liable for the collection of premiums for excess value coverage ("EVC") in connection with package shipments since 1984. These cases generally claim that we acted as an insurer without complying with state insurance laws and regulations, and that the price for EVC was excessive. All of these cases are currently pending in federal courts, and we have requested that the cases be consolidated for pre-trial purposes in a multi-district litigation proceeding before a single federal court. Each of these cases is in its initial stages, no discovery has commenced, and no class has been certified. These actions all developed after the August 9, 1999, Tax Court opinion was rendered. We believe the allegations have no merit and intend to defend them vigorously. The ultimate resolution of these matters cannot presently be determined.

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As part of our 1997-2002 collective bargaining agreement with the Teamsters, we agreed that we would create 2,000 new full-time jobs from existing part-time jobs during each year of the contract. There was a provision, however, which nullified this obligation if there was a reduction in volume that resulted in layoffs. At the end of the first contract year (July 31, 1998), our shipping volume was still below pre-strike levels and employees were laid off. Therefore, we believed that we were not obligated to create the 2,000 jobs for the first year of the contract. The Teamsters filed a grievance concerning this issue, and the case was submitted to an arbitrator. In February 2000, the arbitrator ruled against us and ordered us to create the 2,000 new full-time jobs from existing part-time positions within 90 days of the arbitrator's decision, and to make whole the employees selected for the full-time positions for any lost wages or benefits. We are in the process of creating these full-time jobs, identifying the employees that will fill the new jobs and quantifying the financial impact of this matter. Our package volume surpassed pre-strike levels in 1999, and thus we are in the process of creating the 2,000 full-time jobs called for in the third year of the contract. We have agreed to create the 2,000 full-time jobs for the second year of the contract by June 10, 2000, and to make whole the employees selected for the full-time positions for any lost wages or benefits. We do not believe that the eventual amount will be material to our financial condition or liquidity.

On November 22, 1999, the U.S. Occupational Safety and Health Administration ("OSHA") proposed regulations to mandate an ergonomics standard that would require American industry to make significant changes in the workplace in order to reduce the incidence of musculoskeletal complaints such as low back pain. If adopted as proposed, and substantially enforced, these regulations would require us to make extensive changes in the physical layout of our distribution centers and to hire significant numbers of additional full-time and part-time employees. Should this occur, we believe that the cost of compliance could be material to our financial condition, results of operations and liquidity. Our competitors, as well as the remainder of American industry, would incur similar costs. We have filed comments with OSHA challenging the medical support and economic and technical feasibility of the proposed regulations.

In addition, we are a defendant in various other lawsuits that arose in the normal course of business. In our opinion, none of these cases is expected to have a material effect upon our financial condition, results of operations or liquidity.

NOTE 5. EMPLOYEE BENEFIT PLANS

We maintain several defined benefit pension plans (the "Plans"). The Plans are noncontributory and include all employees who meet certain minimum age and years of service requirements, except those employees covered by certain multi-employer plans provided for under collective bargaining agreements.

The Plans provide for retirement benefits based on either service credits or average compensation levels earned by employees prior to retirement. The Plans' assets consist primarily of publicly traded stocks and bonds and include approximately 26.9 million shares of UPS common stock at December 31, 1999 and 1998. Our funding policy is consistent with relevant federal tax regulations. Accordingly, we contribute amounts deductible for federal income tax purposes.

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

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The following tables provide a reconciliation of the changes in the plans' benefit obligations and fair value of assets, and a statement of funded status as of September 30, with certain amounts included in the balance sheet as of December 31 (in millions):

	Pension Benefits		Postretirement Medical Benefits	
	1999	1998	1999	1998
Change in Benefit Obligation				
Net benefit obligation at October 1, prior year	\$4,203	\$3,311	\$ 1,212	\$1,139
Service cost	187	147	41	39
Interest cost	293	260	83	86
Plan participants' contributions	—	—	2	—
Plan amendments	96	60	10	(24)
Actuarial (gain) loss	(455)	534	104	18
Gross benefits paid	(128)	(109)	(55)	(46)
Net benefit obligation at September 30	<u>4,196</u>	<u>4,203</u>	<u>1,397</u>	<u>1,212</u>
Change in Plan Assets				
Fair value of plan assets at October 1, prior year	3,930	3,856	290	291
Actual return on plan assets	938	69	61	3
Employer contributions	767	114	76	42
Plan participants' contributions	—	—	2	—
Gross benefits paid	(128)	(109)	(55)	(46)
Fair value of plan assets at September 30	<u>5,507</u>	<u>3,930</u>	<u>374</u>	<u>290</u>
Funded status at September 30	1,311	(273)	(1,023)	(922)
Unrecognized net actuarial (gain) loss	(770)	280	39	(24)
Unrecognized prior service cost	335	261	(11)	(23)
Unrecognized net transition obligation	55	63	—	—
Employer contributions	—	—	5	—
Net asset (liability) recorded at end of year	<u>\$ 931</u>	<u>\$ 331</u>	<u>\$ (990)</u>	<u>\$ (969)</u>

Net periodic benefit cost for the years ended December 31 included the following components (in millions):

	Pension Benefits			Postretirement Medical Benefits		
	1999	1998	1997	1999	1998	1997
Service cost	\$ 187	\$ 147	\$ 108	\$ 41	\$ 39	\$ 41
Interest cost	293	260	220	83	86	89
Expected return on assets	(351)	(310)	(240)	(26)	(26)	(21)
Amortization of:						
Transition obligation	8	8	4	—	—	—
Prior service cost	23	23	11	(2)	1	3
Actuarial loss	6	—	—	—	—	—
Net periodic benefit cost	<u>\$ 166</u>	<u>\$ 128</u>	<u>\$ 103</u>	<u>\$ 96</u>	<u>\$100</u>	<u>\$112</u>

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The significant assumptions used in the measurement of our benefit obligations are as follows:

	<u>1999</u>	<u>1998</u>	<u>1997</u>
Expected long-term rate of earnings on plan assets	9.5%	9.5%	9.5%
Discount rate	7.5%	6.75%	7.5%
Rate of increase in future compensation levels for pension benefits	4.0%	4.0%	4.0%

Future postretirement medical benefit costs were forecasted assuming an initial annual increase of 6.25% for pre-65 medical costs and an increase of 5.25% for post-65 medical costs, decreasing to 5.75% for pre-65 and 4.75% for post-65 by the year 2000 and with consistent annual increases at those ultimate levels thereafter.

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

	<u>1% Increase</u>	<u>1% Decrease</u>
Effect on total of service and interest cost components	\$11	\$ (13)
Effect on post retirement benefit obligation	\$91	\$(109)

We also contribute to several multi-employer pension plans for which the above information is not determinable. Amounts charged to operations for pension contributions to these multi-employer plans were \$809, \$757 and \$597 million during 1999, 1998 and 1997, respectively.

We also contribute to several multi-employer health and welfare plans which cover both active and retired employees for which the above information is not determinable. Amounts charged to operations for contributions to multi-employer health and welfare plans were \$463, \$458 and \$448 million during 1999, 1998 and 1997, respectively.

We also sponsor a defined contribution plan for all employees not covered under collective bargaining agreements. Beginning January 1, 1998, the Company matched, in shares of UPS common stock, a portion of the participating employees' contributions. Matching contributions charged to expense were \$55 million and \$49 million for 1999 and 1998, respectively.

NOTE 6. INCENTIVE COMPENSATION PLANS

We adopted the UPS Incentive Compensation Plan in October 1999. The UPS Incentive Compensation Plan permits the grant of nonqualified stock options, incentive stock options, stock appreciation rights, restricted stock, performance shares, performance units, and management incentive awards to eligible employees. The number of shares reserved for issuance under the Plan is 112 million, with the number of shares reserved for issuance as restricted stock limited to 34 million shares. As of December 31, 1999, only management incentive awards and stock option grants had been made under the Incentive Compensation Plan.

Management Incentive Awards

Persons earning the right to receive Management Incentive Awards are determined annually by the Compensation Committee of the UPS Board of Directors. This Committee in its sole discretion determines the total award, which consists of UPS common stock, given in any year. The total of all such awards historically has been 15% of consolidated income before income taxes for the 12-month period ending each September 30, exclusive of gains and losses from the sale of real estate and stock of subsidiaries and the effect of certain other nonrecurring transactions or accounting changes. Amounts charged to operations were \$588, \$448, and \$244 million during 1999, 1998 and 1997, respectively.

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Nonqualified and Incentive Stock Options

We maintain fixed stock option plans under which options are granted to purchase shares of UPS common stock. Prior to adoption of the Incentive Compensation Plan, these options were granted at the current price of UPS shares as determined by the Board of Directors on the date of option grant. Stock options granted in connection with the UPS Incentive Compensation Plan must be at least equal to the NYSE closing price of UPS stock on the date the option was granted. We apply the measurement provisions of APB Opinion 25 and related Interpretations in accounting for these plans. Accordingly, no compensation expense has been recorded for the grant of stock options during 1999, 1998 or 1997. Pro forma information regarding net income and earnings per share has been determined as if we accounted for our employee stock options under the fair value method of FAS 123. For purposes of pro forma disclosures, the estimated fair value of the options granted in 1999, 1998 and 1997 is amortized to expense over the vesting period of the options.

The pro forma information is as follows (in millions except per share amounts):

		<u>1999</u>	<u>1998</u>	<u>1997</u>
Net income	As reported	\$ 883	\$1,741	\$ 909
	Pro forma	\$ 870	\$1,734	\$ 904
Basic earnings per share	As reported	\$0.79	\$ 1.59	\$0.82
	Pro forma	\$0.78	\$ 1.59	\$0.82
Diluted earnings per share	As reported	\$0.77	\$ 1.57	\$0.81
	Pro forma	\$0.76	\$ 1.56	\$0.81

The assumptions used, by year, and the calculated weighted average fair value of options granted, are as follows:

	<u>1999(1)</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
Semiannual dividend per share	\$ 0.30	\$0.30	\$0.23	\$0.18
Risk-free interest rate	5.88%	5.14%	5.56%	6.73%
Expected life in years	5	5	5	5
Expected volatility	40%	n/a	n/a	n/a
Weighted average fair value of options granted	\$20.29	\$2.08	\$1.80	\$2.63

(1) Pro forma information for these options was calculated using the Black-Scholes option pricing model as these options were granted in connection with the IPO. Pro forma information for all other options was calculated using the minimum value method for nonpublic entities, as these options were granted prior to the IPO.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES

The following is an analysis of options for shares of common stock issued and outstanding:

	<u>Weighted Average Exercise Price</u>	<u>Number of Shares (in thousands)</u>
Outstanding at January 1, 1997	\$10.61	37,911
Exercised	8.25	(7,912)
Granted	14.88	6,524
Canceled	11.36	(625)
Outstanding at December 31, 1997	11.88	35,898
Exercised	9.38	(7,787)
Granted	16.00	8,300
Canceled	12.38	(440)
Outstanding at December 31, 1998	13.37	35,971
Exercised	10.63	(7,571)
Granted	30.37	11,139
Canceled	14.61	(1,059)
Outstanding at December 31, 1999	<u>\$18.76</u>	<u>38,480</u>

No options were exercisable at December 31, 1999, 1998 or 1997. The following table summarizes information about stock options outstanding at December 31, 1999:

<u>Number of Shares (in thousands)</u>	<u>Weighted Average Remaining Life (in years)</u>	<u>Weighted Average Exercise Price</u>
7,276	0.3	\$11.88
6,139	1.3	\$13.50
6,162	2.3	\$14.88
7,942	3.3	\$16.00
7,510	4.3	\$21.50
3,451	9.9	\$50.00
<u>38,480</u>	3.1	\$18.76

NOTE 7. INCOME TAXES

The provision for income taxes for the years ended December 31 consists of the following (in millions):

	<u>1999</u>	<u>1998</u>	<u>1997</u>
Current:			
Federal	\$ 834	\$ 917	\$455
State	99	127	76
Total Current	<u>933</u>	<u>1,044</u>	<u>531</u>
Deferred:			
Federal	236	104	100
State	36	13	13
Total Deferred	<u>272</u>	<u>117</u>	<u>113</u>
Total	<u>\$1,205</u>	<u>\$1,161</u>	<u>\$644</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES

Income before income taxes includes income of international subsidiaries of \$7 million in 1999 and losses of international subsidiaries of \$20 and \$70 million for 1998 and 1997, respectively.

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

	<u>1999</u>	<u>1998</u>	<u>1997</u>
Statutory federal income tax rate	35.0%	35.0%	35.0%
Tax assessment	17.7	—	—
State income taxes (net of federal benefit)	4.2	3.1	3.7
Other	0.8	1.9	2.8
Effective income tax rate	<u>57.7%</u>	<u>40.0%</u>	<u>41.5%</u>

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

	<u>1999</u>	<u>1998</u>
Excess of tax over book depreciation	\$2,096	\$1,957
Pension plans	662	265
Prepaid health and welfare	129	124
Leveraged leases	58	62
Other	288	400
Gross deferred tax liabilities	<u>3,233</u>	<u>2,808</u>
Other postretirement benefits	421	407
Loss carryforwards (international)	283	308
Insurance reserves	175	104
Other	258	229
Gross deferred tax assets	1,137	1,048
Deferred tax assets valuation allowance	(283)	(308)
Net deferred tax assets	<u>854</u>	<u>740</u>
Net deferred tax liability	<u>2,379</u>	<u>2,068</u>
Less: Amount included in other current liabilities	6	114
Long-term portion — see Note 8	<u>\$2,373</u>	<u>\$1,954</u>

The valuation allowance decreased \$25, \$14 and \$43 million during the years ended December 31, 1999, 1998 and 1997, respectively.

UPS has international loss carryforwards of approximately \$668 million as of December 31, 1999. Of this amount, \$288 million expires in varying amounts through 2009. The remaining \$380 million may be carried forward indefinitely. These international loss carryforwards have been fully reserved in the deferred tax assets valuation allowance due to the uncertainty resulting from a lack of previous international taxable income within certain international tax jurisdictions. In addition, a portion of these losses has been deducted on the U.S. tax return, which could affect the amount of any future benefit.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES

NOTE 8. DEFERRED TAXES, CREDITS AND OTHER LIABILITIES

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

	<u>1999</u>	<u>1998</u>
Deferred federal and state income taxes	\$2,373	\$1,954
Insurance reserves	829	704
Other credits and noncurrent liabilities	267	359
	<u>\$3,469</u>	<u>\$3,017</u>

NOTE 9. OTHER OPERATING EXPENSES

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

	<u>1999</u>	<u>1998</u>	<u>1997</u>
Repairs and maintenance	\$ 945	\$ 864	\$ 804
Depreciation and amortization	1,139	1,112	1,063
Purchased transportation	1,679	1,519	1,374
Fuel	681	604	736
Other occupancy	373	375	395
Other expenses	2,962	2,878	3,099
	<u>\$7,779</u>	<u>\$7,352</u>	<u>\$7,471</u>

NOTE 10. SEGMENT AND GEOGRAPHIC INFORMATION

We report our operations in three segments: U.S. domestic package operations, international package operations and non-package operations. Package operations represent our core business and are broken down into regional operations around the world. Regional operations managers are responsible for both domestic and export operations within their geographic area. International package operations include shipments wholly outside the U.S. as well as shipments with either origin or distribution outside the U.S. Non-package operations, which include the UPS Logistics Group, are distinct from package operations and are thus managed and reported separately. Based on the requirements of FAS 131, reportable segments include U.S. domestic package operations, international package operations and non-package operations.

In evaluating financial performance, we focus on operating profit as a segment's measure of profit or loss. Operating profit is before interest expense, interest income, other non-operating gains and losses and income taxes. The accounting policies of the reportable segments are the same as those described in the summary of accounting policies (Note 1), with certain expenses allocated between the segments using activity-based costing methods.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES

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

	<u>1999</u>	<u>1998</u>	<u>1997</u>
Revenue:			
U.S. domestic package	\$22,313	\$20,650	\$18,868
International package	3,730	3,399	3,067
Non-package	1,009	739	523
Consolidated	<u>\$27,052</u>	<u>\$24,788</u>	<u>\$22,458</u>
Operating Profit (Loss):			
U.S. domestic package	\$ 3,568	\$ 2,899	\$ 1,654
International package	252	56	(67)
Non-package	168	135	111
Consolidated	<u>\$ 3,988</u>	<u>\$ 3,090</u>	<u>\$ 1,698</u>
Assets:			
U.S. domestic package	\$11,398	\$11,225	\$10,985
International package	3,378	2,325	2,051
Non-package	1,998	1,824	1,858
Unallocated	6,269	1,693	1,018
Consolidated	<u>\$23,043</u>	<u>\$17,067</u>	<u>\$15,912</u>

Non-package operating profit included \$108, \$112 and \$111 million for 1999, 1998 and 1997, respectively, of intersegment profit with a corresponding amount of operating expense included in the U.S. domestic package segment.

In 1999 quarterly financial statements, we did not allocate capitalized software to individual segments, and reported the amounts capitalized as a separate "Corporate" line item. However, for the year ended December 31, 1999, all capitalized software costs, including amounts capitalized in prior quarters, have been allocated to the individual segments which benefit from the software.

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

	<u>1999</u>	<u>1998</u>	<u>1997</u>
Letters, packages, and cargo	\$26,043	\$24,049	\$21,935
Other	1,009	739	523
	<u>\$27,052</u>	<u>\$24,788</u>	<u>\$22,458</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES

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

	<u>1999</u>	<u>1998</u>	<u>1997</u>
U.S.:			
Revenue	\$24,059	\$22,090	\$20,105
Long-lived assets	\$ 9,794	\$10,031	\$10,063
International:			
Revenue	\$ 2,993	\$ 2,698	\$ 2,353
Long-lived assets	\$ 2,111	\$ 1,611	\$ 1,372
Consolidated:			
Revenue	\$27,052	\$24,788	\$22,458
Long-lived assets	\$11,905	\$11,642	\$11,435

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

NOTE 11. MARKETABLE SECURITIES AND SHORT-TERM INVESTMENTS

The following is a summary of marketable securities and short-term investments at December 31, 1999 and 1998 (in millions):

	<u>Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized</u>	<u>Estimated Fair Value</u>
1999				
U.S. government securities	\$ 179	\$—	\$ 3	\$ 176
U.S. corporate securities	1,205	1	4	1,202
Other debt securities	610	—	1	609
Total debt securities	1,994	1	8	1,987
Equity securities	87	5	5	87
	<u>\$2,081</u>	<u>\$ 6</u>	<u>\$ 13</u>	<u>\$2,074</u>
1998				
U.S. government securities	\$ 194	\$ 2	\$—	\$ 196
U.S. corporate securities	188	2	—	190
Other debt securities	2	—	—	2
Total debt securities	384	4	—	388
Equity securities	6	—	5	1
	<u>\$ 390</u>	<u>\$ 4</u>	<u>\$ 5</u>	<u>\$ 389</u>

The gross realized gains on sales of marketable securities totaled \$6 million in 1999 and 1998. The gross realized losses totaled \$12 million in 1999 and \$1 million in 1998. The adjustment to unrealized holding losses on marketable securities, net of tax, included in other comprehensive income totaled \$3 million in 1999, and \$1 million in 1998.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES

The amortized cost and estimated fair value of marketable securities and short-term investments at December 31, 1999, by contractual maturity, are shown below (in millions). Expected maturities will differ from contractual maturities because the issuers of the securities may have the right to prepay obligations without prepayment penalties.

	Cost	Estimated Fair Value
Due in one year or less	\$1,592	\$1,591
Due after one year through three years	35	34
Due after three years through five years	181	178
Due after five years	186	184
	1,994	1,987
Equity securities	87	87
	<u>\$2,081</u>	<u>\$2,074</u>

NOTE 12. QUARTERLY INFORMATION (unaudited)

	<u>First Quarter</u>		<u>Second Quarter</u>		<u>Third Quarter</u>		<u>Fourth Quarter</u>	
	<u>1999</u>	<u>1998</u>	<u>1999</u>	<u>1998</u>	<u>1999</u>	<u>1998</u>	<u>1999</u>	<u>1998</u>
	(in millions, except per share amounts)							
Revenue:								
U.S. domestic package	\$5,231	\$4,892	\$5,434	\$5,090	\$5,574	\$5,147	\$6,074	\$5,521
International package	885	796	908	838	909	823	1,028	942
Non-package	215	171	218	179	232	188	344	201
Total revenue	6,331	5,859	6,560	6,107	6,715	6,158	7,446	6,664
Operating profit (loss):								
U.S. domestic package	789	594	898	747	916	757	965	801
International package	52	11	71	23	47	(15)	82	37
Non-package	25	35	33	35	27	35	83	30
Total operating profit	866	640	1,002	805	990	777	1,130	868
Net income (loss)	\$ 499	\$ 352	\$ (854)	\$ 458	\$ 577	\$ 449	\$ 661	\$ 482
Earnings (loss) per share:								
Basic	\$ 0.45	\$ 0.32	\$ (0.77)	\$ 0.42	\$ 0.53	\$ 0.41	\$ 0.57	\$ 0.44
Diluted	\$ 0.44	\$ 0.32	\$ (0.77)	\$ 0.42	\$ 0.52	\$ 0.40	\$ 0.56	\$ 0.43

The loss for the second quarter of 1999 resulted from a tax assessment charge discussed in Note 4.

SIGNATURES

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

UNITED PARCEL SERVICE, INC.
(REGISTRANT)

By: /s/ JAMES P. KELLY
James P. Kelly
Chairman of the Board and
Chief Executive Officer

Date: March 30, 2000

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

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ WILLIAM H. BROWN, III</u> WILLIAM H. BROWN, III	Director	March 30, 2000
<u>/s/ ROBERT J. CLANIN</u> ROBERT J. CLANIN	Senior Vice President, Chief Financial Officer, Treasurer and Director (Principal Financial and Accounting Officer)	March 30, 2000
<u>/s/ MICHAEL L. ESKEW</u> MICHAEL L. ESKEW	Executive Vice President and Director	March 30, 2000
<u>/s/ JAMES P. KELLY</u> JAMES P. KELLY	Chairman of the Board, Chief Executive Officer and Director (Principal Executive Officer)	March 30, 2000
<u>Ann M. Livermore</u>	Director	
<u>Gary E. MacDougal</u>	Director	
<u>/s/ JOSEPH R. MODEROW</u> JOSEPH R. MODEROW	Senior Vice President, Secretary and Director	March 30, 2000
<u>Kent C. Nelson</u>	Director	

<u>Signature</u>	<u>Title</u>	<u>Date</u>
_____ Victor A. Pelson	Director	
_____ John W. Rogers	Director	
/s/ CHARLES L. SCHAFER _____ CHARLES L. SCHAFER	Senior Vice President and Director	March 30, 2000
/s/ LEA N. SOUPATA _____ LEA N. SOUPATA	Senior Vice President and Director	March 30, 2000
_____ Robert M. Teeter	Director	
/s/ THOMAS H. WEIDEMEYER _____ THOMAS H. WEIDEMEYER	Senior Vice President and Director	March 30, 2000

EXHIBIT INDEX

Unless otherwise noted, documents filed with the Commission referred to below were filed by United Parcel Service of America, Inc.

Exhibit No.	Description
2.1	Agreement and Plan of Merger, dated as of September 22, 1999, among United Parcel Service of America, Inc., United Parcel Service, Inc. and UPS Merger Subsidiary, Inc. (incorporated by reference to United Parcel Service, Inc.'s registration statement on Form S-4 (No. 333-83349), filed on July 21, 1999, as amended).
3.1	Form of Restated Certificate of Incorporation of United Parcel Service, Inc. (incorporated by reference to United Parcel Service, Inc.'s registration statement on Form S-4 (No. 333-83349), filed on July 21, 1999, as amended).
3.2	Form of Bylaws of United Parcel Service, Inc. (incorporated by reference to Exhibit 3.2 to United Parcel Service, Inc.'s registration statement on Form S-4 (No. 333-83349), filed on July 21, 1999, as amended).
4.1	Form of Class A Common Stock Certificate (incorporated by reference to Exhibit 4.1 to United Parcel Service, Inc.'s registration statement on Form S-4 (No. 333-83349), filed on July 21, 1999, as amended).
4.2	Form of Class B Common Stock Certificate (incorporated by reference to Exhibit 4.2 to United Parcel Service, Inc.'s registration statement on Form S-4 (No. 333-83349), filed on July 21, 1999).
4.3	Specimen Certificate of 8 3/8% Debentures due April 1, 2020 (incorporated by reference to Exhibit 4(c) to Registration Statement No. 33-32481, filed December 7, 1989).
4.4	Indenture relating to 8 3/8% Debentures due April 1, 2020 (incorporated by reference to Exhibit 4(c) to Registration Statement No. 33-32481, filed December 7, 1989).
4.5	Specimen Certificate of \$500,000,000 of Temporary and Permanent Global Notes in connection with the European medium term note program (available to the Commission upon request).
4.6	Indenture relating to the \$500,000,000 European Medium term note program (available to the Commission upon request).
4.7	Specimen Certificate of Exchange Offer Notes Due 2030 (incorporated by reference to Exhibit T-3C to Form T-3 filed December 18, 1997).
4.8	Indenture relating to Exchange Offer Notes Due 2030 (incorporated by reference to Exhibit T-3C to Form T-3 filed December 18, 1997).
4.9	Specimen Certificate of \$200,000,000 of 6.625% Euro Notes due April 25, 2001 (available to the Commission upon request).
4.10	Indenture relating to \$200,000,000 of 6.625% Euro Notes due April 25, 2001 (available to the Commission upon request).
4.11	Specimen Certificate of \$300,000,000 of 6.25% Euro Notes due July 7, 2000 (available to the Commission upon request).
4.12	Indenture relating to \$300,000,000 of 6.25% Euro Notes due July 7, 2000 (available to the Commission upon request).
4.13	Specimen Certificate of \$1,000,000,000 of Temporary and Permanent Global Notes in connection with the European medium term note program (available to the Commission upon request).
4.14	Indenture relating to the \$1,000,000,000 European medium term note program (available to the Commission upon request).

Exhibit No.	Description
4.15	Indenture relating to \$2,000,000,000 of debt securities (incorporated by reference to Exhibit 4.1 to Pre-Effective Amendment No. 1 to Registration Statement on Form S-3 (No. 333-08369) as filed January 26, 1999).
4.16	Form of Supplemental Indenture relating to \$2,000,000 of debt securities (incorporated by reference to Exhibit 4.2 to Post-Effective Amendment No. 1 to Registration Statement on Form S-3 (No. 333-08369-01) as filed March 15, 2000)
10.1	<p>UPS Thrift Plan, as Amended and Restated January 1, 1976, including Amendment Nos. 1 and 2 (incorporated by reference to Exhibit 10(a) to 1980 Annual Report on Form 10-K).</p> <p>(1) Amendment No. 3 to the UPS Thrift Plan (incorporated by reference to Exhibit 20(b) to 1980 Annual Report on Form 10-K).</p> <p>(2) Amendment No. 4 to the UPS Thrift Plan (incorporated by reference to Exhibit 20(b) to 1981 Annual Report on Form 10-K).</p> <p>(3) Amendment No. 5 to the UPS Thrift Plan (incorporated by reference to Exhibit 19(b) to 1983 Annual Report on Form 10-K).</p> <p>(4) Amendment No. 6 to the UPS Thrift Plan (incorporated by reference to Exhibit 10(a)(4) to 1985 Annual Report on Form 10-K).</p> <p>(5) Amendment No. 7 to the UPS Thrift Plan (incorporated by reference to Exhibit 10(a)(5) to 1985 Annual Report on Form 10-K).</p> <p>(6) Amendment No. 8 to the UPS Thrift Plan (incorporated by reference to Exhibit 10(a)(6) to 1987 Annual Report on Form 10-K).</p> <p>(7) Amendment No. 9 to the UPS Thrift Plan (incorporated by Reference to Exhibit 10(a)(7) to 1987 Annual Report on Form 10-K).</p> <p>(8) Amendment No. 10 to the UPS Thrift Plan (incorporated by reference to Exhibit 10(a)(8) to 1990 Annual Report on Form 10-K).</p> <p>(9) Amendment No. 11 to the UPS Thrift Plan (incorporated by reference to Exhibit 10(a)(9) to 1991 Annual Report on Form 10-K).</p> <p>(10) Amendment No. 12 to the UPS Thrift Plan (incorporated by reference to Exhibit 10(a)(10) to 1991 Annual Report on Form 10-K).</p> <p>(11) Amendment No. 13 to the UPS Thrift Plan (incorporated by reference to Exhibit 10(a)(11) to 1991 Annual Report on Form 10-K).</p> <p>(12) Amendment No. 14 to the UPS Thrift Plan (incorporated by reference to Exhibit 10(a)(12) to 1991 Annual Report on Form 10-K).</p> <p>(13) Amendment No. 15 to the UPS Thrift Plan (incorporated by reference to Exhibit 10(a)(13) to 1992 Annual Report on Form 10-K).</p> <p>(14) Amendment No. 16 to the UPS Thrift Plan (incorporated by reference to Exhibit 10(a)(14) to 1993 Annual Report on Form 10-K).</p> <p>(15) Amendment No. 17 to the UPS Thrift Plan (incorporated by reference to Exhibit 10(a)(15) to 1993 Annual Report on Form 10-K).</p> <p>(16) Amendment No. 18 to the UPS Thrift Plan (incorporated by reference to Exhibit 10(a)(16) to 1994 Annual Report on Form 10-K).</p> <p>(17) Amendment No. 19 to the UPS Thrift Plan (incorporated by reference to Exhibit 10(a)(17) to 1994 Annual Report on Form 10-K).</p> <p>(18) Amendment No. 20 to the UPS Thrift Plan (incorporated by reference to Exhibit 10(a)(18) to 1995 Annual Report on Form 10-K).</p>

<u>Exhibit No.</u>	<u>Description</u>
	(19) Amendment No. 21 to the UPS Thrift Plan (incorporated by reference to Exhibit 10(a)(19) to 1995 Annual Report on Form 10-K).
	(20) Amendment No. 22 to the UPS Thrift Plan (incorporated by reference to Exhibit 10(a)(20) to 1996 Annual Report on Form 10-K).
	(21) Amendment No. 23 to the UPS Thrift Plan (incorporated by reference to Exhibit 10(a)(21) to 1996 Annual Report on Form 10-K).
10.2	UPS Retirement Plan (including Amendments 1 through 4) (incorporated by reference to Exhibit 9 to 1979 Annual Report on Form 10-K).
	(1) Amendment No. 5 to the UPS Retirement Plan (incorporated by reference to Exhibit 20(a) to 1980 Annual Report on Form 10-K).
	(2) Amendment No. 6 to the UPS Retirement Plan (incorporated by reference to Exhibit 19(a) to 1983 Annual Report on Form 10-K).
	(3) Amendment No. 7 to the UPS Retirement Plan (incorporated by reference to Exhibit 10(b)(3) to 1984 Annual Report on Form 10-K).
	(4) Amendment No. 8 to the UPS Retirement Plan (incorporated by reference to Exhibit 10(b)(4) to 1985 Annual Report on Form 10-K).
	(5) Amendment No. 9 to the UPS Retirement Plan (incorporated by reference to Exhibit 10(b)(5) to 1985 Annual Report on Form 10-K).
	(6) Amendment No. 10 to the UPS Retirement Plan (incorporated by reference to Exhibit 19(a) to 1988 Annual Report on Form 10-K).
	(7) Amendment No. 11 to the UPS Retirement Plan (incorporated by reference to Exhibit 19(b) to 1988 Annual Report on Form 10-K).
	(8) Amendment No. 12 to the UPS Retirement Plan (incorporated by reference to Exhibit 10(b)(8) to 1989 Annual Report on Form 10-K).
	(9) Amendment No. 13 to the UPS Retirement Plan (incorporated by Reference to Exhibit 10(b)(9) to 1989 Annual Report on Form 10-K).
	(10) Amendment No. 14 to the UPS Retirement Plan (incorporated by reference to Exhibit 10(b)(10) to 1990 Annual Report on Form 10-K).
	(11) Amendment No. 15 to the UPS Retirement Plan (incorporated by reference to Exhibit 10(b)(11) to 1992 Annual Report on Form 10-K).
	(12) Amendment No. 16 to the UPS Retirement Plan (incorporated by reference to Exhibit 10(b)(12) to 1994 Annual Report on Form 10-K).
	(13) Amendment No. 17 to the UPS Retirement Plan (incorporated by reference to Exhibit 10(b)(13) to 1994 Annual Report on Form 10-K).
	(14) Amendment No. 18 to the UPS Retirement Plan (incorporated by reference to Exhibit 10(b)(14) to 1995 Annual Report on Form 10-K).
	(15) Amendment No. 19 to the UPS Retirement Plan (incorporated by reference to Exhibit 10(b)(15) to 1995 Annual Report on Form 10-K).
	(16) Amendment No. 20 to the UPS Retirement Plan (incorporated by reference to Exhibit 10(b)(16) to 1995 Annual Report on Form 10-K).
	(17) Amendment No. 21 to the UPS Retirement Plan (incorporated by reference to Exhibit 10(b)(17) to 1996 Annual Report on Form 10-K).

<u>Exhibit No.</u>	<u>Description</u>
	(18) Amendment No. 22 to the UPS Retirement Plan (incorporated by reference to Exhibit 10(b)(18) to 1997 Annual Report on Form 10-K).
	(19) Amendment No. 23 to the UPS Retirement Plan (incorporated by reference to Exhibit 10(b)(19) to 1998 Annual Report on Form 10-K).
10.3	Indemnification Contracts or Arrangements (incorporated by reference to Item 8 of Form 10, as filed April 29, 1970).
10.4	Agreement of Sale between Delaware County Industrial Development Authority and Penallen Corporation, dated as of December 1, 1985; Remarketing Agreement, dated as of December 1, 1985, among United Parcel Service of America, Inc., Penallen Corporation and Salomon Brothers Inc; Guarantee Agreement, dated as of December 1, 1985, between United Parcel Service of America, Inc. and Irving Trust Company; Guarantee by United Parcel Service of America, Inc. to Delaware County Industrial Development Authority, dated as of December 1, 1985 (incorporated by reference to Exhibit 10(m) to 1985 Annual Report on Form 10-K).
10.5	Receivables Purchase and Sale Agreement, dated as of November 24, 1987, among United Parcel Service, Inc., an Ohio corporation, United Parcel Service, Inc., a New York corporation, United Parcel Service of America, Inc., Cooperative Receivables Corporation and Citicorp North America, Inc. (incorporated by reference to Exhibit 10(l) to 1987 Annual Report on Form 10-K).
10.6	Receivables Purchase and Sale Agreement, dated as of November 24, 1987, among United Parcel Service, Inc., an Ohio corporation, United Parcel Service, Inc., a New York corporation, United Parcel Service of America, Inc., Citibank, N.A., and Citicorp North America, Inc. (incorporated by reference to Exhibit 10(m) to 1987 Annual Report on Form 10-K).
10.7	Membership Agreement, dated as of November 24, 1987, by and between Cooperative Receivables Corporation and United Parcel Service of America, Inc. (incorporated by reference to Exhibit 10(n) to 1987 Annual Report on Form 10-K).
10.8	Amended and Restated Facility Lease Agreement, dated as of November 6, 1990, among Overseas Partners Leasing, Inc., United Parcel Service General Services Co. and United Parcel Service of America, Inc. (incorporated by reference to Exhibit 10(r) to 1990 Annual Report on Form 10-K).
10.9	Amended and Restated Aircraft Lease Agreement, dated as of November 6, 1990, among Overseas Partners Leasing, Inc., United Parcel Service Co. and United Parcel Service of America, Inc. (incorporated by reference to Exhibit 10(s) to 1990 Annual Report on Form 10-K).
10.10	Agreement of Sale, dated as of December 28, 1989, between Edison Corporation and Overseas Partners Leasing, Inc. (incorporated by reference to Exhibit 10(t) to 1989 Annual Report on Form 10-K).
10.11	Assignment and Assumption Agreement, dated as of December 28, 1989, between and among Edison Corporation, Overseas Partners Leasing, Inc., McBride Enterprises, Inc. and Ramapo Ridge-McBride Office Park (incorporated by reference to Exhibit 10(u) to 1989 Annual Report on Form 10-K).
10.12	UPS Deferred Compensation Plan for Non-Employee Directors (incorporated by reference to Exhibit 10(v) to 1990 Annual Report on Form 10-K).
10.13	UPS Savings Plan, as Amended and Restated, including Amendment Nos. 1-5 (incorporated by reference to Exhibit 10(x) to 1990 Annual Report on Form 10-K).
	(1) Amendment No. 6 to the UPS Savings Plan (incorporated by reference to Exhibit 10(x)(1) to 1990 Annual Report on Form 10-K).

<u>Exhibit No.</u>	<u>Description</u>
	(2) Amendment No. 7 to the UPS Savings Plan (incorporated by reference to Exhibit 10(x)(2) to 1991 Annual Report on Form 10-K).
	(3) Amendment No. 8 to the UPS Savings Plan (incorporated by reference to Exhibit 10(x)(3) to 1992 Annual Report on Form 10-K).
	(4) Amendment No. 9 to the UPS Savings Plan (incorporated by reference to Exhibit 10(x)(4) to 1992 Annual Report on Form 10-K).
	(5) Amendment No. 10 to the UPS Savings Plan (Incorporated by Reference to Exhibit 10(x)(5) to 1992 Annual Report on Form 10-K).
	(6) Amendment No. 11 to the UPS Savings Plan (incorporated by reference to Exhibit 10(x)(6) to 1994 Annual Report on Form 10-K).
	(7) Amendment No. 12 to the UPS Savings Plan (incorporated by reference to Exhibit 10(x)(7) to 1994 Annual Report on Form 10-K).
	(8) Amendment No. 13 to the UPS Savings Plan (incorporated by reference to Exhibit 10(x)(8) to 1994 Annual Report on Form 10-K).
	(9) Amendment No. 14 to the UPS Savings Plan (incorporated by reference to Exhibit 10(x)(9) to 1994 Annual Report on Form 10-K).
	(10) Amendment No. 15 to the UPS Savings Plan (incorporated by reference to Exhibit 10(x)(10) to 1994 Annual Report on Form 10-K).
	(11) Restatement Amendment No. 1 to the UPS Savings Plan (incorporated by reference to Exhibit 10(x)(11) to 1996 Annual Report on Form 10-K).
	(12) Restatement Amendment No. 2 to the UPS Savings Plan (incorporated by reference to Exhibit 10(x)(12) to 1995 Annual Report on Form 10-K).
	(13) Restatement Amendment No. 3 to the UPS Savings Plan (incorporated by reference to Exhibit 10(o)(13) to 1996 Annual Report on Form 10-K).
	(14) Restatement Amendment No. 4 to the UPS Savings Plan (incorporated by reference to Exhibit 10(o)(14) to 1996 Annual Report on Form 10-K).
	(15) Restatement Amendment No. 5 to the UPS Savings Plan (incorporated by reference to Exhibit 10(o)(15) to 1996 Annual Report on Form 10-K).
	(16) Restatement Amendment No. 6 to the UPS Savings Plan (incorporated by reference to Exhibit 10(o)(16) to 1997 Annual Report on Form 10-K).
10.14	Credit Agreement (364-Day Facility) dated April 29, 1999 among United Parcel Service of America, Inc., the initial lenders named therein, Salomon Smith Barney as Co-Arranger and NationsBanc Montgomery Securities LLC as Co-Arranger and Bank of America NT & SA., as Agent, and Citibank, N.A., as Agent (incorporated by reference to Exhibit 10(a) to Quarterly Report on Form 10-Q for the Quarter Ended March 31, 1999).
10.15	Credit Agreement (Five-Year Facility) dated April 30, 1998 among United Parcel Service of America, Inc., the initial lenders named therein, Citicorp Securities, Inc. as Co-Arranger and BancAmerica Robertson as Co-Arranger and Bank of America NT & SA as Agent and Citibank, N.A., as Agent (incorporated by reference to Exhibit 10(b) to the Quarterly Report on Form 10-Q for the Quarter Ended March 30, 1998).
10.16	UPS 1991 Stock Option Plan (Amended and Restated as of February 20, 1992) (incorporated by reference to Appendix A to Definitive Proxy Statement for 1995 Annual Meeting of Shareholders).

Exhibit No.	Description
10.17	UPS Excess Coordinating Benefit Plan (incorporated by reference to Exhibit 10(s) to 1997 Annual Report on Form 10-K).
10.18	UPS 1996 Stock Option Plan, as amended and restated (incorporated by reference to Exhibit 10(a) to Quarterly Report on Form 10-Q for the Quarter ended September 30, 1997).
10.19	UPS Qualified Stock Ownership Plan and Trust Agreement (incorporated by reference to Exhibit 4.1 to Registration Statement No. 333-67479, filed November 18, 1998). <ul style="list-style-type: none"> (1) Amendment No. 1 to the UPS Qualified Stock Ownership Plan and Trust Agreement. (2) Amendment No. 2 to the UPS Qualified Stock Ownership Plan and Trust Agreement. (3) Amendment No. 3 to the UPS Qualified Stock Ownership Plan and Trust Agreement.
10.20	Form of United Parcel Service, Inc. Incentive Compensation Plan (incorporated by reference to United Parcel Service, Inc.'s registration statement on Form S-4 (No. 333-83349), filed on July 21, 1999, as amended).
21	Subsidiaries of the Registrant.
23	Consent of Deloitte & Touche LLP.
27	Financial Data Schedule.

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statements No. 333-08369-01 (on Form S-3) and 333-93213 (on Form S-8) of United Parcel Service, Inc. and in Registration Statements No. 333-72127, 333-24805, 333-23969, 333-23971 and 33-46840 (on Form S-8) of United Parcel Service of America, Inc. of our report dated January 31, 2000, which includes an explanatory paragraph relating to the merger of United Parcel Service, Inc. and United Parcel Service of America, Inc. in 1999, appearing in the Annual Report on Form 10-K of United Parcel Service, Inc. for the year ended December 31, 1999.

DELOITTE & TOUCHE LLP

Atlanta, Georgia
March 28, 2000

ANNEX III
UPS Quarterly Report on Form 10-Q
for the Quarter Ended 30 September 2000

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

Quarterly Report Under Section 13 or 15 (d)
of the Securities Exchange Act of 1934

For the Quarter Ended September 30, 2000

Commission file number 0-4714

United Parcel Service, Inc.

(Exact name of registrant specified in its charter)

Delaware

58-2480149

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification No.)

55 Glenlake Parkway, NE

Atlanta, Georgia
(Address of principal executive office)

30328
(Zip Code)

Registrant's telephone number, including area code (404) 828-6000

Not Applicable

Former name, address and fiscal year, if changed since last report

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities and Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days.

YES ☒ NO

Class A and B Common Stock, par value \$.01 per share

(Title of Class)

967,128,260 Class A shares, 164,309,050 Class B shares

Outstanding as of November 10, 2000

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

UNITED PARCEL SERVICE, INC., AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
September 30, 2000 (unaudited) and December 31, 1999 (In millions
except share and per share amounts)

Assets	September 30, 2000	December 31, 1999
Current Assets:		
Cash & cash equivalents	\$ 1,670	\$4,204
Marketable securities & short-term investments	1,922	2,074
Accounts receivable	3,383	3,167
Prepaid employee benefit costs	1,626	1,327
Materials, supplies & other prepaid expenses	506	366
Total Current Assets	9,107	11,138
Property, Plant & Equipment (including aircraft under capitalized lease obligations) - at cost, net of accumulated depreciation & amortization of \$9,442 in 2000 and \$8,891 in 1999	11,721	11,579
Other Assets	584	326
	<u>\$21,412</u>	<u>\$ 23,043</u>
Liabilities & Shareowners' Equity		
Current Liabilities:		
Commercial paper	\$ 955	\$ -
Accounts payable	1,433	1,295
Accrued wages & withholdings	1,740	998
Dividends payable	-	361
Tax assessment	146	457
Income taxes payable	396	50
Current maturities of long-term debt	263	512
Other current liabilities	686	525
Total Current Liabilities	5,619	4,198
Long-Term Debt (including capitalized lease obligations)	2,052	1,912
Accumulated Postretirement Benefit Obligation, Net	1,049	990
Deferred Taxes, Credits & Other Liabilities	3,426	3,469
Shareowners' Equity:		
Preferred stock, no par value, authorized 200,000,000 shares, none issued	-	-
Class A common stock, par value \$.01 per share, authorized 4,600,000,000 shares, issued 988,395,928 and 1,101,295,534 in 2000 and 1999	10	11
Class B common stock, par value \$.01 per share, authorized 5,600,000,000 shares, issued 46,553,441 and 109,400,000 in 2000 and 1999	1	1
Additional paid-in capital	345	5,096
Retained earnings	9,152	7,536
Accumulated other comprehensive loss	(242)	(170)
	<u>9,266</u>	<u>12,474</u>
	<u>\$21,412</u>	<u>\$ 23,043</u>

See notes to unaudited consolidated financial statements.

UNITED PARCEL SERVICE, INC., AND SUBSIDIARIES
 STATEMENTS OF CONSOLIDATED INCOME
 Three Months and Nine Months Ended September 30, 2000 and 1999
 (In millions except per share amounts)
 (unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2000	1999	2000	1999
Revenue	\$ 7,367	\$ 6,715	\$ 21,871	\$ 19,606
Operating Expenses:				
Compensation and benefits	4,072	3,849	12,189	11,226
Other	2,134	1,876	6,274	5,522
	6,206	5,725	18,463	16,748
Operating Profit	1,161	990	3,408	2,858
Other Income and (Expense):				
Investment income	71	45	466	115
Interest expense	(41)	(65)	(158)	(170)
Tax assessment	-	-	-	(1,786)
Miscellaneous, net	(20)	(8)	(32)	(30)
	10	(28)	276	(1,871)
Income Before Income Taxes	1,171	962	3,684	987
Income Taxes	469	385	1,474	765
Net Income	\$ 702	\$ 577	\$ 2,210	\$ 222
Basic Earnings Per Share	\$0.62	\$0.53	\$ 1.91	\$ 0.20
Diluted Earnings Per Share	\$0.60	\$0.52	\$ 1.87	\$ 0.20

See notes to unaudited consolidated financial statements.

UNITED PARCEL SERVICE, INC., AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF SHAREOWNERS' EQUITY
Nine Months Ended September 30, 2000
(In millions except per share amounts)
(unaudited)

	Class A Common Stock		Class B Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareowners' Equity
	Shares	Amount	Shares	Amount				
Balance, January 1, 2000	1,101	\$ 11	109	\$1	\$5,096	\$7,536	\$ (170)	\$ 12,474
Comprehensive income:								
Net income	-	-	-	-	-	2,210	-	2,210
Foreign currency adjustments	-	-	-	-	-	-	(77)	(77)
Unrealized gain on marketable securities	-	-	-	-	-	-	5	5
Comprehensive income								2,138
Dividends (\$0.51 per share)	-	-	-	-	-	(594)	-	(594)
Stock award plans	5	-	-	-	113	-	-	113
Common stock purchases:								
Tender offer	(68)	(1)	-	-	(4,069)	-	-	(4,070)
Other	(9)	-	(4)	-	(813)	-	-	(813)
Common stock issuances	1	-	-	-	18	-	-	18
Conversion of Class A Common Stock to Class B Common Stock	(42)	-	42	-	-	-	-	-
Balance, September 30, 2000	988	\$ 10	147	\$1	\$ 345	\$9,152	\$ (242)	\$ 9,266

See notes to unaudited consolidated financial statements.

UNITED PARCEL SERVICE, INC., AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Nine Months Ended September 30, 2000 and 1999
(In millions)
(unaudited)

	Nine Months Ended September 30,	
	2000	1999
Cash flows from operating activities:		
Net income	\$2,210	\$222
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	864	850
Postretirement benefits	59	18
Deferred taxes, credits, and other	(9)	(79)
Stock award plans	415	304
Gain on investments and sale of business	(263)	-
Changes in assets and liabilities:		
Accounts receivable	(216)	(132)
Prepaid employee benefit costs	(299)	(294)
Materials, supplies and other prepaid expenses	(140)	(54)
Accounts payable	138	(9)
Accrued wages and withholdings	371	241
Dividends payable	(361)	(247)
Tax assessment	(311)	621
Income taxes payable	481	55
Other current liabilities	98	45
Net cash from operating activities	3,037	1,541
Cash flows from investing activities:		
Capital expenditures	(1,247)	(1,080)
Disposals of property, plant and equipment	204	155
Purchases of marketable securities and short-term investments	(3,423)	(2,089)
Sales and maturities of marketable securities and short-term investments	3,806	1,785
Construction funds in escrow	59	(138)
Other asset receipts (payments)	(272)	15
Net cash (used in) investing activities	(873)	(1,352)
Cash flows from financing activities:		
Proceeds from borrowings	1,643	1,617
Repayments of borrowings	(793)	(246)
Purchases of common stock via tender	(4,070)	-
Other purchases of common stock	(813)	(1,196)
Issuances of common stock pursuant to stock awards and employee stock purchase plans	70	684
Dividends	(594)	(311)
Other transactions	(118)	(10)
Net cash (used in) financing activities	(4,675)	538
Effect of exchange rate changes on cash	(23)	(12)

	Nine Months Ended September 30,	
	2000	1999
Net increase (decrease) in cash and cash equivalents	(2,534)	715
Cash and cash equivalents:		
Beginning of period	4,204	1,240
End of period	\$1,670	\$1,955
Cash paid during the period for:		
Interest (net of amount capitalized)	\$194	\$927
Income taxes	\$905	\$660

See notes to unaudited consolidated financial statements

UNITED PARCEL SERVICE, INC., AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. For interim consolidated financial statement purposes, we compute our tax provision on the basis of our estimated annual effective income tax rate, and provide for accruals under our various employee benefit plans for each three month period based on one quarter of the estimated annual expense.

2. In our opinion, the accompanying interim, unaudited, consolidated financial statements contain all adjustments (consisting of normal recurring accruals) necessary to present fairly the financial position as of September 30, 2000, the results of operations for the three and nine months ended September 30, 2000 and 1999, and cash flows for the nine months ended September 30, 2000 and 1999. The results reported in these consolidated financial statements should not be regarded as necessarily indicative of results that may be expected for the entire year.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2000	1999	2000	1999
Numerator:				
Numerator for basic and diluted earnings per share -				
Net income	\$ 702	\$ 577	\$2,210	\$ 222
Denominator:				
Weighted-average shares -				
Denominator for basic earnings per share	1,140	1,094	1,158	1,107
Effect of dilutive securities:				
Contingent shares -				
Management incentive awards	9	15	6	11
Stock option plans	15	9	17	8
Denominator for diluted earnings per share	1,164	1,118	1,181	1,126
Basic Earnings Per Share	\$0.62	\$0.53	\$ 1.91	\$0.20
Diluted Earnings Per Share	\$0.60	\$0.52	\$ 1.87	\$0.20

UNITED PARCEL SERVICE, INC., AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
(continued)

4. On August 9, 1999 the U.S. Tax Court issued an opinion unfavorable to UPS regarding a Notice of Deficiency asserting that we are liable for additional tax for the 1983 and 1984 tax years. The Court held that we are liable for tax on income of Overseas Partners Ltd. ("OPL"), a Bermuda company, which had reinsured excess value package insurance purchased by our customers beginning in 1984. The Court held that for the 1984 tax year we are liable for taxes of \$31 million on income reported by OPL, penalties and penalty interest of \$93 million and interest for a total after-tax exposure estimated at approximately \$246 million. In February 2000, the U.S. Tax Court entered a decision in accord with its opinion.

In addition, during the first quarter of 1999, the IRS issued two Notices of Deficiency asserting that we are liable for additional tax for the 1985 through 1987 tax years, and the 1988 through 1990 tax years. The primary assertions by the IRS relate to the reinsurance of excess value package insurance, the issue raised for the 1984 tax year. The IRS has based its assertions on the same theories included in the 1983-1984 Notice of Deficiency.

The IRS has taken similar positions for tax years subsequent to 1990. Based on the Tax Court opinion, we currently estimate that our total after-tax exposure for the tax years 1984 through 1999 could be as high as \$2.353 billion. We believe that a number of aspects of the Tax Court decision are incorrect, and we have appealed the decision to the U.S. Court of Appeals for the Eleventh Circuit.

In the second quarter 1999 financial statements, we recorded a tax assessment charge of \$1.786 billion, which included an amount for related state tax liabilities. The charge included taxes of \$915 million and interest of \$871 million. This assessment resulted in a tax benefit of \$344 million related to the interest component of the assessment. As a result, our net charge to net income for the tax assessment was \$1.442 billion, increasing our total after-tax reserve at that time with respect to these matters to \$1.672 billion. The tax benefit of deductible interest is included in income taxes; however, since none of the income on which this tax assessment is based is our income, we have not classified the tax charge as income taxes.

We determined the size of our reserve with respect to these matters in accordance with generally accepted accounting principles based on our estimate of our most likely liability. In making this determination, we concluded that it was more likely that we would be required to pay taxes on income reported by OPL and interest, but that it was not probable that we would be required to pay any penalties and penalty interest. If penalties and penalty interest ultimately are determined to be payable, we would have to record an additional charge of up to \$681 million.

UNITED PARCEL SERVICE, INC., AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
(continued)

On August 31, 1999, we deposited \$1.349 billion, and on August 8, 2000, we deposited an additional \$91 million, with the IRS related to these matters for the 1984 through 1994 tax years. We included the profit of the excess value package insurance program, using the IRS's methodology for calculating these amounts, for both 1998 and 1999 in filings we made with the IRS in the fourth quarter of 1999. In February 2000, we deposited \$339 million with the IRS related to these matters for the 1995 through 1997 tax years. These deposits and filings were made in order to stop the accrual of interest, where applicable, on that amount of the IRS's claim, without conceding the IRS's position or giving up our right to appeal the Tax Court's decision.

Effective October 1, 1999, we implemented a new arrangement for providing excess value package insurance for our customers through UPS subsidiaries. This new arrangement results in including in our non-package operating segment the operations of the excess value package insurance program offered to our customers. This revised arrangement should eliminate the issues considered by the Tax Court in the Notices of Deficiency relating to OPL for periods after September 1999.

The IRS has proposed adjustments, unrelated to the OPL matters discussed above, regarding the allowance of deductions and certain losses, the characterization of expenses as capital rather than ordinary, and our entitlement to the investment tax credit and the research tax credit in the 1985 through 1990 tax years. These proposed adjustments, if sustained, would result in \$82 million in additional income tax expense.

We expect that we will prevail on substantially all of these issues. We believe that our practice of expensing the items that the IRS alleges should have been capitalized is consistent with the practices of other industry participants. Should the IRS prevail, however, unpaid interest on these adjustments through September 30, 2000, could aggregate up to \$270 million, after the benefit of related tax deductions. The IRS's proposed adjustments include penalties and penalty interest. We believe that the possibility that such penalties and penalty interest will be sustained is remote. The IRS has taken similar positions with respect to some of these issues for each of the years from 1991 through 1994 and we expect the IRS to take similar positions for the years 1995 through 1999. We believe the eventual resolution of these issues will not result in a material adverse effect on our financial condition, results of operations or liquidity.

We are a defendant in various employment-related lawsuits. In our opinion, none of these cases is expected to have a material effect on our financial condition, results of operations or liquidity.

UNITED PARCEL SERVICE, INC., AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
(continued)

We have been named as a defendant in 18 lawsuits that seek to hold us (and in three cases, other defendants) liable for the collection of premiums for excess value package insurance in connection with package shipments since 1984. These cases generally claim that we acted as an insurer in violation of our shipping contract and without complying with state insurance laws and regulations, and that the price for excess value package insurance was excessive; one case alleges violations of federal antitrust laws. An amended consolidated complaint also alleges a violation of the federal RICO statute. Seventeen of these cases have been consolidated for pre-trial purposes in a multi-district litigation proceeding before the United States District Court for the Southern District of New York. We are in the process of having the remaining case consolidated into the multi-district litigation proceeding. These cases are in their initial stages, no discovery has commenced, and no class has been certified. These actions all developed after the August 9, 1999 Tax Court opinion was rendered. We believe the allegations have no merit and intend to defend them vigorously. The ultimate resolution of these matters cannot presently be determined.

On November 22, 1999, the U.S. Occupational Safety and Health Administration proposed regulations to mandate an ergonomics standard that would require American industry to make significant changes in the workplace in order to reduce the incidence of musculoskeletal complaints such as low back pain. The exact changes in the workplace that might be required to comply with these standards are not specified in the proposal. If OSHA enforced these regulations by seeking the same ergonomic measures it has advocated in the past under its general authority to remedy "recognized hazards," however, it might demand extensive changes in the physical layout of our distribution centers as well as the hiring of significant numbers of additional full-time and part-time employees. Our competitors, as well as the remainder of American industry, also would incur proportionately comparable costs.

We, our competitors and other affected parties have filed comments with OSHA challenging the medical support and economic and technical feasibility of the proposed regulations. We do not believe that OSHA has complied with the statutory mandate of establishing significant risk of material health impairment or has properly analyzed the costs and benefits of these proposed regulations. We and other affected parties would have the right to appeal any final ergonomics standard to an appropriate federal court of appeals. We anticipate that such a standard would be rejected by the reviewing court. If ergonomic regulations resembling the current proposal were sustained by a reviewing court, we believe that we would prevail in an enforcement proceeding based on substantial defenses including the vagueness of the standards and the technological and economic feasibility of costly abatement measures.

UNITED PARCEL SERVICE, INC., AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
(continued)

OSHA has taken the position that the cost of compliance with the proposed regulations will be only \$4.2 billion per year over a ten-year period for all of American industry. We believe that these estimates are unrealistic. We have attempted to estimate the costs of compliance if OSHA adopts the proposed regulations and applies them in the same way as it sought to apply its prior unsuccessful attempts to impose ergonomic measures under its general authority. Based on this experience and assuming that, contrary to our expectations, OSHA were able to obtain court orders applying to all of our facilities that mandated compliance with these regulations, we estimate that the cost of compliance could be approximately \$20 billion in initial costs, which would be incurred over a period of years, and approximately \$5 billion in incremental annual costs. Such expenditures, if required to be incurred, would materially and adversely affect our financial condition, results of operations or liquidity.

In addition, we are a defendant in various other lawsuits that arose in the normal course of business. In our opinion, none of these cases is expected to have a material effect on our financial condition, results of operations or liquidity.

5. We report our operations in three segments: U.S. domestic package operations, international package operations and non-package operations. Package operations represent our core business and are divided into regional operations around the world. Regional operations managers are responsible for both domestic and export operations within their geographic region. International package operations include shipments wholly outside the U.S. as well as shipments with either origin or delivery outside the U.S. Non-package operations, which include the UPS Logistics Group, are distinct from package operations and are thus managed and reported separately.

Segment information for the three and nine months ended September 30, 2000 and 1999, is as follows (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2000	1999	2000	1999
Revenue:				
U.S. domestic package	\$5,928	\$5,574	\$17,659	\$16,239
International package	1,028	909	3,074	2,702
Non-package	411	232	1,138	665
Consolidated	\$7,367	\$6,715	\$21,871	\$19,606
Operating profit:				
U.S. domestic package	\$1,043	\$916	\$ 2,954	\$ 2,603
International package	58	47	207	170
Non-package	60	27	247	85
Consolidated	\$1,161	\$990	\$ 3,408	\$ 2,858

UNITED PARCEL SERVICE, INC., AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
(continued)

Non-package operating profit included \$24 and \$28 million for the three months ended September 30, 2000 and 1999, respectively, and \$77 and \$85 million for the nine months ended September 30, 2000 and 1999, respectively, of intersegment profit, with a corresponding amount of operating expense, which reduces operating profit, included in the U.S. domestic package segment.

6. The major components of other operating expenses for the three months and nine months ended September 30, 2000 and 1999, are as follows (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2000	1999	2000	1999
Repairs and maintenance	\$246	\$231	\$726	\$674
Depreciation and amortization	294	287	864	850
Purchased transportation	478	407	1,378	1,168
Fuel	224	174	672	467
Other occupancy	99	89	297	278
Other expenses	793	688	2,337	2,085
Consolidated	\$2,134	\$1,876	\$6,274	\$5,522

7. In June 1998, the FASB issued Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("FAS 133"), as amended by Statement No. 137 and No. 138, which provides a comprehensive and consistent standard for the recognition and measurement of derivatives and hedging activities. Upon adoption, all derivative instruments will be recognized on the balance sheet at fair value, and changes in the fair values of such instruments must be recognized currently in earnings unless specific hedge accounting criteria are met. FAS 133 will be effective for us on January 1, 2001. Based on an evaluation of our material derivative instruments held at September 30, 2000, the adoption of FAS 133 at that date would not have had a material impact on our financial position or results of operations.

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

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Three Months Ended September 30, 2000 and 1999

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

Three Months Ended September 30,				
	2000	1999	\$	%

Revenue: (in millions):				
U.S. domestic package:				
Next Day Air	\$1,420	\$1,344	\$ 76	5.7 %
Deferred	690	649	41	6.3
Ground	3,818	3,581	237	6.6

Total U.S. domestic package	5,928	5,574	354	6.4
International package:				
Domestic	218	221	(3)	(1.4)
Export	698	605	93	15.4
Cargo	112	83	29	34.9

Total international package	1,028	909	119	13.1
Non-package:				
UPS Logistics Group	268	197	71	36.0
Other	143	35	108	308.6

Total non-package	411	232	179	77.2

Consolidated	\$7,367	\$6,715	\$652	9.7 %
=====				
Average Daily Package Volume (in thousands):			#	

U.S. domestic package:				
Next Day Air	1,130	1,046	84	8.0 %
Deferred	845	789	56	7.1
Ground	10,345	9,849	496	5.0

Total U.S. domestic package	12,320	11,684	636	5.4
International package:				
Domestic	770	691	79	11.4
Export	366	298	68	22.8

Total international package	1,136	989	147	14.9

Consolidated	13,456	12,673	783	6.2 %
=====				
Operating days in period	63	64		
Average Revenue Per Piece:			\$	
U.S. domestic package:				

Next Day Air	\$19.95	\$20.08	\$(0.13)	(0.6)%
Deferred	12.96	12.85	0.11	0.9
Ground	5.86	5.68	0.18	3.2
Total U.S. domestic package	7.64	7.45	0.19	2.6
International:				
Domestic	4.49	5.00	(0.51)	(10.2)
Export	30.27	31.72	(1.45)	(4.6)
Total international package	12.80	13.05	(0.25)	(1.9)

Consolidated	\$ 8.07	\$ 7.89	\$ 0.18	2.3 %
=====				

Management's Discussion and Analysis of Financial Condition and Results
of Operations (continued)

U.S. domestic package revenue increased 6.4% primarily due to volume gains across all product lines, continuing the trends reported during the first and second quarters of 2000. Average daily package volume for our Ground products increased 5.0%, or almost one-half million packages per day. This volume increase, combined with a 3.2% increase in revenue per piece for our Ground products, accounted for approximately two-thirds of the overall revenue increase for this segment. The remaining increase in U.S. domestic package revenue was due to continued volume growth for our Next Day Air and Deferred products.

The increase in international package revenue of 13.1% was due to volume growth for both our domestic and export products, offset by a decline in the revenue per piece for these products. This decline was primarily due to a decline in the value of the Euro relative to the U.S. dollar. Excluding the impact of currency fluctuations, overall revenue per piece for our international products would have increased 4.4%. The 22.8% increase in average daily volume for our export products represents our third consecutive quarter with volume increases in excess of 20%.

The increase in non-package revenue resulted primarily from the new arrangement for providing excess value package insurance for our customers as well as continued growth of the UPS Logistics Group. Revenue for the UPS Logistics Group increased by \$71 million, or 36.0%, from \$197 million to \$268 million.

Operating expenses increased by \$481 million, or 8.4%, to \$6.206 billion during the third quarter of 2000. Compensation and benefits expenses increased by \$223 million while other operating expenses increased \$258 million. The increase in other operating expenses was primarily due to higher purchased transportation costs, higher fuel costs and claims expense associated with the new arrangement for providing excess value package insurance for our customers. The increase in purchased transportation costs were primarily due to increased business for our international and logistics operations, while the \$50 million, or 28.7%, increase in fuel costs was due to the increase in fuel prices and the growth in volume, partially offset by the cost reductions generated by our fuel hedging program. International operating expenses were favorably impacted by the decline in the value of the Euro relative to the U.S. dollar.

To offset the increasing fuel costs we have experienced over the last several quarters and that we expect to continue into the future, we implemented a temporary 1.25% fuel surcharge effective August 7, 2000. Approximately \$50 million in revenue was recorded during the quarter as a result of the surcharge.

Our operating margin improved from 14.7% during the third quarter of 1999 to 15.8% during the third quarter of 2000. The 15.8% operating margin represents our fourth consecutive quarter with an operating margin in excess of 15.0%. This improvement continues our recently reported trends and is favorably impacted by continued product mix improvements and our continued successful efforts in obtaining profitable volume growth.

Management's Discussion and Analysis of Financial Condition and Results
of Operations (continued)

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

Operating Segment	Three Months Ended September 30,		Change	
	2000	1999	\$	%
U.S. domestic package	\$1,043	\$ 916	\$127	13.9 %
International package	58	47	11	23.4
Non-package	60	27	33	122.2
Consolidated Operating Profit	\$1,161	\$ 990	\$171	17.3 %
	=====	=====	=====	

U.S. domestic package operating profit increased over \$100 million due to the volume and revenue improvements discussed previously.

International package operating profit increased over 23% due to increased volume and revenue, and was realized despite significantly higher fuel costs. Continuing the trends we have reported in previous quarters, this improvement was well-balanced across our international regions. Excluding the impact of currency fluctuations, this segment would have reported an additional \$8 million in operating profit during this period.

The increase in non-package operating profit is largely due to the new arrangement for providing excess value package insurance for our customers, which contributed \$60 million of operating profit for the quarter. This improvement was offset in part by start-up costs associated with UPS Service Parts Logistics, UPS Capital Corporation and other initiatives.

Our other income and expense improved \$38 million, from expense of \$28 million in the third quarter of 1999 to income of \$10 million in the third quarter of 2000. This improvement was primarily due to higher cash and marketable securities balances that resulted in higher investment income, along with lower debt balances outstanding which resulted in lower interest expense.

Net income for the third quarter of 2000 increased by \$125 million from the third quarter of 1999. This increase resulted in an improvement in diluted earnings per share from \$0.52 in the third quarter of 1999 to \$0.60 in the third quarter of 2000.

Management's Discussion and Analysis of Financial Condition and Results
of Operations (continued)

Nine Months Ended September 30, 2000 and 1999

The following table sets forth information showing the change in revenue, average daily package volume and average revenue per piece, both in dollars and in percentage terms:

	Nine Months Ended September 30,		\$	%
	2000	1999		
Revenue (in millions):				
U.S. domestic package:				
Next Day Air	\$ 4,213	\$ 3,834	\$379	9.9 %
Deferred	2,074	1,897	177	9.3
Ground	11,372	10,508	864	8.2
Total U.S. domestic package	17,659	16,239	1,420	8.7
International package:				
Domestic	673	680	(7)	(1.0)
Export	2,094	1,785	309	17.3
Cargo	307	237	70	29.5
Total international package	3,074	2,702	372	13.8
Non-package:				
UPS Logistics Group	696	566	130	23.0
Other	442	99	343	346.5
Total non-package	1,138	665	473	71.1
Consolidated	\$21,871	\$19,606	\$2,265	11.6 %

Average Daily Package Volume

(in thousands):

			#	
U.S. domestic package:				
Next Day Air	1,104	1,012	92	9.1 %
Deferred	851	790	61	7.7
Ground	10,193	9,709	484	5.0
Total U.S. domestic package	12,148	11,511	637	5.5
International package:				
Domestic	758	686	72	10.5
Export	356	290	66	22.8
Total international package	1,114	976	138	14.1
Consolidated	13,262	12,487	775	6.2 %
Operating days in period	192	191		

Average Revenue Per Piece:

U.S. domestic package:

			\$	

Next Day Air	\$ 19.88	\$ 19.84	\$ 0.04	0.2 %
Deferred	12.69	12.57	0.12	1.0
Ground	5.81	5.67	0.14	2.5
Total U.S. domestic package	7.57	7.39	0.18	2.4
International:				
Domestic	4.62	5.19	(0.57)	(11.0)
Export	30.64	32.23	(1.59)	(4.9)
Total international package	12.94	13.22	(0.28)	(2.1)
Consolidated	\$8.02	\$7.84	\$ 0.18	2.3 %
	=====	=====	=====	

Management's Discussion and Analysis of Financial Condition and Results
of Operations (continued)

U.S. domestic package revenue increased 8.7% primarily due to volume gains across all product lines, continuing the trends reported during the first and second quarters of 2000. All products contributed to this increase, with our higher revenue per piece express (Next Day Air and Deferred) products accounting for almost 40% of the overall revenue increase. Our average daily Ground volume grew at a 5.0% rate for the period, increasing by an average of 484,000 packages per day. Also contributing to the revenue increase was one extra operating day in the first nine months of 2000 compared to the first nine months of 1999.

During the first quarter of 2000, we increased rates for standard ground shipments an average of 3.1% for commercial deliveries. The ground residential charge continued to be \$1.00 over the commercial ground rate, with an additional delivery area surcharge of \$1.50 added to certain less accessible areas. In addition, we increased rates for UPS Next Day Air, UPS Next Day Air Saver and UPS 2nd Day Air an average of 3.5%. The surcharge for UPS Next Day Air Early A.M. did not change. Rates for international shipments originating in the United States (Worldwide Express, Worldwide Express Plus, UPS Worldwide Expedited and UPS International Standard service) increased by 2.9%. Rate changes for shipments originating outside the U.S. were made throughout the past year and varied by geographic market.

The increase in international package revenue was due to volume growth for both our domestic and export products, offset by a decline in the revenue per piece for these products. This decline was primarily due to a decline in the value of the Euro relative to the U.S. dollar. Overall average daily package volume increased 14.1% for international operations, with our export products, which had an average revenue per piece of \$30.64, increasing at 22.8%.

The increase in non-package revenue resulted primarily from the new arrangement for providing excess value package insurance for our customers as well as continued growth of the UPS Logistics Group. Revenue for the UPS Logistics Group increased by \$130 million, or 23.0%, from \$566 million to \$696 million during this period.

Operating expenses increased by \$1.715 billion, or 10.2%, which was less than our revenue increase of 11.6%. Compensation and benefits expenses, the largest component of this increase, accounted for \$963 million and included a \$59 million charge recorded in the first quarter of this year relating to the creation of 4,000 new full-time hourly jobs resulting from the 1997 Teamsters contract. Other operating expenses increased \$752 million due to higher purchased transportation costs, higher fuel costs and claims expense associated with the new arrangement for providing excess value package insurance for our customers. The increase in purchased transportation costs was primarily due to increased business for our international and logistics operations. The 43.9% increase in fuel costs from \$467 million to \$672 million was due to the increase in fuel prices and the growth in our average daily volume, partially offset by the cost reductions generated by our fuel hedging program. The increase in other operating expenses was slightly offset by the \$49 million gain we recognized in the first quarter of this year from the sale of our UPS Truck Leasing subsidiary. International operating expenses were favorably impacted by the decline in the value of the Euro relative to the U.S. dollar.

Management's Discussion and Analysis of Financial Condition and Results
of Operations (continued)

To offset the increasing fuel costs we have experienced over the last several quarters and that we expect to continue into the future, we implemented a temporary 1.25% fuel surcharge effective August 7, 2000. Approximately \$50 million in revenue has been recorded year-to-date as a result of the surcharge.

Our operating margin improved from 14.6% during the first nine months of 1999 to 15.6% during the same period in 2000. This improvement continues our recently reported trends and is favorably impacted by continued product mix improvements and our continued successful efforts in obtaining profitable volume growth.

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

Operating Segment	Nine Months Ended September 30,		Change	
	2000	1999	\$	%
U.S. domestic package	\$2,954	\$2,603	\$351	13.5 %
International package	207	170	37	21.8
Non-package	247	85	162	190.6
Consolidated Operating Profit	\$3,408	\$2,858	\$550	19.2 %

U.S. domestic package operating profit increased over \$351 million due to the volume and revenue improvements discussed previously.

The improvement in the operating profit of our international package operations of 21.8% resulted primarily from increased volume and revenue, and was realized despite significantly higher fuel costs. This improvement occurred throughout our international regions. Excluding the impact of currency fluctuations, this segment would have reported an additional \$20 million in operating profit during this period.

The increase in non-package operating profit is largely due to the new arrangement for providing excess value package insurance for our customers, which contributed \$175 million of additional operating profit for the nine-month period. Also contributing to the operating profit improvement was the \$49 million gain we recognized during the first quarter of 2000 from the sale of our UPS Truck Leasing subsidiary. These improvements were offset somewhat by start-up costs associated with UPS Service Parts Logistics, UPS Capital Corporation and other initiatives.

Management's Discussion and Analysis of Financial Condition and Results
of Operations (continued)

The increase in investment income of \$351 million for the period is primarily due to two factors. First, in the first quarter of 2000, two companies in which our Strategic Enterprise Fund held investments were acquired by other companies, which caused us to recognize a gain of \$241 million. Second, we earned income on the \$5.3 billion in net IPO proceeds available for investment prior to the tender offer that occurred in early March 2000 and the \$1.2 billion in IPO proceeds that were not utilized for the tender offer. We announced a share repurchase program on April 20, 2000 under which we expect to utilize up to the remaining \$1.2 billion not used in the tender offer, of which approximately \$500 million remains available for share repurchases as of September 30, 2000, and continues to generate investment income.

Net income for the nine months ended September 30, 2000 amounted to \$2.210 billion, or \$1.87 per diluted share, compared to net income of \$222 million, or \$0.20 per diluted share, for the same period in the prior year. Our fiscal 2000 results reflect the non-recurring items discussed above, which include the gains on our Strategic Enterprise Fund investments and sale of our Truck Leasing subsidiary, offset partially by the charge for retroactive costs associated with creating new full-time jobs from existing part-time Teamster jobs. Our fiscal 1999 results reflect a tax assessment charge resulting from an unfavorable ruling of the U.S. Tax Court. Excluding these non-recurring transactions for each of these periods, net income for the nine months ending September 30, 2000, would have been \$2.071 billion, an increase of \$407 million over adjusted 1999 net income of \$1.664 billion. Adjusted diluted earnings per share increased from \$1.48 in 1999 to \$1.75 in 2000.

Management's Discussion and Analysis of Financial Condition and Results
of Operations (continued)

Liquidity and Capital Resources

Our primary source of liquidity is our cash flow from operations. We maintain significant cash, cash equivalents, marketable securities and short-term investments, amounting to \$3.592 billion at September 30, 2000. Of this amount, approximately \$500 million represents the net proceeds remaining from our initial public offering, which was completed in November 1999. We used the majority of the IPO proceeds to fund a cash tender offer to purchase Class A-1 shares from shareowners. The tender offer, which was announced on February 4, 2000 and expired on March 3, 2000, was for up to 100,893,277 shares at a price of \$60 per share. The actual number of shares validly tendered and accepted for purchase by us was 67,834,815, which resulted in a cash expenditure of approximately \$4.1 billion and reduced our outstanding Class A shares accordingly.

The remaining IPO proceeds of approximately \$500 million as of September 30, 2000, are available for a share repurchase program that was announced on April 20, 2000. In addition, an additional \$750 million has been authorized for share repurchases.

We maintain a commercial paper program under which we are authorized to borrow up to \$2.0 billion. Approximately \$1.055 billion was outstanding under this program as of September 30, 2000. Since we do not intend to refinance the full commercial paper balance outstanding at September 30, 2000, \$955 million has been classified as a current liability on our balance sheet. The average interest rate on the amount outstanding at September 30, 2000 was 6.6%. On October 25, 2000, we entered into a second commercial paper program under which we are authorized to borrow up to \$5.0 billion.

We maintain two credit agreements with a consortium of banks. These agreements provide revolving credit facilities of \$1.25 billion each, with one expiring in April 2001 and the other expiring in April 2005. Interest on any amounts we borrow under these facilities would be charged at 90-day LIBOR plus 15 basis points. There were no borrowings under either of these agreements as of September 30, 2000.

We also maintain a European medium-term note program with a borrowing capacity of \$1.0 billion. Under this program, we may issue notes from time to time denominated in a variety of currencies. At September 30, 2000, \$800 million was available under this program. The \$200 million outstanding at September 30, 2000 bears interest at a stated interest rate of 6.625%.

In January 1999, we filed a shelf registration statement with the SEC under which we may issue debt securities in the U.S. marketplace of up to \$2.0 billion. The debt may be denominated in a variety of currencies. In September 2000, we issued \$300 million cash-settled convertible senior notes due September 27, 2007 pursuant to our shelf registration statement. The notes were sold at par with a stated interest rate of 1.75% and are callable after three years. The notes are convertible into cash, with the conversion price indexed to the trading price of our Class B common stock. There was approximately \$405 million issued under this shelf registration statement at September 30, 2000.

Management's Discussion and Analysis of Financial Condition and Results
of Operations (continued)

On November 22, 1999, the U.S. Occupational Safety and Health Administration proposed regulations to mandate an ergonomics standard that would require American industry to make significant changes in the workplace in order to reduce the incidence of musculoskeletal complaints such as low back pain. The exact changes in the workplace that might be required to comply with these standards are not specified in the proposal. If OSHA enforced these regulations by seeking the same ergonomic measures it has advocated in the past under its general authority to remedy "recognized hazards," however, it might demand extensive changes in the physical layout of our distribution centers as well as the hiring of significant numbers of additional full-time and part-time employees. Our competitors, as well as the remainder of American industry, also would incur proportionately comparable costs.

We, our competitors and other affected parties have filed comments with OSHA challenging the medical support and economic and technical feasibility of the proposed regulations. We do not believe that OSHA has complied with the statutory mandate of establishing significant risk of material health impairment or has properly analyzed the costs and benefits of these proposed regulations. We and other affected parties would have the right to appeal any final ergonomics standard to an appropriate federal court of appeals. We anticipate that such a standard would be rejected by the reviewing court. If ergonomic regulations resembling the current proposal were sustained by a reviewing court, we believe that we would prevail in an enforcement proceeding based on substantial defenses including the vagueness of the standards and the technological and economic feasibility of costly abatement measures.

OSHA has taken the position that the cost of compliance with the proposed regulations will be only \$4.2 billion per year over a ten-year period for all of American industry. We believe that these estimates are unrealistic. We have attempted to estimate the costs of compliance if OSHA adopts the proposed regulations and applies them in the same way as it sought to apply its prior unsuccessful attempts to impose ergonomic measures under its general authority. Based on this experience and assuming that, contrary to our expectations, OSHA were able to obtain court orders applying to all of our facilities that mandated compliance with these regulations, we estimate that the cost of compliance could be approximately \$20 billion in initial costs, which would be incurred over a period of years, and approximately \$5 billion in incremental annual costs. Such expenditures, if required to be incurred, would materially and adversely affect our financial condition, results of operations or liquidity.

Management's Discussion and Analysis of Financial Condition and Results
of Operations (continued)

Market Risk

We are exposed to a number of market risks in the ordinary course of business. These risks, which include interest rate risk, foreign currency exchange risk and commodity price risk, arise in the normal course of business rather than from trading. We have examined our exposures to these risks and concluded that none of our exposures in these areas is material to fair values, cash flows or earnings. We have engaged in several strategies to manage these market risks.

Our indebtedness under our various financing arrangements creates interest rate risk. In connection with each debt issuance and as a result of continual monitoring of interest rates, we may enter into interest rate swap agreements for purposes of managing our borrowing costs.

For all foreign currency-denominated borrowing and certain lease transactions, we simultaneously entered into currency exchange agreements to lock in the price of the currency needed to pay the obligations and to hedge the foreign currency exchange risk associated with such transactions. We are exposed to other foreign currency exchange risks in the ordinary course of our business operations due to the fact that we provide our services in more than 200 countries and territories and collection of revenues and payment of certain expenses may give rise to currency exposure.

We require significant quantities of gasoline, diesel fuel and jet fuel for our aircraft and delivery vehicles. We therefore are exposed to commodity price risk associated with variations in the market price for energy products. We manage this risk with a hedging strategy designed to minimize the impact of sudden, catastrophic increases in the prices of energy products, while allowing us to benefit if fuel prices decline. Our hedging program is designed to moderate the impact of fluctuating crude oil prices and maintain our competitive position relative to our industry peers.

Future Accounting Changes

In June 1998, the FASB issued Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("FAS 133"), as amended by Statement No. 137 and No. 138, which provides a comprehensive and consistent standard for the recognition and measurement of derivatives and hedging activities. Upon adoption, all derivative instruments will be recognized on the balance sheet at fair value, and changes in the fair values of such instruments must be recognized currently in earnings unless specific hedge accounting criteria are met. FAS 133 will be effective for us on January 1, 2001. We have performed an evaluation of our current material derivative instruments, including those items discussed in the Market Risk section set forth above. Based on our evaluation of the material open derivative contracts we held at September 30, 2000, the adoption of FAS 133 at that date would not have had a material impact on our financial position or results of operations.

Management's Discussion and Analysis of Financial Condition and
Results of Operations (continued)

In December 1999, the SEC issued Staff Accounting Bulletin No. 101 "Revenue Recognition in Financial Statements" ("SAB 101"). SAB 101 provides guidance on applying generally accepted accounting principles to revenue recognition issues in financial statements. We will adopt SAB 101 as required in the fourth quarter of 2000. This adoption will not have a material impact on our financial position or results of operations.

"Management's Discussion and Analysis of Financial Condition and Results of Operations," "Liquidity and Capital Resources" and other parts of this report contain "forward-looking" statements about matters that are inherently difficult to predict. These statements include statements regarding our intent, belief and current expectations about our strategic direction, prospects and future results. We have described some of the important factors that affect these statements as we discussed each subject. Forward-looking statements involve risks and uncertainties, and certain factors may cause actual results to differ materially from those contained in the forward-looking statements. These factors include, for example, our competitive environment, economic and other conditions in the markets in which we operate, strikes, work stoppages and slowdowns, governmental regulation, increases in aviation and motor fuel prices, and cyclical and seasonal fluctuations in our operating results. Additional information concerning these risks and uncertainties, and other factors you may wish to consider, are provided in the "Risk Factors" section of our prospectus dated November 9, 1999, as filed with the Securities and Exchange Commission.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

See Item 2.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We have been named as a defendant in 18 lawsuits that seek to hold us (and in three cases, other defendants) liable for the collection of premiums for excess value package insurance in connection with package shipments since 1984. These cases generally claim that we acted as an insurer in violation of our shipping contract and without complying with state insurance laws and regulations, and that the price for excess value package insurance was excessive; one case alleges violations of federal antitrust laws. An amended consolidated complaint also alleges a violation of the federal RICO statute. Seventeen of these cases have been consolidated for pre-trial purposes in a multi-district litigation proceeding before the United States District Court for the Southern District of New York. We are in the process of having the remaining case consolidated into the multi-district litigation proceeding. These cases are in their initial stages, no discovery has commenced, and no class has been certified. These actions all developed after the August 9, 1999 Tax Court opinion was rendered. We believe the allegations have no merit and intend to defend them vigorously. The ultimate resolution of these matters cannot presently be determined.

Item 6. - Exhibits and Reports on Form 8-K

a) Exhibits:

- (1) Underwriting Agreement dated September 21, 2000 between United Parcel Service, Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated
- (27) Financial Data Schedule (for SEC filing purposes only)

b) Reports on Form 8-K: no reports on Form 8-K were filed during the quarter.

EXHIBIT INDEX

- (1) Underwriting Agreement dated September 21, 2000 between United Parcel Service, Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

UNITED PARCEL SERVICE, INC.
(Registrant)

Date: November 14, 2000

By: /S/ Robert J. Clanin
Robert J. Clanin
Senior Vice President,
Treasurer and
Chief Financial Officer

