

Operating in Unison

UPS Corporate Sustainability Report
2005 Executive Summary

Published July 2006

Letter from the Chairman

The natural disasters that impacted South Asia and the U.S. Gulf Coast this past year reminded us all of just how vulnerable the world is to disruptions beyond our control and how interconnected our global society has become.

These events, along with surging energy prices worldwide and rising consumption in developing markets, have focused more attention on sustainable business models, environmental practices and social considerations.

Increasingly, the resiliency of our world economy and society is impacted by businesses that adopt corporate sustainability practices.

At UPS, we believe our business success depends upon balancing economic, social and environmental objectives. Our sustainability commitment was highlighted three years ago in our first Corporate Sustainability report. This year, we are pleased to provide another update on our progress.

UPS is moving forward in a number of important areas, from lowering aircraft emissions to decreasing the injury rate of our employees. We have also reduced our water usage and the number of reportable spills. In communities around the world, UPS is lending a helping hand to those most in need through volunteer activities aimed at fortifying the more than 200 countries and territories we serve every day.

Sustainable business practices have served UPS well since our inception in 1907 and will remain guiding imperatives as we approach our second century.



Mike Eskew
Chairman and CEO



Sustainability Statement

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

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

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

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



Overview

UPS continues to focus on improving the global communities in which we do business every day. We are constantly reviewing our processes to make sure we are reducing our environmental footprint. This includes examining how we drive, fly and conduct business around the world.

In 2005, we continued to gain recognition and introduce new initiatives that will help us achieve our sustainability goals for the year 2007. Following are key developments and examples of new initiatives that are helping us achieve our sustainability goals.

Economic Sustainability

- Named the most socially responsible company in *FORTUNE* magazine's "America's Most Admired" survey. We also ranked first in our industry in this survey for the 22nd time, and ranked first in our industry in the magazine's "Global Most Admired" survey.
- Included in the Dow Jones Sustainability Index for the fourth consecutive year and the FTSE4Good Index for the second consecutive time.
- Listed on the inaugural list of 2005 Global 100 Most Sustainable Corporations in the World.



Overview (cont.)

Community Investment

- Collectively logged 327,000 hours through the company's Neighbor to Neighbor volunteer program by UPS employees around the world.
- Encouraged participation in the third annual UPS Global Volunteer Week, during which more than 20,000 employees volunteered 100,000 hours in more than 45 countries.
- Contributed US\$44.8 million to charities and relief efforts around the world in 2005. This included US\$3 million in aid to those areas devastated by the tsunamis across Southeast Asia, US\$2 million to support relief and recovery efforts for the victims of the devastating earthquake that struck South Asia in October 2005 and US\$1.25 million toward relief efforts for those affected by Hurricane Katrina.
- Contributed US\$57.4 million to United Way. This is the fifth time UPS and its employees have been the top contributor.

Workforce Investment and Acknowledgments

- Received *Workforce Management* magazine's Optimas Award for the company's Comprehensive Health and Safety Process (CHSP).
- Invested US\$22.5 billion in our employees worldwide. This investment includes US\$7.9 billion in indirect pay, including income protection, healthcare benefits and retirement plans. It also includes US\$93 million (401k) SavingsPLUS stock matches.
- Named among the top 100 employers in China by the Asia Pacific Human Resources Research Association.
- Presented with the bronze Helping Employees Achieve Life-Time (H.E.A.L.T.H.) Award for the third consecutive year at UPS in Singapore.

Ground and Air Fleet Initiatives

- Continued to add modern, wide-body aircraft including seven A300-600s and six MD-11s to our fleet, which improves the overall efficiency of the air network and offers improved environmental benefits as well. These benefits include increased fuel economy and reduced noise and fuel emissions.
- Implemented new fuel conservation procedures recommended by a recently appointed airline fuel manager.
- Continued to enhance our fleet with our "rolling laboratory" philosophy — using our alternative-fuel fleet as a way to learn how new technologies and advancements can be adapted for use in a large delivery fleet.
 - Introduced an additional electric vehicle in our Manhattan, N.Y. fleet.
 - Announced a partnership with the U.S. Environmental Protection Agency and others to build and test the world's first fully hydraulic hybrid urban delivery vehicle.
 - Deployed a compressed natural gas vehicle in Paris, France.

Overview (cont.)

Infrastructure Initiatives

- Deployed a new generation driver computer that will allow UPS to dramatically reduce its fuel consumption while improving route planning, vehicle loading and package delivery.
- Installed “sleep” software to conserve energy on 11,000 of our computers in Atlanta, Ga., Louisville, Ky., Towson, Md., and Mahwah, N.J.
- Added “green” power as part of the energy supply at 14 facilities in California. This power comes from biomass sources, which converts landfill gas, human and animal waste or agricultural waste into energy. This prevents the release of 2.4 million pounds of carbon dioxide, the equivalent environmental impact of removing 213 cars from the road a year.
- Continued to use renewable, solar energy at our Palm Springs, Calif. facility. Since its deployment in 2003, the 100 kilowatt solar panel initiative has produced over 523,000 kilowatt hours of energy, reducing our CO₂ output by one million pounds. This is the equivalent of removing 99 passenger cars from the road for a year.

Recycling

- Recycled 4.2 million pounds of electronic equipment from our own operations. To date, UPS has recycled 16.9 million pounds of electronic waste.
- Recycled 30,700 tons of solid waste materials including metals, plastics, paper, corrugated materials, pallets and wood waste. Additionally, UPS purchased 36,000 tons of materials with recycled content.

Company Profile

Our business — which serves 8 million customers daily in over 200 countries and territories by 407,200 employees — is built on a single, highly integrated network structure. We believe this model is the most efficient, cost effective, environmentally responsible and profitable in the industry. All goods — air and ground, domestic and international, commercial and residential — are processed through a single network. This results in very efficient use of assets and lower costs.

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

Our Business — Synchronizing Commerce

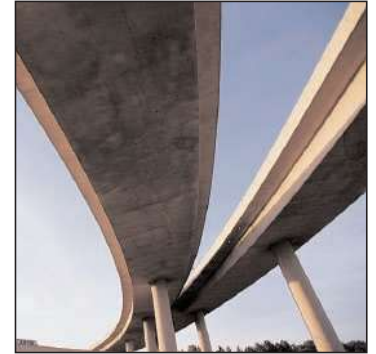
Every day, millions of business transactions take place around the world. In today's economy, everything involved in these transactions — the goods, the information and the funds — must flow in a synchronized fashion. UPS is one of the few companies in the world that has the infrastructure, the scale, the financial strength and the expertise to enable that synchronization.

From moving cargo containers across the ocean to expediting customs paperwork at international ports to simply delivering a small package to a local neighborhood, we synchronize commerce for our 8 million customers each day.

Our Technology — The Engine of Commerce

Complementing UPS's unique network structure, technology powers virtually every service we offer and every operation we perform. Today, more than 95 percent of the information about the small packages that move through our system each day is provided to us electronically by our customers. This information, known as "package level detail" or PLD — fuels the company's global small package operations.

Our new package routing technology marks a major re-engineering of our U.S. package operations. Through its use, we will deliver packages even more reliably, while reducing our fuel consumption and emissions. The technology also positions us to provide more customized solutions for our customers.



Financial Information

(Millions of dollars except per-share amounts)	2005	2004	2003	2002	2001
Total revenue	\$42,581	\$ 36,582	\$ 33,485	\$ 31,272	\$ 30,321
Operating expenses	36,438	31,593	29,040	27,176	26,359
Income taxes	2,205	1,589	1,472	1,755	1,512
Net income	3,870	3,333	2,898	3,182	2,399
Diluted earnings per share	\$3.47	\$2.93	\$2.55	\$2.81	\$2.10
Total assets	35,222	33,088	29,734	26,868	24,636
Long-term debt	3,159	3,261	3,149	3,495	4,648
Shareowners' equity	16,844	16,547	14,852	12,455	10,248

In 2005, UPS changed its business segment reporting structure. Data in this report for 2002-2004 has been revised to reflect the current reporting structure.

Governance

To us “governance” is the guiding principle for “how we run the business.” Integrity, reliability and trust have been cornerstones of UPS since we were founded in 1907. We have run our business in a manner that creates and sustains a financially strong organization which takes its social and environmental responsibilities seriously.

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

Our governance practices are explained in detail on the [UPS Investor Relations](#) Web site including information about the composition, committees and compensation of our Board of Directors. Detailed information about our structure and management philosophy is also available on the Web site.

In 2005, UPS appointed Michael J. Burns, the chairman, CEO and president of Dana Corp., and Stuart E. Eizenstat, a key aide to former Presidents Jimmy Carter and Bill Clinton and now a partner in the Washington, D.C., law firm of Covington & Burling, to its Board of Directors. Both have extensive international experience, which will be valuable as UPS continues its global expansion.



Michael J. Burns
Chairman of the Board,
Chief Executive
Officer and President,
Dana Corporation



Stuart E. Eizenstat
Head of International
Trade and Finance
Covington & Burling

[Learn more about the UPS governance practices](#)

Employee Ownership

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

The company's initial public offering in November 1999 did not change that philosophy. As of December 31, 2005, employees, retirees and the families of the company's founders own about 40 percent of outstanding shares. Approximately 37.5 percent of employees eligible to purchase shares own shares in the company. This includes over 54.8 percent of our full-time workforce.

We believe that our employee-owner philosophy has been and will continue to be a critical factor contributing to the success of our company. In the 1950s, we began awarding a percentage of profits to our managers to foster the company's partnership culture. UPS recently updated its Managers Incentive Plan from a profit-sharing plan to one tied directly to its performance on key company goals. Each year, an award, based on this performance, of half restricted stock units and the choice to receive additional shares or cash for the remaining half is distributed to approximately 33,500 management employees. The restricted stock vests over five years at 20 percent per year. Management employees are offered additional incentives to hold and accumulate UPS stock. In addition, we award stock option and restricted stock awards to approximately 10 percent of the management team.

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

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

Employee Ownership (cont.)

Ethics and Compliance

UPS Corporate Compliance Mission Statement

Promote an organizational atmosphere that protects our legacy of ethical conduct and supports full compliance with all legal and regulatory requirements and UPS policies throughout all UPS business units globally.

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

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

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

The UPS Code of Business Conduct provides employees with worldwide Business Conduct guidelines, which apply to all UPS business units. The Code of Business Conduct is available to employees in 12 languages on our intranet.

Several tools are in place to monitor the effectiveness of our compliance initiatives globally, including the UPS Business Ethics Questionnaire (BEQ), an Annual Compliance Report and Certification Process, and Regulatory Compliance Reviews. Employees around the globe have access to the UPS Help Line, a toll-free number they can call to ask advice or report concerns.

Facts at a Glance

Company Statistics	
Founded	August 28, 1907, in Seattle, Wash.
Headquarters	Atlanta, Ga.
World Wide Web Address	www.ups.com
Chairman and CEO	Michael L. Eskew
Total 2005 Revenue	US\$42.6 billion
Employees	407,200 (348,000 U.S.; 58,800 International)
Package Operations	
2005 Revenue	US\$36.6 billion
2005 Delivery Volume	3.75 billion packages and documents
Daily Delivery Volume	14.8 million packages and documents
Daily U.S. Air Volume	2.2 million packages and documents
Daily International Volume	1.5 million packages and documents
Service Area	More than 200 countries and territories; every address in North America and Europe
Customers	7.9 million daily (1.8 million pickup, 6.1 million delivery)
ups.com	Average 10 million daily online tracking requests
Retail Access	The UPS Store [®] , 4,400; Mail Boxes Etc. [®] , 1,300 (global); UPS Customer Centers, 1,000; Authorized Outlets, 17,000; UPS Drop Boxes, 40,000
Operating Facilities	1,788
Delivery Fleet	91,700 package cars, vans, tractors, motorcycles
UPS Jet Aircraft	268; 9th largest airline in the world
Chartered Aircraft	309
Daily Flight Segments	Domestic — 1,071; International — 767
Airports Served	Domestic — 400; International — 377
Air Hubs	
United States	Louisville, Ky. (Main U.S. Air Hub); Philadelphia, Pa.; Dallas, Texas; Ontario, Calif.; Rockford, Ill.; Columbia, S.C.; Hartford, Conn.
Europe	Cologne/Bonn, Germany
Asia Pacific	Taipei, Taiwan; Pampanga, Philippines; Hong Kong; Singapore
Latin America and Caribbean	Miami, Fla., USA
Canada	Hamilton, Ontario
Supply Chain and Freight	
2005 Net Revenue	US\$6 billion
UPS Supply Chain Solutions	
Key Services	Logistics and distribution; transportation and freight (air, sea, ground, rail); freight forwarding; international trade management and customs brokerage
Specialty Services	Service parts logistics; technical repair and configuration; supply chain design and planning; returns management; urgent parts delivery
Facilities	1,000+ facilities in more than 120 countries; 35 million sq. ft.
UPS Freight	
Key Services	Leading provider of less-than-truckload services coast-to-coast
Delivery Fleet	6,700 tractors; 22,100 trailers
Facilities	200+ service centers

Awards and Recognition

In 2005, UPS received several notable awards. Because of the intensive review process for many of these awards, we consider them to be a good indication of how we are doing in serving our employees, customers, communities and shareholders.

Workplace and Diversity

UPS honored with award for its safe workplace initiative

UPS received *Workforce Management* magazine's Optimas Award, given to organizations that have shown tangible business benefits through superior people management. The award was presented to UPS for its Comprehensive Health and Safety Process (CHSP) in the award's innovation category. UPS was one of 10 Optimas Award winners in 2005.

UPS Singapore receives 2005 H.E.A.L.T.H. award

For the third consecutive year, UPS Singapore was presented with the bronze Helping Employees Achieve Life-Time Health (H.E.A.L.T.H.) Award. This national award recognizes organizations that have implemented effective workplace health programs.

UPS recognized as a Top Corporation for Multicultural Business Opportunities of 2005

UPS ranked 18th on the Multicultural Business Opportunities of 2005 list, a rating determined by over 500,000 women and minority business owners. Referred to as the Div50, this honor is an indicator of companies that provide the best and the most business for diversity-owned companies. The voting business owners based their decisions on factors including volume, consistency and quality of business opportunities granted to women- and minority-owned companies.

UPS wins the Corporate Equality Achievement Award

UPS was recognized with the Corporate Equality Achievement Award by the Georgia Equality Board of Directors for steps taken towards bringing full equality for Lesbian, Gay, Bisexual and Transsexual employees.

Black Professionals magazine named UPS to Top 25 list

Black Professionals magazine named UPS to its Top 25 Companies for African Americans list. The list was based on survey results from African Americans in senior and middle management, corporate boards, as well as the type of corporate diversity programs in place and overall workforce diversity initiatives.



Awards and Recognition (cont.)

Hispanic magazine named UPS to Corporate 100 list and Top 50 Corporations for Supplier Diversity

Hispanic magazine recognized UPS as being one of the top 100 companies that provide the most opportunities for Hispanics in the magazine's annual Corporate 100 listing. The list is based on firms' diversity training, recruitment efforts, ethnic representation on boards and other minority business initiatives. Funding provided for Latino-related scholarships, grants and philanthropic donations are also factored into the selection process, as is a company's overall image in the Hispanic community.

In addition, *Hispanic* magazine's Top 50 Corporations for Supplier Diversity list named UPS as one of the best companies to offer minority firms the opportunity to become one of their suppliers.

Customers

UPS recognized in The Wall Street Journal Corporate Reputation List for 2005

UPS ranked fourth in the annual *The Wall Street Journal*/Harris Interactive Corporate Reputation Study. UPS was ranked as the top company for sincerity in the study and ranked second in overall trust, ethical standards and customer service. Approximately 20,000 people took part in the survey and were asked to rate 60 different companies based on 20 different attributes. UPS was found to be the company with the greatest word-of-mouth impact, which, according to Harris Interactive, means UPS's services are often a topic of discussion among businesses and the general public.

UPS leads industry in Best Practices Survey

Parcel Shipping and Distribution magazine's eighth annual Best Practices Survey listed UPS as the preferred carrier in the shipping industry. UPS placed first in five categories including Customer Service, On-time Service Performance, Delivery Performance, Claims Processing and Refunds for Late Delivery. The survey analyzes over 300 different shipping operations.

UPS takes home 2005 Carrier of the Year award from NASSTRAC

UPS was selected as top carrier in the Small Package category this year during NASSTRAC (The National Small Shipments Traffic Conference) for its Carrier of the Year Awards program. Sponsored by *Logistics* magazine, this is the first year Small Package has been established as a discrete category. The award was based on a number of criteria including customer service, operational excellence, pricing, business relationships and leadership.

Overnite Transportation, a UPS company, rated nation's best for online service

The Customer Respect Group ranked Overnite Transportation as the top company out of 2,000 businesses for how it treats its online customers in 2005. Overnite also took top honors in the category of Transportation, Distribution and Logistics. The accolade was the result of a year-long series of surveys that measured an online customer's experience and then assigned a Customer Respect Index (CRI) to the given company. Measuring qualities such as simplicity, responsiveness, privacy, attitude and principles, survey participants gave Overnite a total CRI score of 8.7 — a full 1.7 points higher than the transportation industry's average rating of 7.0, according to the Customer Respect Group.

Awards and Recognition (cont.)

UPS chosen for customer loyalty award by Brandweek magazine

Brandweek magazine presented UPS with one of its 2005 Customer Loyalty Awards in September for the category of transportation. Founded in 1999, the awards are presented to companies whose consumer base remains loyal despite competition from other businesses. UPS was chosen based on an index that probed customers' relationships with 222 brands in 35 categories. The index revealed drivers that bond customers with the "ideal" brand in each category, according to *Brandweek*.

UPS awarded the Excellence in Supply Chain Award by Best Buy

UPS was awarded the Excellence in Supply Chain Award by Best Buy, Inc. during its annual Transportation Partner Conference. This is the fourth consecutive year that UPS has been chosen for this award, which is the highest honor presented to Best Buy's carriers. This year's recognition was for UPS Trade Direct Cross Border where packages are sent from the Best Buy photo lab in Canada southbound into the U.S. to Best Buy customers.

Communities

America's Second Harvest recognizes The UPS Foundation

America's Second Harvest, a national, nonprofit organization dedicated to creating a hunger-free America, named The UPS Foundation its 2005 Grantmaker of the Year. Second Harvest selected The UPS Foundation for its 15 years of leadership in grantmaking through the Prepared and Perishable Food Rescue Initiative and the recently launched UPS National Collaboration to Reduce Hunger and Improve Nutrition.

Corporation for National and Community Service Honors UPS for Commitment, Leadership

UPS was honored for its outstanding corporate citizenship and generosity with the first-ever Corporate Spirit of Service Award, presented by the Corporation for National and Community Service.

Awards and Recognition (cont.)

Shareholders

FORTUNE magazine names UPS the most socially responsible company

For the second consecutive year, *FORTUNE* Magazine's America's Most Admired Company survey named UPS the most socially responsible company in America. UPS was also named the most admired package delivery company in its industry, both in this survey as well as the magazine's World's Most Admired survey.

UPS once again included in Dow Jones Sustainability Index

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

UPS once again included in the FTSE4Good Index

In 2005, UPS was once again included in the FTSE4Good Index, a leading European index fund comprised of socially responsible companies.

Environment

UPS named to KLD Global Climate 100

KLD Research & Analytics, Inc., an independent investment research and index provider, launched the KLD Global Climate 100SM Index, the first global index focused on solutions to climate change. UPS was the only package delivery company named on the inaugural list.

UPS named to Global 100 Most Sustainable Corporations in the World

UPS was the only delivery company listed on the inaugural list of 2005 Global 100 Most Sustainable Corporations in the World, which was launched during the World Economic Forum in Davos. This list acknowledges UPS as a company that produces an overall positive impact on society and the environment.

UPS recognized with Environmental Responsibility Award

The California Manufacturers/Industrial Environmental Association recognized UPS with its annual Environmental Responsibility Award for the development of new technology with our fuel cell vehicle initiative. UPS operates two fuel cell vehicles in Ontario, Calif., and Ann Arbor, Mich.

Reporting Guidelines

We used the Global Reporting Initiative (GRI)* as the foundation for compiling our Corporate Sustainability Report. The GRI helped identify key performance indicators (KPIs) particularly relevant to our business.

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

All measurements in the report uniquely reflect our culture, business model, quality of management and impact on natural resources. Throughout the report, KPIs are indicated with a special icon to distinguish them from informational charts and graphs, as shown below:

Social

- Full-time retention rate
- Employer of Choice Index
- Philanthropy as a percentage of adjusted profit and total UPS charitable contributions
- Automotive accident frequency
- Lost-time injury frequency

Environmental

- Penalties as a percentage of environmental agency inspections
- Water consumption
- Energy footprint
- Ground network fuel efficiency
- Global aircraft emissions
- Percentage of fleet that meets stage IV noise requirements
- Greenhouse gas emissions footprint

Additional measurements

- Number of reportable spills
- Hazardous waste (recycled/incinerated/land-filled)
- Percent participation in employee opinion survey



A few additional notes about the data and measurements:

- Approximately 53 percent of our KPIs include global data; 47 percent are based on U.S. data.
- Whenever available, global data is used as the basis for performance measurement. Acquiring global data is an ongoing challenge for UPS, but one that is referenced throughout the report as one of our goals.

*GRI has not verified the contents of this report, nor does it take a position on the reliability of information reported herein. Except for historical information contained herein, the statements made in this report constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Such forward-looking statements, including statements regarding the intent, belief or current expectations of UPS and its management regarding the company’s strategic directions, prospects and future results, involve certain risks and uncertainties.

Certain factors may cause actual results to differ materially from those contained in the forward-looking statements, including economic and other conditions in the markets in which we operate, governmental regulations, our competitive environment, strikes, work stoppages and slowdowns, increases in aviation and motor fuel prices, cyclical and seasonal fluctuations in our operating results, and other risks discussed in the company’s Form 10-K and other filings with the Securities and Exchange Commission, which discussions are incorporated herein by reference.



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Economic

Every day, millions of business transactions speed across telephone wires, computer networks and wireless equipment. From moving huge cargo containers across the ocean to expediting customs paperwork at international ports to simply delivering a small package to a local neighborhood, we synchronize commerce for 8 million customers around the world each day.

While we delivered a record 3.75 billion packages in 2005, UPS is much more than a shipping company. By facilitating the flow of goods, information and funds, we help companies, large and small, thrive in today's increasing competitive marketplace. Our business also benefits employees, shareowners and communities through wages, taxes, dividends and charitable contributions. Our goal is to run a financially sound business, in a socially responsible and financially sustainable manner, to ensure our ongoing ability to positively impact the stakeholders with whom we interact every day.



Economic Impact

"Sustainable development begins and ends with sound economics. A well-run, responsible and sustainable business is a profitable business."

— Mike Eskew, UPS Chairman and Chief Executive Officer

The financial stability of UPS as a company has a positive impact on others around the world. For example, good jobs with the opportunity for growth mean income for hundreds of thousands of families around the globe; taxes generated by our facilities provide revenue for local schools, parks and roads; and the breadth and depth of our integrated network is the infrastructure that enables many businesses. In fact, our industry's performance often is used as a barometer for global economic health.

UPS's financial strength enables the company to extend economic benefits to our various stakeholders. Among these benefits are:

Compensation and Benefits

UPS currently employs 407,200 people. Our business creates competitive wage and benefit packages for full- and part-time employees.

In 2005, we invested US\$22.5 billion in our employees worldwide, which is 52.8 percent of total annual revenue of US\$42.6 billion (annual revenue). This investment includes US\$7.9 billion in indirect pay, including income protection, healthcare benefits and retirement plans. It also includes US\$93 million (401k) SavingsPLUS stock matches.

UPS offers full- and part-time employees a great place to work. Full- and part-time employees receive:

- Comprehensive health benefits for employees and their families
- Pension benefits
- 401(k) plan
- Discounted employee stock purchase plan
- Paid vacation
- Tuition assistance

Economic Impact (cont.)

Taxes

UPS's contribution to our communities is substantial. Last year, UPS paid approximately US\$2.2 billion in taxes in the communities we serve worldwide.

For example, in Louisville, UPS's global air hub called Worldport has contributed roughly \$600 million annually to the local economy since 2000. Our presence there produces an annual increase in the purchase of retail goods and services in Louisville of roughly \$136.6 million each year. These financial effects multiply when you consider the sales tax on these goods and services, plus the sales, income and real estate taxes paid by UPS employees in Louisville and in all 200 communities we serve.

Additionally, more than 90 companies have moved to Louisville, Ky. in recent years just to be close to UPS's Worldport. This further expands UPS's economic impact in that location. Those 90 businesses to date have contributed US\$1.2 billion to Louisville's economy, including 8,000 new jobs and US\$400 million in payroll, according to the Greater Louisville Chamber of Commerce. Companies locate their businesses near UPS to speed up the delivery of their products to their customers.

Charitable Giving

At UPS, we believe strongly in making a difference in the communities we serve. Through The UPS Foundation, the charitable arm of the company, we strive to maintain corporate giving contributions equal to a five-year trailing average of one percent of pre-tax, adjusted profits.

In 2005, The UPS Foundation gave US\$44.8 million to tax-exempt charitable organizations and initiatives that focus on improving human welfare, education, and other major initiatives such as promoting literacy and battling hunger. Last year, the Foundation made significant contributions to efforts such as the annual United Way campaign, to which UPS and its employees again were the nation's largest contributor for the fifth consecutive year; earthquake relief in Southeast Asia; and the devastating hurricanes that battered the U.S. Gulf Coast.

In addition, UPS employees around the world logged 327,000 volunteer hours through UPS's Neighbor to Neighbor Program.

Dividends

In 2005, UPS distributed US\$1.5 billion in dividends to UPS shareholders. This includes UPS employees, retirees and families of the company's founders who own about 40 percent of the outstanding shares (as of December 31, 2005).

Economic Impact (cont.)

Opportunities for Small and Diverse Businesses

“While UPS may be one of the world’s largest companies, we are committed to helping small companies succeed because they are the true engines of commerce.”

— Kurt Kuehn, Senior VP of Worldwide Sales and Marketing

In addition to providing benefits to employees, shareholders and the broader communities we serve, UPS further enables commerce by providing business opportunities to more than 16,000 small, minority- and women-owned businesses. In 2005, UPS awarded more than US\$316 million in contracts to small businesses and US\$249 million to minority- and women-owned businesses through the UPS Supplier Diversity Program.

UPS has the capability to help all small businesses act like large ones by providing access to a broad portfolio of services, technology and funding. From tracking and forecasting the movement of goods to small business loans and information technology, UPS fuels the growth of many businesses each year. In fact, UPS helps many small businesses go global.

“It’s very rewarding to have a company the size of UPS actively looking for ways to help businesses as small as mine.”

— Small Business Owner Lucinda Yates

UPS Capital, our financial services unit, helps reduce trade risks by facilitating payments with new customers. In addition, UPS Capital has dramatically increased its lending activity through the government-guaranteed U.S. Small Business Administration (SBA) loan program. Loans issued from September 2004-2005 totaled more than \$153.4 million, making UPS among the SBA’s Top 25 lenders, as measured by dollar volume.

[Learn more about UPS Small Business](#)

[Learn more about UPS Supplier Diversity](#)



Economic Impact (cont.)

Supply Chain Solutions

UPS is more than just a shipping company. UPS manages supply chains for companies large and small in 150 countries. We provide a broad range of transportation solutions to customers worldwide, including air, ocean and ground freight, as well as customs brokerage and trade/materials management. In addition, we offer a portfolio of financial services to facilitate our customers' ability to take advantage of the opportunities global trade offers.

UPS's supply chain services enable customers to:

- Increase productivity
- Enhance their customer service
- Improve cash flow
- Differentiate products, and
- Expand global markets

[Learn more about UPS Supply Chain Solutions](#)

Conclusion

UPS plays a pivotal role in commerce today, facilitating the fast, reliable movement of goods, information and funds that enables businesses large and small to engage in local and global trade. Our business also touches employees, customers, shareowners and communities through wages, taxes, dividends and charitable giving. Our goal is to run a financially sound business in a socially responsible manner to ensure our ongoing ability to positively impact the stakeholders with whom we interact every day.





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Social

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

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

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

In this section, we’ve detailed the opportunities and the challenges UPS faces in creating a culture of commitment among employees and communities.



Global Workforce Development

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

As we have expanded globally, we have learned it is best to have local people manage our operations. At the end of 2005, out of 58,800 employees, UPS had just 63 expatriates working in our global operations. This practice enables us to integrate our operations seamlessly into any culture or economy, while ensuring that we are sensitive to the cultural needs of the local workforce.

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

UPS Global Workforce	
United States	348,400
International	58,800
Employees Worldwide	407,200

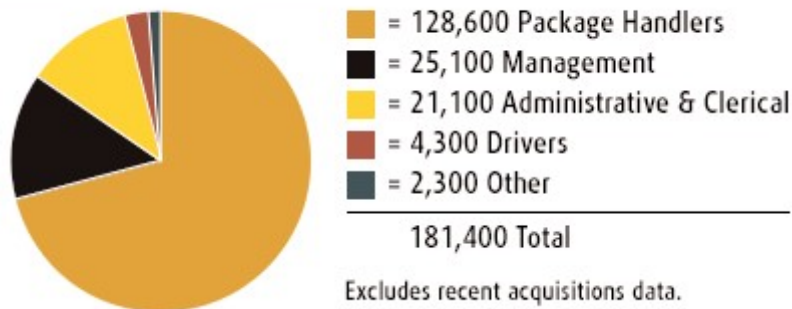
Includes recent acquisitions data.

Global Workforce Development (cont.)

Part-time

Part-time employees are a critical part of our workforce — 46 percent of our employees hold part-time positions. The nature of the package delivery business — periodic bursts of activity throughout the day — requires carriers like UPS to use part-time employees. While meeting the needs of the company, our part-time jobs also meet the needs of thousands of people, like students, retirees and others who want flexible hours, competitive wages and benefits.

Global - Part-time Workforce



Managing turnover in a large part-time workforce is a challenge industry-wide, and UPS shares that challenge. In 2005, turnover in our part-time workforce totaled 50.8 percent. However, it is also true that our average part-time employee in the U.S. is with us for more than three years before pursuing full-time opportunities within the company or pursuing opportunities elsewhere.

In order to address turnover in key locations, we provide education and development opportunities for our people. We offer a wide range of tuition assistance programs to help us recruit and retain college students. In the U.S., college students made up more than 57.4 percent of our new part-time hires in 2005. It's an ideal match — we pay for a significant amount of their college tuition plus an hourly wage and full benefits. Reducing turnover reduces hiring and training costs significantly, creating a worthwhile return on our tuition assistance investment.

The UPS Earn and Learn Program

Since it began in 1999, the UPS Earn and Learn program has provided over US\$93.8 million in tuition assistance for nearly 59,000 employees to help pay for their college education. This program is available at 51 UPS locations in the U.S.

[Learn more about the UPS Earn and Learn Program](#)

Metropolitan College

A unique partnership between UPS and the state of Kentucky, Metropolitan College offers people the opportunity to pursue their college education for free while also working for UPS. Since the program's inception in 1998 in Louisville, 9,713 employees have enrolled in Metro College. In 2005, 1,700 employees were enrolled.

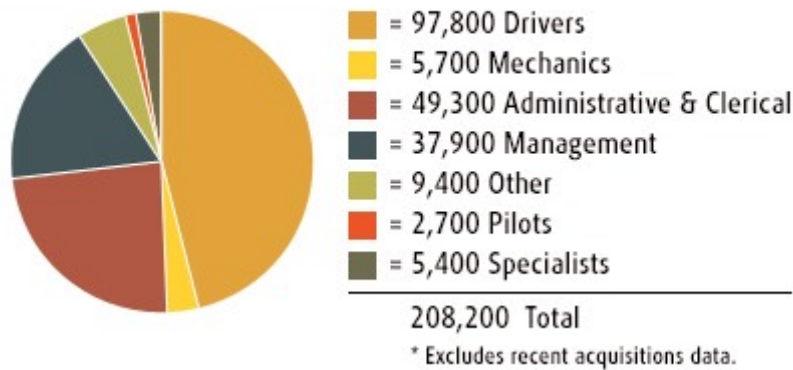
[Learn more about Metropolitan College](#)

Global Workforce Development (cont.)

Full-time

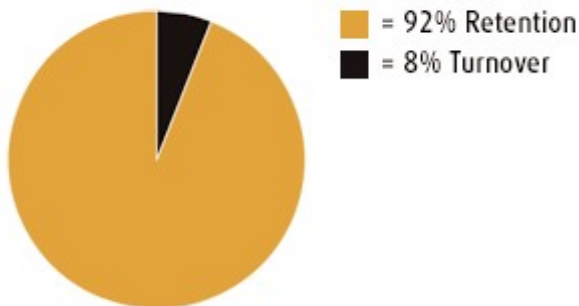
Because of our promotion-from-within policy, many part-time employees have the opportunity to move into full-time positions. Full-time positions range from drivers and mechanics to software engineers, industrial and plant engineers, sales executives and human resources professionals.

Global - Full-time Workforce*



As a result of the career and company ownership opportunities created for our employees, turnover in our full-time workforce is at an industry low of 8 percent.

KPI Global - Full-time Workforce Retention and Turnover*



* Excludes recent acquisitions data.

Global Workforce Development (cont.)

2007 Goal

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

Attrition, acquisitions and market conditions will cause our current retention level to fluctuate. Keeping retention at no less than 92 percent perpetuates institutional knowledge while also allowing for a steady influx of new talent and ideas.

The full-time retention rate now reflects UPS's global operations, except Overnite/UPS Freight. The rate has stayed at 92 percent.

Initiatives

- Maintain a culture of employee ownership
- Focus on career development opportunities and promotion-from-within philosophy
- Offer training and education opportunities
- Respond to annual employee survey feedback
- Provide competitive compensation and benefits

Opportunity and Diversity

UPS Charter

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

With 407,200 employees and 8 million daily customers in more than 200 countries, equal opportunity is part of the social fabric at UPS. It reflects a mindset of inclusiveness, respect and cooperation — core values that drive our relationships with employees, customers, suppliers and communities.

2005 Year-End UPS Workforce Diversity in the United States

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

Women as a percentage of officers and managers	28%
Minorities as a percentage of officers and managers	30%

Asian	4%
Black	16%
Hispanic	9%
Native American/Other	1%

Excludes recent acquisition data.

2005 Year-End Diversity among UPS Board of Directors

Women on the Board of Directors	17%
Minorities on the Board of Directors	8%

In 2005, UPS appointed Michael J. Burns, the chairman, CEO and president of Dana Corp., and Stuart E. Eizenstat, a key aide to former Presidents Jimmy Carter and Bill Clinton and now a partner in the Washington, D.C., law firm of Covington & Burling, to its Board of Directors. Both have extensive international experience, which will be valuable as UPS continues its global expansion.

Opportunity and Diversity (cont.)

Fair Treatment

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

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

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

Promotion from Within

Our culture emphasizes a promote-from-within approach to management development. Development is a shared responsibility between UPS and the employee. By encouraging our people to have long-term careers at UPS, we have developed a management team whose depth of expertise is unparalleled in our industry.

A large percentage of our workforce in the United States has advanced from part-time to full-time positions and from non-management to management positions.

The average full-time UPS manager has worked for the company 14.7 years.

- In 2005, 11,055 part-time employees advanced to full-time positions.
- 56 percent of our current full-time drivers were once part-time employees.
- 80 percent of our full-time management employees were promoted from non-management positions.
- 56 percent of our vice president level employees started in non-management positions.
- 8 of the 12 members of our Management Committee started in non-management positions at UPS.

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

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

Employee Feedback

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

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

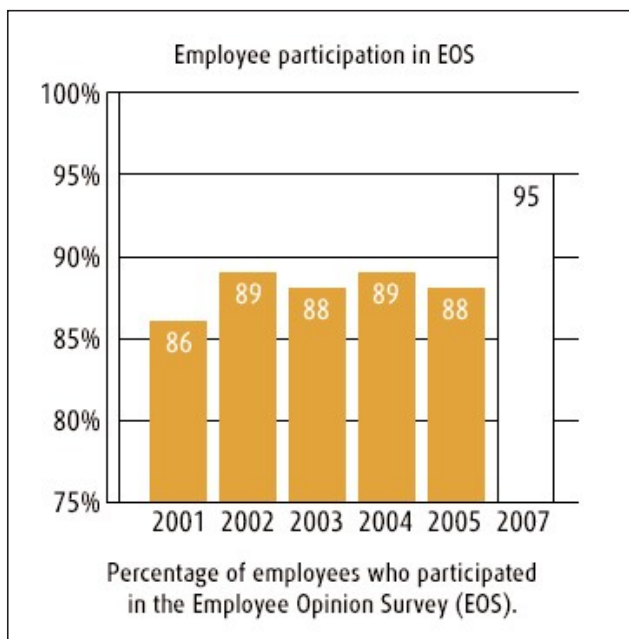
In this section, we share statistics from our annual Employee Opinion Survey, which is conducted on a global basis. Information from this survey helps us identify issues that need attention as well as programs that are working.

Employee Opinion Survey

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

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

In 2005, the survey was administered globally, with 88 percent of employees participating.



2007 Goal

Increase the global employee participation rate to 95 percent.

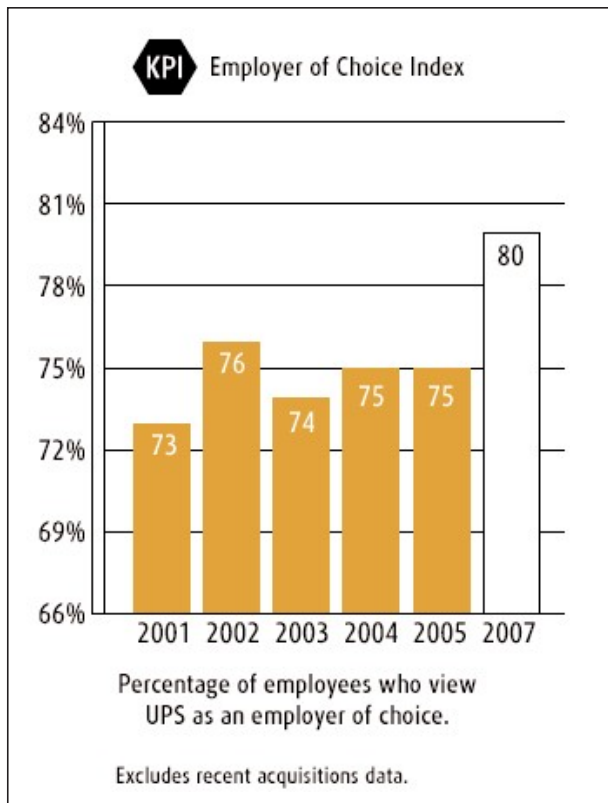
Participation in the EOS is completely voluntary. Therefore, our goal of 95 is aspirational in nature — we afford 100 percent of our employees the opportunity to participate in the survey so their opinions are heard and acted upon.

Initiatives

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

Employer of Choice Index

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



2007 Goal

Achieve an 80 percent favorable rating among our employees.

Initiatives

- In 2005, UPS created an internal task force to examine women's leadership development opportunities.
- UPS became one of the founding companies in Bridges to Excellence (BTE) in 2003. This is a program that exemplifies UPS's healthcare quality initiative — matching patients with the right physicians to improve quality of care, reduce inefficiencies and keep employees healthy. Through our BTE partnership, UPS has implemented a pilot program called Diabetes CareRewards, which encourages patients to optimally manage their condition and rewards physicians who demonstrate they are top performing providers in treating diabetes. In 2005, the company added Louisville to its list of CareRewards locations. The program also is being piloted in Atlanta, Boston, Cincinnati and New York. Additionally, in 2005, UPS increased the number of tools available to employees through the UPS Web portal to help them manage their healthcare needs.

Employer of Choice Index (cont.)

Ongoing Initiatives

UPS has implemented several programs to ensure we maintain our status as an employer of choice, including expanded training, renewed focus on career development discussions with all employees and enhanced programs for years of service.

- Action plans developed by employee relations committees to address issues identified by employees in the survey.
- Annual video message from the Chairman and CEO which addresses company-wide challenges as well as issues confronting specific functions.
- Effective employee communication programs, including worldwide deployment of employee portal.
- Competitive compensation and benefit plans.
- Enhanced recognition programs to reward years of employment.
- Career development opportunities.
- Workplace flexibility initiatives.
- New hire training and job-specific training.
- Tuition reimbursement.
- Continued benefit for up to 12 months for military reserve employees called to active duty.

Health and Safety

The UPS Policy Book

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

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

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

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

Even as we continue to increase the level of technological sophistication in our operations, the primary job of our employees is moving nearly 15 million packages and documents each day. You are more likely to find a UPS employee driving a package car, or sorting packages in a bustling hub, than behind a desk. Because of the physical nature of many of our jobs, safety is a significant challenge and a top priority. Therefore, we dedicate significant resources to train our people to avoid injuries and accidents.



Training and Operations

Due to the physical nature of many of our jobs, safety is a significant challenge and a top priority for UPS. Therefore, we dedicate significant resources to train our people to avoid injuries and accidents.

Training

Training is the cornerstone of safety in UPS's package and airline operations. We invest more than US\$38 million per year on safety training, which equals nearly 1.3 million hours of safety training for employees. Each year 27 different types of formal UPS safety training courses are taught worldwide.

Operations

In UPS operations, there are two primary safety measurements: *lost-time injuries* and *automotive accident frequency*.

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

Despite our safety initiatives, controls and procedures, there were five fatal employee automotive accidents globally in 2005. All accidents and injuries require a substantive investigation to identify the root cause. The results of those investigations are used to examine what can be done to prevent accidents in the future.

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

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

Between 1996 and 2005, CHSP helped reduce lost workdays due to injuries by 76 percent.

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

Training and Operations (cont.)

Safe Driving: UPS drivers are among the safest on the road. Our 102,100 drivers worldwide log more than two billion miles a year and average less than one accident per million miles driven. We have certified management trainers who educate drivers on an annual and periodic basis. UPS tractor-trailer drivers receive 80 hours of classroom and on-the-road training before operating equipment. Delivery drivers undergo an intensive six-day training program, including 20 hours of behind-the-wheel and classroom training, plus periodic training rides through their evaluation period. UPS drivers globally receive annual safety training rides and follow-up training in the event of an avoidable accident.

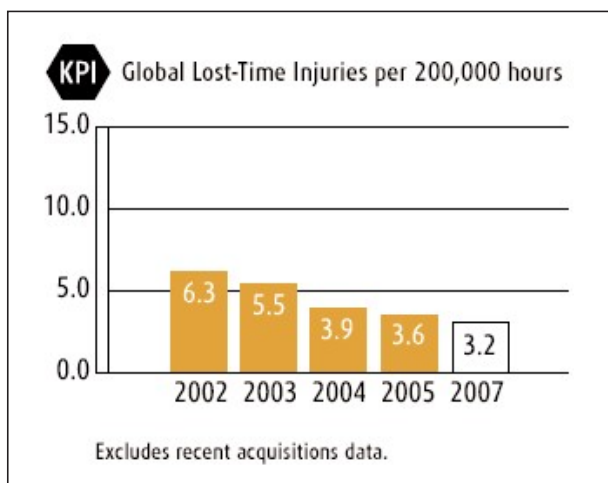
The foundation of our safe driving platform is space and visibility training that focuses on the **Five Seeing Habits** — proven safe driving methods that focus on avoiding potential accident scenarios versus reacting to them.

[Learn about the UPS Safe Driving Methods](#)

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

Lost-Time Injuries per 200,000 hours

This measurement reflects the injury rate per 200,000 hours on an annual basis.



2007 Goal

To reduce lost-time injury frequency globally to 3.2.

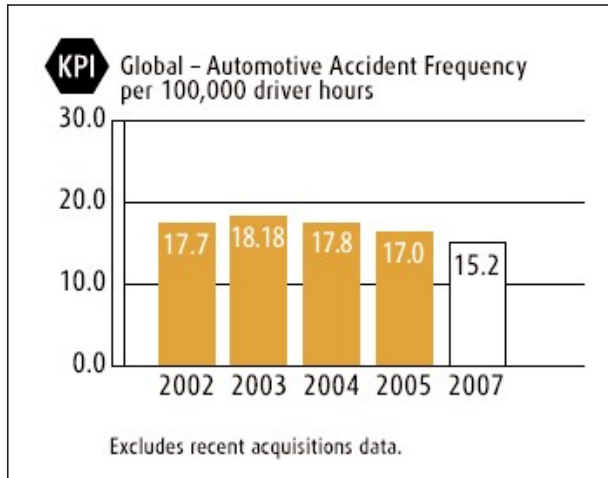
We reduced the number of lost-time injuries per 200,000 hours by 8 percent in 2005. During the same time, the number of UPS Supply Chain Solutions injuries was reduced by 7 percent, establishing an injury frequency of 1.0 for SCS, which is well below the industry average of 3.3.

Company-wide, the lost-time injury frequency has decreased 65 percent since 2000.

The global frequency of OSHA (Occupational Safety and Health Administration) recordable injuries in 2005 is 12.6 per 200,000 hours. This is reduced from 13.3 in 2004.

Training and Operations (cont.)

Automotive Accident Frequency per 100,000 driver hours



2007 Goal

Reduce automotive accident frequency worldwide to 15.2 per 100,000 driver hours.

Safety is a way of life at UPS and a critical operational priority. UPS leads the industry in safe driving records. The company's auto accident frequency was reduced 2 percent in 2005.

UPS measures automotive accident frequency per 100,000 driver hours as a KPI rather than per million miles driven. This is because drivers operate in very different conditions from long-haul truckers. We operate in heavily congested commercial and residential areas as well as in remote locations. Normalizing accident frequency per 100,000 hours of driver time more accurately reflects the nature of our operations.

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

In 2005, the focus on workforce health and safety continued through the implementation of the following initiatives:

- **Safety First:** Places safety at the top of operational priorities.
- **The Employee Relations Index (ERI):** Annually identifies and gauges the satisfaction of our people. The Health & Safety Factor Index (HSFI) extracts nine questions from the ERI to measure the employee perception of safety within the UPS work environment. In 2005, the HSFI overall rating remained at 80.
- **Target Zero:** Emphasizes zero accidents and injuries on a daily, weekly and monthly basis. Employees, district and regions are recognized for achieving these safety milestones.
- **Training:** Increased on-road training and supervision for drivers, including an emphasis on driving and work methods.

Ongoing Programs

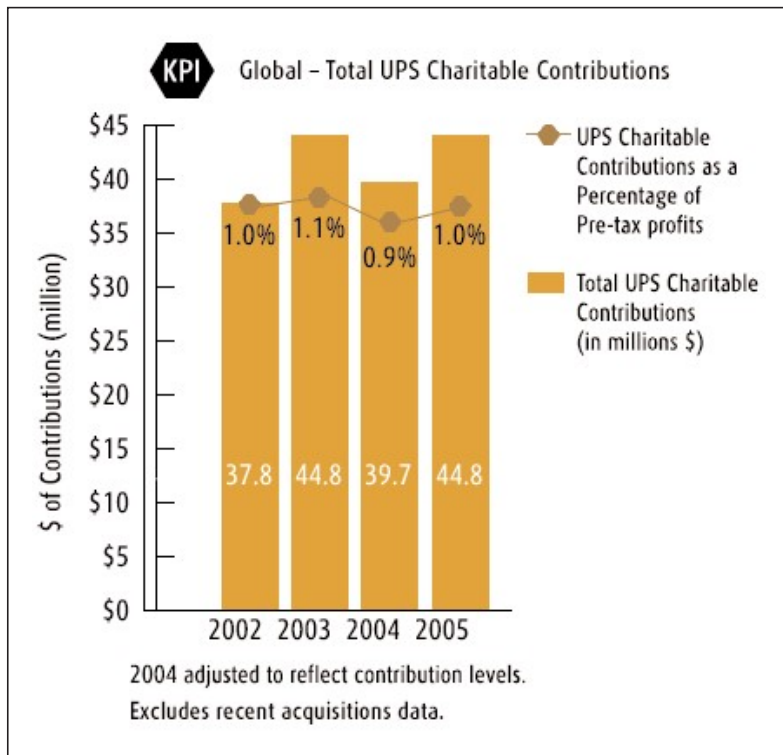
- Global implementation of rear vision cameras
- Reinforcement and implementation of CHSP in our global operations
- Training on proper work methods
- Implementation of behavior-based safety training
- Automation of package sorting facilities

Community Engagement

Throughout our history, we've found that we grow by investing not only in our business, but also in the communities we serve. This belief drove us in 1951 to establish The 1907 Foundation, today known as The UPS Foundation, to develop and champion innovative solutions to social problems.

In this section, we've outlined the status of our philanthropic strategies through The UPS Foundation, our Community Internship Program and The UPS Store.

The UPS Foundation



2007 Goal

To maintain philanthropic contributions at a five-year trailing average of 1 percent of adjusted profit before interest and taxes.

Because UPS provides service to homes and businesses in 200 countries and territories worldwide, we see the needs of communities very closely. Our experiences have shaped the company's philanthropic approach profoundly. The desire to make a tangible difference in communities extends company-wide, and drives our belief that individual participation is just as important as writing a check. We encourage grants and donations along with employee volunteerism.

In 2005, The UPS Foundation's global contributions totaled US\$44.8 million.

Community Engagement (cont.)

Our Global Philanthropy Strategy

In support of UPS's global philanthropy strategy, in 2005, UPS continued to identify and work with organizations around the world that can effectively manage corporate contributions and deliver results.

- The UPS Global Signature Program is a three-year, US\$1.5 million partnership between The UPS Foundation and the World Association of Girl Guides and Girl Scouts. This program seeks to increase the recruitment and retention of volunteers, support volunteers through training and self-development, and introduce a system to monitor and appraise volunteer leadership in Malaysia, Mexico and China.
- Additionally, The UPS Foundation awarded US\$1 million in grants to organizations in Brazil, Canada, Germany, United Kingdom and the Philippines that focus on hunger, literacy and volunteerism.

Relief Aid

UPS also supplied essential relief aid in 2005.

- UPS provided US\$3 million in aid to those areas devastated by the tsunamis across Southeast Asia. UPS donated US\$2.5 million in in-kind services, US\$400,000 in cash grants to relief organizations and up to US\$100,000 in employee-matching contributions.
- UPS also gave a US\$2 million donation to support relief and recovery efforts for the victims of the devastating earthquake that struck South Asia in October 2005. The donation included US\$1 million in cash provided to the South Asia Earthquake Relief Fund and up to US\$1 million of in-kind services for the shipment of medical and health-related items to the region.
- In response to the destruction from Hurricane Katrina, The UPS Foundation donated US\$1.25 million toward relief efforts and UPS took separate steps to assist its employees and their families in the affected areas. The donation included \$500,000 in cash and up to \$750,000 of in-kind services for the shipment of medical and health-related items. The funds were divided between The American Red Cross, America's Second Harvest and other relief organizations that assist with long-term rebuilding activities.

The UPS Neighbor to Neighbor Program

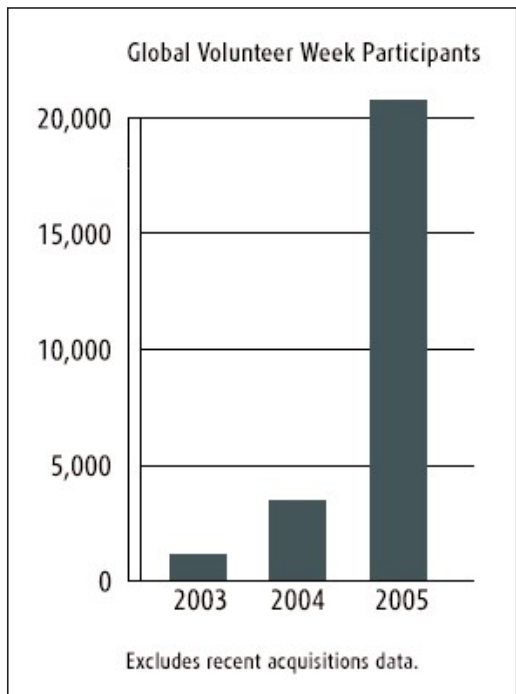
UPS employees around the world collectively donate hundreds of thousands of hours each year to philanthropic causes in their local communities through the UPS Neighbor to Neighbor program, UPS's employee volunteer program.

In 2005, volunteers logged 327,000 hours worldwide through this program.

Community Engagement (cont.)

UPS Global Volunteer Week

UPS's Global Volunteer Week is an extension of the company's long-standing commitment to volunteerism and actually marks the culmination of volunteer work performed by employees all year long through UPS's global volunteer program, Neighbor to Neighbor.



The number of UPS employees participating in Global Volunteer Week has grown from 1,000 to more than 20,000 in just three years.

UPS launched its first Global Volunteer Week in 2003. The initial program was so well received by employees that the second annual Global Volunteer Week, in October 2004, included triple the number of volunteers and volunteer hours of the inaugural year. More than 3,500 UPS employees volunteered more than 15,000 hours around the world during the 2004 event.

In 2005, UPS again tripled its volunteer numbers over that of the 2004 program with more than 20,000 employees donating approximately 100,000 hours in more than 45 countries around the globe. A sample of activities from around the world:

- In Louisville, Kentucky, employees volunteered 20,000 hours focused on eradicating hunger in the community by focusing on the “food chain” — from harvesting crops to stocking food banks and serving meals to those who need them.
- In Russia, UPS employees spent 400 hours cleaning, gardening and painting at the Children's Hospital.
- In the UK, employees spent 550 hours working at hospice facilities.
- In Canada, employees volunteered 4,900 hours doing a wide variety of activities from raking leaves, to painting and washing windows at elderly and youth residences to sorting food at food banks.

Community Engagement (cont.)

Community Investment Strategy

To ensure that our contributions meet critical needs, and continue to mirror the values of the company, The UPS Foundation's investment strategy supports three key areas: hunger, literacy and volunteerism. We support these areas through four giving strategies: leadership, operations, sustainability and effective volunteerism.

Giving Focus

Hunger: The UPS Foundation has supported anti-hunger organizations through our Prepared and Perishable Food Rescue Initiative since 1989 and has invested more than US\$15.7 million to build the capacity of local organizations throughout the United States. UPS investments have helped provide more than 250 million pounds of food through hundreds of local organizations.

The UPS Foundation has also launched a new focus on hunger called [The UPS Foundation National Collaboration to Reduce Hunger and Improve Nutrition](#). This national grant-making program centers on helping national, regional, state and local organizations work to reduce obesity and improve the nutrition of hungry people in our communities.

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

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

[Learn more about UPS Volunteerism](#)

Giving Strategies

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

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

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

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

United Way

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

Our 2005 contribution of US\$57.4 million marked the fifth consecutive year in which UPS and its people surpassed US\$52 million in an annual campaign — the first company to become the largest corporate contributor to the United Way. More than 237,000 employees participated in the campaign, pledging US\$49 million and the company contributed approximately US\$8 million.

Community Internship Program

Founded in 1968, the Community Internship Program (CIP) is an intense management training course designed to immerse senior level executives in the community, exposing them to a variety of social and economic challenges facing today's workforce. While in the program, managers leave their jobs and families to spend a month living and working in one of four CIP sites run by local nonprofit agencies. Internship sites are located in New York, N.Y.; Chattanooga, Tenn.; McAllen, Texas and San Francisco, Calif. Since the program's inception, over 1,300 executives have participated in the program.

CIP aids UPS in developing and strengthening its managers, while helping to improve the communities where our employees live and work. After completing four weeks of "hands-on" community service and learning projects, UPS managers leave with a sense of accomplishment, community involvement and with a greater sensitivity to those less fortunate.



The UPS Store

The UPS Store and Mail Boxes Etc. locations together comprise the world's largest franchise network of retail shipping, postal and business service centers. With more than 5,700 The UPS Store and Mail Boxes Etc. locations in over 40 countries around the world, we see firsthand the needs of those communities. While many of our stores engage in community activities specific to their location, the following initiatives were executed across a broader number of The UPS Store and Mail Boxes Etc. locations in the United States in 2005.

[Learn more about The UPS Store](#)

Toys for Tots

In 2005, the The UPS Store and Mail Boxes Etc. network served as a national sponsor for the U.S. Marine Toys for Tots Foundation and raised nearly \$600,000 for the cause. The money raised stayed within the local communities to benefit children.

The "We Deliver Dreams" Foundation

The "We Deliver Dreams" Foundation delivers dreams to individual children whose lives have been significantly impacted by abuse, neglect, poverty, violence or illness. Dream requests are sponsored by local The UPS Store and Mail Boxes Etc. franchisees. Requests must be for significant, one-time needs of an individual child and must have a personal and direct impact on that child.

The Foundation oversees a network-wide fundraising effort through coin donation boxes placed in The UPS Store and Mail Boxes Etc. locations around the United States. All monies collected through the coin box program go towards funding dreams for children in need. In 2005, the Foundation delivered nearly 40 dreams to children across the United States.



Supplier Diversity

Formally launched in 1992, the UPS Supplier Diversity Program is committed to providing business opportunities to small, minority- and women-owned businesses. In 2005, we awarded more than US\$316 million in contracts to small businesses and \$249 million to minority and women-owned businesses through this program.

While our commitment thus far has been significant, there is more to be done. We are currently working to improve the level of engagement in the Supplier Diversity Program throughout our business units worldwide.

UPS Makes the Following Pledge to Each and Every Small, Minority- and Woman-owned Vendor We Do Business With:

- We will have designated people at the corporate, region and district levels to assume the responsibility for reviewing the business opportunities for your company's products and/or services.
- We will work with potential suppliers who qualify to do business with UPS and help them meet UPS's product specifications as well as ensure that the suppliers meet our quality, cost and delivery objectives.

Once we receive the supplier application and certification, we will review them as quickly as possible and inform potential suppliers of their status.

UPS is an active participant in local and national minority and women business organizations. The company is active in 36 of the 39 National Minority Supplier Development Council (NMSDC) affiliates and all chapters of the Women's Business Enterprise National Council.

In addition, UPS is a member of the Native American Business Alliance (NABA) and the National Association of Women Business Owners (NAWBO).

[Learn More About the UPS Supplier Diversity Program](#)

Conclusion

As our business continues to grow globally, we face many challenges, including preventing workplace injuries and reducing part-time turnover.

However, UPS has been in business for nearly a century because we've backed our words with action and opportunities for employees, customers, suppliers and communities. Our strong culture and values will continue to guide our efforts as we develop plans to address each challenge to provide the most benefit to our stakeholders.





Operating in Unison

UPS Corporate Sustainability Report

2005 Executive Summary

Published July 2006

Environmental

Environmental Policy Statement

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

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

Greening the Supply Chain

As the world's largest package delivery company, UPS delivers nearly 15 million packages daily.

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

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

With more than 91,000 vehicles, 2,913 facilities and as the ninth largest airline worldwide, UPS faces significant challenges to reduce our environmental impact. We take those challenges seriously and have identified specific goals for the company. At the same time, we are working to advance new industry technologies to reduce emissions and conserve energy. Most importantly, environmental concerns are a core part of UPS's daily activities and engineering processes.



Fuel Use and Emissions

As fuel prices continue to rise, managing fuel consumption and greenhouse gas emissions is a business opportunity — one that can improve the bottom line, reduce our impact and our customers' impact on the environment and increase the long-term viability of our company. That's why we operate one of the world's largest fleets of alternative-fuel vehicles, which includes approximately 1,500 compressed natural gas, liquefied natural gas, propane, fuel cell, electric and hybrid electric vehicles.

Moving nearly 15 million packages around the world each day requires operating a large ground and air fleet. Reducing emissions is a constant priority and challenge. Our long-term goal is to minimize dependence on fossil fuels by improving operational efficiencies and advancing new technologies. Our emissions reduction strategy includes reducing fuel consumption and deploying alternative fuel and low emissions vehicles.

Ground Fleet

UPS's ground fleet strategy is to actively participate in advancing the development of future generations of delivery vehicles that reduce dependence on fossil fuels and significantly reduce fuel consumption and emissions.

This strategy has two specific practical applications. In the short term, as older vehicles are retired, they are replaced with low-emission, fuel-efficient vehicles. In the long term, we are working towards reduced dependence on fossil fuels.

Using the year 2000 as a baseline, we have made significant progress in managing fuel consumption. Our success in this area is directly attributed to three factors:

- A sophisticated intermodal network
- New operational technologies
- Deployment of fuel efficient technologies

Ground Fleet Characteristics

Our practice is to buy low-emission vehicles, as defined by the U.S. Environmental Protection Agency (EPA). As of 2005, the company operates 8,400 low-emission vehicles throughout North America. That number will continue to rise as older delivery vehicles reach the end of their life cycles and are replaced. For instance, in 2002, 1,800 fuel-efficient DaimlerChrysler Sprinter delivery vans were added to our U.S. fleet. 750 Sprinters have been deployed in our Western Europe fleet for several years. These vans have twice the fuel economy of the vehicles they replaced.

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

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



Ground Fleet (cont.)

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

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

Alternative Fuel Fleet

In 2005, UPS spent 4.8 percent of its revenue on fuel. We believe this is the lowest percentage in the industry, but it is still a significant cost that must be managed. We have a responsibility to our customers and shareowners to control and potentially reduce that cost.

In 2004, we reported that UPS's alternative fuel fleet included about 1,700 vehicles. Today, that number is approximately 1,500. The reduction is due to the retirement of older Compressed Natural Gas (CNG) vehicles. Those CNG vehicles, which operate in the United States, were converted from diesel in the 1980s. Over the years, market forces affecting gas in the United States, as well as the development of new and better alternative fuel technologies, have led to reduced infrastructure support for CNG technology. As a result, when our U.S. CNG vehicles are retired, they are being replaced with new diesel vehicles that are more fuel-efficient and produce fewer emissions than the CNG vehicles they replaced.

In 2005, UPS's global fleet of 1,500 alternative fuel vehicles traveled over 20 million miles making deliveries to homes and businesses. Since 2000, our alternative fuel fleet has traveled more than 100 million miles making deliveries to homes and businesses.

We have invested almost US\$15 million to deploy significant numbers of alternative fuel vehicles in our fleet. While maintaining our current alternative fuel vehicles, we are also working with manufacturers, government agencies and nonprofit organizations to advance new fuel technologies.

UPS developed and continues to enhance its fleet using a "rolling laboratory" philosophy — using its alternative-fuel fleet as a way to learn about how new technologies and advancements can be adapted for use in a large delivery fleet.

Ground Fleet (cont.)

Alternative Fuel Fleet Overview

[Learn more about UPS and alternative fuels](#)

Fuel Cell Vehicles: UPS deployed its first DaimlerChrysler Sprinter fuel cell vehicle in Stuttgart, Germany in October 2003, which was retired in 2004. We deployed two additional fuel cell vehicles in late 2004. UPS currently operates one in Ontario, Calif. and one in Ann Arbor, Mich. The EPA provides a hydrogen refueling station at its national fuel emissions laboratory in Ann Arbor, Mich. In California, UPS gets its hydrogen fuel from a station in the South Coast Air Quality Management District. Fuel cells work by converting energy into electricity without combustion. Water vapor and heat are the only emissions produced.

Hybrid Technology: UPS was the first package delivery company to introduce a hybrid electric vehicle (HEV) into daily operations. We have been researching and testing HEV technology since early 1998. In 2000, we deployed a hybrid electric vehicle in our Huntsville, Ala. operations on a 31-mile route, making 150 pickups and deliveries each day. UPS deployed a second-generation HEV that operated in Kalamazoo, Mich. for several months during 2004.

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

808 Compressed Natural Gas (CNG) Vehicles: UPS has one of the largest private fleets of CNG vehicles in the U.S with 808 operating in the United States, Germany, Brazil and France.

UPS began extensively testing CNG in 1989 to assess its benefits and viability as an alternative fuel. The results have been impressive: particulate emissions are 95 percent lower than with diesel engines; carbon monoxide emissions are 75 percent lower; and emissions of nitrogen oxides are 49 percent lower.

683 Propane-Powered Vehicles: We operate 644 propane delivery vehicles in Canada and 39 in Mexico.

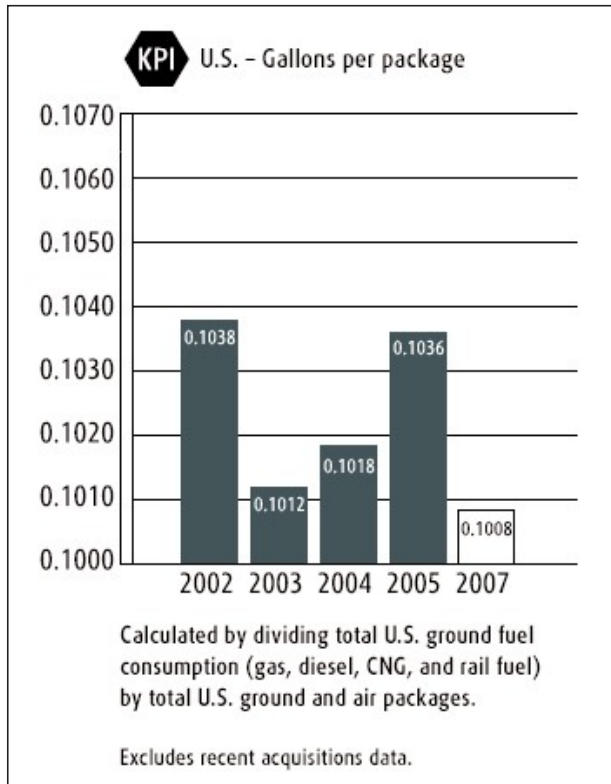
11 Liquefied Natural Gas Tractors: UPS was the first in the package delivery industry to introduce alternative fuel tractors into its fleet. Currently, 11 liquefied natural gas (LNG) tractors operate in our West Coast fleet, hauling more than 31,000 packages a day. Because of its density, LNG is a viable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

Three Electric Vehicles: In 2005, UPS deployed a second full-size electric package car in Manhattan, N.Y. Additionally, UPS operates an electric car in Santiago, Chile since 2001. UPS also tested 13 zero-emission electric minivans in downtown Los Angeles, Calif. These vehicles had a range of 80 to 90 miles and were primarily used to make Next Day Air deliveries and pickups.

Ground Fleet (cont.)

Fuel Consumption

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



2007 Goal

Decrease gallons per package to 0.1008.

In 2005, fuel consumption increased due to rail network limitations, the territory expansion of Next Day Air Early A.M. service and time-in-transit service enhancements.

Ground Fleet (cont.)

2005 Ground Network Fuel Efficiency

UPS continues to aggressively pursue technologies and procedures that will reduce our fuel consumption and emissions.

Ongoing Initiatives

- Continuing to enhance our fleet using a “rolling laboratory” philosophy using its alternative-fuel fleet as a way to learn about how new technologies and advancements can be adapted for use in a large delivery fleet. In 2005, UPS deployed a second electric vehicle in Manhattan, N.Y. Additionally, UPS, the U.S. Environmental Protection Agency and others announced plans to build and test the world’s first hydraulic hybrid urban delivery vehicle.
- Continuing the roll-out of Package Flow Technology, which features advanced geographic tools that allow us to analyze and edit dispatch plans to optimize delivery routes and times. This system is expected to significantly reduce miles driven, cutting fuel use and emissions when fully deployed.
- Participating in the U.S. EPA’s SmartWay Transport Partnership, an initiative to reduce fuel use and emissions by shippers and carriers.

Air Fleet

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

We operate the ninth-largest airline in the world, and we continue to lead the industry in deploying noise and emission reduction technologies. Our strategy for purchasing aircraft focuses on managing operational costs and ensuring landing rights around the world by flying a quiet, fuel-efficient and low-emission fleet.



Air Fleet (cont.)

Compliance with ICAO’s Noise and Emission Regulations

UPS’s fleet of aircraft meets and exceeds the noise and emission reduction regulations established by the International Civil Aviation Organization (ICAO). We have consistently pursued a “beyond compliance” strategy to ensure a quiet and highly fuel efficient air fleet. Instead of installing hush kits on our engines, in the mid-1990s UPS took a long-term, sustainable approach and replaced 100 percent of the engines in our 727-100 and DC-8 jet freighter fleet.

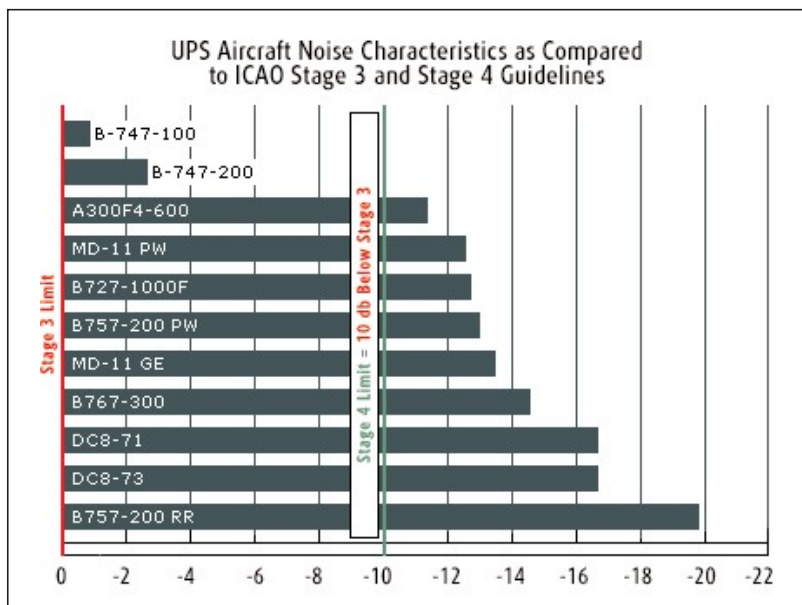
All new UPS aircraft meet ICAO’s Stage 4 noise guidelines, which call for a 10-decibel reduction over Stage 3. UPS is voluntarily applying this standard to its entire fleet — all UPS aircraft will meet Stage 4 guidelines.

KPI Percent of Total UPS Air Fleet Meeting ICAO Stage 4 Noise Guidelines	
2002	92 percent
2003	94 percent
2004	95 percent
2005	95 percent

2007 Goal

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

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

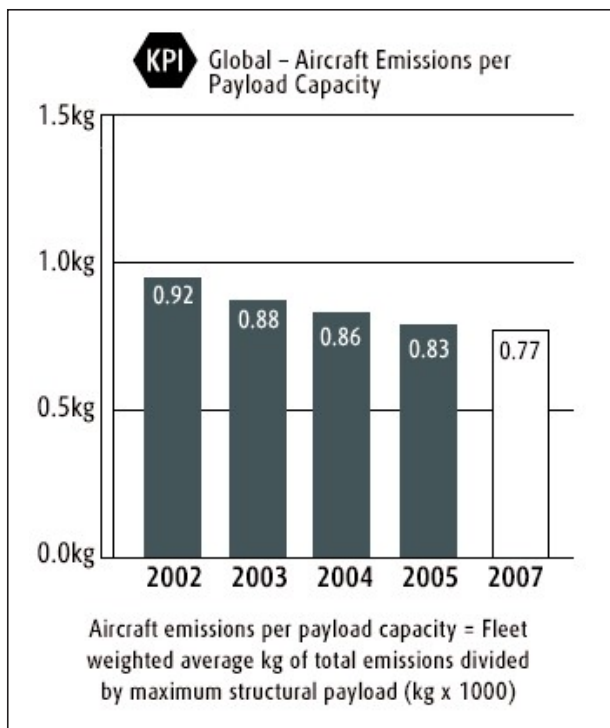


Air Fleet (cont.)

Aircraft Emissions

Our aircraft engineers developed a measurement that links the amount of emissions produced by our aircraft with the number of packages the fleet can carry. In 2005, UPS had 0.83 kilograms of aircraft emissions per 1,000 kilograms of payload capacity — an improvement of 3.5 percent over 2004.

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



2007 Goal

Improve aircraft emissions per payload capacity to 0.77.

Additional initiatives will ensure UPS continues to make solid progress towards its air fleet strategy.

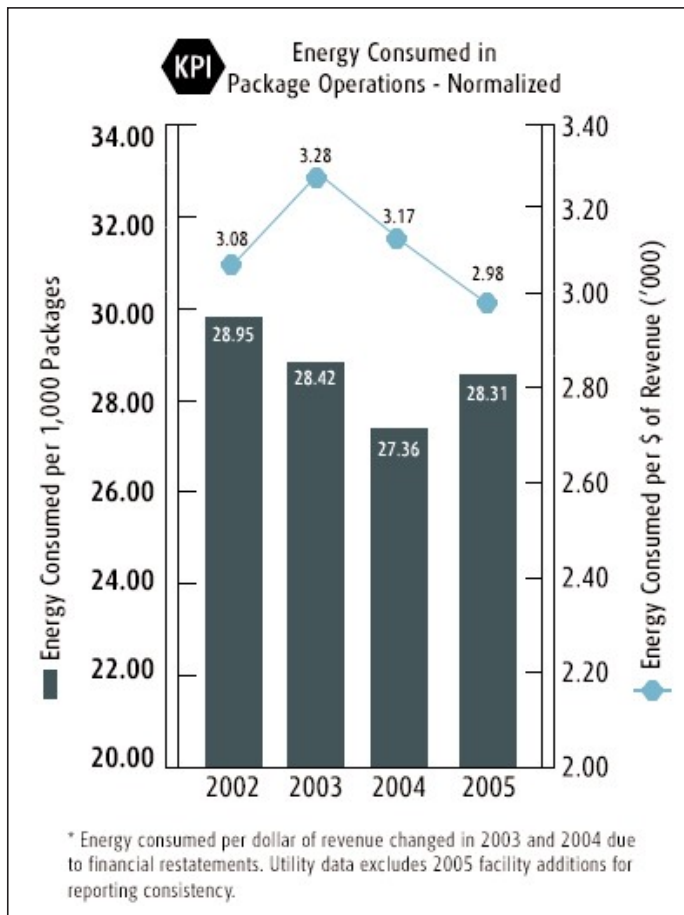
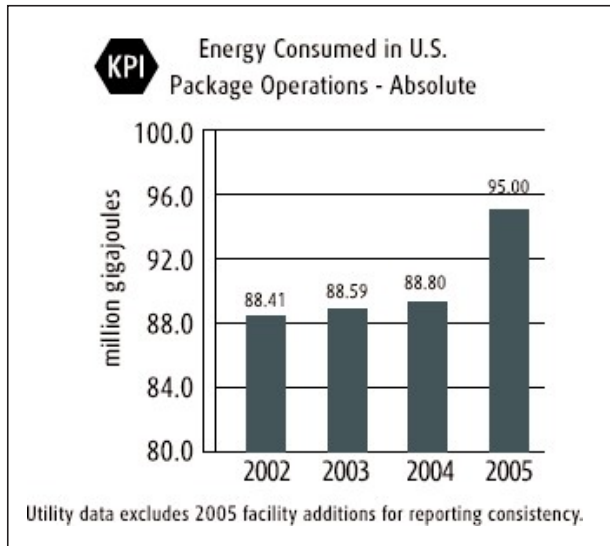
Air Fleet (cont.)

Initiatives

- In 2005, UPS Airlines implemented new fuel conservation procedures recommended by a recently appointed airline fuel manager. The new practices, which reduce fuel consumption and emissions include:
 - reducing the amount of extra fuel carried by aircraft;
 - using only one engine during taxiing on twin engine aircraft and limiting the number of engines used during taxiing on aircraft with three or four engines;
 - having more UPS airplanes use electrical power from buildings and in-ground electrical hook-ups instead of the aircraft's auxiliary power unit, which is powered by fuel; and,
 - slowing down flights to the most fuel efficient speed possible if it doesn't change an arrival time critical to making service commitments.
- In 2005, UPS retired 14 older aircraft, including one 747-100, one 474-200 and 12 727-100s. These were replaced with new highly efficient aircraft, including seven A300-600s and six MD-11s.
- During 2005, UPS continued to work with the FAA to gain approval to use Continuous Descent Approach (CDA) when landing at airports. Using CDA, aircraft glide down, rather than stepping down altitudes. This makes less noise, burns less fuel and creates fewer emissions.
- UPS Airlines continues to use a unique flight planning system, which saved the company almost US\$1 million in fuel each month during 2005. This system calculates the most efficient route between two points, based on weather, winds, terrain and other factors.
- In coordination with the Federal Aviation Administration, UPS is testing Automatic Dependent Surveillance-Broadcast (ADS-B) technology on all 107 of our 757 and 767 aircraft. Among other things, this technology allows UPS to proactively manage aircraft departure queues, which reduces fuel use and emissions. UPS is the world's only fleet equipped with this advanced technology.

Energy

UPS takes specific steps to reduce energy use in our 2,913 facilities worldwide. Our energy consumption in the United States is comprised of stationary sources of energy (electricity, natural gas, propane and heating oil) and mobile sources of energy (gasoline, diesel, Jet A and compressed natural gas).



Energy (cont.)

2007 Goal: Pending

In 2005, our total energy consumption increased by 7 percent. Energy consumption per package also increased by 3.5 percent.

UPS's energy use increased due to several factors. Time in transit and service enhancements led to additional fuel use. Additionally, the growth of our air volume with an increase in the number of flights led to an increase in Jet A fuel use.

UPS continues to evaluate the collective impact of our multiple fuel and energy initiatives to determine a goal.

Initiatives

Recycling and energy initiatives:

- UPS recycling initiatives impact the energy consumption of our suppliers. In 2005, UPS recycled 30,700 tons of solid waste materials including metals, plastics, paper, corrugated materials, pallets and wood waste.
- Additionally, in 2005, UPS purchased 35,800 tons of materials with recycled content. Solid waste recycling and purchasing materials with recycled content saves energy because it takes less energy to make products from recycled materials than producing them from raw materials. These purchases have the equivalent energy savings of removing 6,618 passenger cars from the road for a year.

Ongoing infrastructural initiatives:

- **Solar:** Solar power provides 70 percent of the power needs at our Palm Springs, Calif. sorting facility. Since its deployment in July 2003, the 100 kilowatt solar panel initiative has produced over 523,000 kilowatt hours of energy, reducing our CO₂ output by one million pounds. This is the equivalent of removing 99 passenger cars from the road for a year.
- **Package Flow Technology:** Continue to roll-out technology to U.S. facilities designed to improve customer service and provide greater internal efficiency. The new technology enhances two key processes: planning the daily delivery route and actually loading each vehicle. This system is expected to significantly reduce miles driven, saving millions of gallons of fuel and thousands of pounds of CO₂ emissions annually when fully implemented in 2007.
- UPS installed "sleep" software on 11,000 of its computers in Atlanta, Louisville, Towson, Md., and Mahwah, N.J., to conserve energy while saving the company almost US\$145,000 per year.
- Additionally, UPS has 14 facilities in California currently using "green" power as part of their electricity supply. This power comes from biomass sources. Biomass refers to a waste-to-energy process and can take the form of converting landfill gas, human and animal waste or agricultural waste to energy.

Energy (cont.)

Ongoing facility initiatives:

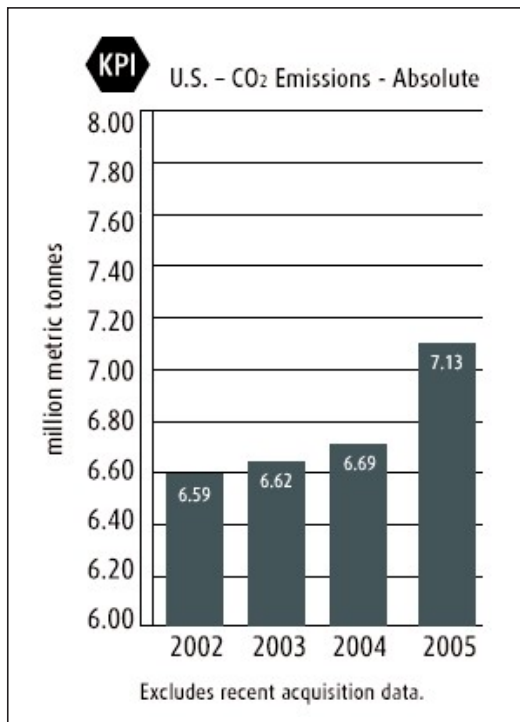
- Energy-efficient lighting upgrade program.
- Energy-efficient motors and low friction belts for conveyer systems.
- High-speed roll-up doors to open and close quickly when vehicles are departing and arriving at the buildings, which reduces heating and air conditioning loss.
- Pressurized heating systems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



Greenhouse Gas Emissions

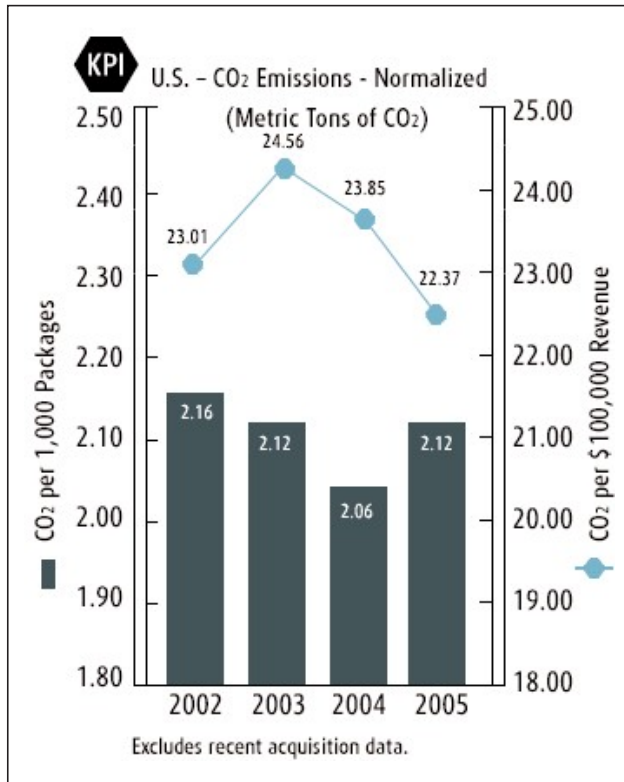
As new fuel efficient and alternative technologies become widely available and affordable, UPS's long-term goal is to decrease total CO₂ emissions produced by our operations. In the near term, our efforts are focused on reducing emissions per package.

UPS's carbon footprint is comprised of stationary sources of energy (electricity, natural gas, propane and heating oil) and mobile sources of energy (gasoline, diesel, Jet A, and compressed natural gas). It is expressed in million metric tons of CO₂ emissions.



Energy (cont.)

UPS's CO₂ emissions increased 6.6 percent due to growth in our ground and air delivery volume.



In 2005, UPS's CO₂ efficiency decreased 2.9 percent. We produced .06 metric tons (60 kilograms) more CO₂ emissions per 1,000 packages delivered than we did in 2004.

Initiatives

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

In 2005, UPS purchased green power as part of the electricity supply at 14 California facilities. This power comes from biomass sources, which refers to a waste-to-energy process and can take the form of converting landfill gas, human and animal waste or agricultural waste to energy. This commitment prevented the release of 2.4 million pounds of carbon dioxide, which has the equivalent environmental impact of removing 213 cars from the road a year.

In 2005, we recycled 30,700 tons of solid waste materials including metals, plastics, paper, corrugated materials, pallets and wood waste. Solid waste prevention reduces methane, which contributes to greenhouse gas effects. Additionally, in 2005, we purchased 35,800 tons of materials with recycled content. This creates and maintains demand for products that have a positive impact on the environment. It takes less energy to make products from recycled materials than to produce them from raw materials. This has the equivalent impact of reducing CO₂ by 32,400 metric tons.

Energy (cont.)

These recycling activities reduce greenhouse gas emissions by 28,000 metric tons of carbon equivalent.

Following is an overview of emissions reduction strategies:

- Increase fuel efficiency of vehicles and aircraft.
- Support and maintain current alternative fuel fleet.
- Experiment with and deploy new fleet technologies such as hybrid electric vehicles and hydrogen fuel cell vehicles.
- Continue to test new technologies for our facilities including solar, wind and distributed power.
- Focus on energy conservation in facilities.
- Implement operational technologies that improve efficiency and reduce miles driven.
- Continue to take advantage of our integrated network and intermodal capabilities.

Recycling and Waste Management

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

In this section, you will find an overview of UPS's strategic involvement with recycling and source reduction, hazardous and nonhazardous waste and water consumption and conservation.



Recycling and Source Reduction

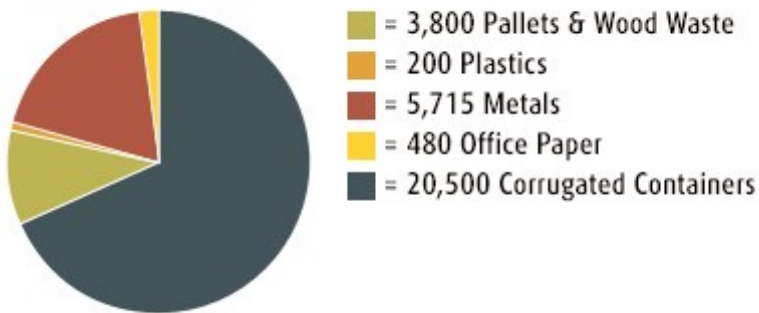
UPS currently collects solid waste data on 1,265 of our U.S. facilities. Solid waste refers to normal trash such as paper, cardboard and plastic that is commonly land-filled. In 2005, these facilities generated 79,600 tons of solid waste and an additional 30,700 tons were recycled.

Solid Waste Recycling

In 2005, we recycled 30,700 tons of solid waste materials including metals, plastics, paper, corrugated materials, pallets and wood waste. Solid waste prevention reduces methane, which contributes to greenhouse gas effects.



2005 Solid Waste Recycling



Purchasing Products that Contain Recycled Materials

Over the years, UPS has increased its purchases of materials with recycled content. In 2005, we purchased 35,800 tons of these materials, which creates and maintains demand for products that have a positive impact on the environment.

Recycling and Source Reduction (cont.)

Electronic Equipment Recycling

Computers and other electronic equipment contain toxic chemicals and plastics that must be properly addressed at the end of a product's lifecycle. In 2005, UPS recycled 4.2 million pounds of electronic equipment from our own operations. Since the program began in 2000, UPS has recycled 16.9 million pounds.

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

UPS also helps its customers dispose of unwanted electronics. Through its Asset Recovery and Recycling Management service, UPS Supply Chain Solutions oversees the final disposition of electronics through repair, recycling or disposal in an environmentally safe manner, all while controlling logistics-related activities.

Additionally, several of The UPS Store locations accept old cell phones for reuse and recycling. UPS Supply Chain Solutions sorts and ships the phones to our partner, ReCellular, which reconditions them and resells them to developing markets. The devices that cannot be refurbished are recycled and kept out of landfills.

Reusable Bags

To date, we have used more than 4.43 million reusable bags in the U.S. and Germany to bundle and sort small packages within our system. Each reusable bag eliminates the need for more than 600 plastic bags.

Since the program's beginning in 1995, our reusable bags have prevented more than 36,000 tons of plastic from entering landfills. In 2005, we purchased 1.5 million additional reusable bags. This will reduce the amount of plastic bags landfilled by 4,990 tons.

Responsible Packaging

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

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

Additionally, The UPS Store locations have an ongoing effort to encourage consumers to bring in foam packing peanuts to be reused and recycled.

Recycling and Source Reduction (cont.)

Battery Recycling

Through its participation in the Rechargeable Battery Recycling Corporation (RBRC), UPS recycled 7,769 pounds of batteries. These batteries include nickel cadmium, nickel metal hydride, lithium ion and small-sealed lead acid.

Corporate Office Recycling Program

In 2005, 54 percent of waste produced by our corporate office was recycled, including paper, cardboard, lamps and ballasts. In 2005, UPS recycled wastes at a rate of 115 pounds per person at this location.

Delivery Information Acquisition Device

The DIAD is a hand-held computer that our drivers carry to electronically record delivery information, including recipient signature. The DIAD eliminates the use of 59 million sheets of paper a year, saving 5,187 trees per year annually. Currently, UPS drivers in 43 countries, including the U.S., Canada, Mexico, China, Japan and most of Western Europe, use the DIAD.

Hazardous and Nonhazardous Wastes

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

Nonhazardous Wastes

The vast majority of wastes from aircraft, vehicles and facility maintenance are managed as nonhazardous wastes. These wastes, which are disposed of or recycled through many vendors, represent approximately 90 percent of the combined hazardous and nonhazardous wastes. Our responsibility for these wastes includes ensuring that wastes are properly disposed of or recycled.

- Used oil is recycled or used for energy recovery.
- We reuse antifreeze until it is spent, and then it is either recycled or properly disposed of.
- UPS recognizes scrap tires pose a significant environmental issue when improperly disposed of. That's why we work closely with vendors to develop specifications for retread tires that ensure quality and safety. Quality retreads enable UPS to reuse tires — stretching our resources while benefiting the environment.



Hazardous and Nonhazardous Wastes (cont.)

Hazardous Wastes

Only 10 percent of our wastes are managed as hazardous wastes. Hazardous wastes are managed through select vendors to ensure responsible disposal. We audit our vendors with third-party consultants on a regular basis to ensure compliance and proper management of wastes. In 2005, UPS's operating facilities in the U.S. generated 698 tons of hazardous waste.



2007 Goals

- Ensure consistent, responsible management of hazardous and nonhazardous wastes.
- Reduce the amount of hazardous waste generated by our operations through recycling and source reduction initiatives.
- Work with customers to improve their packaging materials and techniques.

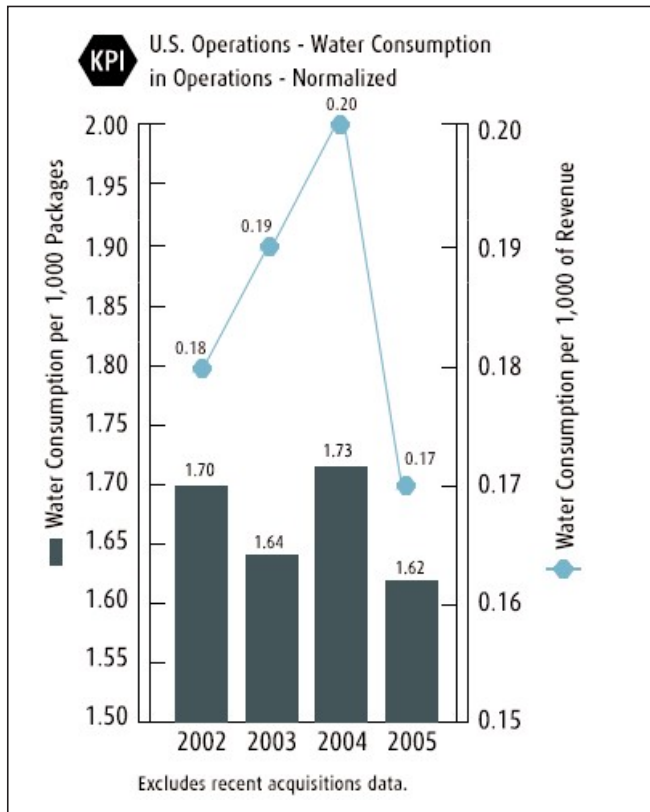
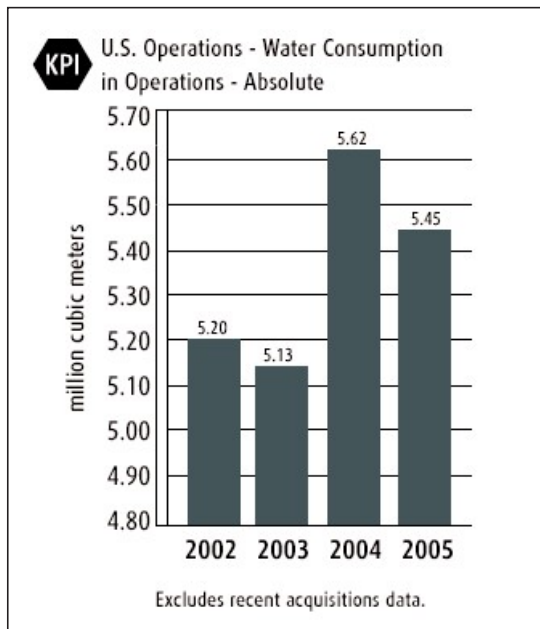
Package Design Initiatives

The UPS Package Design and Test Lab works with customers to ensure they are making proper packaging selections. The lab recently developed new box strength guidelines for small package carrier shipments. Ensuring that our customers are using proper packaging materials and packing techniques helps facilitate damage-free shipments.

Water Consumption and Conservation

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

UPS consumes more than 1.4 billion gallons of water each year in its facilities, maintenance operations and vehicle washing operations. We are committed to researching and implementing conservation initiatives.



Water Consumption and Conservation (cont.)

Goal: Pending

Tracking water consumption has proven to be more complicated than initially anticipated. In the U.S., we have more than 1,900 water accounts with more than 1,000 unique suppliers using 16 different units of measurement.

Water consumption decreased in 2005.

Initiatives

- **Vehicle Washing Policy:** In 1995, we changed our policy for washing delivery vehicles, saving 365 million gallons of water annually. Instead of washing them every day, we wash them as needed to maintain their appearance.
- **Water reclamation systems:** 24 UPS facilities have wash tunnels equipped with active systems to reclaim water for reuse.
- **Vehicle Wash Agent (VWA):** UPS uses an environmentally friendly enzyme wash agent that has the following benefits:
 - Neutral pH, 100 percent biodegradable and nonhazardous with by-products of carbon dioxide and water;
 - Cleans oil, grease and algae from drains, floor and walls of wash tunnels;
 - Improves the quality of wastewater discharge;
 - Saves approximately US\$1 million per year in materials and water.

Environmental Management System

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

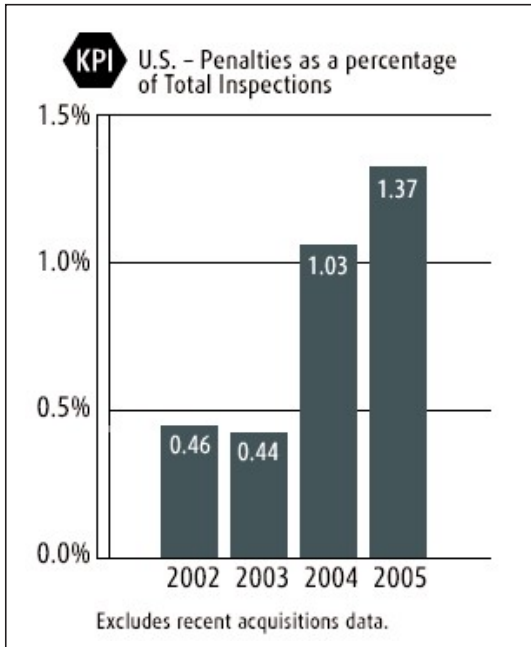
While we comply with all applicable government regulations, we also exceed requirements on many initiatives. Our training and auditing programs identify areas for improvement and outline strategies for achieving it. More than 1,000 employees have received training since 1991, and results of annual audits are reported to UPS's senior management.

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



Agency Environmental Inspections

In 2005, U.S. federal and state environmental agencies conducted 656 inspections at UPS facilities. Nine of those inspections resulted in penalties, totaling US\$8,999. This measurement is a snapshot of our past performance, which now includes UPS Supply Chain Solutions (U.S. only). The number of inspections is controlled by federal and state agencies. Despite the increase that resulted in 2005, this low number of penalties is a direct reflection of the quality of our environmental management system.



2007 Goal

This measurement is a lagging indicator. No goal intended.

Initiatives

- UPS maintains environmental compliance by annually certifying its internal environmental auditors and by continuously focusing on the quality of the environmental programs and standards in its operations.
 - 106 environmental auditors have completed our annual internal certification process;
 - Additionally, 710 employees that have achieved fuel management systems certification.

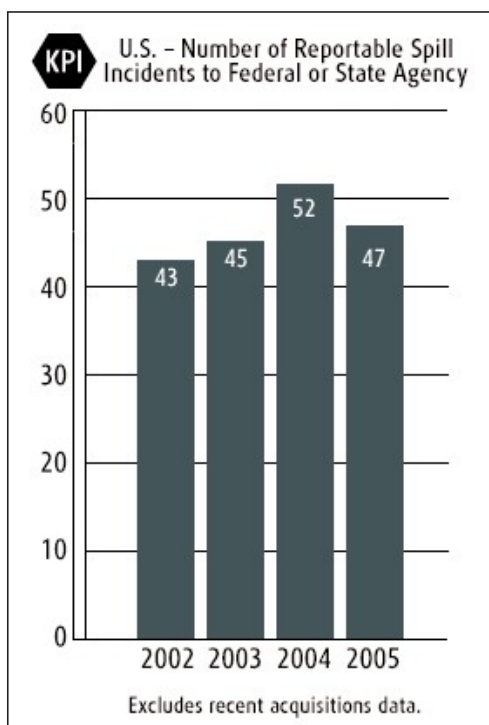
Underground Storage Tanks

To comply with EPA regulations set forth in 1988, UPS removed, replaced or upgraded all of our underground storage tanks two years before the deadline at a cost of more than US\$100 million. Today we have approximately 1,062 total underground gas and diesel tanks in the U.S. These tanks utilize extensive protective measures, including leak-detection systems, redundant spill and overfill protection devices and built-in electrical interlocks and timers.

Incidental Spills

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

We have a “zero spill” objective in our operations, which is an aggressive goal for a company delivering nearly 15 million packages daily with 91,000 vehicles.



2007 Goal

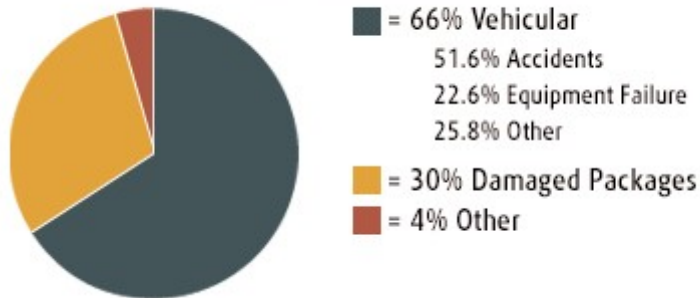
Reduce spills to as close to zero as possible.

In 2005, reportable spills decreased from 52 to 47. Spill volume decreased to 1,362 gallons.

As the breakdown in the second chart on the next page indicates, 66 percent of 2005 spills are from vehicle incidents including accidents and equipment failures.

Incidental Spills (cont.)

U.S. – Breakdown of 2005 Spill Incidents by Type



Initiatives

- Reduce auto accidents.
- Maintain environmental management controls.
- Reduce improperly packaged items by educating customers on proper packaging techniques. The UPS Package Design and Test Lab recently developed new box strength guidelines for small package carrier shipments. Ensuring that our customers are using proper packaging materials and packing techniques helps facilitate damage-free shipments.

Aircraft Deicing Runoff

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

Conclusion

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

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





Operating in Unison

UPS Corporate Sustainability Report

2005 Executive Summary

Published July 2006

The Future

Significant advances in technology, globalization and consumerism over the past several years have ushered in a new age of commerce. To date, the supply chain has generally been managed in a linear fashion, where the movement of goods, information and funds are at best loosely connected. The emerging practice of “synchronizing commerce” is part of a vast marketplace in which goods, information and funds flow with speed, precision, security and efficiency.

UPS manages supply chains for companies large and small in 150 countries. UPS helps small businesses act like large ones by providing access to a broad portfolio of services, technology and funding. By helping businesses better manage demand and supply cycles, synchronized commerce comes with the promise of creating new and lasting growth opportunities around the world by engaging more people in global trading.

UPS is an integral player in the world of synchronized commerce. We help our customers streamline their operations and integrate their supply chains to better serve their customers, drive efficiencies, eliminate waste and create more sustainable business models. We also have worked with customers to help them design and facilitate their own recycling needs.

We have invested billions of dollars to create an unparalleled worldwide infrastructure of physical assets, technology and people that positions us to capitalize on the opportunities that synchronized global commerce presents.

As a result, we have great confidence in our future prospects. However, in the spirit of constructive dissatisfaction that has driven UPS for nearly a century, we recognize that there is work to be done to become an even more sustainable enterprise in the next century.

Our approach balances the economic, environmental and social aspects of our business. This includes, but is not limited to:

Economic

- Maintaining a profitable company that provides competitive returns to our shareholders.
- Growing our business by bringing added value to customers through a wide array of solutions to meet their needs.
- Improving business efficiency.
- Supporting and stimulating the removal of barriers that inhibit the flow of commerce among trading partners and nations.
- Being a catalyst for economic development in the places we operate.



Social

- Extending our equal opportunity practices to more countries.
- Seeking solutions that provide UPS share ownership opportunities for employees worldwide.
- Investing in more training and development opportunities for our people around the world, giving them the tools to sustain safe, productive and meaningful careers.
- Developing and implementing a comprehensive strategy and protocols for philanthropy, community involvement and volunteerism wherever we operate in the world.
- Being a catalyst for economic development in the places we operate.

Environmental

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

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

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