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UNITED PARCEL SERVICE
1998 ANNUAL REPORT
TO SHAREOWNERS

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We are...

united parcel service
OF AMERICA, INC.

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1998 awards and highlights

UPS receives President's Circle Award



Big Brothers Big Sisters of America (BBBSA) presented UPS with a 1998 President's Circle Award. BBBSA received a \$400,000 grant from The UPS Foundation as part of the Foundation's Volunteer Impact Initiative. BBBSA — which will use the funds to develop a prototype school-based mentoring program — saluted UPS for celebrating the value of volunteers.

UPS is "Most Admired" on FORTUNE list

FORTUNE magazine named UPS "America's Most Admired Transportation Company" in the Mail, Package & Freight category for the 15th consecutive year in its annual listing of "America's Most Admired Companies." FORTUNE also ranked UPS, for the first time, as "World's Most Admired Package Delivery Company," resulting from a survey that asked executives and analysts to rank industry leaders in such traits as innovation, quality of management, employee talent, global effectiveness, and quality of products.

UPS recognized for NAACP involvement



The National Association for the Advancement of Colored People (NAACP) awarded UPS first place in the 1998 Exhibitors' Award category at the organization's July conference. UPS sponsors, and is involved in, other civic organization national conferences as well, including The National Council of LaRaza, the National Urban League, and the Organization of Chinese Americans.

Web site rated among world's best

A Global Internet 100 Survey, sponsored by *The Economist* magazine and Novell, ranked UPS's Web site first in the transportation category and 17th in the world. The site was described in survey responses as clever, quick-loading, and graphically appealing. The parcel tracking facility was also conveyed as a real tool.

Commitment to minority business development acknowledged



The Georgia Minority Supplier Development Council (GMSDC) granted its highest tribute to UPS, naming it "1997 Corporation of the Year." This award honors a company that shows unfailing commitment to supplier diversity development through purchases, technical and managerial assistance, and sponsorship of minority firms and programs.

UPS inducted into Urban League Hall of Fame

UPS was one of 35 companies inducted into the National Urban League Hall of Fame, which honors those companies that have contributed considerable time and effort to help the League work toward fostering equal opportunity. Award recipients display the leadership that results in notable contributions to the equal rights cause. The National Urban League recognizes the efforts of people, like those at UPS, who maintain the standard of equal opportunity. UPS's support for the Urban League began in 1962.

DaimlerChrysler presents Platinum Pentastar



UPS received the most prestigious award DaimlerChrysler presents to its suppliers, the 1998 Platinum Pentastar. This is the third time UPS has been named "best in class" for DaimlerChrysler's entire supplier base. More than 8,000 suppliers are evaluated annually in the areas of quality, service, performance, and cost reduction. UPS's achievements included the successful start-up of international express business

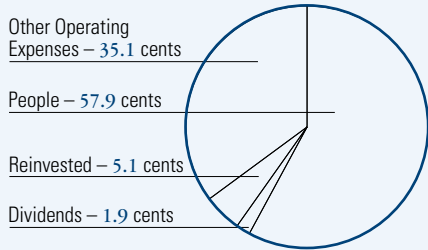
from Metro Detroit District to Mexico, \$1.5 million in DaimlerChrysler Extended Enterprise cost savings, on-time payroll material performance, and distribution of the new company's Day One announcements.

financial highlights

| (In millions) | Years Ended December 31 | | |
|----------------------|-------------------------|----------|----------|
| | 1998 | 1997 | % Change |
| Revenue | \$24,788 | \$22,458 | 10.4 |
| Operating expenses | 21,698 | 20,760 | 4.5 |
| Net income | 1,741 | 909 | 91.5 |
| Assets | 17,067 | 15,912 | 7.3 |
| Capital expenditures | 1,645 | 1,984 | (17.1) |
| Long-term debt | 2,191 | 2,583 | (15.2) |
| Shareowners' equity | 7,173 | 6,087 | 17.8 |

how our dollar was spent

(In cents)



"Other Operating Expenses" are incurred for the use and upkeep of aircraft, vehicles, and buildings, and for supplies, services, other operating expenses, and taxes.

"People" expenses are incurred for the work and benefit of the people serving UPS, including vacations, holidays, health and welfare benefits, social security taxes, and compensation insurance.

"Reinvested" funds are used to purchase such assets as aircraft, vehicles, and facilities needed to support current and future growth.

"Dividends" are paid to shareowners as a return on their investment in the business.

16.4 million shares purchased in 1998

Employees purchased more than 16.4 million shares of UPS stock in 1998, an increase of 11.7 million shares over 1997. In addition, union-free employees also participating in the UPS SavingsPLUS Plan received a stock match, in 1998, of nearly 1 million shares.

Of the 16.4 million shares, 1.1 million shares were purchased through our payroll deduction plan, and the remaining 15.3 million shares were purchased directly by our employees. The number of employee shareowners increased by 2,846 to 91,435.

Shareowner services

Account information and transactions are handled by First Union National Bank at the following addresses:

For U.S. Mail senders:
United Parcel Service of America, Inc.
c/o First Union National Bank
P.O. Box 41784
Philadelphia, PA 19101-1784

For UPS Next Day Air senders:

United Parcel Service of America, Inc.
c/o First Union National Bank
Attn: Employee Shareholder Services
123 South Broad Street
Philadelphia, PA 19109-1199

The bank operates a UPS Shareholder Services toll-free line: 1-888-663-8325. When you reach that number, simply select the telephone option that best meets your needs. Shareowners outside the United States should call (215) 985-8569 or the 1-888 number.

In January 1999, First Union introduced additional features to its Voice Response Unit (VRU), allowing shareholders to access information in their personal accounts by entering their account number and a personal identification number (PIN). The bank will also introduce an Internet Web Site that will allow access to shareholder account information by entering your account number and the same PIN as the VRU.

Employee shareowners can obtain the most commonly used stock transaction forms either from their manager, UPS's Internal Web, or First Union's Internet Web Site. Non-employee shareowners can obtain stock transaction forms from their local UPS district or region office, the First Union Internet Web Site, or by calling First Union National Bank in Philadelphia at its 1-888 number.

UPS Shareowner Relations introduced an "Investor Relations" Internal Web Site earlier this year. This site provides information on frequently asked questions, on-line forms, and access via the Internet to First Union National Bank, where you can obtain information regarding your personal account.