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independent auditors' report

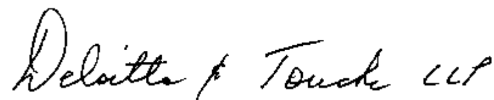
Board of Directors and Shareowners
United Parcel Service, Inc.
Atlanta, Georgia

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

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

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

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



Atlanta, Georgia
January 31, 2000

consolidated balance sheets

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

See notes to consolidated financial statements.

statements of consolidated income

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

See notes to consolidated financial statements.

statements of consolidated shareowners' equity

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

See notes to consolidated financial statements.

statements of consolidated cash flows

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

See notes to consolidated financial statements.

notes to consolidated financial statements

note 1 · SUMMARY OF ACCOUNTING POLICIES

Reporting Entity

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

Initial Public Offering of Common Shares

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

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

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

Basis of Financial Statements and Business Activities

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

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

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

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

Cash and Cash Equivalents

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

Marketable Securities

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

Common Stock Held for Stock Plans

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

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

Property, Plant and Equipment

Property, plant, and equipment are carried at cost. Depreciation (including amortization) is provided by the straight-line method over the estimated useful lives of the assets, which are as follows: Vehicles – 9 years; Aircraft – 12 to 20 years; Buildings – 20 to 40 years; Leasehold Improvements – lives of leases; Plant Equipment – 5 to 8 ⅓ years.

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

Costs in Excess of Net Assets Acquired

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

Impairment of Long-Lived Assets

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

Income Taxes

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

Capitalized Interest

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

Derivative Instruments

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

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

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

notes to consolidated financial statements

Stock Option Plans

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

Segment Information

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

Capitalized Software

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

Changes in Presentation

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

note 2 LONG-TERM DEBT AND COMMITMENTS

Long-term debt, as of December 31, consists of the following:

(in millions)	1999	1998
8 3/8% debentures, due April 1, 2020 *(i)*	$ 424	$ 424
8 3/8% debentures, due April 1, 2030 *(i)*	276	276
Commercial paper *(ii)*	102	112
Industrial development bonds, Philadelphia Airport facilities, due December 1, 2015 *(iii)*	100	100
Special facilities revenue bonds, Louisville Airport facilities, due January 1, 2029 *(iv)*	149	–
Floating rate senior notes, due October 26, 2049 *(v)*	55	–
Capitalized lease obligations *(vi)*	558	598
5.5% Eurobond notes, due January 4, 1999	–	200
3.25% 200 million Swiss Franc notes, due October 22, 1999	–	166
6.875% 100 million Pound Sterling notes,due February 25, 2000	166	166
6.625% EuroNotes, due April 25, 2001	200	200
6.25% EuroNotes, due July 7, 2000	300	301
4.5% 100 million Singapore Dollar notes, due November 11, 2004	60	–
Installment notes, mortgages and bonds at various rates from 4.1% to 7.0%	34	58
	2,424	2,601
Less current maturities	(512)	(410)
	$ 1,912	$ 2,191

(i) On January 22, 1998, we exchanged $276 million of the original $700 million debentures for new debentures of equal principal with a maturity of April 1, 2030. The new debentures have the same interest rate as the 8 3/8% debentures due 2020 until April 1, 2020, and, thereafter, the interest rate will be 7.62% for the final 10 years. The new 2030 debentures are redeemable in whole or in part at the option of the Company at any time. The redemption price is equal to the greater of 100% of the principal amount and accrued interest or the sum of the present values of the remaining scheduled payouts of principal and interest thereon discounted to the date of redemption at a benchmark treasury yield plus five basis points plus accrued interest. The remaining $424 million of 2020 debentures are not subject to redemption prior to maturity. Interest is payable semiannually on the first of April and October for both debentures, and neither debenture is subject to sinking fund requirements.

(ii) The weighted average interest rate on the commercial paper outstanding as of December 31, 1999 and 1998, was 5.8% and 5.1%, respectively. The commercial paper has been classified as long-term debt in accordance with our intention and ability to refinance such obligations on a long-term basis under our revolving credit facilities. However, the amount of commercial

paper outstanding in 2000 is expected to fluctuate. We are authorized to borrow up to $2.0 billion under this program as of December 31, 1999.

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

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

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

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

(in millions)	***1999***	*1998*
Aircraft	***$ 614***	*$ 614*
Accumulated amortization	***(59)***	*(38)*
	$ 555	*$ 576*

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

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

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

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

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

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

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

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

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

note 3. EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted earnings per share:

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

note 4 · LEGAL PROCEEDINGS AND CONTINGENCIES

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

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

We anticipate that the IRS will take similar positions for tax years subsequent to 1990. Based on the Tax Court opinion, we currently estimate that our total after-tax exposure for the tax years 1984 through 1999 could be as high as $2.353 billion. We are in the process of analyzing our position in light of the Tax Court opinion and are evaluating our options, including appeal of the Tax Court decision, continuance of the litigation, or negotiation of a settlement.

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

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

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

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

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

We believe that our practice of expensing the items that the IRS alleges should have been capitalized is consistent with the practices of other industry participants. We expect that we will prevail on substantially all of these issues. Should the IRS prevail, however, unpaid interest on these adjustments through 1999 could aggregate up to $270 million, after the benefit of related tax deductions. The IRS's proposed adjustments include penalties and penalty interest. We believe that the possibility that such penalties and penalty interest will be sustained is remote. The IRS may take similar positions with

respect to some of these issues for each of the years from 1991 through 1999. We believe the eventual resolution of these issues will not result in a material adverse effect upon our financial condition, results of operations, or liquidity.

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

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

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

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

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

note 5. EMPLOYEE BENEFIT PLANS

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

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

notes to consolidated financial statements

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

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

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

Net periodic benefit cost for the years ended December 31 included the following components:

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

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

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

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

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

(in millions)	1% Increase	1% Decrease
Effect on total of service and interest cost components	$ 11	$ (13)
Effect on post retirement benefit obligation	$ 91	$ (109)

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

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

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

note 6. INCENTIVE COMPENSATION PLANS

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

Management Incentive Awards

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

Nonqualified and Incentive Stock Options

We maintain fixed stock option plans under which options are granted to purchase shares of UPS common stock. Prior to adoption of the UPS Incentive Compensation Plan, these options were granted at the current price of UPS shares as determined by the Board of Directors on the date of option grant. Stock options granted in connection with the UPS Incentive Compensation Plan must be at least equal to the NYSE closing price of UPS stock on the date the option was granted. We apply the measurement provisions of APB Opinion 25 and related Interpretations in accounting for these plans.

notes to consolidated financial statements

Accordingly, no compensation expense has been recorded for the grant of stock options during 1999, 1998, or 1997. Pro forma information regarding net income and earnings per share has been determined as if we accounted for our employee stock options under the fair value method of FAS 123. For purposes of pro forma disclosures, the estimated fair value of the options granted in 1999, 1998, and 1997 is amortized to expense over the vesting period of the options.

The pro forma information is as follows :

(in millions except per share amounts)		1999	1998	1997
Net income	As reported	$ 883	$ 1,741	$ 909
	Pro forma	$ 870	$ 1,734	$ 904
Basic earnings per share	As reported	$ 0.79	$ 1.59	$ 0.82
	Pro forma	$ 0.78	$ 1.59	$ 0.82
Diluted earnings per share	As reported	$ 0.77	$ 1.57	$ 0.81
	Pro forma	$ 0.76	$ 1.56	$ 0.81

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

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

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

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

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

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

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

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

note 7 · INCOME TAXES

The provision for income taxes for the years ended December 31 consists of the following:

(in millions)	1999	1998	1997
Current:			
Federal	$ 834	$ 917	$ 455
State	99	127	76
Total Current	933	1,044	531
Deferred:			
Federal	236	104	100
State	36	13	13
Total Deferred	272	117	113
Total	$ 1,205	$ 1,161	$ 644

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

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

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

notes to consolidated financial statements

Deferred tax liabilities and assets are comprised of the following at December 31:

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

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

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

note 8. DEFERRED TAXES, CREDITS AND OTHER LIABILITIES

Deferred taxes, credits and other liabilities, as of December 31, consist of the following:

(in millions)	1999	1998
Deferred federal and state income taxes	$ 2,373	$ 1,954
Insurance reserves	829	704
Other credits and noncurrent liabilities	267	359
	$ 3,469	$ 3,017

note 9. OTHER OPERATING EXPENSES

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

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

note 10. SEGMENT AND GEOGRAPHIC INFORMATION

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

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

Segment information as of, and for the years ended, December 31, is as follows:

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

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

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

Revenue by product type for the years ended December 31, is as follows:

(in millions)	1999	1998	1997
Letters, packages, and cargo	$26,043	$24,049	$21,935
Other	1,009	739	523
	$27,052	$24,788	$22,458

Geographic information as of, and for the years ended December 31, is as follows:

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

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

note 11 · MARKETABLE SECURITIES AND SHORT-TERM INVESTMENTS

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

1999	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. government securities	$ 179	$ –	$ 3	$ 176
U.S. corporate securities	1,205	1	4	1,202
Other debt securities	610	–	1	609
Total debt securities	1,994	1	8	1,987
Equity securities	87	5	5	87
	$ 2,081	$ 6	$ 13	$ 2,074

1998	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. government securities	$ 194	$ 2	$ –	$ 196
U.S. corporate securities	188	2	–	190
Other debt securities	2	–	–	2
Total debt securities	384	4	–	388
Equity securities	6	–	5	1
	$ 390	$ 4	$ 5	$ 389

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

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

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

note 12 · QUARTERLY INFORMATION (unaudited)

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

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

management's discussion and analysis
of financial condition and results of operations

Operations

1999 Compared to 1998

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

1998 Compared to 1997

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

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

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

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

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

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

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

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

** Not meaningful*

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

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

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

Liquidity and Capital Resources

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

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

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

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

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

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

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

We anticipate that the IRS will take similar positions for tax years subsequent to 1990. Based on the Tax Court opinion, we currently estimate that our total after-tax exposure for the tax years 1984 through 1999 could be as high as $2.353 billion. We are in the process of analyzing our position in light of the Tax Court opinion and are evaluating our options, including appeal of the Tax Court decision, continuance of the litigation, or negotiation of a settlement. In the second quarter 1999 financial statements, we recorded a tax assessment charge of $1.786 billion, which included an amount for related state tax liabilities. The charge included taxes of $915 million and interest of $871 million. This assessment resulted in a tax benefit of $344 million related to the interest component of the assessment. As a result, our net charge to net income for the tax assessment was $1.442 billion, increasing our total after-tax reserve at that time with respect to these matters to $1.672 billion. The tax benefit of deductible interest is included in income taxes; however, since none of the income on which this tax assessment is based is our income, we have not classified the tax charge as income taxes.

We determined the size of our reserve with respect to these matters in accordance with generally accepted

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

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

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

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

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

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

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

Following is a summary of capital expenditures:

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

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

We anticipate capital expenditures of approximately $2.1 billion in 2000 and $2.6 billion in 2001. These expenditures will provide for replacement of existing capacity and anticipated future growth and include the projected cost of capitalized software.

Market Risk

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

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

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

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

Future Accounting Changes

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

Impact of the Year 2000 Issue

Introduction

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

State of Readiness

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

Costs to Address the Year 2000 Issue

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

Contingency Plans

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

Forward-Looking Statements

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

selected financial data

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

Selected Income Statement Data

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

Selected Balance Sheet Data

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

common stock

Price and Dividend Information

Prior to November 10, 1999, UPS Common Stock was not listed on a securities exchange and was not sold in the organized over-the-counter markets.

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

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

The prices at which we have published notices of our willingness to purchase shares from January 1, 1998, to November 9, 1999, as well as dividends declared during this period, are as follows:

1998 Dates	Price	Dividends Declared
January 1 to February 26	$ 15.38	$ –
February 27 to May 21	$ 16.00	$ –
May 22 to August 19	$ 17.00	$ 0.20
August 20 to November 18	$ 18.50	$ –
November 19 to February 17, 1999	$ 20.00	$ 0.23

1999 Dates	Price	Dividends Declared
February 18 to May 19	$ 21.50	$ –
May 20 to August 18	$ 23.50	$ 0.28
August 19 to November 9	$ 25.50	$ –

On November 10, 1999, the Company's Class B common shares began to trade on the New York Stock Exchange under the ticker symbol "UPS." From the period of November 10 to December 31, 1999, the quoted price on the New York Stock Exchange for the Class B shares fluctuated between $61.00 and $76.94, with a December 31, 1999 closing price of $69.00. We declared a $0.30 dividend on November 18, 1999, payable to holders of both Class A and Class B common stock.

As the Class B shares have the same equitable interest in the earnings of the Company and the same dividend payments as the Class A shares, we expect that the market price of our Class B common stock will determine the value of our Class A common stock. As of March 10, 2000, there were approximately 125,100 and 6,250 record holders of Class A and Class B common stock, respectively.