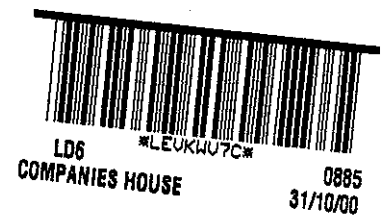


UPS LIMITED

Report and Financial Statements

31 December 1999

**Deloitte & Touche
Hill House
1 Little New Street
London EC4A 3TR**



REPORT AND FINANCIAL STATEMENTS 1999

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REPORT AND FINANCIAL STATEMENTS 1999

OFFICERS AND PROFESSIONAL ADVISORS

DIRECTORS

J Smith
B Meyer
H Mensing
J D Warrick

SECRETARY

J Smith

REGISTERED OFFICE

UPS House
Forest Road
Feltham
Middlesex TW13 7DY

SOLICITORS

Lovell, White and Durrant
65 Holborn Viaduct
London EC1A 2DY

AUDITORS

Deloitte & Touche
Chartered Accountants
Hill House
1 Little New Street
London EC4A 3TR

DIRECTORS' REPORT

The directors submit their report and financial statements for the year ended 31 December 1999.

PRINCIPAL ACTIVITIES AND REVIEW OF THE BUSINESS

The principal activities of the company are to provide domestic and international parcel delivery services and the provision of Customs clearance facilities for inbound parcels, incorporating a delivery service within the United Kingdom for parcels that originate from the United Parcel Service worldwide network.

FUTURE PROSPECTS

The company intends to continue to expand its operations both domestically and internationally.

RESULTS AND DIVIDENDS

The loss for the year before taxation was £10,677,496 (1998 - £10,747,374). The directors do not recommend the payment of a dividend (1998 - £nil).

United Parcel Service Inc., the company's ultimate parent company, has agreed to make sufficient finance available to the company to enable it to meet its obligations as they fall due.

DIRECTORS AND THEIR INTERESTS

The following directors held office throughout the year:

J Smith	
B Meyer	
R Pulito	(resigned 25 September 2000)
H Mensing	
J D Warrick	(appointed 25 September 2000)

No director had any interests in the share capital of the company during the year. There are no disclosable interests in shares of other group companies.

EMPLOYMENT OF DISABLED PERSONS

Disabled persons are employed by the company when they appear to be suited to a particular vacancy. The particular aptitudes and abilities of disabled persons are more easily met in certain aspects of our business, particularly in connection with clerical work, and every effort is made to ensure that they are given full and fair consideration when such vacancies arise. In the event that any employee should become disabled while in our employment every effort is made to ensure continuing employment within the company.

EMPLOYEE INVOLVEMENT

The company recognises the need to provide information to employees on issues affecting them and the performance of the company. This is achieved through periodic management meetings and the publication of information bulletins.

SUPPLIER PAYMENT POLICY

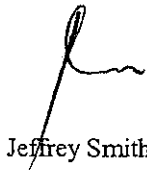
The company's policy for the payment of its suppliers is to agree the terms of payment in advance and, provided a supplier performs in accordance with the agreement, to abide by such terms.

DIRECTORS' REPORT

AUDITORS

Deloitte & Touche have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors
and signed on behalf of the Board



Jeffrey Smith

27 Oct. 2000

2000

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed;
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

AUDITORS' REPORT TO THE MEMBERS OF UPS LIMITED

We have audited the financial statements on pages 5 to 15 which have been prepared under the accounting policies set out on pages 8 and 9.

Respective responsibilities of directors and auditors

As described on page 4 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 1999 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche
Chartered Accountants and
Registered Auditors

27 October 2000

PROFIT AND LOSS ACCOUNT
Year ended 31 December 1999

	Note	1999 £	1998 £
TURNOVER	2	206,243,243	178,580,495
Cost of sales		(172,401,848)	(149,245,521)
Gross profit		33,841,395	29,334,974
Administrative expenses		(44,075,289)	(39,618,629)
OPERATING LOSS ON ORDINARY ACTIVITIES BEFORE INTEREST		(10,233,894)	(10,283,655)
Interest receivable and similar income		58,732	82,930
Interest payable and similar charges	3	(502,333)	(546,649)
LOSS ON ORDINARY ACTIVITIES BEFORE AND AFTER TAXATION FOR THE FINANCIAL YEAR	4	(10,677,495)	(10,747,374)
Loss brought forward		(45,285,612)	(34,538,238)
Loss carried forward		(55,963,107)	(45,285,612)


All activities are continuing. There are no recognised gains or losses in the year or the preceding year other than those disclosed in the profit and loss account.

BALANCE SHEET
31 December 1999

	Note	1999 £	1998 £
FIXED ASSETS			
Intangible assets	6	5,646,815	8,161,705
Tangible assets	7	30,686,698	31,530,599
Investments	8	2,349,356	2,349,356
		<u>38,682,869</u>	<u>42,041,660</u>
CURRENT ASSETS			
Stocks	9	374,429	133,459
Debtors	10	69,752,564	61,855,864
Cash at bank and in hand		1,830,887	5,690,645
		<u>71,957,880</u>	<u>67,679,968</u>
CREDITORS: amounts falling due within one year	11	<u>(136,586,078)</u>	<u>(123,258,660)</u>
NET CURRENT LIABILITIES		<u>(64,628,198)</u>	<u>(55,578,692)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>(25,945,329)</u>	<u>(13,537,032)</u>
CREDITORS: amounts falling due after more than one year	12	<u>(1,891,173)</u>	<u>(3,621,974)</u>
TOTAL NET LIABILITIES		<u>(27,836,502)</u>	<u>(17,159,006)</u>
CAPITAL AND RESERVES			
Called up share capital	15	2,000	2,000
Share premium account	16	28,124,606	28,124,606
Profit and loss account – deficit		<u>(55,963,107)</u>	<u>(45,285,612)</u>
EQUITY SHAREHOLDERS' DEFICIT	17	<u>(27,836,501)</u>	<u>(17,159,006)</u>

These financial statements were approved by the Board of Directors on 27 Oct. 2000.

Signed on behalf of the Board of Directors



Jeffrey Smith

NOTES TO THE ACCOUNTS
Year ended 31 December 1999**1. ACCOUNTING POLICIES**

The financial statements are prepared in accordance with applicable accounting standards. The particular accounting policies adopted are described below.

Accounting convention

The financial statements are prepared under the historical cost convention.

Group accounts

The company has taken advantage of the exemption granted under section 228 of the Companies Act 1985 not to produce group accounts, since it is a subsidiary of UPS (UK) Limited which itself produces consolidated financial statements which include the results of UPS Limited.

Intangible fixed assets

Goodwill arising on the purchase of unincorporated businesses is amortised over ten years in common with the policy of the ultimate parent company.

Tangible fixed assets

Depreciation of tangible fixed assets is provided at rates calculated to reduce their cost to estimated realisable value at the end of their anticipated useful lives.

The rates used and applied to original cost are such as will fully depreciate the assets over the following periods:

Freehold buildings	20 to 40 years
Leasehold premises	Over life of lease
Furniture and equipment	3 to 10 years
Motor vehicles	3 to 11 years

Freehold land has not been depreciated.

Investments

Investments held as fixed assets are stated at cost less provision for impairment.

Stocks

Stocks are stated at the lower of cost and net realisable value.

Foreign currency

Transactions denominated in foreign currencies are translated into sterling at the rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rates ruling at that date. These translation differences are dealt with in the profit and loss account.

Pension costs

The expected cost of providing pensions, as calculated periodically by professionally qualified actuaries, is charged to the profit and loss account so as to spread the cost over the service lives of employees in the schemes, in such a way that the pension cost is a substantially level percentage of current and expected future pensionable payroll.

NOTES TO THE ACCOUNTS

Year ended 31 December 1999

1. ACCOUNTING POLICIES (continued)

Leases

Assets held under finance leases and the related lease obligations are recorded in the balance sheet at the fair value of the leased assets at the inception of the leases. The amounts by which the lease payments exceed the recorded lease obligations are treated as finance charges which are amortised over each lease term to give a constant rate of charge on the remaining balance of the obligation.

Rental costs under operating leases are charged to the profit and loss account in equal amounts over the periods of the leases.

2. TURNOVER

Turnover represents the value of services provided to customers of UPS Limited for forwarding of parcels both domestically and internationally and the provision of Customs clearance facilities together with amounts invoiced to group undertakings for services rendered on their behalf. It is stated net of value added tax and duty.

Turnover and pre-tax losses were wholly attributable to the provision of services within the United Kingdom as forwarders and customs clearance agents.

3. INTEREST PAYABLE AND SIMILAR CHARGES

	1999 £	1998 £
Finance lease charges	<u>502,333</u>	<u>546,649</u>

4. LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

	1999 £	1998 £
The loss on ordinary activities before taxation was arrived at after charging:		
Auditors' remuneration:		
- Audit fees	32,000	31,000
Loss on sale of tangible fixed assets	554,719	302
Depreciation and other amounts written off tangible and intangible fixed assets:		
- Goodwill	2,514,890	2,514,890
- Owned tangible fixed assets	4,619,029	5,168,238
- Tangible fixed assets held under hire purchase contracts and finance leases	1,743,162	1,794,124
Rentals under operating leases:		
- Hire of plant and machinery	2,940,929	3,379,769
- Other operating leases	<u>5,627,967</u>	<u>4,389,516</u>

NOTES TO THE ACCOUNTS

Year ended 31 December 1999

5. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	1999 Number	1998 Number
The average weekly number of employees during the year was made up as follows:		
Office and management	766	735
Operators	1,932	1,778
	<u>2,698</u>	<u>2,513</u>
	£	£
Staff costs during the year amounted to:		
Wages and salaries	47,349,801	42,855,867
Social security costs	4,231,306	3,836,497
Other pension costs	1,252,746	732,441
	<u>52,833,853</u>	<u>47,424,805</u>

The directors of the company are also directors of the immediate parent company, UPS (UK) Limited, and their remuneration is borne by that company.

6. INTANGIBLE FIXED ASSETS

	Goodwill £
Cost	
At 1 January 1999 and at 31 December 1999	<u>24,293,595</u>
Amortisation	
At 1 January 1999	16,131,890
Provided during the year	<u>2,514,890</u>
At 31 December 1999	<u>18,646,780</u>
Net book value	
At 31 December 1999	<u>5,646,815</u>
At 31 December 1998	<u>8,161,705</u>

NOTES TO THE ACCOUNTS
Year ended 31 December 1999

7. TANGIBLE FIXED ASSETS

	Freehold land and buildings £	Short leasehold premises £	Motor vehicles £	Fixtures, fittings, tools and equipment £	Finance leased equipment and motor vehicles £	Total £
Cost						
At 1 January 1999	11,221,405	2,337,582	13,736,241	19,435,853	14,759,914	61,490,995
Additions	16,092	489,562	2,624,248	3,319,621	-	6,449,523
Disposals	(601,687)	(544,007)	(940,475)	(5,528,977)	-	(7,615,146)
Reclassification	(37,865)	37,865	(1,427)	-	1,427	-
At 31 December 1999	10,597,945	2,321,002	15,418,587	17,226,497	14,761,341	60,325,372
Depreciation						
At 1 January 1999	2,861,362	1,387,875	5,806,525	12,910,690	6,993,944	29,960,396
Provided during the year	263,158	162,334	1,523,678	2,669,859	1,743,162	6,362,191
Disposals	(357,542)	(506,746)	(915,993)	(4,903,632)	-	(6,683,913)
At 31 December 1999	2,766,978	1,043,463	6,414,210	10,676,917	8,737,106	29,638,674
Net book value						
At 31 December 1999	7,830,967	1,277,539	9,004,377	6,549,580	6,024,235	30,686,698
At 31 December 1998	8,360,043	949,707	7,929,716	6,525,163	7,765,970	31,530,599

Obligations under finance leases and hire purchase contracts are secured by the related leased assets.

Included within freehold land and buildings is land valued at £3,707,269 (1998 - £4,036,072) that is not depreciated.

NOTES TO THE ACCOUNTS
Year ended 31 December 1999

8. INVESTMENTS HELD AS FIXED ASSETS

Subsidiary
undertakings
£

Cost

At 1 January 1999 and 31 December 1999

2,349,356

The subsidiary undertakings of the company at 31 December 1999, which are all incorporated in Great Britain and registered in England and Wales, are:

Name	Class of shares held	Proportion held	Nature of business
Carryfast Holdings Limited	Ordinary	100%	Holding company
Carryfast Limited	Ordinary	*100%	Non-trading (formerly express parcel service)

* Indirect holding

In the directors' opinion the aggregate value of the shares in the subsidiary undertakings is not less than the amounts at which they are stated in the balance sheet.

9. STOCKS

	1999 £	1998 £
Consumable stores	374,429	133,459

10. DEBTORS

	1999 £	1998 £
Due in less than one year		
Trade debtors	43,487,661	34,041,105
Amounts owed by fellow subsidiary undertakings	24,192,016	25,957,112
Other debtors	455,399	371,031
Prepayments and accrued income	1,617,488	1,486,616
	69,752,564	61,855,864

NOTES TO THE ACCOUNTS

Year ended 31 December 1999

11. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	1999 £	1998 £
Obligations under hire purchase contracts and finance leases (see note 14)	2,232,382	2,698,405
Trade creditors	7,586,996	7,336,724
Amounts owed to immediate parent and fellow subsidiary undertakings	117,048,206	106,403,450
Other creditors including taxation and social security	3,457,983	3,705,127
Accruals and deferred income	6,260,511	3,114,954
	<u>136,586,078</u>	<u>123,258,660</u>

12. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	1999 £	1998 £
Obligations under hire purchase contracts and finance leases (see note 14)	<u>1,891,173</u>	<u>3,621,974</u>

13. PROVISIONS FOR LIABILITIES AND CHARGES

Deferred taxation

The amounts provided in the accounts for deferred taxation and the amounts not provided are as follows:

	Provided (assets)/liabilities		Not provided (assets)/liabilities	
	1999 £	1998 £	1999 £	1998 £
Capital allowances in excess of depreciation	-	-	375,279	(130,185)
Brought forward tax losses	-	-	(9,796,799)	(6,549,139)
Other timing differences	-	-	(720,857)	(667,696)
	<u>-</u>	<u>-</u>	<u>(10,142,377)</u>	<u>(7,347,020)</u>

NOTES TO THE ACCOUNTS
Year ended 31 December 1999

14. OBLIGATIONS UNDER HIRE PURCHASE CONTRACTS AND FINANCE LEASES

	1999 £	1998 £
Within one year	2,034,604	3,013,607
Between two and five years inclusive	2,440,246	3,803,194
Over five years	44,746	724,547
	<u>4,519,596</u>	<u>7,541,348</u>
Deduct		
Finance charges allocated to future periods	(396,042)	(1,220,969)
	<u>4,123,554</u>	<u>6,320,379</u>
Shown as		
Current obligations	2,232,382	2,698,405
Non current obligations	1,891,173	3,621,974
	<u>4,123,554</u>	<u>6,320,379</u>

15. CALLED UP SHARE CAPITAL

	1999 £	1998 £
Authorised:		
100,000 ordinary shares of £1 each	<u>100,000</u>	<u>100,000</u>
Allotted, called up and fully paid:		
2,000 ordinary shares of £1 each	<u>2,000</u>	<u>2,000</u>

16. SHARE PREMIUM ACCOUNT

	£
At 1 January 1999 and 31 December 1999	<u>28,124,606</u>

17. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS DEFICIT

	1999 £	1998 £
Loss for the financial year	<u>(10,677,495)</u>	<u>(10,747,374)</u>
Net addition to shareholders' deficit	(10,677,495)	(10,747,374)
Opening shareholders' deficit	<u>(17,159,006)</u>	<u>(6,411,632)</u>
Closing shareholders' deficit	<u>(27,836,501)</u>	<u>(17,159,006)</u>

18. PENSION SCHEMES

UPS (UK) Limited and its subsidiaries operate a group defined benefit pension scheme. The assets of the scheme are held in a separate trustee administered fund. Contributions to the scheme are made at rates

NOTES TO THE ACCOUNTS

Year ended 31 December 1999

recommended by professional independent actuaries to meet obligations arising from both past and current service using the projected unit credit method.

The latest actuarial assessment of the scheme was as at 1 April 1997. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rates of increase in salaries and pensions. It was assumed that the investment return would be 9% per annum, that salary increases would average 6.5% per annum and that present and future pensions would increase at the rate of 3% per annum.

At the date of the last actuarial valuation the market value of the assets of the scheme was £13,185,000 which was sufficient to cover 114% of the benefits that had accrued to members allowing for expected future increases in earnings.

There is currently no difference between amounts funded and accumulated pension costs charged in the profit and loss account.

19. CONTINGENT LIABILITIES

The company has entered into a Composite Accounting Agreement with its bankers whereby the bank has a full right of set-off of bank balances and interest between the company and three other group companies. At the year end there was a contingent liability as a result of this agreement of £nil (1998 - £nil).

20. OPERATING LEASE COMMITMENTS

	Land and buildings 1999 £	Land and Buildings 1998 £	Other 1999 £	Other 1998 £
Leases which expire				
Within one year	477,769	86,452	207,543	178,388
Within two to five years	1,097,100	727,550	757,126	971,182
After five years	2,143,819	2,345,149	90,747	-
	<u>3,718,688</u>	<u>3,159,151</u>	<u>1,055,416</u>	<u>1,149,570</u>

21. ULTIMATE PARENT COMPANY

The company is a subsidiary of UPS (UK) Limited which is incorporated in Great Britain and registered in England and Wales. The ultimate parent company and controlling party is United Parcel Service, Inc., incorporated in the United States of America.

Copies of the financial statements for UPS (UK) Limited are available from Companies House, Crown Way, Maindy, Cardiff CF4 3UZ. Copies of the financial statements for United Parcel Service, Inc. are available from UPS House, Forest Road, Feltham, Middlesex TW13 7DY.

The company has taken advantage of the exemption granted by paragraph 3(c) of FRS8, Related Party Disclosures, not to disclose transactions with group entities or investees of the group qualifying as related parties.

22. FINANCIAL SUPPORT

United Parcel Service, Inc. has agreed to make sufficient finance available to the company to enable it to meet its obligations as they fall due.