

UPS LIMITED

Report and Financial Statements

31 December 2001



Deloitte & Touche
London

UPS LIMITED

REPORT AND FINANCIAL STATEMENTS 2001

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UPS LIMITED

REPORT AND FINANCIAL STATEMENTS 2001

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

M Kiely
B Meyer
H Mensing
J D Warrick

SECRETARY

M Kiely

REGISTERED OFFICE

UPS House
Forest Road
Feltham
Middlesex TW13 7DY

SOLICITORS

Lovells
65 Holborn Viaduct
London EC1A 2DY

AUDITORS

Deloitte & Touche
Chartered Accountants
London

UPS LIMITED

DIRECTORS' REPORT

The directors submit their report and financial statements for the year ended 31 December 2001.

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.

The financial performance of UPS Ltd in 2001 met expectations with increases in revenue and an improved loss for the year. The outlook for 2002 is that of stability.

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 £1,377,405 (2000 - £4,771,359). The directors do not recommend the payment of a dividend (2000 - £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, except as noted:

J Smith	(resigned 1 June 2001)
M Kiely	(appointed 1 June 2001)
B Meyer	
H Mensing	
J D Warrick	

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. No creditor days figure is given as the majority of cost of sales represents intercompany charges, and hence any figure given would not be representative.

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

A handwritten signature in cursive script, appearing to read "Michael Kiely".

Mike Kiely

29/10/ 2002

STATEMENT OF DIRECTORS' RESPONSIBILITIES

United Kingdom 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 period 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 the 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 the system of internal control, for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF UPS LIMITED

We have audited the financial statements of UPS Limited for the year ended 31 December 2001 which comprise the profit and loss account, the balance sheet and the related notes 1 to 22. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities, the company's the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the directors' report for the above year and consider the implications for our report if we become aware of any apparent misstatements.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom 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 2001 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche

Deloitte & Touche
Chartered Accountants and
Registered Auditors

30 October

2002

UPS LIMITED

PROFIT AND LOSS ACCOUNT Year ended 31 December 2001

	Note	2001 £	2000 £
TURNOVER	2	274,606,558	262,127,947
Cost of sales		(224,550,260)	(205,087,728)
Gross profit		50,056,298	57,040,219
Administrative expenses		(49,854,668)	(61,653,382)
OPERATING PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE INTEREST		201,630	(4,613,163)
Interest receivable and similar income		1,490,390	78,833
Interest payable and similar charges	3	(3,069,425)	(237,029)
LOSS ON ORDINARY ACTIVITIES BEFORE AND AFTER TAXATION FOR THE FINANCIAL YEAR	4	(1,377,405)	(4,771,359)
Loss brought forward		(60,734,467)	(55,963,108)
Loss carried forward		(62,111,872)	(60,734,467)

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.

UPS LIMITED

BALANCE SHEET 31 December 2001

	Note	2001 £	2000 £
FIXED ASSETS			
Intangible assets	6	-	3,131,925
Tangible assets	7	30,544,385	30,286,037
Investments	8	2,349,356	2,349,356
		<u>32,893,741</u>	<u>35,767,318</u>
CURRENT ASSETS			
Stocks	9	309,792	357,333
Debtors	10	75,766,133	91,943,335
Cash at bank and in hand		9,341,432	5,713,064
		<u>85,417,357</u>	<u>98,013,732</u>
CREDITORS: amounts falling due within one year	11	<u>(151,686,839)</u>	<u>(165,256,029)</u>
NET CURRENT LIABILITIES		<u>(66,269,482)</u>	<u>(67,242,297)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>(33,375,741)</u>	<u>(31,474,979)</u>
CREDITORS: amounts falling due after more than one year	12	<u>(609,524)</u>	<u>(1,132,881)</u>
TOTAL NET LIABILITIES		<u>(33,985,265)</u>	<u>(32,607,860)</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>(62,111,871)</u>	<u>(60,734,466)</u>
EQUITY SHAREHOLDERS' DEFICIT	17	<u>(33,985,265)</u>	<u>(32,607,860)</u>

These financial statements were approved by the Board of Directors on
Signed on behalf of the Board of Directors

29/10/2002.

Michael Kiely

Mike Kiely

NOTES TO THE ACCOUNTS
Year ended 31 December 2001

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. Consequently, these financial statements present information about the undertaking itself rather than its group.

Intangible fixed assets

Goodwill arising on the purchase of unincorporated businesses is amortised over its useful economic life, which is generally taken to be 10 years.

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
Short leasehold premises	Over life of lease
Fixtures, fittings, tools 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.

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.

Deferred taxation

Deferred taxation is provided on timing differences arising from the different treatment of items for accounting and tax purposes, which are expected to reverse in the future, calculated at rates at which it is expected that tax will arise.

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. Disclosures required by FRS 17, Retirement Benefits, are given in N18.

NOTES TO THE ACCOUNTS
Year ended 31 December 2001

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

	2001 £	2000 £
Intercompany interest charge	2,880,600	-
Finance lease charges	188,825	237,029
	<u>3,069,425</u>	<u>237,029</u>

4. LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

	2001 £	2000 £
The loss on ordinary activities before taxation was arrived at after charging:		
Auditors' remuneration:		
- Audit fees	47,725	50,000
- Other services	40,025	16,000
Loss on sale of tangible fixed assets	224,592	21,417
Depreciation and other amounts written off tangible and intangible fixed assets:		
- Goodwill- annual amortisation	2,514,890	2,514,890
- Goodwill- reassessment of useful economic life (Note 6)	617,035	-
- Owned tangible fixed assets	4,593,753	4,422,388
- Tangible fixed assets held under hire purchase contracts and finance leases	1,621,988	1,620,944
Rentals under operating leases:		
- Hire of plant and machinery	3,752,486	3,163,004
- Other operating leases	5,716,785	5,502,323
Loss on foreign exchange	<u>1,057,188</u>	<u>2,960,595</u>

UPS LIMITED

NOTES TO THE ACCOUNTS Year ended 31 December 2001

5. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	2001 Number	2000 Number
The average weekly number of employees during the year was made up as follows:		
Office and management	832	733
Operators	2,268	1,996
	<u>3,100</u>	<u>2,729</u>
	£	£
Staff costs during the year amounted to:		
Wages and salaries	61,950,844	54,013,970
Social security costs	5,242,588	4,948,693
Other pension costs	1,633,053	1,366,609
	<u>68,826,485</u>	<u>60,329,272</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. The directors consider that it is not possible to allocate the remuneration between group companies.

6. INTANGIBLE FIXED ASSETS

	Goodwill £
Cost	
At 1 January 2001	24,143,925
At 31 December 2001	<u>24,143,925</u>
Amortisation	
At 1 January 2001	21,012,000
Provided during the year	3,131,925
At 31 December 2001	<u>24,143,925</u>
Net book value	
At 31 December 2001	-
At 31 December 2000	<u>3,131,925</u>

The directors have reassessed the useful economic life goodwill and now consider that the useful economic life has expired. Accordingly the remaining goodwill has been written off to the profit and loss account.

NOTES TO THE ACCOUNTS
Year ended 31 December 2001

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 2001	10,659,177	2,599,173	16,908,773	20,036,541	14,761,341	64,965,005
Additions	62,190	785,098	417,722	6,219,006	-	7,484,016
Disposals	(395,804)	(41,435)	(3,374,086)	(1,113,874)	-	(4,925,199)
Reclassification	(1,830)	1,830	-	-	-	-
At 31 December 2001	10,323,733	3,344,666	13,952,409	25,141,673	14,761,341	67,506,556
Depreciation						
At 1 January 2001	2,946,176	1,248,087	7,480,463	12,646,192	10,358,050	34,678,968
Provided during the year	178,738	292,839	1,579,074	2,543,102	1,651,988	6,245,741
Disposals	(119,287)	(13,133)	(2,742,659)	(1,070,193)	-	(3,945,272)
Reclassification						
At 31 December 2001	3,005,627	1,527,793	6,316,878	14,119,101	12,010,038	36,978,286
Net book value						
At 31 December 2001	7,318,106	1,816,873	7,635,531	11,022,572	2,751,303	30,544,385
At 31 December 2000	7,713,001	1,351,086	9,428,310	7,390,349	4,403,291	30,286,037

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

Included within freehold land and buildings is land at cost of £3,707,269 (2000: £3,707,269) that is not depreciated.

8. INVESTMENTS HELD AS FIXED ASSETS

	Subsidiary undertakings £
Cost	
At 1 January 2001 and 31 December 2001	2,349,356

The subsidiary undertakings of the company at 31 December 2001, 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.

UPS LIMITED

NOTES TO THE ACCOUNTS Year ended 31 December 2001

9. STOCKS

	2001 £	2000 £
Consumable stores	309,792	357,333

10. DEBTORS

	2001 £	2000 £
Trade debtors	47,085,496	56,995,003
Amounts owed by fellow subsidiary undertakings	26,959,209	33,292,893
Other debtors	185,460	294,516
Prepayments and accrued income	1,535,968	1,360,923
	<u>75,766,133</u>	<u>91,943,335</u>

11. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2001 £	2000 £
Obligations under hire purchase contracts and finance leases (see note 14)	1,041,036	1,517,505
Trade creditors	6,553,644	6,693,017
Amounts owed to immediate parent and fellow subsidiary undertakings	129,641,448	142,068,822
Other creditors including taxation and social security	6,240,264	6,659,497
Accruals and deferred income	8,210,447	8,317,188
	<u>151,686,839</u>	<u>165,256,029</u>

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

	2001 £	2000 £
Obligations under hire purchase contracts and finance leases (see note 14)	609,524	1,132,881

NOTES TO THE ACCOUNTS

Year ended 31 December 2001

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	
	2001	2000	2001	2000
	£	£	£	£
Capital allowances in excess of depreciation	-	-	1,573,523	665,400
Brought forward tax losses	-	-	(10,125,649)	(10,718,370)
Other timing differences	-	-	(1,393,318)	(1,492,800)
	-	-	(9,945,444)	(11,545,770)

14. OBLIGATIONS UNDER HIRE PURCHASE CONTRACTS AND FINANCE LEASES

	2001 £	2000 £
Within one year	1,100,757	1,627,451
Between two and five years inclusive	646,769	1,229,846
	1,747,526	2,857,297
Deduct		
Finance charges allocated to future periods	(96,965)	(206,911)
	1,650,561	2,650,386
Shown as		
Current obligations	1,041,037	1,517,505
Non current obligations	609,524	1,132,881
	1,650,561	2,650,386

15. CALLED UP SHARE CAPITAL

	2001 £	2000 £
Authorised:		
100,000 ordinary shares of £1 each	100,000	100,000
Allotted, called up and fully paid:		
2,000 ordinary shares of £1 each	2,000	2,000

16. SHARE PREMIUM ACCOUNT

	£
At 1 January 2001 and 31 December 2001	28,124,606

NOTES TO THE ACCOUNTS
Year ended 31 December 2001

17. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' DEFICIT

	2001 £	2000 £
Loss for the financial year	(1,377,405)	(4,771,359)
Net addition to shareholders' deficit	(1,377,405)	(4,771,359)
Opening shareholders' deficit	(32,607,860)	(27,836,501)
Closing shareholders' deficit	<u>(33,985,265)</u>	<u>(32,607,860)</u>

18. PENSION SCHEMES

UPS (UK) Limited and its subsidiaries operate a funded 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 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 2000. 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 7% per annum, that salary increases would average 4.5% 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 £32,679,000 which was sufficient to cover 105% 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.

Additional disclosures required by FRS 17, Retirement Benefits

As it is not possible to allocate the assets and liabilities of the group scheme between group companies, full details of the assumptions under FRS 17 and the market values of assets and liabilities for the scheme as a whole are given in the accounts of UPS (UK) Limited. Consequently, on implementation of FRS 17, the company will account for the scheme as a defined contribution scheme. As at 31 December 2001 the group scheme had a deficit of £13,172,000 and hence contributions to the scheme have been increased.

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 £5,596,914 (2000 - £4,359,962).

NOTES TO THE ACCOUNTS
Year ended 31 December 2001

20. OPERATING LEASE COMMITMENTS

	Land and buildings 2001 £	Land and buildings 2000 £	Other 2001 £	Other 2000 £
Leases which expire				
Within one year	319,225	29,375	86,309	86,309
Within two to five years	1,211,678	1,270,936	1,151,468	1,322,790
After five years	2,533,691	2,697,871	568,552	202,461
	<u>4,064,594</u>	<u>3,998,182</u>	<u>1,806,329</u>	<u>1,611,560</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 CF14 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 for a period of at least twelve months from the date of this report.