

**Deloitte &
Touche**

Deloitte Touche
Tohmatsu



Company Registration No. 1933173

UPS LIMITED

Report and Financial Statements

31 December 1998



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

REPORT AND FINANCIAL STATEMENTS 1998

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DIRECTORS' REPORT

The directors submit their report and financial statements for the year ended 31 December 1998.

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 £10,747,374 (1997 - £13,861,965). The directors do not recommend the payment of a dividend (1997 - £nil).

United Parcel Service of America 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.

YEAR 2000

The company has formulated procedures to identify the risks assessed with Year 2000 compliance. Part of this programme is to systematically review all of its computer systems. It is estimated that the costs relating to the Year 2000 programme will not have a material impact on the company.

DIRECTORS AND THEIR INTERESTS

The following directors held office throughout the year:

J Smith
B Meyer
R Pulito
H Mensing

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

25 OCTOBER 1999



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.



UPS LIMITED

AUDITORS' REPORT TO THE MEMBERS

We have audited the financial statements on pages 5 to 15 which have been prepared under the accounting policies set out on pages 7 and 8.

Respective responsibilities of directors and auditors

As described on page 3 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 1998 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

29th October 1999


PROFIT AND LOSS ACCOUNT
Year ended 31 December 1998

	Note	1998 £	1997 £
TURNOVER	2	178,580,495	150,791,925
Cost of sales		(149,245,521)	(124,641,549)
Gross profit		29,334,974	26,150,376
Administrative expenses		(39,618,629)	(39,938,953)
Other operating income	3	-	460,486
OPERATING LOSS		(10,283,655)	(13,328,091)
LOSS ON ORDINARY ACTIVITIES BEFORE INTEREST		(10,283,655)	(13,328,091)
Interest receivable and similar income		82,930	211,478
Interest payable and similar charges	4	(546,649)	(745,352)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION	5	(10,747,374)	(13,861,965)
Tax credit on loss on ordinary activities	7	-	1,250,568
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION		(10,747,374)	(12,611,397)
Retained loss brought forward		(34,538,238)	(21,926,841)
Retained loss carried forward		(45,285,612)	(34,538,238)

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 1998**

	Note	1998 £	1997 £
FIXED ASSETS			
Intangible assets	8	8,161,705	10,676,595
Tangible assets	9	31,530,599	36,053,957
Investments	10	2,349,356	2,349,356
		<u>42,041,660</u>	<u>49,079,908</u>
CURRENT ASSETS			
Stocks	11	133,459	75,875
Debtors	12	61,855,864	63,565,979
Cash at bank and in hand		5,690,645	5,864,332
		<u>67,679,968</u>	<u>69,506,186</u>
CREDITORS: amounts falling due within one year	13	(123,258,660)	(118,716,279)
NET CURRENT LIABILITIES		<u>(55,578,692)</u>	<u>(49,210,093)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		(13,537,032)	(130,185)
CREDITORS: amounts falling due after more than one year	14	(3,621,974)	(6,281,447)
TOTAL NET LIABILITIES		<u>(17,159,006)</u>	<u>(6,411,632)</u>
CAPITAL AND RESERVES			
Called up share capital	17	2,000	2,000
Share premium account	18	28,124,606	28,124,606
Profit and loss account		(45,285,612)	(34,538,238)
EQUITY SHAREHOLDERS' DEFICIT	19	<u>(17,159,006)</u>	<u>(6,411,632)</u>

These financial statements were approved by the Board of Directors on 25 OCTOBER 1999.

Signed on behalf of the Board of Directors

Jeffrey Smith

**NOTES TO THE ACCOUNTS**
Year ended 31 December 1998**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 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 1998

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. OTHER OPERATING INCOME

Other operating income represents exchange gains and losses arising from the retranslation of monetary assets and liabilities denominated in foreign currencies.

4. INTEREST PAYABLE AND SIMILAR CHARGES

	1998 £	1997 £
Finance lease charges	<u>546,649</u>	<u>745,352</u>

5. LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

	1998 £	1997 £
The loss on ordinary activities before taxation was arrived at after charging/(crediting):		
Auditors' remuneration:		
- Audit fees	31,000	26,500
- Other services		-
Loss/(Profit) on sale of tangible fixed assets	302	(263,740)
Depreciation and other amounts written off tangible and intangible fixed assets:		
- Goodwill	2,514,890	2,535,477
- Owned tangible fixed assets	5,168,238	5,533,591
- Tangible fixed assets held under hire purchase contracts and finance leases	1,794,124	1,777,400
Rentals under operating leases:		
- Hire of plant and machinery	3,379,769	2,278,056
- Other operating leases	<u>4,389,516</u>	<u>3,966,581</u>


NOTES TO THE ACCOUNTS
Year ended 31 December 1998
6. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	1998 Number	1997 Number
The average weekly number of employees during the year was made up as follows:		
Office and management	735	759
Operators	1,778	1,659
	<u>2,513</u>	<u>2,418</u>
	£	£
Staff costs during the year amounted to:		
Wages and salaries	42,855,867	38,971,953
Social security costs	3,836,497	3,531,342
Other pension costs	732,441	569,394
	<u>47,424,805</u>	<u>43,072,689</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.

7. TAX CREDIT ON LOSS ON ORDINARY ACTIVITIES

	1998 £	1997 £
Corporation tax credit on loss on ordinary activities at 31% (1997 - 33%)	<u>-</u>	<u>(1,250,568)</u>

The tax credit arises as a result of adjustments in respect of prior years. There is no current year tax charge as the company made losses in the period.

8. INTANGIBLE FIXED ASSETS

	Goodwill £
Cost	
At 1 January 1998 and at 31 December 1998	<u>24,293,595</u>
Amortisation	
At 1 January 1998	13,617,000
Provided during the year	<u>2,514,890</u>
At 31 December 1998	<u>16,131,890</u>
Net book value	
At 31 December 1998	<u>8,161,705</u>
At 31 December 1997	<u>10,676,595</u>


NOTES TO THE ACCOUNTS
Year ended 31 December 1998
9. 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 1998	11,010,100	1,318,568	14,546,101	20,367,134	14,759,914	62,001,817
Additions	11,755	171,238	209,408	2,252,290	-	2,644,691
Disposals	-	-	(992,667)	(2,162,846)	-	(3,155,513)
Reclassification	199,550	847,776	(26,601)	(1,020,725)	-	-
At 31 December 1998	<u>11,221,405</u>	<u>2,337,582</u>	<u>13,736,241</u>	<u>19,435,853</u>	<u>14,759,914</u>	<u>61,490,995</u>
Depreciation						
At 1 January 1998	2,379,020	704,510	5,380,251	12,284,259	5,199,820	25,947,861
Provided during the year	306,929	141,416	1,422,564	3,297,329	1,794,124	6,962,362
Disposals	-	-	(978,105)	(1,971,721)	-	(2,949,826)
Reclassification	175,413	541,948	(18,185)	(699,177)	-	-
At 31 December 1998	<u>2,861,362</u>	<u>1,387,874</u>	<u>5,806,526</u>	<u>12,910,690</u>	<u>6,993,944</u>	<u>29,960,396</u>
Net book value						
At 31 December 1998	<u>8,360,043</u>	<u>949,708</u>	<u>7,929,715</u>	<u>6,525,163</u>	<u>7,765,970</u>	<u>31,530,599</u>
At 31 December 1997	<u>8,631,080</u>	<u>614,058</u>	<u>9,165,850</u>	<u>8,082,875</u>	<u>9,560,094</u>	<u>36,053,957</u>

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 £4,036,072 (1997 - £4,036,072) that is not depreciated.


NOTES TO THE ACCOUNTS
Year ended 31 December 1998
10. INVESTMENTS HELD AS FIXED ASSETS

	Subsidiary undertakings £
Cost	
At 1 January 1998 and 31 December 1998	<u>2,349,356</u>

The subsidiary undertakings of the company at 31 December 1998, 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.

11. STOCKS

	1998 £	1997 £
Consumable stores	<u>133,459</u>	<u>75,875</u>

12. DEBTORS

	1998 £	1997 £
Due in less than one year		
Trade debtors	34,041,105	35,463,333
Amounts owed by fellow subsidiary undertakings	25,957,112	26,664,621
Other debtors	371,031	142,692
Prepayments and accrued income	1,486,616	1,295,333
	<u>61,855,864</u>	<u>63,565,979</u>



NOTES TO THE ACCOUNTS
Year ended 31 December 1998

13. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	1998	1997
	£	£
Obligations under hire purchase contracts and finance leases (see note 16)	2,698,405	2,367,439
Trade creditors	7,336,724	6,355,087
Amounts owed to immediate parent and fellow subsidiary undertakings	106,403,450	101,714,509
Other creditors including taxation and social security	3,705,127	3,205,844
Accruals and deferred income	3,114,954	5,073,400
	<u>123,258,660</u>	<u>118,716,279</u>

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

	1998	1997
	£	£
Obligations under hire purchase contracts and finance leases (see note 16)	<u>3,621,974</u>	<u>6,281,447</u>

15. 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		Not provided	
	(assets)/liabilities		(assets)/liabilities	
	1998	1997	1998	1997
	£	£	£	£
Capital allowances in excess of depreciation	-	-	(130,185)	(180,110)
Brought forward tax losses	-	-	(6,549,139)	(3,675,694)
Other timing differences	-	-	(667,696)	(461,900)
	<u>-</u>	<u>-</u>	<u>(7,347,020)</u>	<u>(4,317,704)</u>



NOTES TO THE ACCOUNTS
Year ended 31 December 1998

16. OBLIGATIONS UNDER HIRE PURCHASE CONTRACTS AND FINANCE LEASES

	1998 £	1997 £
Within one year	3,013,607	2,907,437
Between two and five years inclusive	3,803,194	6,359,104
Over five years	<u>724,547</u>	<u>692,519</u>
	7,541,348	9,959,060
Deduct		
Finance charges allocated to future periods	<u>(1,220,969)</u>	<u>(1,310,174)</u>
	<u>6,320,379</u>	<u>8,648,886</u>
Shown as		
Current obligations	2,698,405	2,367,439
Non current obligations	<u>3,621,974</u>	<u>6,281,447</u>
	<u>6,320,379</u>	<u>8,648,886</u>

17. CALLED UP SHARE CAPITAL

	1998 £	1997 £
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>

18. SHARE PREMIUM ACCOUNT

	£
At 1 January 1998 and 31 December 1998	<u>28,124,606</u>

19. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	1998 £	1997 £
Loss for the financial year	<u>(10,747,374)</u>	<u>(12,611,397)</u>
Net deduction from shareholders' funds	<u>(10,747,374)</u>	<u>(12,611,397)</u>
Opening shareholders' (deficit)/funds	<u>(6,411,632)</u>	<u>6,199,765</u>
Closing shareholders' deficit	<u>(17,159,006)</u>	<u>(6,411,632)</u>



NOTES TO THE ACCOUNTS
Year ended 31 December 1998

20. 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 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.

21. 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 (1997 - £nil).

22. OPERATING LEASE COMMITMENTS

	Land and buildings 1998 £	Land and Buildings 1997 £	Other 1998 £	Other 1997 £
Leases which expire				
Within one year	86,452	285,418	178,388	327,771
Within two to five years	727,550	580,650	971,182	956,815
After five years	2,345,149	2,351,229	-	-
	<u>3,159,151</u>	<u>3,217,297</u>	<u>1,149,570</u>	<u>1,284,586</u>

23. 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 of America 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 of America 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.



NOTES TO THE ACCOUNTS
Year ended 31 December 1998

24. FINANCIAL SUPPORT

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