



6.0 Economic Prosperity

UPS achieves and sustains economic prosperity through the combined strengths of a world-leading logistics network, state-of-the-art technology, and nearly 426,000 people in more than 200 countries and territories. The service that generates our revenue and income also facilitates global commerce in a more efficient and responsible manner, because it aggregates millions of shipments into one delivery network. Our operating efficiency also supports our environmental stewardship and corporate citizenship. In this section of the Report we present an overview of UPS and its economic impact, highlight our principles related to economic sustainability, and report on relevant activities since our 2007 Report.

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6.1 UPS Overview

GLOBAL LEADERSHIP

UPS is the world's largest package delivery and logistics company, serving nearly eight million customers daily. Over the past two decades, we have built a massive international transportation network, interconnected by one of the largest information technology (IT) infrastructures in commercial history. We have systematically leveraged these assets to expand our portfolio of services for customers, including freight transportation and supply chain offerings.

INTEGRATED NETWORK

One of the hallmarks of our management approach is to operate an integrated network worldwide. Unlike other companies of comparable size in the package sector, we use the same network for all packages, whether they are domestic, international, commercial, or residential. All modes of transport—package cars, delivery vehicles, trucks, planes, trains and ships—fit seamlessly together in our physical network, all synchronized by our IT network infrastructure. This business model eliminates redundancies and enables us to use all assets more efficiently while serving customers more reliably. It also reduces our environmental impact on a unit volume basis, offers opportunities to employees, and provides positive financial performance.

POLICY, RESPONSIBILITY, AND MANAGEMENT

The UPS Charter for how we run our business has been in place for 10 years and is available online at investor.shareholder.com/ups. The Management Committee responsible for executing the charter is profiled online at pressroom.ups.com. Ten of the 12 members of the UPS Management Committee have worked for UPS their entire careers, which ensures that our top managers are thoroughly familiar with the operating realities of our business at every level.

ECONOMIC RISKS AND OPPORTUNITIES

Because our business is synchronizing commerce for the global economy, our economic prosperity is tightly linked to the world's macroeconomic health. During 2008, the global economy struggled with tight credit, falling asset values, and contraction in demand in many industries. These factors affected our markets in the second half of 2008; their impact intensified significantly in the opening quarter of 2009. We have responded to these macroeconomic risks in a systematic fashion throughout our business, including adjustments in hiring, compensation, network logistics, and expansion plans. With more than 100 years in business, we have significant management experience in dealing with economic cycles, including the importance of planning ahead for the opportunities we will encounter when the business cycle turns positive.

The cost and availability of fuel for our vehicle and aircraft fleets are inherent risk factors, because our business involves moving goods around the world using package cars, delivery vehicles, trucks, and planes. Our primary long-term strategy for managing these risks is to reduce our dependence on fossil fuels. We achieve this with a range of techniques and technologies that enable us to reduce the miles we drive and fly, and by continuing to increase the number of alternative fuel/technology vehicles in our ground fleet. More detailed discussions of fuel efficiency and other environmental stewardship activities are provided later in this section and in section 7 of this Report, respectively. Our Climate Change Statement can be found on page 51.

6.1 UPS Overview continued

Data as of December 2008	
GENERAL	
Founded in Seattle, Wash.	August 28, 1907
Headquarters	Atlanta, Ga.
Worldwide Web Address	ups.com
Chairman and CEO	D. Scott Davis
2008 Revenue	US\$51.5 billion
Employees	425,900 (353,500 United States; 72,400 International)
PACKAGE OPERATIONS	
2008 Revenue	US\$42.6 billion
2008 Delivery Volume	3.9 billion packages and documents
Daily Delivery Volume	15.5 million packages and documents
Daily U.S. Air Volume	2.1 million packages and documents
Daily International Volume	2.0 million packages and documents
Service Area	More than 200 countries and territories; every address in North America and Europe
Customers	7.9 million daily (1.8 million pick-up, 6.1 million delivery)
UPS.com	Average 18.5 million daily online tracking requests
Retail access	4,711 The UPS Store®; 1,323 Mail Boxes Etc.®; 1,000 UPS Customer Centers; 16,000 Authorized outlets; 40,000 UPS Drop Boxes
Operating facilities	1,801
Delivery fleet	99,869 package cars, vans, tractors, motorcycles, including 1,819 alternative fuel/technology vehicles
UPS jet aircraft	262; 9th largest airline in the world
Chartered aircraft	309
Daily Flight segments	Domestic: 959; International: 763
Airports served	Domestic: 400; International: 435
Air Hubs – United States	Louisville, Ky. (Main Global Air Hub); Philadelphia, Pa.; Dallas, Texas; Ontario, Calif.; Rockford, Ill.; Columbia, S.C.; Hartford, Conn.
– Europe	Cologne/Bonn, Germany
– Asia/Pacific	Shanghai; Taipei, Taiwan; Pampanga, Philippines; Hong Kong
– Latin America and Caribbean	Miami, Fla. USA
– Canada	Hamilton, Ontario

6.1 UPS Overview continued

SUPPLY CHAIN AND FREIGHT

2008 Net Revenue	US\$8.9 billion
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UPS SUPPLY CHAIN SOLUTIONS

Key Services	Logistics and distribution; transportation and freight (air, sea, ground, rail); freight forwarding; international trade management; and customs brokerage
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Specialty Services	Service parts logistics; technical repair and configuration; supply chain design and planning, returns management
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Facilities	933 facilities in more than 120 countries: 35 million sq. ft.
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UPS FREIGHT

Key Services	Leading provider of less-than-truckload and truckload services coast to coast
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Delivery Fleet	6,317 tractors; 21,246 trailers
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Facilities	215+ service centers
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6.2 Economic Impact

JOBS AND COMPENSATION

As one of the world's largest private employers, UPS today has a global workforce of nearly 426,000 people, more than 72,000 of whom are located outside the United States. In 2008, UPS paid its full-time and part-time employees US\$26 billion in wages and benefits.

Our global compensation and benefit programs vary based upon the competitive market, local regulation, and our desire to create programs that are sustainable. Our investment in UPS employees generally includes competitive wages and salaries, health care, savings plans and incentive programs. Good jobs and competitive compensation packages help make our employees a positive economic force throughout the world.

DIVIDENDS

In 2008, UPS distributed US\$2.22 billion in dividends to UPS shareholders, including approximately 134,000 UPS employees globally. Shareholders received five dividend payments due to a payment schedule change.

TAXES

The taxes that UPS pays to local and national governments around the world help fund schools, community infrastructure, and services. In 2008, UPS paid more than US\$3.4 billion in taxes worldwide.

SUPPORT FOR SMALL AND DIVERSE BUSINESSES

UPS has an indirect economic impact on its markets

by providing local businesses with three vital resources: procurement contracts, finance, and logistics. In areas where money and transport are not readily available to entrepreneurs, providing these opportunities makes UPS part of the local commercial infrastructure. This is particularly important for small and diverse businesses, which make up a majority of the world's importers and exporters. UPS spent more than US\$1.3 billion with small and diverse businesses in 2008. This was an increase of US\$65.9 million over 2007. The UPS Store® (with more than 4,700 locations around the world) is a franchise opportunity for small business entrepreneurs.

Our financing subsidiary, UPS Capital®, helps small and diverse businesses finance trade and get access to government-backed loan programs. In 2008, UPS was again one of the top 15 lenders by dollar volume for the U.S. Small Business Administration. The UPS Foundation has pledged more than US\$1 million to microlending organizations operating around the world. In addition, our 26,000 points of retail presence around the world provide small and diverse businesses with local, one-stop access to our global network, including the products, services, and tools they need. In 2008, we opened retail stores in Beijing and Shanghai. Our overall goal is to make it easier for small and diverse businesses everywhere to participate in the global economy.

Financial Highlights

(in millions except for per-share amounts)

	2008	2007
Revenue	US\$51,486	US\$49,692
Operating expenses	46,104	49,114
Net income	3,003	382
Adjusted net income*	3,578	4,369
Diluted earnings per share	2.94	0.36
Adjusted diluted earnings per share*	3.50	4.11
Dividends declared per share	1.80	1.80
Assets	31,879	39,042
Long-term debt	7,797	7,506
Shareowners' equity	6,780	12,183
Capital expenditures	2,636	2,820
Cash and investments	1,049	2,604

* For an explanation of adjustments affecting results, see the footnote on page 5 of the UPS 2008 Annual Report at investor.shareholder.com/ups

6.2 Economic Impact continued

Stakeholder: Supplier Diversity

Gerald Toledo

Founder and CEO, Global Industrial Components, Inc.



In my experience, minority suppliers want what all suppliers want: partnerships with great customers who value what we offer. This is particularly true for companies like mine, GIC, which have a proven track record. So when UPS and GIC both participated in a capacity-building program put on by the National Minority Supplier Development Council in 2007, it did not take long before we were in conversation.

Our first opportunity was to provide an automotive part that UPS needed. We had to produce it profitably at a lower cost than UPS was already paying—and we had to deliver a prototype in two weeks. We succeeded, and that became our first order with UPS.

We are now working on a much larger, value-added solution for UPS, and still enjoying the challenge. Their procurement team is relentless on costs, but also honest, fair, and respectful at all times. It's the same with the engineers. They don't tell us how to do things, they just tell us the problem and let us solve it. They also keep their agreements, to the point that GIC is comfortable investing in new capabilities aimed at serving UPS today and in the future.

This is particularly important to us as a growing company, and I believe most minority suppliers would agree with me: We want an opportunity to show what we can do tomorrow, not just repeat what we have done in the past.

UPS: Supplier Diversity

David Hunt

Global Procurement Manager, UPS



Valuing supplier diversity comes from the top down at UPS. Our senior executives are committed and involved, and we have dedicated staff in corporate management and in the field. As a procurement manager, I am expected to be on the lookout for great suppliers that are qualified to work with UPS. Our markets are growing more diverse, so supplier diversity is a key to our future growth.

My focus is providing parts for our vehicle fleet, which is one of the largest in the world. Because we've been doing this for decades, we have particular requirements that most suppliers can't meet off the shelf. So one of the things we look for in a supplier is the ability to listen and learn. It's unlikely that they have dealt with a customer like UPS, particularly with regard to how much information we have and how readily available it is when we are planning or negotiating. So if they can listen, learn, and work with us as partners, we have opportunities for them.

GIC is a good example of how this works. They listened to our challenges regarding a strategic, fleet-wide technology project. They understood how rigorously we manage major projects. Then they showed us capabilities we didn't know they had, and we realized they could handle some of the project logistics better than we could ourselves. That doesn't happen every day at UPS.

6.3 Grow Business Profitably Through Technology

UPS has prospered for more than a century. In this decade, our annual revenues have risen from less than US\$30 billion to more than US\$50 billion.

One of the keys to our profitable growth has been investing in information technology to make our business more efficient. UPS operates one of the largest, most comprehensive IT networks on earth. In 2008, we spent US\$1 billion on technology. This includes research and development as well as maintenance and software/hardware purchases. We take this approach so that when our markets are growing again, we can increase our overall resource-efficiency and profitability along with volume and revenue growth.

Like many companies, we are integrating IT into every aspect of our operations. One of our primary strategies for reducing fuel consumption and emissions, for example, is to use IT for designing more efficient delivery and pickup routes. As our routing techniques have grown more sophisticated, we have gathered, analyzed, and applied more types of information in more ways throughout our network. We are applying IT to safety in a similar way, by gathering and analyzing information that helps our employees avoid the circumstances that lead to accidents.

Given global economic conditions in 2008, we adjusted our IT investments to accelerate certain projects with potential short-term benefits. One focus was international shipping, which remains a primary growth area for UPS. For example, 2008 was the first

year in which UPS Airlines flew more international miles than domestic miles. So we expedited support for our international express customers, such as adding more foreign-language features to our customer websites and creating a live-chat capability for U.S. customers seeking assistance with overseas shipments. We also have improved our international internal workforce system for greater operational efficiency.

Further in the background, we improved our internal software-development processes and worked with vendors to provide us with more cost-effective IT software solutions. This is particularly important to our fast-growing use of telematics—the use of technology to gather data from delivery vehicles to improve efficiency—and global positioning satellite data to optimize the efficiency of delivery routes around the world. We also brought to market the results of a major vendor partnership with Hewlett Packard for fast, mobile, paperless printing of internal shipping labels. More information on telematics and paperless printing is available in sections 7.4 and 7.5. These are just a few examples of how we continue to increase the efficiency and reduce the costs of running our business, so that we can maintain our profitable growth for the long term.



6.4 Support Global Trade

Every day, millions of business transactions take place around the world. In today's economy, everything involved in these transactions—the goods, the information, and the funds—must flow in a synchronized fashion. UPS is one of the few companies in the world that has the infrastructure, the scale, the financial strength, and the expertise to enable that synchronization. We also help customers succeed by sharing our knowledge and best practices. Benefits include faster order fulfillment, lower shipping costs, and better control of inventories. These in turn enable global commerce to operate more efficiently and effectively for everyone.



6.5 Build the Brand

Building a recognized, respected brand is important to every company. For UPS, the challenge in recent years has been to take one of the best-known, most respected brands in the United States and extend it throughout the world. In *Fortune* magazine's ranking of Most Admired Companies for 2008, UPS was No. 1 in the Delivery and Logistics industry and placed among the top 20 companies overall. UPS also was No. 2 among all 100 companies for social responsibility. Additional awards and recognition are listed at pressroom.ups.com.

We have always believed that the best way to build our brand is through reliable performance that wins and maintains customer trust. This includes not only the logistics and transport services we provide, but also the way we provide them. The can-do, customer-focused attitude of UPS drivers is literally the face of our brand, which is why we invest a substantial portion of our revenues each year to compensate, educate, and train our people. More information on employee compensation and training is provided in section 8 of this Report.



6.6 Focus on Customers

UPS offers customers capabilities that extend far beyond those of a traditional package delivery company. Through Web-based solutions and strategic alliances, UPS gives customers full visibility of goods moving end-to-end through the supply chain. UPS helps both Internet-based and brick-and-mortar companies solve business problems, improve customer service, and streamline and synchronize their supply chains. In addition to our countless face-to-face interactions with customers, we regularly conduct focus groups and customer surveys to learn what our customers need from us and how to provide it to them.

In 2008, we continued to focus attention on small and diverse businesses and international customers that are providing a significant percentage of new shipping volume for UPS. We also developed enhancements to the e-commerce solutions used by online merchants to make international shipping and item returns easier for their customers. These enhancements include forms for international shipping, electronic invoicing, and automated processes to help customers return purchased goods. UPS Capital®, our financing arm, supported small business owners by offering discounts on loans qualifying under the U.S. Small Business Administration (SBA) lending program. UPS Capital also operates in other countries.



6.7 Provide Value-Added Solutions

UPS is often the strongest third-party link between a company and its customers. We therefore continue to develop and implement value-added services that help our customers provide better service to their customers.

New value-added offerings in 2008 include services for handling and managing the shipment of temperature-sensitive medical items, including around-the-clock intervention when necessary to utilize refrigeration or replenish dry ice. The new suite of time- and temperature-sensitive capabilities has been developed for the pharmaceutical, biotech and medical device industries. Targeted particularly to global clinical trials, UPS is facilitating the quick movement of test medicines, specimens, supplies, testing kits and accompanying documents to locations worldwide.



6.7 Provide Value-Added Solutions continued



Smartphone Experts: Wired For Success

Diana Kingree, Vice President of Smartphone Experts, surrounded by bins of smartphone accessories.

Most people store gardening tools in their backyard sheds. Diana Kingree housed a budding online retail business called Smartphone Experts. The 150-square-foot shed at her Florida home held containers full of cell phone accessories such as chargers, headsets and screen protectors. The items were imported from China, packaged in the shed and shipped out to customers around the world.

As orders poured in and Kingree, the company's senior vice president, needed more space for products, she didn't move; she simply got another shed. This caught the attention of UPS driver Rich Strittmatter, who introduced Kingree and CEO Marcus Adolfsson to UPS account executive Rob Fleischer. He learned that Smartphone Experts customers want the latest accessories as soon as they are available—and that the company was struggling to keep up. Fleischer coordinated a trailer dedicated to delivering inbound accessories each morning, as well as a timely daily pick-up of outbound shipments. Smartphone Experts' on-time delivery rate shot up to 99.2 percent.

UPS also showed Kingree how UPS WorldShip® shipping software could work with her order software to print a shipping label and invoice on one page, saving time and minimizing errors. The next step was integrating

UPS OnLine® Tools into the Smartphone Experts website so customers could choose shipping options. When customers need a return or exchange, Smartphone Experts uses UPS Returns® services to e-mail customers a UPS return label they can print out and attach to an envelope or box. Strittmatter even alerted Kingree about a vacant office building near her home; she moved the business there within a week.

Today SmartPhone Experts has a staff of 20 people and ships an average of 5,000 packages a week. *Inc.* magazine ranks the company as America's fastest-growing retailer. Kingree sums up her partnership with UPS succinctly: "We do whatever it takes. So does UPS."

6.8 Develop People

As one of the world's largest private employers, UPS needs workers who can perform to the company's high standards on the job and represent the UPS brand to millions of customers around the world. We don't expect people to qualify for those responsibilities on their own; we offer one of the private sector's most systematic and extensive training programs along with health and wellness programs. More information on these programs is provided in section 8, Social Responsibility.

We also continually review, enhance, and adjust our employee programs to make sure they are serving the people who want to work for UPS. We are an employer of choice that listens to our employees and develops learning programs to meet their needs. We realized that we needed to make an adjustment when our younger drivers began to need significantly more time to become proficient, and more of them were leaving the company during their initial training period.

With the help of a US\$1.8 million dollar grant from the Labor Department, we studied the way young people learn in a world of video games and smart phones. In collaboration with MIT; Virginia Tech; Design, Evaluation Associates; and the Institute of the Future, we then built a high-tech, next-generation training facility called UPS Integrad®. This facility offers 3-D simulations and webcasts along with traditional classroom instruction. We film trainees and



Photo: Employees take part in UPS Integrad® interactive training for new drivers.

show them how they look in action. We teach them to drive in a replica outdoor city named Clarkville that has real streets and street signs, sidewalks, and simulated commercial and residential delivery and pickup sites. The results so far include a sharp increase in driver proficiency, including a reduction in first-year injuries and accidents. Our Gen Y trainees are also reporting significantly higher job satisfaction. We didn't lower our expectations for younger workers. Instead we started training them in ways

that were relevant to them, and the future of the UPS brand is once again in good hands.

Training and volunteerism come together when drivers share their expertise through The UPS Foundation's UPS Road CodeSM program, piloted in 2008. Employees and retirees will share UPS driving and risk avoidance techniques with teenagers at Boys and Girls Clubs of America in 10 locations throughout the country in 2009.