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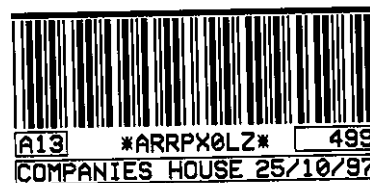
Company Registration No. 1933173

UPS LIMITED

Report and Financial Statements

31 December 1996

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



**REPORT AND FINANCIAL STATEMENTS 1996**

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DIRECTORS' REPORT

The directors submit their report and financial statements for the year ended 31 December 1996.

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.

Haulfast Limited was sold on 30 September 1996 to UPS Worldwide Logistics Limited, a fellow subsidiary of UPS of America Inc.

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 £12,684,147 (1995 - £5,259,553). The directors do not recommend the payment of a dividend (1995 - £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.

DIRECTORS AND THEIR INTERESTS

The following directors held office during the year:

J Smith	
F H Barnes	(resigned 8 March 1996)
R E Goetz	(resigned 20 June 1997)
B Meyer	(appointed 8 March 1996)
E Reitman	(appointed 8 March 1996, resigned 20 June 1997)
R Pulito	(appointed 20 June 1997)
H Mensing	(appointed 20 June 1997)

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.

**DIRECTORS' REPORT****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.

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

20TH OCTOBER 1997



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.



Chartered Accountants

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UPS LIMITED

AUDITORS' REPORT TO THE MEMBERS

We have audited the financial statements on pages 5 to 14 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 1996 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

20 October 1997

PROFIT AND LOSS ACCOUNT
Year ended 31 December 1996

	Note	1996 £	1995 £
TURNOVER			
- continuing operations	2	157,435,298	166,117,835
- discontinued operations		6,082,896	7,505,065
		<u>163,518,194</u>	<u>173,622,900</u>
Cost of sales			
- continuing operations		127,200,839	129,861,089
- discontinued operations		5,426,918	6,414,253
		<u>(132,627,757)</u>	<u>(136,275,342)</u>
Gross profit		<u>30,890,437</u>	<u>37,347,558</u>
Administrative expenses			
- continuing operations		(45,830,759)	(39,940,656)
Other operating income/(expense)			
- continuing operations	3	1,353,419	(1,792,926)
OPERATING (LOSS)		<u>(14,242,881)</u>	<u>(5,476,836)</u>
OPERATING PROFIT		<u>655,978</u>	<u>1,090,812</u>
		<u>(13,586,903)</u>	<u>(4,386,024)</u>
Profit on disposal of discontinued activities	4	<u>1,657,011</u>	<u>-</u>
(LOSS) ON ORDINARY ACTIVITIES BEFORE INTEREST		<u>(11,929,892)</u>	<u>(4,386,024)</u>
Interest receivable and similar income		89,599	8,148
Interest payable and similar charges	5	<u>(843,854)</u>	<u>(881,677)</u>
(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION	6	<u>(12,684,147)</u>	<u>(5,259,553)</u>
Tax credit on (loss) on ordinary activities	8	<u>-</u>	<u>314,432</u>
(LOSS) ON ORDINARY ACTIVITIES AFTER TAXATION		<u>(12,684,147)</u>	<u>(4,945,121)</u>
Retained loss brought forward		<u>(9,242,694)</u>	<u>(4,297,573)</u>
Retained loss carried forward		<u>(21,926,841)</u>	<u>(9,242,694)</u>


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 1996

	Note	1996 £	1995 £
FIXED ASSETS			
Intangible assets	9	13,212,072	17,677,749
Tangible assets	10	41,733,339	35,955,227
Investments	11	2,349,356	2,422,156
		<u>57,294,767</u>	<u>56,055,132</u>
CURRENT ASSETS			
Stocks	12	304,776	352,278
Debtors	13	66,609,346	58,046,517
Cash at bank and in hand		2,265,110	-
		<u>69,179,232</u>	<u>58,398,795</u>
CREDITORS: amounts falling due within one year	14	<u>(111,625,421)</u>	<u>(84,751,767)</u>
NET CURRENT LIABILITIES		<u>(42,446,189)</u>	<u>(26,352,972)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		14,848,578	29,702,160
CREDITORS: amounts falling due after more than one year	15	<u>(8,648,813)</u>	<u>(10,818,248)</u>
TOTAL NET ASSETS		<u>6,199,765</u>	<u>18,883,912</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		<u>(21,926,841)</u>	<u>(9,242,694)</u>
EQUITY SHAREHOLDERS' FUNDS	19	<u>6,199,765</u>	<u>18,883,912</u>

These financial statements were approved by the Board of Directors on 20TH OCTOBER 1997.

Signed on behalf of the Board of Directors


 Jeffrey Smith

NOTES TO THE ACCOUNTS

Year ended 31 December 1996

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 and cash flow statement

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 life.

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 9 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 permanent diminution in value.

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.

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.

NOTES TO THE ACCOUNTS

Year ended 31 December 1996

1. ACCOUNTING POLICIES (continued)

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/ (EXPENSE)

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

4. PROFIT ON DISPOSAL OF DISCONTINUED ACTIVITIES

Haulfast Limited, a dormant subsidiary undertaking, was sold to UPS Worldwide Logistics Limited, a fellow subsidiary of UPS of America Inc, on 30 September 1996 for its net book value. In addition, the historical business of Haulfast Limited which was operated as a division of UPS Limited, was also sold to UPS Worldwide Logistics Limited. The resulting profit on disposal is analysed as follows.

	£'000
Fixed assets	2,117
Goodwill	1,726
	<hr/>
	3,843
Profit on disposal	1,657
	<hr/>
	5,500
	<hr/>
Satisfied by unsecured loan	5,500
	<hr/>

5. INTEREST PAYABLE AND SIMILAR CHARGES

	1996 £	1995 £
Finance lease charges	843,854	881,677
	<hr/>	<hr/>

NOTES TO THE ACCOUNTS
Year ended 31 December 1996

6. (LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION

	1996 £	1995 £
The (loss) on ordinary activities before taxation was arrived at after charging/(crediting):		
Auditors' remuneration:		
- Audit fees	56,530	54,840
- Other services	3,000	94,050
(Profit)/loss on sale of tangible fixed assets	(62,815)	74,529
Depreciation and other amounts written off tangible and intangible fixed assets:		
- Goodwill	2,739,179	2,814,014
- Owned tangible fixed assets	4,923,127	3,106,536
- Tangible fixed assets held under hire purchase contracts and finance leases	1,751,411	1,610,870
Rentals under operating leases:		
- Hire of plant and machinery	4,323,109	5,106,960
- Other operating leases	4,545,455	3,915,268

7. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	1996 Number	1995 Number
The average weekly number of employees during the year was made up as follows:		
Office and management	938	940
Operators	1,851	1,893
	<u>2,789</u>	<u>2,833</u>
	£	£
Staff costs during the year amounted to:		
Wages and salaries	49,009,597	46,505,418
Social security costs	4,422,680	4,381,112
Other pension costs	770,134	716,225
	<u>54,202,411</u>	<u>51,602,755</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.

8. TAX CREDIT ON (LOSS) ON ORDINARY ACTIVITIES

	1996 £	1995 £
Corporation tax credit on (loss) on ordinary activities at 33% (1995 - 33%)	<u>-</u>	<u>314,432</u>


NOTES TO THE ACCOUNTS
Year ended 31 December 1996
9. INTANGIBLE FIXED ASSETS

	Goodwill £
Cost	
At 1 January 1996	27,137,335
Disposal	(2,843,740)
At 31 December 1996	<u>24,293,595</u>
Amortisation	
At 1 January 1996	9,459,586
Provided during the year	2,739,179
Disposal	(1,117,242)
At 31 December 1996	<u>11,081,523</u>
Net book value	
At 31 December 1996	<u>13,212,072</u>
At 31 December 1995	<u>17,677,749</u>

10. 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 1996	12,742,653	720,845	8,996,073	13,868,587	17,461,472	53,789,630
Additions	111,029	465,649	7,857,419	6,504,308	-	14,938,405
Disposals	(1,829,994)	(50,322)	(3,092,775)	(105,278)	-	(5,078,368)
Reclassification	32,885	118,850	2,251,837	297,986	(2,701,558)	-
At 31 December 1996	<u>11,056,573</u>	<u>1,255,022</u>	<u>16,012,554</u>	<u>20,565,603</u>	<u>14,759,914</u>	<u>63,649,666</u>
Depreciation						
At 1 January 1995	1,949,061	325,872	5,665,885	7,262,029	2,631,556	17,834,403
Provided during the year	330,954	137,098	1,433,041	3,022,034	1,751,411	6,674,538
Disposals	(150,235)	(29,891)	(2,343,493)	(68,995)	-	(2,592,614)
Reclassification	853	64,619	790,559	104,516	(960,547)	-
At 31 December 1996	<u>2,130,633</u>	<u>497,698</u>	<u>5,545,992</u>	<u>10,319,584</u>	<u>3,422,420</u>	<u>21,916,327</u>
Net book value						
At 31 December 1996	<u>8,925,940</u>	<u>757,324</u>	<u>10,466,562</u>	<u>10,246,019</u>	<u>11,337,494</u>	<u>41,733,339</u>
At 31 December 1995	<u>10,793,592</u>	<u>394,973</u>	<u>3,330,188</u>	<u>6,606,558</u>	<u>14,829,916</u>	<u>39,955,227</u>

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


NOTES TO THE ACCOUNTS
Year ended 31 December 1996
11. INVESTMENTS HELD AS FIXED ASSETS

	Subsidiary undertakings £	Other group undertaking £	Total £
Cost			
At 1 January 1996	2,350,156	72,000	2,422,156
Transfer to group company	-	(72,000)	(72,000)
Disposal	(800)	-	(800)
At 31 December 1996	<u>2,349,356</u>	<u>-</u>	<u>2,349,356</u>

The subsidiary undertakings of the company at 31 December 1996, 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.

12. STOCKS

	1996 £	1995 £
Consumable stores	<u>304,776</u>	<u>352,278</u>

13. DEBTORS:

	1996 £	1995 £
Due in less than one year		
Trade debtors	30,421,379	31,120,528
Amounts owed by fellow subsidiary undertakings	34,491,462	24,565,552
Corporation tax recoverable	-	18,546
Other debtors	503,977	699,998
Prepayments and accrued income	1,192,528	1,641,893
	<u>66,609,346</u>	<u>58,046,517</u>


NOTES TO THE ACCOUNTS
Year ended 31 December 1996
14. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	1996 £	1995 £
Bank overdraft	-	4,192,997
Obligations under hire purchase contracts and finance leases (see note 16)	2,163,256	2,047,410
Trade creditors	11,655,080	7,270,849
Amounts owed to immediate parent and fellow subsidiary undertakings	88,540,301	59,248,539
Amounts owed to subsidiary undertakings	-	3,355,157
Corporation tax	1,250,568	1,250,568
Other creditors including taxation and social security	3,137,759	3,017,465
Accruals and deferred income	4,878,457	4,368,782
	<u>111,625,421</u>	<u>84,751,767</u>

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

	1996 £	1995 £
Obligations under hire purchase contracts and finance leases (see note 16)	8,648,813	10,818,248
	<u>8,648,813</u>	<u>10,818,248</u>

16. OBLIGATIONS UNDER HIRE PURCHASE CONTRACTS AND FINANCE LEASES

	1996 £	1995 £
Within one year	2,864,765	2,900,240
Between two and five years inclusive	8,689,448	10,327,123
Over five years	1,280,127	2,512,411
	<u>12,834,340</u>	<u>15,739,774</u>
Deduct		
Finance charges allocated to future periods	(2,022,271)	(2,874,116)
	<u>10,812,069</u>	<u>12,865,658</u>
Shown as		
Current obligations	2,163,256	2,047,410
Non current obligations	8,648,813	10,818,248
	<u>10,812,069</u>	<u>12,865,658</u>

NOTES TO THE ACCOUNTS
Year ended 31 December 1996

17. CALLED UP SHARE CAPITAL

	1996 £	1995 £
Authorised		
100,000 ordinary shares of £1 each	<u>100,000</u>	<u>100,000</u>
Allotted 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 1996 and 31 December 1996	<u>28,124,606</u>

19. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	1996 £	1995 £
Loss for the financial year	<u>(12,684,147)</u>	<u>(4,945,121)</u>
Net deduction from shareholders' funds	<u>(12,684,147)</u>	<u>(4,945,121)</u>
Opening shareholders' funds	<u>18,883,912</u>	<u>23,829,033</u>
Closing shareholders' funds	<u>6,199,765</u>	<u>18,883,912</u>

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 December 1994. 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 7% 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 136% 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.



NOTES TO THE ACCOUNTS
Year ended 31 December 1996

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 (1995 - £nil).

At the year end the company had Bonds and Guarantees in favour of HM Customs & Excise for £2,912,000 (1995 - £2,625,000).

22. OPERATING LEASE COMMITMENTS

	Land and buildings £	Other £
Leases which expire		
Within one year	-	766,289
Within two to five years	779,069	1,409,827
After five years	2,146,279	143,973
	<u>2,925,348</u>	<u>2,320,089</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 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.

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.