

**United States
Securities and Exchange Commission
Washington, D.C. 20549**

Form 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2023 or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____
Commission file number 001-15451



United Parcel Service, Inc.
(Exact name of registrant as specified in its charter)

Delaware
*(State or Other Jurisdiction of
Incorporation or Organization)*

55 Glenlake Parkway N.E., Atlanta, Georgia
(Address of Principal Executive Offices)

58-2480149
*(IRS Employer
Identification No.)*

30328
(Zip Code)

(404) 828-6000
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Trading Symbol	Name of Each Exchange on Which Registered
Class B common stock, par value \$0.01 per share	UPS	New York Stock Exchange
0.375% Senior Notes due 2023	UPS23A	New York Stock Exchange
1.625% Senior Notes due 2025	UPS25	New York Stock Exchange
1% Senior Notes due 2028	UPS28	New York Stock Exchange
1.500% Senior Notes due 2032	UPS32	New York Stock Exchange

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer", "accelerated filer",

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

"smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

There were 134,106,663 Class A shares, and 724,779,682 Class B shares, with a par value of \$0.01 per share, outstanding at April 24, 2023.

TABLE OF CONTENTS

	PART I—FINANCIAL INFORMATION	
	Cautionary Statement About Forward-Looking Statements	1
Item 1.	Financial Statements	2
	Consolidated Balance Sheets	2
	Statements of Consolidated Income	3
	Statements of Consolidated Comprehensive Income (Loss)	3
	Statements of Consolidated Cash Flows	4
	Notes to Unaudited, Consolidated Financial Statements	5
	Note 1—Basis of Presentation and Accounting Policies	5
	Note 2—Recent Accounting Pronouncements	7
	Note 3—Revenue Recognition	8
	Note 4—Stock-Based Compensation	10
	Note 5—Marketable Securities and Non-Current Investments	12
	Note 6—Property, Plant and Equipment	15
	Note 7—Employee Benefit Plans	16
	Note 8—Goodwill and Intangible Assets	18
	Note 9—Debt and Financing Arrangements	20
	Note 10—Leases	23
	Note 11—Legal Proceedings and Contingencies	26
	Note 12—Shareowners’ Equity	27
	Note 13—Segment Information	31
	Note 14—Earnings Per Share	32
	Note 15—Derivative Instruments and Risk Management	33
	Note 16—Income Taxes	37
	Note 17—Transformation Strategy Costs	38
Item 2.	Management’s Discussion and Analysis of Financial Condition and Results of Operations	39
	Overview	39
	Supplemental Information - Items Affecting Comparability	41
	Results of Operations - Segment Review	43
	U.S. Domestic Package Operations	44
	International Package Operations	47
	Supply Chain Solutions Operations	50
	Consolidated Operating Expenses	52
	Other Income and (Expense)	55
	Income Tax Expense	56
	Liquidity and Capital Resources	57
	Cash Flows From Operating Activities	57
	Cash Flows From Investing Activities	58
	Cash Flows From Financing Activities	59
	Sources of Credit	60
	Contractual Commitments	60
	Legal Proceedings and Contingencies	60
	Collective Bargaining Agreements	60
	Recent Accounting Pronouncements	60
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	61
Item 4.	Controls and Procedures	62
	PART II—OTHER INFORMATION	
Item 1.	Legal Proceedings	63
Item 1A.	Risk Factors	63
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	64
Item 6.	Exhibits	65

PART I. FINANCIAL INFORMATION

Cautionary Statement About Forward-Looking Statements

This report, our Annual Report on Form 10-K for the year ended December 31, 2022 and our other filings with the Securities and Exchange Commission contain and in the future may contain “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Statements other than those of current or historical fact, and all statements accompanied by terms such as “will,” “believe,” “project,” “expect,” “estimate,” “assume,” “intend,” “anticipate,” “target,” “plan,” and similar terms, are intended to be forward-looking statements. Forward-looking statements are made subject to the safe harbor provisions of the federal securities laws pursuant to Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934.

From time to time, we also include written or oral forward-looking statements in other publicly disclosed materials. Such statements may relate to our intent, belief, forecasts of, or current expectations about our strategic direction, prospects, future results, or future events; they do not relate strictly to historical or current facts. Management believes that these forward-looking statements are reasonable as and when made. However, caution should be taken not to place undue reliance on any forward-looking statements because such statements speak only as of the date when made and the future, by its very nature, cannot be predicted with certainty.

Forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from our historical experience and our present expectations or anticipated results. These risks and uncertainties include, but are not limited to, the impact of: continued uncertainties related to the COVID-19 pandemic; changes in general economic conditions, in the U.S. or internationally; industry evolution and significant competition; changes in our relationships with any of our significant customers; our ability to attract and retain qualified employees; strikes, work stoppages or slowdowns by our employees; results of negotiations and ratifications of labor contracts; our ability to maintain our brand image and corporate reputation; increased or more complex physical security requirements; a significant data breach or information technology system disruption; global climate change; interruptions in or impacts on our business from natural or man-made events or disasters including terrorist attacks, epidemics or pandemics; exposure to changing economic, political and social developments in international markets; our ability to realize the anticipated benefits from acquisitions, dispositions, joint ventures or strategic alliances; changing prices of energy, including gasoline, diesel and jet fuel, or interruptions in supplies of these commodities; changes in exchange rates or interest rates; our ability to accurately forecast our future capital investment needs; significant expenses and funding obligations relating to employee health, retiree health and/or pension benefits; our ability to manage insurance and claims expenses; changes in business strategy, government regulations, or economic or market conditions that may result in impairments of our assets; potential additional U.S. or international tax liabilities; increasingly stringent laws and regulations, including relating to climate change; potential claims or litigation related to labor and employment, personal injury, property damage, business practices, environmental liability and other matters; and other risks discussed in our filings with the Securities and Exchange Commission from time to time, including our Annual Report on Form 10-K for the year ended December 31, 2022, and subsequently filed reports. You should consider the limitations on, and risks associated with, forward-looking statements and not unduly rely on the accuracy of predictions contained in such forward-looking statements. We do not undertake any obligation to update forward-looking statements to reflect events, circumstances, changes in expectations, or the occurrence of unanticipated events after the date of those statements, except as required by law.

Item 1. Financial Statements

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
March 31, 2023 (unaudited) and December 31, 2022 (in millions)

	March 31, 2023	December 31, 2022
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 6,190	\$ 5,602
Marketable securities	3,208	1,993
Accounts receivable	10,448	12,729
Less: Allowance for credit losses	(149)	(146)
Accounts receivable, net	10,299	12,583
Other current assets	2,028	2,039
Total Current Assets	21,725	22,217
Property, Plant and Equipment, Net	34,995	34,719
Operating Lease Right-Of-Use Assets	4,089	3,755
Goodwill	4,249	4,223
Intangible Assets, Net	2,811	2,796
Deferred Income Tax Assets	155	139
Other Non-Current Assets	4,165	3,275
Total Assets	\$ 72,189	\$ 71,124
LIABILITIES AND SHAREOWNERS' EQUITY		
Current Liabilities:		
Current maturities of long-term debt, commercial paper and finance leases	\$ 2,332	\$ 2,341
Current maturities of operating leases	668	621
Accounts payable	6,302	7,515
Accrued wages and withholdings	3,012	4,049
Self-insurance reserves	1,069	1,069
Accrued group welfare and retirement plan contributions	1,196	1,078
Other current liabilities	1,683	1,467
Total Current Liabilities	16,262	18,140
Long-Term Debt and Finance Leases	19,856	17,321
Non-Current Operating Leases	3,539	3,238
Pension and Postretirement Benefit Obligations	4,602	4,807
Deferred Income Tax Liabilities	4,345	4,302
Other Non-Current Liabilities	3,532	3,513
Shareowners' Equity:		
Class A common stock (135 and 134 shares issued in 2023 and 2022, respectively)	2	2
Class B common stock (724 and 725 shares issued in 2023 and 2022, respectively)	7	7
Additional paid-in capital	—	—
Retained earnings	21,510	21,326
Accumulated other comprehensive loss	(1,481)	(1,549)
Deferred compensation obligations	9	13
Less: Treasury stock (0.2 shares in both 2023 and 2022)	(9)	(13)
Total Equity for Controlling Interests	20,038	19,786
Noncontrolling interests	15	17
Total Shareowners' Equity	20,053	19,803
Total Liabilities and Shareowners' Equity	\$ 72,189	\$ 71,124

See notes to unaudited, consolidated financial statements.

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES
STATEMENTS OF CONSOLIDATED INCOME
(In millions, except per share amounts)
(unaudited)

	Three Months Ended March 31,	
	2023	2022
Revenue	\$ 22,925	\$ 24,378
Operating Expenses:		
Compensation and benefits	11,462	11,601
Repairs and maintenance	725	701
Depreciation and amortization	834	764
Purchased transportation	3,543	4,607
Fuel	1,271	1,220
Other occupancy	551	501
Other expenses	1,998	1,733
Total Operating Expenses	20,384	21,127
Operating Profit	2,541	3,251
Other Income and (Expense):		
Investment income and other	169	315
Interest expense	(188)	(174)
Total Other Income and (Expense)	(19)	141
Income Before Income Taxes	2,522	3,392
Income Tax Expense	627	730
Net Income	\$ 1,895	\$ 2,662
Basic Earnings Per Share	\$ 2.20	\$ 3.05
Diluted Earnings Per Share	\$ 2.19	\$ 3.03

STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME (LOSS)
(In millions)
(unaudited)

	Three Months Ended March 31,	
	2023	2022
Net Income	\$ 1,895	\$ 2,662
Change in foreign currency translation adjustment, net of tax	118	(40)
Change in unrealized gain (loss) on marketable securities, net of tax	7	(6)
Change in unrealized gain (loss) on cash flow hedges, net of tax	(77)	43
Change in unrecognized pension and postretirement benefit costs, net of tax	20	24
Comprehensive Income (Loss)	\$ 1,963	\$ 2,683

See notes to unaudited, consolidated financial statements.

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES
STATEMENTS OF CONSOLIDATED CASH FLOWS
(In millions)
(unaudited)

	Three Months Ended March 31,	
	2023	2022
Cash Flows From Operating Activities:		
Net income	\$ 1,895	\$ 2,662
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	834	764
Pension and postretirement benefit (income) expense	243	201
Pension and postretirement benefit contributions	(1,277)	(45)
Self-insurance reserves	(20)	(45)
Deferred tax (benefit) expense	56	209
Stock compensation expense	126	386
Other (gains) losses	(13)	44
Changes in assets and liabilities, net of effects of business acquisitions:		
Accounts receivable	2,254	1,227
Other assets	62	7
Accounts payable	(1,668)	(743)
Accrued wages and withholdings	(508)	(343)
Other liabilities	405	173
Other operating activities	(32)	(17)
Net cash from operating activities	<u>2,357</u>	<u>4,480</u>
Cash Flows From Investing Activities:		
Capital expenditures	(609)	(548)
Proceeds from disposal of businesses, property, plant and equipment	5	—
Purchases of marketable securities	(2,371)	(68)
Sales and maturities of marketable securities	1,179	60
Acquisitions, net of cash acquired	(34)	1
Other investing activities	17	(17)
Net cash used in investing activities	<u>(1,813)</u>	<u>(572)</u>
Cash Flows From Financing Activities:		
Net change in short-term debt	—	—
Proceeds from long-term borrowings	2,503	—
Repayments of long-term borrowings	(65)	(18)
Purchases of common stock	(751)	(254)
Issuances of common stock	49	67
Dividends	(1,348)	(1,284)
Other financing activities	(384)	(481)
Net cash from/(used in) financing activities	<u>4</u>	<u>(1,970)</u>
Effect of Exchange Rate Changes on Cash, Cash Equivalents and Restricted Cash	<u>40</u>	<u>15</u>
Net Increase (Decrease) in Cash, Cash Equivalents and Restricted Cash	<u>588</u>	<u>1,953</u>
Cash, Cash Equivalents and Restricted Cash:		
Beginning of period	5,602	10,255
End of period	<u>\$ 6,190</u>	<u>\$ 12,208</u>

See notes to unaudited, consolidated financial statements.

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES

Principles of Consolidation

The accompanying interim unaudited, consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. These interim unaudited, consolidated financial statements contain all adjustments (consisting of normal recurring accruals) necessary to present fairly our financial position as of March 31, 2023 and our results of operations and cash flows for the three months ended March 31, 2023 and 2022. The results reported in these interim unaudited, consolidated financial statements should not be regarded as indicative of results that may be expected for any other period or the entire year. The interim unaudited, consolidated financial statements should be read in conjunction with the audited, consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2022.

During the first quarter of 2023, we reclassified certain operating expenses to better align with the manner in which we manage our operations. Substantially all of these costs were previously classified within operating expenses as *Other expenses* and have now been classified within operating expenses as *Repairs and maintenance* in the statements of consolidated income. The remaining line items within operating expenses impacted by this reclassification were inconsequential. As a result, the statements of consolidated income for the three months ended March 31, 2023 and 2022 give effect to this reclassification by decreasing *Other expenses* by \$88 and \$77 million, respectively, and increasing *Repairs and maintenance* by \$83 and \$75 million, respectively. The reclassification had no impact on our reported revenue, operating profit, net income, or any internal performance measure on which management is compensated.

Fair Value of Financial Instruments

The carrying amounts of our cash and cash equivalents, accounts receivable, finance receivables and accounts payable approximated fair value as of March 31, 2023 and December 31, 2022. The fair values of our marketable securities are disclosed in note 5, our recognized multiemployer pension withdrawal liabilities in note 7, our short- and long-term debt in note 9 and our derivative instruments in note 15. We apply a fair value hierarchy (Levels 1, 2 and 3) when measuring and reporting items at fair value. Fair values are based on listed market prices (Level 1), when such prices are available. To the extent that listed market prices are not available, fair value is determined based on other relevant factors, including dealer price quotations (Level 2). If listed market prices or other relevant factors are not available, inputs are developed from unobservable data reflecting our own assumptions and include situations where there is little or no market activity for the asset or liability (Level 3).

Use of Estimates

The preparation of the accompanying interim unaudited, consolidated financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and the disclosure of contingencies at the date of these financial statements, as well as the reported amounts of revenues and expenses during the reporting period.

Although our estimates contemplate current and expected future conditions, as applicable, it is reasonably possible that actual conditions could differ from our expectations, which could materially affect our results of operations and financial position. As a result, our accounting estimates and assumptions may change significantly over time.

Supplier Finance Programs

As part of our working capital management, certain financial institutions offer a Supply Chain Finance ("SCF") program to certain of our suppliers. We agree to commercial terms with our suppliers, including prices, quantities and payment terms, regardless of whether the supplier elects to participate in the SCF program. Suppliers issue invoices to us based on the agreed-upon contractual terms. If they participate in the SCF program, our suppliers, at their sole discretion, determine which invoices, if any, to sell to the financial institutions. Our suppliers' voluntary inclusion of invoices in the SCF program has no bearing on our payment terms. No guarantees are provided by us under the SCF program. We have no economic interest in a supplier's decision to participate, and we have no direct financial relationship with the financial institutions, as it relates to the SCF program.

Amounts due to our suppliers that participate in the SCF program are included in *Accounts payable* in our consolidated balance sheets. We have been informed by the participating financial institutions that as of March 31, 2023 and December 31, 2022, suppliers sold them \$628 and \$806 million, respectively, of our outstanding payment obligations.

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2. RECENT ACCOUNTING PRONOUNCEMENTS

Adoption of New Accounting Standards

In September 2022, the Financial Accounting Standards Board issued an Accounting Standards Update ("ASU") to enhance the disclosure of supplier finance programs. This ASU did not affect the recognition, measurement or financial statement presentation of obligations covered by supplier finance programs. We adopted the requirements of this ASU as of January 1, 2023 and have included required disclosures within note 1.

Other accounting pronouncements adopted during the periods covered by the unaudited, consolidated financial statements did not have a material impact on our consolidated financial position, results of operations or cash flows.

Accounting Standards Issued But Not Yet Effective

Accounting pronouncements issued before, but not effective until after, March 31, 2023, are not expected to have a material impact on our consolidated financial position, results of operations, cash flows or internal controls.

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3. REVENUE RECOGNITION*Revenue Recognition*

Substantially all of our revenues are from contracts associated with the pickup, transportation and delivery of packages and freight (“transportation services”). These services may be carried out by or arranged by us and generally occur over a short period of time. Additionally, we provide value-added logistics services to customers through our global network of distribution centers and field stocking locations.

The vast majority of our contracts with customers are for transportation services that include only one performance obligation; the transportation services themselves. We generally recognize revenue over time, based on the extent of progress towards completion of the services in the contract. All of our major businesses act as a principal in their revenue arrangements and as such, we report revenue and the associated purchased transportation costs on a gross basis within our statements of consolidated income.

Disaggregation of Revenue

	Three Months Ended March 31,	
	2023	2022
Revenue:		
Next Day Air	\$ 2,461	\$ 2,594
Deferred	1,194	1,420
Ground	11,332	11,110
U.S. Domestic Package	14,987	15,124
Domestic	794	851
Export	3,552	3,778
Cargo & Other	197	247
International Package	4,543	4,876
Forwarding	1,514	2,589
Logistics	1,410	1,251
Other	471	538
Supply Chain Solutions	3,395	4,378
Consolidated revenue	<u>\$ 22,925</u>	<u>\$ 24,378</u>

Contract Assets and Liabilities

Contract assets include billed and unbilled amounts resulting from in-transit shipments, as we have an unconditional right to payment only when services have been completed (i.e. shipments have been delivered). Amounts do not exceed their net realizable value. Contract assets are generally classified as current and the full balance is converted each quarter based on the short-term nature of the transactions.

Contract liabilities consist of advance payments and billings in excess of revenue as well as deferred revenue. Advance payments and billings in excess of revenue represent payments received from our customers that will be earned over the contract term. Deferred revenue represents the amount due from customers related to in-transit shipments that has not yet been recognized as revenue based on our selected measure of progress. We classify advance payments and billings in excess of revenue as either current or long-term, depending on the period over which the amount will be earned. We classify deferred revenue as current based on the short-term nature of the transactions. Our contract assets and liabilities are reported in a net position on a contract-by-contract basis at the end of each reporting period. In order to determine revenue recognized in the period from contract liabilities, we first allocate revenue to the individual contract liability balance outstanding at the beginning of the period until the revenue exceeds that deferred revenue balance.

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Contract assets and liabilities as of March 31, 2023 and December 31, 2022 were as follows (in millions):

	<u>Balance Sheet Location</u>	<u>March 31, 2023</u>	<u>December 31, 2022</u>
Contract Assets:			
Revenue related to in-transit packages	Other current assets	\$ 267	\$ 308
Contract Liabilities:			
Short-term advance payments from customers	Other current liabilities	\$ 10	\$ 11
Long-term advance payments from customers	Other non-current liabilities	\$ 25	\$ 26

Accounts Receivable, Net

Accounts receivable, net, include amounts billed and currently due from customers. The amounts due are stated at their net estimated realizable value. Losses on accounts receivable are recognized when reasonable and supportable forecasts affect the expected collectability. This requires us to make our best estimate of the current expected losses inherent in our accounts receivable at each balance sheet date. This estimate requires consideration of historical loss experience, adjusted for current conditions, forward looking indicators, trends in customer payment frequency and judgments about the probable effects of relevant observable data, including present and future economic conditions and the financial health of specific customers and market sectors. Our risk management process includes standards and policies for reviewing major account exposures and concentrations of risk.

Amounts for credit losses charged to expense, before recoveries, during each of the three months ended March 31, 2023 and 2022, were \$3 and \$54 million, respectively.

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4. STOCK-BASED COMPENSATION

We issue share-based awards under various incentive compensation plans, including non-qualified and incentive stock options, stock appreciation rights, restricted stock and stock units ("RSUs") and restricted performance shares and performance units ("RPU", collectively with RSUs, "Restricted Units"). Upon vesting, Restricted Units result in the issuance of the equivalent number of UPS class A common shares after required tax withholdings. Dividends accrued on Restricted Units are reinvested in additional Restricted Units at each dividend payable date and are subject to the same vesting and forfeiture conditions as the underlying Restricted Units.

Our primary equity compensation programs are the UPS Management Incentive Program (the "MIP"), the UPS Long-Term Incentive Performance Program (the "LTIP") and the UPS Stock Option program. We also maintain an employee stock purchase plan which allows eligible employees to purchase shares of UPS class A common stock at a discount.

Pre-tax compensation expense for share-based awards recognized in *Compensation and benefits* in the statements of consolidated income for the three months ended March 31, 2023 and 2022 was \$126 and \$386 million, respectively.

Management Incentive Program

RPUs issued under the MIP prior to 2022 vested one year following the grant date based on continued employment with the Company and were expensed on a straight-line basis (less estimated forfeitures) over the requisite service period. In cases of death, disability or retirement, RPUs vested and were expensed immediately.

On November 2, 2022, the Compensation and Human Capital Committee of the UPS Board of Directors (the "Compensation Committee") amended and restated the terms and conditions of the MIP effective January 1, 2023, such that awards earned will be fully electable in the form of cash or unrestricted shares of class A common stock. The terms and conditions governing the 2022 MIP were also amended and restated to fully vest RPUs to be issued in connection therewith as of December 31, 2022. As a result, the award was classified as a compensation obligation and recorded in *Accrued wages and withholdings* on the consolidated balance sheet at that date.

Based on the Compensation Committee's approval of the 2022 MIP, we determined the award measurement date to be February 8, 2023 for U.S.-based employees and executive management, and March 20, 2023 for international employees. Each RPU issued under the MIP was valued using the closing New York Stock Exchange ("NYSE") prices of \$186.36 and \$183.49 on those dates. The compensation obligation recognized as of December 31, 2022 was relieved and the issuance of RPUs was recorded as *Additional Paid-in Capital* on the measurement date.

Long-Term Incentive Performance Program

RPUs issued under the LTIP vest at the end of a three-year performance period, assuming continued employment with the Company (except in the case of death, disability or retirement, in which case immediate vesting occurs on a prorated basis). The actual number of RPUs earned is based on achievement of the performance targets established on the grant date.

The performance targets are equally weighted between adjusted earnings per share and cumulative free cash flow. The actual number of RPUs earned is subject to adjustment based on total shareholder return relative to the Standard & Poor's 500 Index ("S&P 500"). We determine the grant date fair value of the RPUs using a Monte Carlo model and recognize compensation expense (less estimated forfeitures) ratably over the vesting period, based on the number of awards expected to be earned.

Based on the Compensation Committee's approval of the 2023 LTIP award performance targets, we determined March 22, 2023 to be the award measurement date and each target RPU awarded was valued at \$200.01.

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

The weighted-average assumptions used and the weighted-average fair values of the LTIP awards granted in 2023 and 2022 are as follows:

	2023		2022	
Risk-free interest rate	3.81	%	2.35	%
Expected volatility	30.30	%	31.92	%
Weighted-average fair value of RPU's granted	\$ 200.01		\$ 227.00	
Share payout	107.80	%	107.37	%

There is no expected dividend yield as units earn dividend equivalents.

Non-Qualified Stock Options

We grant non-qualified stock options to a limited group of eligible senior management employees under the UPS Stock Option program. Stock option awards vest over a five-year period with approximately 20% of the award vesting at each anniversary of the grant date (except in the case of death, disability or retirement, in which case immediate vesting occurs). The option grants expire 10 years after the date of the grant. On March 22, 2023, we granted 0.1 million stock options at an exercise price of \$185.54, the NYSE closing price on that date.

The fair value of each option granted is estimated using a Black-Scholes option pricing model. The weighted-average assumptions used and the weighted-average fair values of options granted in 2023 and 2022 are as follows:

	2023		2022	
Expected dividend yield	3.54	%	2.35	%
Risk-free interest rate	3.70	%	2.39	%
Expected life (in years)		5.93		7.5
Expected volatility	28.31	%	25.04	%
Weighted-average fair value of options granted	\$ 41.08		\$ 48.45	

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5. MARKETABLE SECURITIES AND NON-CURRENT INVESTMENTS

The following is a summary of marketable securities classified as trading and available-for-sale as of March 31, 2023 and December 31, 2022 (in millions):

	<u>Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Estimated Fair Value</u>
March 31, 2023:				
Current trading marketable securities:				
Equity securities	\$ 6	\$ —	\$ —	\$ 6
Total trading marketable securities	<u>6</u>	<u>—</u>	<u>—</u>	<u>6</u>
Current available-for-sale securities:				
U.S. government and agency debt securities	761	2	(4)	759
Mortgage and asset-backed debt securities	9	—	—	9
Corporate debt securities	2,279	3	(6)	2,276
U.S. state and local municipal debt securities	3	—	—	3
Non-U.S. government debt securities	155	—	—	155
Total available-for-sale marketable securities	<u>3,207</u>	<u>5</u>	<u>(10)</u>	<u>3,202</u>
Total current marketable securities	<u>\$ 3,213</u>	<u>\$ 5</u>	<u>\$ (10)</u>	<u>\$ 3,208</u>
December 31, 2022:				
Current trading marketable securities:				
Equity securities	\$ 2	\$ —	\$ —	\$ 2
Total trading marketable securities	<u>2</u>	<u>—</u>	<u>—</u>	<u>2</u>
Current available-for-sale securities:				
U.S. government and agency debt securities	355	—	(8)	347
Mortgage and asset-backed debt securities	9	—	—	9
Corporate debt securities	1,472	—	(6)	1,466
U.S. state and local municipal debt securities	4	—	—	4
Non-U.S. government debt securities	165	—	—	165
Total available-for-sale marketable securities	<u>2,005</u>	<u>—</u>	<u>(14)</u>	<u>1,991</u>
Total current marketable securities	<u>\$ 2,007</u>	<u>\$ —</u>	<u>\$ (14)</u>	<u>\$ 1,993</u>

Investment Impairments

We have concluded that no material impairment losses existed as of March 31, 2023. In making this determination, we considered the financial condition and prospects of each issuer, the magnitude of the losses compared with the cost, the probability that we will be unable to collect all amounts due according to the contractual terms of the security, the credit rating of the security and our ability and intent to hold these investments until the anticipated recovery in market value occurs.

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Maturity Information

The amortized cost and estimated fair value of marketable securities as of March 31, 2023 by contractual maturity are shown below (in millions). Actual maturities may differ from contractual maturities because the issuers of the securities may have the right to prepay obligations with or without prepayment penalties.

	Cost	Estimated Fair Value
Due in one year or less	\$ 1,727	\$ 1,726
Due after one year through three years	1,478	1,474
Due after three years through five years	2	2
Due after five years	—	—
	3,207	3,202
Equity securities	6	6
	\$ 3,213	\$ 3,208

Non-Current Investments

We hold non-current investments that are reported within *Other Non-Current Assets* in our consolidated balance sheets. Cash paid for these investments is included in *Other investing activities* in our statements of consolidated cash flows.

- *Equity method investments:* As of March 31, 2023 and December 31, 2022, equity securities accounted for under the equity method had a carrying value of \$57 and \$256 million, respectively.
- *Other equity securities:* Certain equity securities that do not have readily determinable fair values are reported in accordance with the measurement alternative in ASC Topic 321 *Investments - Equity Securities*. As of March 31, 2023 and December 31, 2022, we held equity securities accounted for using the measurement alternative of \$33 and \$31 million, respectively.
- *Other investments:* We hold an investment in a variable life insurance policy to fund benefits for the UPS Excess Coordinating Benefit Plan. The investment had a fair market value of \$19 and \$18 million as of March 31, 2023 and December 31, 2022, respectively.

Fair Value Measurements

Marketable securities valued utilizing Level 1 inputs include active exchange-traded equity securities and equity index funds, and most U.S. government debt securities, as these securities all have quoted prices in active markets. Marketable securities valued utilizing Level 2 inputs include asset-backed securities, corporate bonds and municipal bonds. These securities are valued using market corroborated pricing, matrix pricing or other models that utilize observable inputs such as yield curves.

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

The following table presents information about our investments measured at fair value on a recurring basis as of March 31, 2023 and December 31, 2022, and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value (in millions):

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
March 31, 2023:				
Marketable Securities:				
U.S. government and agency debt securities	\$ 759	\$ —	\$ —	\$ 759
Mortgage and asset-backed debt securities	—	9	—	9
Corporate debt securities	—	2,276	—	2,276
U.S. state and local municipal debt securities	—	3	—	3
Equity securities	—	6	—	6
Non-U.S. government debt securities	—	155	—	155
Total marketable securities	759	2,449	—	3,208
Other non-current investments ⁽¹⁾	—	19	—	19
Total	\$ 759	\$ 2,468	\$ —	\$ 3,227

⁽¹⁾ Represents a variable life insurance policy funding benefits for the UPS Excess Coordinating Benefit Plan.

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
December 31, 2022:				
Marketable Securities:				
U.S. government and agency debt securities	\$ 279	\$ 68	\$ —	\$ 347
Mortgage and asset-backed debt securities	—	9	—	9
Corporate debt securities	—	1,466	—	1,466
U.S. state and local municipal debt securities	—	4	—	4
Equity securities	—	2	—	2
Non-U.S. government debt securities	—	165	—	165
Total marketable securities	279	1,714	—	1,993
Other non-current investments ⁽¹⁾	—	18	—	18
Total	\$ 279	\$ 1,732	\$ —	\$ 2,011

⁽¹⁾ Represents a variable life insurance policy funding benefits for the UPS Excess Coordinating Benefit Plan.

There were no transfers of investments into or out of Level 3 during the three months ended March 31, 2023 or 2022.

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment as of March 31, 2023 and December 31, 2022 consisted of the following (in millions):

	2023	2022
Vehicles	\$ 10,840	\$ 10,628
Aircraft	22,638	22,598
Land	2,143	2,140
Buildings	6,122	6,032
Building and leasehold improvements	5,142	5,067
Plant equipment	16,454	16,145
Technology equipment	2,445	2,411
Construction-in-progress	2,544	2,409
	<u>68,328</u>	<u>67,430</u>
Less: Accumulated depreciation and amortization	(33,333)	(32,711)
Property, Plant and Equipment, Net	<u>\$ 34,995</u>	<u>\$ 34,719</u>

Property, plant and equipment purchased on account was \$626 and \$176 million as of March 31, 2023 and December 31, 2022, respectively.

There were no material impairment charges during the three months ended March 31, 2023 or 2022.

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7. EMPLOYEE BENEFIT PLANS
Company-Sponsored Benefit Plans

Information about the net periodic benefit cost (income) for our company-sponsored pension and postretirement benefit plans for the three months ended March 31, 2023 and 2022 is as follows (in millions):

	U.S. Pension Benefits		U.S. Postretirement Medical Benefits		International Pension Benefits	
	2023	2022	2023	2022	2023	2022
Three Months Ended March 31:						
Service cost	\$ 293	\$ 506	\$ 5	\$ 8	\$ 11	\$ 18
Interest cost	627	488	29	20	17	12
Expected return on assets	(742)	(820)	(3)	(1)	(21)	(20)
Amortization of prior service cost	27	23	—	—	—	—
Settlement and curtailment (gain) loss	—	—	—	—	—	(33)
Net periodic benefit cost (income)	\$ 205	\$ 197	\$ 31	\$ 27	\$ 7	\$ (23)

The components of net periodic benefit cost (income) other than current service cost are presented within *Investment income and other* in the statements of consolidated income.

During the first quarter of 2022, we amended the UPS Canada Ltd. Retirement Plan to cease future benefit accruals effective December 31, 2023. We remeasured plan assets and benefit obligations for this plan, which resulted in a curtailment gain of \$33 million (\$24 million after-tax) during the three-month period. The gain is included in *Investment income and other* in the statement of consolidated income.

During the first quarter of 2023, we contributed \$1.2 billion and \$74 million to our company-sponsored pension and U.S. postretirement medical benefit plans, respectively. We expect to contribute approximately \$78 and \$44 million over the remainder of the year to our pension and U.S. postretirement medical benefit plans, respectively.

Multiemployer Benefit Plans

We contribute to a number of multiemployer defined benefit and health and welfare plans under the terms of collective bargaining agreements that cover our union-represented employees. Our current collective bargaining agreements set forth the annual contribution increases allotted to the plans that we participate in, and we are in compliance with these contribution rates. These limitations on annual contribution rates will remain in effect throughout the terms of the existing collective bargaining agreements.

As of March 31, 2023 and December 31, 2022, we had \$819 and \$821 million, respectively, recorded in *Other Non-Current Liabilities* in our consolidated balance sheets and \$8 million as of March 31, 2023 and December 31, 2022 recorded in *Other current liabilities* in our consolidated balance sheets associated with our previous withdrawal from the New England Teamsters and Trucking Industry Pension Fund. This liability is payable in equal monthly installments over a remaining term of approximately 40 years. Based on the borrowing rates currently available to us for long-term financing of a similar maturity, the fair value of this withdrawal liability as of March 31, 2023 and December 31, 2022 was \$710 and \$686 million, respectively. We utilized Level 2 inputs in the fair value hierarchy of valuation techniques to determine the fair value of this liability.

UPS was a contributing employer to the Central States Pension Fund (“CSPF”) until 2007 at which time UPS withdrew from the CSPF. Under a collective bargaining agreement with the International Brotherhood of Teamsters (“IBT”), UPS agreed to provide coordinating benefits in the UPS/IBT Full Time Employee Pension Plan (“UPS/IBT Plan”) for UPS participants whose last employer was UPS and who had not retired as of January 1, 2008 (“the UPS Transfer Group”) in the event that benefits are reduced by the CSPF consistent with the terms of our withdrawal agreement with the CSPF. Under this agreement, benefits to the UPS Transfer Group cannot be reduced without our consent and can only be reduced in accordance with law. Subsequent to our withdrawal, the CSPF incurred extensive asset losses and indicated that it was projected to become insolvent. In such event, the CSPF benefits would be reduced to the legally permitted Pension Benefit Guaranty Corporation (“PBGC”) limits, triggering the coordinating benefits provision in the collective bargaining agreement.

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

In March 2021, the American Rescue Plan Act (“ARPA”) was enacted into law. The ARPA contains provisions that allow for qualifying multiemployer pension plans to apply for special financial assistance (“SFA”) from the PBGC, which will be funded by the U.S. government. Following SFA approval, a qualifying multiemployer pension plan will receive a lump sum payment to enable it to continue paying unreduced pension benefits through 2051. The multiemployer plan is not obligated to repay the SFA. The ARPA is intended to prevent both the PBGC and certain financially distressed multiemployer pension plans, including the CSPF, from becoming insolvent through 2051. The CSPF submitted an application for SFA that was approved in December 2022 and, in January 2023, the CSPF received \$35.8 billion from the PBGC.

We account for the potential obligation to pay coordinating benefits under ASC Topic 715, which requires us to provide a best estimate of various actuarial assumptions in measuring our pension benefit obligation at the December 31st measurement date. As of December 31, 2022, our best estimate of coordinating benefits that may be required to be paid by the UPS/IBT Plan after SFA funds have been exhausted was immaterial.

The value of our estimate for future coordinating benefits will continue to be influenced by a number of factors, including interpretations of the ARPA, future legislative actions, actuarial assumptions and the ability of the CSPF to sustain its long-term commitments. Actual events may result in a change in our best estimate of the projected benefit obligation. We will continue to assess the impact of these uncertainties in accordance with ASC Topic 715.

Collective Bargaining Agreements

We have approximately 330,000 employees in the U.S. employed under a national master agreement and various supplemental agreements with local unions affiliated with the Teamsters. These agreements run through July 31, 2023. We have begun negotiating successor agreements with the Teamsters. We are negotiating in good faith in an effort to reach an agreement that is in the best interests of our employees, the Teamsters and UPS; however, no assurances of our ability to do so, or the timing or terms thereof, can be provided. Customers may reduce their business or stop doing business with us if they believe that such actions or threatened actions may adversely affect our ability to provide services. We may permanently lose customers if we are unable to provide uninterrupted service, and this could materially adversely affect us. The terms of future collective bargaining agreements also may affect our competitive position and results of operations. Furthermore, our actions or responses to any such negotiations, labor disputes, strikes or work stoppages could negatively impact how our brand is perceived and our corporate reputation and have adverse effects on our business, including our results of operations.

We have approximately 10,000 employees in Canada employed under a collective bargaining agreement with the Teamsters which runs through July 31, 2025.

We have approximately 3,500 pilots who are employed under a collective bargaining agreement with the Independent Pilots Association (“IPA”). This collective bargaining agreement becomes amendable September 1, 2025.

We have approximately 1,800 airline mechanics who are covered by a collective bargaining agreement with Teamsters Local 2727 which becomes amendable November 1, 2026. In addition, approximately 3,100 of our auto and maintenance mechanics who are not employed under agreements with the Teamsters are employed under collective bargaining agreements with the International Association of Machinists and Aerospace Workers (“IAM”). The collective bargaining agreement with the IAM runs through July 31, 2024.

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8. GOODWILL AND INTANGIBLE ASSETS

The following table indicates the allocation of goodwill as of March 31, 2023 and December 31, 2022 (in millions):

	U.S. Domestic Package	International Package	Supply Chain Solutions	Consolidated
December 31, 2022:	\$ 847	\$ 492	\$ 2,884	\$ 4,223
Acquired	—	—	9	9
Impairments	—	—	(8)	(8)
Currency / Other	—	6	19	25
March 31, 2023:	<u>\$ 847</u>	<u>\$ 498</u>	<u>\$ 2,904</u>	<u>\$ 4,249</u>

During the three months ended March 31, 2023, we recorded goodwill adjustments of \$9 million relating to our November 2022 acquisition of Bomi Group. Certain areas, including our estimates of tax positions for Bomi Group, remain preliminary as of March 31, 2023.

Additionally, we recorded an immaterial impairment charge related to the closure of a trade management services business within Supply Chain Solutions. The remaining movements are due to the impact of changes in the value of the U.S. Dollar on the translation of non-U.S. Dollar goodwill balances.

We complete our annual goodwill impairment evaluation as of July 1st on a reporting unit basis. Our 2022 annual impairment testing indicated that the fair value of goodwill associated with our Roadie reporting unit remained greater than its carrying value, although this excess was less than 10 percent. The goodwill associated with our Roadie reporting unit as of March 31, 2023 was \$241 million. There were no events or changes in circumstances during the first quarter of 2023 that would indicate the carrying amount of Roadie goodwill may be impaired as of the date of this report.

For each of our reporting units and our indefinite-lived trade name, we continue to monitor the combined impact of macroeconomic conditions and business performance on our estimates of fair value.

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

The following is a summary of intangible assets as of March 31, 2023 and December 31, 2022 (in millions):

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value
March 31, 2023:			
Capitalized software	\$ 5,300	\$ (3,598)	\$ 1,702
Licenses	55	(34)	21
Franchise rights	261	(39)	222
Customer relationships	880	(474)	406
Trade name	126	(10)	116
Trademarks, patents and other	177	(37)	140
Amortizable intangible assets	\$ 6,799	\$ (4,192)	\$ 2,607
Indefinite-lived intangible assets	204	—	204
Total Intangible Assets, Net	\$ 7,003	\$ (4,192)	\$ 2,811
December 31, 2022:			
Capitalized software	\$ 5,186	\$ (3,500)	\$ 1,686
Licenses	55	(30)	25
Franchise rights	226	(37)	189
Customer relationships	872	(453)	419
Trade name	125	(8)	117
Trademarks, patents and other	183	(27)	156
Amortizable intangible assets	\$ 6,647	\$ (4,055)	\$ 2,592
Indefinite-lived intangible assets	204	—	204
Total Intangible Assets, Net	\$ 6,851	\$ (4,055)	\$ 2,796

A trade name and licenses with carrying values of \$200 and \$4 million, respectively, as of March 31, 2023 are deemed to be indefinite-lived intangible assets, and therefore are not amortized. There were no events or changes in circumstances during the three months ended March 31, 2023 that would indicate the carrying amount of our indefinite-lived intangible assets may be impaired as of the date of this report.

Impairment tests for finite-lived intangible assets are performed when a triggering event occurs that may indicate that the carrying value of the intangible asset may not be recoverable. There were no impairment charges for finite-lived intangible assets during the three months ended March 31, 2023 or 2022.

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9. DEBT AND FINANCING ARRANGEMENTS

The carrying value of our outstanding debt obligations as of March 31, 2023 and December 31, 2022 consists of the following (in millions):

	Principal Amount	Maturity	Carrying Value	
			2023	2022
Fixed-rate senior notes:				
2.500% senior notes	\$ 1,000	2023	\$ 1,000	\$ 999
2.800% senior notes	500	2024	499	499
2.200% senior notes	400	2024	399	399
3.900% senior notes	1,000	2025	998	997
2.400% senior notes	500	2026	499	499
3.050% senior notes	1,000	2027	995	995
3.400% senior notes	750	2029	747	747
2.500% senior notes	400	2029	398	397
4.450% senior notes	750	2030	745	744
4.875% senior notes	900	2033	894	—
6.200% senior notes	1,500	2038	1,485	1,485
5.200% senior notes	500	2040	494	494
4.875% senior notes	500	2040	491	491
3.625% senior notes	375	2042	369	369
3.400% senior notes	500	2046	492	492
3.750% senior notes	1,150	2047	1,137	1,137
4.250% senior notes	750	2049	743	743
3.400% senior notes	700	2049	688	688
5.300% senior notes	1,250	2050	1,231	1,231
5.050% senior notes	1,100	2053	1,083	—
Floating-rate senior notes:				
Floating-rate senior notes	500	2023	500	500
Floating-rate senior notes	1,566	2049-2073	1,548	1,027
Debentures:				
7.620% debentures	276	2030	280	280
Pound Sterling notes:				
5.500% notes	82	2031	82	79
5.125% notes	563	2050	535	521
Euro senior notes:				
0.375% senior notes	762	2023	761	745
1.625% senior notes	762	2025	760	744
1.000% senior notes	544	2028	542	531
1.500% senior notes	544	2032	542	530
Canadian senior notes:				
2.125% senior notes	555	2024	553	553
Finance lease obligations	365	2023-2046	365	390
Facility notes and bonds	320	2029-2045	320	320
Other debt	13	2023-2026	13	36
Total debt	\$ 22,377		22,188	19,662
Less: current maturities			(2,332)	(2,341)
Long-term debt			\$ 19,856	\$ 17,321

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Commercial Paper

We are authorized to borrow up to \$10.0 billion under a U.S. commercial paper program and €5.0 billion (in a variety of currencies) under a European commercial paper program. As of March 31, 2023, we had no outstanding balances under our commercial paper programs. The amount of commercial paper outstanding under these programs in 2023 is expected to fluctuate.

Debt Classification

We have classified certain floating-rate senior notes that are redeemable at the option of the note holder as long-term liabilities in our consolidated balance sheets, due to our intent and ability to refinance the debt if the put option is exercised.

Debt Repayments

During the first quarter of 2023, we repaid approximately \$16 million of foreign currency-denominated debt assumed in the Bomi Group acquisition.

On April 1, 2023, our 2.500% Senior Notes with a principal balance of \$1.0 billion and our floating rate senior notes with a principal balance of \$500 million matured and were repaid in full.

Debt Issuances

On February 23, 2023 we issued two series of notes in the principal amounts of \$900 million and \$1.1 billion. These notes bear interest at 4.875% and 5.050%, respectively, and mature on March 3, 2033 and March 3, 2053, respectively. Interest on the notes is payable semi-annually, beginning September 2023. Each series of notes is callable at our option at a redemption price equal to the greater of 100% of the principal amount, or the sum of the present values of scheduled payments of principal and interest, plus accrued and unpaid interest.

On March 7, 2023 we issued floating rate senior notes with a principal balance of \$29 million. These notes bear interest at a rate equal to the compounded Secured Overnight Financing Rate ("SOFR") less 0.350% per year and mature on March 15, 2073. These notes are callable at various times after 5 years at a stated percentage of par value and are redeemable at the option of the note holders at various times after one year at a stated percentage of par value.

Reference Rate Reform

Our floating-rate senior notes that mature between 2049 and 2067 bear interest at rates that reference the London Interbank Offer Rate ("LIBOR") for U.S. Dollars. As part of a broader program of reference rate reform, it is expected that U.S. Dollar LIBOR rates will cease to be published after June 2023. We are currently working to transition these notes to an alternative reference rate, and we anticipate that the SOFR will be adopted in accordance with recommendations of the Alternative Reference Rates Committee.

Sources of Credit

We maintain two credit agreements with a consortium of banks. The first of these agreements provides revolving credit facilities of \$1.0 billion, and expires on December 5, 2023. Amounts outstanding under this agreement bear interest at a periodic fixed rate equal to the term SOFR rate, plus 0.10% per annum and an applicable margin based on our then-current credit rating. The applicable margin from the credit pricing grid as of March 31, 2023 was 0.70%. Alternatively, a fluctuating rate of interest equal to the highest of (1) the rate of interest last quoted by The Wall Street Journal as the prime rate in the United States; (2) the Federal Funds effective rate plus 0.50%; or (3) the Adjusted Term SOFR Rate for a one-month interest period plus 1.00%, may be used at our discretion.

The second agreement provides revolving credit facilities of \$2.0 billion, and expires on December 7, 2026. Amounts outstanding under this facility bear interest at a periodic fixed rate equal to the term SOFR rate plus 0.10% per annum and an applicable margin based on our then-current credit rating. The applicable margin from the credit pricing grid as of March 31, 2023 was 0.875%. Alternatively, a fluctuating rate of interest equal to the highest of (1) the rate of interest last quoted by The Wall Street Journal as the prime rate in the United States; (2) the Federal Funds effective rate plus 0.50%; or (3) the Adjusted Term SOFR Rate for a one-month interest period plus 1.00%, plus an applicable margin, may be used at our discretion.

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

If the credit ratings established by Standard & Poor's and Moody's differ, the higher rating will be used, except in cases where the lower rating is two or more levels lower. In these circumstances, the rating one step below the higher rating will be used. We are also able to request advances under these facilities based on competitive bids for the applicable interest rate.

There were no amounts outstanding under these facilities as of March 31, 2023.

Debt Covenants

Our existing debt instruments and credit facilities subject us to certain financial covenants. As of March 31, 2023, and for all prior periods presented, we have satisfied these financial covenants. These covenants limit the amount of secured indebtedness that we may incur, and limit the amount of attributable debt in sale-leaseback transactions, to 10% of net tangible assets. As of March 31, 2023, 10% of net tangible assets was equivalent to \$4.9 billion and we had no covered sale-leaseback transactions or secured indebtedness outstanding. We do not expect these covenants to have a material impact on our financial condition or liquidity.

Fair Value of Debt

Based on the borrowing rates currently available to us for long-term debt with similar terms and maturities, the fair value of long-term debt, including current maturities, was approximately \$21.9 and \$18.2 billion as of March 31, 2023 and December 31, 2022, respectively. We utilized Level 2 inputs in the fair value hierarchy of valuation techniques to determine the fair value of all of our debt instruments.

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10. LEASES

We have finance and operating leases for real estate (primarily package centers, airport facilities and warehouses), aircraft and engines, information technology equipment, vehicles and various other equipment used in operating our business. Certain leases for real estate and aircraft contain options to purchase, extend or terminate the lease.

Aircraft

In addition to the aircraft that we own, we charter aircraft to handle package and cargo volume on certain international trade lanes and domestic routes. Due to the nature of these agreements, primarily being that either party can cancel the agreement with short notice, we have classified these as short-term leases. A majority of our long-term aircraft operating leases are operated by a third party to handle package and cargo volume in geographic regions where, due to government regulations, we are restricted from operating an airline.

Transportation equipment and other equipment

We enter into both long-term and short-term leases for transportation equipment to supplement our capacity or meet contractual demands. Some of these assets are leased on a month-to-month basis and the leases can be terminated without penalty. We also enter into equipment leases to increase capacity during periods of high demand. These leases are treated as short-term as the cumulative right of use is less than 12 months over the term of the contract.

Some of our transportation and technology equipment leases require us to make additional lease payments based on the underlying usage of the assets. Due to the variable nature of these costs, these are expensed as incurred and are not included in the right of use lease asset and associated lease obligation.

The components of lease expense for the three months ended March 31, 2023 and 2022 were as follows (in millions):

	2023	2022
Operating lease costs	\$ 207	\$ 183
Finance lease costs:		
Amortization of assets	29	28
Interest on lease liabilities	4	4
Total finance lease costs	33	32
Variable lease costs	72	68
Short-term lease costs	277	302
Total lease costs ⁽¹⁾	\$ 589	\$ 585

⁽¹⁾ This table excludes sublease income as it was not material to the three months ended March 31, 2023 or 2022.

In addition to the lease costs disclosed in the table above, we monitor all lease categories for any indicators that the carrying value of the assets may not be recoverable. There were no material impairments recognized during the three months ended March 31, 2023 or 2022.

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Supplemental information related to leases and location within our consolidated balance sheets is as follows (in millions, except lease term and discount rate):

	March 31, 2023	December 31, 2022
Operating Leases:		
Operating lease right-of-use assets	\$ 4,089	\$ 3,755
Current maturities of operating leases	\$ 668	\$ 621
Non-current operating leases	3,539	3,238
Total operating lease obligations	<u>\$ 4,207</u>	<u>\$ 3,859</u>
Finance Leases:		
Property, plant and equipment, net	\$ 869	\$ 959
Current maturities of long-term debt, commercial paper and finance leases	\$ 68	\$ 92
Long-term debt and finance leases	297	298
Total finance lease obligations	<u>\$ 365</u>	<u>\$ 390</u>
Weighted average remaining lease term (in years):		
Operating leases	11.2	10.8
Finance leases	8.8	8.4
Weighted average discount rate:		
Operating leases	2.73 %	2.32 %
Finance leases	3.28 %	3.17 %

Supplemental cash flow information related to leases is as follows (in millions):

	Three Months Ended March 31,	
	2023	2022
Cash paid for amounts included in measurement of obligations:		
Operating cash flows from operating leases	\$ 212	\$ 176
Operating cash flows from finance leases	1	1
Financing cash flows from finance leases	48	18
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases	\$ 498	\$ 119
Finance leases	\$ 30	\$ 59

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Maturities of lease obligations as of March 31, 2023 were as follows (in millions):

	Finance Leases	Operating Leases
2023	\$ 73	\$ 576
2024	62	705
2025	48	632
2026	39	543
2027	38	472
Thereafter	183	2,038
Total lease payments	443	4,966
Less: Imputed interest	(78)	(759)
Total lease obligations	365	4,207
Less: Current obligations	(68)	(668)
Long-term lease obligations	\$ 297	\$ 3,539

As of March 31, 2023, we had \$771 million of additional leases which had not commenced. These leases will commence between 2023 and 2024 when we are granted access to the property, such as when leasehold improvements are completed by the lessor or a certificate of occupancy is obtained.

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11. LEGAL PROCEEDINGS AND CONTINGENCIES

We are involved in a number of judicial proceedings and other matters arising from the conduct of our business.

Although there can be no assurances as to the ultimate outcome, we have generally denied, or believe we have meritorious defenses and will deny, liability in all pending matters, including (except as otherwise noted herein) the matters described below, and we intend to vigorously defend each matter. We accrue amounts associated with legal proceedings when and to the extent a loss becomes probable and can be reasonably estimated. The actual costs of resolving legal proceedings may be substantially higher or lower than the amounts accrued on those claims.

For matters as to which we are not able to estimate a possible loss or range of losses, we are not able to determine whether any such loss will have a material impact on our operations or financial condition. For these matters, we have described the reasons that we are unable to estimate a possible loss or range of losses.

Judicial Proceedings

We are a defendant in a number of lawsuits filed in state and federal courts containing various class action allegations under state wage-and-hour laws. At this time, we do not believe that any loss associated with any such matter will have a material impact on our operations or financial condition. One of these matters, Hughes v. UPS Supply Chain Solutions, Inc. and United Parcel Service, Inc. had previously been certified as a class action in Kentucky state court. In the second quarter of 2019, the court granted our motion for judgment on the pleadings related to the wage-and-hour claims. The plaintiffs' appeal of this decision was denied. However, they were granted a discretionary review by the Kentucky Supreme Court. In the first quarter of 2023, the Kentucky Supreme Court ruled in our favor. Plaintiffs have filed a motion for rehearing before the Kentucky Supreme Court.

Other Matters

In August 2016, Spain's National Markets and Competition Commission ("CNMC") announced an investigation into 10 companies in the commercial delivery and parcel industry, including UPS, related to alleged nonaggression agreements to allocate customers. In May 2017, we received a Statement of Objections issued by the CNMC. In July 2017, we received a Proposed Decision from the CNMC. In March 2018, the CNMC adopted a final decision, finding an infringement and imposing an immaterial fine on UPS. We appealed the decision. In December 2022, a trial court ruled against us. We have filed an appeal before the Spanish Supreme Court. We do not believe that any loss from this matter would have a material impact on our operations or financial condition. We are vigorously defending ourselves and believe that we have a number of meritorious legal defenses. There are also unresolved questions of law that could be important to the ultimate resolution of this matter.

We are a party in various other matters that arose in the normal course of business. We do not believe that the eventual resolution of these other matters (either individually or in the aggregate), including any reasonably possible losses in excess of current accruals, will have a material impact on our operations or financial condition.

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 12. SHAREOWNERS' EQUITY
Capital Stock, Additional Paid-In Capital, Retained Earnings and Non-Controlling Minority Interests

We are authorized to issue two classes of common stock, which are distinguished from each other primarily by their respective voting rights. Class A shares of UPS are entitled to 10 votes per share, whereas class B shares are entitled to one vote per share. Class A shares are primarily held by UPS employees and retirees, as well as trusts and descendants of the Company's founders, and these shares are fully convertible into class B shares at any time. Class B shares are publicly traded on the NYSE under the symbol "UPS". Class A and B shares both have a \$0.01 par value, and as of March 31, 2023, there were 4.6 billion class A shares and 5.6 billion class B shares authorized to be issued. Additionally, there are 200 million preferred shares authorized to be issued, with a par value of \$0.01 per share. As of March 31, 2023, no preferred shares had been issued.

The following is a rollforward of our common stock, additional paid-in capital, retained earnings and non-controlling minority interests accounts for the three months ended March 31, 2023 and 2022 (in millions, except per share amounts):

Three Months Ended March 31:	2023		2022	
	Shares	Dollars	Shares	Dollars
Class A Common Stock:				
Balance at beginning of period	134	\$ 2	138	\$ 2
Stock award plans	3	—	4	—
Common stock issuances	1	—	1	—
Conversions of class A to class B common stock	(3)	—	(3)	—
Class A shares outstanding at end of period	<u>135</u>	<u>\$ 2</u>	<u>140</u>	<u>\$ 2</u>
Class B Common Stock:				
Balance at beginning of period	725	\$ 7	732	\$ 7
Common stock purchases	(4)	—	(1)	—
Conversions of class A to class B common stock	3	—	3	—
Class B shares outstanding at end of period	<u>724</u>	<u>\$ 7</u>	<u>734</u>	<u>\$ 7</u>
Additional Paid-In Capital:				
Balance at beginning of period		\$ —		\$ 1,343
Stock award plans		345		(35)
Common stock purchases		(492)		(260)
Common stock issuances		147		183
Balance at end of period		<u>\$ —</u>		<u>\$ 1,231</u>
Retained Earnings:				
Balance at beginning of period		\$ 21,326		\$ 16,179
Net income attributable to controlling interests		1,895		2,662
Dividends (\$1.62 and \$1.52 per share) ⁽¹⁾		(1,453)		(1,406)
Common stock purchases		(258)		—
Other		—		(2)
Balance at end of period		<u>\$ 21,510</u>		<u>\$ 17,433</u>
Non-Controlling Interests:				
Balance at beginning of period		\$ 17		\$ 16
Change in non-controlling interest		(2)		2
Balance at end of period		<u>\$ 15</u>		<u>\$ 18</u>

⁽¹⁾ The dividend per share amount is the same for both class A and class B common stock. Dividends include \$ 105 and \$ 122 million as of March 31, 2023 and 2022, respectively, that were settled in shares of class A common stock.

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

We repurchased 4.1 and 1.2 million shares of class B common stock for \$750 and \$260 million during the three months ended March 31, 2023 and 2022, respectively. Repurchases of \$751 and \$254 million, respectively, are reported on the statements of consolidated cash flows due to the timing of settlements. These repurchases were completed as follows:

- In August 2021, the Board of Directors authorized the company to repurchase up to \$5.0 billion of class A and class B common stock (the "2021 Authorization"). For the three months ended March 31, 2023 and 2022, we repurchased 0.5 and 1.2 million shares of class B common stock for \$82 and \$260 million, respectively, under this authorization.
- In January 2023, the Board of Directors terminated the 2021 Authorization and approved a new share repurchase authorization for \$.0 billion of class A and class B common stock (the "2023 Authorization"). For the three months ended March 31, 2023, we repurchased 3.6 million shares for \$668 million under the 2023 Authorization. As of March 31, 2023, we had \$4.3 billion available under this repurchase authorization.

We anticipate our share repurchases will total approximately \$3.0 billion in 2023.

Future share repurchases may be in the form of accelerated share repurchase programs, open market purchases or other methods we deem appropriate. The timing of share repurchases will depend upon market conditions. Unless terminated earlier by the Board of Directors, this program will expire when we have purchased all shares authorized for repurchase under the program.

Movements in additional paid-in capital in respect of stock award plans comprise accruals for unvested awards, offset by adjustments for awards that vest during the period.

Accumulated Other Comprehensive Income (Loss)

We recognize activity in other comprehensive income for foreign currency translation adjustments, unrealized holding gains and losses on available-for-sale securities, unrealized gains and losses from derivatives that qualify as hedges of cash flows and unrecognized pension and postretirement benefit costs. The activity in accumulated other comprehensive income (loss) for the three months ended March 31, 2023 and 2022 was as follows (in millions):

Three Months Ended March 31:	2023	2022
Foreign currency translation gain (loss), net of tax:		
Balance at beginning of period	\$ (1,446)	\$ (1,162)
Translation adjustment (net of tax effect of \$(15) and \$0)	115	(40)
Reclassification to earnings (net of tax effect of \$0 and \$0)	3	—
Balance at end of period	<u>(1,328)</u>	<u>(1,202)</u>
Unrealized gain (loss) on marketable securities, net of tax:		
Balance at beginning of period	(11)	(1)
Current period changes in fair value (net of tax effect of \$1 and \$(2))	5	(6)
Reclassification to earnings (net of tax effect of \$1 and \$0)	2	—
Balance at end of period	<u>(4)</u>	<u>(7)</u>
Unrealized gain (loss) on cash flow hedges, net of tax:		
Balance at beginning of period	167	(17)
Current period changes in fair value (net of tax effect of \$(8) and \$23)	(26)	72
Reclassification to earnings (net of tax effect of \$(16) and \$(9))	(51)	(29)
Balance at end of period	<u>90</u>	<u>26</u>
Unrecognized pension and postretirement benefit costs, net of tax:		
Balance at beginning of period	(259)	(2,098)
Net actuarial gain (loss) resulting from remeasurements of plan assets and liabilities (net of tax effect of \$0 and \$11)	—	31
Reclassification to earnings (net of tax effect of \$7 and \$(3))	20	(7)
Balance at end of period	<u>(239)</u>	<u>(2,074)</u>
Accumulated other comprehensive income (loss) at end of period	<u>\$ (1,481)</u>	<u>\$ (3,257)</u>

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Detail of the gains (losses) reclassified from accumulated other comprehensive income (loss) to the statements of consolidated income for the three months ended March 31, 2023 and 2022 is as follows (in millions):

Three Months Ended March 31:	Amount Reclassified from AOCI⁽¹⁾		Affected Line Item in the Income Statement
	2023	2022	
Unrealized Gain (Loss) on Foreign Currency Translation:			
Realized gain (loss) on business wind-down	\$ (3)	\$ —	Other expenses
Income tax (expense) benefit	—	—	Income tax expense
Impact on net income	(3)	—	Net income
Unrealized gain (loss) on marketable securities:			
Realized gain (loss) on sale of securities	(3)	—	Investment income and other
Income tax (expense) benefit	1	—	Income tax expense
Impact on net income	(2)	—	Net income
Unrealized gain (loss) on cash flow hedges:			
Interest rate contracts	(1)	(3)	Interest expense
Foreign currency exchange contracts	68	41	Revenue
Income tax (expense) benefit	(16)	(9)	Income tax expense
Impact on net income	51	29	Net income
Unrecognized pension and postretirement benefit costs:			
Prior service costs	(27)	(23)	Investment income and other
Curtailment of benefit obligation	—	33	Investment income and other
Income tax (expense) benefit	7	(3)	Income tax expense
Impact on net income	(20)	7	Net income
Total amount reclassified for the period	\$ 26	\$ 36	Net income

⁽¹⁾ Accumulated other comprehensive income (loss)

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Deferred Compensation Obligations and Treasury Stock

We maintain a deferred compensation plan whereby certain employees were previously able to elect to defer the gains on stock option exercises by deferring the shares received upon exercise into a rabbi trust. The shares held in this trust are classified as treasury stock, and the liability to participating employees is classified as *Deferred compensation obligations* within *Shareowners' Equity* in the consolidated balance sheets. The number of shares needed to settle the liability for deferred compensation obligations is included in the denominator in both the basic and diluted earnings per share calculations. Employees are generally no longer able to defer the gains from stock options exercised subsequent to December 31, 2004.

Activity in the deferred compensation program for the three months ended March 31, 2023 and 2022 was as follows (in millions):

Three Months Ended March 31:	2023		2022	
	Shares	Dollars	Shares	Dollars
Deferred Compensation Obligations:				
Balance at beginning of period		\$ 13		\$ 16
Reinvested dividends		—		—
Benefit payments		(4)		(4)
Balance at end of period		<u>\$ 9</u>		<u>\$ 12</u>
Treasury Stock:				
Balance at beginning of period	—	\$ (13)	—	\$ (16)
Reinvested dividends	—	—	—	—
Benefit payments	—	4	—	4
Balance at end of period	<u>—</u>	<u>\$ (9)</u>	<u>—</u>	<u>\$ (12)</u>

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13. SEGMENT INFORMATION

We have two reportable segments: U.S. Domestic Package and International Package, which are together referred to as our global small package operations. Our remaining businesses are reported as Supply Chain Solutions. Global small package operations represent our most significant business and are broken down into regional operations around the world. Regional operations managers are responsible for both domestic and export products within their geographic area. Supply Chain Solutions comprises the results of non-reportable operating segments that do not meet the quantitative and qualitative criteria of a reportable segment as defined under ASC Topic 280 – Segment Reporting.

U.S. Domestic Package

U.S. Domestic Package operations include the time-definite delivery of letters, documents and packages throughout the United States.

International Package

International Package operations include delivery to more than 220 countries and territories worldwide, including shipments wholly outside the United States, as well as shipments with either origin or destination outside the United States. Our International Package reporting segment includes our operations in Europe, Asia, the Indian sub-continent, the Middle East, Africa, Canada and Latin America.

Supply Chain Solutions

Supply Chain Solutions includes our Forwarding, Logistics, Coyote, Marken, UPS Mail Innovations and other businesses. Our Forwarding, Logistics and UPS Mail Innovations businesses provide services in more than 200 countries and territories worldwide and include international air and ocean freight forwarding, customs brokerage, distribution and post-sales services, healthcare logistics, mail and consulting services. Coyote offers truckload brokerage services primarily in the United States. Marken provides supply chain solutions to the life sciences industry. Other businesses within this segment include The UPS Store, UPS Capital, Roadie, and Delivery Solutions.

In evaluating financial performance, we focus on operating profit as a segment's measure of profit or loss. Operating profit is before investment income (expense) and other, interest expense and income tax expense. Certain expenses are allocated between the segments using activity-based costing methods. These activity-based costing methods require us to make estimates that impact the amount of each expense category that is attributed to each segment. Changes in these estimates directly impact the amount of expense allocated to each segment, and therefore the operating profit of each reporting segment. Our allocation methodologies are refined periodically, as necessary, to reflect changes in our businesses. There were no significant changes to our allocation methodologies in the first quarter.

Results of operations for the three months ended March 31, 2023 and 2022 are as follows (in millions):

	Three Months Ended	
	March 31,	
	2023	2022
Revenue:		
U.S. Domestic Package	\$ 14,987	\$ 15,124
International Package	4,543	4,876
Supply Chain Solutions	3,395	4,378
Consolidated revenue	<u>\$ 22,925</u>	<u>\$ 24,378</u>
Operating Profit:		
U.S. Domestic Package	\$ 1,466	\$ 1,662
International Package	828	1,116
Supply Chain Solutions	247	473
Consolidated operating profit	<u>\$ 2,541</u>	<u>\$ 3,251</u>

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 14. EARNINGS PER SHARE

The earnings per share amounts are the same for class A and class B common shares as the holders of each class are legally entitled to equal per-share distributions whether through dividends or in liquidation.

The following table sets forth the computation of basic and diluted earnings per share for the three months ended March 31, 2023 and 2022 (in millions, except per share amounts):

	Three Months Ended March 31,	
	2023	2022
Numerator:		
Net income attributable to common shareowners	\$ 1,895	\$ 2,662
Denominator:		
Weighted average shares	858	871
Vested portion of restricted units	4	3
Denominator for basic earnings per share	862	874
Effect of dilutive securities:		
Restricted units	2	4
Stock options	1	1
Denominator for diluted earnings per share	865	879
Basic earnings per share	\$ 2.20	\$ 3.05
Diluted earnings per share	\$ 2.19	\$ 3.03

Diluted earnings per share for the three months ended March 31, 2023 and 2022 excluded the effect of 0.2 and 0.1 million shares of common stock that may be issued upon the exercise of employee stock options because such effect would be antidilutive.

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 15. DERIVATIVE INSTRUMENTS AND RISK MANAGEMENT

Risk Management Policies

Changes in fuel prices, interest rates and foreign currency exchange rates impact our results of operations and we actively monitor these exposures. Where deemed appropriate, to manage the impact of these exposures on earnings and/or cash flows, we may enter into a variety of derivative financial instruments. We do not hold or issue derivative financial instruments for trading or speculative purposes.

Credit Risk Management

The forward contracts, swaps and options discussed below contain an element of risk that the counterparties may be unable to meet the terms of the agreements. We seek to minimize such risk exposures for these instruments by limiting the counterparties to banks and financial institutions that meet established credit guidelines. We may further manage credit risk through the use of zero threshold bilateral collateral provisions and/or early termination rights utilizing master netting arrangements, whereby cash is exchanged based on the net fair value of derivatives associated with each counterparty.

As of March 31, 2023 and December 31, 2022, we held cash collateral of \$375 and \$534 million, respectively, under these agreements. This collateral is included in *Cash and cash equivalents* in the consolidated balance sheets and is unrestricted. As of March 31, 2023 and December 31, 2022, no collateral was required to be posted with our counterparties.

Types of Hedges

Commodity Risk Management

Currently, the fuel surcharges that we apply in our domestic and international package businesses are the primary means of reducing the risk of adverse fuel price changes on our business. In order to mitigate the impact of fuel surcharges imposed on us by outside carriers, we regularly adjust the rates we charge for our freight brokerage services.

Foreign Currency Risk Management

To protect against the reduction in value of forecasted foreign currency cash flows from our international package business, we maintain a foreign currency cash flow hedging program. Our most significant foreign currency exposures relate to the Euro, British Pound Sterling, Canadian Dollar, Chinese Renminbi and Hong Kong Dollar. We generally designate and account for these contracts as cash flow hedges of anticipated foreign currency denominated revenue.

We also hedge portions of our anticipated cash settlements of principal and interest on certain foreign currency denominated debt. We generally designate and account for these contracts as cash flow hedges of forecasted foreign currency denominated transactions.

We hedge our net investment in certain foreign operations with foreign currency denominated debt instruments.

Interest Rate Risk Management

Our indebtedness under our various financing arrangements creates interest rate risk. We use a combination of derivative instruments as part of our program to manage the fixed and floating interest rate mix of our total debt portfolio and related overall cost of borrowing.

We have designated and account for the majority of our interest rate swaps that convert fixed-rate interest payments into floating-rate interest payments as fair value hedges of the associated debt instruments. We have designated and account for interest rate swaps that convert floating-rate interest payments into fixed-rate interest payments as cash flow hedges of the forecasted payment obligations.

We may periodically hedge the forecasted fixed-coupon interest payments associated with anticipated debt offerings by using forward starting interest rate swaps, interest rate locks or similar derivatives.

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Outstanding Positions

As of March 31, 2023 and December 31, 2022, the notional amounts of our outstanding derivative positions were as follows (in millions):

		March 31, 2023	December 31, 2022
Currency hedges:			
Euro	EUR	3,880	4,115
British Pound Sterling	GBP	776	856
Canadian Dollar	CAD	1,515	1,598
Hong Kong Dollar	HKD	4,552	4,261
Interest rate hedges:			
Floating to Fixed Interest Rate Swaps	USD	28	28

As of March 31, 2023 and December 31, 2022, we had no outstanding commodity hedge positions.

Balance Sheet Recognition

The following table indicates the location in the consolidated balance sheets where our derivative assets and liabilities have been recognized, the fair value hierarchy level applicable to each derivative type and the related fair values of those derivatives.

We have master netting arrangements with substantially all of our counterparties giving us the right of offset for our derivative positions. However, we have not elected to offset the fair value positions of our derivative contracts recorded in the consolidated balance sheets. The columns labeled *Net Amounts if Right of Offset had been Applied* indicate the potential net fair value positions by type of contract and location in the consolidated balance sheets had we elected to apply the right of offset as of March 31, 2023 and December 31, 2022 (in millions):

Asset Derivatives	Balance Sheet Location	Fair Value Hierarchy Level	Gross Amounts Presented in Consolidated Balance Sheets		Net Amounts if Right of Offset had been Applied	
			March 31, 2023	December 31, 2022	March 31, 2023	December 31, 2022
Derivatives designated as hedges:						
Foreign currency exchange contracts	Other current assets	Level 2	\$ 143	\$ 174	\$ 135	\$ 171
Foreign currency exchange contracts	Other non-current assets	Level 2	188	250	159	226
Derivatives not designated as hedges:						
Foreign currency exchange contracts	Other current assets	Level 2	—	1	—	1
Total Asset Derivatives			\$ 331	\$ 425	\$ 294	\$ 398

Liability Derivatives	Balance Sheet Location	Fair Value Hierarchy Level	Gross Amounts Presented in Consolidated Balance Sheets		Net Amounts if Right of Offset had been Applied	
			March 31, 2023	December 31, 2022	March 31, 2023	December 31, 2022
Derivatives designated as hedges:						
Foreign currency exchange contracts	Other current liabilities	Level 2	\$ 8	\$ 3	\$ —	\$ —
Foreign currency exchange contracts	Other non-current liabilities	Level 2	29	24	—	—
Interest rate contracts	Other non-current liabilities	Level 2	5	5	5	5
Derivatives not designated as hedges:						
Foreign currency exchange contracts	Other current liabilities	Level 2	1	—	1	—
Total Liability Derivatives			\$ 43	\$ 32	\$ 6	\$ 5

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Our foreign currency exchange rate, interest rate and investment market price derivatives are largely comprised of over-the-counter derivatives, which are primarily valued using pricing models that rely on market observable inputs such as yield curves, foreign currency exchange rates and investment forward prices; therefore, these derivatives are classified as Level 2.

Balance Sheet Location of Hedged Item in Fair Value Hedges

The following table indicates the amounts that were recorded in the consolidated balance sheets related to cumulative basis adjustments for fair value hedges as of March 31, 2023 and December 31, 2022 (in millions):

Line Item in the Consolidated Balance Sheets in Which the Hedged Item is Included	Carrying Amount of Hedged Liabilities	Cumulative Amount of Fair Value Hedge Adjustments	Carrying Amount of Hedged Liabilities	Cumulative Amount of Fair Value Hedge Adjustments
	March 31, 2023	March 31, 2023	December 31, 2022	December 31, 2022
Long-term debt and finance leases	\$ 280	\$ 5	\$ 280	\$ 5

Income Statement and AOCI Recognition of Designated Hedges

The following table indicates the amount of gains (losses) that have been recognized in the statements of consolidated income for fair value and cash flow hedges, as well as the associated gain (loss) for the underlying hedged item for fair value hedges for the three months ended March 31, 2023 and 2022 (in millions):

Location and Amount of Gain (Loss) Recognized in Income on Fair Value and Cash Flow Hedging Relationships	Three Months Ended March 31,					
	2023			2022		
	Revenue	Interest Expense	Investment Income and Other	Revenue	Interest Expense	Investment Income and Other
Gain (loss) on fair value hedging relationships:						
Interest Rate Contracts:						
Hedged items	\$ —	\$ —	\$ —	\$ —	\$ 8	\$ —
Derivatives designated as hedging instruments	—	—	—	—	(8)	—
Gain (loss) on cash flow hedging relationships:						
Interest Rate Contracts:						
Amount of gain (loss) reclassified from accumulated other comprehensive income	—	(1)	—	—	(3)	—
Foreign Currency Exchange Contracts:						
Amount of gain (loss) reclassified from accumulated other comprehensive income	68	—	—	41	—	—
Total amounts of income and expense line items presented in the statement of income in which the effects of fair value or cash flow hedges are recorded	<u>\$ 68</u>	<u>\$ (1)</u>	<u>\$ —</u>	<u>\$ 41</u>	<u>\$ (3)</u>	<u>\$ —</u>

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

The following table indicates the amount of gains (losses) that have been recognized in AOCI for the three months ended March 31, 2023 and 2022 for those derivatives designated as cash flow hedges (in millions):

Three Months Ended March 31:

Derivative Instruments in Cash Flow Hedging Relationships	Amount of Gain (Loss) Recognized in AOCI on Derivatives	
	2023	2022
Interest rate contracts	\$ —	\$ 3
Foreign currency exchange contracts	(34)	92
Total	\$ (34)	\$ 95

As of March 31, 2023, there were \$130 million of pre-tax gains related to cash flow hedges deferred in AOCI that are expected to be reclassified to income over the 12-month period ending March 31, 2024. The actual amounts that will be reclassified to income over the next 12 months will vary from this amount as a result of changes in market conditions. The maximum term over which we are hedging exposures to the variability of cash flows is approximately 9 years.

The following table indicates the amount of gains (losses) that have been recognized in AOCI within foreign currency translation adjustment for the three months ended March 31, 2023 and 2022 for those instruments designated as net investment hedges (in millions):

Three Months Ended March 31:

Non-derivative Instruments in Net Investment Hedging Relationships	Amount of Gain (Loss) Recognized in AOCI on Debt	
	2023	2022
Foreign currency denominated debt	\$ (73)	\$ 46
Total	\$ (73)	\$ 46

Income Statement Recognition of Non-Designated Derivative Instruments

Derivative instruments that are not designated as hedges are recorded at fair value with unrealized gains and losses reported in earnings each period. Cash flows from the settlement of derivative instruments appear in the statement of consolidated cash flows within the same categories as the cash flows of the hedged item.

We may periodically terminate interest rate swaps and foreign currency exchange forward contracts or enter into offsetting swap and foreign currency positions with different counterparties. As part of this process, we de-designate our original hedge relationship.

Amounts recorded in the statements of consolidated income related to fair value changes and settlements of interest rate swaps and foreign currency forward contracts not designated as hedges for the three months ended March 31, 2023 and 2022 (in millions) were as follows:

Derivative Instruments Not Designated in Hedging Relationships	Location of Gain (Loss) Recognized in Income	Amount of Gain (Loss) Recognized in Income	
		2023	2022
Three Months Ended March 31:			
Foreign currency exchange contracts	Investment income and other	\$ 4	\$ (28)
Total		\$ 4	\$ (28)

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 16. INCOME TAXES

Our effective tax rate for the three months ended March 31, 2023 and 2022 was approximately 24.9% and 21.5%, respectively. The year-over-year increase in our effective tax rate was driven by lower excess tax benefits related to share-based compensation, unfavorable changes in jurisdictional earnings mix and uncertain tax positions.

We have recognized liabilities for uncertain tax positions and we reevaluate these uncertain tax positions on a quarterly basis. A number of years may elapse before an uncertain tax position is audited and ultimately settled. It is difficult to predict the ultimate outcome or the timing of resolution for uncertain tax positions. Items that may cause changes to unrecognized tax benefits include the allowance or disallowance of deductions, the timing of deductions and the allocation of income and expense between tax jurisdictions. These changes could result from the settlement of ongoing litigation, the completion of ongoing examinations, the expiration of the statute of limitations, or other unforeseen circumstances. Over the next twelve months, it is reasonably possible that the amount of unrecognized tax benefits may decrease by up to \$180 million.

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 17. TRANSFORMATION STRATEGY COSTS

We are undertaking an enterprise-wide transformation of our organization. The program includes initiatives, as well as changes in processes and technology, that impact global direct and indirect operating costs.

The table below presents transformation strategy costs for the three months ended March 31, 2023 and 2022 (in millions):

	Three Months Ended March 31,	
	2023	2022
Transformation Strategy Costs:		
Compensation and benefits	\$ (12)	\$ 33
Total other expenses	15	22
Total Transformation Strategy Costs	<u>\$ 3</u>	<u>\$ 55</u>
Income Tax Benefit from Transformation Strategy Costs	—	(12)
After-Tax Transformation Strategy Costs	<u>\$ 3</u>	<u>\$ 43</u>

The income tax effects of transformation strategy costs are calculated by multiplying the amount of the adjustments by the statutory tax rates applicable in each tax jurisdiction.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

We continue to execute our *Customer First, People Led, Innovation Driven* strategy by investing to improve the customer experience and drive growth in our targeted customer segments, including small- and medium-sized businesses ("SMBs") and healthcare. We seek to provide industry-leading service to our customers by combining our digital capabilities with our global integrated network.

During the quarter, we continued the expansion of our Digital Access Program and other technology-driven initiatives to make it faster and easier for SMBs to do business with us. We expanded our global footprint of dedicated healthcare facilities, accelerated deployment of our smart package-smart facility technology and continued to pursue initiatives to drive further productivity improvements and better serve our customers.

Macroeconomic headwinds, including global inflation and a decline in U.S. manufacturing production, led to a challenging operating environment in the first quarter of 2023. In the U.S., consumer spending continued to shift towards services and discretionary spending slowed. Internationally, exports out of Asia remained weak and inflationary pressures persisted in Europe. These factors negatively impacted demand for our services, resulting in volume declines in our global small package operations. We anticipate these factors will continue to impact us throughout the remainder of 2023. We may also be negatively impacted by the ongoing negotiation of our labor contract with the Teamsters. For additional information on the status of these negotiations, see note 7 to the accompanying unaudited financial statements.

Notwithstanding the challenging macroeconomic environment in the first quarter, we managed our network with agility, focused on productivity, controlled cost and generated operating profit that was in line with our expectations. Additionally, we returned cash to shareowners through dividends and share repurchases, and continued to make long-term investments to support our strategy.

We have two reportable segments: U.S. Domestic Package and International Package, which are together referred to as our global small package operations. Our remaining businesses are reported as Supply Chain Solutions.

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS

Highlights of our consolidated results, which are discussed in more detail below, include:

	Three Months Ended March 31,		Change	
	2023	2022	\$	%
Revenue (in millions)	\$ 22,925	\$ 24,378	\$ (1,453)	(6.0) %
Operating Expenses (in millions)	20,384	21,127	(743)	(3.5) %
Operating Profit (in millions)	\$ 2,541	\$ 3,251	\$ (710)	(21.8) %
Operating Margin	11.1 %	13.3 %		
Net Income (in millions)	\$ 1,895	\$ 2,662	\$ (767)	(28.8) %
Basic Earnings Per Share	\$ 2.20	\$ 3.05	\$ (0.85)	(27.9) %
Diluted Earnings Per Share	\$ 2.19	\$ 3.03	\$ (0.84)	(27.7) %
Operating Days	64	64		
Average Daily Package Volume (in thousands)	21,989	23,278		(5.5) %
Average Revenue Per Piece	\$ 13.74	\$ 13.26	\$ 0.48	3.6 %

- Average daily package volume and revenue in our global small package operations decreased, with declines in both commercial and residential shipments, primarily as a result of the macroeconomic conditions described herein.
- Operating expenses decreased, driven by a reduction in purchased transportation in Supply Chain Solutions.
- Operating profit and operating margin decreased, as revenue declines were greater than operating expense reductions.
- We reported net income of \$1.9 billion and diluted earnings per share of \$2.19. Adjusted diluted earnings per share was \$2.20, which includes the after-tax impacts of transformation strategy costs and goodwill impairment charges of \$9 million, or \$0.01 per diluted share.

In the U.S. Domestic Package segment, revenue declines were driven by lower volume. These were somewhat offset by revenue per piece growth due to improvements in revenue quality and customer mix, together with higher fuel revenue as a result of increases in price per gallon and pricing initiatives. Expenses increased primarily due to higher wages and benefits costs for our union employees, partially offset by lower management compensation expense, increased productivity and declines in purchased transportation costs.

In our International Package segment, revenue declines were driven by lower volume, unfavorable fluctuations in foreign currency exchange rates and declines in demand-related surcharges. These declines were partially offset by the impact of revenue quality initiatives and increased fuel revenue. Expense decreases were primarily driven by favorable currency impacts and the impact of volume declines, partially offset by higher fuel prices.

In Supply Chain Solutions, revenue decreases were driven by volume and market rate declines in Forwarding that were slightly offset by growth in Logistics, including the impact of the Bomi Group acquisition that occurred in the fourth quarter of 2022. Expenses decreased, driven by lower transportation costs in Forwarding. These were partially offset by increases in transportation and other costs within Logistics.

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS

Supplemental Information - Items Affecting Comparability

We supplement the reporting of our financial information determined under generally accepted accounting principles in the United States ("GAAP") with certain non-GAAP financial measures.

Adjusted financial measures should be considered in addition to, and not as an alternative for, our reported results prepared in accordance with GAAP. Our adjusted financial measures do not represent a comprehensive basis of accounting and therefore may not be comparable to similarly titled measures reported by other companies.

Adjusted amounts reflect the following (in millions):

Non-GAAP Adjustments	Three Months Ended March 31,	
	2023	2022
Operating Expenses:		
Transformation Strategy Costs	\$ 3	\$ 55
Goodwill and Asset Impairments, and Divestiture Charges	8	—
Total Adjustments to Operating Expenses	\$ 11	\$ 55
Other Income and (Expense):		
Defined Benefit Plan (Gains) Losses	\$ —	\$ (33)
Total Adjustments to Other Income and (Expense)	\$ —	\$ (33)
Total Adjustments to Income Before Income Taxes	\$ 11	\$ 22
Income Tax (Benefit) Expense:		
Transformation Strategy Costs	\$ —	\$ (12)
Goodwill and Asset Impairments, and Divestiture Charges	(2)	—
Defined Benefit Plan (Gains) Losses	—	9
Total Adjustments to Income Tax (Benefit) Expense	\$ (2)	\$ (3)
Total Adjustments to Net Income	\$ 9	\$ 19

Transformation Charges, and Goodwill, Asset Impairment and Divestiture Charges

We supplement the presentation of our operating profit, operating margin, income before income taxes, net income and earnings per share with non-GAAP measures that exclude the impact of charges related to transformation activities, and goodwill, asset impairment and divestiture charges. We believe excluding the impact of these charges better enables users of our financial statements to view and evaluate underlying business performance from the perspective of management. We do not consider these costs when evaluating the operating performance of our business units, making decisions to allocate resources or in determining incentive compensation awards. For more information regarding transformation activities, see note 17 to the unaudited, consolidated financial statements. For more information regarding goodwill impairment charges, see note 8 to our unaudited, consolidated financial statements.

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS

Foreign Currency Exchange Rate Changes and Hedging Activities

We supplement the reporting of revenue, revenue per piece and operating profit with adjusted measures that exclude the period over period impact of foreign currency exchange rate changes and hedging activities. We believe currency-neutral revenue, revenue per piece and operating profit information allows users of our financial statements to understand growth trends in our products and results. We evaluate the performance of International Package and Supply Chain Solutions on this currency-neutral basis.

Currency-neutral revenue, revenue per piece and operating profit are calculated by dividing current period reported U.S. Dollar revenue, revenue per piece and operating profit by the current period average exchange rates to derive current period local currency revenue, revenue per piece and operating profit. The derived amounts are then multiplied by the average foreign currency exchange rates used to translate the comparable results for each month in the prior year period (including the period over period impact of foreign currency hedging activities). The difference between the current period reported U.S. Dollar revenue, revenue per piece and operating profit and the derived current period U.S. Dollar revenue, revenue per piece and operating profit is the period over period impact of currency fluctuations.

Defined Benefit Plan Gains and Losses

We incur certain employment-related expenses associated with pension and postretirement medical benefits. These pension and postretirement medical benefits costs for company-sponsored defined benefit plans are calculated using various actuarial assumptions and methodologies, including discount rates, expected returns on plan assets, healthcare cost trend rates, inflation, compensation increase rates, mortality rates and coordination of benefits with plans not sponsored by UPS. Actuarial assumptions are reviewed on an annual basis, unless circumstances require an interim remeasurement of any of our plans.

We recognize changes in the fair value of plan assets and net actuarial gains and losses in excess of a 10% corridor (defined as 10% of the greater of the fair value of plan assets or the plan's projected benefit obligation), as well as gains and losses resulting from plan curtailments and settlements, for our pension and postretirement defined benefit plans immediately as part of *Investment income and other* in the statements of consolidated income. We supplement the presentation of our income before income taxes, net income and earnings per share with adjusted measures that exclude the impact of these gains and losses and the related income tax effects. We believe excluding these defined benefit plan gains and losses provides important supplemental information by removing the volatility associated with plan amendments and short-term changes in market interest rates, equity values and similar factors.

During the first quarter of 2022, we amended the UPS Canada Ltd. Retirement Plan to cease future benefit accruals effective December 31, 2023. As a result, we remeasured the plan's assets and benefit obligation resulting in a curtailment gain of \$33 million (\$24 million after-tax) in the three months ended March 31, 2022.

For additional information, refer to note 7 to the unaudited, consolidated financial statements.

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS

Results of Operations - Segment Review

The results and discussions that follow are reflective of how management monitors and evaluates the performance of our segments as defined in note 13 to the unaudited, consolidated financial statements.

Certain operating expenses are allocated between our reporting segments using activity-based costing methods. These activity-based costing methods require us to make estimates that impact the amount of each expense category that is attributed to each segment. Changes in these estimates directly impact the amount of expense allocated to each segment and therefore the operating profit of each reporting segment. Our allocation methodologies are refined periodically, as necessary, to reflect changes in our businesses. There were no significant changes to our allocation methodologies in the first quarter of 2023.

We test goodwill and other indefinite-lived intangible assets for impairment annually at July 1st and between annual tests if an event occurs or circumstances change that would indicate that it is more likely than not that the carrying amount may be impaired.

Testing goodwill and other indefinite-lived intangible assets for impairment requires that we make a number of significant assumptions, including assumptions related to future revenues, costs, capital expenditures, working capital and our cost of capital. We are also required to make assumptions relating to our overall business and operating strategy, and the regulatory and market environment.

Our 2022 annual impairment testing of goodwill indicated that the fair value of our Roadie reporting unit remained greater than its carrying value, although this excess was less than 10 percent. The carrying value of goodwill associated with our Roadie reporting unit is \$241 million. There were no events or changes in circumstances during the first quarter of 2023 that would indicate the carrying value of Roadie goodwill may be impaired as of the date of this report.

Future actual results, transactions or other events, or changes in estimates or assumptions, whether due to unexpected impacts on our business, our transformation activities, or the continuing evaluation of our business portfolio, could result in an impairment charge in one or more of our reporting units or to our indefinite-lived intangible assets in a future period.

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS

U.S. Domestic Package

	Three Months Ended March 31,		Change	
	2023	2022	\$	%
Average Daily Package Volume (in thousands):				
Next Day Air	1,737	1,945		(10.7)%
Deferred	1,139	1,509		(24.5)%
Ground	15,796	16,287		(3.0)%
Total Average Daily Package Volume	18,672	19,741		(5.4)%
Average Revenue Per Piece:				
Next Day Air	\$ 22.14	\$ 20.84	\$ 1.30	6.2 %
Deferred	16.38	14.70	1.68	11.4 %
Ground	11.21	10.66	0.55	5.2 %
Total Average Revenue Per Piece	\$ 12.54	\$ 11.97	\$ 0.57	4.8 %
Operating Days in Period	64	64		
Revenue (in millions):				
Next Day Air	\$ 2,461	\$ 2,594	\$ (133)	(5.1)%
Deferred	1,194	1,420	(226)	(15.9)%
Ground	11,332	11,110	222	2.0 %
Total Revenue	\$ 14,987	\$ 15,124	\$ (137)	(0.9)%
Operating Expenses (in millions):				
Operating Expenses	\$ 13,521	\$ 13,462	\$ 59	0.4 %
Transformation Strategy Costs	(22)	(43)	21	(48.8)%
Adjusted Operating Expense	\$ 13,499	\$ 13,419	\$ 80	0.6 %
Operating Profit (in millions) and Operating Margin:				
Operating Profit	\$ 1,466	\$ 1,662	\$ (196)	(11.8)%
Adjusted Operating Profit	\$ 1,488	\$ 1,705	\$ (217)	(12.7)%
Operating Margin	9.8 %	11.0 %		
Adjusted Operating Margin	9.9 %	11.3 %		

Revenue

The change in revenue was due to the following factors:

	Volume		Rates / Product Mix		Fuel Surcharge		Total Revenue Change	
Revenue Change Drivers:								
First quarter 2023 vs. 2022	(5.4)	%	3.1	%	1.4	%	(0.9)	%

Volume

Average daily volume decreased, with reductions in both residential and commercial shipments as a result of challenging macroeconomic conditions, including high inflation, declines in U.S. manufacturing production and changes in consumer spending. We anticipate a continued decline in average daily volume throughout the remainder of the year.

Business-to-consumer shipments declined 5.5% in the first quarter, driven by the continued shift in consumer spending towards services and a reduction in discretionary spending. We experienced smaller declines in residential volume from SMBs than from our large customers, which was partially due to additional volume generated through our Digital Access Program. Volume from our largest customer declined as we continued to execute within agreed-upon contract terms.

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS

Business-to-business shipments declined 5.4%, primarily as a result of declines across multiple industry sectors that are sensitive to the macroeconomic factors discussed above. We experienced an increase in returns volume in the first quarter.

Within our Air products, average daily volume decreased across all customer segments. These decreases were driven by customers making cost trade offs and taking advantage of enhanced speed in our ground network. Additionally, continued execution of the agreed-upon contract terms with our largest customer also contributed to the overall decline in air volume.

Ground residential and Ground commercial average daily volume decreases of 2.1% and 4.2%, respectively, were primarily attributable to declines from a number of our large customers due to the economic factors discussed above. Within Ground residential, we experienced growth from SMBs. SurePost volume from our larger customers increased as a result of the shift in volume from our Air products discussed above.

Rates and Product Mix

Revenue per piece in our Air and Ground products increased in the quarter, resulting from base rate increases and additional pricing actions, as well as favorable changes in customer mix. These increases were partially offset by the shift in product mix discussed above. Rates for Air and Ground products increased an average of 6.9% in December 2022. In our Next Day Air and Deferred products, revenue per piece growth was negatively impacted by a reduction in average billable weight per piece.

We anticipate moderate revenue per piece growth in 2023 which is expected to somewhat offset the expected decline in volume as we continue to focus on revenue quality.

Fuel Surcharges

We apply a fuel surcharge on our domestic air and ground services that adjusts weekly. Our air fuel surcharge is based on the U.S. Department of Energy's ("DOE") Gulf Coast spot price for a gallon of kerosene-type fuel, and our ground fuel surcharge is based on the DOE's On-Highway Diesel Fuel price.

Fuel surcharge revenue increased \$206 million, driven by increases in price per gallon and increases in fuel surcharges as part of our pricing initiatives, partially offset by the impact of lower volume. We expect a reduction in fuel surcharge through the remainder of 2023 based on the current commodity market outlook and as we wrap fuel pricing initiatives that were introduced last year.

Operating Expenses

Operating expenses and adjusted operating expenses increased. Our pickup and delivery costs and other indirect operating costs increased \$39 and \$115 million, respectively. These increases were partially offset by cost reductions of \$50 million in our integrated air and ground network and a \$24 million decrease in package sorting costs in the first quarter of 2023. The overall increase in operating expenses was primarily due to:

- Higher employee benefits expense for our union workforce, due to contractual rate increases for contributions to multiemployer benefit plans, as well as increases in workers' compensation and auto liability expenses that were driven by claims experience. Service costs for our company-sponsored pension and postretirement plans decreased, primarily attributable to higher discount rates used to measure the projected benefit obligations of these plans.
- Additional facilities coming into service, coupled with inflationary pressures, contributed to cost increases in repairs and maintenance and facility operating costs.

These increases were partially offset by:

- Lower compensation expense, primarily resulting from incentive compensation program design changes. Contractual rate increases and cost of living adjustments for our union workforce were somewhat offset by a reduction in direct union labor hours.
- Lower purchased transportation costs, primarily due to a reduction in ground volume handled by third-party carriers, and the impact of continued productivity initiatives as we executed within our strategy.

Fuel expense remained relatively flat, as the impact of lower volume for the quarter mostly offset increases in jet fuel, diesel and gasoline prices. We expect fuel expense to continue to decline throughout the remainder of 2023.

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS

Total cost per piece increased 6.1%, and adjusted cost per piece increased 6.4% in the quarter, for the reasons described above. We anticipate that the cost per piece growth rate will decline through the remainder of 2023 as we manage our costs, adjust our operating network, and as efficiency initiatives are realized.

Operating Profit and Margin

As a result of the factors described above, operating profit decreased \$196 million in the first quarter, with operating margin decreasing 120 basis points to 9.8%. Adjusted operating profit decreased \$217 million, with adjusted operating margin decreasing 140 basis points to 9.9%.

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS

International Package

	Three Months Ended March 31,		Change	
	2023	2022	\$	%
Average Daily Package Volume (in thousands):				
Domestic	1,635	1,806		(9.5)%
Export	1,682	1,731		(2.8)%
Total Average Daily Package Volume	3,317	3,537		(6.2)%
Average Revenue Per Piece:				
Domestic	\$ 7.59	\$ 7.36	\$ 0.23	3.1 %
Export	33.00	34.10	(1.10)	(3.2)%
Total Average Revenue Per Piece	\$ 20.47	\$ 20.45	\$ 0.02	0.1 %
Operating Days in Period	64	64		
Revenue (in millions):				
Domestic	\$ 794	\$ 851	\$ (57)	(6.7)%
Export	3,552	3,778	(226)	(6.0)%
Cargo and Other	197	247	(50)	(20.2)%
Total Revenue	\$ 4,543	\$ 4,876	\$ (333)	(6.8)%
Operating Expenses (in millions):				
Operating Expenses	\$ 3,715	\$ 3,760	\$ (45)	(1.2)%
Transformation Strategy Costs	22	(4)	26	N/A
Adjusted Operating Expenses	\$ 3,737	\$ 3,756	\$ (19)	(0.5)%
Operating Profit (in millions) and Operating Margin:				
Operating Profit	\$ 828	\$ 1,116	\$ (288)	(25.8)%
Adjusted Operating Profit	\$ 806	\$ 1,120	\$ (314)	(28.0)%
Operating Margin	18.2 %	22.9 %		
Adjusted Operating Margin	17.7 %	23.0 %		
Currency Benefit / (Cost) – (in millions)*:				
Revenue			\$ (161)	
Operating Expenses			110	
Operating Profit			\$ (51)	

* Net of currency hedging; amount represents the change in currency translation compared to the prior year.

Revenue

The change in revenue was due to the following:

Revenue Change Drivers:	Volume		Rates / Product Mix		Fuel Surcharge		Currency		Total Revenue Change	
First quarter 2023 vs. 2022	(6.2)	%	1.5	%	1.2	%	(3.3)	%	(6.8)	%

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS

Volume

Average daily volume decreased in both domestic and export products. Volume from both large customers and SMBs declined, primarily in the retail and technology sectors. Business-to-consumer volume decreased 7.7% as challenging global economic conditions, including rising interest rates, high inflation and geopolitical uncertainty, impacted consumer demand. These factors also impacted business-to-business volume, which decreased 5.6%. We anticipate declines in average daily volume will moderate, but will persist into the second half of 2023.

Export volume decreased in the quarter, driven by declines in intra-Europe, Asia and U.S. trade lanes. Declines on the intra-Europe and U.S. export trade lanes were due to lower consumer spending as a result of the challenging macroeconomic conditions. Asia volume declines were highest on the Asia to U.S. trade lane as a result of rising inventory levels and softening U.S. consumer demand.

Our premium products saw volume decline 6.7%, primarily in our Worldwide Express Saver product. Volume in our non-premium products decreased 1.1%, driven by declines in Transborder Standard and Worldwide Expedited. The decline in our Worldwide products was largely attributable to softening import demand from U.S. consumers, while the decline in our Transborder products was driven by the economic factors outlined above.

Domestic volume also declined in the first quarter, primarily within Europe and Canada, as a result of economic conditions discussed above.

Rates and Product Mix

In December 2022, we implemented an average 6.9% net increase in base and accessorial rates for international shipments originating in the United States. Rate changes for shipments originating outside the U.S. are made throughout the year and vary by geographic market.

Total revenue per piece increased slightly for the quarter, primarily due to favorable shifts in customer and product mix, fuel surcharges and base rate increases. These increases were mostly offset by unfavorable currency movements and declines in demand-related surcharges. Excluding the impact of currency, revenue per piece increased 3.8%. For the remainder of the year, we expect overall revenue per piece to decrease relative to prior year periods as trends in fuel and demand-related surcharges are expected to continue to be unfavorable.

Export revenue per piece decreased 3.2%, driven by declines in our Worldwide products and unfavorable currency movements. Excluding the impact of currency, export revenue per piece decreased 0.4%.

Domestic revenue per piece increased 3.1%, primarily due to rate increases and favorable shifts in customer mix. This was partially offset by unfavorable currency movements. Excluding the impact of currency, domestic revenue per piece increased 10.2%.

Fuel Surcharges

The fuel surcharge we apply to international air services originating inside or outside the U.S. is largely indexed to the DOE's Gulf Coast spot price for a gallon of kerosene-type jet fuel. The fuel surcharges for ground services originating outside the U.S. are indexed to fuel prices in the region or country where the shipment originates.

Total international fuel surcharge revenue increased \$28 million in the quarter, primarily due to increases in price per gallon. These increases were slightly offset by unfavorable currency movements and volume declines. Based on the current commodity market outlook, we expect fuel surcharge revenue will decline during the remainder of the year.

Operating Expenses

Operating expenses, and adjusted operating expenses, decreased in the first quarter. The principal drivers were:

- Pickup and delivery costs decreased \$21 million and other indirect costs decreased \$22 million as inflationary pressures were more than offset by favorable currency movements and the impact of volume declines.
- The costs of operating our integrated international air and ground network increased \$26 million, primarily due to higher fuel prices, which we expect to decline through the remainder of the year.

**UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS**

Operating Profit and Margin

As a result of the factors described above, operating profit decreased \$288 million for the first quarter, with operating margin decreasing 470 basis points to 18.2%. Adjusted operating profit decreased \$314 million in the quarter, while adjusted operating margin decreased 530 basis points to 17.7%.

Substantially all of our operations in Russia and Belarus were suspended in March 2022 and, during the first quarter of 2023, we commenced liquidation of our Small Package and Forwarding and Logistics subsidiaries. Substantially all of our operations in Ukraine remain indefinitely suspended. These actions have not had, and are not expected to have, a material impact on us.

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS

Supply Chain Solutions

	Three Months Ended March 31,		Change	
	2023	2022	\$	%
Revenue (in millions):				
Forwarding	\$ 1,514	\$ 2,589	\$ (1,075)	(41.5)%
Logistics	1,410	1,251	159	12.7 %
Other	471	538	(67)	(12.5)%
Total Revenue	\$ 3,395	\$ 4,378	\$ (983)	(22.5)%
Operating Expenses (in millions):				
Operating Expenses	\$ 3,148	\$ 3,905	\$ (757)	(19.4)%
Transformation Strategy Costs	(3)	(8)	5	(62.5)%
Goodwill and Asset Impairments, and Divestiture Charges	(8)	—	(8)	N/A
Adjusted Operating Expenses:	\$ 3,137	\$ 3,897	\$ (760)	(19.5)%
Operating Profit (in millions) and Operating Margin:				
Operating Profit	\$ 247	\$ 473	\$ (226)	(47.8)%
Adjusted Operating Profit	\$ 258	\$ 481	\$ (223)	(46.4)%
Operating Margin	7.3 %	10.8 %		
Adjusted Operating Margin	7.6 %	11.0 %		
Currency Benefit / (Cost) – (in millions)*:				
Revenue			\$ (50)	
Operating Expenses			55	
Operating Profit			\$ 5	

* Amount represents the change in currency translation compared to the prior year.

	Three Months Ended March 31,		Change	
	2023	2022	\$	%
Adjustments to Operating Expenses (in millions):				
Transformation Strategy Costs				
Forwarding	\$ 1	\$ 6	\$ (5)	(83.3)%
Logistics	2	1	1	100.0 %
Other	—	1	(1)	(100.0)%
Total Transformation Strategy Costs	\$ 3	\$ 8	\$ (5)	(62.5)%
Goodwill and Asset Impairments, and Divestiture Charges				
Forwarding	\$ 8	\$ —	\$ 8	N/A
Logistics	—	—	—	N/A
Other	—	—	—	N/A
Total Goodwill and Asset Impairments, and Divestitures Charges	\$ 8	\$ —	\$ 8	N/A
Total Adjustments to Operating Expenses	\$ 11	\$ 8	\$ 3	37.5 %

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS

Revenue

Total revenue in Supply Chain Solutions decreased in the first quarter. This was driven by declines in our Forwarding business as challenging economic conditions drove declines in customer activity, while increased capacity led to lower market rates.

- International airfreight revenue decreased approximately \$415 million as customer demand declined, particularly on Asia export lanes. This volume decline also resulted in a reduction in the rates we charge for services. We anticipate that lower demand, coupled with higher market capacity, will continue to pressure rates throughout the remainder of the year.
- Revenue in our truckload brokerage business decreased \$403 million due to lower volume and a continued decline in market rates. We remained focused on our revenue quality initiatives and experienced volume growth from SMBs during the quarter, which partially offset the decline.
- The remaining reduction in revenue was attributable to ocean freight forwarding. Market rates and volume declined, particularly on the Asia to U.S. lane, due to lower demand, an increase in inventory levels and additional capacity entering the market. We expect revenue to remain challenged in the rest of 2023 as capacity increases are expected to outweigh demand.

Within our Logistics businesses, healthcare logistics revenue increased \$98 million in the first quarter, primarily driven by the impact of the 2022 acquisition of Bomi Group with additional growth from our clinical trials business. Revenue in mail services increased \$55 million as a result of volume from new customers, rate increases, and a favorable shift in product characteristics.

Revenue from the other businesses within Supply Chain Solutions decreased in the quarter, driven by a reduction of \$85 million in transition services provided to the acquirer of UPS Freight as we begin to wind down these arrangements. This was partially offset by year-over-year revenue increases from our digital businesses, driven by business growth.

Operating Expenses

Total operating expenses and total adjusted operating expenses for Supply Chain Solutions decreased in the quarter.

Forwarding operating expenses decreased \$881 million. This primarily resulted from a reduction of approximately \$845 million in purchased transportation expense due to lower volumes and market rates in truckload brokerage, international airfreight and ocean freight forwarding. We expect these conditions to persist as we move through the year, which will reduce our purchased transportation costs.

Logistics operating expenses increased \$155 million in the first quarter, driven by the impact of the acquisition of Bomi Group and higher purchased transportation costs for mail services due to rate increases and shifts in product characteristics.

Expenses in the other businesses within Supply Chain Solutions decreased in the quarter, largely driven by a reduction in costs incurred to procure transportation for, and provide transition services to, the acquirer of UPS Freight. This was partially offset by increased transportation costs, as well as higher compensation and benefits, incurred by our digital businesses.

Operating Profit and Margin

As a result of the factors described above, total operating profit decreased \$226 million, with operating margin decreasing 350 basis points to 7.3%. On an adjusted basis, operating profit decreased \$223 million, with operating margin decreasing 340 basis points to 7.6%.

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS

Consolidated Operating Expenses

	Three Months Ended March 31,		Change	
	2023	2022	\$	%
Operating Expenses (in millions):				
Compensation and benefits	\$ 11,462	\$ 11,601	\$ (139)	(1.2)%
Transformation Strategy Costs	12	(33)	45	N/A
Adjusted Compensation and benefits	\$ 11,474	\$ 11,568	\$ (94)	(0.8)%
Repairs and maintenance	\$ 725	\$ 701	\$ 24	3.4 %
Depreciation and amortization	834	764	70	9.2 %
Purchased transportation	3,543	4,607	(1,064)	(23.1)%
Fuel	1,271	1,220	51	4.2 %
Other occupancy	551	501	50	10.0 %
Other expenses	1,998	1,733	265	15.3 %
Total Other expenses	8,922	9,526	(604)	(6.3)%
Transformation Strategy Costs	(15)	(22)	7	(31.8)%
Goodwill and Asset Impairments, and Divestiture Charges	(8)	—	(8)	N/A
Adjusted Total Other expenses	\$ 8,899	\$ 9,504	\$ (605)	(6.4)%
Total Operating Expenses	\$ 20,384	\$ 21,127	\$ (743)	(3.5)%
Adjusted Total Operating Expenses	\$ 20,373	\$ 21,072	\$ (699)	(3.3)%
Currency (Benefit) / Cost - (in millions)*			\$ (165)	

* Amount represents the change in currency translation compared to the prior year.

	Three Months Ended March 31,		Change	
	2023	2022	\$	%
Adjustments to Operating Expenses (in millions):				
Transformation Strategy Costs				
Compensation	\$ 5	\$ 16	\$ (11)	(68.8)%
Benefits	(17)	17	(34)	N/A
Other expenses	15	22	(7)	(31.8)%
Total Transformation Strategy Costs	\$ 3	\$ 55	\$ (52)	(94.5)%
Goodwill and Asset Impairments, and Divestiture Charges				
Other expenses	\$ 8	\$ —	\$ 8	N/A
Total Adjustments to Operating Expenses	\$ 11	\$ 55	\$ (44)	(80.0)%

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS

Compensation and Benefits

Total compensation and benefits and adjusted total compensation and benefits decreased in the first quarter of 2023 compared to the 2022 period. Compensation costs decreased \$178 million, and decreased \$168 million on an adjusted basis. The principal factors impacting the change were:

- Management compensation decreased \$206 million, driven by fourth quarter 2022 design changes to our incentive compensation programs and lower incentive compensation accruals.
- U.S. Domestic direct labor costs increased \$57 million due to contractual rate increases for our union workforce that occurred in August 2022, as well as cost of living adjustments driven by inflation and other market factors. These increases were largely offset by a reduction in labor hours, primarily due to volume declines.
- The November 2022 acquisition of Bomi Group increased compensation cost by \$15 million.

Benefits costs increased \$39 million and increased \$74 million on an adjusted basis, primarily as a result of:

- Health and welfare costs increased \$89 million for the quarter, driven by increased contributions to multiemployer plans as a result of contractually-mandated rate increases, partially offset by a reduction in eligible headcount.
- Workers' compensation expense increased \$23 million, driven by an increase in current year claims, partially offset by a decrease in overall hours worked and favorable developments in reserves for prior years' claims.
- Pension and other postretirement benefits costs decreased \$48 million for the quarter:
 - The cost of company-sponsored defined benefit plans decreased \$110 million, driven by a reduction in service cost due to higher discount rates. The cessation of accruals for future service in the UPS Retirement Plan was offset by the cost of replacement contributions to the UPS 401(k) Savings Plan.
 - An increase in expense for the UPS 401(k) Savings Plan of \$22 million resulted from demographic changes.
 - Contributions to multiemployer plans increased \$39 million as the impact of contractually-mandated contribution increases was partially offset by a reduction in eligible headcount.

Repairs and Maintenance

The increase in repairs and maintenance expense during the quarter was primarily due to increases in the cost of materials and supplies, increased vehicle maintenance and an increase in routine repairs to buildings and facilities. We expect these increases will persist for the remainder of 2023.

Depreciation and Amortization

We incurred higher depreciation and amortization expense as a result of additional facilities coming into service, growth in the size of our vehicle and aircraft fleets and the reduction in estimated residual value of our MD-11 aircraft.

Purchased Transportation

Third-party transportation expense charged to us by air, ocean and ground carriers decreased for the quarter. The changes were primarily driven by:

- Supply Chain Solutions expense decreased by \$890 million for the quarter, driven by volume declines and lower market rates paid for services in our Forwarding businesses. This was partially offset by increases in our logistics operations due to business growth, third-party rate increases in our mail services business and the acquisition of Bomi Group, which was not present in the comparative period.
- U.S. Domestic expense decreased \$99 million for the quarter, driven by a reduction in ground volume handled by third-party carriers as a result of our network optimization initiatives.
- International Package expense decreased \$75 million for the quarter, as market rate and fuel surcharge increases were more than offset by the impact of lower volumes and favorable currency movements.

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS

Fuel

The increase in fuel expense for the quarter was primarily driven by higher prices for jet fuel, diesel and gasoline, partially offset by the impact of lower volume. Market prices and the manner in which we purchase fuel influence our costs. The majority of our fuel purchases utilize index-based pricing formulas plus or minus a fixed locational/supplier differential. While many of the indices are correlated, each index may respond differently to changes in underlying prices, which in turn can drive variability in our costs.

Other Occupancy

Other occupancy expense increased for the quarter as a result of additional operating facilities coming into service, higher utilities costs and increases in rental rates. We expect inflation may continue to adversely impact these costs for the remainder of the year.

Other Expenses

Other expenses and adjusted other expenses increased for the quarter, primarily as a result of:

- Outsourcing and professional fees increased \$60 million due to increased utilization of third-party services to support our strategic initiatives.
- An increase of \$39 million in commissions paid for certain online shipments.
- Favorable changes in reserves for legal and tax contingencies in 2022 drove a year-over-year increase in expense of \$29 million.
- Hosted software application fees and other technology costs increased \$28 million in support of ongoing investments in our digital transformation.

Other increases for the quarter included employee-related expenses, advertising costs, facility security and self-insured automobile liability expense. These increases were partially offset by a reduction of costs incurred under transitional service agreements to the acquirer of UPS Freight.

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS

Other Income and (Expense)

The following table sets forth investment income and other and interest expense for the three months ended March 31, 2023 and 2022 (in millions):

	Three Months Ended March 31,		Change	
	2023	2022	\$	%
Investment Income and Other	\$ 169	\$ 315	\$ (146)	(46.3) %
Defined Benefit Plan (Gains) Losses	—	(33)	33	(100.0) %
Adjusted Investment Income and Other	\$ 169	\$ 282	\$ (113)	(40.1) %
Interest Expense	(188)	(174)	(14)	8.0 %
Total Other Income and (Expense)	\$ (19)	\$ 141	\$ (160)	(113.5) %
Adjusted Other Income and (Expense)	\$ (19)	\$ 108	\$ (127)	(117.6) %

Investment Income and Other

Investment income and other decreased \$146 million. We recognized a \$33 million defined benefit plan curtailment gain in the first quarter of 2022. Excluding the impact of this defined benefit plan gain, adjusted investment income and other decreased \$113 million, with decreases in other pension income partially offset by higher yields on invested balances and year-over-year changes in the fair value of certain non-current investments.

Other pension income decreased \$232 million due to:

- Lower expected returns on pension assets as a result of a smaller asset base due to losses in 2022, partially offset by an increase in our rate of return assumption.
- Higher pension interest cost due to higher discount rates and changes in demographic assumptions.

Interest expense increased due to the impact of higher effective interest rates on floating rate debt, as well as higher debt balances due to debt issuances in the first quarter of 2023, partially offset by higher capitalized interest.

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS

Income Tax Expense

The following table sets forth our income tax expense and effective tax rate for the three months ended March 31, 2023 and 2022 (in millions):

	Three Months Ended March 31,		Change	
	2023	2022	\$	%
Income Tax Expense	\$ 627	\$ 730	\$ (103)	(14.1)%
Income Tax Impact of:				
Transformation Strategy Costs	—	12	(12)	(100.0)%
Goodwill and Asset Impairments, and Divestiture Charges	2	—	2	N/A
Defined Benefit Plan (Gains) Losses	—	(9)	9	(100.0)%
Adjusted Income Tax Expense	<u>\$ 629</u>	<u>\$ 733</u>	<u>\$ (104)</u>	<u>(14.2)%</u>
Effective Tax Rate	24.9 %	21.5 %		
Adjusted Effective Tax Rate	24.8 %	21.5 %		

For additional information on our income tax expense and effective tax rate, see note 16 to the unaudited, consolidated financial statements.

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS

Liquidity and Capital Resources

We deploy a disciplined and balanced approach to capital allocation, including returns to shareowners through dividends and share repurchases. As of March 31, 2023, we had \$9.4 billion in cash, cash equivalents and marketable securities. We believe that these positions, expected cash from operations, access to commercial paper programs and capital markets and other available liquidity options will be adequate to fund our material short- and long-term cash requirements, including our business operations, planned capital expenditures and pension contributions, transformation strategy costs, debt obligations and planned shareowner returns. We regularly evaluate opportunities to optimize our capital structure, including through issuances of debt to refinance existing debt and to fund operations.

Cash Flows From Operating Activities

The following is a summary of the significant sources (uses) of cash from operating activities (in millions):

	Three Months Ended March 31,	
	2023	2022
Net income	\$ 1,895	\$ 2,662
Non-cash operating activities ^(a)	1,226	1,559
Pension and postretirement medical benefit plan contributions (company-sponsored plans)	(1,277)	(45)
Hedge margin receivables and payables	(159)	(9)
Income tax receivables and payables	426	379
Changes in working capital and other non-current assets and liabilities	278	(49)
Other operating activities	(32)	(17)
Net cash from operating activities	<u>\$ 2,357</u>	<u>\$ 4,480</u>

(a) Represents depreciation and amortization, gains and losses on derivative transactions and foreign currency exchange, deferred income taxes, allowances for expected credit losses, amortization of operating lease assets, pension and postretirement medical benefit plan (income) expense, stock compensation expense, changes in casualty self-insurance reserves, goodwill and other asset impairment charges and other non-cash items.

Net cash from operating activities decreased \$2.1 billion in the first quarter, impacted by:

- The timing of contributions to our company-sponsored, defined benefit pension and postretirement medical plans that included \$1.2 billion in discretionary contributions to our qualified U.S. pension plans. There were no discretionary contributions to these plans in the first quarter of 2022.
- A decrease in our net hedge margin collateral position due to changes in the fair value of derivative contracts used in our currency hedging programs.
- Our working capital primarily benefited from an improvement in collections partially offset by an increase in vendor payments. Working capital was also impacted by the timing of payroll and other compensation-related payments. Additionally, in the first quarter of 2023, we paid the remaining \$323 million of employer payroll taxes that were deferred under the Coronavirus Aid, Recovery and Economic Security (CARES) Act in 2020.

As of March 31, 2023, approximately \$2.5 billion of our total worldwide holdings of cash, cash equivalents and marketable securities were held by foreign subsidiaries. The amount of cash, cash equivalents and marketable securities held by our U.S. and foreign subsidiaries fluctuates throughout the year due to a variety of factors, including the timing of cash receipts and disbursements in the normal course of business. Cash provided by operating activities in the U.S. continues to be our primary source of funds to finance domestic operating needs, capital expenditures, share repurchases, pension contributions and dividend payments to shareowners. All cash, cash equivalents and marketable securities held by foreign subsidiaries are generally available for distribution to the U.S. without any U.S. federal income taxes. Any such distributions may be subject to foreign withholding and U.S. state taxes. When amounts earned by foreign subsidiaries are expected to be indefinitely reinvested, no accrual for taxes is provided. We did not have any restricted cash as of March 31, 2023 or 2022.

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS

Cash Flows From Investing Activities

Our primary sources (uses) of cash from investing activities were as follows (in millions):

	Three Months Ended March 31,	
	2023	2022
Net cash used in investing activities	\$ (1,813)	\$ (572)
Capital Expenditures:		
Buildings, facilities and plant equipment	\$ (368)	\$ (169)
Aircraft and parts	(71)	(206)
Vehicles	(13)	(10)
Information technology	(157)	(163)
Total Capital Expenditures ⁽¹⁾	\$ (609)	\$ (548)
Capital Expenditures as a % of revenue	2.7 %	2.2 %
Other Investing Activities:		
Proceeds from disposal of businesses, property, plant and equipment	\$ 5	\$ —
Net (purchases)/sales and maturities of marketable securities	\$ (1,192)	\$ (8)
Acquisitions, net of cash acquired	\$ (34)	\$ 1
Other investing activities	\$ 17	\$ (17)

⁽¹⁾ In addition to capital expenditures of \$609 and \$548 million for the three months ended March 31, 2023 and 2022, respectively, there were principal repayments of finance lease obligations of \$48 and \$18 million, respectively. These are included in cash flows from financing activities.

We have commitments for the purchase of aircraft, vehicles, equipment and real estate to provide for the replacement of existing capacity and anticipated future growth. Future capital spending for anticipated growth and replacement assets will depend on a variety of factors, including economic and industry conditions. Our current investment program anticipates investments in technology initiatives and enhanced network capabilities, including over \$1.0 billion of projects to support our environmental sustainability goals. It also provides for the maintenance of buildings, facilities and equipment and replacement of certain aircraft within our fleet. We currently expect that our capital expenditures will total approximately \$5.3 billion in 2023, of which approximately 50 percent will be allocated to strategic expansion projects.

Total capital expenditures increased in the first quarter of 2023 compared to the 2022 period, primarily due to increased spending on buildings, facilities and plant equipment for facility maintenance and capacity expansion projects. This was partially offset by a decrease in expenditures associated with the delivery of aircraft.

Net purchases of marketable securities increased due to a continued shift to longer duration investments.

Cash paid for acquisitions in the first quarter of 2023 was related to the purchase of development areas for The UPS Store. Other investing activities were impacted by changes in our non-current investments, purchase contract deposits and various other immaterial items.

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS

Cash Flows From Financing Activities

Our primary sources (uses) of cash from financing activities were as follows (amounts in millions, except per share data):

	Three Months Ended March 31,	
	2023	2022
Net cash from/(used in) financing activities	\$ 4	\$ (1,970)
Share Repurchases:		
Cash paid to repurchase shares	(751)	(254)
Number of shares repurchased	(4.1)	(1.2)
Shares outstanding at period end	859	874
Dividends:		
Dividends declared per share	\$ 1.62	\$ 1.52
Cash paid for dividends	\$ (1,348)	\$ (1,284)
Borrowings:		
Net borrowings (repayments) of debt principal	\$ 2,438	\$ (18)
Other Financing Activities:		
Cash received for common stock issuances	\$ 49	\$ 67
Other financing activities	\$ (384)	\$ (481)
Capitalization:		
Total debt outstanding at period end	\$ 22,188	\$ 21,881
Total shareowners' equity at period end	20,053	15,434
Total capitalization	\$ 42,241	\$ 37,315

We repurchased 4.1 and 1.2 million shares of class B common stock for \$750 million and \$260 million under our stock repurchase program during the three months ended March 31, 2023 and 2022, respectively (\$751 and \$254 million in repurchases for 2023 and 2022, respectively, are reported on the statements of consolidated cash flows due to the timing of settlements). We anticipate our share repurchases will total approximately \$3.0 billion in 2023. For additional information on our share repurchase activities, see note 12 to the unaudited, consolidated financial statements.

The declaration of dividends is subject to the discretion of the Board and depends on various factors, including our net income, financial condition, cash requirements, future prospects and other relevant factors. In the first quarter of 2023, we increased our quarterly cash dividend from \$1.52 to \$1.62 per share.

Issuances of debt during the three months ended March 31, 2023 consisted of fixed and floating rate senior notes of varying maturities totaling \$2.5 billion. We expect to use substantially all of the proceeds from these debt issuances to repay outstanding debt at maturity in 2023. There were no issuances of debt in the first quarter of 2022.

Repayments of debt in the first quarter of 2023 included scheduled principal payments on our finance lease obligations and payment of amounts assumed in the Bomi Group acquisition. In the first quarter of 2022, we made scheduled principal payments on our finance lease obligations.

As of March 31, 2023, we had \$2.3 billion of fixed- and floating-rate senior notes outstanding that mature in 2023. We repaid \$1.5 billion of these senior notes in April 2023. We consider the overall fixed and floating interest rate mix of our portfolio and the related overall cost of borrowing when planning for future issuances and non-scheduled repayments of debt.

The variation in cash received from common stock issuances resulted from activity within the UPS 401(k) Savings Plan and our employee stock purchase plan in both the current and comparative period.

Other financing activities includes cash used to repurchase shares to satisfy tax withholding obligations on vested employee stock awards. Cash outflows for this purpose were \$363 and \$479 million for the three months ended March 31, 2023 and 2022, respectively. The decrease was driven by changes in required repurchase amounts.

**UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS**

Except as disclosed in our Annual Report on Form 10-K for the year ended December 31, 2022, we do not have guarantees or other off-balance sheet financing arrangements, including variable interest entities, which we believe could have a material impact on our financial condition or liquidity.

Sources of Credit

See note 9 to the unaudited, consolidated financial statements for a discussion of our available credit and the financial covenants that we are subject to as part of our credit agreements.

Contractual Commitments

There have been no material changes to the contractual commitments described in Part II, Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2022.

For additional information on the first quarter 2023 debt issuances, see note 9 to the unaudited, consolidated financial statements.

Legal Proceedings and Contingencies

See note 7 and note 11 to the unaudited, consolidated financial statements for a discussion of judicial proceedings and other matters arising from the conduct of our business activities, and note 16 for a discussion of income tax related matters.

Collective Bargaining Agreements

Status of Collective Bargaining Agreements

See note 7 to the unaudited, consolidated financial statements for a discussion of the status of our collective bargaining agreements.

Multiemployer Benefit Plans

See note 7 to the unaudited, consolidated financial statements for a discussion of our participation in multiemployer benefit plans.

Recent Accounting Pronouncements

Adoption of New Accounting Standards

See note 2 to the unaudited, consolidated financial statements for a discussion of recently adopted accounting standards.

Accounting Standards Issued But Not Yet Effective

See note 2 to the unaudited, consolidated financial statements for a discussion of accounting standards issued, but not yet effective.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risk from changes in certain commodity prices, foreign currency exchange rates, interest rates and equity prices. All of these market risks arise in the normal course of business, as we do not engage in speculative trading activities. In order to manage the risk arising from these exposures, we may utilize a variety of commodity, foreign currency exchange and interest rate forward contracts, options and swaps. A discussion of our accounting policies for derivative instruments and further disclosures are provided in note 15 to the unaudited, consolidated financial statements.

The total net fair value asset (liability) of our derivative financial instruments is summarized in the following table (in millions):

	March 31, 2023	December 31, 2022
Currency Derivatives	\$ 293	\$ 398
Interest Rate Derivatives	(5)	(5)
	\$ 288	\$ 393

As of March 31, 2023 and December 31, 2022, we had no outstanding commodity hedge positions.

The information concerning market risk in Item 7A under the caption "Quantitative and Qualitative Disclosures about Market Risk" of our Annual Report on Form 10-K for the year ended December 31, 2022 is incorporated herein by reference.

Our market risks, hedging strategies and financial instrument positions as of March 31, 2023 have not materially changed from those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2022. In the first quarter of 2023, we entered into foreign currency exchange forward contracts on the Euro, British Pound Sterling, Canadian Dollar and Hong Kong Dollar, and had forward contracts expire. The fair value changes between December 31, 2022 and March 31, 2023 in the preceding table are primarily due to interest rate and foreign currency exchange rate fluctuations between those dates.

The foreign currency exchange forward contracts, swaps and options previously discussed contain an element of risk that the counterparties may be unable to meet the terms of the agreements; however, we seek to minimize such risk exposures for these instruments by limiting the counterparties to banks and financial institutions that meet established credit guidelines and by monitoring counterparty credit risk to prevent concentrations of credit risk with any single counterparty.

We have agreements with all of our active counterparties (covering all of our derivative positions) containing early termination rights and/or zero threshold bilateral collateral provisions whereby cash is required based on the net fair value of derivatives associated with those counterparties. Events such as a credit rating downgrade (depending on the ultimate rating level) could also allow us to take additional protective measures such as the early termination of trades. As of March 31, 2023, we held cash collateral of \$375 million and were not required to post cash collateral with our counterparties under these agreements. We have not historically incurred, and do not expect to incur in the future, any losses as a result of counterparty default.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report, management, including our Principal Executive Officer and Principal Financial and Accounting Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 ("Exchange Act")). Based upon, and as of the date of, the evaluation, our Principal Executive Officer and Principal Financial and Accounting Officer concluded that the disclosure controls and procedures were effective to ensure that information required to be disclosed in the reports we file and submit under the Exchange Act is recorded, processed, summarized and reported as and when required and is accumulated and communicated to our management, including our Principal Executive Officer and Principal Financial and Accounting Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended March 31, 2023 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. *Legal Proceedings*

For a discussion of material legal proceedings affecting the Company, see note 11 to the unaudited, consolidated financial statements included in this report.

Item 1A. *Risk Factors*

There have been no material changes to the risk factors described in Part 1, Item 1A in our Annual Report on Form 10-K for the year ended December 31, 2022. The occurrence of any of the risks described therein could materially affect us, including impacting our business, financial condition, results of operations, stock price or credit rating, as well as our reputation. These risks are not the only ones we face. We could also be materially adversely affected by other events, factors or uncertainties that are unknown to us, or that we do not currently consider to be material.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(c) A summary of repurchases of our class A and class B common stock during the first quarter of 2023 is as follows (in millions, except per share amounts):

	Total Number of Shares Purchased ⁽¹⁾	Average Price Paid Per Share	Total Number of Shares Purchased as Part of a Publicly Announced Program	Approximate Dollar Value of Shares that May Yet be Purchased Under the Program
January 1 - January 31, 2023	0.5	\$ 178.40	0.5	\$ 4,985
February 1 - February 28, 2023	3.3	182.69	3.3	4,393
March 1 - March 31, 2023	0.3	182.69	0.3	\$ 4,332
Total January 1 - March 31, 2023	<u>4.1</u>	<u>\$ 182.12</u>	<u>4.1</u>	

⁽¹⁾ Includes shares repurchased through our publicly announced share repurchase programs and shares tendered to pay the exercise price and tax withholding on employee stock options.

We repurchased 4.1 million shares of class B common stock for \$750 million during the three months ended March 31, 2023. These repurchases were completed as follows:

- In August 2021, the Board of Directors approved a share repurchase authorization of \$5.0 billion of class A and class B common stock (the "2021 Authorization"). During the three months ended March 31, 2023, we repurchased 0.5 million shares of class B common stock for \$82 million under this authorization.
- In January 2023, the Board of Directors terminated the 2021 Authorization and approved a new share repurchase authorization of \$5.0 billion for class A and class B common stock. During the three months ended March 31, 2023, we repurchased 3.6 million shares of class B common stock for \$668 million under this authorization.

We anticipate repurchasing approximately \$3.0 billion in shares in 2023.

For additional information on our share repurchase activities, see note 12 to the unaudited, consolidated financial statements.

Item 6. Exhibits

- 3.1 — [Restated Certificate of Incorporation of United Parcel Service, Inc. \(incorporated by reference to Exhibit 3.3 to Form 8-K filed on May 12, 2010\).](#)
- 3.2 — [Amended and Restated Bylaws of United Parcel Service, Inc. as of November 17, 2017 \(incorporated by reference to Exhibit 3.1 to Form 8-K, filed on November 17, 2017\).](#)
- 4.01 — [Form of Floating Rate Senior Notes due 2073 \(incorporated by reference to Exhibit 4.1 to Form 8-K, filed on March 7, 2023\).](#)
- 4.02 — [Form of 4.875% Senior Notes due 2033 \(incorporated by reference to Exhibit 4.1 to Form 8-K, filed on February 27, 2023\).](#)
- 4.03 — [Form of 5.050% Senior Notes due 2053 \(incorporated by reference to Exhibit 4.2 to Form 8-K, filed on February 27, 2023\).](#)
- 10.1 — [Amended and Restated UPS 401\(k\) Savings Plan, effective as of January 1, 2023 \(incorporated by reference to Exhibit 10.2 to Form 10-K for the year ended December 31, 2022\).*](#)
- 10.2 — [Amended and Restated Restoration Savings Plan, effective as of January 1, 2023 \(incorporated by reference to Exhibit 10.3 to Form 10-K for the year ended December 31, 2022\).*](#)
- 10.3 — [UPS Long-Term Incentive Performance Program Amended and Restated Terms and Conditions, effective as of March 22, 2023.*](#)
- 10.4 — [UPS Management Incentive Program Amended and Restated Terms and Conditions, effective January 1, 2023\(incorporated by reference to Exhibit 10.21 to Form 10-K for the year ended December 31, 2022\).*](#)
- 31.1 — [Certification of the Principal Executive Officer Pursuant to Rule 13a-14\(a\), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](#)
- 31.2 — [Certification of the Principal Financial and Accounting Officer Pursuant to Rule 13a-14\(a\), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](#)
- 32.1 — [Certification of the Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.](#)
- 32.2 — [Certification of the Principal Financial and Accounting Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.](#)
- 101 — The following unaudited financial information from this Quarterly Report on Form 10-Q for the quarter ended March 31, 2023 is formatted in Inline XBRL (Inline Extensible Business Reporting Language): (i) the Consolidated Balance Sheets, (ii) the Statements of Consolidated Income, (iii) the Statements of Consolidated Comprehensive Income (Loss), (iv) the Statements of Consolidated Cash Flows, and (v) the Notes to the Consolidated Financial Statements.
- 104 — Cover Page Interactive Data File - The cover page from this Quarterly Report on Form 10-Q for the quarter ended March 31, 2023 is formatted in Inline XBRL (included as Exhibit 101).

* Management contract or compensatory plan or arrangement.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

UNITED PARCEL SERVICE, INC.
(Registrant)

Date: May 3, 2023

By:

/s/ BRIAN O. NEWMAN

Brian O. Newman
Executive Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

UPS LONG-TERM INCENTIVE PERFORMANCE PROGRAM
Amended and Restated Terms and Conditions

Approved March 22, 2023

1. Establishment, Objectives and Duration.

- 1.1 Establishment of the Program and Effective Date.** The Compensation and Human Capital Committee of the Board of Directors of United Parcel Service, Inc. (“Committee”) hereby amends and restates the terms and conditions of the UPS Long-Term Incentive Performance Program (“LTIP”) which provides for Awards in the form of Restricted Performance Units (“Units”) pursuant to the United Parcel Service, Inc. 2021 Omnibus Incentive Compensation Plan (“ICP”). Unless otherwise defined in this document, capitalized terms shall have the meanings set forth in the ICP. These LTIP Terms and Conditions shall be effective for any LTIP Awards made on or after the date set forth above (“LTIP Effective Date”).
- 1.2 Objectives of the LTIP.** The objectives of the LTIP are to align incentive pay with long-term performance related to key business objectives, enhance retention of key talent, and align the interests of shareowners with the incentive compensation opportunity for executives.
- 1.3 Duration of the Program.** The LTIP shall commence on the LTIP Effective Date and shall remain in effect, subject to the right of the Committee to amend or terminate the LTIP at any time pursuant to Section 15.6 hereof.

2. Administration.

- 2.1 Authority of the Committee.** The LTIP shall be administered by the Committee, which shall have the same power and authority to administer the LTIP as it does to administer the ICP.
- 2.2 Decisions Binding.** All decisions of the Committee shall be final, conclusive and binding on all persons, including the Company, its shareowners, any employee, and their estates and beneficiaries.

- 3. Units Subject to Award.** Your target number of Units subject to an Award is determined by (1) the product of (a) your Target LTIP Award Percentage or Exhibit A multiplied by (b) your annualized monthly salary in effect on the grant date specified in your grant notice (the “Grant Date”), then (2) divided by the Fair Market Value of a Share on the Grant Date, rounded up to the nearest whole number of Units.

- 4. Eligibility for Awards.** The Committee shall have broad discretion to determine the eligibility criteria for Awards for members of the Executive Leadership Team, including the Grant Date and any proration applicable to any Award for any reason, including as a result of an individual becoming an employee or changing job classification in a manner that would result in a different LTIP target payout percentage for that individual, after the Grant Date. A committee comprised of members of management of the Company responsible for determining or overseeing compensation for individuals other than Executive Leadership Team members (the “Management Compensation Committee”) shall have broad discretion to determine the eligibility criteria for Awards to such other individuals, including as a result of any of the matters described above.

- 5. Award Document.** You will receive a grant notice that specifies the Grant Date, the target number of Units subject to an Award, which may be prorated for the number of months remaining in the Performance Period (as defined below), and such other provisions as the Committee shall determine. Such grant notice, together with this document, shall constitute the “Award Document” for the applicable Award for purposes of the ICP.

- 6. Acceptance.** You must expressly accept the terms and conditions of your Award. To accept, log on to Merrill Lynch Benefits Online at www.benefits.ml.com, select Equity Plan > Grant Information > Pending Acceptance. If you do not accept your Award in the manner instructed by the Company, the Units subject to an Award may be subject to cancellation. If you do not wish to receive your Award, then you understand that you must reject the Award by contacting Investor Services (investorsvcs@ups.com or (404) 828-8807) no later than 90 days following the Grant Date specified in the applicable grant notice in which case the Award will be cancelled.

7. Performance Metrics; Earned Units. The number of Units earned for an Award will be determined based upon the Company’s (a) adjusted earnings per share (growth) and (b) free cash flow performance, each during a three-year performance period identified in the applicable grant notice (the “Performance Period”), subject to modification based on (c) total shareholder return performance during the Performance Period. Performance and payout will be determined independently for each metric.

7.1 Adjusted Earnings Per Share (Growth). Adjusted earnings per share is determined by dividing the Company’s adjusted net income available to common shareowners by the diluted weighted average shares outstanding during applicable year(s) of the Performance Period. The adjusted earnings per share growth target is the projected average annual adjusted earnings per share growth during each of the applicable years within the Performance Period. The actual adjusted earnings per share (growth) for each applicable year of the Performance Period will be compared to the target and assigned a payout percentage; the average of the three payout percentages will be used to calculate the final payout percentage under this metric. Following the completion of the Performance Period, the Committee will certify (i) the actual adjusted earnings per share (growth) for the Performance Period; (ii) the actual adjusted earnings per share (growth) for the Performance Period as compared to the targets; and (iii) the final payout percentage for this metric.

7.2 Free Cash Flow. Free cash flow is determined by reducing the Company’s cash flow from operations by capital expenditures net of proceeds from disposals of fixed assets, and adjusting for net changes in finance receivables and other investing activities. The free cash flow target is the projected aggregate free cash flow generated during the entire three years of the Performance Period. Following the completion of the Performance Period, the Committee will certify (i) the actual free cash flow for the Performance Period; (ii) the actual free cash flow for the Performance Period as compared to the target; and (iii) the final payout percentage for this metric.

7.3 Total Shareholder Return. Total shareholder return measures the total return on an investment in the Company’s class B common stock (the “Stock”) to an investor (stock price appreciation plus dividends). The total return on the Stock shall be compared with the total return on the stocks of the companies listed on the Standard & Poor’s 500 Composite Index (“Index”) at the beginning of the Performance Period. The Committee shall then assign the Company a percentile rank relative to the companies listed on the Index (the “S&P 500 Companies”) based on total shareholder return performance (“relative total shareholder return” or “RTSR”). Following the completion of the Performance Period, the Committee will certify (i) the Company’s actual total shareholder return for the Performance Period; (ii) the total shareholder return of each of the S&P 500 Companies during the Performance Period; (iii) the percentile ranking for the Company as compared to S&P 500 Companies for the Performance Period; and (iv) the final payout modifier, if any, for the Award as described below.

7.3.1 Payout Modifier: The number of Units earned under an Award may be modified up or down, if applicable, based on RTSR as follows:

Total Shareholder Return Percentile Rank Relative to S&P 500 Companies	Payout Modifier
Above 75 th percentile	+20%
Between 25 th and 75 th percentile	None
Below 25 th percentile	-20%

7.3.2 TSR Calculation: TSR is determined as follows:

$$\text{TSR} = \frac{(\text{Ending Average} + \text{Dividends Paid}) - \text{Beginning Average}}{\text{Beginning Average}}$$

Beginning Average: the average closing price of a share of the respective S&P 500 Company's common stock for the 20 trading days prior to the start of the Performance Period on which shares of such company's common stock were traded.

Ending Average: the average closing price of a share of the respective S&P 500 Company's common stock over the last 20 trading days of the Performance Period, accounting for compounding Dividends Paid, on which shares of such company's common stock were traded.

Dividends Paid: the total of all dividends paid on one share of the respective S&P 500 Company's common stock during the Performance Period, provided that the record date occurs during the Performance Period, and provided further that dividends shall be treated as though they are reinvested on the day of payment using the closing price of a share of the respective S&P 500 Company's common stock on that day.

7.4 Adjustments. In determining attainment of performance targets the Committee will have discretion to exclude the effect of unusual or infrequently occurring items, charges for restructurings (including employee severance liabilities, asset impairment costs, and exit costs), discontinued operations, extraordinary items and the cumulative effect of changes in accounting treatment, and may determine to exclude the effect of other items, each determined in accordance with GAAP (to the extent applicable) and as identified in the financial statements, notes to the financial statement or discussion and analysis of management.

8. Employee Covenants.

8.1 Acknowledgements. You acknowledge and agree that, by reason of your highly specialized skillset and the Company's investment of time, training, money, trust, and exposure to Confidential Information, you are intimately involved in the planning and direction of the Company's global business operations. You further acknowledge and agree that your agreement to enter into, and your compliance with, your covenants in this Section 8 are material factors in the Company's decision to grant you the Units, which constitutes good and valuable consideration for the covenants set forth in this Section 8.

8.2 Unfair Competition. You acknowledge and agree that, as a result of your receipt of Confidential Information, your role at the Company, and your relationships with Company customers and/or employees you would have an unfair competitive advantage if you were to violate this Section 8 and that, in the event that your employment with the Company terminates for any reason, you possess marketable skills and abilities that will enable you to find suitable employment without violating the covenants set forth in this Section 8. You further acknowledge and affirm that you are accepting this Agreement voluntarily, that you have read this Agreement carefully, that you have had a full and reasonable opportunity to consider this Agreement (including actual consultation with legal counsel), and that you have not been pressured or in any way coerced, threatened or intimidated into entering into this Agreement.

8.3 Non-Disclosure and Prohibition Against Use of Confidential Information and Trade Secrets. You agree that you will not, directly or indirectly, reveal, divulge, or disclose any Confidential Information or Trade Secrets to any person not expressly authorized by the Company to receive such information. You further agree that you will not, directly or indirectly, use or make use of any Confidential Information or Trade Secrets in connection with any business activity other than business activity that you are pursuing on behalf of the Company. You acknowledge and agree that this Section 8 is not intended to, and does not, alter either the Company's rights or your obligations under any state or federal statutory or common law regarding trade secrets and unfair trade practices. The act of emailing Confidential Information and Trade Secrets to your personal email address is considered to be a breach of this section. You also understand that nothing contained in this Section 8 limits your ability to communicate with any federal, state or local governmental agency or commission ("Government Agencies") or otherwise participate in any

investigation or proceeding that may be conducted by any Government Agencies in connection with any charge or complaint, whether filed by you, on your behalf, or by any other individual. You additionally understand and agree that as required by the Defend Trade Secrets Act of 2016 (“DTSA”), 18 U.S.C. § 1833(b), you have been notified that if you make a confidential disclosure of a Company Trade Secret (as defined in 18 U.S.C. § 1839) to a government official or an attorney for the sole purpose of reporting or investigating a suspected violation of law, or in a complaint or other document filed in a legal proceeding, so long as any document you file containing the trade secret is filed under seal and you do not disclose the trade secret except pursuant to court order, you shall not be held civilly or criminally liable under this Agreement or under any federal or state trade secret law for such a disclosure. The DTSA does not authorize, or limit liability for, an act that is otherwise prohibited by law, such as the unlawful access of material by unauthorized means. You promise that, no later than the end of your Company employment, you will return to the Company all files, memoranda, documents, records, credit cards, keys, computers, printers, telephones, and other property of the Company or its affiliates in your possession, custody, or control, including without limitation all Confidential Information. To the extent that you have electronic files or information in your possession or under your control that belong to the Company or contain Confidential Information (specifically including without limitation electronic files or information stored on personal computers, mobile devices, electronic media, or in cloud storage), you promise that, no later than the Separation Date, you will delete all such files and information, including all copies and derivatives thereof, from all non-Company-owned computers, mobile devices, electronic media, cloud storage, and other media, devices, and equipment, such that such files and information are permanently deleted and irretrievable.

- 8.4 Non-Solicitation of Protected Employees.** During the Non-Solicit Restricted Period, you will not, without the prior written consent of the Company, directly or indirectly, solicit or induce or attempting to solicit or induce any Protected Employee to terminate or cease his/her employment relationship with the Company or to enter into employment with you or any other person or entity. You understand and agree that this employee non-solicitation provision is limited to the geographic area where the Company did business during your employment.
- 8.5 Non-Solicitation of Protected Customers.** During the Non-Solicit Restricted Period, you will not, without the prior written consent of the Company, directly or indirectly, solicit, divert, take away or attempt to solicit, divert or take away a Protected Customer for purposes of providing products and services that are competitive with those provided by the Company.
- 8.6 Covenant Not to Compete.** During the Non-Compete Restricted Period, you will not, without the prior written consent of the Company, (a) work for a Restricted Competitor; (b) provide consulting services to a Restricted Competitor; or (c) otherwise provide services to a Restricted Competitor, in each of (a) through (c) that involves the provision of services that are similar to those services that you provided to the Company and that relate to the Restricted Competitor’s competition with the transportation, delivery or logistics services provided by the Company during your employment. You understand and agree that this non-compete provision is limited to the geographic area where the Company did business during your employment.
- 8.7 Enforcement.** You acknowledge and agree that the covenants in Sections 8.3 through 8.6 (“Protective Covenants”) are necessary to protect the Company’s legitimate business interests. In the event that you breach, or threaten to breach, the Protective Covenants, you agree that the Company shall have the right and remedy to: (a) enjoin you, preliminarily and permanently (without the necessity of posting bond), from violating or threatening to violate the Protective Covenants because any breach or threatened breach of the Protective Covenants would cause irreparable injury to the Company and that money damages would not provide an adequate remedy; (b) require you to account for and pay over to the Company all compensation, profits, monies, or other benefits derived or received by you as the result of any breach of the Protective Covenants; and (c) require you to pay the reasonable attorneys’ fees and costs incurred by the Company in enforcing the Protective Covenants. In addition, in the event of such a violation, you will automatically forfeit all Units.

8.8 Severability/Reformation. You acknowledge and agree that the Protective Covenants are reasonable in time, scope, geography and all other respects and that they will be considered and construed as separate and independent covenants. Should any part or provision of any of the Protective Covenants be held invalid, void or unenforceable in any court of competent jurisdiction, you understand and agree that such invalidity, voidness or unenforceability does not invalidate, void or otherwise render unenforceable any other part or provision of this Agreement. You further agree that, in the event any court of competent jurisdiction finds any of the Protective Covenants to be invalid or unenforceable (in whole or in part), such court shall modify the invalid or unenforceable term so that the Protective Covenants are enforceable to the fullest extent permitted by law.

8.9 Applicable Law and Exclusive Jurisdiction.

8.9.1 You agree that (a) Delaware law shall apply to this Section 8, and (b) the Delaware Court of Chancery shall have exclusive jurisdiction over any dispute relating to this Section 8, and you specifically and irrevocably consent to personal jurisdiction and venue in such court, even if you do not reside in Delaware at the time of any dispute arising out of or involving this Section 8;

8.9.2 Notwithstanding the foregoing, if you primarily resided and worked for the Company in California immediately prior to the end of your company employment, and following the termination of your Company employment, you continue to reside in California, you agree that (a) California law shall apply to this Section 8, and (b) the federal or state courts of California will be the sole and exclusive jurisdiction and venue over any dispute relating to this Section 8 and you specifically and irrevocably consent to personal jurisdiction in such courts even if you do not reside in California at the time of any dispute arising out of or involving this Section 8.

8.10 Tolling During Violation. You understand and agree that if you violate any of the Protective Covenants, the period of restriction applicable to each obligation violated will not run during any period in which you are in violation thereof.

8.11 Disclosure. In the event that you leave the Company for any reason, you agree to disclose the existence and terms of this Section 8 to any prospective employer, partner, co-venturer, investor or lender prior to entering into an employment, partnership or other business relationship with such prospective employer, partner, co-venturer, investor or lender.

8.12 Definitions. For purposes of this Section 8:

8.12.1 "Company" means, for purposes of this Section 8 only, United Parcel Service, Inc., a Delaware Corporation with its principal place of business in Atlanta, Georgia, and all of its Affiliates (as defined in O.C.G.A. § 13-8-51(1)).

8.12.2 "Confidential Information" means all information regarding the Company, its activities, businesses or customers which you learned as a result of your employment, that is valuable to the Company and that is not generally disclosed by practice or authority to persons not employed or otherwise engaged by the Company, whether or not it constitutes a Trade Secret. "Confidential Information" shall include, but is not limited to, financial plans and data; legal affairs; management planning information; business plans; acquisition plans; operational methods and technology; market studies; marketing plans or strategies; product development techniques or plans; customer lists; details of customer contracts; current and anticipated customer requirements and specifications; customer pricing and profitability data; past, current and planned research and development; employee-related information and new personnel acquisition plans. "Confidential Information" shall not include information that is or becomes generally available to the public by the act of one who has the right to disclose such information without violating any right or privilege of the Company. However, although certain information may be generally known in the relevant industry, the fact that the Company uses such information may not be so known and in such instance the information would

compromise Confidential Information. This definition shall not limit any definition of “confidential information” or any equivalent term under applicable state or federal law.

- 8.12.3 “Non-Compete Restricted Period” means during your employment with the Company and for a period of one (1) year after your employment ends for any reason.
- 8.12.4 “Non-Solicit Restricted Period” means during your employment with the Company and for a period of two (2) years after your employment ends for any reason
- 8.12.5 “Protected Customers” means customers or actively sought potential customers with whom you had material involvement in the two (2) years prior to your termination of employment, which shall include customers or actively sought potential customers (i) whom you dealt with on behalf of the Company; (ii) whose dealings with the Company are or were coordinated or supervised by you; or (iii) about whom you obtained Confidential Information as a result of your employment with the Company.
- 8.12.6 “Protected Employee” means an employee of the Company who is employed by the Company in a position of Band 20 or higher at the time of any solicitation or attempted solicitation by you and with whom (a) you had contact during the two (2) years prior to your termination of employment, or (b) about whom you learned Confidential Information during the two (2) years prior to your termination of employment.
- 8.12.7 “Restricted Competitors” means a person engaged in any business competitive with the Company’s and its Subsidiaries’ businesses of package delivery and global supply chain management solutions. Restricted Competitors shall be defined to include any affiliates of such entities that are engaged in delivery, transportation, and/or logistics services and activities. In addition, Restricted Competitors include, without limitation, the entities listed on Exhibit B.
- 8.12.8 “Trade Secret” means all of the Company’s information that you learned about as a result of your employment, without regard to form, including, but not limited to, technical or nontechnical data, a formula, a pattern, a compilation, a program, a device, a method, a technique, a drawing, a process, financial data, financial plans, product plans, distribution lists or a list of actual or potential customers, advertisers or suppliers, that (i) derives economic value, actual or potential, from not being generally known to the public or to other persons who can obtain economic value from its disclosure or use; and (ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy. This definition shall not limit any definition of “trade secrets” or any equivalent term under applicable law

8.13 Amendments for Certain Employees.

- 8.13.1 **Amendments for California Employees.** Sections 8.4 through 8.6 do not apply to you if you primarily resided or worked for the Company in California immediately prior to the end of your Company employment, and following the termination of your Company employment, you continue to reside in California. Notwithstanding the foregoing, you are and shall continue to be prohibited from any unauthorized use, transfer, or disclosure of the Company’s Confidential Information, including trade secrets, pursuant to the California Trade Secrets Act, the U.S. Defend Trade Secrets Act of 2016, any other confidentiality and non-disclosure agreements with the Company, and any other applicable federal, state and common law protections afforded proprietary business and trade secret information. You also agree that you will not, without the prior written consent of the Company, directly or indirectly, interfere with the Company’s business by soliciting or inducing or attempt to solicit or induce any Protected Employee to terminate or cease his/her employment relationship with the Company for a period of twelve (12) months from and after your employment ends.

8.13.2 Amendments for Hawaii, North Dakota and Oklahoma Employees. Section 8.6 does not apply to you if you primarily resided and worked for the Company in Hawaii, North Dakota or Oklahoma immediately prior to the end of your Company employment, and following the termination of your Company employment, you continue to reside in Hawaii, North Dakota or Oklahoma.

8.13.3 Amendment for Massachusetts Employees. Section 8.6 does not apply to you if you primarily resided and worked for the Company in Massachusetts immediately prior to the end of your Company employment, and following the termination of your Company employment, you continue to reside in Massachusetts and Section 8.6 is unenforceable pursuant to Massachusetts General Laws c. 149 § 24L.

8.14 Other Restrictions. For the avoidance of doubt, if you are based in the U.S. this Section 8 does not supersede any protective covenants applicable to you with respect to the Company, and those covenants shall continue in full force and effect in accordance with their terms. If you are based outside the US any protective covenants set out in your contract of employment, or otherwise applicable to your employment with the Company, whether concluded prior to or after the date of this Agreement, supersede the equivalent provisions set out in this Section 8.

9. Calculation of Units Earned. The number of Units earned under an Award will be calculated as follows:

(a) Adjusted Earnings Per Share Payout % x 50%	+	(b) Free Cash Flow Payout % x 50%	+/-	(c) RTSR Payout Modifier (if applicable)	=	Award Payout %
--	---	---	-----	--	---	-------------------

The Award Payout % is then multiplied by the target number of Units received under the Award, including any dividend equivalent units (described below), to determine the total number of Units earned for the Award.

10. Transferability. You may not sell, gift, or otherwise transfer or dispose of any Units.

11. Vesting Terms. If you remain an active employee through the last business day of the Performance Period, then the number of Units that vest following the end of the Performance Period, if any, will be based on the achievement of the performance goals related to each of the performance metrics set forth herein. Shares attributable to the number of vested Units and dividend equivalent units (described below), if any, will be transferred to you during the calendar quarter following the end of the Performance Period. Except as set forth below, if employment with the Company is terminated after the Date of Grant but prior to the last business day of the Performance Period, then your unvested Units will be forfeited.

11.1 Death. If you are an active employee for six continuous months from the beginning of the Performance Period and your employment terminates prior to the last business day of the Performance Period as a result of death, then Shares attributable to a prorated number of Units (calculated at target based on the number of months worked during the Performance Period) will be transferred to your estate no later than 90 days after the date of your death.

11.2 Disability or Retirement. If you are an active employee for six continuous months from the beginning of the Performance Period and your employment terminates prior to the last business day of the Performance Period as a result of disability or Retirement (as defined below), then Shares attributable to a prorated number of vested Units (based on actual results for the full Performance Period and the number of months worked during the Performance Period) will be transferred to you during the calendar quarter following the end of the Performance Period.

11.3 Demotion. If you are an active employee for six continuous months from the beginning of the Performance Period and, prior to the last business day of the Performance Period, you are demoted to a position that would have been ineligible to receive an LTIP award, then Shares attributable to a prorated number of vested Units (based on actual results for the full Performance Period and the number of months worked during the Performance Period prior to the demotion) will be transferred to you during the calendar quarter following the end of the Performance Period.

For purposes of the LTIP, Retirement is defined as (a) the attainment of age 55 with a minimum of 10 years of continuous employment accompanied by the cessation of employment with the Company and all Subsidiaries, (b) the attainment of age 60 with a minimum of 5 years of continuous employment accompanied by the cessation of employment with the Company and all Subsidiaries, or (c) “retirement” as determined by the Committee in its sole discretion.

- 12. Repayment.** If an Award has been paid to an Executive Participant or to his or her spouse or beneficiary, and the Committee later determines that financial results used to determine the amount of that Award are materially restated and that the Executive Participant engaged in fraud or intentional misconduct, then the Company will seek repayment or recovery of the Award, as appropriate, notwithstanding any contrary provision of the ICP. In addition, any benefits you may receive hereunder shall be subject to repayment or forfeiture as may be required to comply with the requirements of the U.S. Securities and Exchange Commission or any applicable law, including the requirements of the Dodd-Frank Wall Street Reform and Consumer Protection Act, or any securities exchange on which the Stock is traded, as may be in effect from time to time.
- 13. Withholding.** Awards shall be reduced for applicable taxes or you will be required to remit taxes to the Company in accordance with the terms of the ICP.
- 14. Dividend Equivalents.** Dividends payable on the number of shares represented by your Units (including whole and fractional Units) will be allocated to your account in the form of dividend equivalent units (“DEUs”) (whole and fractional). DEUs will be allocated to your account each time dividends are paid by (i) multiplying the cash (or stock) dividend paid per share of the Company’s class B common stock by the number of outstanding target number Units (and previously credited DEUs) prior to adjustment for the dividend, and (ii) dividing the product by the Fair Market Value of a Share on the day the dividend is declared, provided that the record date occurs after the Grant Date. DEUs will be subject to the same vesting conditions as the underlying Award.
- 15. Miscellaneous.**
 - 15.1 Awards Subject to the Terms of the ICP.** LTIP Awards are subject to the terms of the ICP.
 - 15.2 Section 409A.** Each Award is intended either to be exempt from Code § 409A and the 409A Guidance or to comply with Code § 409A and the 409A Guidance. The Award Document and the ICP shall be administered in a manner consistent with this intent, and any provision that would cause the Award Document or the ICP to fail to satisfy Code § 409A or the 409A Guidance shall have no force or effect until amended to comply with or be exempt from Code § 409A and the 409A Guidance (which amendment may be retroactive to the extent permitted by Code § 409A and the 409A Guidance and may be made by the Company without your consent). To the extent that benefits provided under an Award constitute deferred compensation for purposes of Code § 409A and the 409A Guidance and to the extent that deferred compensation is payable upon a “separation from service” as defined in Code § 409A and the 409A Guidance, no amount of deferred compensation shall be paid or transferred to you as a result of your separation from service until the date which is the earlier of (i) the first day of the seventh month after your separation from service or (ii) the date of your death (the “Delay Period”).
 - 15.3 Severability.** The provisions of this LTIP are severable and if any one or more provisions are determined to be illegal or otherwise unenforceable, in whole or in part, the remaining provisions shall nevertheless be binding and enforceable.
 - 15.4 Waiver.** You acknowledge that a waiver by the Company of breach of any provision of this LTIP shall not operate or be construed as a waiver of any other provision of this LTIP, or of any subsequent breach by you or any other participant.
 - 15.5 Imposition of Other Requirements.** The Committee reserves the right to impose other requirements on your participation in the LTIP, on the Units and on any shares of Stock acquired under the ICP, to the extent the Committee determines it is necessary or advisable for legal or administrative reasons, and to require you to sign any additional agreements or undertakings that may be necessary to accomplish the foregoing.

- 15.6 Amendment and Termination.** The Committee may amend, alter, suspend or terminate the LTIP and any Award at any time subject to the terms of the ICP. Any such amendment shall be in writing and approved by the Committee. A committee comprised of members of management of the Company for purposes of administering compensation (“Management Compensation Committee”), may make administrative amendments to the LTIP from time to time; provided, however, that any such amendment shall be reviewed with the Committee and kept with the records of the LTIP.
- 15.7 Electronic Delivery.** The Company may, in its sole discretion, deliver any documents related to the Units and your participation in the ICP, or future awards that may be granted under the ICP, by electronic means or request your consent to participate in the ICP by electronic means. You hereby consent to receive such documents by electronic delivery and, if requested, agree to participate in the ICP through an on-line or electronic system established and maintained by the Company or another third party designated by the Company.
- 15.8 No Right to Future Awards or Employment.** The grant of the Units under an Award to you is a voluntary, discretionary award being made on a one-time basis and it does not constitute a commitment to make any future awards. Nothing contained in the Award Document shall confer upon you any right to be employed or remain employed by the Company or any of its Subsidiaries, nor limit or affect in any manner the right of the Company or any of its Subsidiaries to terminate your employment or adjust your compensation.
- 15.9 Acknowledgement.** You acknowledge that you (a) have received a copy of the ICP, (b) have had an opportunity to review the terms of the Award Document and the ICP, (c) understand the terms and conditions of the Award Document and the ICP and (d) agree to such terms and conditions.

Exhibit A

Long-Term Incentive Performance Program

CLASSIFICATION	TARGET LTIP AWARD PERCENTAGE
Chief Executive Officer	1,035%
Executive Leadership Team Member	350% - 550%

CERTIFICATE OF PRINCIPAL EXECUTIVE OFFICER

I, Carol B. Tomé, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of United Parcel Service, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ CAROL B. TOMÉ

Carol B. Tomé
Chief Executive Officer
(Principal Executive Officer)

May 3, 2023

CERTIFICATE OF PRINCIPAL FINANCIAL AND ACCOUNTING OFFICER

I, Brian O. Newman, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of United Parcel Service, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ BRIAN O. NEWMAN

Brian O. Newman
Executive Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

May 3, 2023

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE
SARBANES-OXLEY ACT OF 2002**

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and in connection with the Quarterly Report on Form 10-Q of United Parcel Service, Inc. (the "Corporation") for the period ended March 31, 2023, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, the Chief Executive Officer of the Corporation, certifies that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

/s/ CAROL B. TOMÉ

Carol B. Tomé
Chief Executive Officer
(Principal Executive Officer)

May 3, 2023

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE
SARBANES-OXLEY ACT OF 2002**

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and in connection with the Quarterly Report on Form 10-Q of United Parcel Service, Inc. (the "Corporation") for the period ended March 31, 2023, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, the Executive Vice President and Chief Financial Officer of the Corporation, certifies that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

/s/ BRIAN O. NEWMAN

Brian O. Newman
Executive Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

May 3, 2023