Notice of 2021 Annual Meeting of Shareowners and Proxy Statement

&

2020 Annual Report on Form 10-K

A New Chapter:

Dear Fellow Shareowners,

2020 was a year of great challenges, and also a year of remarkable successes. I am honored to be leading a company with a rich history of doing the right thing for employees, customers, communities and shareowners. As the coronavirus pandemic spread, UPSers around the world became frontline essential workers, delivering household goods and keeping the world's supply chains moving during the most difficult public health and economic crisis in decades. People and businesses are counting on UPS more than ever. And as with other global humanitarian crises, we are helping with logistics and relief, and will continue to assist wherever needed.

Our many successes can be attributed to the commitment of our people and the strength of our culture. Our UPS Executive Leadership Team, and all UPSers, are writing the next chapter of this great company. We are guided by our strategy, *Customer First, People Led, Innovation Driven*, as we transform nearly every aspect of our business. The task is not simple, but we are making meaningful progress building the capabilities that matter most in the markets we serve.

As we look ahead, we recognize that our customers are changing, our competitors are changing, and the rate of change is accelerating. We know we must change alongside them. Within this environment, we see opportunities to create value for our shareowners, and we believe success is also made possible by our five core UPS principles:

- First is our values, as established by our founder Jim Casey, which give us an enduring foundation for success. Our values are the core of who we are and what we do.
- Second is our dividend, which is a hallmark of our financial strength. We are committed to continuing nearly 50 years of stability and growth in the dividends we pay.
- Third is retaining a strong balance sheet and credit rating, ensuring that we have the financial flexibility needed to competitively run our business.
- Fourth is brand relevance, meaning that we will lead by example and take action to support our customers and communities, promote diversity and inclusion, sponsor racial equality and shape a healthier planet.
- And fifth is the importance of employee ownership, which supports valuable and lasting employee and retiree engagement.

Outside of these core principles, everything else in our portfolio is under review. We are excited about the progress we made in 2020, and we see more opportunities ahead.

CREATING VALUE FOR ALL STAKEHOLDERS

We are operationalizing our *Customer First, People Led, Innovation Driven* strategy and defining metrics for each component to measure our progress over time. But strategy alone will not get us to where we need to go. We know that our culture connects all UPSers, and ultimately drives change, performance and success. So we are zeroing in on the wildly important areas of our strategy, and our people and culture are leading the way.

Customer First is about removing friction when doing business with UPS, measured by gains in our Net Promoter Score. Our best opportunities are captured in our strategic growth initiatives: small and medium-sized businesses (SMB), healthcare and international markets. Changes in buying behaviors are occurring faster than ever. Online buying trends that were projected to take years arrived in a few short months, driven by the path of the coronavirus pandemic. Our customers across all business segments are continuing to reinvent the ways in which they do business, and we are helping them to seize new opportunities, be even more competitive, and ultimately, to succeed. They have told us that speed and ease are most important when it comes to shipping, so we are delivering the capabilities that matter the most:

- We've moved the needle on speed, completing our weekend expansion and Our Fastest Ground Ever initiative ahead of schedule. In 2020, Weekend Ground volume was up 93.9 percent over 2019, and SMB volume on Our Fastest Ground Ever lanes grew by 40% in the fourth quarter, since we improved these lanes.
- We now have more than 700,000 accounts in our Digital Access Program (DAP), and revenue from that program grew more than 360% in 2020. We expect our DAP revenues to reach $1 billion in 2021.

These initiatives enabled UPS to grow U.S. SMB average daily volume by 14.8% in 2020. We have not seen this kind of growth in more than a decade.

Healthcare is another UPS strategic growth initiative. UPS Healthcare offers world-class technology, deep expertise, and the most sophisticated suite of services in the industry. In fact, UPS was one of only a few companies with the global infrastructure that could keep critical healthcare moving in the early days of the pandemic.

With the abrupt disappearance of cargo space on commercial passenger aircraft, we quickly shifted air capacity to meet the strong demand out of Asia, first for critical Personal Protective Equipment (PPE), and then to help our customers replenish their inventories. And when the U.S. Food and Drug Administration and other health authorities approved the emergency use of COVID-19 vaccines, UPSers executed one of the most anticipated logistical feats in our 113-year history. After months of planning with government officials and our healthcare customers, our expertise in cold chain logistics enabled us to provide greater than 99% on-time delivery for vaccines. We are deeply honored to be playing such a critical role in saving lives in the battle against the coronavirus pandemic.

The second element of our strategy is *People Led*, as measured through the employee experience and specifically how likely an employee is to recommend a job at UPS to a friend or family member. We know successful outcomes are built from a strong culture so we are making UPS a great place to work. We have expanded decision-making authority, are stopping activities that do not add value, and through our transformation efforts, are creating fewer but more impactful jobs. We also invested in training for 40,000 management employees on professionalism and performance as well as unconscious bias, diversity and inclusion to ensure our actions match our values. Finally, we listened to our people, and modernized many long-standing appearance rules by creating new guidelines that celebrate the diversity within UPS.

Early feedback from our people has been very positive. In fact, we've seen a 13 percentage point improvement in "Likelihood to Recommend," the primary metric we use to measure progress on our People Led initiative.

The final piece of our strategy is *Innovation Driven*, which means driving higher returns on the capital we deploy, and is measured by the value we create for our shareowners. We are optimizing the volume that flows through our network under the framework of better not bigger. It's about growing value share, and winning volume that contributes to stronger bottom-line results. We are pleased with the early progress of our efforts. As an example, in the fourth quarter of 2020, U.S. Domestic revenue per piece increased 7.8%, the highest growth we've seen in more than 10 years.

Looking ahead, in the U.S. Domestic segment, our aim is to expand our operating margin by improving revenue quality and lowering our cost to serve. Within the International and Supply Chain and Freight segments, our focus is on growing revenue and operating profit.

We are also applying close scrutiny to capital allocation, and ensuring clear linkage to near-term returns. In January of 2021, we announced that we had entered into an agreement to sell UPS Freight, our LTL business unit. UPS Freight is a capital intensive, low-returning business. We do not need to own this business to provide an LTL solution for our customers. With the divestiture of UPS Freight, we will be smaller, but we will be better, as we will see an improvement in our operating margin and return on invested capital.

Being better not bigger also means de-risking our balance sheet. We will use the proceeds from the sale of UPS Freight to pay down long-term debt. From the actions we are taking, we expect higher returns on invested capital and greater cash generation from the business.

PERFORMANCE HIGHLIGHTS

Our 2020 financial results demonstrate the flexibility of our global network and our ability to pivot the company for success:

- UPS's broad portfolio of services enabled us to lead the logistics fight against the global pandemic and deliver everything from essential everyday goods to complex vaccines. All of our business segments participated, and contributed to our results.
- We also met significantly higher demand out of Asia and supported elevated cross-border e-commerce volume around the world, two dramatic market shifts that led to higher profits.
- Finally, our digital solutions, expanded weekend services, and faster ground network have become the new foundation for growing value share with SMBs and other opportunity segments.

For the company, consolidated revenue grew 14.2% to $84.6 billion. Operating profit was $7.7 billion; adjusted* operating profit grew 7.0% to $8.7 billion.

Globally, we delivered 6.3 billion packages, a 13.7% increase over 2019, driven by global B2C volume growth and the surge in consumer e-commerce.

In the U.S., revenue grew 15.1% to $53.5 billion with volume growth across all products. Operating profit decreased 6.6% to $3.9 billion; adjusted* operating profit declined 5.5% to $4.1 billion. Operating margin was 7.3%, or 7.7% on an adjusted* basis.

The International segment reported $15.9 billion in revenue, an increase of 12.1%. Operating profit was $3.4 billion; adjusted* operating profit rose 27.1% to $3.5 billion and margins expanded.

The Supply Chain and Freight segment delivered operating profit of $357 million; adjusted* operating profit increased 5.6% to $1.1 billion.

UPS generated excellent cash flow, with cash from operations of $10.5 billion and free cash flow* of $5.1 billion. We invested $5.4 billion in capital expenditures, $5.6 billion on an adjusted* basis, and returned $3.6 billion to shareowners in dividends, a per-share increase of 5.2% over the prior year.

*See reconciliation of Non-GAAP financial measures in Appendix.

OUR PURPOSE

In October 2020, we introduced our purpose statement: *Moving our world forward by delivering what matters*. This is our "why" and our reason for being. We recognize that customers, now more than ever, look at a company's behavior when choosing who they do business with. Our purpose is why our people come to work. It is brought to life in our actions with our customers, how we treat one another and how we respond in a crisis.

We have a long history of being a responsible member of our local communities. Our broad footprint enables us to see how changes in societal trends like e-commerce and other developments impact climate, air quality and other global challenges. Our purpose encompasses the environmental, social and governance (ESG) issues that matter the most to our stakeholders. A few noteworthy accomplishments include:

- We separated the chairmanship from the CEO to create the first independent chair in the company's history, and we added five new directors, increasing board diversity.
- We created the role of Chief Diversity, Equity and Inclusion Officer, a new position on the company's Executive Leadership Team, and a significant step forward for UPS to build a more inclusive and equitable environment.
- We enhanced our disclosure on the ESG topics that are important to investors by publishing our first Sustainability Accounting Standards Board report.

OUR NEXT CHAPTER

2020 was a year of great challenge and great success, and I am proud of the progress our team has made operationalizing our strategy and transforming our company. I commend UPSers everywhere for their efforts as everyday heroes in the battle against COVID-19. Our priority remains to keep our people and our customers safe, while continuing to deliver what matters around the world.

Customer First, People Led, Innovation Driven is how we will write the next chapter of the great UPS story. We are building on the strong foundation of our five core principles, the strength of our integrated network and the unstoppable spirit of all UPSers. As we look further into 2021 and beyond, I am excited about the opportunities that lie ahead.

UPS is a company with a proud past and an even brighter future.

Carol B. Tomé
UPS Chief Executive Officer

Notice of 2021 Annual Meeting of Shareowners and Proxy Statement

Thursday, May 13, 2021
8:00 a.m. Eastern Time

www.virtualshareholdermeeting.com/UPS2021

United Parcel Service, Inc.
55 Glenlake Parkway, N.E.
Atlanta, GA 30328

March 29, 2021

Dear Fellow Shareowners:

It is my pleasure to invite you to join us at UPS's 2021 Annual Meeting of Shareowners. Since my appointment as UPS's first independent Board Chair in late 2020, it has been my honor to lead the Board of this 114-year-old company. UPS also celebrated, in the face of unprecedented uncertainties, a number of other momentous "firsts" last year; none more important than the appointment of Carol Tomé as our first female CEO, and as the first CEO who was not a UPS employee.

Carol's appointment came following a rigorous selection process involving both internal and external candidates. Her in-depth knowledge of UPS's business, strategy and people, as well as her tremendous personal attributes and capabilities, made her the clear choice to lead the Company at this important time in its transformation. The entire Board is extremely pleased with her strong start and particularly proud of her actions around fostering a diverse, inclusive and productive workplace.

We significantly refreshed your Board in 2020, increasing diversity and further enhancing independent oversight. The Board appointed five new independent directors, each with a varied set of experiences, skills and perspectives. These new members are helping to position UPS for future success and growth as the Company executes on its strategic initiatives. At the 2021 Annual Meeting, independent directors Rudy Markham and Sandy Randt will have reached the Board's retirement age and will not stand for reelection. We thank Rudy and Sandy for their years of service to the Board and their significant contributions to the Company.

The entire Board is very proud of the efforts of all UPSers over the past year. It's because of our people that UPS was able to successfully adapt and execute during a global pandemic, while at the same time remaining focused on the safety of our employees and customers. The Company's reputation for being a good corporate citizen and doing the right thing came shining through in 2020 as a result of these efforts.

Because of travel restrictions related to the pandemic, the Board has not been meeting in person recently. However, thanks to technology, the Board has successfully continued executing its oversight responsibilities and has been able to effectively communicate with the Company and with each other. We continue to monitor developments and are eager to resume face-to-face meetings at the right time.

Finally, I want to encourage all of my fellow shareowners to vote. This is your opportunity to share your views with the Company. We listen and take your feedback into account as we continually seek to grow our business, improve governance and increase long-term shareowner value. We are grateful to those shareowners who have previously shared their views. As we approach the Annual Meeting, I encourage you to contact us with any questions or feedback at 404-828-6059.

On behalf of the entire Board of Directors, thank you for your continued support of UPS.

William R. Johnson
UPS Board Chair

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Notice of Annual Meeting

UNITED PARCEL SERVICE, INC.

55 Glenlake Parkway, N.E., Atlanta, Georgia 30328

- **Date and Time:** May 13, 2021, 8:00 a.m. Eastern Time
- **Place:** The meeting will be held exclusively online via webcast at: www.virtualshareholdermeeting.com/UPS2021.
- **Record Date:** March 22, 2021
- **Distribution Date:** A Notice of Internet Availability of Proxy Materials or the proxy statement is first being sent to shareowners on or about March 29, 2021.
- **Voting:** Holders of class A common stock are entitled to 10 votes per share; holders of class B common stock are entitled to one vote per share. **Your vote is important. Please vote as soon as possible through the Internet, by telephone or by signing and returning your proxy card (if you received a paper copy of the proxy card). Your voting options are described on the Notice of Internet Availability of Proxy Materials, voting instruction form and/or proxy card.**
- **Attending the Meeting:** You or your proxyholder can participate, vote, ask questions and examine our list of shareowners at the meeting by visiting www.virtualshareholdermeeting.com/UPS2021 and using your 16-digit control number found on your proxy card, voting instruction form or Notice of Internet Availability. Shareowners who do not receive a 16-digit control number should consult their voting instruction form or Notice of Internet Availability and may need to request a legal proxy from their bank, broker or other nominee in advance of the meeting in order to participate. For more information, please see page 90. Whether or not you plan to attend the meeting, we encourage you to vote and submit your proxy in advance of the meeting by one of the methods described on your proxy card, voting instruction form or Notice of Internet Availability.

Important Notice Regarding the Availability of Proxy Materials for the Shareowner Meeting to be Held on May 13, 2021: The Proxy Statement and our 2020 Annual Report are available at www.proxyvote.com. Questions? Call 404-828-6059 (option 2).

By order of the Board of Directors

Norman M. Brothers, Jr.
Secretary
Atlanta, Georgia
March 29, 2021

Items of Business

	Voting Choices	Board Voting Recommendations	Page
Company Proposals:			
1. Elect 13 director nominees named in the Proxy Statement to serve until the 2022 Annual Meeting and until their respective successors are elected and qualified	• Vote for all nominees • Vote against all nominees • Vote for some nominees and against others • Abstain from voting on one or more nominees	FOR EACH NOMINEE	23
2. Approve on an advisory basis a resolution on executive compensation	• Vote for the resolution • Vote against the resolution • Abstain from voting on the resolution	FOR	60
3. Approve the 2021 Omnibus Incentive Compensation Plan	• Vote for the plan • Vote against the plan • Abstain from voting on the plan	FOR	61
4. Ratify the appointment of Deloitte & Touche LLP as our independent registered public accounting firm for 2021	• Vote for ratification • Vote against ratification • Abstain from voting on ratification	FOR	73
Shareowner Proposals:			
5. - 9. Advisory votes on 5 shareowner proposals, only if properly presented	• Vote for each proposal • Vote against each proposal • Abstain from voting on the proposals	AGAINST EACH PROPOSAL	76

Proxy Statement

UNITED PARCEL SERVICE, INC.

55 Glenlake Parkway, N.E., Atlanta, Georgia 30328

This Proxy Statement contains important information about the 2021 Annual Meeting of Shareowners (the "Annual Meeting"). We are providing these proxy materials to you because our Board of Directors is soliciting your proxy to vote your shares at the Annual Meeting. The Annual Meeting will be held online only on May 13, 2021, at 8:00 a.m. Eastern Time, at www.virtualshareholdermeeting.com/UPS2021. Shareowners can participate, ask questions, vote and examine our shareowner list during the meeting through this website.

All properly executed written proxies, and all properly completed proxies submitted through the Internet or by telephone, that are delivered pursuant to this solicitation will be voted at the Annual Meeting in accordance with the directions given in the proxy, unless the proxy is revoked prior to completion of voting at the meeting. Only owners of record of shares of the Company's common stock as of the close of business on March 22, 2021 (the "Record Date") are entitled to notice of, and to vote at, the Annual Meeting (or any adjournment or postponement of the Annual Meeting). We are first mailing this Proxy Statement on or about March 29, 2021.

Proxy Statement Summary

This summary highlights information contained elsewhere in this Proxy Statement.

Corporate Governance

Following are some of our key governance policies and practices:

- We maintain an **independent Board;** all of our directors are independent, other than our Chief Executive Officer ("CEO"), Carol Tomé;
- We have an **independent Board Chair** who is highly engaged and experienced;
- Our independent directors meet in **executive sessions** without management at each board meeting;
- We hold **annual elections** for all directors; and we provide for **majority voting** in uncontested director elections;
- The board is fully engaged in the **strategic planning** process, conducting an in-depth review of strategy on an annual basis and receiving regular updates throughout the year;
- The board has a Risk Committee comprised entirely of independent board members that is responsible for assisting in **overseeing** management's identification and evaluation of **enterprise risks**, including cyber risks;
- We regularly evaluate our governance policies and practices, and make changes when appropriate; for example, we recently **separated the Chair and CEO roles**, voluntarily provided our shareowners with an **annual say on pay** vote, and **adopted proxy access**;
- We regularly **engage with shareowners**; through our most recent shareowner engagement efforts, management contacted holders of over 46% of our class B common stock during this proxy season to discuss environmental, social and governance ("ESG") matters, including our sustainability initiatives, our commitments to social justice and executive compensation matters;
- We maintain robust **stock ownership guidelines**, including a target ownership of **eight times annual salary** for the CEO, **five times annual salary** for other executive officers and five times the annual retainer for directors; and
- We prohibit our executive officers and directors from **hedging** their ownership in UPS stock and entering into **pledges** of UPS stock.

Leadership Transition

On June 1, 2020, Carol Tomé assumed the role of Chief Executive Officer following David Abney's retirement. In connection with the CEO transition, the board appointed William R. Johnson as independent Board Chair. Bill had been our independent Lead Director since 2016.

Our Board

The Board of Directors is elected annually by the shareowners and is responsible for the strategic oversight of UPS. Having a significant majority of non-management independent directors encourages **robust debate and challenged opinions** in the boardroom, while **diversity** - with respect to gender, age, ethnicity, skills, experience and other factors - contributes to consideration of a wide range of perspectives. Members of our board bring a broad range of **professional skills and experiences**. A **mix of newer directors**, who bring fresh viewpoints, and **longer-tenured directors**, who have contributed to developing our strategy over time and have acquired an in-depth understanding of our global organization, provides appropriate balance. For more information, see page 23.

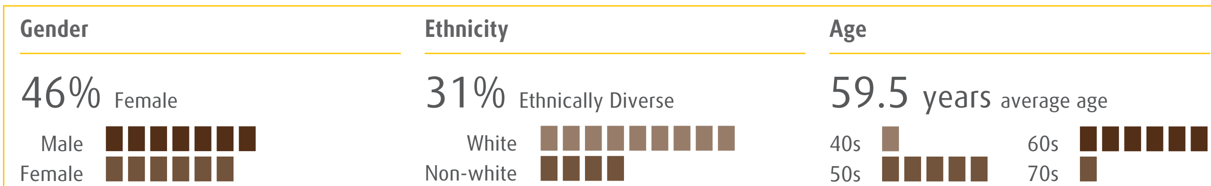
Rudy Markham and Sandy Randt will not stand for reelection at the 2021 Annual Meeting because they have each reached the board's retirement age. We thank Rudy and Sandy for their board service and for their significant contributions to UPS. The following summary information about our board includes information only relating to the director nominees.

Our directors bring a broad range of professional skills and experiences to the boardroom

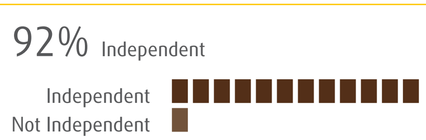
The Nominating and Corporate Governance Committee regularly assesses the skills and experience necessary for our board to function effectively, and considers where additional expertise may be needed.

We believe that as a group, our 13 director nominees bring the requisite skills, experience and diversity to ensure the overall effectiveness of our board.

Diversity in our boardroom supports UPS's continued success

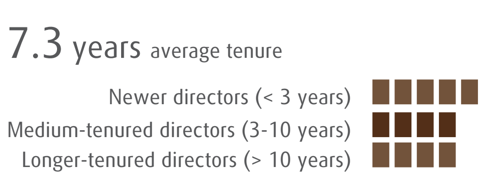


Our CEO provides strong leadership and is supported – and constructively challenged – by an independent board, including our independent Board Chair



Board oversight is provided by an independent board, led by an engaged independent Board Chair. Our CEO is the only director who is not independent.

Our board has been meaningfully refreshed; we added five new directors in 2020



The Nominating and Corporate Governance Committee regularly considers the long-term make-up of our Board of Directors and how board composition changes over time. They also consider the skills needed on our board as our business evolves.

The board consists of a combination of individuals with deep experience and knowledge of UPS, complemented by newer directors with fresh perspectives. Together, our directors work effectively as a team and are highly focused on UPS's success.

The average tenure of the director nominees reflects an appropriate balance between different perspectives brought by long-serving directors and new directors.

Election of Directors

As a group, our 13 director nominees are appropriately skilled and experienced to effectively oversee and constructively challenge the performance of management in the execution of our strategy.

The board recommends you vote **FOR** each director nominee listed below. For more information, see page 23.

Name	Age	Director Since	Occupation	Committee(s)[2]	Other Public Company Boards
Independent Directors					
Rodney C. Adkins	62	2013	Former Senior Vice President, International Business Machines Corporation	– Risk (Chair) – Compensation	3
Eva C. Boratto	54	2020	Executive Vice President and Chief Financial Officer, CVS Health Corporation	– Audit	0
Michael J. Burns	69	2005	Former Chairman, President and Chief Executive Officer, Dana Incorporated	– Audit	0
Wayne M. Hewett	56	2020	Senior Advisor to Permira, and Chairman of DiversiTech Corporation and Cambrex Corporation	– Audit	2
Angela Hwang	55	2020	Group President, Pfizer Biopharmaceuticals Group, Pfizer, Inc.	– Audit	0
Kate E. Johnson	53	2020	Corporate Vice President and President, Microsoft U.S., Microsoft Corporation	– Nominating and Corporate Governance – Risk	0
William R. Johnson[1]	72	2009	Former Chairman, President and Chief Executive Officer, H.J. Heinz Company	– Nominating and Corporate Governance (Chair) – Executive	0
Ann M. Livermore	62	1997	Former Executive Vice President, HP Inc.	– Compensation (Chair) – Risk – Executive	2
Franck J. Moison	67	2017	Former Vice Chairman, Colgate-Palmolive Company	– Nominating and Corporate Governance – Risk	1
Christiana Smith Shi	61	2018	Former President, Direct-to-Consumer, Nike, Inc.	– Compensation – Risk	1
Russell Stokes	49	2020	Senior Vice President, President and Chief Executive Officer, GE Aviation Services, and President and CEO, GE Power Portfolio, General Electric Corporation	– Compensation – Nominating and Corporate Governance	0
Kevin Warsh	50	2012	Former Member of the Board of Governors of the Federal Reserve System, Distinguished Visiting Fellow, Hoover Institution, Stanford University	– Compensation – Nominating and Corporate Governance	1
Non-Independent Director					
Carol B. Tomé	64	2003	Chief Executive Officer	– Executive (Chair)	0

(1) Independent Board Chair.

(2) Current Audit Committee Chair, Rudy Markham, is not standing for reelection at the Annual Meeting. The board will appoint a new Audit Committee Chair following the Annual Meeting.

Executive Compensation

Compensation Practices

A significant portion of executive compensation is at-risk and tied to Company performance. This aligns executive decision-making with the long-term interests of our shareowners. We also have a longstanding owner-manager culture. Our compensation practices that support these principles include:

- Payments with a **balanced** mix of **cash and equity**, providing a degree of financial certainty and appropriate incentives to retain and motivate executives;
- Annual and long-term performance incentive awards in the form of equity grants containing vesting requirements beyond the performance period, furthering both **retention** and **incentive** goals;
- Annual and long-term performance incentive award payouts that are dependent upon the achievement of **multiple distinct goals**, avoiding overemphasis on any one metric and mitigating excessive risk-taking;
- Long-term performance incentive awards with a **three-year performance period**;
- Stock option awards that **vest** over a **five-year period** and only provide value if our stock price increases;
- Incentive compensation plans that include **clawback provisions** that permit recovery of awards granted to executive officers;
- Incentive compensation plan awards require a "**double trigger**" — both a change in control and a termination of employment — to accelerate vesting; and
- **No tax gross-ups** on equity awards or golden parachute excise taxes.

For more information, see page 34.

Key 2020 Compensation Actions

Key 2020 compensation decisions affecting our executive officers included:

- Most total direct compensation was performance-based and considered "at risk" (90% for the current CEO and 84% for all other currently employed named executive officers ("NEOs") as a group). See page 35;
- Approval of retention agreements for certain key executives to support the CEO leadership transition. See page 44;
- Approval of a compensation package for our new Chief Executive Officer. See page 46;
- Base salary increases for the other NEOs as a result of the annual salary review process. See page 37;
- Bifurcating the performance period for the annual incentive awards to account for the uncertainty caused by the COVID-19 pandemic. See page 38;
- Annual incentive awards for all NEOs were earned above target. See page 40;
- Previously granted 2018 Long-Term Incentive Performance ("LTIP") awards, which had three-year performance goals ending in 2020, were earned above target. See page 43; and
- The three-year performance period for the 2020 LTIP award was bifurcated into two tranches because of the uncertainty caused by the COVID-19 pandemic; the first tranche was based on 2020 performance and had a 20% weighting; the second tranche is based on 2021 and 2022 performance and has an 80% weighting. See page 42.

Annual Say on Pay Vote

We maintain executive compensation programs that support the long-term interests of our shareowners. Beginning in 2020, we determined it was appropriate to provide shareowners the opportunity to vote annually, on an advisory basis, on the compensation of our NEOs, as described in the Compensation Discussion and Analysis section and in the compensation tables and accompanying narrative disclosure in this proxy statement. For more information, see page 60.

The board recommends you vote **FOR** the advisory vote on executive compensation.

2021 Omnibus Incentive Compensation Plan

Annual and long-term incentive compensation and equity compensation awards play an important part in our pay-for-performance philosophy. The ability to grant equity compensation awards also helps us remain competitive in retaining and attracting highly qualified employees upon whom the future growth and success of UPS depend.

The 2021 Omnibus Incentive Compensation Plan (the "2021 Plan") is intended to provide UPS flexibility to motivate, attract, and retain the services of employees and directors who are expected to make contributions to our success, and to allow our employees and directors to share in our success.

Approving the 2021 Plan would further these objectives by allowing us to continue to grant annual and long-term equity incentive compensation for approximately three years based on our historic grant rates and approximate current share price. If the 2021 Plan is not approved, we do not expect to have sufficient share authorization to meet our anticipated long-term equity compensation needs after 2021 under our existing equity compensation plan. If the 2021 Plan is not approved, we may be compelled to increase significantly the cash component of our employee and director compensation, which may not necessarily align employee and director compensation interests with the investment interests of our shareowners. Replacing equity awards with cash also would increase cash compensation expense and use cash that might be better utilized otherwise. For more information, see page 61.

The board recommends you vote **FOR** the 2021 Omnibus Incentive Compensation Plan.

Ratification of the Appointment of the Independent Registered Public Accounting Firm

The Board of Directors has appointed Deloitte & Touche LLP as our independent registered public accounting firm for the year ending December 31, 2021. The board recommends you vote **FOR** the ratification of the appointment of Deloitte & Touche LLP. For more information, see page 73.

Shareowner Proposals

The board recommends you vote **AGAINST** the shareowner proposals requesting the Company: prepare an annual report on lobbying activities; reduce the voting power of our class A stock from 10 votes per share to one vote per share; prepare a report on reducing our total contribution to climate change; transition to a public benefit corporation; and prepare an annual report assessing our diversity and inclusion efforts. More information about these proposals starts on page 76.

Corporate Governance

We are committed to maintaining robust governance practices that benefit the long-term interests of all stakeholders. We regularly review and update our corporate governance practices in response to the evolving needs of our business, shareowner and other stakeholder feedback, regulatory changes, and other corporate developments. Following is an overview of our corporate governance structure and processes, including key aspects of our board operations.

Selecting Director Nominees

Maintaining a board of individuals independent of management, and of the highest personal character, integrity and ethical standards, is critical to the proper functioning of the board. The Nominating and Corporate Governance Committee also seeks to promote **diversity** in the boardroom with respect to **gender, age, ethnicity, skills, experience and other factors**. Our directors' biographies highlight the skills, experiences and backgrounds that the board considered when nominating these individuals to serve as directors.

Director Nomination Process

1 **Review of Board Composition**

The board's annual self-evaluation helps the Nominating and Corporate Governance Committee identify current and expected future board needs by **assessing areas where additional expertise, skills or experience may be desired**. The Nominating and Corporate Governance Committee also conducts regular in-depth board composition reviews.

2 **Identification of Candidates**

The Nominating and Corporate Governance Committee uses a variety of sources to identify a diverse pool of potential candidates. Sources include board members, members of management, independent consultants and shareowner recommendations. Prospective candidates are evaluated based on feedback from independent consultants, reviews of candidate backgrounds and qualifications, interviews with board members, and open discussions between the Nominating and Corporate Governance Committee and the full board. An independent consultant screens director candidates in consultation with the Nominating and Corporate Governance Committee. This process allows for **active and ongoing consideration** of potential directors with a **focus on long-term** Company strategy.

3 **Shortlisted Candidates**

The Nominating and Corporate Governance Committee maintains a list of potential director candidates according to desired skills, experiences and backgrounds. The list is reviewed at each Nominating and Corporate Governance Committee meeting and updated as appropriate. Each director candidate is carefully evaluated to ensure that existing and planned future commitments would not materially interfere with board responsibilities.

4 **Recommendation, Nomination and Annual Election**

Candidates recommended by the Nominating and Corporate Governance Committee and approved by the board are nominated for election. **All directors are elected annually** at the Annual Meeting.

Result: 5 new independent directors added in 2020

Shareowner Recommendations, Nominations and Proxy Access

Shareowner recommended director candidates are considered on the same basis as recommendations from other sources. Shareowners can recommend a candidate by writing to the following address: UPS Corporate Secretary, 55 Glenlake Parkway, N.E., Atlanta, Georgia 30328. Submissions must contain the prospective candidate's name and a detailed description of the experience, qualifications, attributes and skills that make the individual a suitable director candidate.

As part of our ongoing commitment to strong corporate governance practices, we adopted a proxy access bylaw for shareowners. A single shareowner, or group of up to 20 shareowners, that has owned at least 3 percent of UPS's outstanding stock continuously for at least three years, may include up to 20 percent of the board seats or two directors (whichever is greater), as director nominees in UPS's proxy materials for an annual meeting of shareowners. Our Bylaws set forth the requirements for the formal shareowner nomination process for director candidates. These requirements are described under "Other Information for Shareowners" on page 91.

Board Diversity

A wide range of perspectives is critical to effective board deliberations, corporate governance and oversight. Diversity with respect to gender, age, ethnicity, skills, experience and other factors is a key consideration when identifying and recommending director nominees. The Nominating and Corporate Governance Committee assesses its diversity efforts through periodic evaluations of the board's composition. While the Company does not have a formal policy on board diversity, our Corporate Governance Guidelines emphasize diversity and the Nominating and Corporate Governance Committee actively considers diversity in recruitment and nominations of directors and also in its assessment of the board's composition and effectiveness.

Gender

46% Female

Male
Female

Ethnicity

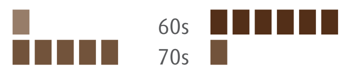
31% Ethnically Diverse

White
Non-white

Age

59.5 years average age

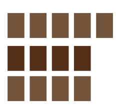
40s
50s
60s
70s



Board Refreshment and Succession Planning

7.3 years average tenure

Newer directors (< 3 years)
Medium-tenured directors (3-10 years)
Longer-tenured directors (> 10 years)



The Nominating and Corporate Governance Committee regularly considers the long-term makeup of our Board of Directors and how board composition changes over time. They also consider the skills needed on our board as our business evolves. The board seeks to balance the knowledge and experience that comes from longer-term board service with new ideas and energy that can come from new directors. We added 5 new independent directors to the board in 2020. The average tenure of the director nominees of 7.3 years reflects an appropriate balance between different perspectives brought by long-serving directors and new directors.

Director Independence

92% Independent

Independent
Not Independent

Our Corporate Governance Guidelines include director independence standards consistent with the New York Stock Exchange ("NYSE") listing standards, which require a majority of the directors to be independent. Our Corporate Governance Guidelines are available on the governance section of our investor relations website at www.investors.ups.com.

The board has evaluated each director's independence and considered whether there were any relevant relationships between UPS and each director, or any member of his or her immediate family. The board also examined whether there were any relationships between UPS and organizations where a director is or was a partner, principal shareowner or executive officer. Specifically, the board evaluated certain ordinary course business transactions and relationships between UPS and the organizations that currently or in the prior year employed Eva Boratto, Mike Burns, Wayne Hewett, Angela Hwang, Kate Johnson, Russell Stokes, and John Stankey, or their immediate family members, as an executive officer. The board also evaluated the ordinary course business transactions and relationships between UPS and any organizations where Rod Adkins, Wayne Hewett, Christiana Smith Shi, Sandy Randt, and Kevin Warsh, or their immediate family members, were a partner or principal shareowner. In each case, no such transactions exceeded the thresholds in UPS's Corporate Governance Guidelines. The board determined that none of these transactions or relationships were material to the Company, the individuals or the organizations with which they were associated.

The board has determined that each of the director nominees (other than our current Chief Executive Officer, Carol Tomé), is independent. The board also determined that Rudy Markham and Sandy Randt, who served as directors since 2020 but will not stand for reelection, are each independent. With respect to former directors that served since 2020, the board has determined that each such director who served (other than our retired Chief Executive Officer, David Abney), including John Stankey, was independent. All members of the Audit Committee, Compensation Committee, Nominating and Corporate Governance Committee and Risk Committee are independent.

Board Leadership Structure

Based on the periodic evaluation and recommendation of the Nominating and Corporate Governance Committee, the board determines the most appropriate board leadership structure, including who should serve as Board Chair, and whether the roles of Board Chair and Chief Executive Officer should be separated or combined.

In connection with the election of Carol Tomé as our Chief Executive Officer, the board determined that it was in the best interests of the Company to enable Carol to focus on leading the Company, and separated the roles of Chair and Chief Executive Officer. Effective October 1, 2020, Bill Johnson, who had been serving as our independent Lead Director, was appointed Board Chair.

Bill has served on our board since 2009 and had served as independent Lead Director since 2016. He has deep institutional knowledge of the Company and provides strong continuity of leadership. He devotes significant time to understanding our business and communicating with the Chief Executive Officer, and other directors, between meetings. He draws on his extensive knowledge of our business, industry, strategic priorities and competitive developments to set the board's agendas in collaboration with the Chief Executive Officer, and he seeks to ensure that board meetings are productive and interactions with the directors facilitate a useful exchange of viewpoints. Carol is available to all directors between meetings and meets regularly with the Board Chair, and with the directors as a group, to receive feedback from the board. Bill's collaboration with Carol allows the board to focus attention on the issues of greatest importance to the Company and its shareowners and our CEO to focus primarily on leading the Company.

Furthermore, all of the members of each of the Audit Committee, the Compensation Committee, the Nominating and Corporate Governance Committee and the Risk Committee are independent. Each committee is led by a chairperson who sets the meeting agendas and reports to the full board on the committee's work. Additionally, the independent directors meet in executive session without management present at each board meeting, as described below.

Executive Sessions of Independent Directors

Directors hold executive sessions without management present at each regular board meeting. The Board Chair determines the agenda and presides at each session. The Board Chair generally invites the Chief Executive Officer to join a portion of the executive session to receive feedback from the board and when deemed appropriate otherwise.

Board and Committee Evaluations

The board employs both an ongoing informal and a formal annual process to evaluate its performance and the contributions of individual directors to the successful execution of the board's obligations. The Board Chair frequently considers the performance of the board and the board's committees, and has informal discussions about individual director contributions to the board. The Board Chair shares feedback from these discussions with the full board and with individual board members.

Formal Evaluation Process

1	**Detailed Formal Annual Evaluation Process** The charters of each of the Audit Committee, Compensation Committee, Nominating and Corporate Governance Committee and Risk Committee require an annual performance evaluation. The Nominating and Corporate Governance Committee oversees the annual board assessment process and the implementation of the annual committee self-assessments.
2	**Questionnaires** All board and committee members complete a detailed confidential questionnaire each year. The questionnaire provides for quantitative ratings in key areas, including overall board effectiveness, meeting effectiveness, access to information, information format, board committee structure, access to management, succession planning, meeting dialogue, communication with the Chief Executive Officer, operational reporting, financial oversight, capital structure and financing, capital spending, long-term strategic planning, risk oversight, crisis management and time management. The questionnaire also allows directors to provide written feedback and make detailed anonymous comments.
3	**Review** The Chair of the Nominating and Corporate Governance Committee reviews the responses with the chairs of the other board committees. The Chair of the Nominating and Corporate Governance Committee also discusses the board evaluation results with the full board.
4	**Follow-up** Matters requiring follow-up are addressed by the Chair of the Nominating and Corporate Governance Committee or the chairs of the other committees as appropriate.
Result	Feedback from the evaluations has driven several improvements in board operations over the last few years, including the format and delivery of board meeting materials, board meeting agendas and recurring topics, strategic planning and oversight, director recruitment practices and orientation, and succession planning.

Majority Voting and Director Resignation Policy

Our Bylaws provide for majority voting in uncontested director elections. The number of votes cast for a nominee must exceed the number of votes cast against that person. Any incumbent director who does not receive a majority of the votes cast must offer to resign from the board.

In such an event, the Nominating and Corporate Governance Committee will recommend to the board whether to accept or reject the director's offer to resign after considering all relevant factors. The board will act on the recommendation within 90 days following certification of the election results. The board will take into account the factors considered by the Nominating and Corporate Governance Committee and any additional relevant information.

Any director who offers to resign must recuse himself or herself from the board vote, unless the number of independent directors who were successful incumbents is fewer than three. The board will promptly disclose its decision regarding any director's offer to resign, including its reasoning. If the board determines to accept a director's offer to resign, the Nominating and Corporate Governance Committee will recommend whether and when to fill such vacancy or whether to reduce the size of the board.

Risk Oversight

Board Oversight of Risk

Board of Directors
Effective risk management is an important component of the board's oversight obligation. The board regularly engages in discussions of our most significant risks and how these risks are being managed. The board reviews periodic assessments from the Company's enterprise risk management process that are designed to identify potential events that may affect the achievement of the Company's objectives or have a material adverse effect on the Company. The board also participates in the Company's annual risk survey. As a component of exercising its risk management oversight responsibilities, the board has delegated to its standing committees responsibilities as set out below. The board receives reports on appropriate areas of risk management from the committees regularly.

Risk Committee	**Audit Committee**	**Compensation Committee**	**Nominating and Corporate Governance Committee**
Oversees management's identification and evaluation of strategic enterprise risks, including risks associated with intellectual property, operations, privacy, technology, information security, cybersecurity and cyber incident response, and business continuity.	Oversees policies with respect to financial risk assessment, including guidelines to govern the process by which major financial and accounting risk assessment and management is undertaken.	Considers risks associated with compensation policies and practices, with respect to both executive compensation and compensation generally.	Considers risks related to governance matters, including succession planning for the Chief Executive Officer and other senior officers.

The Company's Chief Legal and Compliance Officer, Chief Information Officer, and the Vice President of Compliance and Internal Audit have regularly scheduled individual private meetings with the Risk Committee.

The Risk Committee also provides an annual update to the full board on the Company's enterprise risk management survey and risk assessment results. The update enables the board to provide feedback to the Company about significant enterprise risks, and to assess the Company's identification of its most significant risk areas. The Risk Committee also coordinates with the Audit Committee to enable the Audit Committee to perform its risk related responsibilities.

The Audit Committee has certain statutory, regulatory and other responsibilities with respect to oversight of risk assessment and risk management. Specifically, the Audit Committee is responsible for overseeing policies with respect to financial risk assessment. The Chief Legal and Compliance Officer, Chief Financial Officer and Vice President of Compliance and Internal Audit each have regularly scheduled private sessions with the Audit Committee.

In addition, the Company's Chief Legal and Compliance Officer reports directly to our CEO, providing visibility into the Company's risk profile. The board believes that the work undertaken by its committees, together with the work of the full board and the Company's senior management, enables effective oversight of the Company's management of risk. For more information about the board's committees and their responsibilities, see page 31.

Strategic Planning and Oversight

Setting the strategic course of the Company involves a high level of constructive engagement between management and the board. Acting directly and through each board committee, the board is fully engaged in the Company's strategic planning process. Management develops and prioritizes strategic plans on an annual basis. Management then reviews these plans with the board, along with the Company's challenges, opportunities, industry dynamics, and legal, regulatory and governance developments, among other factors, during an annual board strategy meeting.

Management provides the board with comprehensive updates throughout the year regarding the implementation and results of the Company's strategic plans, as well as monthly updates regarding the Company's financial performance. In addition, the CEO communicates regularly with the board on important business opportunities, financial and operational performance, risks and other Company developments such as labor relations, customer interactions and media coverage, both during and outside the regular board meeting cycle.

This process allows the board to leverage its substantial experience and expertise in strategy development to execute effectively on its oversight responsibility of our corporate strategy and long-range operating plans.

Management Succession Planning and Development

Succession planning and talent development are important at all levels within our organization. The board oversees management's emergency and long-term succession plans at the executive officer level, most importantly the CEO position. The board annually reviews succession plans for senior management including the CEO, all in the context of the Company's overall business strategy and with a focus on risk management. More broadly, the board is regularly updated on key talent indicators for the overall workforce, including diversity, recruiting and development programs.

The board's succession planning activities are ongoing and strategic, and are supported by board committees and independent third-party consultants as needed. In addition, the CEO annually provides an assessment to the board of senior leaders and their potential to succeed at key senior management positions. As a part of this process, potential leaders interact with board members through formal presentations and during informal events.

We have also instituted a formal director engagement program in which directors meet with individual Executive Leadership Team members, visit Company operations, participate in employee events and receive in-depth subject matter updates outside of the regular board meeting process. These additional engagements encourage the ongoing exchange of ideas and information between directors and management, facilitate the board's oversight responsibilities, and support succession planning efforts.

Meetings and Attendance

The board held seven meetings during 2020. Also during 2020, the Audit Committee met eleven times, the Compensation Committee met seven times, the Nominating and Corporate Governance Committee met five times and the Risk Committee met three times. The Executive Committee did not meet in 2020. Prior to board meetings, the Board Chair and the board's committee chairs work with management to determine and prepare agendas for the meetings. Board meetings generally occur over two days. Board committees generally meet on the first day of the board meeting, followed by the board meeting. The second day typically consists of reports from each committee chair to the full board, additional presentations by internal business leaders or others with expertise in various subject matters, and an executive session consisting of only independent board members. The executive sessions are chaired by our Board Chair.

All of our independent directors attended greater than 90% of the total number of board and any committee meetings of which he or she was a member in 2020. Our directors are expected to attend each annual meeting, and all directors who were then members of the board attended the 2020 Annual Meeting. The independent directors met in executive session at all of the board meetings held in 2020.

Code of Business Conduct

We are committed to conducting our business in accordance with the highest ethical principles. Our Code of Business Conduct is applicable to anyone who represents UPS, including our directors, executive officers and all other employees and agents of UPS. A copy of our Code of Business Conduct is available on our investor relations website at www.investors.ups.com.

Conflicts of Interest and Related Person Transactions

Our Audit Committee is responsible for overseeing our Code of Business Conduct, which includes policies regarding conflicts of interest. The Code requires employees and directors to avoid conflicts of interest, defined as situations where the person's private interests conflict, or may appear to conflict, with the interests of UPS.

The board has adopted a related person transactions policy that applies to any transaction or series of transactions in which: (1) the Company or any of its subsidiaries is a participant; (2) any "related person" (executive officer, director, greater than 5% beneficial owner of the Company's common stock, or an immediate family member of any of the foregoing) has or will have a material direct or indirect interest; and (3) the aggregate amount involved since the beginning of the Company's last completed fiscal year will exceed or may reasonably be expected to exceed $100,000.

The policy provides that related person transactions that may arise during the year are subject to the Audit Committee's approval or ratification. In determining whether to approve or ratify a transaction, the Audit Committee will consider, among other factors it deems appropriate, whether the transaction is on terms no less favorable than terms generally available to an unaffiliated third-party under the same or similar circumstance, the extent of the related person's interest in the transaction, whether the transaction would impair independence of a non-employee director and whether there is a business reason for UPS to enter into the transaction. A copy of the policy is available on our investor relations website at www.investors.ups.com. The Company did not engage in any related person transactions since January 1, 2020 that required disclosure in this Proxy Statement or under the Company's policy.

At least annually, each director and executive officer completes a detailed questionnaire regarding any business relationships that may give rise to a conflict of interest, including transactions where UPS is involved and where an executive officer, a director or a related person has a direct or indirect material interest. We also review the Company's financial systems and related person transactions to identify potential conflicts of interest. The Nominating and Corporate Governance Committee reviews the information from the questionnaires and our financial systems and makes recommendations to the Board of Directors regarding the independence of each board member. We have immaterial normal course of business transactions and relationships with companies with which our directors are associated. The Nominating and Corporate Governance Committee reviewed the transactions and relationships that occurred since January 1, 2020 and believes they were entered into on terms that are both reasonable and competitive and did not affect director independence. Additional transactions and relationships of this nature may be expected to take place in the ordinary course of business in the future.

Transactions in Company Stock

We prohibit our executive officers and directors from hedging their ownership in UPS stock. Specifically, they are prohibited from purchasing or selling derivative securities relating to UPS stock and from purchasing financial instruments that are designed to hedge or offset any decrease in the market value of UPS securities. We also prohibit our executive officers and directors from entering into pledges of UPS stock. Furthermore, our employees, officers, and directors are prohibited from engaging in short sales of UPS stock.

Shareowner Engagement

Responsiveness to Shareowners

Shareowner engagement is an essential aspect of corporate governance. Our management team participates in numerous investor meetings throughout the year to discuss our business, our strategy and our financial results. These meetings include in-person, telephone and webcast conferences, as well as key site visits. Our Investor Relations team reports to the board periodically on these interactions as well as on investor sentiment.

During this proxy season, our management team contacted holders of over 46% of our class B common stock to discuss Environmental Social and Governance ("ESG") matters, including our corporate governance policies and practices, our sustainability efforts, our commitments to social justice and executive compensation matters. We also proactively correspond with key investors throughout the year. We inform the board about our conversations with investors through reporting to the Compensation Committee and the Nominating and Corporate Governance Committee. The Compensation Committee also annually engages an independent compensation consultant to review executive compensation trends that may be important to our investors.

We consider the views of our shareowners when evaluating our ESG policies and practices; for example, we recently:

- Separated the Board Chair and CEO roles;
- Appointed an independent Board Chair;
- Adopted policies providing for an annual say on pay vote;
- Adopted proxy access;
- Prohibited hedging and pledging of Company stock by executive officers and directors;
- Expanded disclosure about the board's role in strategic planning;
- Enhanced disclosure and governance regarding political contributions;
- Expanded our sustainability disclosure, including publishing our first ever SASB report;
- Enhanced disclosure about board refreshment and succession planning, as well as our board self-evaluation process;
- Enhanced disclosure about diversity and inclusion;
- Expanded the Audit Committee's report in the Proxy Statement; and
- Updated our Proxy Statement to enhance readability.

The Compensation Committee considers shareowner feedback, along with the market information and analysis provided by its independent compensation consultant, when making decisions about our executive compensation programs. We have:

- Increased the performance-based equity component in our compensation programs;
- Eliminated single-trigger equity vesting following a change in control;
- Added relative total shareowner return as a component of our Long-Term Incentive Plan awards;
- Adopted new performance metrics under incentive compensation plans better designed to tie payouts to increases in shareholder value;
- Provided additional detail around the performance measures used for our annual and long-term incentive plans;
- Eliminated tax gross-ups;
- Entered into protective covenant agreements in favor of UPS with executive officers;
- Added an individual payout cap to our annual incentive plan; and
- Enhanced executive compensation disclosure, including how the metrics in our Long-Term Incentive Plan align with long-term value creation for our shareowners.

Communicating with our Board of Directors

Shareowners or other interested parties who wish to communicate directly with our board, with our non-management directors as a group or any specific director, may do so by writing to the UPS Corporate Secretary, 55 Glenlake Parkway, N.E., Atlanta, Georgia 30328. Please specify to whom your letter should be directed. After review by the Corporate Secretary, appropriate communications will be promptly forwarded to the addressee. Advertisements, solicitations for business, requests for employment, requests for contributions, matters that may be better addressed by management or other inappropriate materials will not be forwarded.

Political Contributions and Lobbying

Overview

Our responsible participation in the U.S. political process is important to our success and the protection of shareowner value. We participate in this process in accordance with good corporate governance practices. Our Political Contributions and Lobbying Policy ("policy") is available at www.investors.ups.com. The following discussion highlights our practices and procedures regarding political contributions and lobbying:

- Our policy is overseen by the Nominating and Corporate Governance Committee;
- Our policy restricts corporate political contributions;
- Any deviations from this restriction must be approved by the Nominating and Corporate Governance Committee and reported in UPS's semi-annual political contribution report; and
- We offer certain eligible employees the opportunity to make political contributions through a Company-sponsored political action committee, called the UPS Political Action Committee, or UPSPAC. UPSPAC is organized and operated on a strictly voluntary, nonpartisan basis and is registered with the Federal Election Commission.

Oversight and Processes

Political contributions are made in a legal, ethical and transparent manner that we believe best represents the interests of our shareowners. All political and lobbying activities are conducted only with the prior approval of our Public Affairs department and in accordance with the terms of our policy. Senior management works with Public Affairs to focus our involvement at all levels of government on furthering our business objectives and our goals of protecting and enhancing shareowner value. The president of our Public Affairs department reviews all political and lobbying activities and regularly reports to the board and to the Nominating and Corporate Governance Committee.

Lobbying and Trade Associations

Our Public Affairs department is responsible for coordinating our lobbying activities, including engagements with federal, state, and local governments. UPS is a member of a variety of trade associations and other tax exempt organizations that engage in lobbying.

- Lobbying activities are conducted only with the prior approval of our Public Affairs department, which works with senior management to focus on furthering our business objectives and our goal of protecting and enhancing shareowner value.
- The Nominating and Corporate Governance Committee regularly reviews UPS's participation in trade associations and other tax exempt organizations that engage in lobbying to determine if our involvement is consistent with specific UPS business objectives.

We have comprehensive policies, practices and tracking mechanisms to support and govern our lobbying activities. These mechanisms cover compliance with laws and regulations regarding the lobbying of government officials, the duty to track and report lobbying activities, and the obligation to treat lobbying costs and expenses as nondeductible for tax purposes.

Political Activity Transparency

We provide meaningful transparency with respect to our political activities. We publish a semi-annual report, which is reviewed and approved by the Company's Nominating and Corporate Governance Committee disclosing the following information, which is available on our investor relations website at www. investors.ups.com:

- Amounts and recipients of any federal and state political contributions made by us in the United States (if any such expenditures are made); and
- Payments to trade associations that receive $50,000 or more from us and that use a portion of the payment for political contributions, as reported by the trade association to us.

We also file a publicly available federal Lobbying Disclosure Act Report each quarter, providing information on activities associated with influencing legislation through communications with any member or employee of a legislative body or with any covered executive branch official. The report also provides disclosure on expenditures for the quarter, describes the specific pieces of legislation that were the topic of communications, and identifies the individuals who lobbied on behalf of UPS. UPS files similar periodic reports with state agencies reflecting state lobbying activities which are also publicly available.

Sustainability

We are the world's largest package delivery company, a leader in the U.S. less-than-truckload industry and a premier provider of global supply chain management solutions. We operate one of the largest airlines in the world, as well as the world's largest private fleet of alternative-powered vehicles. We are a global leader in logistics, serving approximately 1.7 million shipping customers and 11.8 million delivery customers each business day in over 220 countries and territories. Our success depends on economic stability, global trade and a society that welcomes opportunity. We understand the importance of acting responsibly as a business, an employer and a corporate citizen.

Economic, environmental and social sustainability risks and opportunities are considered as part of our comprehensive enterprise risk management program. The board regularly reviews the effectiveness of our risk management and due diligence processes related to material sustainability topics. In addition, the board actively considers these factors in connection with the board's involvement in UPS's strategic planning process. The board delegates authority for day-to-day management of sustainability topics to management. Our chief sustainability officer reports directly to the Company's Chief Executive Officer and regularly reports to the board regarding sustainability strategies, priorities, goals and performance. In addition, the board is regularly briefed on issues of concern for customers, unions, employees, retirees and investors. Furthermore, the board oversees efforts of management to develop our values, strategies and policies related to economic, environmental and social impacts.

Each year we publish a corporate sustainability report showcasing the aspirations, achievements and challenges of our commitment to balancing the social, economic and environmental aspects of our business. The report is reviewed by the board prior to publication. Below is a list of key goals outlined in our most recent report:

- reduce by 12% absolute greenhouse gas ("GHG") emissions across our global ground operations by 2025;
- source 25% of total electricity needs from renewable sources by 2025;
- source 40% of ground fuel from low carbon or alternative fuels by 2025;
- 25% of annual vehicle purchases by 2020 will be alternative fuel and advanced technology vehicles (*achieved on schedule*);
- improve our lost time injury frequency 1 percent by 2020 (*not achieved on schedule*);
- reduce the number of vehicle accidents 3 percent by 2020 (*achieved one year ahead of schedule*);
- increase total annual charitable contributions to $117 million by 2020 (*achieved one year ahead of schedule*);
- complete 20 million hours of global volunteerism and community service by the end of 2020 (*achieved one year ahead of schedule*); and
- plant 15 million trees by 2020 (*achieved one year ahead of schedule*).

For more information, please visit www.sustainability.ups.com.

Human Capital Management

Our success is also dependent upon our people, working together with a common purpose. We have approximately 543,000 employees (excluding temporary seasonal employees), of which 458,000 are in the U.S. and 85,000 are located internationally. Our global workforce includes approximately 93,000 management employees (43% of whom are part-time) and 450,000 hourly employees (51% of whom are part-time).

We believe that UPS employees are among the most motivated, highest-performing people in the industry and they provide a meaningful competitive advantage for us. We offer competitive benefits and pay, a range of continuous training, talent development and promotional opportunities.

Oversight and management

We believe in creating an inclusive and equitable environment that represents a broad spectrum of backgrounds, cultures and stakeholders. By leveraging diverse perspectives and creating inclusive environments, we can improve organizational effectiveness, cultivate innovation, and drive growth.

Our Board of Directors and Board committees provide oversight on human capital matters through a variety of methods and processes. These include regular updates and discussion around human capital transformation efforts, technology initiatives impacting the workforce, health and safety matters, employee survey results related to culture and other matters, hiring and retention, employee demographics, labor relations and contract negotiations, compensation and benefits, succession planning and employee training initiatives. We believe the board's oversight of these matters helps identify and mitigate exposure to labor and human capital management risks, and is part of the broader framework that guides how we attract, retain and develop a workforce that aligns with our values and strategies.

In addition, in 2020, we created the role of Chief Diversity, Equity and Inclusion Officer, a new position on the Company's Executive Leadership Team, reporting directly to our CEO. The creation of this role is a significant step forward for UPS to build a more inclusive and equitable environment.

Total rewards

We offer competitive compensation and benefits. In addition, our long history of employee stock ownership aligns the interests of our management team with shareholders. In the U.S., benefits provided to our non-union employees typically include:

- comprehensive health insurance coverage;
- life insurance;
- short- and long-term disability coverage;
- child/elder care spending accounts;
- work-life balance programs;
- an employee assistance program; and
- a discounted employee stock purchase plan.

We invest in our people by offering a range of other benefits, such as paid time off, retirement plans, and education assistance. In the U.S., these other benefits are generally provided to non-union employees without regard to full-time or part-time status.

Transformation and human capital

As we expand and enter new markets, and seek to capture new opportunities and pursue growth, we need employees to grow and innovate along with us. We believe that transforming the UPS employee experience is foundational to our success. This requires a thoughtful balance between the culture we have cultivated over the years and the new perspectives we need to take the business into the future.

We are investing in capabilities that will transform our business, including investments in employee opportunities to support growth. Additionally, we are investing in training for 40,000 management employees on professionalism and performance as well as unconscious bias, diversity and inclusion to ensure our actions match our values.

Employee health and safety

We are committed to industry-leading employee health, safety, and wellness programs across our growing workforce. We develop a culture of health and safety by:

- investing in safety training and audits;
- promoting wellness practices which mitigate risk; and
- offering benefits that keep employees safe in the workplace and beyond.

Our local health and safety committees coach employees on UPS's safety processes and are able to share best practices across work groups. Our safety methods and procedures are increasingly focused on the variables associated with residential delivery environments, which have become more common with the growth in e-commerce. We monitor our performance in this area through various measurable targets including lost time injury frequency and the number of recorded auto accidents.

Collective bargaining

More than three-quarters of our U.S. employees are represented by unions, primarily those employees handling or transporting packages. In addition, approximately 3,000 of our pilots are represented by the Independent Pilots Association. Throughout our global operations, we work with many other unions, associations, and work councils.

We bargain in good faith with the unions that represent our employees. We frequently engage union leaders at the national level and at local chapters throughout the United States. We participate in works councils and associations outside the U.S., which allows us to respond to emerging regional issues abroad. This work helps our operations to build and maintain productive relationships with our employees.

Corporate Governance Guidelines and Committee Charters

Our Corporate Governance Guidelines and the charters for each of the Audit Committee, Compensation Committee, Nominating and Corporate Governance Committee and Risk Committee are available on our investor relations website at www.investors.ups.com. Each committee reviews its charter annually to determine if any changes are needed. In addition, the Nominating and Corporate Governance Committee reviews our Corporate Governance Guidelines annually and recommends any changes to the board for approval. When considering changes to our committee charters or Corporate Governance Guidelines, we take into account current governance trends and best practices, changes in regulatory requirements, advice from outside sources and input from stakeholders.

Our Board of Directors

Proposal 1 — Director Elections

What am I voting on? Shareowners are being asked to elect each of the 13 director nominees named in this Proxy Statement to hold office until the 2022 Annual Meeting and until their respective successors are elected and qualified.

Voting Recommendation: Our Board of Directors recommends that shareowners vote **FOR** the election of each nominee.

Vote Required: A director will be elected if the number of votes cast for that director exceeds the number of votes against that director.

The board has nominated the persons named below for election as directors at the Annual Meeting. As previously noted, Rudy Markham and Sandy Randt are not standing for reelection because they have reached the Board's retirement age. We thank Rudy and Sandy for their board service and for their significant contributions to UPS.

If elected, all nominees will serve until the next Annual Meeting and until their respective successors are elected and qualified. All nominees, other than Eva Boratto, Wayne Hewett, Angela Hwang, Kate Johnson and Russell Stokes, were elected by shareowners at our last Annual Meeting. These five nominees were identified as director candidates by members of management and by the Nominating and Corporate Governance Committee's independent director search firm. This search firm also evaluated each candidate's qualifications and backgrounds to determine if the individual would be an appropriate addition to the board.

If any nominee is unable to serve as a director, which we do not anticipate, the board may reduce the number of directors that serve on the board or choose a substitute nominee. Any nominee who is currently a director, and for whom more votes are cast against than are cast for, must offer to resign from the board.

Biographical information about the director nominees appears below, including information about the experience, qualifications, attributes and skills considered by our Nominating and Corporate Governance Committee and board in determining that the nominee should serve as a director. For additional information about how we identify and evaluate nominees for director, see "Corporate Governance — Selecting Director Nominees" on page 11.

Carol B. Tomé

UPS Chief Executive Officer

Age: 64

Director since 2003

Skills and Experience

- CEO experience
- CFO experience
- Consumer retail
- Digital technology
- Risk and compliance

Board Committee

- Executive (Chair)

Career

Carol was appointed UPS's Chief Executive Officer effective June 1, 2020. As CEO, Carol has primary responsibility for managing the Company's day-to-day operations, and for developing and communicating our strategy. She was Chief Financial Officer of The Home Depot, Inc., one of the world's largest retailers, from 2001, and Executive Vice President – Corporate Services from 2007, until her retirement in 2019. At The Home Depot, she provided leadership in the areas of real estate, financial services and strategic business development. Her corporate finance duties included financial reporting and operations, financial planning and analysis, internal audit, investor relations, treasury and tax. She previously served as Senior Vice President — Finance and Accounting / Treasurer from 2000 until 2001, and from 1995 until 2000, she served as Vice President and Treasurer.

Carol served on the Boards of Directors of Cisco Systems, Inc. and Verizon Communications, Inc. until March 2020. She also served as a Trustee of certain Fidelity funds in 2017.

Reasons for election to the UPS Board

Carol has a thorough understanding of our strategies and operations as a result of serving as Chief Executive Officer, and from her extensive experience gained from serving on the board and as Chair of the Audit Committee prior to becoming Chief Executive Officer. She has an in-depth knowledge of logistics and has broad experience in corporate finance and risk and compliance gained throughout her career at The Home Depot. She brings the experience of having served as Chief Financial Officer of a complex, multi-national business with a large, labor intensive workforce. Carol also has experience with strategic business development, including e-commerce strategy.

Rodney C. Adkins

Former Senior Vice President, International Business Machines Corporation

Age: 62

Director since 2013

Skills and Experience

- Digital technology
- Supply chain management
- Risk and compliance
- Technology and technology strategy

Other Public Company Boards

- Avnet, Inc.
- PayPal Holdings, Inc.
- W.W. Grainger, Inc.

Board Committees

- Risk (Chair)
- Compensation

Career

Rod is President of 3RAM Group LLC, a private company specializing in capital investments, business consulting and property management services. Rod previously served as IBM's Senior Vice President of Corporate Strategy from 2013 until his retirement in 2014. During his tenure at IBM, Rod was Senior Vice President, Systems and Technology Group, a position he held since 2009, and Senior Vice President of STG Development and Manufacturing, a position he held since 2007. In his over 30-year career with IBM, a multinational technology company, Rod held a number of other development and management roles, including general management positions for the PC Company, UNIX Systems and Pervasive Computing.

Rod currently serves as non-executive Chairman of Avnet, Inc., in addition to serving on the Boards of Directors of PayPal Holdings, Inc. and W.W. Grainger, Inc. He also served on the Boards of Directors of Pitney Bowes, Inc. until 2013 and PPL Corporation until 2019.

Reasons for election to the UPS Board

As a senior executive of a public technology company, Rod gained a broad range of experience, including experience in emerging technologies and services, global business operations, and supply chain management. He is a recognized leader in technology and technology strategy. In addition, Rod has experience serving as a director of other publicly traded companies.

Eva C. Boratto

Executive Vice President and Chief Financial Officer, CVS Health Corporation

Age: 54

Director since 2020

Skills and Experience

- CFO experience
- Consumer retail
- Healthcare
- Risk and compliance

Board Committee

- Audit

Career

Since 2018, Eva has served as Executive Vice President and Chief Financial Officer for CVS Health Corporation, a diversified health services company. In this role, Eva is responsible for all aspects of the company's financial strategy and operations, including accounting and financial reporting, investor relations, mergers and acquisitions, treasury and capital planning, investments, risk management, tax, budgeting and planning, and procurement.

Prior to her current role, from 2017 to 2018, Eva was Executive Vice President, Controller and Chief Accounting Officer for CVS Health. She served as Senior Vice President and Chief Accounting Officer of CVS Health from 2013 to 2017. Eva joined the company in 2010 and served as Senior Vice President for pharmacy benefit management finance until 2013.

Reasons for election to the UPS Board

Eva has extensive experience in corporate finance gained throughout her career at CVS Health. She also brings the experience of having served as Chief Financial Officer of a complex healthcare business with a large workforce and extensive retail presence, including deep knowledge of financial reporting and accounting standards. Eva also has experience with strategic risk management and provides significant expertise in healthcare matters.

Michael J. Burns

Former Chairman, Chief Executive Officer and President, Dana Incorporated

Age: 69

Director since 2005

Skills and Experience

- CEO experience
- Global perspective, international
- Operations
- Technology and technology strategy

Board Committee

- Audit

Career

Mike was the Chairman, President and Chief Executive Officer of Dana Incorporated, a global manufacturer of technology driveline, sealing and thermal-management products, from 2004 until his retirement in 2008. He joined Dana Incorporated in 2004 after 34 years with General Motors Company. During his tenure at General Motors, Mike held various positions of increasing responsibility, including serving as President of General Motors Europe AG from 1998 to 2004.

Reasons for election to the UPS Board

Mike has years of senior leadership experience gained while managing large, complex businesses and leading an international organization that operated in a highly competitive industry. He also has experience in design, engineering, manufacturing, and sales and distribution. Mike also brings deep knowledge of technology and the supply of components and services to major vehicle manufacturers.

Wayne M. Hewett

Senior Advisor to Permira, and Chairman of DiversiTech Corporation and Cambrex Corporation

Age: 56

Director since 2020

Skills and Experience

- CEO experience
- Global perspective, international
- Healthcare
- Operations
- Supply chain management

Other Public Company Boards

- The Home Depot, Inc.
- Wells Fargo, Inc.

Board Committee

- Audit

Career

Since 2018, Wayne has served as a senior advisor to Permira, a global private equity firm, and as Non-Executive Chairman of DiversiTech Corporation, a manufacturer and supplier of HVAC equipment and a portfolio company of the Permira Funds. In addition, since 2020, Wayne has served as Non-Executive Chairman of Cambrex Corporation, a leading contract developer and manufacturer of active pharmaceutical ingredients and a portfolio company of Permira Funds.

From 2015 to 2017, Wayne served as Chief Executive Officer, and as a member of the Board of Directors, of Klöckner Pentaplast Group, a leading supplier of plastic films for pharmaceutical, medical devices, food and other specialty applications. He also served as President, and as a member of the Board of Directors, of Platform Specialty Products during 2015, and as President, Chief Executive Officer, and as a member of the Board of Directors of Arysta LifeScience Corporation from 2010 to 2015. Arysta was acquired in 2015 by Platform Specialty Products Corporation.

Prior to joining Arysta, he served as a senior consultant to GenNx360, a private equity firm focused on sponsoring buyouts of middle market companies. He also spent over two decades at General Electric Company, serving in a variety of executive roles.

Wayne currently serves on the Board of Directors of The Home Depot, Inc. and Wells Fargo, Inc.

Reasons for election to the UPS Board

Wayne has extensive experience in general management, finance, supply chain, operational and international matters gained through serving in various executive roles. He has significant experience executing company-wide initiatives across large organizations, developing proprietary products, optimizing supply chains, and using emerging technologies to provide new products and services. He brings insights on business operations and risk management through his senior management roles. In addition, Wayne has valuable experience serving as a director of other publicly traded companies.

Angela Hwang

Group President,
Pfizer Biopharmaceuticals Group,
Pfizer, Inc.

Age: 55

Director since 2020

Skills and Experience

- Global perspective, international
- Healthcare
- Operations
- Supply chain management

Board Committee

- Audit

Career

Angela is a member of Pfizer, Inc.'s Executive Team and is Group President of the Pfizer Biopharmaceuticals Group, a position she has held since 2019 and which comprises 80% of Pfizer's revenues. Her organization of 26,000 colleagues is responsible for bringing over 600 innovative medicines and products to patients. In this role, Angela leads seven commercial business units, reaching patients in more than 125 countries. Angela has been with Pfizer since 1997, working across all geographies and therapeutic areas.

Prior to her current role, during 2018 she served as Group President, Pfizer Essential Health, and from 2016 to 2018 she was Global President Pfizer Inflammation and Immunology. Angela has served in various roles with increasing responsibility, including senior roles in Pfizer Vaccines, Primary Care, and Emerging Markets.

In addition to UPS, Angela sits on the boards of EFPIA (European Federation of Pharmaceutical Industries and Associations), as well as the Pfizer Foundation, a charitable organization that addresses global health challenges.

Reasons for election to the UPS Board

Angela has significant expertise in the healthcare sector and in managing large complex businesses, including supply chain management and logistics. She also has experience in emerging markets gained through her work across many geographies. Angela is also a strong advocate for women's leadership and sustainable global health equity.

Kate E. Johnson

Corporate Vice President and President, Microsoft U.S., Microsoft Corporation

Age: 53

Director since 2020

Skills and Experience

- Consumer retail
- Human capital management
- Digital technology
- Operations
- Sales and marketing
- Small and medium sized businesses
- Technology and technology strategy

Board Committees

- Nominating and Corporate Governance
- Risk

Career

Since 2017, Kate has served as Corporate Vice President and President, Microsoft U.S., a division of Microsoft Corporation, a global technology company. She has responsibility for all of Microsoft's activities in the U.S., including growing the company's solutions, services and support revenues. She's focused on driving transformation with Microsoft's largest sales subsidiary, leading a 9,500 + person field team.

Prior to Microsoft, she held various senior positions with GE, including Executive Vice President and Chief Commercial Officer GE Digital, from 2016 to 2017; Chief Executive Officer GE Intelligent Platforms Software from 2015 to 2016; and Vice President and Chief Commercial Officer, from 2013 to 2015.

Prior to GE, she held various senior leadership roles at Oracle and various roles with increasing responsibilities at Red Hat, US Bancorp Investments and Deloitte Consulting.

Reasons for election to the UPS Board

Kate has significant experience leading businesses within large companies undergoing transformation, large systems companies, and high growth disruptors. She brings a strong commercial orientation, strategic experience and technical acumen.

William R. Johnson

UPS Board Chair

Former Chairman, President and Chief Executive Officer, H.J. Heinz Company

Age: 72

Director since 2009

- Board Chair since 2020
- Lead Director 2016 – 2020

Skills and Experience

- CEO experience
- Consumer retail
- Global perspective, international
- Human capital management
- Operations
- Sales and marketing
- Supply chain management

Board Committees

- Nominating and Corporate Governance (Chair)
- Executive

Career

Bill currently serves as UPS's Board Chair, and previously served as Chairman, President and Chief Executive Officer of H.J. Heinz Company, a global packaged foods manufacturer, from 2000 until his retirement in 2013. He became President and Chief Operating Officer of H.J. Heinz in 1996, and assumed the position of President and Chief Executive Officer in 1998.

Bill served on the Boards of Directors of Education Management Corporation until 2014, Emerson Electric Company until 2017, H.J. Heinz until 2013 and PepsiCo, Inc. until 2020.

Reasons for election to the UPS Board

Bill has significant senior management experience gained through over 13 years of service as the Chairman and Chief Executive Officer of H.J. Heinz, a corporation with significant international operations and a large, labor intensive workforce. He also has deep experience in operations, marketing, brand development and logistics. He served as our lead independent director from 2016 to 2020, and he has served as our independent Board Chair since 2020, during which time he has gained significant knowledge and expertise about our board functions, operations, business and strategy.

Ann M. Livermore

Former Executive Vice President, Hewlett Packard Company

Age: 62

Director since 1997

Skills and Experience

- Digital technology
- Sales and marketing
- Small and medium sized businesses
- Technology and technology strategy

Other Public Company Boards

- Hewlett Packard Enterprise Company
- Qualcomm Incorporated

Board Committees

- Compensation (Chair)
- Risk
- Executive

Career

Ann was Executive Vice President of the HP Enterprise Business at Hewlett Packard Company, one of the world's largest information technology companies, until her retirement in 2011. Ann joined HP in 1982 and held a variety of management positions in marketing, sales, research and development, and business management before being elected a corporate vice president in 1995.

Ann serves on the Boards of Directors of Hewlett Packard Enterprise Company, Qualcomm Incorporated, D2iQ (formerly Mesosphere, Inc.), a private software company, and Plenty Inc., a private vertical farming company. She served on the Board of Directors of Hewlett Packard Company until 2015. Ann is also a lecturer at the Stanford Graduate School of Business.

Reasons for election to the UPS Board

Ann has extensive operational experience from her senior leadership positions at HP. This includes leading a complex global business organization with a large workforce. Through her 29 years at HP, she gained knowledge and experience in technology, marketing, sales, research and development and business management, which she is able to leverage as a member of our board.

Franck J. Moison

Former Vice Chairman,
Colgate-Palmolive Company

Age: 67

Director since 2017

Skills and Experience

- Consumer retail
- Geopolitical risk
- Global perspective, international
- Operations
- Sales and marketing
- Supply chain management

Other Public Company Boards

- Hanes Brands, Inc.

Board Committees

- Nominating and Corporate Governance
- Risk

Career

Franck was Vice Chairman for the Colgate-Palmolive Company, a global consumer products company, a position he held from 2016 until his retirement in 2018. He led Colgate-Palmolive's operations in Asia, South Pacific and Latin America, and he also led Global Business Development. Previously, he was Chief Operating Officer of Emerging Markets from 2010 until 2016, and he was given additional responsibility for Business Development in 2013. Beginning in 1978, Franck served in various management positions with Colgate-Palmolive, including President, Global Marketing, Global Supply Chain & R&D from 2007 to 2010, and President, Western Europe, Central Europe and South Pacific from 2005 to 2007.

He serves on the Boards of Directors of Hanes Brands, Inc., Somalogic (a private biotech company), and on the Board of Ses-Imagotag in France. He is a director of the French American Foundation, is Chairman of the International Advisory Board of the EDHEC Business School (Paris, London, Singapore) and is a member of the International Board of the McDonough School of Business at Georgetown University. He served on the Board of Directors of H.J. Heinz until 2013.

Reasons for election to the UPS Board

Franck has extensive experience as a senior executive at a large organization engaged in international business. He is a leader in consumer product innovation, strategic marketing, acquisitions, and emerging market business development. He is a highly accomplished marketing and operating executive in the global consumer products industry. In addition, Franck has experience serving as a director of other publicly traded companies.

Christiana Smith Shi

Former President of
Direct-to-Consumer, Nike, Inc.

Age: 61

Director since 2018

Skills and Experience

- Consumer retail
- Digital technology
- Global perspective, international
- Operations
- Sales and marketing
- Supply chain management

Other Public Company Boards

- Mondelēz International, Inc.

Board Committees

- Compensation
- Risk

Career

Christiana is the founder and currently principal at Lovejoy Advisors, LLC, an advisory services firm that assists clients with digitally transforming consumer and retail businesses. She was the President, Direct-to-Consumer, for Nike, Inc., a global apparel company, from 2013 until 2016. From 2012 through 2013, she was Nike's Vice President and General Manager, Global Digital Commerce. She joined Nike in 2010 as Vice President and Chief Operating Officer, Global Direct-to-Consumer. Prior to joining Nike, Christiana spent 24 years at global management consulting firm McKinsey & Company, the last 10 as a senior partner. She began her career at Merrill Lynch & Company in 1981 and served in various trading, institutional sales and investment banking roles.

Christiana also serves on the Board of Directors of Mondelēz International, Inc. She served on the Boards of Directors of West Marine, Inc. until 2017 and Williams-Sonoma, Inc. until 2019.

Reasons for election to the UPS Board

Christiana has substantial experience in digital commerce, global retail operations and helping companies with transformative change. She also has strong supply chain and cost management expertise in the global consumer industry. She gained experience advising senior executives at consumer companies across North America, Europe, Latin America and Asia on leadership and strategy. Christiana also has extensive public company board experience.

Russell Stokes

Senior Vice President, General Electric Company, President and Chief Executive Officer, GE Aviation Services, and Chairman GE Power Portfolio

Age: 49

Director since 2020

Skills and Experience

- Human capital management
- Operations
- Risk and compliance
- Sales and marketing
- Small and medium sized businesses
- Technology and technology strategy

Board Committees

- Compensation
- Nominating and Corporate Governance

Career

Since 2020, Russell has served as Senior Vice President of GE, and President and Chief Executive Officer of GE Aviation Services. Russell leads GE's Aviation Services commercial growth, operating performance and customer experience across its global Overhaul and Repair footprint. Along with this role, Russell is also the Chairman of GE Power Portfolio. A 24-year GE veteran, prior to these roles, Russell was president and CEO of GE Power Portfolio from 2019 to 2020, GE Power from 2017 to 2019, GE Energy Connections from 2015 to 2017, and GE Transportation from 2013 to 2015. He has held other senior roles at GE Transportation and GE Aviation. Russell joined GE in 1997 as part of GE's Financial Management Program. He is active in a number of Atlanta community-based organizations and is the former Chairman of the Metro Atlanta Chamber of Commerce.

Reasons for election to the UPS Board

During his more than 23 year career at GE, Russell has gained deep finance and operating experience through navigating multiple industries, business segments, and market cycles. He has extensive experience in transforming businesses by moving complex business issues into focused, targeted actions for improvement. He has experience in developing solutions and technology required to ensure successful implementation of the business strategy.

Kevin Warsh

Former Member of the Board of Governors of the Federal Reserve System, Distinguished Visiting Fellow, Hoover Institution, Stanford University

Age: 50

Director since 2012

Skills and Experience

- Geopolitical risk
- Government and regulatory
- Global perspective, international

Other Public Company Boards

- Coupang, Inc.

Board Committees

- Compensation
- Nominating and Corporate Governance

Career

Kevin currently serves as the Shepard Family Distinguished Visiting Fellow in Economics at Stanford University's Hoover Institution, a public policy think tank, and a Dean's Visiting Scholar and lecturer at Stanford's Graduate School of Business. He was a member of the Board of Governors of the Federal Reserve from 2006 until 2011. In addition, Kevin provides strategic advisory services to a range of businesses. From 2002 until 2006, Kevin served at the White House as President George W. Bush's special assistant for economic policy and as executive secretary of the National Economic Council.

Kevin was previously employed by Morgan Stanley & Co. in New York, becoming vice president and executive director of that company's Mergers and Acquisitions department. He also serves on the Board of Directors of Coupang, Inc.

Reasons for election to the UPS Board

Kevin has extensive experience in understanding and analyzing the economic environment, the financial marketplace and monetary policy. He has a deep understanding of the global economic and business environment. Kevin also brings the experience of working in the private sector for a leading investment bank gained during his tenure at Morgan Stanley & Co.

Committees of the Board of Directors

The board has four committees composed entirely of directors meeting the NYSE's and our director independence requirements: the Audit Committee, the Compensation Committee, the Nominating and Corporate Governance Committee, and the Risk Committee. Information about each of these committees is provided below. The board also has an Executive Committee that may exercise all powers of the Board of Directors in the management of our business and affairs, except for those powers expressly reserved to the board under Delaware law or otherwise limited by the board. Carol Tomé is the Chair, and Ann Livermore and Bill Johnson also serve on the Executive Committee. The Executive Committee did not hold any meetings during 2020.

Audit Committee(1)	Compensation Committee(2)	Nominating and Corporate Governance Committee	Risk Committee
Rudy Markham, Chair Eva Boratto Michael Burns Wayne Hewett Angela Hwang	Ann Livermore, Chair Rodney Adkins Clark Randt, Jr. Christiana Smith Shi Russell Stokes Kevin Warsh	William Johnson, Chair Kate Johnson Franck Moison Clark Randt, Jr. Russell Stokes Kevin Warsh	Rodney Adkins, Chair Kate Johnson Ann Livermore Franck Moison Christiana Smith Shi
Meetings in 2020: 11	**Meetings in 2020:** 7	**Meetings in 2020:** 5	**Meetings in 2020:** 3
Primary Responsibilities	**Primary Responsibilities**	**Primary Responsibilities**	**Primary Responsibilities**
• Assisting the board in discharging its responsibilities relating to our accounting, reporting and financial practices • Overseeing our accounting and financial reporting processes • Overseeing the integrity of our financial statements, our systems of disclosure controls and internal controls and our compliance with legal and regulatory requirements • Overseeing the performance of our internal audit function • Overseeing the engagement and performance of our independent accountants • Overseeing compliance with legal and regulatory requirements as well as the Company's Code of Business Conduct • Discussing with management policies with respect to financial risk assessment	• Assisting the board in discharging its responsibilities with respect to compensation of our senior executive officers • Reviewing and approving corporate goals and objectives relevant to the compensation of our Chief Executive Officer • Evaluating the Chief Executive Officer's performance and establishing compensation based on this evaluation • Reviewing and approving the compensation of other executive officers • Overseeing the evaluation of risk associated with the Company's total compensation strategy and compensation programs • Overseeing any outside consultants retained to advise the Committee • Recommending to the board the compensation to be paid to non-management directors	• Addressing succession planning • Assisting the board in identifying and screening qualified director candidates, including shareowner submitted candidates • Recommending candidates for election or reelection to the board or to fill vacancies on the board • Aiding in attracting qualified candidates to serve on the board • Recommending corporate governance principles, including the structure, composition and functioning of the board and all board committees, the delegation of authority to subcommittees, board oversight of management actions and reporting duties of management	• Overseeing management's identification and evaluation of enterprise risks • Overseeing and reviewing with management our risk governance framework • Overseeing risk identification, risk tolerance, risk assessment and management practices for strategic enterprise risks • Reviewing approaches to risk assessment and mitigation strategies in coordination with the board and other board committees • Communicating with the Audit Committee to enable the Audit Committee to perform its statutory, regulatory, and other responsibilities with respect to oversight of risk assessment and risk management

(1) All members of the Audit Committee have been designated by the Board of Directors as audit committee financial experts. Each member of our Audit Committee meets the independence requirements of the NYSE and Securities and Exchange Commission ("SEC") rules and regulations applicable to audit committee members, and each is financially literate.

(2) Each member of our Compensation Committee meets the NYSE's independence requirements applicable to compensation committee members. In addition, each member is a non-employee director as required by Rule 16b-3 under the Securities Exchange Act of 1934. None of the members of the Compensation Committee is or was during 2020 an employee or former employee of UPS, and none had any direct or indirect material interest in or relationship with UPS outside of his or her position as a non-employee director. ***Compensation Committee Interlocks and Insider Participation:*** None of our executive officers serves or served during 2020 as a member of a board of directors or compensation committee of any entity that has one or more executive officers who serve on our Board of Directors or Compensation Committee.

Director Compensation

We compensate our non-employee directors with a mix of cash and equity. Equity compensation links director pay to the value of Company stock and aligns the interests of directors more closely with those of long-term shareowners. Our CEO does not receive any compensation for service as a director. Directors are also reimbursed for their expenses related to board membership.

The Compensation Committee of the Board of Directors conducts a review of director compensation generally every other year to ensure the program structure is consistent with best practices and current trends. The Compensation Committee engages its independent compensation consultant, Frederic W. Cook & Co., Inc. ("FW Cook"), to provide advice on the competitiveness of the Company's non-employee director compensation program and recommends changes to ensure compensation remains market competitive. During the Compensation Committee's most recent review of director compensation in 2019, it was determined that total board compensation was below our peer group median.

Based on that review, our board increased non-employee director compensation for the first time in three years as follows: an annual cash retainer of $110,000, and an annual restricted stock unit ("RSU") award of $175,000. The Board of Directors also increased the annual retainer paid to the independent lead director to $35,000. The chairs of the Compensation, Nominating and Corporate Governance and Risk Committees receive an additional annual cash retainer of $20,000, and the Chair of the Audit Committee receives an additional annual cash retainer of $25,000.

In connection with the CEO transition, the board designated Bill Johnson to assume the role of independent Chairman, effective October 1, 2020. Based on the recommendation of FW Cook and taking into account, among other things, benchmarking data and expected commitment, the Compensation Committee recommended and our board approved the following additional payments for the independent Chair: annual cash retainer of $160,000 and an annual RSU award of $70,000. These payments replaced any payments Bill Johnson received for serving as independent lead director.

Cash retainers are paid on a quarterly basis. Non-employee directors may defer retainer fees by participating in the UPS Deferred Compensation Plan, but we do not make any contributions to this plan. There are no preferential or above-market earnings in the UPS Deferred Compensation Plan. RSUs are fully vested on the date of grant and are required to be held by the director until he or she separates from the board, at which time the RSUs convert to shares of class A common stock. Dividends earned on shares subject to director RSUs are deemed reinvested in additional units at each dividend payable date and are subject to the same terms as the original grant. This holding period increases the strength of the alignment of directors' interests with those of our long-term shareowners.

Director Compensation

The following tables set forth the cash compensation paid to individuals who served as non-employee directors in 2020 and the aggregate value of stock awards granted to those persons in 2020, as well as outstanding director equity awards held as of December 31, 2020.

2020 Director Compensation

Name	Fees Earned or Paid in Cash($)	Stock Awards($)[1]	Total($)
Rodney C. Adkins[2]	130,000	174,945	304,945
Eva Boratto[3]	27,500	131,207	158,707
Michael J. Burns	110,000	174,945	284,945
Wayne Hewett[3]	27,500	131,207	158,707
Angela Hwang[3]	55,000	131,279	186,279
Kate Johnson[3]	—	87,462	87,462
William R. Johnson[2][4]	196,250	215,769	412,019
Ann M. Livermore[2]	130,000	174,945	304,945
Rudy H.P. Markham[5]	128,750	174,945	303,695
Franck J. Moison	110,000	174,945	284,945
Clark T. Randt, Jr.	110,000	174,945	284,945
Christiana Smith Shi	110,000	174,945	284,945
John T. Stankey	110,000	174,945	284,945
Russell Stokes[3]	—	87,462	87,462
Carol B. Tomé[6]	61,250	—	61,250
Kevin Warsh	110,000	174,945	284,945

Outstanding Director Stock Awards
(as of December 31, 2020)

	Stock Awards	
Name	Restricted Stock Units (#)	Phantom Stock Units (#)
Rodney C. Adkins	15,389	—
Eva Boratto	836	—
Michael J. Burns	26,606	—
Wayne Hewett	836	—
Angela Hwang	1,168	—
Kate Johnson	538	—
William R. Johnson	27,946	—
Ann M. Livermore	26,606	2,937
Rudy H.P. Markham	26,606	—
Franck J. Moison	7,676	—
Clark T. Randt, Jr.	22,622	—
Christiana Smith Shi	5,855	—
John T. Stankey[7]	—	—
Russell Stokes	538	—
Carol B. Tomé[8]	24,656	1,311
Kevin Warsh	17,379	—

(1) The values of stock awards in this column represent the grant date fair value of RSUs granted in 2020, computed in accordance with FASB ASC Topic 718. Information about the assumptions used to value these awards can be found in Note 13 "Stock-Based Compensation" in our 2020 Annual Report on Form 10-K. RSUs are fully vested on the date of grant, and will be paid in shares of class A common stock following the director's separation from service from UPS.

(2) Includes compensation for committee chair service.

(3) Received a prorated 2020 RSU award based on date appointed to the board.

(4) Includes compensation for lead independent director service from January 1, 2020 to September 30, 2020, and compensation for independent board chair service from October 1, 2020.

(5) Includes compensation for Audit Committee chair service from March 11, 2020.

(6) Includes compensation for independent director service and Audit Committee chair service from January 1, 2020 through March 11, 2020, after which time she was removed from the Audit Committee and no longer considered an independent director.

(7) All outstanding stock awards vested following retirement from the board in November 2020.

(8) Only includes outstanding stock awards that were granted while serving as an independent director.

Executive Compensation

Compensation Committee Report

The Compensation Committee (as used in this Executive Compensation section, the "Committee") is responsible for setting the principles that guide compensation decision-making, establishing the performance goals under our executive compensation plans and programs, and approving compensation for the executive officers.

We are focused on maintaining an executive compensation program that supports the long-term interests of the Company's shareowners. We align the interests of our executives with those of all of our shareowners by linking a significant portion of executive compensation to Company performance and shareowner returns. The Company's programs are also designed to attract, retain and motivate executives who make substantial contributions to the Company's performance by allowing them to share in the Company's success.

Our significant efforts in the past year included designing compensation arrangements supporting the Company's CEO transition, the appointment of a non-executive independent Board Chair, new appointments to the Executive Leadership Team, and Executive Leadership Team retirements, as well as developing and implementing an appropriate executive compensation structure and performance goals in the midst of a global pandemic. The Committee's compensation framework, with the support of our independent compensation consultant, enabled us to successfully navigate these challenges consistent with our compensation principles.

The Committee has reviewed the Compensation Discussion and Analysis and discussed it with management. Based on our review and discussions, the Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in the 2021 Proxy Statement and incorporated by reference in the Annual Report on Form 10-K for the year ended December 31, 2020 filed with the Securities and Exchange Commission.

The following Compensation Discussion and Analysis describes the Committee's principles, strategy and programs regarding 2020 executive compensation.

The Compensation Committee

Ann Livermore, Chair
Rodney Adkins
Clark Randt, Jr.
Christiana Smith Shi
Russell Stokes
Kevin Warsh

Compensation Discussion and Analysis

UPS's executive compensation principles, strategy and programs for 2020, and certain aspects of the 2021 programs, are described below. This section explains how and why the Committee made its 2020 compensation decisions for our executive officers, including additional detail with respect to the following Named Executive Officers ("NEOs"):

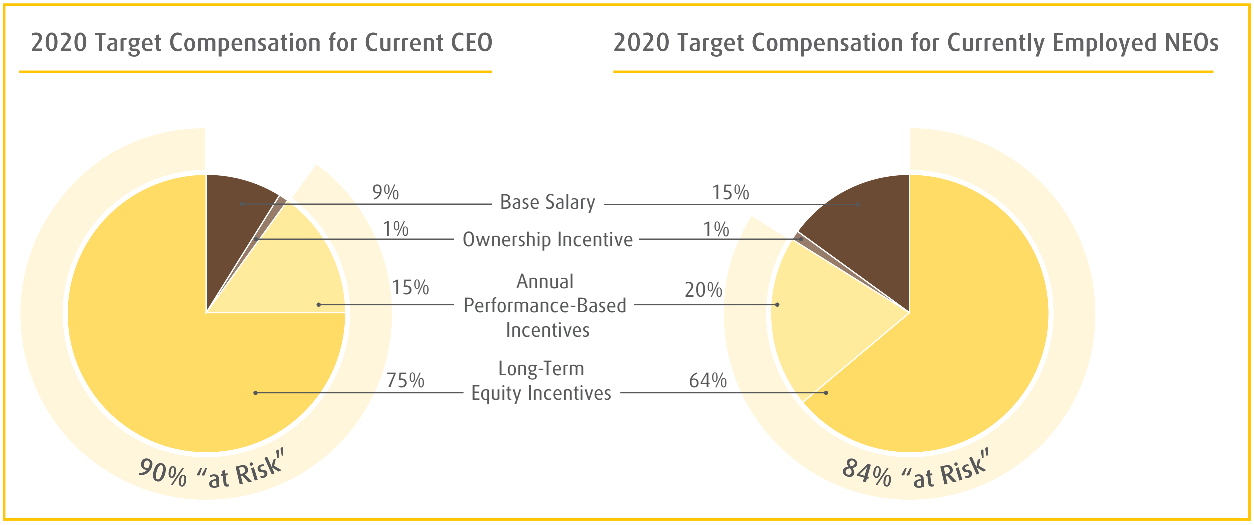
Named Executive Officer	Title
Carol B. Tomé	Chief Executive Officer
David P. Abney	Retired Chief Executive Officer
Brian O. Newman	Chief Financial Officer
Nando Cesarone	President, U.S. Operations
Kate M. Gutmann	Chief Sales and Solutions Officer
Juan R. Perez	Chief Information and Engineering Officer
George A. Willis	Retired President, U.S. Operations

Executive Compensation Strategy

UPS's executive compensation programs are designed to:

- drive organizational performance by tying a significant portion of pay to Company performance;
- attract, retain and motivate talent by fairly compensating executive officers;
- encourage long-term stock ownership and careers with UPS; and
- align the interests of our executives to long-term value creation.

A substantial majority of NEO total target direct compensation (base salary and annual and long-term incentives) is "at risk" and subject to the achievement of annual or long-term performance goals and/or continued employment with UPS. The charts below highlight the elements of our current CEO and an average of other currently employed NEOs' target direct compensation for 2020:



Roles and Responsibilities

The Committee is responsible for setting the principles that guide compensation decision-making, establishing the performance goals under our executive compensation plans and programs, and approving compensation for the executive officers. In carrying out its responsibilities, the Committee is empowered to engage and terminate the services of outside advisors and other consultants. In 2020, the Committee retained FW Cook to act as the Committee's independent compensation advisor. FW Cook reports directly to the Committee and provides no additional services to UPS. The following table summarizes the key roles in the executive compensation decision-making process.

Participant and Roles
Compensation Committee • develops principles underpinning executive compensation • sets performance goals upon which incentive payouts are based • evaluates the CEO's performance • reviews the CEO's performance assessment of other executive officers • reviews and approves incentive and other compensation of the executive officers • reviews and approves the design of other benefit plans for executive officers • oversees the risk evaluation associated with the Company's compensation strategy and programs • considers whether to engage any compensation consultant, and determines their independence • reviews and discusses with management the Compensation Discussion and Analysis • recommends to the board the inclusion of the Compensation Discussion and Analysis in the Proxy Statement • approves the inclusion of the Committee's report on executive compensation in the Proxy Statement
Independent Members of the Board of Directors • review the Committee's assessment of the CEO's performance • complete a separate evaluation of the CEO's performance • approve the Compensation Discussion and Analysis for inclusion in the Proxy Statement
Independent Compensation Consultant • serves as a resource for market data on pay practices and trends • provides independent advice to the Committee • provides competitive analysis and advice related to outside director compensation • reviews the Compensation Discussion and Analysis • conducts an annual risk assessment of the Company's compensation programs

Participant and Roles
Executive Officers • the CEO makes compensation recommendations to the Committee for the other executive officers with respect to base salary and individual performance adjustments to annual incentive plan payouts • the CEO and CFO recommend performance goals under incentive compensation plans and provide an assessment as to whether performance goals were achieved

Compensation Consultant Independence

In November 2020, the Committee reviewed FW Cook's independence and the existence of any potential conflicts of interest. The Committee evaluated the following factors: (1) other services provided to UPS by FW Cook (if any); (2) fees paid by UPS as a percentage of FW Cook's total revenue; (3) policies or procedures maintained by FW Cook that are designed to prevent a conflict of interest; (4) any business or personal relationships between the individual consultants involved in the engagement and a member of the Committee; (5) any Company stock owned by the individual consultants involved in the engagement; and (6) any business or personal relationships between UPS executive officers and FW Cook or the individual consultants involved in the engagement.

After evaluating these factors, the Committee concluded that FW Cook is independent and that the engagement of FW Cook did not raise any conflict of interest.

Peer Group and Market Data Utilization

In determining and setting compensation targets and payouts, the Committee evaluates, among other things, pay practices and compensation levels at a peer group of companies. The Committee considers advice from its independent compensation consultant in determining the peer group. Because of the limited number of directly comparable companies to UPS – global logistics providers with significant market capitalizations - the companies included in the peer group typically have global operations, diversified businesses, and annual sales and market capitalizations comparable to UPS. Other more general considerations include percentage of foreign sales, capital intensity, operating margins, size of employee population and whether the company also includes UPS in their peer group. The Compensation Committee evaluates the peer group annually to determine if the companies included in the group are the most appropriate comparators for measuring the success of our executives in delivering shareowner value. The peer group for 2020 compensation purposes (the "2020 Peer Group") did not change from 2019 and consisted of the following:

The Boeing Company	The Home Depot, Inc.	The Procter & Gamble Company
Caterpillar Inc.	Johnson & Johnson	Sysco Corporation
The Coca-Cola Company	Lockheed Martin Corporation	Target Corp.
Costco Wholesale Corporation	Lowe's Companies, Inc.	Raytheon Technologies Corporation(1)
Delta Airlines, Inc.	McDonald's Corp.	Walgreens Boots Alliance, Inc.
FedEx Corporation	PepsiCo, Inc.	

(1) In connection with a 2020 merger, United Technologies Corporation changed its name to Raytheon Technologies Corporation.

In addition, the Committee considers other market data, including general compensation survey data from comparably sized companies. Although the Committee considers this data in executing its responsibilities within the construct of our executive compensation programs, compensation was not targeted to a particular percentile within the 2020 Peer Group or otherwise.

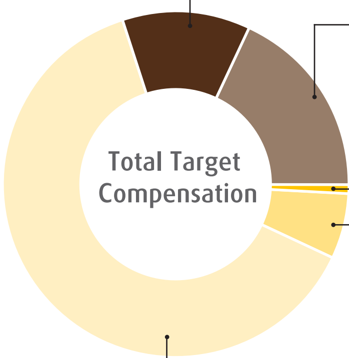
Internal Compensation Comparisons

The Committee also generally considers the differentials between executive officer compensation and the compensation paid for other UPS positions, and generally considers the additional responsibilities of the CEO compared to other executive officers. Internal comparisons are made to help ensure that compensation paid to executive officers is reasonable compared to their direct reports.

Annual Performance Reviews

Each year, the CEO assesses the performance of all executive officers (other than the CEO) and provides feedback to the Committee. In addition, the Committee evaluates the CEO's performance on an annual basis. The Compensation Committee Chair discusses the results of the evaluation with the full board (other than the CEO) in executive session. During the evaluation, the board considers the CEO's strategic vision and leadership, execution of UPS's business strategy and achievement of business goals. Other factors include the CEO's ability to make long-term decisions that create a competitive advantage, and overall effectiveness as a leader.

Central Elements of UPS Executive Compensation[1]



Base Salary 12%
- Fixed cash compensation
- Designed to provide an appropriate level of financial certainty

Annual Incentive Awards 18%
- Subject to achievement of key business objectives for the year
- Payout is substantially "at risk" based on Company performance
- 2/3 of any payout is in the form of Restricted Performance Units ("RPUs"), which vest one year after performance is achieved

Ownership Incentive Awards 1%
- Encourages executives to maintain substantial ownership of Company stock
- Value of award is based on equity ownership

Stock Option Awards 6%
- Further aligns shareowner and employee interests
- Motivates toward sustained stock price increase
- Multi-year vesting provides retention incentive

Long-term Incentive Performance Awards 63%
- Payout is subject to achievement of performance metrics over a three-year period
- Supports long-term strategy
- Motivates and rewards achievement of long-term goals
- Acts as a retention mechanism

Other Elements of Compensation

Benefits

✓ NEOs generally participate in the same plans as other employees.
✓ Includes medical, dental, and disability plans that mitigate the financial impact of illness, disability or death.
✓ See further details on page 44.

Perquisites

✓ Limited in nature; benefits outweigh the costs.
✓ Include financial planning and executive health services that facilitate the NEOs' ability to carry out responsibilities, maximize working time and minimize distractions.
✓ Considered necessary or appropriate to attract and retain executive talent.
✓ In 2020, included use of corporate chartered aircraft by Brian Newman for personal reasons, which is not expected to be a regular practice.
✓ See further details on page 44.

Retirement Programs

✓ NEOs and most non-union U.S. employees participate in the same qualified plans with the same formulas.
✓ Includes qualified and nonqualified pension, retirement savings and deferred compensation plans.
✓ See further details on page 53.

(1) Excludes special equity awards granted to certain NEOs in connection with their hiring or to retain key talent during our leadership transition, as further described below.

Base Salary

Base salaries provide our NEOs with a fixed level of cash compensation, and are designed to provide an appropriate level of financial certainty. The Committee considers a number of factors in determining the NEOs' annual base salaries. While Company and individual performance are the most important factors, scope of responsibility, leadership, market data and internal compensation comparisons are all considered. No single factor is weighted more heavily than another.

Taking all of those factors into account, in March 2020, the Committee approved a 3% base salary increase for our former CEO, who was expected to continue serving as an employee through December 31, 2020. Further, the Committee approved the overall compensation for our current CEO, including her annual base salary. The Committee also approved base salary increases for the other NEOs as shown in the Summary Compensation Table below.

Annual Incentive Awards

Management Incentive Program Performance Incentive Award — Overview

Management Incentive Program ("MIP") performance incentive awards are designed to motivate management and align pay with annual Company performance by linking payouts to the achievement of pre-established metrics, while allowing adjustments for individual performance. Annual MIP performance incentive award opportunities are provided as a percentage of base salary, subject to a $5 million maximum for each NEO. Payouts are determined by the Committee, taking into consideration the following:

- actual performance compared to MIP performance metric targets (described below);
- the MIP factor (payout as a percent of target) applied to payments to non-executive officer MIP participants;
- individual performance; and
- overall business environment and economic trends.

The factors considered by the Committee when determining award payouts are not assigned a specific weighting. The awards are considered performance-based compensation fully at risk based on Company performance. The award, if earned, is paid two-thirds in restricted performance units ("RPUs") and one-third in cash. The number of RPUs granted is determined by dividing the dollar value of the portion of the MIP award paid in RPUs by the closing price of our class B common stock on the NYSE on the grant date of the award. RPUs are settled in shares of class A common stock. When dividends are paid on UPS common stock, an equivalent value is credited to the participant's bookkeeping account in additional RPUs. The additional RPUs are subject to the same vesting schedule as the original MIP RPUs. RPUs paid as MIP performance incentive awards generally vest on the first anniversary of the grant date, furthering the retention component of the award.

To further our stock ownership philosophy, the initial MIP incentive award earned by newly hired employees is paid entirely in vested class A shares, with no cash component. These shares are vested upon grant. As a newly hired employee, our current CEO's 2020 MIP award was paid entirely in class A shares.

2020 MIP Performance Incentive Awards

In February 2020, and prior to the uncertainty caused by the global coronavirus pandemic, the Committee adopted financial performance metrics and goals for the NEOs' MIP performance incentive awards as follows:

- *Adjusted Consolidated Revenue Growth*, which is measured as year-over-year growth in revenue from all products and services worldwide. Revenue growth is calculated on a constant currency basis. Revenue growth was considered important to generating current profits and maintaining our long-term competitive positioning and viability.
- *Adjusted Consolidated Earnings Per Share Growth*, which is measured as year-over-year growth in total profits on an after tax, per share basis. For purposes of measuring this growth, EPS was determined by reference to our publicly reported adjusted earnings per share for each of 2019 and 2020. This growth is directly impacted by our effectiveness in achieving our targets in other key performance elements, including volume and revenue growth and operating leverage.
- *Consolidated Average Daily Package Volume Growth*, which is measured as year-over-year growth in consolidated package volume divided by the number of operating weekdays during the year.

After monitoring and considering the economic impact and uncertainty caused by the coronavirus pandemic, including the Company's withdrawal of its previously issued earnings guidance for the full year 2020, actual first-quarter 2020 financial performance and challenges around longer-term forecasting, the Committee determined it was appropriate to revise the performance goals under the previously approved financial performance metrics for MIP performance incentive awards by bifurcating the 2020 performance period into two six-month performance periods. The Committee discussed with management and its independent compensation consultant then-current expected financial performance, the initially approved performance goals under the 2020 MIP, risks related to the potential severity and duration of the coronavirus pandemic and the other matters described above. The Committee then set the following amended goals:

- The performance goals for the 2020 MIP performance incentive award for the performance period from January 1, 2020 through June 30, 2020 were growth in consolidated revenue (4.0%), growth in consolidated adjusted earnings per share (5.1%) and consolidated package average daily volume growth (3.2%). Performance with respect to the performance goals for the first half of 2020 was used to determine 25% of the overall 2020 MIP performance incentive award. Because the first half goals were approved in March 2020, the Committee determined it was appropriate to more heavily weight the second half of 2020 goals due to additional incentive-based nature of the awards.
- The performance goals for 2020 MIP performance incentive award for the performance period from July 1, 2020 through December 31, 2020 were growth in consolidated revenue (1.2%), growth in consolidated adjusted earnings per share (-36.7%) and consolidated package average daily volume growth (2.5%). Performance with respect to the performance goals for the second half of 2020 was used to determine 75% of the overall 2020 MIP performance incentive award.

The MIP financial performance metrics, goals and results were as follows:

2020 MIP Financial Performance Metric	First Half 2020 Goal	First Half 2020 Actual	Second Half 2020 Goal	Second Half 2020 Actual
Adjusted Consolidated Revenue Growth[(1)]	4.0%	9.6%	1.2%	17.9%
Adjusted Consolidated Earnings Per Share Growth[(1)]	5.1%	-1.3%	-36.7%	15.4%
Consolidated Average Daily Package Volume Growth	3.2%	13.9%	2.5%	11.8%

(1) Non-GAAP financial measures as described above. See footnote on page 42.

The Committee maintains discretion to adjust awards earned under the MIP up (but not above the maximum amount for each NEO) or down based on its qualitative assessment of each NEO's individual performance. For evaluation of the CEO's performance, the Committee considers the results of the board's annual evaluation of the CEO, which includes ratings on:

- leadership qualities;
- strategic planning and execution;
- managing for financial results;
- retaining and developing a diverse top management group;
- providing equal opportunity employment, and understanding and addressing issues facing employees;
- ensuring the Company contributes to the well-being of the communities in which it operates;
- promoting compliance and ethical behavior; and
- board relations.

For NEOs other than the CEO, the Committee takes into consideration the recommendations of the CEO. Individual accomplishments during 2020 that were considered by the Committee when determining final awards are described below. The Committee did not consider George Willis's performance, and he did not receive any MIP payout, as he was not employed by UPS on the date required to be eligible for payout under a MIP award.

Carol Tomé

Carol Tomé joined UPS on June 1, 2020 as Chief Executive Officer after serving as a member of the board since 2003. Carol quickly revamped the strategy, defined the "better not bigger" framework, streamlined priorities, and focused the organization on simplification, ease, and speed. Carol aligned success metrics around customer satisfaction, employee commitment, and shareowner returns. Responding rapidly to U.S. social unrest, she commissioned an Equity, Justice and Action Task Force to address concerns and impact change. Under her leadership, UPS posted the highest revenue and profit in the Company's history and has increased shareowner value.

David Abney

At the start of 2020, David led a quick response to the challenges faced by the pandemic before announcing his retirement after 46 years of UPS service. By emphasizing employee safety and customer service, he paved the way for UPS to navigate uncertainty. The multi-year strategic investments UPS made in healthcare supply chain capabilities under David's leadership proved invaluable in positioning UPS for success as the pandemic disrupted traditional shipping patterns. David led a smooth Chief Executive Officer transition to Carol.

Brian Newman

In the face of economic uncertainty, Brian protected our liquidity, guided the organization to generate higher total revenue and operating profit, and significantly improved our planning and forecasting activities. Brian tightened the linkage between investments and returns. In 2020, his role expanded to include Global Business Services and Mergers and Acquisitions, where he focused on improving the end-to-end customer experience and successfully navigated the carve out transaction to sell UPS Freight. Under his leadership, total shareholder value grew by approximately 50% in 2020.

Nando Cesarone

2020 was a transitional year for Nando as he spent the majority of the year leading our International business, which first felt the effects of COVID-19, and assumed his current role leading our U.S. business in the third quarter. As the pandemic traveled across the globe, Nando worked cross functionally to overcome countless obstacles while processing record volume levels. He led the team to keep our supply chain moving by prioritizing employee safety and operational service excellence to ensure customers received essential goods. Leading a smooth peak season with industry-leading service levels, Nando was instrumental in delivering the highest revenue and profit in our history.

Kate Gutmann

In 2020, Kate quickly reacted to the dynamics of the pandemic by focusing on risk management to limit UPS's exposure, while at the same time maintaining good customer relationships. Kate focused her efforts on operationalizing our "better not bigger" framework and implemented revenue management strategies. Kate's sales and solutions teams were instrumental in delivering the highest revenue and profit in our Company's history, leaning into small and medium-sized businesses that yielded significant growth. At the beginning of the year, Kate assumed responsibility for our newly-formed healthcare business which posted strong results and positioned us well as vaccine distribution began, with Kate serving as a principal healthcare spokesperson for the Company.

Juan Perez

Juan led the Information Technology and Engineering functions with tremendous agility and responsiveness throughout the year. The IT team provided a seamless way for UPSers to work remotely during the pandemic. Enterprise technology platforms were implemented to modernize Human Resources and Finance, and the customer digital experience for Supply Chain Solutions was improved. Increased automated sort capacity supported record volume, and tools that enabled the dynamic allocation of volume to capacity enabled agile adjustments to constantly changing conditions. He personally invested in our peak preparation, working closely with his counterparts to deliver one of the Company's best peak seasons.

2020 MIP Ownership Incentive Award

One of UPS's core principles is the importance of UPS stock ownership. We encourage employees to maintain a substantial ownership interest in UPS stock through equity compensation programs, including our MIP ownership incentive award. All MIP participants are eligible for an additional ownership incentive award up to the equivalent of one month's salary by maintaining significant ownership of UPS equity securities. The amount of the award is equal to the value of the participant's equity ownership as of December 31 of each year, multiplied by an ownership incentive award percentage set out below, up to a maximum award of one month's salary. The MIP ownership incentive award, to the extent earned, is paid in the same proportion of cash and equity as the MIP performance incentive award.

Ownership levels are determined by totaling the number of UPS shares in the participant's family group accounts and the participant's eligible unvested restricted units and deferred compensation shares. The number of UPS shares determined for purposes of an NEO's ownership level is multiplied by the closing price of a class B share on the NYSE on the last trading day of the year.

Name	Award Percentage	Maximum MIP Ownership Incentive Value($)	Actual MIP Ownership Incentive Award Value($)
Carol B. Tomé	1.25%	104,167	63,577
David P. Abney	1.25%	109,984	109,984
Brian O. Newman	1.50%	62,230	62,230
Nando Cesarone	1.50%	52,245	52,245
Kate M. Gutmann	1.50%	59,904	59,904
Juan R. Perez	1.50%	55,506	55,506

2020 MIP Payout

After assessing the above-described considerations, the Compensation Committee approved the following MIP performance incentive award payouts for each NEO, other than George Willis. George did not receive a 2020 MIP award because he retired prior to the MIP eligibility date.

Name	Target (% of Base Salary)	Target Value($)	Actual Value($)
Carol B. Tomé(1)	165%	1,203,129	1,503,911
David P. Abney	165%	2,177,683	2,722,104
Brian O. Newman	130%	970,788	1,213,485
Nando Cesarone	130%	815,022	1,018,778
Kate M. Gutmann	130%	934,502	1,168,128
Juan R. Perez	130%	865,894	1,082,367

(1) Award was prorated based on hire date. As described above, award was paid entirely in vested class A shares.

2021 MIP Performance Incentive Award Metrics

In order to better align executive compensation with shareowner returns and the Company's strategy going forward, the Committee considered and approved revised performance measures for the Company's 2021 MIP performance incentive award. Consolidated revenue growth will continue to be used as a performance measure, along with two new performance measures; consolidated operating profit and consolidated return on invested capital.

Long-Term Incentive Awards

Our two principal long-term incentive programs, the Long-Term Incentive Performance ("LTIP") award program and the Stock Option program, provide participants with grants of equity-based incentives that are intended to reward performance over a multi-year period and serve as a retention mechanism. The overlapping performance cycles under the LTIP program incentivize sustained financial performance. The Stock Option program rewards stock price appreciation, which is directly linked to shareowner returns.

In 2020, working with its independent compensation consultant, the Committee revised the performance measures for the LTIP program as described below. Prior to 2020, the LTIP performance measures were Growth in Adjusted Consolidated Revenue, Adjusted Return on Invested Capital and Relative Total Shareholder Return. Each performance measure was equally weighted and accounted for one-third of the award payout. Outstanding target awards (under the 2018 and 2019 LTIP award program) continue to be measured under the performance measures in effect when the awards were granted.

Program	Payment Form and Program Type	Performance Measures and/or Value Proposition for 2020 Awards	Program Objectives
LTIP	If earned, RPUs are settled in stock If earned, RPUs generally vest at the end of the three-year performance period	Adjusted Earnings Per Share Growth Adjusted Free Cash Flow Relative Total Shareowner Return as a modifier Value increases or decreases with stock price	Supports long-term operating plan and business strategy Significant link to shareowner interests
Stock Option	Stock options generally vest 20% per year over five years and have a ten-year term	Value recognized only if stock price appreciates	Significant link to shareowner interests Enhance stock ownership and shareowner alignment

Total Long-Term Equity Incentive Award Target Values

LTIP target values are determined based on internal pay comparison considerations and market data regarding total compensation for comparable positions at similarly situated companies. Differences in the target award values are based on varying levels of responsibility among the NEOs. The LTIP target opportunity granted to eligible NEOs in 2020, based upon a percentage of annualized base salary, is shown below.

Name	LTIP Target RPUs (% Base Salary)	Options (% Base Salary)	Total (% Base Salary)
Carol B. Tomé	735	90	825
David P. Abney(1)	300	90	390
Brian O. Newman	550	50	600
Nando Cesarone	450	30	480
Kate M. Gutmann	350	30	380
Juan R. Perez	350	30	380
George A. Willis(2)	450	30	480

(1) Retired as CEO effective May 31, 2020 and from all positions with the Company effective December 31, 2020. The LTIP target opportunity reflects the reduction in responsibilities during the year. Actual award payout, if any, will be prorated based on the number of months worked (12) during the three-year performance period.

(2) Retired in August 2020. Actual award payout, if any, will be prorated based on the number of months worked (8) during the three-year performance period.

LTIP Program

The LTIP program is designed to strengthen the performance-based component of our executive compensation package, enhance retention of key talent, and align the interests of shareowners with the incentive compensation opportunity for executives. Approximately 470 members of our senior management team, including the NEOs, participate in this program. The program improves shareowner alignment and further enhances the long-term focus of the award by establishing longer-term performance goals. Further, the program is designed to combine internal and external relative business performance measures. This combination balanced efforts to motivate and reward the management team for operational and financial success, while ensuring rewards are aligned with shareowner interests and returns.

A target award of RPUs is granted to participants at the beginning of the three-year performance period. The number of RPUs that can be earned by the NEOs under the LTIP award is shown in the Grants of Plan-Based Awards table. The actual number of RPUs that NEOs will receive will be determined following the completion of the performance period, based on achievement of the performance measures described below. The maximum LTIP award that can be earned is 220% of target.

Dividends payable on the number of shares underlying participants' RPUs are allocated in the form of dividend equivalent units ("DEUs"). DEUs are subject to the same conditions as the underlying award. Awards that vest are distributed in shares of class A common stock. Special vesting rules apply to terminations by reason of death, disability or retirement during the performance period, as discussed under "Potential Payments Upon Termination or Change in Control."

As described above, in 2020 the Committee, working with its independent compensation consultant, determined it was appropriate to approve performance measures different than those applicable to prior awards in order to more closely correlate compensation and shareholder returns. The performance measures selected by the Committee for the LTIP awards were adjusted earnings per share growth and adjusted free cash flow. Each measure will be evaluated independently and applied equally in determining final payouts. The final payout percentage for the award will be subject to modification based on the Company's total shareholder return ("RTSR") as a percentile rank relative to the total return on the stocks of the companies listed on the Standard & Poor's 500 Composite Index (the "Index"). A description of each performance measure and the operation of the RTSR modifier follows:

Adjusted Earnings Per Share Growth[1]

Adjusted earnings per share growth measures our success in increasing profitability as compared with targets adopted at the beginning of the performance period. 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 the performance period. For this purpose, adjusted net income is determined by reference to our publicly reported adjusted net income. The adjusted earnings per share growth target is the projected average annual adjusted earnings per share growth during each of the years within the applicable performance period. The actual adjusted earnings per share growth for each year of the applicable 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 applicable 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 target; and (iii) the final payout percentage for this metric.

Adjusted Free Cash Flow[1]

Adjusted free cash flow measures our ability to generate cash after accounting for capital expenditures. Adjusted free cash flow is determined by reducing the Company's adjusted cash flow from operations by adjusted capital expenditures and proceeds from disposals of fixed assets, and adjusting for net changes in finance receivables, other investing activities and discretionary pension contributions. The adjusted free cash flow target is the projected aggregate adjusted free cash flow generated during the applicable performance period. Following the completion of the applicable performance period, the Committee will certify (i) the actual adjusted free cash flow for the performance period; (ii) the actual adjusted free cash flow for the performance period as compared to the target; and (iii) the final payout percentage for this metric.

Relative Total Shareowner Return

Total shareholder return measures the total return on an investment in UPS stock to an investor (stock price appreciation plus dividends). This total return is compared with the total return on the stock of the companies listed on the Index at the beginning of the applicable performance period. The Committee will assign a percentile rank relative to the companies listed on the Index based on RTSR. Following the completion of the Performance Period, the Committee will certify the Company's RTSR and the payout modifier for that performance period, if any, as follows:

RTSR Percentile Rank Relative to Index	Payout Modifier
Above 75th percentile	+20%
Between 25th and 75th percentile	None
Below 25th percentile	-20%

2020 LTIP Award Grant

After monitoring and considering the economic impact and uncertainty caused by the coronavirus pandemic, and the challenges around long-term forecasting, the Committee made initial 2020 LTIP award grants in May 2020. Based on this uncertainty, the Committee determined it was appropriate to subdivide the three-year performance period for the 2020 LTIP program award into two tranches. The first tranche measured the achievement of the performance targets and the impact of the payout modifier for the portion of the 2020 LTIP performance period from January 1, 2020 through December 31, 2020. The results from this performance period will be used to determine 20% of the RPUs earned under the 2020 LTIP program award. The second tranche will measure the achievement of the performance targets and impact of the payout modifier for the portion of the 2020 LTIP performance period from January 1, 2021 through December 31, 2022. The results from this performance period will be used to determine 80% of the RPUs earned for the 2020 LTIP Program award. The Committee determined it was appropriate to more heavily weight the results from the second tranche of the performance period in order to maximize the at-risk nature of the award.

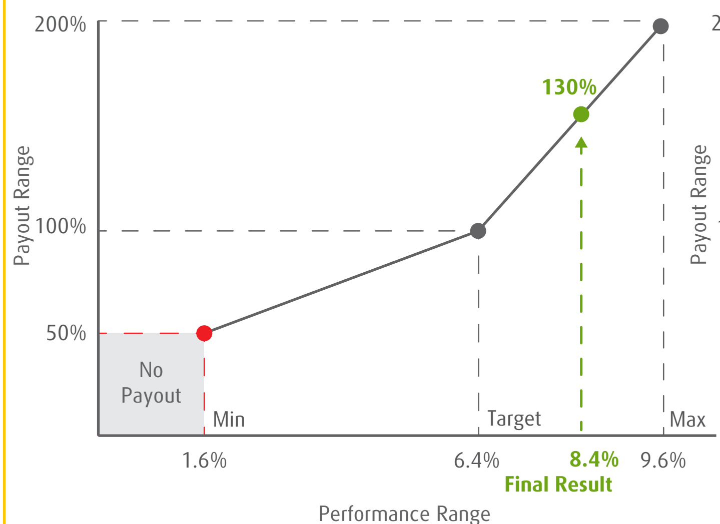
Because the 2020 LTIP award contains two tranches with separate performance goals, and the performance goals for the 2021-2022 performance period were not approved in 2020, in accordance with generally accepted accounting principles, the grant date fair value of the 2020 LTIP award in the "Stock Awards" column of the Summary Compensation Table below includes only the grant date fair value of the award for the 2020 performance period. The grant date fair value of the 2020 LTIP award attributable to the 2021-2022 performance period will be included in this table next year, as applicable. Furthermore, the target and maximum number of RPUs that can be earned by the NEOs under the 2020 LTIP award shown in the Grants of Plan-Based Awards table only includes 20% of the of the total target and calculated maximum RPUs awarded under the 2020 LTIP award. The actual number of RPUs that NEOs will receive will be determined following the completion of the full three-year performance period. The remaining 80% of the 2020 LTIP award RPUs that can be earned by the NEOs will be included in this table next year.

(1) Non-GAAP financial measures. We believe that these non-GAAP measures are appropriate for the determination of our incentive compensation award results because they exclude items that may not be indicative of, or are unrelated to, our underlying operations and provide a useful baseline for analyzing trends in our underlying business. Non-GAAP financial measures should be considered in addition to, and not as an alternative for, our reported results prepared in accordance with GAAP. Our non-GAAP financial information does not represent a comprehensive basis of accounting. Therefore, our non-GAAP financial information may not be comparable to similarly titled measures reported by other companies.

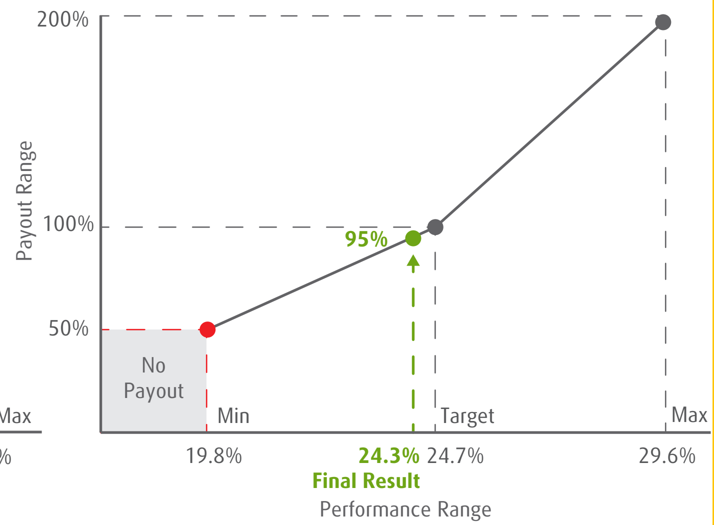
2018 LTIP Award Payout

In 2018, the Committee granted LTIP awards with a three-year performance period to the NEOs who were employees of the Company at that time. The performance metrics for the 2018 LTIP awards were growth in adjusted consolidated revenue, adjusted operating return on invested capital and RTSR, each as described in our proxy statement for our 2019 annual meeting of shareowners. Each of the three metrics was evaluated independently and applied equally in determining award payouts; as described above, for the 2018 LTIP awards, RTSR was a performance metric and not a modifier. The performance targets and actual results for the completed performance period for the 2018 LTIP awards are set out below. The total payout for the 2018 LTIP award was 142% of target. RPUs awarded under the 2018 LTIP are considered earned and vested.

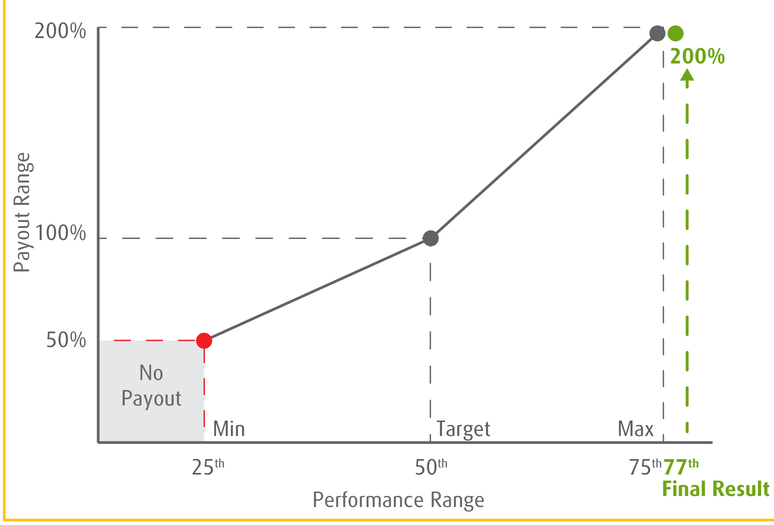
Growth in Adjusted Consolidated Revenue*



Adjusted Operating Return on Invested Capital*



Relative Total Shareowner Return



Actual Payout for 2018 LTIP Award as a Percent of Target

142%

* Growth in adjusted consolidated revenue was calculated on a constant currency basis using 2018 levels as the baseline. Adjusted consolidated revenue excluded the impact of a new revenue recognition standard under GAAP. Adjusted operating return on invested capital was adjusted for the impact of new pension accounting standards, new lease accounting standards, legal contingency and expense charges, and capital expenditures associated primarily with network expansion.

Stock Option Program and 2020 Stock Option Awards

The Committee believes that stock options provide significant incentives, as a direct link between Company performance and maximization of shareowner value. The option holder receives value only if our stock price increases. Stock options also have retention value; the option holder will not receive value from the options unless he or she remains employed during the vesting period. Stock options generally vest 20% per year over five years and expire ten years from the date of grant. Unvested stock options vest automatically upon termination of employment because of death, disability or retirement. In light of the five-year vesting schedule, we do not maintain additional holding period requirements. Grants do not include dividend equivalents or any reload features. The number of stock options granted to the NEOs in 2020 is shown in the Grants of Plan-Based Awards table.

Employment Transition Payments and Retention Arrangements

Generally, we do not pay discretionary bonuses in cash or stock, or make other discretionary payments, to our executives. In recent periods, however, in order to attract and retain senior executive talent to participate in the transformation of our business, the Committee determined it was appropriate to make certain limited payments to external executives hired to the Company's Executive Leadership Team. A portion of the payments to the external hires were made to compensate the executives for compensation forfeited at their prior employers and transition them into our incentive programs. In addition, in connection with hiring of a new CEO in 2020, the Committee determined it was appropriate to provide certain incentives to various executive officers in order to provide for the retention of their services through a transition period.

In connection with his announced retirement and in order to assist with the transition of matters through his retirement date and in view of his ongoing services, on March 11, 2020, UPS entered into an agreement (the "Transition Agreement") with David Abney. Pursuant to the Transition Agreement, David received his base salary through his retirement date and received a 2020 MIP target award valued at 165% of base salary. In addition, he received a 2020 LTIP target award valued at 300% of base salary. The Transition Agreement includes customary non-competition, non-solicitation and non-disparagement covenants in favor of the Company.

Under the terms of his 2019 employment offer letter described below, Brian Newman was entitled to: (i) a grant of RSUs with a value of $5,500,000, which vested in March 2020; (ii) a performance-based cash award with a target value of $3,000,000, payable in equal installments in March 2021 and March 2022, with the actual payout based on the Company's performance under the LTIP for periods ending December 31, 2020 and December 31, 2021, respectively; and (iii) a cash transition payment of $600,000 paid in March 2020. These amounts are subject to repayment on a prorated basis if Brian Newman resigns without "good reason" or is terminated for "cause" within 36 months following his September 2019 start date.

As described above, in order to provide for the retention of the services of certain executive officers in connection with our CEO transition, in May 2020, we entered into retention arrangements with each of Nando Cesarone, Kate Gutmann, Juan Perez and George Willis. The Committee initially intended that these agreements contain both performance and time vesting components, and that the performance components be different than the metrics under our MIP and LTIP programs. Due to the ongoing uncertainty created by the COVID-19 pandemic and the importance of the retention agreements to the Company, the Committee ultimately determined that the awards would be solely time based. Nando Cesarone, Kate Gutmann and Juan Perez each received $3.0 million in RSUs which vest as follows: 25% on May 13, 2021, 25% on May 13, 2022 and 50% on May 13, 2023, provided they remain an employee of UPS through the applicable vesting date. George Willis entered into an agreement pursuant to which he was granted $4.0 million in RSUs which would have vested had he remained employed by the Company through the above vesting dates; however, he forfeited the right to any payment under this agreement upon his retirement. In accordance with the rules and regulations of the SEC, the full value of these unvested awards is included in each individual's 2020 compensation as reported in the Summary Compensation Table below. These agreements contain customary non-competition, non-solicitation and non-disclosure covenants in favor of the Company.

Benefits and Perquisites

The benefits and perquisites provided to our NEOs are not a material part of executive compensation and are largely limited to those offered to our employees generally, or that we otherwise believe are necessary or appropriate to attract and retain executive talent. We believe certain perquisites help facilitate our NEOs' ability to carry out their responsibilities, maximize working time and minimize distractions. Additional information on these benefits can be found in the program descriptions below. In addition, in 2020 the Company approved the use of corporate chartered aircraft by Brian Newman for personal reasons, which is not expected to be a regular practice. This approval was directly related to the COVID-19 pandemic and the Company's belief that Brian should not travel by commercial aircraft at that time.

The UPS 401(k) Savings Plan

Participation in the UPS 401(k) Savings Plan is offered to all U.S.-based employees who are not subject to a collective bargaining agreement and who are not eligible to participate in another savings plan sponsored by UPS or one of its subsidiaries. We generally match 50% of up to 5% of eligible pay contributed to the UPS 401(k) Savings Plan for eligible employees hired on or before December 31, 2007, 100% of up to 3.5% of eligible pay contributed to the plan for eligible employees hired on or after January 1, 2008, and 50% of up to 6% of eligible pay contributed to the plan for employees hired on or after July 1, 2016. The match is paid in shares of class A common stock. Effective for newly eligible plan participants on or after July 1, 2016, we also generally provide a Retirement Contribution based on years of service and expressed as a percentage of eligible compensation (5% for 0-4 years, 6% for 5-9 years, 7% for 10-14 years and 8% for 15 or more years).

Qualified and Non-Qualified Pension Plans

Certain executive officers are eligible to participate in our qualified retirement program, the UPS Retirement Plan. Benefits payable under the plan are subject to the maximum compensation limits and the annual benefit limits for a tax-qualified defined benefit plan as established by the Internal Revenue Service. Amounts exceeding these limits are paid pursuant to the UPS Excess Coordinating Benefit Plan, which is a non-qualified restoration plan designed to replace the amount of benefits limited under the tax-qualified plan. Without the Excess Coordinating Benefit Plan, the executive officers would receive a lower benefit as a percent of final average earnings than the benefit received by other participants in the UPS Retirement Plan. In accordance with the terms of the Excess Coordinating Benefit Plan, following a participant's retirement, the Company pays an amount equal to the Social Security and Medicare taxes due on the present value of the benefits provided under the plan.

Financial Planning Services

Our executive officers are eligible for a financial services benefit. The Company reimburses fees from financial and tax service providers up to $15,000 per year, including the cost of personal excess liability insurance coverage.

Executive Health Services

UPS's business continuity is best facilitated by avoiding any prolonged or unexpected absences by members of its senior management team. In 2020, executive officers were offered certain executive health services, including comprehensive physical examinations.

Discounted Employee Stock Purchase Plan

We have maintained a Discounted Employee Stock Purchase Plan since 2001. The plan provides all U.S.-based employees, including the NEOs, and some internationally based employees, with the opportunity to purchase up to $10,000 in our class A common stock annually at a discount to the market price. The plan complies with Section 423 of the Internal Revenue Code. Our class A common stock may be acquired under the plan at a purchase price equal to 95% of the fair market value of the shares on the last day of each calendar quarter. Share purchases are made on a quarterly basis.

Other Compensation and Governance Policies

Stock Ownership Guidelines

CEO	= 8x annual salary
Other Executive Officers	= 5x annual salary
Directors	= 5x annual retainer

In furtherance of one of UPS's core principles relating to the importance of UPS stock ownership, we maintain stock ownership guidelines that apply to executive officers and members of the board. Shares of class A common stock (excluding any pledged shares), deferred units and vested and unvested RSUs and RPUs awarded under our equity incentive plans are considered owned for purposes of calculating ownership. Executive officers and directors are expected to reach target ownership within five years of the date that the executive officer or director became subject to the guideline.

As of December 31, 2020, all of the NEOs who have been subject to the guidelines for at least five years exceeded their target stock ownership. In addition, all of our non-employee directors who have been subject to the stock ownership guidelines for at least five years exceeded their target stock ownership. RSUs are required to be held by non-employee directors until separation from the board.

Hedging and Pledging Policies

We prohibit our executive officers and directors from hedging their ownership in UPS stock. Specifically, they are prohibited from purchasing or selling derivative securities relating to UPS stock and from purchasing financial instruments that are designed to hedge or offset any decrease in the market value of UPS securities. Additionally, we have adopted a policy prohibiting our directors and executive officers from entering into pledges of UPS securities, including using UPS securities as collateral for a loan and holding UPS securities in margin accounts. Furthermore, our employees, officers and directors are prohibited from engaging in short sales of UPS stock.

Clawback Policy

Our incentive compensation plans contain clawback provisions for all awards granted under the plans. If the Committee determines that financial results used to determine the amount of any award are materially restated, and that an executive officer engaged in fraud or intentional misconduct, we may seek repayment or recovery of the award from that executive officer. This clawback applies to all outstanding awards granted under our current and prior incentive plans. The 2021 Plan also includes clawback provisions.

Employment and Severance Arrangements; Change in Control Payments

The board believes that UPS has created a culture where long tenure for executives is the norm. As a result, we do not enter into agreements providing for the continuation of employment of an executive, or separate change in control agreements with any of our executive officers, including our NEOs, or other U.S.-based non-union employees.

However, in recent periods, in order to attract and retain senior executive talent to participate in the transformation of our business and in furtherance of the board's succession planning efforts, we have deemed it appropriate to enter into a limited number of employment offer letters, transition agreements and retention arrangements. These offer letters and retention arrangements set out certain compensation terms in connection with the individual's employment by UPS, but provide that employment is on an at-will basis. Some of the compensation described in the employment offer letters was designed to compensate the executives for compensation forfeited at their prior employers and transition them into our incentive programs. The potential compensation provided by the retention arrangements to certain NEOs is intended to further incentivize those officers to continue their employment with UPS. Transition agreements and retention arrangements have been utilized as a part of our succession planning process to help enable smooth leadership transitions.

In connection with her appointment as Chief Executive Officer, on March 11, 2020, the Company entered into an employment offer letter with Carol Tomé. The offer letter provides for: (i) an annual base salary of $1,250,000; (ii) a MIP award target of 165% of base salary, which for 2020 was prorated and payable in vested Class A common stock; (iii) a LTIP program award target of 735% of base salary; and (iv) a stock option grant target of 90% of base salary. Carol also entered into a protective covenant agreement, which protects UPS's confidential information and includes non-competition and non-solicitation covenants in favor of UPS. It also provides her with continued payment of her base salary for up to 24 months if her employment is terminated by UPS without "cause" within two years following her start date. In the event she is terminated without cause after the first two years of employment, the Company is obligated to make such payments if it elects to enforce post-termination non-compete covenants connected to those agreements.

For a description of the transition agreement entered into with David Abney, see "Employment Transition Payments" above.

Under Brian Newman's 2019 offer letter, he became entitled to: (i) a grant of UPS restricted stock units with a value of $5,500,000, which vested in March 2020; (ii) a performance-based cash award with a target value of $3,000,000, payable in equal installments in March 2021 and March 2022, with the actual payout based on the Company's performance under the LTIP for periods ending December 31, 2020 and December 31, 2021, respectively; and (iii) a cash transition payment of $600,000 paid in March 2020. These amounts are subject to repayment on a prorated basis if he resigns without "good reason" or is terminated for "cause" within 36 months following his September 2019 start date. This offer letter also sets out annual base salary levels, eligibility to participate in the MIP, LTIP and Stock Option programs, and eligibility for relocation benefits and other employee benefits, all consistent with those received by our other senior executives.

In connection with the entry into the offer letter, Brian Newman entered into a protective covenant agreement with us which, in the event he is terminated without cause during the first two years of employment, provides for separation pay equal to two years' salary. In the event he is terminated without cause after the first two years of employment, the Company is obligated to make such payments if it elects to enforce post-termination non-compete covenants connected to those agreements. Brian is also entitled to the continued vesting of his performance-based cash award (see "Employment Transition Payments" described above).

Under the terms of the retention arrangements with Nando Cesarone, Kate Gutmann and Juan Perez, each entered into customary non-competition, non-solicitation and non-disclosure agreements in favor of the Company. In the event that any of them are terminated without cause or resign for "good reason", their RSU awards will continue to vest on the schedule set out above. George Willis also entered into a similar agreement in favor of the Company.

All outstanding equity awards that are continued or assumed by a successor entity in connection with a change in control require a "double trigger" in order for vesting to accelerate; that is, they also require a qualifying termination of employment prior to any acceleration of vesting.

Equity Grant Practices

Grants of awards to executive officers under all of our equity incentive programs are approved by the Compensation Committee. Stock options have an exercise price equal to the NYSE closing market price on the date of grant.

Consideration of Previous "Say on Pay" Voting Results

Our shareowners have the opportunity to vote annually, on an advisory basis, to approve the compensation of our NEOs as set out in the Compensation Discussion and Analysis section and in the compensation tables and accompanying narrative disclosure in the proxy statement. See "Proposal 2 – Advisory Vote to Approve Named Executive Officer Compensation." In the most recent advisory vote on executive compensation, taken at the 2020 Annual Meeting of Shareowners, over 88% of votes cast approved our NEO compensation as described in our 2020 Proxy Statement. The Compensation Committee carefully considered the results of this vote as well as many other factors in determining the structure and operation of our executive compensation programs. In addition, we regularly engage with our shareowners on ESG matters, including executive compensation matters. We use the results of these engagements to inform board discussions on our corporate governance policies and pay practices.

Summary Compensation Table

The following table sets forth the compensation for our NEOs. As described under "2020 LTIP Program" in the Compensation Discussion and Analysis above, as a result of circumstances arising from the COVID-19 pandemic, 2020 LTIP program awards were granted with two separate performance periods. In accordance with generally accepted accounting principles, amounts in the "Stock Awards" column of the Summary Compensation Table reflect only a portion of the target value granted to the NEOs under such awards.

We do not believe amounts in the Summary Compensation Table are completely representative of the value granted to our NEOs in 2020. Therefore, following the Summary Compensation Table, we have presented a Supplemental 2020 Compensation Table including 100% of the target value of the 2020 LTIP awards.

Name and Principal Position	Year	Salary ($)[1]	Bonus ($)[2]	Stock Awards ($)[3]	Option Awards ($)[4]	Non-Equity Incentive Plan Compensation ($)[5]	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($)[6]	All Other Compensation ($)[7]	Total ($)
Carol B. Tomé Chief Executive Officer	2020	729,169	—	1,833,812	1,125,010	—	—	84,919	3,772,910
David P. Abney	2020	1,310,199	—	1,411,585	1,153,237	944,029	627,803	395,277	5,842,130
Retired Chief	2019	1,272,042	—	11,670,956	1,119,650	317,496	3,619,574	31,207	18,030,925
Executive Officer	2018	1,234,992	—	10,459,956	1,087,039	937,739	1,311,718	29,432	15,060,876
Brian O. Newman	2020	741,321	600,000	991,596	362,505	2,555,238	—	96,784	5,347,444
Chief Financial Officer	2019	212,898	—	5,500,084	—	—	—	27,139	5,740,121
Nando Cesarone President, U.S. Operations	2020	606,495	—	3,699,097	163,548	357,008	—	60,728	4,886,876
Kate M. Gutmann Chief Sales and Solutions Officer	2020	688,896	—	3,664,545	179,714	409,344	354,807	19,322	5,316,628
Juan R. Perez Chief Information and Engineering Officer	2020	644,352	—	3,642,589	173,760	379,291	336,592	29,922	5,206,506
George A. Willis Retired President, U.S. Operations	2020	466,680	—	4,850,591	171,959	—	898,339	125,939	6,513,508

(1) This column represents the salary earned during the portion of the year that the executive was employed. Carol Tomé joined the Company as CEO in June 2020.

(2) See "Employment Transition Payments and Retention Arrangements" and "Employment and Severance Arrangements; Change in Control Payments" in the Compensation Discussion and Analysis for a description of compensation in connection with Brian Newman's hiring.

(3) The values for stock awards in this column represent the aggregate grant date fair value for the stock awards granted in the applicable year, computed in accordance with Financial Accounting Standards Board Accounting Standards Codification ("FASB ASC") Topic 718. These awards include LTIP RPUs, MIP RPUs, MIP class A shares and the special grant of RSUs made to Brian Newman, Nando Cesarone, Kate Gutmann and Juan Perez. As described above, the grant date fair value of the 2020 LTIP awards includes only the portion of that award for the 2020 performance period. These awards also include the special grant of RSUs made to George Willis, which he forfeited upon his retirement. Awards with performance conditions are valued based on the probable outcome of the performance condition as of the grant date for the award. Information about the assumptions used to value these awards can be found in Note 13 "Stock-Based Compensation" in our 2020 Annual Report on Form 10-K. The amounts reported for these awards may not represent the amounts that the individuals will actually receive. The amounts received, if any, ultimately will depend on Company performance and the change in our stock price over time. An overview of the features of these awards can be found in the "Compensation Discussion and Analysis."

In accordance with SEC rules, we also are required to disclose the grant date fair value for awards with performance conditions assuming maximum performance. The grant date fair value for the 2020 LTIP RPU awards, assuming maximum performance for the portion of that award for the 2020 performance period, is as follows: Tomé — $4,034,387; Abney — $1,708,411; Newman — $1,772,126; Cesarone — $1,090,254; Gutmann — $931,813; Perez — $900,923; and Willis — $1,399,957.

(4) The values for stock option awards represent the aggregate grant date fair value for the option awards granted in the applicable year, computed in accordance with FASB ASC Topic 718. The assumptions used to value these awards can be found in Note 13 "Stock-Based Compensation" in our 2020 Annual Report on Form 10-K. The amounts reported for these awards may not represent the amounts that the individuals will actually receive. The amounts received, if any, ultimately will depend on the change in our stock price over time. An overview of the features of these awards can be found in the "Compensation Discussion and Analysis" section.

(5) Represents the cash portion of the MIP performance incentive award and the MIP ownership incentive award. For a description of the MIP, see "Compensation Discussion and Analysis." The MIP ownership incentive award was paid at 100% of target (one month's salary) for each eligible NEO who met or exceeded his or her target ownership level in the same proportion that the MIP award is paid. Also, for Brian Newman, represents the portion of the performance-based cash award granted under his employment offer letter.

(6) Represents an estimate of the annual increase in the actuarial present value of the NEOs' accrued benefit under our retirement plans for the applicable year, assuming retirement at age 60 (or current age, if later). See "Executive Compensation — 2020 Pension Benefits" for additional information, including assumptions used in this calculation. The change in pension value can be impacted by a number of factors, including additional credited service, changes in amounts of compensation covered by the benefit formula, plan amendments and assumption changes.

(7) All other compensation consisted of the following:

Name	401(k) Plan Retirement Contribution[1]($)	Restoration Savings Plan Contribution[2]($)	401(k) Plan Match ($)	Life Insurance Premiums ($)	Financial Planning Services ($)	Healthcare Benefits ($)	Other($)	Total ($)
Carol B. Tomé[3]	—	—	3,125	5,544	15,000	—	61,250	84,919
David P. Abney[4]	—	—	7,125	19,205	8,009	6,278	354,660	395,277
Brian O. Newman[5]	10,645	—	8,550	1,908	15,000	6,278	54,403	96,784
Nando Cesarone	22,400	9,645	7,125	1,001	14,279	6,278	—	60,728
Kate M. Gutmann	—	—	7,125	1,763	4,156	6,278	—	19,322
Juan R. Perez	—	—	7,125	1,640	14,879	6,278	—	29,922
George A. Willis[6]	—	—	7,125	2,072	9,544	6,278	100,920	125,939

(1) For eligible plan participants hired after July 1, 2016, we generally provide a retirement contribution based on years of service.

(2) For eligible plan participants hired after July 1, 2016, benefits payable under the UPS 401(k) Savings Plan are subject to the maximum compensation limits and the annual benefit limits for a tax-qualified defined contribution plan as established by the Internal Revenue Service. Amounts exceeding these limits are paid pursuant to the UPS Restoration Savings Plan.

(3) Other column consists of payments made for independent director service prior to being appointed CEO, which payments are also included in the "Fees Earned or Paid in Cash" column of the Director Compensation table.

(4) Other column consists of additional restoration amount under the Excess Coordinating Benefit Plan as described above.

(5) Other column consists of relocation expenses ($42,024) and the value of special use of corporate chartered aircraft for personal reasons ($12,379). These amounts were valued on the basis of the aggregate incremental cost to the Company and represent the amount accrued for payment or paid to the service provider or the individual, as applicable.

(6) Other column consists of unused vacation pay out as required under California law ($40,386) and additional restoration amount ($60,534) under the Excess Coordinating Benefit Plan as described above.

Supplemental 2020 Compensation Table

The table below includes 100% of the target value of the 2020 LTIP awards in the "Stock Awards" column as if the entire target value was calculated and included in 2020 compensation in accordance with generally accepted accounting principles. We believe this table is more representative of our NEOs' 2020 compensation than the Summary Compensation Table above. For ease of reference, we have highlighted the columns that differ from the 2020 amounts in the Summary Compensation Table. This table should not be viewed as a substitute for the required Summary Compensation Table above.

Name	Salary ($)	Bonus ($)	Stock Awards ($)	Stock Option Awards ($)	Non-Equity Incentive Plan Compensation ($)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($)	All Other Compensation ($)	Total ($)
Carol B. Tomé	729,169	—	$9,169,061	1,125,010	—	—	84,919	11,108,159
David P. Abney	1,310,199	—	$4,517,786	1,153,237	944,029	627,803	395,277	8,948,331
Brian O. Newman	741,321	600,000	$4,213,644	362,505	2,555,238	—	96,784	8,569,492
Nando Cesarone	606,495	—	$5,681,376	163,548	357,008	—	60,728	6,869,155
Kate M. Gutmann	688,896	—	$5,358,750	179,714	409,344	354,807	19,322	7,010,833
Juan R. Perez	644,352	—	$5,280,631	173,760	379,291	336,592	29,922	6,844,548
George A. Willis	466,680	—	$7,395,968	171,959	—	898,339	125,939	9,058,885

Grants of Plan-Based Awards

The following table provides information about plan-based awards granted during 2020 to each of the NEOs. As discussed above, in accordance with generally accepted accounting principles, amounts in the "Estimated Future Payouts Under Equity Incentive Plan Awards" column and the "Grant Date Fair Value of Stock and Options Awards" column below reflect only a portion of the 2020 LTIP target value granted to the NEOs.

			Estimated Possible Payouts Under Non-Equity Incentive Plan Awards(1)			Estimated Future Payouts Under Equity Incentive Plan Awards(2)			All Other Stock Awards: Number of Shares of Stock or Units	All Other Option Awards: Number of Securities Underlying Options	Exercise or Base Price of Option Awards	Grant Date Fair Value of Stock and Option Awards
Name	Grant Date	Approval Date	Threshold ($)	Target ($)	Maximum ($)	Threshold (#)	Target (#)	Maximum (#)	(#)(3)	(#)(4)	($/Sh)	($)(5)
Carol B. Tomé	6/1/2020	3/11/2020	—	—	—	0	18,508	40,718	—	—	—	1,833,812
	6/1/2020	3/11/2020	—	—	—	—	—	—	—	101,261	99.28	1,125,010
David P. Abney	—		—	725,894	1,666,667	—	—	—	—	—	—	—
	5/13/2020		—	—	—	0	8,473	18,641	—	—	—	776,550
	2/12/2020		—	—	—	—	—	—	—	96,667	105.54	1,153,237
	2/12/2020		—	—	—	—	—	—	6,017	—	—	635,034
Brian O. Newman	—		—	323,596	1,666,667	—	—	—	—	—	—	—
	5/13/2020		—	—	—	0	8,789	19,336	—	—	—	805,512
	2/12/2020		—	—	—	—	—	—	—	30,386	105.54	362,505
	2/12/2020		—	—	—	—	—	—	1,763	—	—	186,084

			Estimated Possible Payouts Under Non-Equity Incentive Plan Awards[1]			Estimated Future Payouts Under Equity Incentive Plan Awards[2]						
Name	**Grant Date**	**Approval Date**	**Threshold ($)**	**Target ($)**	**Maximum ($)**	**Threshold (#)**	**Target (#)**	**Maximum (#)**	**All Other Stock Awards: Number of Shares of Stock or Units (#)[3]**	**All Other Option Awards: Number of Securities Underlying Options (#)[4]**	**Exercise or Base Price of Option Awards ($/Sh)**	**Grant Date Fair Value of Stock and Option Awards ($)[5]**
Nando Cesarone	—		—	271,674	1,666,667	—	—	—	—	—	—	—
	5/13/2020		—	—	—	0	5,407	11,896	—	—	—	495,570
	2/12/2020		—	—	—	—	—	—	—	13,709	105.54	163,548
	2/12/2020		—	—	—	—	—	—	1,928	—	—	203,481
	5/13/2020		—	—	—	—	—	—	33,062	—	—	3,000,046
Kate M. Gutmann	—		—	311,501	1,666,667	—	—	—	—	—	—	—
	5/13/2020		—	—	—	0	4,621	10,167	—	—	—	423,551
	2/12/2020		—	—	—	—	—	—	—	15,064	105.54	179,714
	2/12/2020		—	—	—	—	—	—	2,283	—	—	240,948
	5/13/2020		—	—	—	—	—	—	33,062	—	—	3,000,046
Juan R. Perez	—		—	288,631	1,666,667	—	—	—	—	—	—	—
	5/13/2020		—	—	—	0	4,468	9,830	—	—	—	409,511
	2/12/2020		—	—	—	—	—	—	—	14,565	105.54	173,760
	2/12/2020		—	—	—	—	—	—	2,208	—	—	233,032
	5/13/2020		—	—	—	—	—	—	33,062	—	—	3,000,046
George A. Willis	—		—	—	—	—	—	—	—	—	—	—
	5/13/2020		—	—	—	0	6,943	15,275	—	—	—	636,344
	2/12/2020		—	—	—	—	—	—	—	14,414	105.54	171,959
	2/12/2020		—	—	—	—	—	—	2,030	—	—	214,246
	5/13/2020		—	—	—	—	—	—	44,082	—	—	4,000,001

(1) Reflects, as applicable, the target and maximum values of the cash portion of the 2020 MIP performance incentive award for each NEO. A participant's first MIP performance incentive award is paid entirely in vested class A stock. The potential payments for the MIP performance incentive award are performance-based and therefore at risk. The MIP is described in the "Compensation Discussion and Analysis."

(2) Potential number of RPUs that could be earned under the 2020 LTIP, solely for the 2020 performance period, if the target or maximum performance goals are attained. Does not include potential number of units that could be earned for the 2021 – 2022 performance period under the 2020 LTIP award.

(3) Represents the number of RPUs or shares of class A stock granted in 2020 pursuant to the 2019 MIP. For Nando Cesarone, Kate Gutmann and Juan Perez, also represents (in the last row for each such NEO) a special grant of RSUs. For George Willis, also represents (in his last row) the special grant of RSUs that he forfeited upon his retirement.

(4) Number of stock options granted under the Stock Option program in 2020.

(5) Grant date fair value under FASB ASC Topic 718 of the LTIP RPUs, MIP RPUs, stock options and the special RSU awards, as applicable, granted to each of the NEOs in 2020. Fair values are calculated using the NYSE closing price of UPS stock on the date of grant for RPUs and RSUs, and the Black-Scholes option pricing model for stock options. The grant date fair value of the units granted under the 2020 LTIP, which have performance conditions, are computed based on the probable outcome of the performance conditions for the 2020 performance period and does not include the grant date fair value of the units based on the probable outcome of the performance conditions for the 2021-2022 performance period. There can be no assurance that any value will ever be realized.

Outstanding Equity Awards at Fiscal Year-End

The following table shows the number of shares covered by exercisable options, unexercisable options, and unvested RSUs and RPUs held by the NEOs on December 31, 2020.

	Option Awards					Stock Awards			
Name	Number of Securities Underlying Unexercised Options Exercisable (#)	Number of Securities Underlying Unexercised Options Unexercisable (#)[(1)]	Option Exercise Price ($)	Option Grant Date	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)[(2)]	Market Value of Shares or Units of Stock That Have Not Vested ($)[(3)]	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)[(4)]	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($)[(3)]
Carol B. Tomé	—	101,261	99.28	6/1/2020	6/1/2030				
								93,719	15,782,280
David P. Abney	9,461	—	82.87	3/1/2013	3/1/2023				
	7,372	—	96.98	3/4/2014	3/4/2024				
	24,907	—	101.93	3/2/2015	3/2/2025				
	21,305	5,327	98.77	3/2/2016	3/2/2026				
	30,092	7,524	106.86	9/16/2016	9/16/2026				
	43,076	28,718	106.87	3/1/2017	3/1/2027				
	28,531	42,797	106.43	3/1/2018	3/1/2028				
	13,622	54,651	111.80	2/14/2019	2/14/2029				
	—	96,667	105.54	2/12/2020	2/12/2030				
						20,791	3,501,162	135,530	22,823,252
Brian O. Newman	—	30,386	105.54	2/12/2020	2/12/2030				
								44,994	7,576,990
Nando Cesarone	—	573	98.77	3/2/2016	3/2/2026				
	—	1,470	106.87	3/1/2017	3/1/2027				
	—	2,270	106.43	3/1/2018	3/1/2028				
	—	1,898	104.45	3/22/2018	3/22/2028				
	—	6,766	111.80	2/14/2019	2/14/2029				
	—	13,709	105.54	2/12/2020	2/12/2030				
						37,004	6,231,507	43,653	7,351,165
Kate M. Gutmann	2,726	—	96.98	3/4/2014	3/4/2024				
	6,974	—	101.93	3/2/2015	3/2/2025				
	6,082	1,521	98.77	3/2/2016	3/2/2026				
	6,118	4,080	106.87	3/1/2017	3/1/2027				
	4,033	6,050	106.43	3/1/2018	3/1/2028				
	1,940	7,764	111.80	2/14/2019	2/14/2029				
	—	15,064	105.54	2/12/2020	2/12/2030				
						41,062	6,914,818	41,985	7,070,274
Juan R. Perez	5,820	1,455	98.77	3/2/2016	3/2/2026				
	5,827	3,885	106.87	3/1/2017	3/1/2027				
	3,934	5,902	106.43	3/1/2018	3/1/2028				
	1,893	7,573	111.80	2/14/2019	2/14/2029				
	—	14,565	105.54	2/12/2020	2/12/2030				
						40,452	6,812,103	40,752	6,862,637
George A. Willis	—	—	—						
						4,299	723,874	17,349	2,921,572

(1) Stock options vest over a five-year period with 20% of the option vesting at each anniversary date of the grant. All options expire ten years from the date of grant. Under the terms of our equity incentive plans, unvested stock options become fully vested on the retirement date for the NEOs if they meet certain service requirements.

(2) Unvested stock awards in this column include RPUs granted as part of the MIP in 2016, 2017 and 2018 that vest over a five-year period with approximately 20% of the award vesting on January 15 of each year. The RPUs granted as part of the MIP in 2020 vest one year after the grant date. Also includes the special grant of RSUs to Nando Cesarone, Kate Gutmann and Juan Perez on May 13, 2020 that had not vested at December 31, 2020. Values are rounded to the closest unit.

(3) Market value based on NYSE closing price of the class B common stock on December 31, 2020 of $168.40.

(4) Represents the potential units to be earned under the 2019 LTIP award (for the three-year performance period ending December 31, 2021), the 2020 LTIP award (for the three-year performance period ending December 31, 2022), and any dividend equivalent units allocated since the grants were made. Assumes target performance goals will be met for all performance periods.

Option Exercises and Stock Vested

The following table sets forth the subject number of shares and corresponding value realized during 2020 regarding options that were exercised, and restricted stock units and restricted performance units that vested, for each NEO.

	Option Awards		Stock Awards	
Name	**Number of Shares Acquired on Exercise (#)**	**Value Realized on Exercise ($)**	**Number of Shares Acquired on Vesting (#)(1)**	**Value Realized on Vesting ($)(2)**
Carol B. Tomé	—	—	—	—
David P. Abney	—	—	109,750	16,928,813
Brian O. Newman	—	—	45,766	4,312,487
Nando Cesarone	5,963	323,537	21,605	3,295,756
Kate M. Gutmann	10,072	802,009	26,614	3,957,399
Juan R. Perez	—	—	24,804	3,726,654
George A. Willis	35,501	2,319,133	21,543	3,239,305

(1) The numbers in this column represents the 2018 LTIP award settled in the form of RPUs that vested on December 31, 2020; approximately 20% of the MIP RPUs granted in each of 2016, 2017 and 2018 that vested on January 15, 2020; and the RSU award to Brian Newman that vested in 2020. Vested RPU awards and RSU awards are distributed to participants in an equivalent number of shares of class A common stock.

(2) The value shown is based on the NYSE closing price of the class B common stock on December 31, 2020, the date the RPUs granted under the 2018 LTIP award and portions of the MIP RPUs granted in each of 2016, 2017 and 2018, vested, of $168.40 per share; and March 15, 2020, the date the special RSU award to Brian Newman vested, of $94.23 per share.

Pension Benefits

The following table quantifies the pension benefits expected to be paid to each NEO from the UPS Retirement Plan and the UPS Excess Coordinating Benefit Plan as of December 31, 2020. The terms of each are described below.

Name	Plan Name	Number of Years Credited Service(#)(2)	Present Value of Accumulated Benefit($)(3)	Payments During Last Fiscal Year($)
Carol B. Tomé(1)	UPS Retirement Plan	—	—	—
	UPS Excess Coordinating Benefit Plan	—	—	—
	Total	—	—	—
David P. Abney	UPS Retirement Plan	46.8	2,576,101	—
	UPS Excess Coordinating Benefit Plan	46.8	14,906,519	—
	Total	—	17,482,620	—
Brian O. Newman(1)	UPS Retirement Plan	—	—	—
	UPS Excess Coordinating Benefit Plan	—	—	—
	Total	—	—	—
Nando Cesarone(1)	UPS Retirement Plan	—	—	—
	UPS Excess Coordinating Benefit Plan	—	—	—
	Total	—	—	—
Kate M. Gutmann	UPS Retirement Plan	31.0	1,753,816	—
	UPS Excess Coordinating Benefit Plan	—	—	—
	Total	—	1,753,816	—
Juan R. Perez	UPS Retirement Plan	31.0	1,798,913	—
	UPS Excess Coordinating Benefit Plan	—	—	—
	Total	—	1,798,913	—
George A. Willis	UPS Retirement Plan	35.9	2,235,671	36,331
	UPS Excess Coordinating Benefit Plan	35.9	2,487,092	—
	Total	—	4,722,763	36,331

(1) Not eligible to participate in the UPS Retirement Plan or the UPS Excess Coordinating Benefit Plan.

(2) Represents years of service as of December 31, 2020 for all plans.

(3) Represents the total discounted value of the monthly lifetime benefit earned at December 31, 2020, assuming the individual continues in service and retires at age 60 or at the executive's actual age, if later. The present value is not the monthly or annual lifetime benefit that would be paid to the individual. The present values are based on discount rates of 2.77% and 3.06% for the UPS Retirement Plan and UPS Excess Coordinating Benefit Plan, respectively, at December 31, 2020. The present values assume no pre-retirement mortality and utilize the Pri-2012 healthy mortality table with adjusted mortality improvement after 2012 (no collar for the UPS Retirement Plan and white collar for the UPS Excess Coordinating Benefit Plan), with mortality improvements after 2012 using the MP-2020 projection scale adjusted to converge to 0.5% in 2025 on the RPEC model.

Pension Benefits

The UPS Retirement Plan is non-contributory and includes substantially all eligible employees of participating domestic subsidiaries who are not members of a collective bargaining unit, as well as certain employees covered by a collective bargaining agreement. The UPS Retirement Plan was closed to new entrants as of July 1, 2016.

UPS also sponsors a non-qualified defined benefit plan, the UPS Excess Coordinating Benefit Plan, for non-union employees whose pay and benefits in the qualified plan are limited by the Internal Revenue Service. An employee must be at least age 55 with 10 years of service to be eligible to participate in this plan. In the year that an individual first becomes eligible to participate in the UPS Excess Coordinating Benefit Plan, there is an increase for the participant for that year equal to the full present value of the participant's accrued benefit in the plan. In accordance with the terms of the Excess Coordinating Benefit Plan, following a participant's retirement, the Company pays an amount equal to the Social Security and Medicare taxes due on the present value of the benefits provided under the plan.

The UPS Retirement Plan and UPS Excess Coordinating Benefit Plan provide monthly lifetime benefits to participants and their eligible beneficiaries based on final average compensation at retirement, service with UPS and age at retirement. Participants may choose to receive a reduced benefit payable in an optional form of an annuity that is equivalent to the single lifetime benefit.

The plans provide monthly benefits based on the results from up to four benefit formulas. Participants receive the largest benefit from among the applicable benefit formulas. For Kate Gutmann, Juan Perez and George Willis, the formula that results in the largest benefit is called the "grandfathered integrated formula." This formula provides retirement income equal to 58.33% of final average compensation, offset by a portion of the Social Security benefit. A participant with less than 35 years of benefit service receives a proportionately lesser amount. For David Abney, the formula that results in the largest benefit is called the "integrated account formula." This formula provides retirement income equal to 1.2% of final average compensation plus 0.4% of final average compensation in excess of the Social Security Wage Base times years of benefit service.

Participants earn benefit service for the time they work as an eligible UPS employee. For purposes of the formulas, compensation includes salary and an eligible portion of the MIP award. The average final compensation for each participant in the plans is the average covered compensation of the participant during the five highest consecutive years out of the last ten full calendar years of service.

Benefits payable under the UPS Retirement Plan are subject to the maximum compensation limits and the annual benefit limits for a tax-qualified defined benefit plan as prescribed and adjusted from time to time by the Internal Revenue Service. Eligible amounts exceeding these limits will be paid from the UPS Excess Coordinating Benefit Plan. Under this plan, participants receive the benefit in the form of a life annuity.

The plans permit participants with 25 or more years of benefit service to retire as early as age 55 with only a limited reduction in the amount of their monthly benefits. Each of the NEOs would be eligible to retire at age 60 and receive unreduced benefits from the plans. In addition, the plans allow participants with ten years or more of service to retire at age 55 with a larger reduction in the amount of their benefit. George Willis retired on August 31, 2020, as a result his benefits were reduced by 13%. As of December 31, 2020, David Abney was eligible for early retirement with unreduced benefits.

Non-Qualified Deferred Compensation

The following table shows the executive and Company contributions or credits, earnings and account balances for the NEOs in the UPS Deferred Compensation Plan and UPS Restoration Savings Plan for 2020.

Name	Plan Name	Executive Contributions in Last FY ($)(1)	Registrant Contributions in Last FY ($)(2)	Aggregate Earnings in Last FY ($)	Aggregate Withdrawals/ Distributions ($)	Aggregate Balance at Last FYE ($)(3)
Carol B. Tomé	UPS Deferred Compensation Plan	61,250	—	407,219	—	3,573,204
David P. Abney	UPS Deferred Compensation Plan	—	—	1,293,335	—	4,567,228
Brian O. Newman	—	—	—	—	—	—
Nando Cesarone	UPS Restoration Savings Plan	—	9,645	—	—	9,645
Kate M. Gutmann	UPS Deferred Compensation Plan	—	—	135,095	—	437,831
Juan R. Perez	UPS Deferred Compensation Plan	157,991	—	198,347	—	1,031,296
George Willis	UPS Deferred Compensation Plan	21,749	—	120,255	—	689,807

(1) For Carol Tomé, represents deferral of non-employee director fees as also reported in the "All Other Compensation" column of the Summary Compensation Table; for Juan Perez and George Willis, represents deferral of base salary. Amounts are also disclosed in the "Salary" column of the Summary Compensation Table.

(2) Amount of Company credits to the UPS Restoration Savings Plan, which amounts are also disclosed in the "All Other Compensation" column of the Summary Compensation Table.

(3) Certain amounts in this column represent salary, bonus or stock options contributed by the NEO to the plans in prior years as follows: Tomé — $1,822,500 Abney —$1,122,198; Newman – $0; Cesarone — $0; Gutmann — $118,149; Perez — $496,614; and Willis - $263,652.

The deferred compensation vehicles in the UPS Deferred Compensation Plan and the UPS Restoration Savings Plan are described below. Not all of the NEOs participate in each feature of the UPS Deferred Compensation Plan.

Salary Deferral Feature

- Prior to December 31, 2004, contributions could be deferred from executive officers' monthly salary and from their half-month bonus.
- Prior to December 31, 2004, non-employee directors could defer retainer and meeting fees quarterly. Assets from the discontinued UPS Retirement Plan for Outside Directors were transferred to the 2004 and Before Salary Deferral Feature in 2003.
- No contributions were permitted after December 31, 2004, except as described below.
- After December 31, 2004, executive officers may defer 1% to 35% of their monthly salary and 1% to 100% of the cash portion of the MIP award. They may also defer excess pre-tax contributions if the UPS 401(k) Savings Plan fails the annual average deferral percentage test.
- Non-employee directors may defer retainer fees quarterly.
- Elections are made annually for the following calendar year.

Stock Option Deferral Feature

- Assets are invested solely in shares of UPS stock.
- Non-qualified or incentive stock options which vested prior to December 31, 2004 were deferrable during the annual enrollment period for the following calendar year. Participants deferred receipt of UPS stock that would otherwise be taxable upon the exercise of the stock option.
- The shares received upon exercise of these options are deferred 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" in the shareowners' equity section of the balance sheet.
- No deferrals of stock options were permitted after December 31, 2004.
- As a result of the requirements applicable to non-qualified deferred compensation arrangements under Section 409A of the Internal Revenue Code and related guidance, deferral of stock options is no longer offered under the UPS Deferred Compensation Plan for options that vested after December 31, 2004.

Withdrawals and Distributions under the UPS Deferred Compensation Plan

- For the 2004 and Before Salary Deferral Feature, participants may elect to receive the funds in a lump sum or up to a 10 year installment (of 120 monthly payments), subject to restrictions if the balance is less than $20,000.
- For the 2005 and Beyond Salary Deferral Feature, participants may elect to receive funds in a lump sum or up to a 10 year installment (120 monthly payments), subject to restrictions if the balance, plus the total balance in any other account which must be aggregated with the 2005 and Beyond Salary Deferral Account under Section 409A of the Internal Revenue Code, is less than the Internal Revenue Code Section 402(g) annual limit in effect for qualified 401(k) plans on the date the participant becomes eligible for a distribution.
- For the Stock Option Deferral Feature, participants may elect to receive shares in a lump sum or up to 10 annual installments, subject to restrictions if the balance is less than $20,000. The distribution of shares will occur pro-rata based on the type of stock options (non-qualified or incentive) that were originally deferred.
- The distribution election under the 2005 and Beyond Salary Deferral Feature may be changed one time only, but may be changed more frequently under the 2004 and Before Salary Deferral Feature and the Stock Option Deferral Feature.
- Hardship distributions are permitted under all three features of the UPS Deferred Compensation Plan.
- Withdrawals are not permitted under the 2005 and Beyond Salary Deferral Feature, but withdrawals are permitted for 100% of the account under the 2004 and Before Salary Deferral Feature and Stock Option Deferral Feature. However, withdrawals will result in a forfeiture of 10% of the participant's total account balances.

No Company contributions are made to any of the three features of the UPS Deferred Compensation Plan. The aggregate balances shown in the table above represent amounts that the NEOs have earned but elected to defer, plus earnings (or less losses). There are no above-market or preferential earnings in the UPS Deferred Compensation Plan. The investment options mirror those in the UPS 401(k) Savings Plan. Dividends earned on shares of UPS stock in the UPS Deferred Compensation Plan are earned at the same rate as all other class A and class B shares of common stock. Dividends are added to the participant's deferred compensation balance. Deferral elections made under the UPS Deferred Compensation Plan are irrevocable once made.

UPS Restoration Savings Plan

Benefits payable under the UPS 401(k) Savings Plan are subject to the maximum compensation limits and the annual benefit limits for a tax-qualified defined contribution plan as established by the Internal Revenue Service. Amounts exceeding these limits are paid pursuant to the UPS Restoration Savings Plan, which is a non-qualified restoration plan designed to replace the amount of benefits limited under the tax-qualified plan. Without the UPS Restoration Savings Plan, executive officers would receive a lower benefit as a percent of eligible compensation than the benefit received by other participants in the UPS Savings Plan.

Potential Payments on Termination or Change in Control

Our Compensation Committee believes that UPS has created a culture where long tenure for executives is the norm. As a result, executive officers serve without employment contracts, as do most of our other U.S.-based non-union employees.

In connection with the hiring of each of Carol Tomé and Brian Newman we entered into protective covenant agreements with each of them. These agreements provide for separation pay equal to two years' salary in the event they are terminated without cause during the first two years of employment. In the event Brian is terminated without cause during the first two years of employment his special performance based cash award granted in September 2019 will continue vesting. In the event either of them are terminated without cause after the first two years of employment, the Company is obligated to make such payments and continue vesting such grants if it elects to enforce post-termination non-compete covenants connected to those agreements.

In addition, we entered into retention arrangements and protective covenant agreements with Nando Cesarone, Kate Gutmann and Juan Perez that provide for the continued vesting of their special RSU retention grants in the event they are terminated without cause or resign for "good reason".

Our current and prior equity incentive plans and related documents contain provisions that affect outstanding awards to all plan participants, including the NEOs, in the event of a participant's death, disability or retirement, or a change in control (as defined below) of the Company.

Upon a participant's death, disability or retirement:

- Options will immediately vest, and remain exercisable until the tenth anniversary of the date of grant;
- Shares of restricted stock, RSUs or RPUs that are no longer subject to performance conditions will immediately vest. In the case of a participant's death, shares (or cash, as applicable) attributable to the number of restricted shares, RSUs or RPUs will be transferred to the participant's estate within 90 days. In the case of a participant's disability or retirement, shares (or cash, as applicable) attributable to the number of restricted shares, RSUs or RPUs will be transferred to the participant on the same schedule as if they had remained employed; and
- Shares of restricted stock, RSUs and RPUs that are still subject to performance conditions shall be deemed earned on a prorated basis for the number of months worked during the performance period. In the case of a participant's death, shares (or cash, as applicable) attributable to the prorated number of restricted shares, RSUs or RPUs calculated at target performance level will be transferred to the participant's estate within 90 days. In the case of a participant's disability or retirement, shares (or cash, as applicable) attributable to the prorated number of restricted shares, RSUs or RPUs calculated based on actual performance results for the full performance period will be transferred to the participant following the end of the performance period.

Upon a change in control, if the successor company does not continue, assume or substitute other grants for outstanding awards, or upon a change in control followed by a qualifying termination:

- Options will immediately vest and become exercisable;
- Shares of restricted stock, RSUs or RPUs that are no longer subject to performance conditions will immediately vest; and
- Shares of restricted stock, RSUs and RPUs that are still subject to performance conditions will be deemed earned to the extent that actual achievement of the applicable performance conditions can be determined, or on a prorated basis for the portion of the performance period completed prior to the change in control or qualifying termination, based on target or actual performance.

Other Outstanding Awards; No Tax Gross-Ups

Other outstanding awards will vest and be paid generally as described in the bullet points above (except, where applicable, timing of payment generally will be tied to such change in control, rather than termination or resignation). We do not provide for the payment of tax gross-ups on outstanding awards.

The following table shows the potential payments to the NEOs upon a termination of employment under various circumstances. In preparing the table, we assumed the event occurred on December 31, 2020. The closing price per share of our class B common stock on the NYSE on December 31, 2020 was $168.40. The actual amounts to be paid under any of the scenarios can only be determined at the time of such NEO's separation from the Company. George Willis is not included in the table because he was not employed on this date. Upon his retirement, all outstanding stock options vested and became exercisable and his outstanding LTIP grants vested, with payout prorated based on the number of months worked during each applicable performance period, subject in each case to actual performance as determined at the end of each performance period.

Name	Separation Pay[(1)] ($)	Accelerated Vesting of Equity Awards[(2)] ($)	Total ($)
Carol B. Tomé			
Termination (voluntary or involuntary for cause)	—	—	—
Termination (involuntary without cause)	2,500,008	—	2,500,008
Change in Control (with qualifying termination)	—	26,933,348	26,933,348
Retirement	—	26,933,348	26,933,348
Death	—	26,933,348	26,933,348
Disability	—	26,933,348	26,933,348
David P. Abney			
Termination (voluntary or involuntary for cause)	—	—	—
Termination (involuntary without cause)	—	—	—
Change in Control (with qualifying termination)	—	40,747,243	40,747,243
Retirement	—	40,747,243	40,747,243
Death	—	40,747,243	40,747,243
Disability	—	40,747,243	40,747,243
Brian O. Newman			
Termination (voluntary or involuntary for cause)	—	—	—
Termination (involuntary without cause)	4,493,520	—	4,493,520
Change in Control (with qualifying termination)	—	9,487,022	9,487,022
Retirement	—	9,487,022	9,487,022
Death	3,000,000	9,487,022	12,487,022
Disability	3,000,000	9,487,022	12,487,022
Nando Cesarone			
Termination (voluntary or involuntary for cause)	—	—	—
Termination (involuntary without cause)	—	5,689,907	5,689,907
Change in Control (with qualifying termination)	—	15,219,553	15,219,553
Retirement	—	9,529,645	9,529,645
Death	—	15,219,553	15,219,553
Disability	—	15,219,553	15,219,553
Kate M. Gutmann			
Termination (voluntary or involuntary for cause)	—	—	—
Termination (involuntary without cause)	—	5,689,907	5,689,907
Change in Control (with qualifying termination)	—	16,103,111	16,103,111
Retirement	—	10,413,203	10,413,203
Death	—	16,103,111	16,103,111
Disability	—	16,103,111	16,103,111
Juan R. Perez			
Termination (voluntary or involuntary for cause)	—	—	—
Termination (involuntary without cause)	—	5,689,907	5,689,907
Change in Control (with qualifying termination)	—	15,724,855	15,724,855
Retirement	—	10,034,948	10,034,948
Death	—	15,724,855	15,724,855
Disability	—	15,724,855	15,724,855

(1) Represents the value of separation pay, and with respect to Brian Newman, the payment of his performance-based cash award (see "Employment Transition Payments" above). A portion of Brian's performance-based cash award was paid out in March 2021, and the remaining portion of this award will be paid out in March 2022.

(2) Represents the value of accelerated vesting of stock options and RPUs in accordance with the terms of the 2009 Plan, the 2012 Plan, the 2015 Plan, the 2018 Plan and the applicable award certificates. Also includes the 2019 and 2020 LTIP awards calculated at target. The performance measurement period for the 2019 LTIP award ends December 31, 2021, and performance measurement period for the 2020 LTIP award ends December 31, 2022. With respect to Nando Cesarone Kate Gutmann and Juan Perez, includes the continued vesting of the one-time RSU awards to each as described in "Employment Transition Payments" above.

Other Amounts

The previous table does not include payments and benefits to the extent they are generally provided on a non-discriminatory basis to salaried employees not subject to a collective bargaining agreement upon termination of employment. These include:

- Life insurance upon death in the amount of 12 times the employee's monthly base salary, with a December 31, 2020 maximum benefit payable of $1 million;
- A death benefit in the amount of three times the employee's monthly salary;
- Disability benefits; and
- Accrued vacation amounts.

The tables also do not include amounts to which the executives would be entitled to receive that are already described in the compensation tables that appear earlier in this Proxy Statement, including:

- The value of equity awards that are already vested;
- Amounts payable under defined benefit pension plans; and
- Amounts previously deferred into the deferred compensation plan.

Definition of a Change in Control

A change in control of the company as defined in the 2018 Plan is deemed to have occurred as of the first day that any one or more of the following conditions shall have been satisfied:

- The consummation of a reorganization, merger, share exchange or consolidation, in each case, where persons who were shareowners of UPS immediately prior to such reorganization, merger, share exchange or consolidation do not, immediately thereafter, own more than fifty percent (50%) of the combined voting power of the reorganized, merged, surviving or consolidated company's then outstanding securities entitled to vote generally in the election of directors in substantially the same proportions as immediately prior to the transaction; or a liquidation or dissolution of UPS or the sale of substantially all of UPS's assets; or
- Individuals who, as of any date (the "Beginning Date"), constitute the Board of Directors (the "Incumbent Board") and who, as of the end of the two-year period beginning on such Beginning Date, cease for any reason to constitute at least a majority of the Board of Directors, provided that any person becoming a director subsequent to the Beginning Date whose election, or nomination for election by UPS's shareowners, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board (other than an election or nomination of an individual whose initial assumption of office is in connection with an actual or threatened election contest relating to the election of the directors of UPS, as such terms are used under applicable SEC rules and requirements) shall be considered as though such person were a member of the Incumbent Board.

Equity Compensation Plans

The following table sets forth information as of December 31, 2020 concerning shares of our common stock authorized for issuance under all of our equity compensation plans.

Plan category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (c)
Equity compensation plans approved by security holders[1]	11,037,149	14.83	19,021,611[2]
Equity compensation plans not approved by security holders	—	N/A	—
Total	11,037,149	14.83	19,021,611

(1) Includes the 1999 Plan, the 2009 Plan, the 2012 Plan, the 2015 Plan, the 2018 Plan and the Discounted Employee Stock Purchase Plan, each of which has been approved by our shareowners. Effective with the approval of the 2018 Plan in May 2018, no additional securities may be issued under the 1999 Plan, the 2009 Plan, the 2012 Plan or the 2015 Plan. Awards that do not entitle the holder to receive or purchase shares and awards that are settled in cash are not counted against the aggregate number of shares available for awards under the 2018 Plan.

(2) In addition to grants of options, warrants or rights, this number includes up to 7,204,905 shares of common stock or other stock-based awards that may be issued under the 2018 Plan, and up to 11,816,706 shares of common stock that may be issued under the Discounted Employee Stock Purchase Plan. This number does not include shares under the 1999 Plan, the 2009 Plan, the 2012 Plan or the 2015 Plan because no new awards may be made under those plans.

Median Employee to CEO Pay Ratio

As required by Item 402(u) of Regulation S-K, pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act, we are providing the following ratio of the annual total compensation of our CEO to the annual total compensation of our median employee.

The 2020 annual total compensation of the median compensated employee was $44,254; our CEO's 2020 annualized total compensation was $14,276,035, and the ratio of these amounts was 323-to-one. Our CEO's 2020 annualized total compensation was different from the amount included in the Summary Compensation Table.

Items related to healthcare benefits, which are available generally to all salaried employees of the Company, are included in the annual total compensation numbers above. The CEO's and median employee's Company-paid healthcare benefit amounts were $5,331 and $5,111 respectively. For the CEO, this amount is not included in the Summary Compensation Table as permitted by SEC regulations.

As permitted by SEC rules, the Company elected to annualize Carol Tomé's compensation, who became CEO on June 1, 2020, using reasonable assumptions. Carol's salary was annualized to $1,250,004; her LTIP grant was annualized to $9,169,061 to reflect the full intended value of her 2020 LTIP award; and her MIP award was annualized to $2,641,710 to reflect the value she would have received if her actual award had not been prorated based on the number of months worked. Carol's 2020 annualized total compensation is not included in the Summary Compensation Table.

The SEC's rules for identifying the median compensated employee and calculating the pay ratio based on that employee's annual total compensation allow companies to adopt a variety of methodologies, to apply certain exclusions, and to make reasonable estimates and assumptions that reflect their employee populations and compensation practices. As a result, the pay ratio reported by other companies may not be comparable to the pay ratio reported above, as other companies have different employee populations and compensation practices and may utilize different methodologies, exclusions, estimates and assumptions in calculating their own pay ratios.

The pay ratio reported above is a reasonable estimate calculated in a manner consistent with SEC rules based on our payroll and employment records and the methodology described below. For these purposes, we identified the median compensated employee from our employee population as of October 1, 2020, using total taxable wages (Form W-2 Box 1 or equivalent) paid to our employees in fiscal year 2020. We determined our total workforce as of October 1, 2020 to consist of 547,857 employees. As permitted by SEC rules, under the 5% "De Minimis Exemption," we excluded 26,368 non-U.S. employees, or 4.8% of our total workforce. As a result of these exclusions, our median employee was identified from an employee population of 521,489 employees.

The excluded countries and their employee populations are as follows: Argentina (242 employees), Australia (486 employees), Austria (185 employees), Bahrain (28 employees), Belarus (23 employees), Belgium (1,008 employees), Brazil (692 employees), Chile (113 employees), Colombia (1,064 employees), Costa Rica (343 employees), Czech Republic (453 employees), Denmark (531 employees), Dominican Republic (116 employees), Ecuador (65 employees), Egypt (29 employees), El Salvador (30 employees), Finland (187 employees), Greece (143 employees), Guam (2 employees), Guatemala (73 employees), Honduras (39 employees), Hong Kong (1,013 employees), Hungary (417 employees), Indonesia (159 employees), Ireland (1,133 employees), Italy (1,279 employees), Jamaica (4 employees), Japan (644 employees), Kazakhstan (36 employees), Kuwait (54 employees), Luxembourg (11 employees), Macau (2 employees), Malaysia (302 employees), Mexico (2,489 employees), Morocco (60 employees), New Zealand (27 employees), Nicaragua (25 employees), Nigeria (288 employees), Norway (105 employees), Pakistan (59 employees), Panama (32 employees), Peru (77 employees), Philippines (1,470 employees), Portugal (195 employees), Puerto Rico (442 employees), Romania (142 employees), Russia (571 employees), Singapore (1,219 employees), Slovakia (18 employees), Slovenia (51 employees), South Africa (277 employees), South Korea (558 employees), Spain (1,314 employees), Sweden (938 employees), Switzerland (703 employees), Taiwan (970 employees), Thailand (473 employees), Turkey (1,992 employees), Ukraine (89 employees), United Arab Emirates (532 employees), U.S. Virgin Islands (10 employees), and Vietnam (336 employees).

Proposal 2 — Advisory Vote to Approve Named Executive Officer Compensation

What am I voting on? Whether you approve, on an advisory basis, the compensation of the NEOs as disclosed in this Proxy Statement.

Voting Recommendation: Our Board of Directors recommends that shareowners vote **FOR** this proposal.

Vote Required: The proposal must be approved by a majority of the voting power of the shares present in person or by proxy.

Pay that reflects performance and alignment of pay with the long-term interests of our shareowners are key principles that underlie our compensation programs. In accordance with the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") and Section 14A of the Exchange Act, shareowners have the opportunity to vote, on an advisory basis, to approve the compensation of our NEOs. This is often referred to as a "say on pay" vote and provides you, as a shareowner, with the ability to cast a vote with respect to the 2020 compensation paid to the NEOs as disclosed in this proxy statement through the following resolution:

> "RESOLVED, that the shareowners approve, on an advisory basis, the compensation of the NEOs, as described in the Compensation Discussion and Analysis section and in the compensation tables and accompanying narrative disclosure in the Company's Proxy Statement for the 2021 Annual Meeting of Shareowners."

As discussed in the Compensation Discussion and Analysis section, the compensation paid to our NEOs reflects the following principles of our compensation program:

- encouraging executive decision-making that is aligned with the long-term interests of our shareowners;
- tying a significant portion of executive pay to Company performance over a multi-year period;
- promoting UPS's long-standing culture of owner-management; and
- using a balance of short- and long-term performance metrics to encourage the efficient management of our business and minimize excessive risk-taking.

Although this vote is non-binding, the Compensation Committee and the Board value our shareowners' views and expect to consider the voting results. To the extent there is a significant negative vote, we expect that we will consult directly with shareowners to better understand the concerns that influenced the vote. As they currently do, the Compensation Committee and the Board would consider the constructive feedback obtained through this process in making decisions about future compensation arrangements for our NEOs. We conduct say on pay votes annually, and the next say on pay vote is expected to occur at the 2022 Annual Meeting.

In accordance with the Dodd-Frank Act, this vote does not overrule any decisions by the Board, will not create or imply any change to or any additional fiduciary duties of the Board and will not restrict or limit the ability of shareowners generally to make proposals for inclusion in proxy materials related to executive compensation.

Proposal 3 — Approve 2021 Omnibus Incentive Compensation Plan

What am I voting on? Whether you approve the United Parcel Service, Inc. 2021 Omnibus Incentive Compensation Plan as described in this Proxy Statement.

Voting Recommendation: Our Board of Directors recommends that shareowners vote **FOR** this proposal.

Vote Required: The proposal must be approved by a majority of the voting power of the shares present in person or by proxy.

The Board of Directors has adopted, and recommends that the shareowners approve, the United Parcel Service, Inc. 2021 Omnibus Incentive Compensation Plan (the "2021 Plan"), which will succeed the United Parcel Service, Inc. 2018 Omnibus Incentive Compensation Plan (the "2018 Plan"). The 2021 Plan permits the grant of options, stock appreciation rights, restricted stock, restricted stock units, restricted performance shares, restricted performance units, shares, cash awards and certain other awards (collectively, "awards").

Shareowner approval of the 2021 Plan is required by NYSE rules. If we receive shareowner approval, the 2021 Plan will become effective as of the day of the 2021 Annual Meeting of Shareowners (May 13, 2021). If shareowners approve the 2021 Plan, no further grants will be made under the 2018 Plan, but awards outstanding under the 2018 Plan will continue in effect in accordance with their terms. If we do not receive shareowner approval, the 2021 Plan will not go into effect and the 2018 Plan will remain in effect.

A summary of the material terms of the 2021 Plan is provided below, which summary is qualified in its entirety by reference to the text of the 2021 Plan that is included as <u>Annex A</u> to this proxy statement.

In evaluating this proposal, shareowners should consider all of the information in this proposal.

Purposes of the 2021 Plan

As discussed in the Compensation Discussion and Analysis, annual and long-term incentive compensation and equity compensation awards play an important part in our pay-for-performance philosophy. The ability to grant equity compensation awards also helps us remain competitive in retaining and attracting highly qualified employees upon whom, in large measure, the future growth and success of UPS depend. In 2020, we granted equity compensation awards to approximately 35,000 of our employees as a component of their compensation.

In general, the purposes of the 2021 Plan are to:

- permit the grant of short-term and long-term incentives and rewards to UPS employees, directors, and certain consultants, agents and other service providers for service and/or performance; and
- promote teamwork among such service providers.

The 2021 Plan is further intended to provide flexibility to UPS in our ability to motivate, attract, and retain the services of employees, directors and others who make contributions to our success and to allow our employees and directors to share in our success.

Approving the 2021 Plan would further these objectives by allowing us to continue to grant annual and long-term equity incentive compensation for approximately three years based on our historic grant rates and approximate current share price (but the shares authorized under 2021 Plan could last for a different period of time if actual practice does not match recent rates or our share price changes materially). If the 2021 Plan is not approved, we do not expect to have sufficient shares to meet our anticipated annual and long-term equity compensation needs after 2021 under our existing 2018 Plan. If the 2021 Plan is not approved, we may be compelled to increase significantly the cash component of our employee and director compensation, which may not necessarily align employee and director compensation interests with the investment interests of our shareowners. Replacing equity awards with cash also would increase cash compensation expense and use cash that might be better utilized.

Highlights of Key Corporate Governance Practices and Provisions under the 2021 Plan

We believe that the 2021 Plan will promote the interests of our shareowners and is consistent with principles of good corporate governance. The 2021 Plan includes the following key practices and provisions.

Administered by an independent committee. Awards to executive officers will generally be administered by the Compensation Committee of our Board of Directors or, under limited circumstances, the full Board of Directors. The Compensation Committee is composed entirely of independent directors who meet the SEC and NYSE standards for independence.

No current dividends on unearned awards. The 2021 Plan prohibits the current payment of dividends or dividend equivalents on unvested or unearned awards.

No "liberal" change in control definition. The change in control definition in the 2021 Plan is not "liberal" and, for example, would not occur merely upon shareowner approval of a transaction. A change in control must actually occur in order for the change in control provisions in the 2021 Plan to be triggered.

Best practice change in control treatment of awards. In connection with a change in control, time-based awards will generally only be accelerated if the awards are not assumed or converted following the change in control. "Double trigger" treatment (in other words, a qualifying termination of service following a Change in Control) will apply to time-based awards in other circumstances. Performance-based awards will generally only be accelerated (1) to the extent of actual achievement of the performance conditions or (2) on a prorated basis for time elapsed in ongoing performance period(s) based on target or actual achievement. Double-trigger treatment will apply to performance based awards in other circumstances (1) to the extent of actual achievement of the performance conditions or (2) on a prorated basis for time elapsed in ongoing performance period(s) based on target or actual achievement.

Awards are subject to clawback. All awards under the 2021 Plan are subject to recoupment or clawback under certain circumstances.

No liberal share counting with respect to all awards. The 2021 Plan prohibits the reuse of shares withheld or delivered to satisfy the exercise price of an option or stock appreciation right or to satisfy tax withholding requirements of any award.

Cap on Compensation Paid to Non-Employee Directors. With respect to any single fiscal year, the aggregate compensation that may be granted or awarded to a single non-employee director may not exceed $750,000, with a limited exception for a non-executive chair of the Board.

No discounted stock options or SARs. Except as otherwise described below, all stock option and SAR awards under the 2021 Plan must have an exercise or base price that is not less than the fair market value of the underlying common stock on the date of grant.

No repricing of stock options or SARs. The 2021 Plan generally prohibits any repricing or cash buyout of stock options or SARs without shareowner approval.

No tax gross ups. The 2021 Plan does not include any tax gross-up provisions.

No reloads. The 2021 Plan does not permit the grant of stock option reloads.

Shares Available for Issuance under the 2021 Plan

The shares issuable pursuant to awards granted under the 2021 Plan will be shares of class A common stock of UPS, or Shares. The maximum number of Shares available for awards granted under the 2021 Plan (the "Share Reserve") is (1) 25,000,000 Shares, less (2) one Share for each Share issued under awards granted under the 2018 Plan after December 31, 2020, plus (3) the Shares that are subject to awards under the 2021 Plan or any Prior Plans (as defined below) that are added (or added back, as applicable) under the share counting rules of the 2021 Plan, subject to adjustment as described below. Such Shares may be Shares of original issuance or treasury Shares, or a combination of both. To the extent provided in an award, any award denominated in Shares may be settled in cash or any award denominated in cash may be settled in Shares, subject to certain limitations in the 2021 Plan. Subject to adjustment as provided in the 2021 Plan, the maximum number of Shares that can be issued upon the exercise of options under the 2021 Plan that are designated as incentive stock options and intended to meet the requirements of Section 422 of the Code ("Incentive Stock Options") is 25,000,000.

Each Share subject to an award under the 2021 Plan will reduce the Share Reserve by one Share.

If any Shares subject to an award under the 2021 Plan are forfeited before vesting or any award under the 2021 Plan (in whole or in part) otherwise expires, terminates, is cancelled, is settled in cash or is unearned, without the issuance of such Shares in full to a participant, such Shares, to the extent of any such forfeiture, expiration, termination, cancellation, cash payment or unearned amount, will again be available for grant under the 2021 Plan and be added back to the Share Reserve. If, after the effective date of the 2021 Plan, any Shares subject to an award under the 2018 Plan, the United Parcel Service, Inc. 2015 Omnibus Incentive Compensation Plan, the United Parcel Service, Inc. 2012 Omnibus Incentive Compensation Plan, the United Parcel Service, Inc. 2009 Omnibus Incentive Compensation Plan or the United Parcel Service, Inc. Incentive Compensation Plan (each a "Prior Plan", collectively the "Prior Plans") are forfeited or such award (in whole or in part) otherwise expires, terminates, is cancelled, is settled in cash or is unearned, without the issuance of Shares in full, then to the extent of such forfeiture, expiration, termination cancellation, cash payment or unearned amount, any Shares not issued under such Prior Plan award will be available for grant under the 2021 Plan and be added to the Share Reserve.

For the avoidance of doubt: (1) Shares withheld or otherwise used from an award to satisfy tax withholding requirements will count against the number of Shares remaining available for awards granted under the 2021 Plan, and Shares delivered or otherwise used by a participant to satisfy tax withholding requirements will not be added to the Share Reserve; (2) the full number of Shares subject to a stock option will count against the number of Shares remaining available for awards granted under the 2021 Plan, even if the exercise price of an option is satisfied through net-settlement or by delivering Shares to us (by either actual delivery or attestation); (3) the full number of Shares subject to a SAR will count against the number of Shares remaining available for awards made under the 2021 Plan (rather than the net number of Shares actually delivered upon exercise); and (4) Shares repurchased with proceeds from the payment of the exercise price of a stock option shall not be added to the Share Reserve. The Share Reserve will not be reduced for awards that may be settled solely in cash or for Shares subject to awards issued in substitution for assumption of awards under an acquired plan (see the "Corporate Transaction" section below for additional details).

If the 2021 Plan is approved by our shareowners, the Plan will become effective as of the day of our 2021 Annual Meeting of Shareowners (May 13, 2021) and no further awards will be made under the 2018 Plan.

Determination of Number of Shares for the 2021 Plan

The board and the Compensation Committee considered various factors, including potential burn rate, potential dilution or overhang and historical grant practices, in determining the number of Shares to be available for issuance under the 2021 Plan. This section and the section that follows present information regarding our view of the overhang and dilution associated with the Prior Plans and the potential dilution associated with the 2021 Plan.

We actively manage our long-term dilution by limiting the number of Shares subject to equity awards that we grant annually, commonly expressed as a percentage of weighted average common shares outstanding and referred to as burn rate. Burn rate is a key measure of dilution that shows how rapidly a company is depleting its shares reserved for equity compensation plans, and differs from annual dilution because it does not take into account cancellations and other shares returned to the reserve. In order to calculate burn rate, we include the number of stock options granted in any given period, plus the number of Shares subject to full value awards granted during the period and divide the total by the weighted average common Shares outstanding.

We have calculated the burn rate this way under the Prior Plans for the past three years, as set forth in the following table:

Year	Options Granted	Earned Full Value Shares*	Total	Weighted Average Common Shares Outstanding	Burn Rate
2020	441,000	13,062,000	13,503,000	867,000,000	1.56%
2019	261,000	5,998,000	6,259,000	864,000,000	0.72%
2018	279,000	6,109,000	6,388,000	866,000,000	0.74%
Three-year average					1.01%

* With respect to performance-based shares/units in the table above, we calculate the share usage rate based on the applicable number of shares earned each year. For reference, the performance-based shares/units granted during the foregoing 3-year period were as follows: 3,868,000 shares in 2020, 6,490,000 shares in 2019 and 5,691,000 shares in 2018.

An additional metric that we use to measure the cumulative impact of our equity program is potential fully diluted overhang. We calculate this as (A) the number of Shares subject to equity awards outstanding but not exercised or settled, plus (B) the number of Shares available for new awards, divided by (C) the total Shares outstanding at the end of the year plus A and B. Our potential fully diluted overhang as of December 31, 2020 was 1.38% and our three-year average potential overhang for the three most recently completed calendar years was 2.68%. Based on the total number of Shares outstanding as of December 31, 2020 (864,600,000), the number of Shares requested under the 2021 Plan (25,000,000) represents potential additional dilution or overhang of 1.96%.

The following are the factors that were material to the evaluation by the board and Compensation Committee in determining acceptable and targeted levels of dilution: competitive data from relevant peer companies, the current and future accounting expense associated with our equity award practices, shareowner feedback and the influence of certain proxy advisory firms. Our equity programs are revisited at least annually and assessed against these and other measures.

Based on historical grant information, we estimate that the availability of 25,000,000 Shares under the 2021 Plan would provide a sufficient number of Shares to enable us to continue to make awards at historical average annual rates for approximately 3 years, but such Shares could last for a different period of time if actual grant practice does not match recent rates or our class B common stock price changes materially. As noted below, our Compensation Committee retains full discretion under the 2021 Plan to determine the number and amount of awards to be granted under the 2021 Plan, subject to the terms of the 2021 Plan, and future benefits that may be received by participants under the 2021 Plan are not determinable at this time.

The following table summarizes the actual Shares outstanding and Shares remaining available for future awards under the Prior Plans as of December 31, 2020. The table includes information regarding all of our outstanding equity awards and Shares available for future awards under our Prior Plans as of December 31, 2020 (and without giving effect to this Proposal 3). Our equity compensation program grants are generally awarded in the first quarter of each year.

	Shares	Weighted Average Remaining Term (in years)	Weighted Average Exercise Price	Percentage of Common Shares Outstanding as of December 31, 2020
Outstanding stock options as of December 31, 2020	1,564,000	6.84	$ 103.60	0.18%
Outstanding full-value awards as of December 31, 2020	3,297,000			0.38%
Proposed Shares available for awards under 2021 Plan	25,000,000			2.89%
Proposed Shares plus outstanding options and awards as of December 31, 2020*	29,861,000			3.45%
Number of common shares outstanding as of December 31, 2020	864,600,000			

* The proposed share reserve is subject to reduction for any awards granted under the 2018 Plan after December 31, 2020. As of December 31, 2020, there were 7,204,905 shares available for future grant under the 2018 Plan.

Upon approval of the 2021 Plan, no further grants will be made under the 2018 Plan. If for any reason the 2021 Plan is not approved by shareowners, the 2018 Plan reserve Shares will remain available for grant under the 2018 Plan as currently in effect.

The Shares are not listed on a national securities exchange or traded in an organized over-the-counter market, but each Share is convertible into one share of UPS' class B common stock. The closing price of our class B common stock on the NYSE on March 22, 2021 was $161.06 per share. Therefore, the aggregate market value as of March 22, 2021 of the 25,000,000 Shares requested under the 2021 Plan is $4,026,500,000.

Limits on Compensation Paid to Non-Employee Directors

With respect to any single fiscal year, the aggregate compensation that may be granted or awarded to any single non-employee director, including all cash fees and retainers paid during the fiscal year to the non-employee director, in respect of his or her service as a member of the board during such fiscal year, including service as a member or chair of any committee of the board, may not exceed $750,000. For purposes of such limit, the value of awards will be determined based on the aggregate grant date fair value of all awards granted to non-employee director in such fiscal year (computed in accordance with applicable financial reporting rules). The board may make exceptions of this limit for a non-executive chair of the board, as the board may determine in its discretion, provided that any such non-executive chair of the board receiving such additional compensation may not participate in the decision to award such compensation.

Dividends and Dividend Equivalent Rights

Neither dividends nor dividend equivalents may be paid with respect to options or SARs. Notwithstanding any other provision of the 2021 Plan to the contrary, with respect to any award that provides for or includes a right to dividends or dividend equivalents, if dividends are declared during the period that an award is outstanding, then such dividends (or dividend equivalents) will either (1) not be paid or credited with respect to such award or (2) be accumulated but remain subject to vesting requirement(s) to the same extent as the applicable award and will only be paid at the time or times such vesting requirement(s) are satisfied.

Administration and Eligibility

The 2021 Plan will be administered by the Compensation Committee, except that the Board of Directors will administer the 2021 Plan with respect to non-employee directors. The Board of Directors also may at any time take on the powers, authority and duties of the Compensation Committee under the 2021 Plan. The Compensation Committee generally may delegate its power, authority and duties under the 2021 Plan, except as prohibited by law.

The Compensation Committee in general may: determine who among those eligible to participate in the 2021 Plan will be granted awards; determine the amounts and types of awards to be granted; determine the terms and conditions of all awards; determine whether, to what extent, and/or under what circumstances the vesting of awards under the 2021 Plan will be accelerated; construe and interpret the terms of the 2021 Plan or any award documents under the 2021 Plan; establish, amend or waive rules and regulations for the administration of the 2021 Plan; amend the 2021 Plan or the terms and conditions of any outstanding award subject to certain limits in the 2021 Plan, as explained below; and make other determinations which are necessary or advisable for the administration of the 2021 Plan. Determinations of the Compensation Committee will be final, binding, and conclusive.

Individuals eligible to receive awards under the 2021 Plan will consist of employees (as defined in the 2021 Plan) of UPS or a subsidiary or affiliate of UPS, directors of UPS, and consultants, agents or other persons other than employees or directors who render valuable services to UPS or a subsidiary or affiliate of UPS. As of March 1, 2021, the Company had fifteen directors and approximately 40,000 full-time management employees who would be eligible for awards under the 2021 Plan. The basis for participation in the 2021 Plan by eligible persons is the selection of such persons for participation by the Compensation Committee in its discretion.

Types of Awards

Stock Options

Stock options may be either nonqualified stock options or Incentive Stock Options. The exercise price of any stock option must be equal to or greater than the fair market value of a Share on the date the option is granted. The term of a stock option cannot exceed ten years. Incentive Stock Options may only be granted to participants who are employees of UPS or certain related companies.

A stock option's terms and conditions, including the number of Shares to which the option pertains, exercise price, vesting and expiration of the option, whether the stock option is intended to be an Incentive Stock Option or a nonqualified stock option, and the extent to which the participant has any rights to the stock option following termination of employment, directorship or other relationship with UPS or its affiliates, will be determined by the Compensation Committee and set forth in an award document.

Payment for Shares purchased upon exercise of a stock option must be made in full at the time of exercise. The exercise price may be paid (a) in cash or its equivalent, (b) by tendering previously acquired Shares having an aggregate value at the time of exercise equal to the total exercise price, (c) through a reduction in the number of Shares received through the exercise of the option, or (d) by a combination of (a), (b) and (c).

The 2021 Plan includes further restrictions with respect to Incentive Stock Options.

Stock Appreciation Rights ("SARs")

Freestanding and tandem SARs, or any combination of these forms of SAR, may be granted to participants. A freestanding SAR means a SAR that is granted independently of any stock options. A tandem SAR means a SAR that is granted in connection with a related option, the exercise of which requires forfeiture of the right to purchase a Share under the related option (and when a Share is purchased under the option, the tandem SAR similarly is cancelled). Each SAR grant will be set forth in an award document that will specify the number of Shares to which the SAR pertains, the grant price, the term of the SAR, the form of payout (described below), the extent to which the participant has any rights to the SAR following termination of employment, directorship or other relationship with UPS or its affiliates and such other provisions as the Compensation Committee determines. The term of a SAR cannot exceed ten years.

The grant price of a freestanding SAR will equal at least the fair market value of a Share on the date of grant. The grant price of a tandem SAR will equal the exercise price of the related stock option.

Freestanding SARs will be exercisable on the terms and conditions imposed by the Compensation Committee in its sole discretion. Tandem SARs may be exercised for all or any part of the Shares subject to the related option, and only with respect to Shares for which its related stock option is then exercisable. Upon exercise of a tandem SAR, the related stock option will be automatically cancelled to the extent of the exercise of the tandem SAR, and vice versa. Additional rules apply to the exercise of tandem SARs granted in connection with Incentive Stock Options.

Upon exercise of a SAR, a participant will be entitled to receive payment in an amount determined by multiplying the difference between the fair market value of a Share on the date of exercise over the grant price, by the number of Shares with respect to which the SAR is exercised. At the discretion of the Compensation Committee, the payment upon SAR exercise may be in cash, in Shares of equivalent value, or in some combination of cash and Shares.

Restricted Stock and Restricted Stock Units

Each grant of restricted stock or RSUs will be evidenced by an award document that will specify the period of restriction on transferability, the number of Shares (or units tied to the value of Shares) granted, the extent to which the participant has any rights to the restricted stock or RSU following termination of employment, directorship or other relationship with UPS or its affiliates and such other provisions as the Compensation Committee will determine, including restrictions based upon the achievement of specific performance goals and time-based restrictions on vesting following the attainment of the performance goals. UPS may retain possession of restricted stock until all conditions and restrictions applicable to such Shares have been satisfied. Restricted stock or RSUs will be forfeited to the extent that a participant fails to satisfy the applicable conditions or restrictions during the period of restriction. Each RSU shall have a value at the time of payment equal to the fair market value of a Share on such date.

Generally, shares of restricted stock will become freely transferable by the participant as soon as practicable after the last day of the applicable period of restriction, and RSUs will be paid in a single lump sum as soon as practicable following the close of the applicable period of restriction in the form of cash or in Shares (or in a combination of cash and Shares) as determined by the Compensation Committee and set forth in the award document.

Participants holding restricted stock generally have the right to vote the Shares during the period of restriction and, unless otherwise provided in the award document, will be credited with regular cash dividends paid with respect to the underlying Shares, and stock dividends or other non-cash distributions will be subject to the same restrictions as the restricted stock. Participants awarded RSUs will not be entitled to similar voting rights, and participants awarded RSUs may receive dividend equivalents, but will not be automatically entitled to any dividends declared with respect to Shares. However, any such dividends or dividend equivalents credited with respect to such restricted stock or RSUs shall be subject to the same vesting conditions as the underlying restricted stock or RSUs. In no event will dividends or dividend equivalents be paid or distributed until the vesting restrictions of the underlying restricted stock or RSUs, as applicable, lapse. The Compensation Committee may apply any additional restrictions to dividends and dividend equivalents that the Compensation Committee deems appropriate.

Restricted Performance Units ("RPUs") and Restricted Performance Shares ("RPS")

Each grant of RPUs and RPS will be evidenced by an award document that will specify the amounts of such awards, the extent to which the participant has any rights to the RPUs and RPS following termination of employment, directorship or other relationship with UPS or its affiliates and such other terms as the Compensation Committee may determine. The value of each RPU and RPS at the time of payment will not exceed the value of a Share on the date such RPU or RPS is paid. The Compensation Committee will set performance goals and other conditions, the achievement of which will determine the number and/or value of RPUs and RPS that are payable to the participant. RPUs and RPS will be forfeited to the extent that the applicable performance goals or other conditions are not satisfied during the performance period.

Unless otherwise provided in an award document, payment of earned RPUs or RPS will be made in a single lump sum following the close of the applicable performance period in the form of cash or in Shares (or in a combination thereof), with an aggregate fair market value equal to the value of the earned RPUs or RPS at the close of the performance period. At the discretion of the Compensation Committee, participants may receive dividends or dividend equivalents credited with respect to Shares payable with respect to RPUs or RPS not yet distributed to participants and be entitled to exercise voting rights with respect to RPS. Any such dividends or dividend equivalents declared with respect to RPUs or RPS will be subject to the same vesting conditions as the underlying RPUs or RPS. In no event will dividends or dividend equivalents be paid or distributed until the vesting restrictions on the RPUs or RPS, as applicable, lapse.

Other Share Awards and Cash Awards

The Compensation Committee may grant Shares (other than restricted stock and RPS) or may grant cash awards to participants in such amounts, upon such terms, and at such times as determined by the Compensation Committee.

Performance Measures

The Compensation Committee may grant awards with performance-based vesting requirements under the 2021 Plan, using performance goals based on performance measures that the Compensation Committee selects in its discretion, including (but not limited to) one or more of the following performance measures that may apply on an individual or aggregate basis to the participant, a business unit, a subsidiary, or UPS as a whole:

- Earnings per share;
- Net income (before or after taxes);
- Free cash flow;
- Return measures (including, but not limited to (1) return on assets; (2) return on equity; (3) return on operating capital; (4) return on invested capital; and (5) return on sales);
- Cash flow return on investments;
- Earnings before or after taxes, interest and depreciation;
- Gross revenues;
- Share price;
- Shareowner return;
- Pretax profit;
- Economic value added;
- Volume growth;
- Package flow technology;
- Successfully integrating acquisitions;
- Reducing non-operations expenses;
- Other operating efficiency measures or ratios;
- Operating income;
- Return on capital;
- Return on capital employed;
- Pre-tax income margin; and/or
- Any other objective or subjective metric established by the Compensation Committee with respect to an award.

Any of the performance measures may be compared to the performance of a selected group of comparison companies or a published or special index that the Compensation Committee in its sole discretion deems appropriate, or as compared to various stock market indices.

In determining attainment of performance goals, the Compensation Committee may exclude the effect of one or more events, including, without limitation, unusual or infrequently occurring items, charges for restructurings (employee severance liabilities, asset impairment costs, and exit costs), acquisitions and divestitures, discontinued operations, extraordinary items, foreign currency gains and losses and the cumulative effect of tax and accounting changes, each determined in accordance with GAAP (to the extent applicable) and/or as identified in the financial statements, notes to the financial statements or management's discussion and analysis of financial condition and results of operations. The Compensation Committee must certify in writing prior to payment of, or such other event that results in the inclusion of income (for example, the vesting of restricted stock) from, a performance-based award that the performance goals were in fact satisfied.

Rights of Participants

The 2021 Plan does not confer on any participant any right to continued employment or service with UPS or its affiliates and does not interfere with or limit the right of UPS and its affiliates to terminate participant's employment or service at any time.

No employee, director, consultant, agent or other person who renders services to UPS or its affiliates has a right to be selected by the Compensation Committee to receive an award under the 2021 Plan, or if such person has is the past been selected, to be selected to receive a future award under the 2021 Plan.

Change in Control

The 2021 Plan includes a non-liberal definition of "change in control." In general, except as otherwise defined for purposes of an award document, a change in control will be deemed to have occurred upon:

- The consummation of a reorganization, merger, share exchange or consolidation resulting in a substantial change in UPS's ownership, as further described in the 2021 Plan;
- A liquidation or dissolution of UPS or the sale of substantially all of UPS's assets; or
- Individuals who, as of any date, constitute the Board of Directors of UPS, as of the end of the two-year period beginning on such date, cease for any reason to constitute at least a majority of the Board, unless their replacements are approved as described in the 2021 Plan (subject to certain exceptions).

Notwithstanding anything in the 2021 Plan to the contrary, the following treatment will apply to outstanding awards in connection with a change in control:

- Treatment of Time-Based Awards in connection with a Change in Control: With respect to awards that are to become exercisable, nonforfeitable and transferable or earned and payable based solely on the passage of time, the Compensation Committee will accelerate exercisability, nonforfeitability and transferability of such "time-based" awards to the change in control date only if such awards are not assumed or converted in connection with the change in control. "Double trigger" treatment (in other words, a qualifying termination of service following a Change in Control) will apply to time-based awards in all other circumstances.
- Treatment of Performance-Based Awards: With respect to awards that are to become exercisable, nonforfeitable and transferable or earned and payable based on the achievement of one or more objectively determinable performance conditions, the Compensation Committee will only accelerate exercisability, nonforfeitability and transferability of such "performance-based" awards to the change in control date (1) to the extent of actual achievement of the performance conditions or (2) on a prorated basis for time elapsed in ongoing performance period(s) based on actual or target performance. "Double trigger" treatment will apply to performance-based awards in all other circumstances, (1) to the extent of actual achievement of the performance conditions or (2) on a prorated basis for time elapsed in ongoing performance period(s) based on actual or target performance.

Clawback of Awards

If an award has been paid to an executive officer or to his or her spouse or beneficiary, and the Compensation Committee later determines that financial results used to determine the amount of that award are materially restated and that the executive officer engaged in fraud or intentional misconduct, UPS will seek repayment or recovery of the award. In addition, the Compensation Committee may provide that any participant and/or any award, including any Shares subject to or issued under an award, is subject to any other recovery, recoupment, clawback and/or other forfeiture policy maintained by UPS from time to time.

Amendment and Termination

The Compensation Committee has the right to amend, suspend or terminate the 2021 Plan, in whole or in part, at any time. The Compensation Committee may amend any award previously granted without the prior written consent of the award holder if such amendment does not adversely affect the award in any material way and may amend any award previously granted with the written consent of the award holder.

Without the prior approval of our shareowners, the 2021 Plan may not be materially amended if shareowner approval is required by law or applicable stock exchange listing requirement, or if the amendment would (1) increase the number of Shares available for awards under the 2021 Plan (except as provided under the share counting and adjustment provisions of the 2021 Plan), or (2) permit options, SARs or similar awards to be repriced, replaced, or regranted through cancellation in exchange for cash or another award, or by lowering the exercise, grant or purchase price of a previously granted award (except in the case of a change in control or for certain adjustments and award substitutions authorized under other provisions of the 2021 Plan as noted in the "Adjustments" section below). In any event, no awards may be granted under the 2021 Plan on or after May 13, 2031.

Withholding

UPS may deduct or withhold, or require a participant to remit to UPS as a condition precedent for the fulfillment of any award, an amount sufficient to satisfy federal, state, and local taxes, domestic or foreign, required by law or regulation to be withheld with respect to any taxable event arising as a result of the 2021 Plan.

Whenever Shares are to be issued or cash paid to a participant upon the grant, exercise or vesting of an award, UPS has the right to require the participant to remit to UPS, as a condition to the grant, exercise or vesting of the award, an amount sufficient to satisfy federal, state and local withholding tax requirements at the time of such grant, exercise or vesting. Unless otherwise determined by the Compensation Committee at the time the award is granted or thereafter, any such withholding requirement may be satisfied, in whole or in part, by withholding from the award the number of Shares having a fair market value (as defined in the 2021 Plan) on the date of withholding equal to the amount required to be withheld in accordance with applicable tax requirements (up to the maximum individual statutory rate in the applicable jurisdiction as may be permitted under then-current accounting principles to qualify for equity classification), in accordance with such procedures established by the Compensation Committee.

Restrictions on Transferability

Except as otherwise provided in the applicable award document, no stock option, SAR, restricted share, RSU, RPU, RPS, cash award or other Share award may be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated by a participant, other than by will or by the laws of descent and distribution. Stock options and SARs will be exercisable, during the participant's lifetime, only by the participant; or if the participant is incapacitated and unable to exercise his or her stock option or SAR, such stock option or SAR may be exercised by his or her legal guardian or representative (such incapacity and such legal guardian or representative as determined under our short-term or long-term disability policies).

The Compensation Committee may impose restrictions on any Shares acquired pursuant to an award under the 2021 Plan as it may deem advisable.

For the avoidance of doubt, any permitted transfer under the 2021 Plan shall be without consideration.

Adjustments

If UPS effects a subdivision or consolidation of shares of stock or other capital adjustment (or similar transaction), the maximum number and kind of Shares that may be awarded under the 2021 Plan, the number and kind of and/or price of Shares subject to outstanding awards, the annual limit on non-employee director compensation, and other award terms, will be adjusted in the same manner and to the same extent as all other Shares.

If there are material changes in the capital structure of UPS resulting from the payment of a special dividend or other distribution to shareowners without receiving consideration, a spin-off, the sale of a substantial portion of UPS's assets, a merger or consolidation in which UPS is not the surviving entity, or other extraordinary non-recurring event affecting UPS's capital structure and the value of Shares, or other similar corporate transactions or events, the Compensation Committee will make equitable adjustments in the maximum number and kind of Shares that may be awarded under the 2021 Plan, the number and kind of and/or price of Shares subject to outstanding awards, the annual limit on non-employee director compensation, and other award terms, to prevent the dilution or enlargement of the rights of award recipients.

In the event of any transaction or event described above, the Compensation Committee may provide such alternative consideration (including cash), if any, in substitution for any or all outstanding awards under the 2021 Plan as it determines to be equitable in the circumstances and will require the surrender of all awards so replaced in a manner that complies with Section 409A of the Code. In addition, for each stock option or SAR with an exercise price or grant price, as applicable, greater than the consideration offered in connection with any such transaction or event described in this section or in a change in control, the Compensation Committee may in its discretion elect to cancel such stock option or SAR without any payment to the person holding such stock option or SAR.

Subject to applicable limitations under the 2021 Plan, the Compensation Committee may also make adjustments in the terms, conditions and criteria of awards in recognition of unusual or nonrecurring events effecting UPS or its financial statements or of changes in applicable law or accounting principles when and if the Compensation Committee deems appropriate in order to prevent dilution or enlargement of benefits under the 2021 Plan.

Corporate Transactions

If UPS engages in a merger, consolidation, combination, exchange of shares, acquisition or other business transaction with another organization and the terms of such transaction require UPS or one of its affiliates to assume another equity plan the organization (an "acquired plan"), any shares of stock available under the acquired plan (as adjusted and converted into Shares in accordance with the terms of the transaction) will be available for awards under the 2021 Plan, subject to applicable shareowner approval and stock exchange requirements (subject to certain exceptions in the 2021 Plan).

If UPS engages in such a transaction, or a recapitalization, reorganization, spin-off, or other transaction with an another organization, the Compensation Committee in its absolute discretion may (1) grant awards under the 2021 Plan in substitution and cancellation of the awards awarded to an individual by such other organization or (2) assume such awards made to an individual by such other organization as if UPS had granted such awards under the 2021 Plan. Awards made in substitution for awards canceled as a result of such transaction may have an exercise price or grant price less than the fair market value of a Share on the date such award is granted and such other terms and conditions as consistent with such canceled awards; provided that no stock option or SAR may be granted in substitution for such award if such stock option or SAR provides for a deferral of compensation subject to Section 409A of the Code.

Federal Income Tax Consequences

The rules concerning the federal income tax consequences with respect to awards made pursuant to the 2021 Plan are technical, and reasonable persons may differ on the proper interpretation of the rules. Moreover, the applicable statutory and regulatory provisions are subject to change, as are their interpretations and applications, which may vary in individual circumstances. The following discussion is designed to provide only a brief, general summary description of the federal income tax consequences associated with the awards, based on a good faith interpretation of the current federal income tax laws, regulations (including applicable proposed regulations) and judicial and administrative interpretations. The following discussion is presented for the information of shareowners considering how to vote on this proposal and not for 2021 Plan participants, and it does not set forth any federal tax consequences other than income tax consequences or any state, local or foreign tax consequences that may apply.

Incentive Stock Options ("ISOs"). An optionee does not recognize taxable income upon the grant or upon the exercise of an ISO (although the exercise of an ISO may in some cases trigger liability for the alternative minimum tax). Upon the sale of ISO Shares, the optionee recognizes income in an amount equal to the excess, if any, of the fair market value of those Shares on the date of sale over the exercise price of the ISO Shares. Any income is taxed at the long-term capital gains rate if the optionee has not disposed of the stock within two years after the date of the grant of the ISO and has held the Shares for at least one year after the date of exercise. ISO holding period requirements are waived when an optionee dies.

If an optionee sells ISO Shares before having held them for at least one year after the date of exercise and two years after the date of grant, the optionee recognizes ordinary income to the extent of the lesser of: (1) the gain realized upon the sale; or (2) the excess of the fair market value of the Shares on the date of exercise over the exercise price. Any additional gain is treated as long-term or short-term capital gain depending upon how long the optionee has held the ISO Shares prior to disposition.

Nonqualified Stock Options ("NQSOs"). An optionee does not recognize taxable income upon the grant of an NQSO. Upon the exercise of such a stock option, the optionee recognizes ordinary income to the extent the fair market value of the Shares received upon exercise of the NQSO on the date of exercise exceeds the exercise price.

Restricted Stock. A participant who receives an award of restricted stock does not generally recognize taxable income at the time of the award. Instead, the participant recognizes ordinary income in the first taxable year in which his or her interest in the Shares becomes either: (1) freely transferable; or (2) no longer subject to substantial risk of forfeiture. The amount of taxable income is equal to the fair market value of the Shares less the cash, if any, paid for the Shares.

A participant may elect to recognize income at the time of grant of restricted stock in an amount equal to the fair market value of the restricted stock (less any cash paid for the Shares) on the date of the award.

SARs. A participant who exercises a SAR will recognize ordinary income upon the exercise equal to the amount of cash and the fair market value of any Shares received on as a result of the exercise.

Other Awards. In the case of an award of RSUs, RPUs, RPS, other Shares or cash, the participant would generally recognize ordinary income in an amount equal to any cash received and the fair market value of any Shares received on the date of payment.

Section 409A. Section 409A of the Code provides special tax rules applicable to programs that provide for a deferral of compensation. Failure to comply with those requirements will result in accelerated recognition of income for tax purposes along with an additional tax equal to 20% of the amount included in income, and interest on deemed underpayments in certain circumstances. While certain awards under the 2021 Plan could be subject to Section 409A, the 2021 Plan has been drafted with the intent to comply with the requirements of Section 409A, where applicable.

Tax Consequences to UPS and its Subsidiaries. In general, to the extent that a participant recognizes ordinary income in the circumstances described above, UPS or the subsidiary for which the participant performs services will be entitled to a corresponding deduction provided that, among other things, the income meets the test of reasonableness, is an ordinary and necessary business expense, is not an "excess parachute payment" within the meaning of Section 280G of the Code and is not disallowed by the $1 million limitation on certain executive compensation under Section 162(m) of the Code.

New Plan Benefits

Because benefits under the 2021 Plan will depend on the Compensation Committee's actions and the fair market value of the Shares at various future dates, it is not possible to determine the benefits that will be received by directors, executive officers and other participants if the 2021 Plan is approved by the shareowners.

Registration with the SEC

We intend to file a Registration Statement on Form S-8 relating to the issuance of Shares under the 2021 Plan with the Securities and Exchange Commission pursuant to the Securities Act of 1933, as amended, as soon as practicable after approval of the 2021 Plan by our shareowners.

Ownership of Our Securities

Securities Ownership of Certain Beneficial Owners and Management

The following table sets forth information as to each person known to us to be the beneficial owner of more than five percent of either our class A or class B common stock, based on SEC filings by such persons. Class A shares are entitled to ten votes per share and class B shares are entitled to one vote per share on each matter acted upon at the Annual Meeting. Class A shares are held by current and former employees and are not publicly traded. As of March 1, 2021 there were 147,252,798 outstanding shares of class A common stock and 720,523,284 outstanding shares of class B common stock.

Name and address	Number of Shares of Class B Stock Beneficially Owned	Percent of Class B Stock
BlackRock, Inc.[1] 55 East 52nd Street New York, NY 10055	52,600,820	7.3%
The Vanguard Group[2] 100 Vanguard Blvd. Malvern, PA 19355	57,634,689	8.0%

(1) According to a Schedule 13G/A filed with the SEC on February 5, 2021, BlackRock, Inc. has sole voting power with respect to 46,004,159 shares and sole dispositive power with respect to 52,600,820 shares.

(2) According to a Schedule 13G/A filed with the SEC on February 10, 2021, The Vanguard Group has shared voting power with respect to 1,205,278 shares, sole dispositive power with respect to 54,435,238 shares and shared dispositive power with respect to 3,199,451 shares.

The following table sets forth the beneficial ownership of our class A and class B common stock as of March 1, 2021 by each of our NEOs, each of our directors, and all of our current executive officers and directors as a group. Ownership is calculated in accordance with SEC rules and regulations.

	Number of Shares Beneficially Owned[1][2]		Additional Shares in Which the Beneficial Owner Has or Participates in the Voting or Investment Power[5]	Total Shares Beneficially Owned[6]
	Class A Shares[3][4]	Class B Shares		
Named Executive Officers				
Carol B. Tomé	184,329	13,036	—	197,365
David P. Abney	651,116	1,452	2,695,520[7]	3,348,088[7]
Brian O. Newman	32,482	—	—	32,482
Nando Cesarone	21,928	1	—	21,929
Kate M. Gutmann	105,006	—	—	105,006
Juan R. Perez	114,977	—	—	114,977
George A. Willis	—	—	—	—
Non-Employee Directors				
Rodney C. Adkins	15,389	—	—	15,389
Eva C. Boratto	836	—	—	836
Michael J. Burns	31,454	—	—	31,454
Wayne Hewett	836	871	—	1,707
Angela Hwang	1,168	—	—	1,168
Kate Johnson	538	—	—	538
William R. Johnson	27,946	160	—	28,106
Ann M. Livermore	54,210	—	—	54,210
Rudy H.P. Markham	28,122	—	—	28,122
Franck J. Moison	7,676	—	—	7,676
Clark T. Randt, Jr.	22,622	—	—	22,622

	Number of Shares Beneficially Owned(1)(2)		Additional Shares in Which the Beneficial Owner Has or Participates in the Voting or Investment Power(5)	Total Shares Beneficially Owned(6)
	Class A Shares(3)(4)	Class B Shares		
Christiana Smith Shi	5,855	—	—	5,855
Russell Stokes	538	—	—	538
Kevin Warsh	17,379	—	—	17,379
Current Executive Officers and Directors as a Group (26 persons)	**910,280**	**14,068**	**—**	**924,348**(8)(9)

(1) Includes shares for which the named person or group has sole voting or investment power or has shared voting or investment power with his or her spouse. Includes 26,500 shares owned by David Abney's wife as to which he disclaims all beneficial ownership.

(2) Includes 1,083 shares pledged by all current executive officers as a group, which were pledged prior to the 2014 adoption of a policy prohibiting pledges of UPS stock. None of our directors have pledged any shares of UPS stock. Shares pledged are not counted for purposes of compliance with our stock ownership guidelines. All executive officers that have pledged shares comply with our stock ownership guidelines after excluding the shares subject to pledge.

(3) Includes class A shares that may be acquired through April 30, 2021 upon the conversion of RSUs following separation from the UPS Board of Directors, including 24,656 RSUs held by Carol Tomé in connection with her service as a non-employee director.

(4) Includes class A shares that may be acquired through stock options exercisable through April 30, 2021 as follows: Tomé – 148,880; Abney — 414,090; Newman – 6,077; Cesarone – 4,432; Gutmann – 32,826; Perez — 59,312; and all current directors and executive officers as a group — 353,441. Includes vested Stock Option Deferral Shares for Abney – 2,093.

(5) None of the individuals listed, nor members of their immediate families, has any direct ownership rights in the shares in this column. See footnote 7.

(6) All directors and executive officers individually and as a group held less than one percent of outstanding shares of each of class A and class B common stock outstanding as of March 1, 2021. Assumes that all options exercisable through April 30, 2021 and owned by the named individual are exercised, and that shares acquirable under RSUs through April 30, 2021 are so acquired. The total number of shares outstanding used in calculating this percentage for each individual person also assumes that none of the options owned by other named individuals are exercised and that none of the shares acquirable under the RSUs held by other named individual are so acquired.

(7) Includes 2,274,484 class A shares and 421,036 class B shares owned by the Annie E. Casey Foundation, Inc., which are considered under SEC rules to be beneficially owned by David Abney because he serves on the Board of Trustees.

(8) Includes 1,034 RSUs and RPUs for all current executive officers and directors as a group that vest and convert to class A common stock prior to April 30, 2021.

(9) Our directors hold vested equity instruments that, in accordance with SEC reporting rules, are not reported in the table above because the individual does not have the right to acquire beneficial ownership of the underlying shares within 60 days of March 1, 2021. These equity interests represent additional financial interests in UPS that are subject to the same market risks as ownership of our common stock. For Carol Tomé and Ann Livermore, represents 1,267 and 2,681 phantom stock units, respectively; and for Michael Burns, Wayne Hewett and Kevin Warsh, represents deferred non-employee director retainer fees allocated to 5,189, 169, and 7,734 shares of UPS common stock, respectively within the UPS Deferred Compensation Plan. Phantom stock units were granted to non-employee directors pursuant to a deferred compensation program previously provided to non-employee directors. The phantom stock units shown for Carol were awarded during her service as a non-employee director. Dividends paid on UPS common stock are credited to the director's phantom stock unit balance. Upon termination of the individual's service as a director, amounts represented by phantom stock units will be distributed in cash over a time period elected by the recipient.

Audit Committee Matters

Proposal 4 — Ratification of Auditors

What am I voting on? Shareowners are being asked to ratify the Audit Committee's appointment of Deloitte & Touche LLP to serve as our independent registered public accounting firm for 2021.

Voting Recommendation: Our Board of Directors recommends that shareowners vote **FOR** the ratification of the appointment of Deloitte & Touche LLP as our independent registered public accounting firm for 2021.

Vote Required: The proposal must be approved by a majority of the voting power of the shares present in person or by proxy.

Deloitte & Touche LLP ("Deloitte") has been our independent auditor since we became a publicly-traded entity in 1999. Prior to becoming a publicly-traded entity, Deloitte also served as the independent auditor of our privately held parent company since 1969. Deloitte audited our 2020 consolidated financial statements and our internal control over financial reporting. As discussed below, our Audit Committee considers Deloitte to be well qualified and has appointed Deloitte as our independent registered public accounting firm for the year ending December 31, 2021.

This proposal asks you to ratify the appointment of Deloitte as our independent registered public accounting firm for 2021. Although we are not required to obtain such ratification from our shareowners, the Board of Directors believes it is sound corporate governance practice to do so. If the appointment of Deloitte is not ratified, the Audit Committee will reconsider the appointment. Even if the appointment of Deloitte is ratified, the Audit Committee, in its discretion, may change the appointment at any time during the year if it determines that such a change would be in the best interests of UPS and its shareowners.

A representative of Deloitte is expected to be at the Annual Meeting, will have the opportunity to make a statement and is expected to be available to respond to appropriate questions by shareowners. The following sections provide additional information about our Audit Committee, its selection of Deloitte, Deloitte's fees and related matters.

Report of the Audit Committee

Roles and Responsibilities. The key responsibilities of the Audit Committee are set forth in its charter, which was approved by the board and is available on the governance section of the UPS Investor Relations website at www.investors.ups.com. Pursuant to its charter, the Audit Committee's purposes, duties and responsibilities include:

- assisting the board in discharging its responsibilities relating to the accounting, reporting and financial practices of UPS;
- overseeing the accounting and financial reporting processes, including reviewing earnings or annual report press releases, overseeing the integrity of UPS's financial statements and evaluating major financial risks;
- having sole authority to appoint, oversee, determine the compensation of and terminate the Company's independent registered public accounting firm; and
- overseeing the Company's systems of disclosure controls and internal controls, the Company's compliance with legal and regulatory requirements as well as the Company's Code of Business Conduct.

Management has primary responsibility for preparing UPS's financial statements and establishing effective internal control over financial reporting. Deloitte is responsible for auditing those financial statements and UPS's internal control over financial reporting and expressing an opinion on the conformity of UPS's audited financial statements with generally accepted accounting principles and on the effectiveness of UPS's internal control over financial reporting based on criteria established by the Committee of Sponsoring Organizations of the Treadway Commission.

The Audit Committee is responsible for appointing the independent registered public accounting firm, understanding the terms of the audit engagement, negotiating the fees for the audit engagement and approving the terms of the audit engagement. In this context, the Audit Committee discussed with Deloitte the terms of the audit engagement, the overall scope and plan for the audit, and the other matters required to be discussed by the applicable requirements of the Public Company Accounting Oversight Board ("PCAOB") and the SEC. The Audit Committee had the opportunity to ask Deloitte questions relating to such matters.

Committee Oversight of Financial Statements. The Audit Committee met with management and Deloitte to review and discuss the Company's audited financial statements and the Company's internal control over financial reporting. The Audit Committee discussed with management and Deloitte the critical accounting policies applied by UPS in the preparation of its financial statements, the quality, and not just the acceptability, of the accounting principles utilized, the reasonableness of significant accounting judgments, and the clarity of disclosures in the financial statements. The Committee reviewed and discussed the Company's enhanced assessment and oversight of the effects of COVID-19 on internal controls and financial reporting.

The Audit Committee met with Deloitte and UPS's internal auditors, in each case with and without other members of management present, to discuss the results of their respective examinations, the evaluations of the Company's internal control and the overall quality and integrity of the Company's financial reporting. Additionally, the Audit Committee reviewed UPS's internal audit plan and the performance, responsibilities, budget and staffing of UPS's internal auditors.

The Audit Committee met with members of management to discuss the Company's legal and ethical compliance programs. The Audit Committee also oversaw compliance with and procedures for UPS's receipt, retention and treatment of complaints regarding accounting, internal accounting controls, auditing and other federal securities law matters, including confidential and anonymous submissions of these complaints.

Auditor Independence. Deloitte has provided the Audit Committee with the written disclosures and the letter required by the applicable requirements of the PCAOB regarding the independent registered public accountants' communications with the Audit Committee concerning independence, and the Audit Committee has discussed with Deloitte that firm's independence. The Audit Committee also considered whether Deloitte's provision of non-audit services to UPS was compatible with the independence of the independent registered public accountants. The Audit Committee has established a policy, discussed below, requiring the pre-approval of all audit and non-audit services provided to UPS by Deloitte. The Audit Committee reviewed and pre-approved all fees paid to Deloitte. These fees are described in the next section of this proxy statement.

Committee Assessment of Deloitte. In addition, as in prior years, the Audit Committee, along with management and UPS's internal auditors, reviewed Deloitte's 2020 performance as part of its consideration of whether to appoint Deloitte as UPS's independent registered public accounting firm for 2021 and to recommend to the board that shareowners ratify this appointment. As part of this review, the Audit Committee considered the continued independence, objectivity and professional skepticism of Deloitte. The Audit Committee also considered, among other things, the length of time that Deloitte has served as UPS's independent auditors, the breadth and complexity of UPS's business and its global footprint and the resulting demands placed on its auditing firm in terms of expertise in UPS's business, external data and management's perception relating to the depth and breadth of Deloitte's auditing qualification and experience, the quantity and quality of Deloitte's staff and global reach, the appropriateness of Deloitte's fees, the communication and interaction with the Deloitte team over the course of the prior year, PCAOB reports on Deloitte, and the potential impact of changing our independent registered public accounting firm.

The Audit Committee recognized the ability of Deloitte to provide both the necessary expertise to audit UPS's business and the matching global footprint to audit UPS worldwide, as well as the efficiencies to UPS resulting from Deloitte's long-standing and deep understanding of our business. The Audit Committee also considered the policies that Deloitte follows with respect to rotation of its key audit personnel, so that there is a new partner-in-charge at least every five years. The Audit Committee is involved in the selection of the new partner-in-charge of the audit engagement when there is a rotation required under applicable rules. Additionally, the Audit Committee considered Deloitte's focus on independence, their quality control policies, the quality and efficiency of the work performed, and the quality of discussions and feedback sessions. Based on the results of its review, the Audit Committee concluded that Deloitte is independent and that it is in the best interests of UPS and its shareowners to appoint Deloitte to serve as UPS's independent registered accounting firm for 2021. Consequently, the Audit Committee has appointed Deloitte as UPS's independent auditors for 2021, and the board is recommending that UPS's shareowners ratify this appointment.

Recommendation. Based on the review and the discussions described above, the Audit Committee recommended to the Board of Directors that the audited financial statements be included in UPS's Annual Report on Form 10-K for the year ended December 31, 2020 for filing with the SEC.

The Audit Committee
Rudy Markham, Chair
Eva Boratto
Michael Burns
Wayne Hewett
Angela Hwang

Principal Accounting Firm Fees

The Audit Committee, with the ratification of the shareowners, engaged Deloitte to perform the annual audits of the Company's financial statements for each of the fiscal years ended December 31, 2020 and 2019. The aggregate fees billed to us for the fiscal years ended December 31, 2020 and 2019 by Deloitte, the member firms of Deloitte Touche Tohmatsu Limited, and their respective affiliates are below:

	2020	2019
Audit Fees(1)	$18,404,000	$16,464,000
Audit-Related Fees(2)	$ 1,130,000	$ 1,266,000
Total Audit and Audit-Related Fees	$19,534,000	$17,730,000
Tax Fees(3)	$ 271,000	$ 631,000
All Other Fees	$ —	$ —
Total Fees	$19,805,000	$18,361,000

(1) Fees for professional services performed by Deloitte for the audit of our annual financial statements and review of financial statements included in our Form 10-Q filings, internal control attestation procedures, statutory audits of foreign subsidiary financial statements and other services that are normally provided in connection with statutory and regulatory filings or engagements.

(2) Fees for assurance and related services performed by Deloitte that are reasonably related to the performance of the audit or review of our financial statements. This includes employee benefit plan and compensation plan audits, independent service auditors' reports, attestation procedures related to securities offerings, and other attestations by Deloitte.

(3) Fees for professional services performed by Deloitte with respect to tax compliance work and tax planning and advice services. This includes review of original and amended tax returns for the Company and its consolidated subsidiaries, refund claims, and payment planning and tax audit assistance.

Services Provided by Deloitte

All services provided by Deloitte are permissible under applicable laws and regulations. The Audit Committee has established a policy requiring the pre-approval of all audit and non-audit services performed by Deloitte in order to help assure that the provision of such services does not impair Deloitte's independence.

Proposed services may be pre-approved through the application of detailed policies and procedures ("general pre-approval") or by specific review of each service ("specific pre-approval"). Unless a type of service to be provided by Deloitte has received general pre-approval, it requires specific pre-approval by the Audit Committee. Any proposed services exceeding pre-approved cost levels also requires specific approval by the Audit Committee.

The Audit, Audit-Related, Tax and All Other services that have received general pre-approval of the Committee, and those services that are prohibited, are described in the policy along with the corresponding cost levels. The term of any general pre-approval is twelve months from the date of pre-approval, unless otherwise stated. The Committee annually reviews and pre-approves the services that may be provided by Deloitte without obtaining specific pre-approval, and may revise the list from time to time based on subsequent determinations.

The Audit Committee has delegated to its Chair the authority to pre-approve certain permitted services between the Audit Committee's regularly scheduled meetings, and the Chair must report any pre-approval decisions to the Audit Committee at its next scheduled meeting for review by the Audit Committee. The policy prohibits the Audit Committee from delegating its responsibilities to management for pre-approving Deloitte's permitted services.

Shareowner Proposals

In accordance with SEC rules, we have set forth below certain shareowner proposals, along with the supporting statements of the shareowner proponents. Each shareowner proposal is required to be voted on at our Annual Meeting only if properly presented. The Company is not responsible for any inaccuracies they may contain.

Proposal 5 — Shareowner Proposal Requesting the Board Prepare an Annual Report on Lobbying Activities

What am I voting on? Whether you want to require the board to prepare an annual report on UPS lobbying activities.

Voting Recommendation: Our board of directors recommends that shareowners vote **AGAINST** this proposal because:

- UPS is transparent and accountable with respect to lobbying and political activities, including providing significant disclosures
- UPS has consistently been named a top company for political transparency and accountability
- UPS protects and promotes shareowner value by participating in the political process
- The board provides independent oversight of UPS's lobbying and political activities
- Additional lobbying disclosure is unnecessary

Vote Required: The proposal must be approved by a majority of the voting power of the shares present in person or by proxy.

Shareowner Proposal

Boston Trust Walden Company, One Beacon Street, Boston, MA 02108, has advised us that they, along with co-proponents whose names, addresses and share ownership will be promptly provided upon oral or written request to the UPS Corporate Secretary, intend to submit the proposal set forth below for consideration at the Annual Meeting.

Whereas, we believe in full disclosure of UPS's lobbying activities and expenditures to assess whether its lobbying is consistent with UPS's expressed goals and in the best interests of shareowners.

Resolved: the shareowners of UPS request the Board prepare a report, updated annually, disclosing:

1. Company policy and procedures governing lobbying, both direct and indirect, and grassroots lobbying communications.
2. Payments by UPS used for (a) direct or indirect lobbying or (b) grassroots lobbying communications, in each case including the amount of the payment and the recipient.
3. UPS's membership in and payments to any tax-exempt organization that writes and endorses model legislation.
4. Description of management's and the Board's decision-making process and oversight for making payments described in sections 2 and 3 above.

For purposes of this proposal, a "grassroots lobbying communication" is a communication directed to the general public that (a) refers to specific legislation or regulation, (b) reflects a view on the legislation or regulation and (c) encourages the recipient of the communication to take action with respect to the legislation or regulation. "Indirect lobbying" is lobbying engaged in by a trade association or other organization of which UPS is a member.

"Direct and indirect lobbying" and "grassroots lobbying communications" include efforts at the local, state and federal levels.

The report shall be presented to the Nominating and Corporate Governance Committee and posted on UPS's website.

Shareowner's Supporting Statement

We encourage transparency in UPS's use of funds to lobby. UPS spent $68.1 million from 2010 – 2019 on federal lobbying. This does not include state lobbying, where UPS also lobbies but disclosure is uneven or absent. For example, UPS had at least 122 lobbyists in 29 states in 2019 (followthemoney.org) and spent $1.7 million on lobbying in California from 2010 – 2019.

UPS sits on the board of the Chamber of Commerce, which has spent over $1.6 billion lobbying since 1998, and belongs to the Business Roundtable (BRT), which spent over $43 million on lobbying for 2018 and 2019. UPS does not disclose its memberships in, or payments to trade associations, or the amounts for lobbying.

And UPS does not disclose its membership in tax-exempt organizations that write and endorse model legislation, such as the American Legislative Exchange Council (ALEC). UPS's ALEC membership continues to draw scrutiny (https://www.prwatch.org/news/2020/05/13583/groups-call-alec%E2%80%99s-corporate-funders-cut-ties-over-its-coronavirus-lobbying). Over 110 companies have left ALEC, including ExxonMobil, Home Depot and Pepsi.

We are concerned that UPS's seeming contradictions in public policy advocacy and limits in disclosure present reputational risks. For example, UPS signed the BRT Statement on the Purpose of the Corporation advocating socially responsible conduct, yet also attended the ALEC annual conference. (https://readsludge.com/2019/08/27/these-ceos-promised-to-be-socially-responsible-but-their-companies-are-pushing-alecs-right-wing-agenda/). And UPS strongly supports efforts to mitigate the impact of climate change, yet the Chamber opposed the Paris climate accord. UPS uses the Global Reporting Initiative for sustainability reporting yet fails to report "any differences between its lobbying positions and any stated policies, goals, or other public positions" under Standard 415.

We urge UPS to expand its lobbying disclosure.

Response of UPS's Board

This requested report is unnecessary because of UPS's already extensive disclosures regarding lobbying and political activities, the oversight provided by the board of directors, and the Company's existing policies. Preparing an additional special report beyond UPS's current voluntary and mandatory disclosures is not an efficient use of resources. Additionally, UPS's shareowners have previously rejected this proposal each year since 2012.

UPS is transparent and accountable

UPS complies with all applicable laws with respect to disclosing political and lobbying activities and, in some cases, goes beyond what is required. The following examples demonstrate UPS's commitment to political transparency and accountability:

- **UPS provides significant disclosures about political spending:** UPS publishes semi-annual reports disclosing the amounts and recipients of any federal and state political contributions and expenditures made with corporate funds in the United States. UPS also discloses any payments to trade associations that receive $50,000 or more from the Company and that use a portion of the payment for political expenditures pursuant to 26 U.S.C. §162(e)(1) (B). These reports can be found at www.investors.ups.com. As disclosed in our most recent report, UPS did not make any federal or state contributions or non-deductible political payments to covered trade associations during the July 1 – December 31, 2020 time period.
- **UPS provides detailed information about lobbying activities:** UPS files publicly available federal Lobbying Disclosure Act Reports each quarter. Links to these reports can be found on UPS's web site at www.investors.ups.com. The reports provide information about expenditures for the quarter, describe the specific legislation that was the topic of communications, and identify the employees who lobbied on UPS's behalf. UPS files similar periodic reports with state agencies reflecting state lobbying activities.

UPS has consistently been named a top company for political transparency and accountability

The Center for Political Accountability Zicklin Index of Corporate Political Accountability and Disclosure ranked UPS among the top of S&P 500 companies for political transparency and accountability in 2020. This is the tenth year in a row that UPS was named as one of the top companies. A copy of the 2020 ranking can be found at www.politicalaccountability.net.

UPS protects and promotes shareowner value by participating in the political process

UPS's business is subject to extensive regulation at the federal, state and local levels. We believe that we have a responsibility to our shareowners and employees to be engaged in the political process, including lobbying activities. We understand that individual shareowners may disagree with one or more positions expressed by certain organizations. In fact, given the variety of business issues in which many trade associations and other groups are engaged, we do not necessarily agree with all positions taken by every organization in which we are a member. In these circumstances, we weigh the utility of continued membership against the consequences of differing positions or opinions.

The Board provides independent oversight of UPS's lobbying and political activities

The President of UPS's Public Affairs department regularly reports to the Nominating and Corporate Governance Committee regarding UPS's lobbying and political activities. In addition, the Nominating and Corporate Governance Committee, which is composed entirely of independent directors, reviews and approves UPS's semi-annual political contribution report.

The board also monitors UPS's memberships in trade associations and other tax exempt organizations that engage in lobbying. UPS must often decide whether to participate in a variety of trade associations and other tax exempt organizations. The Company may participate when involvement is consistent with specific UPS business objectives. These decisions are subject to board oversight and are regularly reviewed by the Nominating and Corporate Governance Committee.

Furthermore, UPS's decision-making process for lobbying activities is transparent. UPS's Public Affairs department works with senior management on furthering business objectives and on protecting and enhancing long-term shareowner value. This is accomplished by focused involvement at all levels of government. Moreover, the UPS Public Affairs department must approve all lobbying activities and any payments to trade associations or other tax-exempt organizations that engage in lobbying activities.

Additional lobbying disclosure is unnecessary

UPS participates in the political process in accordance with good corporate governance practices. The board believes UPS's lobbying activities are transparent, and the approval of this proposal is unnecessary given the information that is already publicly available. In addition, approval of this proposal is not an efficient use of resources and will only serve to benefit the limited interests of a small group of shareowners.

For these reasons, the board recommends that shareowners vote against this proposal.

Proposal 6 — Shareowner Proposal to Reduce the Voting Power of Class A Stock from 10 Votes Per Share to One Vote Per Share

What am I voting on? Whether you want the board to take steps to reduce the voting power of the Company's class A stock from 10 votes per share to one vote per share.

Voting Recommendation: Our board of directors recommends that you vote **AGAINST** this proposal because:

- UPS's ownership structure has contributed to its long-term success
- UPS's dual-class structure is unique in that class A shares are widely held by over 155,000 class A shareowners, and there is no concentration of voting power
- Our current executive officers and directors, collectively, hold less than 1% of the total voting power of our class A and class B common stock
- Elimination of this structure will not improve the corporate governance or the long-term financial performance of UPS

Vote Required: The proposal must be approved by a majority of the voting power of the shares present in person or by proxy.

Shareowner Proposal

John Chevedden, 2215 Nelson Avenue, No. 205, Redondo Beach, CA 90278, has advised us that he intends to submit the proposal set forth below for consideration at the Annual Meeting.

Proposal 6 — Equal Voting Rights for Each Shareholder

RESOLVED: Shareholders request that our Board of Directors take steps to ensure that all of our company's outstanding stock has an equal one-vote per share in each shareholder voting situation. This would encompass all practicable steps including encouragement and negotiation with current and future shareholders, who have more than one-vote per share, to request that they relinquish, for the common good of all shareholders, any preexisting rights, if necessary.

This proposal is not intended to unnecessarily limit our Board's judgment in crafting the requested change in accordance with applicable laws and existing contracts. This proposal is important because certain shares have super-sized voting power with 10-votes per share compared to the weakling one-vote per share for other shareholders. Corporate governance advocates have suggested a 7-year transition to equal voting rights for each share.

In spite of lopsided shares having 10-times more voting power, support for this proposal topic has steadily grown from 21% in 2013 to 29% in 2020.

With stock having 10-times more voting power our company takes our shareholder money but does not give us in return an equal voice in our company's management. Without a voice, shareholders cannot hold management accountable. Plus, with the UPS shareholder-unfriendly brand of corporate governance, we had no right to call a special meeting or act by written consent. And we were restricted by provisions mandating an 80%-vote in order to make a certain improvements to our corporate governance.

And to top bad things off our management recommended that they get a 3-year holiday on a shareholder vote on management pay. The vast majority of Fortune 500 companies recommended an annual vote on management pay. Excellent corporate governance is a cost-effective way to improve company stock performance.

As an example for UPS, social and mobile-game maker Zynga announced moving to a single-class share structure in 2018. At Zynga Class C shares had 70-votes per share and Class B shares had 7-votes a share while Class A shares had one-vote per share.

Zynga executives said that a single-class share structure simplifies the company's stock structure and gives parity to shareholders. In its 2018 annual report, Zynga said its old multi-class share system could limit the ability of its other stockholders to influence the company and could negatively impact its share price.

Corporate governance advocates as well as many investors and index managers have pushed back on the UPS-type dual-class structures. S&P Dow Jones Indices said that companies with multiple classes of shares would be barred from entering its flagship S&P 500 index.

Please vote yes: **Equal Voting Rights for Each Shareholder — Proposal 6**

Response of UPS's Board

UPS has a unique employee ownership culture that has helped it grow and thrive. Current and former employees and their families have been significant shareowners of the Company since its founding in 1907. This culture was instilled in the Company by UPS founder Jim Casey who always urged his partners to run their centers and departments like their own small business. Our employee ownership culture creates a significant incentive for our employees to help facilitate UPS's long-term success.

The Company's current ownership structure, which has been in place since UPS became a public company in 1999, includes class A and class B common stock. The class A shares are held by current and former UPS employees and their families, many of whom owned UPS shares before the Company's initial public offering. The Company's class B shares are publicly traded.

UPS's ownership structure has contributed to its long-term success

Our ownership structure allows the Company to pursue long-term growth strategies and avoid the drawbacks associated with excessive emphasis on short-term goals. In this regard, the interests of UPS employees and class B shareowners are aligned. Management is able to run the Company with a sense of purpose by focusing on sustainable value creation that benefits all of the Company's constituents. We believe that the benefits of our ownership structure are reflected in various financial metrics used to measure UPS, especially when compared with our competitors.

Our class A shareowners' interests go well beyond UPS's current stock price and focus on the long-term success of the Company. Since its humble beginnings in 1907, UPS has become the world's largest package delivery company, a leader in the U.S. less-than-truckload industry and the premier provider of global supply chain management solutions. We owe our success, to a significant degree, to the commitment our ownership structure inspires in our employee owners.

UPS's dual-class structure is unique in that class A shares are widely held, and ownership is not concentrated in any one holder or a few holders

The board strongly disagrees with this proposal's characterization of UPS's ownership structure. Some companies maintain multiple classes of stock in order to concentrate voting power with a limited number of people (such as company founders) who have unique interests that may not necessarily align with those of other shareowners. In contrast, UPS's dual-class structure is unique in that the class A shares are widely held by approximately 155,000 current and former employees, from hourly employees to executive officers. Our current executive officers and directors, collectively, hold less than 1% of the total voting power of our class A and class B common stock.

Elimination of this structure will not improve the corporate governance or the long-term financial performance of the Company

UPS's ownership structure should be considered in light of our strong corporate governance practices. Other than our CEO, all UPS director nominees are independent. All UPS directors are elected annually by a majority of votes cast in uncontested director elections, only independent directors serve on the board's Audit Committee, Compensation Committee, Nominating and Corporate Governance Committee and Risk Committee, and we have an independent Board Chair. In addition, as part of our ongoing commitment to strong corporate governance practices, the board regularly reviews and updates the Company's governance policies and practices, including the voluntary adoption of annual say on pay voting and a proxy access bylaw.

For the reasons discussed above, the board believes that UPS's ownership structure continues to be in the best interests of the Company and its shareowners. Elimination of this structure will not improve the corporate governance or the long-term financial performance of the Company. The board also believes that our shareowners agreed with this assessment when they rejected similar proposals each year since 2013.

Proposal 7 — Shareowner Proposal Requesting that the Company Prepare a Report on How it Plans to Reduce its Total Contribution to Climate Change

What am I voting on? Whether you want to require the Company to prepare a report on how it plans to reduce its total contribution to climate change and align its operations with the Paris Agreement.

Voting Recommendation: Our Board of Directors recommends that you vote **AGAINST** this proposal because:

- UPS already publishes a comprehensive and detailed annual sustainability report
- UPS is widely recognized for its sustainability practices
- UPS has already adopted and published ambitious goals to reduce GHG emissions
- UPS is taking steps to address our airline fuel emissions

Vote Required: The proposal must be approved by a majority of the voting power of the shares present in person or by proxy.

Shareowner Proposal

Trillium Asset Management LLC, 721 NW Ninth Ave, Suite 250, Portland, OR 97209 and Zevin Asset Management, LLC, 2 Oliver Street, Suite 806, Boston, MA 02109, have advised us that they intend to submit the proposal set forth below for consideration at the Annual Meeting on behalf of the James T. Campen Trust and the Trillium P21 Global Equity Fund.

Whereas: In 2018, the Intergovernmental Panel on Climate Change updated the goals of the 2015 Paris Agreement to advise that net carbon emissions must fall 45 percent by 2030 and reach net zero by 2050 to limit warming below 1.5 degrees Celsius, thereby preventing the worst consequences of climate change. However, in 2020, the UN reported the world is "way off-track" from achieving these goals[1].

Climate change impacts present risks to investors. A warming climate is associated with increased supply chain disruptions, reduced resource availability, lost production, commodity price volatility, infrastructure damage, political instability, reduced worker efficiency, and adverse health impacts that disproportionally affect low-income communities and communities of color.

The U.S. Energy Information Administration identifies the transportation sector as the largest producer of greenhouse gas (GHG) emissions and its emissions are steadily increasing.

While UPS has set a climate science based target for its road operations, it has not made similar commitments for its airline. This is a problematic oversight as UPS's airline accounts for 60 percent of its total operational emissions; emissions from UPS's airline increased 22 percent from 2015 to 2019, leading to a 16 percent increase in its total operational footprint over the same timeframe.

More than 1,500 companies have now committed to achieve the Paris Agreement's climate goals by becoming net zero by 2050,[2] including UPS's peer DHL Group. Amazon aims to achieve the Paris goals by 2040. Many airlines have committed to net zero operations by 2050 or sooner, including Delta, Qantas, British Airways, and American Airlines. Lufthansa and JetBlue are actively implementing Sustainable Aviation Fuel (SAF) that can reduce air emissions up to 80%.

Ramping up the scale, pace, and rigor of climate-related efforts may help unlock opportunities for growth as major business customers are increasingly demanding environmental accountability from suppliers. It may also help prepare UPS for future carbon-related regulations.

Given the impact of climate change on the economy, the environment, and human systems, and UPS's contribution to it, proponents believe UPS has a responsibility to its investors and stakeholders to clearly account for whether, and how, it plans to reduce its ongoing climate impacts.

Resolved: Shareholders request UPS issue a report, at reasonable cost and omitting proprietary information, describing if, and how, it plans to reduce its total contribution to climate change and align its operations with the Paris Agreement's goal of maintaining global temperature increases at or below 1.5 degrees Celsius.

Supporting Statement: In the report, shareholders seek information, among other issues at board and management discretion, on the relative benefits and drawbacks of integrating the following actions:

- Adopting overall short-, medium-, and long-term, absolute GHG emissions reduction targets for the Company's full carbon footprint, including its airline, aligned with the Paris Agreement;
- Increasing the scale, pace, and rigor of initiatives aimed at reducing the carbon intensity of UPS's services and operations;
- The feasibility of committing to net zero emissions by 2050, or sooner.

1 https://library.wmo.int/doc_num.php?explnum_id=10211

2 https://newclimate.org/wp-content/uploads/2020/09/NewClimate_Accelerating _Net Zero_Sept2020.pdf

Response of UPS's Board

UPS supports global efforts to mitigate the impact of climate change. Sustainability is an inherent part of UPS's strategy and business operations. We take a comprehensive, global approach to reducing energy use and GHG emissions within our networks, as well as major portions of our value chain. As a global leader in logistics and supply chain solutions, we transport packages and freight, facilitate international trade, and apply advanced technology to efficiently manage the world of business. In this role, we have the opportunity to reduce GHG emissions for the supply chains of many businesses.

UPS already publishes a comprehensive and detailed annual sustainability report

UPS is committed to sustainable business practices and transparent sustainability reporting. We published our first Corporate Sustainability Report in 2003, and we continue to evaluate the adoption of new sustainability reporting standards. UPS's annual Corporate Sustainability Report, available at www.ups.com/sustainabilityreport, is comprehensive and already provides shareowners the information they need to assess the Company's sustainability efforts. This inclusive report chronicles UPS's sustainability strategy, performance, initiatives, and engagements. We present this data in accordance with the Global Reporting Initiative ("GRI") Standards Comprehensive level. Beginning last year, we also report under the Sustainability Accounting Standards Board's (SASB) Air Freight and Logistics Sustainability Accounting Standard.

Producing another report around the Company's sustainability practices is unnecessary, not an efficient use of resources, and not in the best interests of the Company or its shareowners.

UPS is widely recognized for its sustainability practices

We have been repeatedly and widely recognized for our sustainability leadership. Including being listed on the Dow Jones Sustainability World Index and the Dow Jones Sustainability North America Index for the multiple years.

We have already adopted and published ambitious goals to reduce GHG emissions

UPS's senior executives effectively manage for sustainability and are highly motivated to meet the Company's sustainability goals. In fact, after we achieved many of our previous sustainability goals with a 2016 target date, we set more challenging goals around topics including the environment, our workforce, and communities.

Achieving these new goals – including a goal to reduce our absolute GHG emissions by 12% across our global ground operations by 2025 – will not be easy. We are pushing ourselves with longer-term targets that support our sustainability vision and reinforce our commitment to create innovative solutions for global sustainability challenges. We have established three targets to accelerate the use of renewable energy across our fleet and facilities, and intend to invest additional resources to help us meet these targets:

- source 25% of total electricity needs from renewable sources by 2025;
- source 40% of ground fuel from low carbon or alternative fuels by 2025; and
- expand our rolling laboratory – 25% of annual vehicle purchases by 2020 will be alternative fuel and advanced technology vehicles.

It is also important to note that these ambitious goals were set at a time when our carbon footprint would be expected to increase due to the rapid growth in e-commerce volume, which is requiring us to expand our physical network around the world. And we continue to evaluate longer-term GHG emission reduction projects beyond 2025, including projects that will address challenges associated with our airline fuel emissions.

We are taking steps to address our airline fuel emissions

UPS is actively engaged with airline industry and non-governmental organizations to evaluate the availability and commercial feasibility of sustainable aviation fuel. Looking beyond 2025, we are evaluating adopting additional, enterprise-wide short-, medium- and long-term emission reduction targets that will result in additional GHG reductions, including targets related to our airline fuel emissions.

In 2019, airline fuel made up 60% of our total Scope 1 and Scope 2 GHG emissions. Our Fuel Analytics and Sustainability Group continuously evaluates opportunities to further reduce our emissions in this area, including accelerating efforts to reduce the carbon intensity of our fleet. We have one of the youngest fleets in the industry with fuel-efficient aircraft, and our existing older models have been retrofitted to make them more efficient, all to have a lower carbon footprint.

We continue to make significant capital investments in new, more fuel-efficient aircraft. For example, we have been addressing growing U.S. and international demand by taking delivery of additional Boeing 747-8 freighter jets. The new wing and engine design on the 747-8 reduces fuel consumption and carbon emissions by 16 percent over the 747-400F. The aircraft also operates 52 percent below the International Civil Aviation Organization's nitrous oxide limits and is 30 percent quieter than other jumbo cargo jets.

Adding these freighters will progressively increase our ability to optimize our air network, opening up more capacity as we reassign equipment to operations across the world. UPS also lowers flight speeds, reduces weight where possible, optimizes flight paths, washes aircraft engines regularly and uses technology to increase precision of aircraft departures, arrivals and taxi times.

For these reasons, the board recommends that shareowners vote against this proposal.

Proposal 8 — Shareowner Proposal to Transition United Parcel Service, Inc. to a Public Benefit Corporation

What am I voting on? Whether you want to require the Company to amend its certificate of incorporation in order to transition to a Public Benefit Corporation under Delaware Law.

Voting Recommendation: Our Board of Directors recommends that you vote **AGAINST** this proposal because:

- UPS is already committed to our stakeholders, including our employees, customers, suppliers, and shareowners
- UPS's existing governance structure and practices already facilitate consideration of other stakeholders in addition to our shareowners, and provide the flexibility we need in order to deliver on our strategic goals
- Converting to a public benefit corporation could negatively impact UPS's overall performance and financial health

Vote Required: The proposal must be approved by a majority of the voting power of the shares present in person or by proxy.

Shareowner Proposal

Myra K. Young, 9295 Yorkship Court Elk Grove, CA 95758, has advised us that she intends to submit the proposal set forth below for consideration at the Annual Meeting.

Proposal 8 - Transition to Public Benefit Corporation

RESOLVED: United Parcel Service, Inc. (the "Company") shareholders request our Board of Directors take steps necessary to amend our certificate of incorporation and, if necessary, bylaws (including presenting such amendments to the shareholders for approval) to become a public benefit corporation (a "PBC") in light of its adoption of the Business Roundtable Statement of the Purpose of a Corporation (the "Statement").[1]

SUPPORTING STATEMENT: The Company signed the Statement, which proclaims "we share a fundamental commitment to all of our stakeholders. . . . We commit to deliver value to all of them, for the future success of our companies, our communities and our country."

However, the Company is a conventional Delaware corporation, so that directors' fiduciary duties emphasize the company and its shareholders, but not stakeholders (except to the extent they create value for shareholders over time). Accordingly, when the interests of shareholders and stakeholders such as workers or customers clash, the Company's legal duty excludes all but shareholders.

As one Delaware law firm reported to another signatory considering conversion, directors may consider stakeholder interests only if "*any decisions made with respect to such stakeholders are in the best interests of the corporation and its stockholders.*"[2] That contradicts the commitment made in the Statement.

In contrast, directors of a PBC must "balance" the interests of shareholders, stakeholders and a specified benefit,[3] giving legal status to the Statement's empty promise.

This matters. A recent study determined that listed companies create annual social and environmental costs of $2.2 trillion.[4] These costs have many sources, including pollution, climate change and employee stress.[5] A company required to balance stakeholder interests could prioritize lowering these costs, even if doing so sacrificed higher return.

That matters to our shareholders, the majority of whom are beneficial owners with broadly diversified interests. As of the 2020 proxy statement, the Company's top three holders were Vanguard, State Street and BlackRock, which are generally indexed or otherwise broadly diversified.

Such shareholders and beneficial owners are unalterably harmed when companies follow Delaware's "shareholder primacy" model and impose costs on the economy that lower GDP, which reduces equity value.[6] While the Company may profit by ignoring costs it externalizes, diversified shareholders will ultimately pay these costs. As a PBC, our Company could prioritize reducing these costs.

Shareholders are entitled to vote on a change that would serve their interests and ensure the commitment made to stakeholders is authentic and lasting.

Please vote for: **Transition to Public Benefit Corporation – Proposal 8**

1 https://s3.amazonaws.com/brt.org/BRT-StatementonthePurposeofaCorporationOctober2020.pdf.

2 https://www.sec.gov/divisions/corpfin/cf-noaction/14a-8/2020/harringtonwellsfargo021220-14a8.pdf

3 8 Del C, §365.

4 https://www.schroders.com/en/sysglobalassets/digital/insights/2019/pdfs/sustainability/sustainex/sustainex-short.pdf.

5 Id.

6 See, e.g., https://www.advisorperspectives.com/dshort/updates/2020/11/05/market-cap-to-gdp-an-updated-look-at-the-buffett-valuation-indicator (total market capitalization to GDP "is probably the best single measure of where valuations stand at any given moment") (quoting Warren Buffet).

Response of UPS's Board

UPS understands the importance of acting responsibly as a business, an employer and a corporate citizen. That is why UPS is proud of our CEO's decision to endorse the Statement on the Purpose of a Corporation (the "Statement"), which was issued by the Business Roundtable in August 2019. We believe the Statement's expressed commitment that a company benefit its stakeholders is wholly consistent with UPS's corporate mission, which expressly includes leading by example, as a caring and sustainable company making a difference in the communities we serve. In addition, we are committed to maintaining robust governance practices that benefit the long-term interests of all stakeholders. As a result, converting to a public benefit corporation is unnecessary and is an inappropriate way to ensure that UPS continues to fulfill its mission.

UPS strives to be a caring and sustainable company

As described below, UPS operates in a sustainable manner, and we were named to *Forbes* and JUST Capital's annual JUST 100 list for our commitment to serving our workers, customers, communities, the environment and shareowners.

UPS fosters a culture where our employees can thrive through innovative education and training programs, health and safety initiatives, and a commitment to diversity, equity and inclusion. UPS owes our success, to a significant degree, to the commitment our ownership structure inspires in our employee owners. Our enterprise-wide learning management system, UPS University, helps employees develop and hone skills that will help them achieve success in their roles within the Company. UPS also offers one of the most generous tuition reimbursement programs in the marketplace. We are committed to creating an environment where all employees feel valued, respected and engaged. Our diversity, equity and inclusion mission is to connect and empower our employees, customers, suppliers, and communities for success by embracing the dynamics of different backgrounds, experiences and perspectives to propel our growth. UPS is also taking action to address racial inequality by establishing the UPS Equity, Justice & Action Task Force, a cross-functional team of UPS leaders charged with identifying and expediting solutions that strengthen the Company internally, while activating UPS's size and scale externally to help address inequality. The Company has also instituted mandatory unconscious bias training for employees.

UPS is transparent and accountable, dedicated to volunteering time, sharing knowledge, and donating funds to make our global community better. Through the UPS Foundation, we work to tackle today's societal challenges. For example, in 2020, our total annual charitable contributions totaled approximately $69 million in cash and in-kind contributions. Moreover, volunteerism is a year-round priority, and in 2020 we completed 20 million hours of global volunteerism and community service.

UPS is committed to sustainable business practices and transparent sustainability reporting. Our Corporate Sustainability Report provides information on our sustainability efforts, our community impact and work, and how we strive to support underrepresented and underprivileged communities. UPS has been repeatedly and widely recognized for our sustainability leadership, and we have set a number of ambitious goals to reduce our carbon footprint, improve sustainability through advanced technology, and invest in communities worldwide, including through our goal to plant 50 million trees around the world by 2030 in alignment with the United Nations Sustainable Development Goals, which will be earmarked to support low-income and underserved communities. UPS is also taking action in support of Black communities worldwide by expanding funding to longstanding partners such as the National Urban League, the NAACP, United Negro College Fund and the Leadership Conference on Civil and Human Rights' Education Fund, and forming new partnerships with organizations working for justice, reform and equity such as the Equal Justice Initiative and the National Museum of African American History and Culture. The Company also pledged 1 million UPS employee volunteer hours to support mentorship and educational programming in underserved Black communities.

UPS maintains robust governance practices that benefit shareowners' long-term interests

As discussed in the Corporate Governance section, UPS maintains robust corporate governance practices that benefit shareholders' long-term interests. In connection with exercising its general oversight responsibility, the board is regularly briefed on issues of concern to the Company's customers, unions, employees, retirees and shareowners. Consideration of economic, environmental and social sustainability risks and opportunities, which impact our stakeholders, are part of our comprehensive enterprise risk management program. We also view shareowner engagement as an essential aspect of corporate governance and consider the views of our shareowners when evaluating our governance policies.

Public benefit corporations are novel, especially for large U.S. publicly-traded companies like UPS

Delaware law was only amended to address public benefit corporations in 2013, and few U.S. publicly traded corporations are public benefit corporations. Further, it is difficult to predict the impact that converting to a public benefit corporation would have on our long-term success, including the impact on UPS's short- and long-term stock price, market capitalization, and overall financial viability. Uncertainty also exists as to how regulatory agencies would view conversion to a public benefit corporation.

For these reasons, we believe our existing corporate structure is well equipped to enable us to continue to deliver long-term, sustainable value. As a result, the board recommends that shareowners vote against this proposal.

Proposal 9 — Shareowner Proposal Requesting the Board Prepare an Annual Report on Diversity and Inclusion

What am I voting on? Whether you want to require the board to prepare an annual report on diversity and inclusion.

Voting Recommendation: Our board of directors recommends that shareowners vote **AGAINST** this proposal because:

- UPS's commitment to diversity is reflected in our workforce demographics, executive leadership and workplace environment
- UPS already provides investors with significant diversity data, and is committing to providing additional data
- UPS has consistently been named a top company for diversity and inclusion
- The board provides independent oversight of UPS's human capital management

Vote Required: The proposal must be approved by a majority of the voting power of the shares present in person or by proxy.

As You Sow, 2150 Kittredge St. Suite 450, Berkeley, CA 94704, has advised us that they intend to submit the proposal set forth below for consideration at the Annual Meeting on behalf of John B & Linda C Mason Comm Prop (S), Zanvyl Krieger Tr FBO Emma Kreiger (S) and Futures Without Violence Total (S).

Resolved: Shareholders request that United Parcel Service, Inc. (UPS) publish annually a report assessing the Company's diversity and inclusion efforts, at reasonable expense and excluding proprietary information. At a minimum the report should include:

- the process that the Board follows for assessing the effectiveness of its diversity, equity and inclusion programs,
- the Board's assessment of program effectiveness, as reflected in any goals, metrics, and trends related to its promotion, recruitment and retention of protected classes of employees.

Supporting Statement: Investors seek quantitative, comparable data to understand the effectiveness of the company's diversity, equity, and inclusion programs.

Whereas: Numerous studies have pointed to the corporate benefits of a diverse workforce. These include:

- Companies with the strongest racial and ethnic diversity are 35 percent more likely to have financial returns above their industry medians.
- Companies in the top quartile for gender diversity are 21 percent more likely to outperform on profitability and 27 percent more likely to have superior value creation.[1]
- A 2019 study of the S&P 500 by the *Wall Street Journal* found that the 20 most diverse companies had an average annual five year stock return that was 5.8 percent higher than the 20 least-diverse companies.[2]

Despite such benefits, significant barriers exist for diverse employees advancing within their careers. Women enter the workforce in almost equal numbers as men (48 percent). However, they only comprise 22 percent of the executive suite. Similarly, people of color comprise 33 percent of entry level positions, but only 13 percent of the c-suite.[3]

UPS states on its website "UPS has a unique opportunity to effect positive change in the world through a commitment to diversity and inclusion within our own workplace … UPS views diversity and inclusion as a top business priority. By cultivating a diverse and inclusive environment, we can increase talent engagement, foster innovation, enhance customer service, and ultimately drive better financial performance."[4]

UPS, however, has not released meaningful information that allows investors to determine the effectiveness of its human capital management policies related to workplace diversity. Stakeholders may become concerned that UPS' statements are corporate puffery, language described by the United States Federal Trade Commission as marketing exaggerations intended to "puff up" companies or products and not able to be relied upon by consumers and investors.

Investors have reason to be wary, as UPS currently faces allegations of religious, gender and race discrimination. Investor desire for information on this issue is significant. As of October, 2020, $1.9 trillion in represented assets released an Investor Statement on the importance of increased corporate transparency on workplace equity data. It stated:

> *It is essential that investors have access to the most up-to-date and accurate information related to diverse workplace policies, practices, and outcomes.*[5]

1 MMcKinsey & Company, "Delivering through Diversity", January 2018 https://www.mckinsey.com/~/media/mckinsey/business%20functions/organization/our%20insights/delivering%20through%20diversity/delivering-through-diversity_full-report.ashx

2 Holger, Dieter, "The business case for more diversity" Wall Street Journal, October 26, 2019 https://www.wsj.com/articles/the-business-case-for-more-diversity-11572091200

3 McKinsey & Company, "Women in the Workplace 2018", https://womenintheworkplace.com/

4 https://sustainability.ups.com/sustainability-strategy/diversity-and-inclusion/

5 https://www.asyousow.org/our-work/gender-workplace-equity-disclosure-statement

Response of UPS's Board

UPS is a global company — and is becoming even more so as much of the world's economic and population growth continues to occur in emerging markets. With more than half a million employees around the world, UPS has a unique opportunity to effect positive change in the world through a commitment to diversity, equity, and inclusion within our own workplace. We work closely with our customers, communities, suppliers, and employees to advance a culture that embraces diversity, cultivates equity and inclusion, and fosters open participation from those with different ideas and perspectives. UPS views diversity, equity, and inclusion as a strategic imperative that enables the company to attract and retain talented employees, foster innovation to enhance customer service, and bring strength and stability to businesses and communities. Producing an additional special report on UPS's diversity and inclusion efforts is unnecessary, and not an efficient use of resources, and therefore not in the best interests of the Company or its shareowners.

UPS seeks to maintain a diverse and inclusive workforce

As one of the world's largest employers, UPS employs people across all cultures, backgrounds, lifestyles, and experiences. In such a large company, there's an opportunity for employees to want to connect, network, and learn from others outside of normal work teams and with different backgrounds and experiences. An important way they can do this is through employee hubs known as Business Resource Groups (BRGs).

The BRG program started as a pilot in 19 UPS locations in 2006 with Women's Leadership Development (WLD) and has grown exponentially into more than 200 chapters worldwide across 11 total BRG categories: African American, Asian, Hispanic/Latino, Focus on Abilities, LGBT & Allies, Millennial, Multicultural, Veterans, Women in Operations, Working Parents, and WLD. Each BRG is supported with advisors and sponsors from senior management who help them grow and support the business in unique ways.

In addition, in 2020 we created the role of Chief Diversity, Equity and Inclusion Officer, a new position on the company's Executive Leadership Team, reporting directly to our CEO. The creation of this role is a significant step forward for UPS to build a more inclusive and equitable environment. Furthermore, the Company has also instituted mandatory unconscious bias training for employees.

UPS's commitment to diversity is reflected in our workforce demographics

Our focus on diversity and inclusion is not "corporate puffery" as suggested by this proposal. Starting from the most senior levels at UPS, our commitment to diversity and inclusion is evident:

- *Board of Directors* - 46% of our 2021 director nominees are women; and 31% are non-white
- *Executive Leadership* – 33% of our Executive Leadership Team members are women; and 33% are non-white
- *Management* – as disclosed in our most recent Sustainability Report, although only 15% of our non-management employees are women, 37% of our entry level management positions, and 26% of our senior and middle management positions, are held by women; in addition, 49% of our entry level management positions, and 34% of senior and middle management positions, are held by non-white employees.

UPS already provides investors with significant diversity and inclusion data

The workforce statistics described above are reported annually in our Sustainability Report. In addition, beginning with our next Sustainability Report, we intend to report the prior year gender, racial and ethnic composition of our US workforce by EEO-1 job category as set forth in the consolidated EEO-1 Report that UPS files with the EEOC. We believe these disclosures provide the vast majority of our investors with the information they need to determine the effectiveness of our human capital management policies related to workplace diversity.

UPS has consistently been named a top company for diversity and inclusion

UPS has received numerous accolades recognizing our diversity and inclusion efforts. Following is a list of just a few of the more recent awards:

- For the fifth year in a row, UPS has been named to Forbes and JUST Capital's annual JUST 100 corporate leadership list. UPS earned a ranking of No. 39 overall and No. 1 in Transportation.
- UPS was named to OMNIKAL's Omni50 Award, which is the top 50 U.S. corporations who are awarding the most business to entrepreneurs from the growing culturally diverse marketplace
- UPS was ranked in 3BL Media's "100 Best Corporate Citizens" list and ranked No. 1 in Transportation sector. UPS has placed on the list for the past 11 years.

The board provides independent oversight of UPS's human capital management

Our Board of Directors and board committees provide oversight on human capital matters through a variety of methods and processes. These include regular updates and discussion around human capital transformation efforts, technology initiatives impacting the workforce, health and safety matters, employee survey results related to culture and other matters, hiring and retention, employee demographics, labor relations and contract negotiations, compensation and benefits, succession planning and employee training initiatives. We believe the Board's oversight of these matters helps identify and mitigate exposure to labor and human capital management risks, and is part of the broader framework that guides how we attract, retain and develop a workforce that aligns with our values and strategies.

For these reasons, we believe our existing diversity and inclusion practices, and significant disclosures, provide meaningful information that allows investors to determine the effectiveness of our human capital management policies related to workplace diversity. As a result, the board recommends that shareowners vote against this proposal.

Important Information About Voting at the 2021 Annual Meeting

What is included in the proxy materials, and why am I receiving them?

The proxy materials for our Annual Meeting include this Proxy Statement and notice of the 2021 Annual Meeting, as well as our 2020 Annual Report. If you received paper copies of these materials, you also received a proxy card or voting instruction form. We began distributing the Proxy Statement, Annual Meeting notice and proxy card, and Notice of Internet Availability of Proxy Materials (the "Notice") on March 29, 2021.

When you vote, you appoint each of Carol B. Tomé and Norman M. Brothers, Jr. to vote your shares at the Annual Meeting as you have instructed them. If a matter that is not on the form of proxy is voted on, then you appoint them to vote your shares in accordance with their best judgment. This allows your shares to be voted whether or not you attend the Annual Meeting.

Why did some shareowners receive a Notice of Internet Availability of Proxy Materials while others received a printed set of proxy materials?

We are allowed to furnish our proxy materials to requesting shareowners over the Internet, rather than by mailing printed copies, so long as we send them a Notice. The Notice explains how to access and review the Proxy Statement and Annual Report and vote over the Internet at www.proxyvote.com. If you received the Notice and would like to receive printed proxy materials, follow the instructions in the Notice.

If you received printed proxy materials, you will not receive the Notice, but you may still access our proxy materials and submit your proxy over the Internet at www.proxyvote.com.

Can I receive future proxy materials and annual reports electronically?

Yes. This Proxy Statement and the 2020 Annual Report are available on our investor relations website at www.investors.ups.com. Instead of receiving a Notice or paper copies of the proxy materials in the mail, shareowners can elect to receive emails that provide links to our future annual reports and proxy materials on the Internet. Opting to receive your proxy materials electronically will reduce costs and the environmental impact of our annual meetings and will give you an automatic link to the proxy voting site.

If you are a shareowner of record and wish to enroll in the electronic proxy delivery service for future meetings, you may do so by going to www.icsdelivery.com/ups and following the prompts. If you hold class B shares through a bank or broker, please refer to your voting instruction form, the Notice or other information provided by your bank or broker for instructions on how to elect this option.

Who is entitled to vote?

Holders of our class A common stock and our class B common stock at the close of business on March 22, 2021 are entitled to vote. This is referred to as the "Record Date."

A list of shareowners entitled to vote at the Annual Meeting will be available in electronic form at www.virtualshareholdermeeting.com/UPS2021 during the Annual Meeting on May 13, 2021. You must use your 16-digit control number found on your proxy card, voting instruction form or the Notice of Internet Availability you previously received to participate in the meeting and vote. The list of shareowners will also be accessible for ten days prior to the meeting at our principal place of business, 55 Glenlake Parkway, N.E., Atlanta, Georgia 30328.

To how many votes is each share of common stock entitled?

Holders of class A common stock are entitled to 10 votes per share. Holders of class B common stock are entitled to one vote per share. On the Record Date, there were 147,977,700 shares of our class A common stock and 721,435,559 shares of our class B common stock outstanding and entitled to vote.

The voting rights of any shareowner or group of shareowners, other than any of our employee benefit plans, that beneficially owns shares representing more than 25% of our voting power are limited so that the shareowner or group may cast only one one-hundredth of a vote with respect to each vote in excess of 25% of the outstanding voting power.

How do I vote before the Annual Meeting?

Shareowners of record may vote as described below:

- *Online.* You can vote in advance of the Annual Meeting via the Internet at www.proxyvote.com. Internet voting is available 24 hours a day and will be accessible until 11:59 p.m. Eastern Time on May 12, 2021.
- *By Telephone.* If you received a proxy card by mail, the toll-free telephone number is noted on your proxy card. Telephone voting is available 24 hours a day at 1-800-690-6903 and will be accessible until 11:59 p.m. Eastern Time on May 12, 2021.
- *By Mail.* If you received a proxy card by mail and choose to vote in advance by mail, simply mark your proxy card, date and sign it, and return it in the postage-paid envelope.

If you hold class A shares in the UPS Stock Fund in the UPS 401(k) Savings Plan, you may vote your shares through the Internet, by telephone, by mail or online during as if you were a registered shareowner. To allow sufficient time for voting by the Plan trustee, your voting instructions must be received by 11:59 Eastern Time on May 10, 2021.

Even if you plan to attend the Annual Meeting, we encourage you to vote in advance. If you vote through the Internet or by telephone, you do not need to return your proxy card.

The method you use to vote in advance will not limit your right to vote online during the Annual Meeting.

BENEFICIAL SHAREOWNER VOTING OPTIONS

If you are a beneficial owner, you will receive instructions from your bank, broker or other nominee that you must follow in order for your shares to be voted. Many of these institutions offer telephone and Internet voting. If your voting instruction form or Notice indicates that you may vote these shares through www.proxyvote.com, you will need the 16-digit control number indicated on that form or Notice. If you did not receive a 16-digit control number, please contact your bank, broker or other nominee at least five days before the Annual Meeting and obtain a legal proxy to be able to participate in or vote at the Annual Meeting.

Can I revoke my proxy or change my vote?

Shareowners of record may revoke their proxy or change their vote at any time before the polls close at the Annual Meeting by:

- submitting a subsequent proxy through the Internet, by telephone or by mail with a later date;
- sending a written notice to our Corporate Secretary at 55 Glenlake Parkway, N.E., Atlanta, Georgia 30328; or
- voting online during the Annual Meeting.

If you hold class B shares through a bank or broker, please refer to your proxy card, the Notice or other information forwarded by your bank or broker to see how you can revoke your proxy and change your vote before the Annual Meeting.

Beneficial shareowners that attend the Annual Meeting using the 16-digit code they received as described below will also be able to change their vote by voting online at any time before the polls close at the Annual Meeting.

How many votes do you need to hold the Annual Meeting?

The presence, online or by proxy, of the holders of a majority of the votes entitled to be cast at the Annual Meeting will constitute a quorum. A quorum is necessary to hold the Annual Meeting and conduct business. If a quorum is not present online, the Annual Meeting may be adjourned from time to time until a quorum is present.

What happens if I do not provide voting instructions or if a nominee is unable to stand for election?

If you sign and return a proxy but do not provide voting instructions, your shares will be voted as recommended by the board.

If a director nominee is unable to stand for election, the board may either reduce the number of directors that serve on the board or designate a substitute nominee. If the board designates a substitute nominee, shares represented by proxies voted for the nominee who is unable to stand for election will be voted for the substitute nominee.

Will my shares be voted if I do not vote through the Internet, by telephone or by signing and returning my proxy card?

If you are a shareowner of record and you do not vote, then your shares will not count in deciding the matters presented for shareowner consideration at the Annual Meeting.

If your class A shares are held in the UPS Stock Fund in the UPS 401(k) Savings Plan and you do not vote by 11:59 p.m. Eastern Time on May 10, 2021, then the Plan trustee will vote your shares for each proposal in the same proportion as the shares held under the Plan for which voting instructions were received.

If your class B shares are held in street name through a bank or broker, your bank or broker may vote your class B shares under certain limited circumstances if you do not provide voting instructions before the Annual Meeting. These circumstances include voting your shares on "routine matters" as defined by NYSE rules related to voting by banks and brokers, such as the ratification of the appointment of our independent registered public accounting firm described in this Proxy Statement. With respect to this proposal, therefore, if you do not vote your shares, your bank or broker may vote your shares on your behalf or leave your shares unvoted.

The remaining proposals are not considered "routine matters" under NYSE rules relating to voting by banks and brokers. When a proposal is not a routine matter and the brokerage firm has not received voting instructions, the brokerage firm cannot vote the shares on that proposal. Shares that banks and brokerage firms are not authorized to vote are called "broker non-votes." Broker non-votes that are represented at the Annual Meeting will be counted for purposes of establishing a quorum but not for determining the number of shares voted for or against a non-routine matter.

We encourage you to provide instructions to your bank or brokerage firm by voting your proxy so that your shares will be voted at the Annual Meeting in accordance with your wishes.

What is the vote required for each proposal to pass, and what is the effect of abstentions and uninstructed shares on each of the proposals?

Our Bylaws provide for majority voting in uncontested director elections. Therefore, a nominee will only be elected if the number of votes cast for the nominee's election is greater than the number of votes cast against that nominee. See "Corporate Governance – Majority Voting and Director Resignation Policy" for an explanation of what would happen if more votes are cast against a nominee than for the nominee. Abstentions are not considered votes cast for or against the nominee. For each other proposal to pass, in accordance with our Bylaws, the proposal must receive the affirmative vote of a majority of the voting power of the shares present in person or by proxy at the Annual Meeting and entitled to vote.

The following table summarizes the votes required for each proposal to pass and the effect of abstentions and uninstructed shares on each proposal.

Proposal Number	Item	Votes Required for Approval	Abstentions	Uninstructed shares
1.	Election of 13 directors	Majority of votes cast	No effect	No effect
2.	Advisory vote on executive compensation	Majority of the voting power of the shares represented at the meeting	Same as votes against	No effect
3.	Approve 2021 Omnibus Incentive Compensation Plan	Majority of the voting power of the shares represented at the meeting	Same as votes against	No effect
4.	Ratification of independent registered public accounting firm	Majority of the voting power of the shares represented at the meeting	Same as votes against	Discretionary voting by broker permitted
5. - 9.	Shareowner proposals	Majority of the voting power of the shares represented at the meeting	Same as votes against	No effect

How do I attend and vote at the Annual Meeting?

The Annual Meeting will take place on May 13, 2021, at 8:00 a.m. Eastern Time. There will not be a physical location for the Annual Meeting and you will not be able to attend in person. You or your proxyholder can participate, vote and examine our list of shareowners entitled to vote at the Annual Meeting by visiting www.virtualshareholdermeeting.com/UPS2021 and entering the 16-digit control number included in your Notice, on your proxy card, or on the instructions that accompanied your proxy materials. If you are a beneficial shareowner, see the information relating to beneficial shareowners above under “How do I vote before the Annual Meeting” for obtaining your 16-digit control number. You may begin to log into the meeting platform at 7:45 a.m. Eastern Time on Thursday, May 13, 2021.

How can I submit question at or prior to the Annual Meeting?

If you wish to submit a question prior to the Annual Meeting, you may do so by visiting proxyvote.com and entering your 16-digit control number, then clicking “Submit a Question for Management.“

We have designed the format of the Annual Meeting so that shareowners have the same rights and opportunities as they would have had at a physical meeting. To this end, shareowners will be able to submit questions during the Annual Meeting. If you wish to submit a question during the Annual Meeting, you may do so by logging into www.virtualshareholdermeeting.com/UPS2021 with your 16-digit control number, as described above under “How do I attend and vote at the Annual Meeting?” We will answer questions and address comments relevant to meeting matters that comply with the meeting rules of conduct during the Annual Meeting, subject to time constraints. We will summarize multiple questions submitted on the same topic. We will make every effort to respond to all appropriate questions during the meeting, as time permits.

If there are matters of individual concern to a shareowner and not of general concern to all shareowners, or if a question posed was not otherwise answered, we provide an opportunity for shareowners to contact us separately after the Annual Meeting through the “Investor Relations” section of the Company’s website at www.investors.ups.com.

What if I have technical difficulties or trouble accessing the virtual Annual Meeting?

For help with technical difficulties on the meeting day you can call 1-800-586-1548 (toll free) or 303-562-9288 (international) for assistance. Technical support will be available starting at 7:00 a.m. Eastern Time and until the meeting has finished.

What does it mean if I receive more than one Notice, proxy card or voting instruction form?

This means that your shares are registered in different names or are held in more than one account. To ensure that all shares are voted, please vote each account by using one of the voting methods as described above.

When and where will I be able to find the voting results?

You can find the official results of the voting at the Annual Meeting in our Current Report on Form 8-K that we will file with the SEC within four business days after the Annual Meeting. If the official results are not available at that time, we will provide preliminary voting results in the Form 8-K and will provide the final results in an amendment as soon as they become available.

Other Information for Shareowners

Solicitation of Proxies

We will pay our costs of soliciting proxies. Directors, officers and other employees, acting without special compensation, may solicit proxies by mail, email, in person or by telephone. We will reimburse brokers, fiduciaries, custodians and other nominees for out-of-pocket expenses incurred in sending our proxy materials and Notice to, and obtaining voting instructions relating to the proxy materials and Notice from, shareowners. In addition, we have retained Georgeson, Inc. to assist in the solicitation of proxies for the Annual Meeting at a fee of approximately $15,000 plus associated costs and expenses.

Eliminating Duplicative Proxy Materials

We have adopted a procedure approved by the SEC called "householding" under which multiple shareowners who share the same last name and address and do not participate in electronic delivery will receive only one copy of the annual proxy materials or Notice unless we receive contrary instructions from one or more of the shareowners. If you wish to opt out of householding and continue to receive multiple copies of the proxy materials or Notice at the same address, or if you have previously opted out and wish to participate in householding, you may do so by notifying us in writing or by telephone at: UPS Investor Relations, 55 Glenlake Parkway, N.E., Atlanta, Georgia 30328, (404) 828-6059, and we will promptly deliver the requested materials. You also may request additional copies of the proxy materials or Notice by notifying us in writing or by telephone at the same address or telephone number.

Submission of Shareowner Proposals and Director Nominations

Proposals for Inclusion in the Proxy Statement for the 2022 Annual Meeting

Shareowners who, in accordance with Rule 14a-8 under the Securities Exchange Act of 1934, wish to present proposals for inclusion in the proxy materials to be distributed in connection with the 2022 Annual Meeting of Shareowners must submit their proposals so that they are received by our Corporate Secretary at 55 Glenlake Parkway, N.E., Atlanta, Georgia 30328 no later than 6:00 p.m. eastern on November 29, 2021. Any proposal will need to comply with SEC regulations regarding the inclusion of shareowner proposals in Company-sponsored proxy material. As the rules of the SEC make clear, simply submitting a proposal does not guarantee its inclusion.

Director Nominations for Inclusion in the Proxy Statement for the 2022 Annual Meeting

Shareowner notice of the intent to use proxy access must be delivered to the Corporate Secretary at 55 Glenlake Parkway, N.E., Atlanta, Georgia 30328 not later than the close of business on the 120th day, nor earlier than the 6:00 p.m. eastern on the 150th day, prior to the first anniversary of the date the definitive proxy statement was first released to shareowners in connection with the preceding year's annual meeting of shareowners; provided, however, that in the event the annual meeting is more than 30 days before or after the anniversary of the preceding year's annual meeting, or if no annual meeting was held in the preceding year, to be timely, the notice must be so delivered not earlier than the close of business on the 150th day prior to such annual meeting, and not later than the close of business on the later of the 120th day prior to such annual meeting, or the 10th day following the day on which public announcement of the date of such meeting is first made by the Company. Therefore, any notice of the intent to use proxy access must be delivered to our Corporate Secretary no later than 6:00 p.m. Eastern time on November 29, 2021 and no earlier than 6:00 p.m. Eastern time on October 30, 2021. However, if the date of our 2022 Annual Meeting occurs more than 30 days before or 30 days after May 13, 2022, the anniversary of the 2021 Annual Meeting, a shareowner notice will be timely if it is delivered to our Corporate Secretary by the later of (a) the close of business on the 120th day prior to the date of the 2022 Annual Meeting and (b) the 10th day following the day on which we first make a public announcement of the date of the 2022 Annual Meeting. As our Bylaws make clear, simply submitting a nomination does not guarantee its inclusion.

Other Proposals or Director Nominations for Presentation at the 2022 Annual Meeting

Shareowners who wish to propose business or nominate persons for election to the Board of Directors at the 2022 Annual Meeting of Shareowners, and the proposal or nomination is not intended to be included in our 2022 proxy materials, must provide a notice of shareowner business or nomination in accordance with Article II, Section 10 of our Bylaws. In order to be properly brought before the 2022 Annual Meeting of Shareowners, Article II, Section 10 of our Bylaws requires that a notice of a matter the shareowner wishes to present (other than a matter brought pursuant to Rule 14a-8), or the person or persons the shareowner wishes to nominate as a director, must be received by our Corporate Secretary not later than the close of business on the 90th day, nor earlier than the close of business on the 150th day, prior to the first anniversary of the preceding year's annual meeting. Therefore, any notice intended to be given for a proposal or nomination not intended to be included in our 2022 proxy materials must be received by our Corporate Secretary at 55 Glenlake Parkway, N.E., Atlanta, Georgia 30328 no later than 6:00 p.m. Eastern time on February 12, 2022, and no earlier than the close of business on December 14, 2021. However, if the date of our 2022 Annual Meeting occurs more than 30 days before or 30 days after May 13, 2022, the anniversary of the 2021 Annual Meeting, a shareowner notice will be timely if it is delivered to our Corporate Secretary by the later of (a) the close of business on the 90th day prior to the date of the 2022 Annual Meeting and (b) the 10th day following the day on which we first make a public announcement of the date of the 2022 Annual Meeting.

To be in proper form, a shareowner's notice must be a proper subject for shareowner action at the Annual Meeting and must include the specified information concerning the proposal or nominee as described in Section 10 of our Bylaws. Our Bylaws are available on the governance page of our investor relations website at www.investors.ups.com.

2020 Annual Report on Form 10-K

A copy of our 2020 Annual Report on Form 10-K, including financial statements, as filed with the SEC may be obtained without charge upon written request to: Corporate Secretary, 55 Glenlake Parkway, N.E., Atlanta, Georgia 30328. It is also available on our investor relations website at www.investors.ups.com.

Other Business

Our Board of Directors is not aware of any business to be conducted at the Annual Meeting other than the proposals described in this Proxy Statement. Should any other matter requiring a vote of the shareowners arise, the persons named in the accompanying proxy card will vote in accordance with their best judgment. A proxy granted by a shareowner in connection with the Annual Meeting will give discretionary authority to the named proxy holders to vote on any such matters that are properly presented at the Annual Meeting, subject to SEC rules.

This proxy statement contains "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. Such statements relate to our intent, belief and current expectations about our strategic direction, prospects and future results, and give our current expectations or forecasts of future events; they do not relate strictly to historical or current facts.

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, those described in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2020, filed with the SEC and being made available with this proxy statement, and may also be described from time to time in our future reports filed with the SEC. 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. 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 such forward-looking statements because such statements speak only as of the date when made. 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.

ANNEX A

UNITED PARCEL SERVICE, INC.
2021 OMNIBUS INCENTIVE COMPENSATION PLAN

Article 1. Establishment, Objectives, and Duration

1.1 Establishment of the Plan. United Parcel Service, Inc., a Delaware corporation ("UPS" or the "Company"), hereby establishes an incentive compensation plan to be known as the "United Parcel Service, Inc. 2021 Omnibus Incentive Compensation Plan" (as may be amended or amended and restated from time to time, the "Plan"), as set forth in this document. The Plan permits the grant of Nonqualified Stock Options, Incentive Stock Options, Stock Appreciation Rights, Restricted Stock, Restricted Stock Units, Restricted Performance Shares, Restricted Performance Units, Shares, cash Awards and other Awards. Subject to approval by the Company's shareowners, the Plan shall become effective as of the Effective Date and shall remain in effect as provided in Section 1.3 hereof.

1.2 Objectives of the Plan. The objectives of the Plan are to permit the grant of short-term and long-term incentives and rewards to Participants for service and/or performance, and to promote teamwork among Participants. The Plan is further intended to provide flexibility to the Company in its ability to motivate, attract, and retain the services of Participants who make contributions to the Company's success and to allow Participants to share in the success of the Company.

1.3 Duration of the Plan. The Plan shall commence on the Effective Date, as described in Section 2.17 hereof, and shall remain in effect, subject to the right of the Committee to amend or terminate the Plan at any time pursuant to Article 15 hereof, until all Shares subject to the Plan shall have been purchased or acquired according to the Plan's provisions. However, in no event may an Award be granted under the Plan on or after the tenth (10th) anniversary of the Effective Date.

1.4 Successor Plan. The Plan shall be treated as a successor to the United Parcel Service, Inc. 2012 Omnibus Incentive Compensation Plan (the "2012 Plan"), the United Parcel Service, Inc. 2015 Omnibus Incentive Compensation Plan (the "2015 Plan") and the United Parcel Service, Inc. 2018 Omnibus Incentive Compensation Plan (the "2018 Plan") for purposes of the UPS Management Incentive Program, the UPS Long-Term Incentive Program, the UPS Non-employee Director Equity Compensation Program, the UPS International Management Incentive Program, the Stock Option Award Program and any other program approved by the Committee under any Prior Plan (as defined herein), the terms of which make reference to a successor plan. Except as provided in Section 4.5, any awards granted under a Prior Plan shall remain subject to the terms of the applicable award document and the Prior Plan under which such award was granted, including, for purposes of the transition relief afforded by Section 13601(e)(2) of the Tax Cuts and Jobs Act (December 22, 2017), the terms of the applicable award document and the Prior Plan that were intended to satisfy the Performance-Based Exception (as defined in the Prior Plan).

Article 2. Definitions

Whenever used in the Plan, the following terms shall have the meanings set forth below, and when the meaning is intended, the initial letter of the word shall be capitalized:

2.1 "2012 Plan" shall have the meaning ascribed to such term in Section 1.4.

2.2 "2015 Plan" shall have the meaning ascribed to such term in Section 1.4.

2.3 "2018 Plan" shall have the meaning ascribed to such term in Section 1.4.

2.4 "Acquired Organization" shall have the meaning ascribed to such term in Section 4.1.

2.5 "Acquired Plan" shall have the meaning ascribed to such term in Section 4.1.

2.6 "Affiliate" means any corporation, partnership, joint venture or other entity in which the Company either directly or indirectly controls at least twenty-five percent (25%) of the voting interest or owns at least twenty-five percent (25%) or more of the value or capital or profits interest of such entity.

2.7 "Award" means, individually or collectively, a grant under this Plan of Nonqualified Stock Options, Incentive Stock Options, Stock Appreciation Rights, Restricted Stock, Restricted Stock Units, Restricted Performance Shares, Restricted Performance Units, Shares or cash awards.

2.8 "Award Document" means an agreement, certificate, resolution or other type or form of writing or other evidence approved by the Committee that sets forth the terms and conditions of an Award granted under this Plan. An Award Document may be in an electronic medium, may be limited to notation on the books and records of the Company and, unless otherwise determined by the Committee, need not be signed by a representative of the Company or a Participant.

2.9 "Beneficial Owner" or "Beneficial Ownership" shall have the meaning ascribed to such term in Rule 13d-3 of the Exchange Act.

2.10 "Board" or "Board of Directors" means the Board of Directors of the Company.

2.11 "Cause" means (a) for a Director or Key Person, as defined in the Award Document, and (b) for an Employee, except as otherwise provided in the Award Document, that the Company or a Subsidiary or an Affiliate for which an Employee works has determined that (1) the Employee has been insubordinate or refused or failed to carry out the instructions or policies of the Company or the Subsidiary or Affiliate for which the Employee works, or the supervisors or managers to whom the Employee reports; (2) the Employee has engaged in misconduct or negligence in performing the Employee's duties and responsibilities; (3) the Employee has engaged in conduct which is dishonest, fraudulent or materially injurious to the Company, or the Subsidiary or Affiliate for which the Employee works; (4) the Employee has been indicted for a felony or any crime involving dishonesty, fraud or moral turpitude; and/or (5) the Employee has materially breached the Employee's employment agreement, if any, or engaged in activity prohibited by any other agreement between the Employee and the Company or the Subsidiary or Affiliate for which the Employee works.

2.12 "Change in Control" of the Company shall, except as otherwise defined for purposes of an Award Document, be deemed to have occurred as of the first day that any one or more of the following conditions shall have been satisfied:

(a) The consummation of a reorganization, merger, share exchange or consolidation, in each case, where persons who were shareowners of UPS immediately prior to such reorganization, merger, share exchange or consolidation do not, immediately thereafter, own more than fifty percent (50%) of the combined voting power of the reorganized, merged, surviving or consolidated company's then outstanding securities entitled to vote generally in the election of directors in substantially the same proportions as immediately prior to the transaction; or a liquidation or dissolution of UPS or the sale of substantially all of UPS's assets; or

(b) Individuals who, as of any date (the "Beginning Date"), constitute the Board of Directors (the "Incumbent Board"), as of the end of the two-year period beginning on such Beginning Date, cease for any reason to constitute at least a majority of the Board of Directors, provided that any person becoming a director subsequent to the Beginning Date whose election, or nomination for election by UPS's shareowners, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board (other than an election or nomination of an individual whose initial assumption of office is in connection with an actual or threatened election contest relating to the election of the directors of UPS) shall be considered as though such person were a member of the Incumbent Board.

2.13 "Code" means the Internal Revenue Code of 1986, as amended from time to time.

2.14 "Committee" means the Compensation Committee of the Board.

2.15 "Company" shall have the meaning ascribed to such term in Section 1.1.

2.16 "Director" means any individual who is a member of the UPS Board of Directors.

2.17 "Effective Date" means the date this Plan is approved by the Company's shareowners.

2.18 "Employee" means any employee of the Company, a Subsidiary or an Affiliate. Under no circumstances shall an individual who performs services for the Company, a Subsidiary or an Affiliate, but who is not classified on the payroll of such entity as an employee (for example, an individual performing services for the Company, a Subsidiary or an Affiliate pursuant to a leasing agreement), be treated as an Employee even if such individual qualifies as an "employee" of the Company, a Subsidiary or an Affiliate by virtue of common law principles or the leased employee rules under Code §414(n). Further, if an individual performing services for the Company, a Subsidiary or an Affiliate is retroactively reclassified as an employee of the Company, Subsidiary or an Affiliate for any reason (whether pursuant to court order, settlement negotiation, arbitration, mediation, government agency (e.g., Internal Revenue Service) reclassification, or otherwise), such reclassified individual shall not be treated as an Employee for purposes of the Plan for any period prior to the actual date (and not the effective date) of such reclassification. Directors who are classified as employees on the payroll of the Company, a Subsidiary or an Affiliate shall be considered Employees under the Plan.

2.19 "ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time.

2.20 "Exchange Act" means the Securities Exchange Act of 1934, as amended from time to time, or any successor act thereto.

2.21 "Executive Participant" means an "executive officer" as defined in Rule 3b-7 under the Exchange Act.

2.22 "Fair Market Value of a Share" means, as of any date, the value of a Share determined as follows:

(a) The value of a Share shall be equal to the value of a share of the Class B common stock of the Company, as determined in accordance with the following provisions:

(1) If shares of Class B common stock are listed on any established U.S. stock exchange or a national market system, the closing price for a share of Class B common stock on the applicable date as reported in The Wall Street Journal or such other source as the Committee deems reliable.

(2) If shares of Class B common stock are not listed on any established U.S. stock exchange or a national market system, the value of a Share shall be determined by the Committee in its sole and absolute discretion.

(b) If, for any reason, the value of a Share (as described in (a)) cannot be ascertained or is unavailable for the date in question, the value of a Share may, in the sole and absolute discretion of the Committee, be determined as of the nearest preceding date on which such value can be ascertained under the appropriate method indicated above.

2.22 "409A Guidance" means the regulations and other guidance issued under Code §409A.

2.23 "Freestanding SAR" means a SAR that is granted independently of any Options, as described in Article 7.

2.24 "Good Reason" means (a) for a Non-Employee Director or Key Person, as defined in the Award Document, and (b) for an Employee, except as otherwise provided in the Award Document, the occurrence, without an Employee's written consent, of either of the following: (1) material diminution in the Employee's authority, duties or responsibilities from those in effect immediately prior to the Change in Control; or (2) a material reduction in the Employee's target total direct compensation, including annual base salary, annual cash incentive opportunity, annual equity incentive opportunity and long-term incentive opportunity, from that in effect immediately prior to the Change in Control that is not consistently applied to similar level positions. Notwithstanding the foregoing, a termination of employment shall not be considered for Good Reason unless the Employee provides the Company, or the Subsidiary or Affiliate for which the Employee works, written notice within thirty (30) calendar days of the occurrence of the act or omission giving rise to the Employee's intention to terminate for Good Reason, detailing the particular act or acts or omission or omissions that constitute the grounds on which the proposed termination for Good Reason is based, and the Company, or the Subsidiary or Affiliate for which the Employee works, fails to correct the breach (if correctable) within thirty (30) calendar days of the date of receipt of such written notice, and the Employee actually terminates employment within 180 calendar days of the occurrence of such act or omission.

2.25 "Incentive Stock Option" or "ISO" means an option to purchase Shares granted under Article 6 and which is designated as an Incentive Stock Option and which is intended to meet the requirements of Code §422.

2.26 "Insider" means an individual who is, on the relevant date, an officer, Director or greater-than-ten percent (10%) beneficial owner of any class of the Company's equity securities that is registered pursuant to Section 12 of the Exchange Act, all as defined under Section 16 of the Exchange Act.

2.27 "Key Person" means a consultant, agent or other person other than an Employee or a Director who has rendered or will render valuable services to the Company or a Subsidiary or an Affiliate.

2.28 "Non-Employee Director" means any Director who is not also an Employee.

2.29 "Nonqualified Stock Option" or "NQSO" means an option to purchase Shares granted under Article 6 and which is not intended to be treated as an ISO under Code §422.

2.30 "Option" means an Incentive Stock Option or a Nonqualified Stock Option, as described in Article 6.

2.31 "Option Price" means the price at which a Share may be purchased by a Participant pursuant to an Option.

2.32 "Outside Director" means a member of the Board who is not an employee of the Company or any Subsidiary or Affiliate thereof and who qualifies as a "non-employee director" under Rule 16b-3(b)(3) of the Exchange Act.

2.33 "Participant" means an Employee, Director or Key Person who has been selected to receive an Award or who has outstanding an Award granted under the Plan.

2.34 "Performance Period" means (a) the period during which the Restricted Performance Shares and RPUs granted pursuant to Article 9 are subject to a substantial risk of forfeiture as a result of the failure to satisfy the applicable performance or other conditions and (b) for purposes of Article 12, the period of service to which a performance goal or goals relates.

2.35 "Period of Restriction" means the period during which Restricted Stock and RSUs are subject to a substantial risk of forfeiture, as provided in Article 8.

2.36 "Person" shall have the meaning ascribed to such term in Section 3(a)(9) of the Exchange Act and used in Sections 13(d) and 14(d) thereof, including a "group" as defined in Section 13(d) thereof.

2.37 "Plan" shall have the meaning ascribed to such term in Section 1.1.

2.38 "Prior Plan" means the 2018 Plan, the 2015 Plan, the 2012 Plan, the United Parcel Service, Inc. 2009 Omnibus Incentive Compensation Plan or the United Parcel Service, Inc. Incentive Compensation Plan, as amended.

2.39 "Restricted Performance Share" means an Award granted to a Participant, as described in Article 9.

2.40 "Restricted Performance Unit" or "RPU" means an Award of a unit tied to the value of a Share granted to a Participant, as described in Article 9.

2.41 "Restricted Stock" means an Award granted to a Participant pursuant to Article 8.

2.42 "Restricted Stock Unit" or "RSU" means an Award of a unit the value of which at the time of payment is tied to the value of a Share and which is granted to a Participant in accordance with Article 8.

2.43 "Retirement" means, except as otherwise defined for purposes of an Award Document, (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.

2.44 "Share Reserve" shall have the meaning ascribed to such term in Section 4.1.

2.45 "Shares" means shares of Class A common stock of the Company.

2.46 "Stock Appreciation Right" or "SAR" means an Award, granted alone or in connection with a related Option, designated as a SAR, pursuant to the terms of Article 7.

2.47 "Subsidiary" means any corporation, partnership, joint venture, or other entity in which the Company either directly or indirectly controls at least fifty percent (50%) of the voting interest or owns at least fifty percent (50%) of the value or capital or profits interest.

2.48 "Tandem SAR" means a SAR that is granted in connection with a related Option pursuant to Article 7, the exercise of which shall require forfeiture of the right to purchase a Share under the related Option (and when a Share is purchased under the Option, the Tandem SAR shall similarly be canceled).

2.49 "UPS" shall have the meaning ascribed to such term in Section 1.1.

Article 3. Administration

3.1 General. The Plan will be administered by the Committee; provided, however, (a) the Board may at any time take on the powers, authority and duties of the Committee hereunder, and (b) the Board shall have the powers, authority and duties of the Committee with respect to the granting and interpretation of Awards to Directors who are not Employees. The members of the Committee shall be appointed from time to time by, and shall serve at the discretion of, the Board of Directors.

3.2 Authority of the Committee. Except as limited by law or by the certificate of incorporation or bylaws of the Company, and subject to the provisions herein, the Committee shall have full power to select Employees, Directors and Key Persons who shall participate in the Plan; determine the sizes and types of Awards; determine the terms and conditions of Awards in a manner consistent with the Plan; determine whether, to what extent, and/or under what circumstances the vesting of an Award shall be accelerated; construe and interpret the Plan and any agreement, instrument or other document entered into under the Plan; establish, amend, or waive rules and regulations for the Plan's administration; and (subject to the provisions of Article 14 and Article 15) amend the Plan or the terms and conditions of any outstanding Award. Further, the Committee shall make all other determinations which may be necessary or advisable for the administration of the Plan.

3.3 Delegation. The Board or the Committee may delegate its power, authority and duties as identified herein, except (a) the power and authority to grant Awards to persons required to file reports with respect to the Company pursuant to Section 16 of the Exchange Act and (b) as otherwise prohibited by law.

3.4 Decisions Binding. All determinations and decisions made by the Board, the Committee or the Committee's delegate pursuant to the provisions of the Plan and all related orders and resolutions of the Board, the Committee or the Committee's delegate shall be final, conclusive and binding on all persons, including the Company, its shareowners, Directors, Employees, Key Persons, and their estates and beneficiaries.

Article 4. Shares Subject to the Plan and Maximum Awards

4.1 Number of Shares Available for Grants. Subject to adjustment as provided in Article 4 and the Share counting rules set forth in this Plan, the maximum aggregate number of Shares available for Awards shall not exceed (a) 25,000,000 Shares, less (b) one Share for each Share issued under awards granted under the 2018 Plan (as amended or restated from time to time) after December 31, 2020, plus (c) the Shares that are subject to Awards granted under this Plan or any Prior Plan that are added (or added back, as applicable) to the aggregate number of Shares available under this Section 4.1 pursuant to the Share counting rules of this Plan (the "Share Reserve"). Such Shares may be Shares of original issuance or treasury shares, or a combination of both. Upon effectiveness of the Plan, no further awards will be made under the Prior Plans. To the extent provided in the Award, an Award denominated in Shares may be settled in cash or an Award denominated in cash may be settled in Shares, subject to the limitations of this Plan.

In the event the Company engages in a merger, consolidation, combination, exchange of shares, acquisition or other business transaction with another organization (the "Acquired Organization") and the terms of such business transaction require the Company or an Affiliate to assume a plan of the Acquired Organization (the "Acquired Plan"), any shares of stock of the Acquired Organization available under the Acquired Plan (as adjusted and converted into Shares in accordance with the terms of the business transaction) shall be available for Awards under the Plan, subject to applicable shareowner approval and stock exchange requirements, unless the terms of the business transaction require such Acquired Plan to be maintained as a separate plan following the completion of the business transaction.

4.2 Maximum Awards for Non-Employee Directors. With respect to any single fiscal year, the aggregate compensation that may be granted or awarded to any one Non-Employee Director, including all cash fees and retainers paid during the fiscal year to the Non-Employee Director, in respect of the Director's service as a member of the Board during such fiscal year, including service as a member or chair of any committee of the Board, shall not exceed $750,000. For purposes of such limit, the value of Awards will be determined based on the aggregate grant date fair value of all Awards granted to the Non-Employee Director in such fiscal year (computed in accordance with applicable financial reporting rules). The Board may make exceptions of this limit for a non-executive chair of the Board, as the Board may determine in its discretion, provided that any such non-executive chair of the Board receiving such additional compensation may not participate in the decision to award such compensation.

4.3 Maximum Number of Shares Available for ISOs. Subject to adjustment as provided in Section 4.5, the maximum aggregate number of Shares that can be issued under the Plan upon the exercise of ISOs is 25,000,000 Shares.

4.4 Share Counting. Each Share subject to an Award shall reduce the Share Reserve by one (1) Share. If any Shares subject to an Award are forfeited before vesting or any Award (in whole or in part) otherwise expires, terminates, is cancelled, is settled in cash or is unearned, without the issuance of such Shares in full to a Participant, such Shares, to the extent of any such forfeiture, expiration, termination, cancellation, cash payment or unearned amount, shall again be available for grant under the Plan and be added back to the Share Reserve. If December 31, 2020, any Shares subject to an award under a Prior Plan are forfeited or such award (in whole or in part) otherwise expires, terminates, is cancelled, is settled in cash or is unearned, without the issuance of Shares in full, then to the extent of such forfeiture, expiration, termination cancellation, cash payment or unearned amount, any Shares not issued under such Prior Plan award shall be available for grant under the Plan and be added to the Share Reserve. For the avoidance of doubt: (a) Shares withheld or otherwise used from an Award to satisfy tax withholding requirements will count against the number of Shares remaining available for Awards granted under the Plan, and Shares delivered or otherwise used by a Participant to satisfy tax withholding requirements will not be added to the Share Reserve; (b) the full number of Shares subject to an Option shall count against the number of Shares remaining available for Awards granted under the Plan, even if the exercise price of an Option is satisfied through net-settlement or by delivering Shares to the Company (by either actual delivery or attestation); (c) the full number of Shares subject to a SAR shall count against the number of Shares remaining available for Awards made under the Plan (rather than the net number of Shares actually delivered upon exercise); and (d) Shares repurchased with proceeds from the payment of the exercise price of an Option shall not be added to the Share Reserve.

The Share Reserve shall not be reduced for Awards that may be settled solely in cash or for any Shares subject to Awards issued in substitution for or the assumption of awards outstanding under an Acquired Plan pursuant to Section 19.9.

4.5 Adjustments in Authorized Shares. If the Company effects a subdivision or consolidation of shares of stock or other capital adjustment (or similar transaction), the number and kind of Shares which may be delivered under Section 4.1, the number and kind of and/or price of Shares subject to outstanding Awards granted under the Plan, the Award limit set forth in Section 4.2, and other Award terms, shall be adjusted in the same manner and to the same extent as all other Shares. If there are material changes in the capital structure of the Company resulting from the payment of a special dividend (other than regular quarterly dividends) or other distributions to shareowners without receiving consideration therefore; the spin-off of a subsidiary; the sale of a substantial portion of the Company's assets; in the event of a merger or consolidation in which the Company is not the surviving entity; or other extraordinary or non-recurring events affecting the Company's capital structure and the value of Shares, or other similar corporate transactions or events, the Committee shall make equitable adjustments in the number and kind of Shares which may be delivered under Section 4.1, the number and kind of and/or price of Shares subject to outstanding Awards granted under the Plan, the Award limit set forth in Sections 4.2, and other Award terms, to prevent the dilution or enlargement of the rights of Award recipients. Moreover, in the event of any transaction or event described in this Section 4.5, the Committee may provide in substitution for any or all outstanding Awards under this Plan such alternative consideration (including cash), if any, as it, in good faith, may determine to be equitable in the circumstances and shall require in connection therewith the surrender of all Awards so replaced in a manner that complies with Code §409A. Following any such adjustment, the number of Shares subject to any Award shall always be a whole number. Notwithstanding the foregoing provisions of this Section 4.5, no adjustment shall be made to an Option or SAR to the extent that it causes such Option or SAR to provide for a deferral of compensation subject to Code §409A and the 409A Guidance. In addition, for each Option or SAR with an Option Price or grant price, as applicable, greater than the consideration offered in connection with any such transaction or event described in this Section 4.5 or a Change in Control, the Committee may in its discretion elect to cancel such Option or SAR without any payment to the person holding such Option or SAR.

Article 5. Eligibility and Participation

5.1 Eligibility. Persons eligible to participate in this Plan include all Employees, Directors and Key Persons.

5.2 Actual Participation. Subject to the provisions of the Plan:

(a) The Committee may from time to time select from all eligible Employees, Directors and Key Persons, those to whom Awards shall be granted and shall determine the nature and amount of each Award; and

(b) Awards may be granted to Participants at any time and from time to time as shall be determined by the Committee, including in connection with any other compensation program established by the Company.

Article 6. Options

6.1 Grant of Options. Options may be granted to Participants in such number, upon such terms, and at such times as determined by the Committee; provided, however, that ISOs may be granted only to Participants who are Employees of the Company or a Subsidiary that is a "subsidiary" of the Company within the meaning of Code §424(f).

6.2 Award Document. The Award Document for each Option shall specify whether the Option is intended to be an ISO or a NQSO.

6.3 Option Price. The Option Price for each Option shall be at least equal to one hundred percent (100%) of the Fair Market Value of a Share on the date the Option is granted. In addition, the Option Price of any ISO which is granted to an individual who owns more than ten percent (10%) of the voting power of all classes of stock of the Company or any "parent" or "subsidiary" corporation of the Company (within the meaning of Code §424(e) and (f)) (a "10% Owner") may not be less than one hundred ten percent (110%) of the Fair Market Value of a Share on the date the Option is granted.

6.4 Duration of Options. Each Option shall expire at such time as the Committee shall determine at the time of grant; provided, however, that no Option shall be exercisable later than the expiration of the ten-year period beginning on the date of its grant (and no ISO granted to a 10% Owner shall be exercisable later than the expiration of the five-year period beginning on the date of its grant).

6.5 Exercise of Options. Options shall be exercisable at such times and be subject to such restrictions and conditions as the Committee shall in each instance approve, which need not be the same for each grant or for each Participant.

6.6 Payment. Options shall be exercised by the delivery of notice of exercise to the Company (in accordance with the procedures established by the Committee), setting forth the number of Shares with respect to which the Option is to be exercised, accompanied by full payment for the Shares.

Unless otherwise provided under the terms of an Award Document, the Option Price shall be payable to the Company in full either: (a) in cash or its equivalent, (b) by tendering previously acquired Shares having an aggregate value at the time of exercise equal to the total Option Price, (c) through a reduction in the number of Shares received through the exercise of the Option, or (d) by a combination of (a), (b) and (c). Subject to any governing rules or regulations, as soon as practicable after receipt of notification of exercise and full payment, the Company shall transfer Shares in an appropriate amount based upon the number of Shares purchased under the Option(s).

Article 7. Stock Appreciation Rights (SARs)

7.1 Grant of SARs. SARs may be granted to Participants in such number, upon such terms and at such times as determined by the Committee. The Committee may grant Freestanding SARs, Tandem SARs, or any combination of these forms of SAR. The grant price of a Freestanding SAR shall be at least equal to the Fair Market Value of a Share on the date of grant of the SAR. The grant price of a Tandem SAR shall equal the Option Price of the related Option.

7.2 Exercise of Tandem SARs. Tandem SARs may be exercised for all or part of the Shares subject to the related Option upon the surrender of the right to exercise the equivalent portion of the related Option. A Tandem SAR may be exercised only with respect to the Shares for which its related Option is then exercisable. Upon exercise of a Tandem SAR as to all or some of the Shares subject to such Award, the related Option shall be automatically canceled to the extent of the number of Shares subject to the exercise. Conversely, if the related Option is exercised as to some or all of the Shares subject to such Award, the Tandem SAR shall automatically be canceled to the extent of the number of Shares subject to the exercise of the related Option.

Notwithstanding any other provision of this Plan to the contrary, with respect to a Tandem SAR granted in connection with an ISO: (a) the Tandem SAR will expire no later than the expiration of the underlying ISO; (b) the value of the payout with respect to the Tandem SAR shall not exceed one hundred percent (100%) of the difference between the Option Price of the underlying ISO and the Fair Market Value of the Shares subject to the underlying ISO at the time the Tandem SAR is exercised; and (c) the Tandem SAR may be exercised only when the Fair Market Value of the Shares subject to the ISO exceeds the Option Price of the ISO.

7.3 Exercise of Freestanding SARs. Subject to Section 7.1, Freestanding SARs may be exercised upon whatever terms and conditions the Committee, in its sole discretion, may impose upon them.

7.4 Duration of SARs. The term of a SAR shall be determined by the Committee, in its sole discretion; provided, however, that such term shall not exceed ten (10) years.

7.5 Payment of SAR Amount. Upon exercise of a SAR, a Participant shall be entitled to receive payment from the Company in an amount determined by multiplying:

(a) the difference between the Fair Market Value of a Share on the date of exercise over the grant price, by

(b) the number of Shares with respect to which the SAR is exercised.

At the discretion of the Committee, the payment upon SAR exercise may be in cash, in Shares of equivalent value, or in some combination thereof. The Committee's determination regarding the form of SAR payout shall be set forth in the Award Document pertaining to the grant of the SAR.

Article 8. Restricted Stock and Restricted Stock Units (RSUs)

8.1 Grant of Restricted Stock or RSUs. Restricted Stock or RSUs may be granted to Participants in such amounts, upon such terms and at such times as determined by the Committee.

8.2 Value of RSU. Each RSU shall have a value at the time of payment equal to the Fair Market Value of one Share as of such date.

8.3 Other Restrictions. The Committee shall impose such other conditions and/or restrictions on Restricted Stock or RSUs as it may deem advisable including, without limitation, a requirement that Participants pay a stipulated purchase price for each Share of Restricted Stock, restrictions based upon the achievement of specific performance goals and time-based restrictions on vesting following the attainment of the performance goals. Restricted Stock or RSUs shall be forfeited to the extent that a Participant fails to satisfy the applicable conditions or restrictions during the Period of Restriction. The Company may retain possession of Shares of Restricted Stock until such time as all conditions and/or restrictions applicable to such Shares have been satisfied.

8.4 Voting Rights. Participants holding Restricted Stock shall have the right to exercise full voting rights with respect to Restricted Stock during the Period of Restriction, unless otherwise provided in the Award Document.

8.5 Dividends or Dividend Equivalents. During the Period of Restriction, (a) Participants holding Restricted Stock granted hereunder shall be credited with regular cash dividends paid with respect to the underlying Shares while they are so held, and stock dividends or other non-cash distributions shall be subject to the same restrictions as the Restricted Stock, and (b) unless otherwise provided by the Committee, Participants awarded RSUs may receive dividend equivalents, but will not be entitled to any dividends declared with respect to Shares; provided that any such dividends or dividend equivalents credited with respect to such Restricted Stock or RSUs shall be subject to the same vesting conditions as the underlying Restricted Stock or RSUs. In no event shall dividends or dividend equivalents be paid or distributed until the vesting restrictions of the underlying Restricted Stock or RSUs, as applicable, lapse. The Committee may apply any additional restrictions to dividends and dividend equivalents that the Committee deems appropriate.

8.6 Lapse of Restrictions, Payment of RSUs. Except as otherwise provided in the Award Document, Shares subject to a Restricted Stock Award shall become freely transferable by the Participant as soon as practicable after the end of the applicable Period of Restriction. Except as otherwise provided in the Award Document, RSUs shall be paid in a single lump sum as soon as practicable following the end of the applicable Period of Restriction in the form of cash or in Shares (or in a combination thereof) as determined by the Committee and set forth in the Award Document.

Article 9. Restricted Performance Shares and Restricted Performance Units (RPUs)

9.1 Grant of Restricted Performance Shares or RPUs. Restricted Performance Shares and RPUs may be granted to Participants in such amounts, upon such terms and at such time as determined by the Committee.

9.2 Value of Restricted Performance Shares and RPUs. The Committee shall set performance goals in its discretion which, depending on the extent to which they are met, will determine the number and/or value of Restricted Performance Shares or RPUs that will be paid out to the Participant; provided, however, that the value of a Restricted Performance Share or an RPU at the time of payment shall not exceed the value of a Share on the date as of which the Restricted Performance Share or RPU is paid. Restricted Performance Shares or RPUs may be granted following the satisfaction of certain performance goals and may be subject to such other restrictions, for example, service restrictions, as the Committee shall determine.

9.3 Earning of Restricted Performance Shares and RPUs. Subject to the terms of this Plan, after the applicable Performance Period has ended, the holder of Restricted Performance Shares or RPUs shall be entitled to receive a payment based on the number and value of Restricted Performance Shares or RPUs earned by the Participant over the Performance Period to be determined as a function of the extent to which the corresponding performance goals or other conditions applicable to such Award have been achieved. Restricted Performance Shares or RPUs shall be forfeited to the extent that a Participant fails to satisfy the applicable performance goals or other conditions during the Performance Period.

9.4 Form and Timing of Payment. Except as otherwise provided in the Award Document, payment of earned Restricted Performance Shares or RPUs shall be made in a single lump sum following the close of the applicable Performance Period in the form of cash or in Shares (or in a combination thereof) as determined by the Committee and set forth in the Award Document which have an aggregate Fair Market Value equal to the value of the earned Restricted Performance Shares or RPUs at the close of the applicable Performance Period. Such Shares may be granted subject to any restrictions deemed appropriate by the Committee.

9.5 Dividends or Dividend Equivalents. At the discretion of the Committee and as provided in the Award Document, Participants may receive dividends or dividend equivalents declared with respect to Shares payable with respect to Restricted Performance Shares or RPUs not yet distributed to Participants; provided, that any such dividends or dividend equivalents credited with respect to Restricted Performance Shares or RPUs shall be subject to the same vesting conditions as the underlying Restricted Performance Shares or RPUs. In no event shall dividends or dividend equivalents be paid or distributed until the vesting restrictions of the underlying Restricted Performance Shares or RPUs, as applicable, lapse.

9.6 Voting Rights. Participants may, at the discretion of the Committee and as provided in the Award Document, be entitled to exercise their voting rights with respect to Restricted Performance Shares.

Article 10. Share and Cash Awards

Shares (other than Restricted Stock described in Article 8 and Restricted Performance Shares described in Article 9) may be granted and cash may be paid to or for the benefit of Participants in such amounts, upon such terms and at such times as determined by the Committee.

Article 11. Provisions Applicable to All Awards

11.1 Award Document. Each Award shall be evidenced by an Award Document that shall specify the terms of the Award, including without limitation, the type of the Award, the Option Price or grant price, if any, the number of Shares subject to the Award, the duration of the Award and such other provisions as the Committee shall determine.

11.2 Treatment of Dividends and Dividend Equivalents on Unvested Awards. In no event shall dividends or dividend equivalents be paid with respect to Options or Stock Appreciation Rights. Notwithstanding any other provision of the Plan to the contrary, with respect to any Award that provides for or includes a right to dividends or dividend equivalents, if dividends are declared during the period that an equity Award is outstanding, such dividends (or dividend equivalents) shall either (a) not be paid or credited with respect to such Award or (b) be accumulated but remain subject to vesting requirement(s) to the same extent as the applicable Award and shall only be paid at the time or times such vesting requirement(s) are satisfied.

11.3 Termination of Employment/Directorship/Other Relationship. Each Award Document shall set forth the extent to which the Participant shall have any rights with respect to such Award following termination of the Participant's employment or directorship or other relationship with the Company and its Subsidiaries and Affiliates. Such provisions shall be determined in the sole discretion of the Committee, shall be included in the Award Document, need not be uniform among all Awards, and may reflect distinctions based on the reasons for termination.

11.4 Nontransferability of Awards. Except as otherwise provided in the applicable Award Document, no Award may be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution, and all Options and SARs shall be exercisable, during the Participant's lifetime, only by the Participant; provided, however, that in the event the Participant is incapacitated and unable to exercise his or her Option or SAR, such Option or SAR may be exercised by such Participant's legal guardian or legal representative. The determination of incapacity of a Participant and the determination of the appropriate representative of the Participant who shall be able to exercise the Option or SAR if the Participant is incapacitated shall be determined in accordance with the Company's short-term or long-term disability policies as in effect from time to time. For the avoidance of doubt, any permitted transfer shall be without consideration.

11.5 Restrictions on Share Transferability. The Committee may impose such restrictions on any Shares acquired pursuant to an Award as it may deem advisable, including, without limitation, restrictions under applicable federal securities laws, under the requirements of any stock exchange or market upon which such Shares are then listed and/or traded, and under any blue sky or state securities laws applicable to such Shares. For the avoidance of doubt, any permitted transfer shall be without consideration.

Article 12. Performance-Based Awards

12.1 Performance Goals. The Committee is authorized to grant any Award under this Plan with performance-based vesting criteria, on such terms and conditions as may be selected by the Committee. The Committee may establish performance goals for Performance Awards which may be based on any criteria selected by the Committee, including but not limited to the performance measures set forth in Section 12.2 hereof. Performance goals may be based on one or more of the performance measures set forth in Section 12.2 that apply to the Participant, a business unit, a Subsidiary or the Company as a whole.

12.2 Performance Measures. One or more of the following performance measure(s) may be used to establish performance goals for performance-based Awards:

(a) Earnings per share;

(b) Net income (before or after taxes);

(c) Free Cash Flow

(d) Return measures, including, but not limited to:

(1) Return on assets;

(2) Return on equity;

(3) Return on operating capital;

(4) Return on invested capital; and

(5) Return on sales;

(e) Cash flow return on investments;

(f) Earnings before or after taxes, interest and depreciation;

(g) Gross revenues;

(h) Share price;

(i) Shareowner return;

(j) Pretax profit;

(k) Economic Value Added;

(l) Volume growth;

(m) Package flow technology;

(n) Successfully integrating acquisitions;

(o) Reducing non-operations expenses;

(p) Other operating efficiency measures or ratios;

(q) Operating income;

(r) Return on capital;

(s) Return on capital employed;

(t) Pre-tax income margin; and/or

(u) Any other objective or subjective metric established by the Committee with respect to an Award.

Any one or more of the performance measures may be used on an individual or aggregate basis, and on an absolute or relative basis to measure the performance of the Participant, the Company, one or more Affiliates or any divisional or operational unit(s) of the Company or one or more Affiliates or any combination thereof, as the Committee may deem appropriate, or any of the performance measures may be compared to the performance of a selected group of comparison companies, or a published or special index that the Committee, in its sole discretion, deems appropriate, or as compared to various stock market indices.

In determining attainment of performance goals, the Committee may exclude the effect of one or more events, including without limitation, unusual or infrequently occurring items, charges for restructurings (employee severance liabilities, asset impairment costs, and exit costs), acquisitions and divestitures, discontinued operations, extraordinary items, foreign currency gains and losses and the cumulative effect of tax and accounting changes.

The Committee must certify in writing prior to payment of, or such other event that results in the inclusion of income (for example, the vesting of Restricted Stock) from, a performance-based Award that the performance goals and any other material terms of the Award were in fact satisfied. Approved written minutes of the Committee meeting in which the certification is made shall be treated as a written certification.

Article 13. Rights of Employees/Directors/Key Persons

13.1 Employment and Performance of Services. Nothing in the Plan shall interfere with or limit in any way the right of the Company, a Subsidiary or an Affiliate to terminate any Participant's employment at any time, nor confer upon any Participant any right to continue in the employ of the Company, a Subsidiary or an Affiliate. Nothing in this Plan shall interfere with or limit in any way the right of the Company to terminate any Participant's services at any time, nor confer upon any Participant any right to continue performing services for the Company, a Subsidiary or an Affiliate.

13.2 Participation. No Employee, Director or Key Person shall have the right to be selected to receive an Award under this Plan, or, having been so selected, to be selected to receive a future Award.

Article 14. Change in Control

Notwithstanding anything to the contrary in the Plan, in connection with a Change in Control:

14.1 Treatment of Time-Based Awards in connection with a Change in Control: With respect to Awards that are to become exercisable, nonforfeitable and transferable or earned and payable based solely on the passage of time, the Committee shall accelerate exercisability, nonforfeitability and transferability of such "time-based" Awards to the effective date of the Change in Control only if such Awards are not assumed or converted in connection with the Change in Control. "Double trigger" treatment (i.e., a qualifying termination following a Change in Control) as determined by the Committee or as set forth in an Award Agreement will apply to time-based Awards in all other circumstances.

14.2 Treatment of Performance-Based Awards: With respect to Awards that are to become exercisable, nonforfeitable and transferable or earned and payable based on the achievement of one or more objectively determinable performance conditions, the Committee shall only accelerate exercisability, nonforfeitability and transferability of such "performance-based" Awards to the effective date of the Change in Control (a) to the extent of actual achievement of the applicable performance conditions or (b) on a prorated basis for time elapsed in ongoing performance period(s) based on target or actual level achievement. "Double trigger" treatment as determined by the Committee will apply to performance-based Awards in all other circumstances, subject to (a) to the extent of actual achievement of the applicable performance conditions or (b) on a prorated basis for time elapsed in ongoing performance period(s) based on target or actual level achievement.

Article 15. Amendment, Modification and Termination

15.1 Amendment, Modification and Termination. Subject to the terms of the Plan, the Committee may at any time and from time to time, alter, amend, suspend or terminate the Plan in whole or in part; provided, however, that without the prior approval of the Company's shareowners, no material amendment shall be made if shareowner approval is required by law, regulation or applicable listing requirement of any stock exchange upon which the Company's Class B common stock is then listed; provided, further, however, that notwithstanding any other provision of the Plan or any Award Document, no such alteration, amendment, suspension or termination shall be made without the approval of the shareowners of the Company if the alteration, amendment, suspension or termination would:

(a) increase the number of Shares available for Awards under the Plan, except as provided in Article 4 hereof; or

(b) except as provided in Section 4.5 or in connection with a Change in Control, permit Options, SARs or other stock-based Awards encompassing rights to purchase Shares to be repriced, replaced, or regranted through cancellation in exchange for cash or another Award, or by lowering the Option Price of a previously granted Option or the grant price of a previously granted SAR, or the purchase price of any other stock-based Award.

15.2 Adjustment of Awards Upon the Occurrence of Certain Unusual or Nonrecurring Events. Subject to Article 14 and this Article 15, the Committee may make adjustments in the terms and conditions of, and the criteria included in, Awards in recognition of unusual or nonrecurring events (including, without limitation, the events described in Section 4.5) affecting the Company or the financial statements of the Company or of changes in applicable laws, regulations, or accounting principles, whenever the Committee determines that such adjustments are appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan.

15.3 Awards Previously Granted. Except for the Committee's right to terminate, amend, or modify Article 14 and Section 2.11 at any time and from time to time prior to the date of a Change in Control, no termination, amendment, or modification of the Plan shall adversely affect in any material way any Award previously granted under the Plan, without the prior written consent of the Participant to whom the Award was made or the Participant's proper assignee. The Committee may amend any Award previously granted without the prior written consent of the Participant if such amendment does not adversely affect the Award in any material way and may amend any Award previously granted with the written consent of the Participant.

15.4 Section 409A Compliance. Notwithstanding any other provision of this Article 15, no adjustment described in Section 15.2 (unless the Committee determines otherwise at the time such adjustment is considered) and no termination, amendment, or modification of the Plan shall (a) impermissibly accelerate or postpone payment of an Award subject to Code §409A and the 409A Guidance, (b) cause an Option or SAR to provide for a deferral of compensation subject to Code §409A and the 409A Guidance, or (c) apply to any Award that otherwise is intended to satisfy the requirements of Code §409A and the 409A Guidance to the extent such action would cause compensation deferred under the applicable Award (and applicable earnings) to be included in income under Code §409A.

Article 16. Withholding

16.1 Tax Withholding. The Company shall have the power and the right to deduct or withhold, or require a Participant to remit to the Company as a condition precedent for the fulfillment of any Award, an amount sufficient to satisfy federal, state, and local taxes, domestic or foreign, required by law or regulation to be withheld with respect to any taxable event arising as a result of this Plan.

16.2 Share Withholding. Whenever Shares are to be issued or cash paid to a Participant upon the grant, exercise or vesting of an Award, the Company shall have the right to require the Participant to remit to the Company, as a condition to the grant, exercise or vesting of the Award, an amount sufficient to satisfy federal, state and local withholding tax requirements at the time of such grant, exercise or vesting. Unless otherwise determined by the Committee at the time the Award is granted or thereafter, any such withholding requirement may be satisfied, in whole or in part, by withholding from the Award Shares having a fair market value on the date of withholding equal to the amount required to be withheld in accordance with applicable tax requirements (up to the maximum individual statutory rate in the applicable jurisdiction as may be permitted under then-current accounting principles to qualify for equity classification), in accordance with such procedures as the Committee establishes.

Article 17. Indemnification

Each person who is or shall have been a member of the Committee, or of the Board, shall be indemnified and held harmless by the Company (to the extent permissible under applicable law) against and from any loss, cost, liability, or expense that may be imposed upon or reasonably incurred by him or her in connection with or resulting from any bona fide claim, action, suit, or proceeding against such person or against the Company and in which he or she may be involved by reason of any action taken or failure to act by him or her under the Plan in his or her capacity as a member of the Committee or of the Board and against and from any and all amounts paid by him or her in settlement thereof, with the Company's approval, or paid by him or her in satisfaction of any judgment in any such action, suit, or proceeding against him or her, provided he or she shall give the Company an opportunity, at its own expense, to handle and defend the same before he or she undertakes to handle and defend it on his or her own behalf. The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which such persons may be entitled under the Company's Certificate of Incorporation or Bylaws, as a matter of law, or otherwise, or any power that the Company may have to indemnify them or hold them harmless.

Article 18. Successors

All obligations of the Company under the Plan with respect to Awards granted hereunder shall be binding on any successor to the Company.

Article 19. Miscellaneous

19.1 Number and Fractions. Except where otherwise indicated by the context, the plural shall include the singular and the singular shall include the plural. The Company will not be required to issue any fractional Shares pursuant to this Plan. The Committee may provide for the elimination of fractions or for the settlement of fractions in cash.

19.2 Severability. In the event any provision of the Plan shall be held illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining parts of the Plan, and the Plan shall be construed and enforced as if the illegal or invalid provision had not been included.

19.3 Requirements of Law. The granting of Awards and the issuance of Shares under the Plan shall be subject to all applicable laws, rules, and regulations, and to such approvals by any governmental agencies or national securities exchanges as may be required.

19.4 Securities Law Compliance. With respect to Insiders, transactions under this Plan are intended to comply with all applicable conditions or Rule 16b-3(b)(3) of the Exchange Act or its successors. To the extent any provision of the plan or action by the Committee fails to so comply, it shall be deemed null and void, to the extent permitted by law and deemed advisable by the Committee.

19.5 Governing Law. To the extent not preempted by federal law, the Plan, and all agreements, instruments or other documents hereunder, shall be construed in accordance with and governed by the internal laws of the state of Delaware.

19.6 Plan Document Controls. In the event of any conflict between the provisions of an Award Document and the Plan, the Plan shall control, and the conflicting provisions of the Award Document shall be null and void ab initio.

19.7 Unfunded Arrangement. The Plan shall not be funded, and except for reserving a sufficient number of authorized Shares to the extent required by law to meet the requirements of the Plan, the Company shall not be required to establish any special or separate fund or to make any other segregation of assets to assure the payment of any grant under the Plan.

19.8 Custody of Awards Paid in Shares. Shares issued under the Plan shall be held by a custodian chosen by the Committee. Each recipient of Shares may elect to have the custodian continue to hold the Shares as custodian without cost or may elect to have the Shares delivered to him or her. The custodian shall register Shares held by it for a recipient in the custodian's name and shall sell or otherwise dispose of the Shares only pursuant to the instructions of the recipient. Dividends and other distributions on Shares held by the custodian shall be promptly remitted by the custodian to recipients owning such Shares. Recipients owning Shares held by the custodian shall receive periodic statements of the number of Shares held for their account and of dividends paid on such Shares. Notice of any regular or special meeting of Company shareowners shall be forwarded to recipients owning Shares held in custody by the custodian, which shall furnish such recipients a proxy permitting the recipient to vote the number of Shares held for him or her by the custodian.

19.9 Awards Granted in Substitution. Notwithstanding any contrary provision, in the event the Company engages in a recapitalization, reorganization, merger, consolidation, combination, exchange of shares, spin-off, acquisition or other business transaction with an Acquired Organization, the Committee in its absolute discretion may (a) grant Awards under the Plan in substitution and cancellation of options, stock appreciation rights, restricted stock, restricted stock units, performance shares, performance units or other awards awarded to an individual by such Acquired

Organization or (b) assume the options, stock appreciation rights, restricted stock, restricted stock units, performance shares, performance units, or other awards made to an individual by such Acquired Organization as if the Company had granted such awards under the Plan. Awards made under this Section 19.9 in substitution for awards canceled as a result of such business transaction may have an Option Price or grant price less than one hundred percent (100%) of the Fair Market Value of a Share on the date such award is granted and such other terms and conditions as consistent with such canceled awards; provided that no Option or SAR may be granted under this Section 19.9 if such Option or SAR provides for a deferral of compensation subject to Code §409A and the 409A Guidance.

19.10 Repayment of Awards as a Result of Certain Improper Conduct. 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, the Company will seek repayment or recovery of the Award, as appropriate, notwithstanding any contrary provision of the Plan. In addition, the Committee may provide that any Participant and/or any Award, including any Shares subject to or issued under an Award, is subject to any other recovery, recoupment, clawback and/or other forfeiture policy maintained by the Company from time to time.

19.11 Section 409A Compliance. It is intended that the Awards are either exempt from the requirements of Code §409A and the 409A Guidance or will satisfy the requirements of Code §409A and the 409A Guidance (in form and operation) so that compensation deferred under an applicable Award (and applicable earnings) shall not be included in income under Code §409A, and the Plan will be construed to that effect. If an Award is subject to Code §409A and the 409A Guidance, the Award Document will incorporate and satisfy the written documentation requirement of Code §409A and the 409A Guidance either directly or by reference to other documents. Notwithstanding the foregoing, the Company shall have no obligation to indemnify any Participant for any taxes under Code §409A.

ANNUAL MEETING OF SHAREOWNERS

Thursday, May 13, 2021, 8:00 a.m. Eastern Time

www.virtualshareholdermeeting.com/UPS2021

2020
Annual Report
on Form 10-K

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-K

(Mark One)

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

For the fiscal year ended December 31, 2020
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	**58-2480149**
(State or Other Jurisdiction of Incorporation or Organization)	***(I.R.S. Employer Identification No.)***
55 Glenlake Parkway, N.E. Atlanta, Georgia	**30328**
(Address of Principal Executive Offices)	***(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 $.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

Securities registered pursuant to Section 12(g) of the Act:
Class A common stock, par value $.01 per share
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes ☐ No ☒

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 (Section 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 definitions of " large accelerated filer", "accelerated filer", "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐ Emerging growth company ☐

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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

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

The aggregate market value of the class B common stock held by non-affiliates of the registrant was $78,510,244,191 as of June 30, 2020. The registrant's class A common stock is not listed on a national securities exchange or traded in an organized over-the-counter market, but each share of the registrant's class A common stock is convertible into one share of the registrant's class B common stock.

As of February 5, 2021, there were 147,531,933 outstanding shares of class A common stock and 719,506,596 outstanding shares of class B common stock.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement for its annual meeting of shareowners scheduled for May 13, 2021 are incorporated by reference into Part III of this report.

UNITED PARCEL SERVICE, INC.
ANNUAL REPORT ON FORM 10-K
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PART I

Cautionary Statement About Forward-Looking Statements

This report and our other filings with the Securities and Exchange Commission ("SEC") 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 relate to our intent, belief and current expectations about our strategic direction, prospects and future results, and give our current expectations or forecasts of 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 such forward-looking statements because such statements speak only as of the date when made.

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, those described in Part I, "Item 1A. Risk Factors" and elsewhere in this report and may also be described from time to time in our future reports filed with the SEC. 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.

Item 1. *Business*

Overview

United Parcel Service, Inc. ("UPS"), founded in 1907, is the world's largest package delivery company and a premier provider of global supply chain management solutions. We offer a broad range of industry-leading products and services through our extensive presence in North America; Europe; the Indian sub-continent, Middle East and Africa ("ISMEA"); Asia Pacific and Latin America. Our services include transportation, distribution, contract logistics, ground freight, ocean freight, air freight, customs brokerage and insurance.

We operate one of the largest airlines in the world, as well as the world's largest fleet of alternative fuel vehicles. We deliver packages each business day for approximately 1.7 million shipping customers to 11.8 million delivery customers in over 220 countries and territories. In 2020, we delivered an average of 24.7 million packages per day, totaling 6.3 billion during the year. Total revenue in 2020 was $84.6 billion.

Strategy

Our business sits at the intersection of major economic and societal trends, such as rapid urbanization and e-commerce growth. As we look ahead, we recognize that our customers are changing, our competitors are changing, and the rate of change is accelerating. We are guided by our strategy, *Customer First, People Led, Innovation Driven*, as we transform nearly every aspect of our business.

Customer First is about reducing the friction of doing business. We seek to help our customers seize new opportunities, compete, and succeed by delivering the capabilities that they tell us matter the most; speed and ease. We believe that our best opportunities are captured in, and we are focusing on, our three strategic growth initiatives: small- and medium-sized businesses ("SMBs"), healthcare and international markets. We seek to grow in these areas by providing the best digital experience powered by our global smart logistics network. We will measure our success in this area through improvements in our net promoter score.

People Led specifically focuses on how likely an employee is to recommend UPS employment to a friend or family member. We know successful outcomes are built from a strong culture, so we are striving to make UPS a great place to work. Through our transformation initiatives, we are creating fewer but more impactful jobs. We are also enhancing the employee value proposition to align with evolving market practices. We will measure our success on this strategic initiative through the employee experience.

Innovation Driven is designed to optimize the volume that flows through our network, to focus on increasing value share and drive business growth from higher-yielding opportunities in our target markets. In the United States, our aim is to improve revenue mix and lower our cost to serve in the U.S. Domestic Package segment. Within the International Package and Supply Chain & Freight segments, our focus is on growing operating profit. We will measure our success on this strategic initiative through our returns on invested capital and operating margins.

Competitive Strengths

Our competitive strengths include:

An Efficient Multimodal Network. We believe that our integrated global air and ground network is the most extensive in the industry. We provide all types of package services (air, ground, domestic, international, commercial and residential) through a single pickup and delivery network. Our sophisticated engineering systems allow us to optimize network efficiency and asset utilization.

Global Presence. We serve more than 220 countries and territories. We have a significant presence in all of the world's major economies, allowing us to effectively and efficiently operate globally.

Cutting-Edge Technology. We are a global leader in developing technology that helps our customers enhance their shipping and logistics business processes to lower costs, improve service and increase efficiency. We offer a variety of online tools that enable our customers to integrate UPS functionality into their own websites, deepening our customer relationships. These tools allow customers to send, manage and track their shipments, and also to provide their customers with better information services.

A Broad Portfolio of Services. Our portfolio of services helps customers choose their most appropriate delivery option. Increasingly, our customers benefit from UPS business solutions that integrate our services beyond package delivery. For example, supply chain services – such as freight forwarding, truckload brokerage, customs brokerage, order fulfillment and returns management – help improve the efficiency of our customers' entire supply chain management process.

Customer Relationships. We focus on building and maintaining long-term customer relationships. Providing value-added services beyond package delivery, and cross-selling small package and supply chain services across our customer base, are important retention tools and growth mechanisms for us.

Brand Equity. We have built a leading and trusted brand that stands for quality, reliability and service innovation. Our vehicles and the professional courtesy of our drivers are major contributors to our brand equity.

Distinctive Culture. We believe that the dedication of our employees comes in large part from our distinctive "employee-owner" culture. Our founders believed that employee stock ownership was a vital foundation for successful business, and the employee stock ownership tradition dates back to our first stock ownership program in 1927.

Financial Strength. Our financial strength allows us to generate value for our shareowners by investing in technology, transportation equipment, facilities and employee development; pursuing strategic opportunities that facilitate our growth and maintaining a strong credit rating that gives us flexibility in running the business.

Products and Services; Reporting Segments

We have three reporting segments: U.S. Domestic Package, International Package and Supply Chain & Freight. U.S. Domestic Package and International Package are together referred to as our global small package operations.

Global Small Package

Our global small package operations provide time-definite delivery services for express letters, documents, packages and palletized freight via air and ground services. These services are supported by numerous shipping, visibility and billing technologies. For example, our Digital Access Program makes it easier for SMBs to use our services by embedding our shipping solutions directly into leading e-commerce platforms.

All services (air, ground, domestic, international, commercial and residential) are managed through a single, global smart logistics network. We combine all packages within our network, unless dictated by specific service commitments. This enables us to efficiently pick up customers' shipments for any services at a scheduled time each day. Our integrated network provides unique operational and capital efficiencies that have a lower environmental impact than single service network designs.

We offer same-day pickup of air and ground packages seven days a week. Our global network offers approximately 150,000 entry points where customers can tender packages to us at locations and times convenient to them. This includes UPS drivers who can accept packages, UPS drop boxes, UPS Access Point locations, The UPS Store locations, authorized shipping outlets and commercial counters, alliance locations and customer centers attached to UPS facilities. Our UPS Access Point network includes local small businesses, national retailers and self-serve lockers. This network allows consumers to ship or redirect packages to an alternate delivery location or to drop off pre-labeled packages, including returns. We have expanded the UPS Access Point network to approximately 21,000 locations within the U.S. and 40,000 globally.

We offer a portfolio of returns services in more than 140 countries. These services are driven by the continued growth of online and mobile shopping that has increased our customers' need for efficient and reliable returns, and is designed to promote efficiency and a friction-free consumer experience. This portfolio provides a range of cost-effective label and digital returns options and a broad network of consumer drop points. We also offer a selection of returns technologies, such as UPS Returns Manager, that promote systems integration, increase customer ease of use and visibility of inbound merchandise. These technologies help reduce costs and improve efficiency in our customers' reverse logistics processes.

Our global air operations are based in Louisville, Kentucky, and are supported by air hubs across the United States and internationally. We operate international air hubs in Germany, China, Hong Kong, Canada and Florida (for Latin America and the Caribbean). This network design enables cost-effective package processing in our most technology-enabled facilities, which allows us to use fewer, larger and more fuel-efficient aircraft.

U.S. Domestic Package

We are a leader in time-definite, guaranteed small package delivery services in the United States. We offer a full spectrum of U.S. domestic guaranteed air and ground package transportation services. Our U.S. ground fleet serves all business and residential zip codes in the contiguous United States.

- Our air portfolio offers time specific, same day, next day, two day and three day delivery alternatives.
- Our ground network enables customers to ship using our day-definite guaranteed ground service. We deliver more ground packages in the U.S. than any other carrier, with average daily package volume of more than 17 million, most within one to three business days.
- UPS SurePost provides residential ground service for customers with non-urgent, lightweight residential shipments. UPS SurePost combines the consistency and reliability of the UPS ground network, with final delivery often provided by the U.S. Postal Service.

During 2020, as a component of our strategic initiatives focused on SMBs and to increase speed and ease for our customers, we successfully completed our weekend expansion, enabling broader market coverage. We are the only carrier that provides both commercial and residential pickup and delivery services on Saturdays as a general service offering. We also improved ground transit times between millions of zip codes in the most populous U.S. markets and expanded our Digital Access Program by connecting UPS directly to more e-commerce platforms, improving access to our network.

International Package

International Package consists of our small package operations in Europe, Asia Pacific, Canada, Latin America and ISMEA. We offer a wide selection of guaranteed day- and time-definite international shipping services, including more guaranteed time-definite express options than any other carrier.

For international package shipments that do not require express services, UPS Worldwide Expedited offers a reliable, deferred, guaranteed day-definite service option. For cross-border ground package delivery, we offer UPS Standard delivery services within Europe, between the U.S. and Canada, and between the U.S. and Mexico. UPS Worldwide Express Freight is a premium international service for urgent, palletized shipments over 150 pounds.

Europe is our largest region outside of the U.S. and, in 2020, accounted for approximately half of our international package segment revenue. We continue to make major European infrastructure investments to meet growing demand for our services and to improve transit times across the region. Customers can now reach more than 80% of Europe's population within two business days using UPS Standard.

We serve more than 40 Asia Pacific countries and territories through more than two dozen alliances with local delivery companies that supplement our owned operations.

International high growth markets are one of our strategic imperatives. Since 2017, we have doubled our air capacity to Dubai. The introduction of a direct flight from the U.S. has improved time-in-transit to key destinations in ISMEA for shippers throughout the U.S., Canada and Latin America. In India, we are investing in our network to improve transit times and extend pickup times, allowing businesses to gain faster access to markets in Europe and the United States.

Supply Chain & Freight

Supply Chain & Freight consists of our forwarding, truckload brokerage, logistics and distribution, UPS Freight, UPS Capital and other businesses. Supply chain complexity creates demand for a global service offering that incorporates transportation, distribution and international trade and brokerage services, with complementary financial and information services. Many companies see value in outsourcing non-core logistics activity. With increased competition and growth opportunities in new markets, businesses require flexible and responsive supply chains to support their strategies. We meet this demand by offering a broad array of supply chain services in more than 200 countries and territories.

Forwarding

We are one of the largest U.S. domestic air freight carriers and among the top air freight forwarders globally. We offer a portfolio of guaranteed and non-guaranteed global air freight services. Additionally, as one of the world's leading non-vessel operating common carriers, we provide ocean freight full-container load, less-than-container load and multimodal transportation services between most major ports around the world.

Truckload Brokerage

We provide truckload brokerage services in the U.S. and Europe through our Coyote-branded subsidiaries. Access to the UPS fleet, combined with a broad third-party carrier network, creates customized capacity solutions for all markets and customers. Coyote customers can also access UPS services such as air freight, customs brokerage and global freight forwarding.

Logistics & Distribution

Our Logistics & Distribution business provides value-added fulfillment and transportation management services. We leverage a network of more than 1,000 facilities in over 100 countries to ensure products and parts are in the right place at the right time. We operate both multi-client and dedicated facilities across our network, many of which are strategically located near UPS air and ground transportation hubs to support rapid delivery to consumer and business markets.

Each of our U.S. distribution centers can be designated as a Foreign Trade Zone ("FTZ"), allowing businesses the opportunity to defer or reduce tariff burdens on imported and exported goods. We also have multiple FTZ-compliant facilities in Europe and Asia.

Healthcare logistics is one of our strategic growth initiatives. UPS Healthcare offers world-class technology, deep expertise and the most sophisticated suite of services in the industry. With a strategic focus on serving the unique, priority-handling needs of healthcare and life sciences customers, we have increased our cold-chain logistics capabilities to support the rapid deployment of COVID-19 vaccines both in the U.S. and internationally. During 2020, we added nearly 2.6 million square feet of capacity and now have approximately ten million square feet of healthcare-licensed warehousing in 82 facilities across fifteen countries. These facilities are climate controlled and offer validated coolers and freezers for products requiring strict temperature-controlled environments.

UPS Freight

UPS Freight offers regional, inter-regional and long-haul less-than-truckload ("LTL") services in all 50 states, Canada, Puerto Rico, Guam, the U.S. Virgin Islands and Mexico. UPS Freight also provides dedicated contract carriage truckload services. User-friendly shipping, visibility and billing technology offerings, including UPS WorldShip, Quantum View and UPS Billing Center, allow customers to create electronic bills of lading, monitor shipment progress and reconcile shipping charges.

On January 24, 2021, we entered into a definitive agreement to divest our UPS Freight business. This will allow us to be even more focused on the core parts of our business that drive the greatest value for our shareholders. The transaction, which is subject to customary closing conditions and regulatory approvals, is expected to close during the second quarter of 2021. For additional information, see note 4 to the audited, consolidated financial statements.

Customs Brokerage

We are among the world's largest customs brokers, as measured by both the number of shipments processed annually and by the number of dedicated brokerage employees worldwide. In addition to customs clearance services, we provide product classification, trade management, duty drawback and consulting services.

UPS Capital

UPS Capital offers integrated supply chain insurance solutions for in-transit goods to both small and large businesses. Supply chain protection services are available in 19 countries and territories. UPS Capital also offers insured transportation of high value goods.

Human Capital

Our success is dependent upon our people, working together with a common purpose. We have approximately 543,000 employees (excluding temporary seasonal employees), of which 458,000 are in the U.S. and 85,000 are located internationally. Our global workforce includes approximately 93,000 management employees (43% of whom are part-time) and 450,000 hourly employees (51% of whom are part-time). More than three-quarters of our U.S. employees are represented by unions, primarily those employees handling or transporting packages. In addition, approximately 3,000 of our pilots are represented by the Independent Pilots Association.

We believe that UPS employees are among the most motivated, highest-performing people in the industry and provide us with a meaningful competitive advantage. To assist with employee recruitment and retention, we continue to review the competitiveness of our employee value proposition, including benefits and pay, the range of continuous training, talent development and promotional opportunities. For additional information on the importance of our human capital efforts, see "Risk Factors - Business and Operating Risks - Failure to attract or retain qualified employees could materially adversely affect us".

Oversight and management

We believe in creating an inclusive and equitable environment that represents a broad spectrum of backgrounds, cultures and stakeholders. By leveraging diversity with respect to gender, age, ethnicity, skills and other factors, and creating inclusive environments, we can improve organizational effectiveness, cultivate innovation and drive growth.

Our Board of Directors and Board committees provide oversight on human capital matters through a variety of methods and processes. These include regular updates and discussion around human capital transformation efforts, technology initiatives impacting the workforce, health and safety matters, employee survey results related to culture and other matters, hiring and retention, employee demographics, labor relations and contract negotiations, compensation and benefits, succession planning and employee training initiatives. We believe the Board's oversight of these matters helps identify and mitigate exposure to labor and human capital management risks, and is part of the broader framework that guides how we attract, retain and develop a workforce that aligns with our values and strategies.

In addition, in 2020 we created the role of Chief Diversity, Equity and Inclusion Officer, a new position on the company's Executive Leadership Team, reporting directly to our Chief Executive Officer. The creation of this role is a significant step forward for UPS to further develop a more inclusive and equitable environment.

Transformation

As we expand and enter new markets, and seek to capture new opportunities and pursue growth, we need employees to grow and innovate along with us. We believe that transforming the UPS employee experience is foundational to our success. This requires a thoughtful balance between the culture we have cultivated over the years and new approaches to lead our business into the future.

We are investing in capabilities that will transform our business, including investments in employee opportunities to support growth. We are providing further training for 40,000 management employees on professionalism and performance as well as unconscious bias and diversity and inclusion to ensure our actions match our values.

Additional information on our human capital efforts is contained in our annual sustainability report, which describes our activities that support our commitment to acting responsibly and contributing to society. This report is available at *www.sustainability.ups.com*.

Collective bargaining

We bargain in good faith with the unions that represent our employees. We frequently engage union leaders at the national level and at local chapters throughout the United States. We participate in works councils and associations outside the U.S., which allows us to respond to emerging regional issues. This work helps our operations to build and maintain productive relationships with our employees. For additional information regarding employees employed under collective bargaining agreements, see note 7 to the audited, consolidated financial statements.

Employee health and safety

We are committed to industry-leading employee health, safety and wellness programs across our growing workforce. We develop a culture of health and safety by:

- investing in safety training and audits;
- promoting wellness practices which mitigate risk; and
- offering benefits designed to keep employees safe in the workplace and beyond.

Our local health and safety committees coach employees on UPS's safety processes and are able to share best practices across work groups. Our safety methods and procedures are increasingly focused on the variables associated with residential delivery environments, which have become more common with the growth in e-commerce. We monitor our performance in this area through various measurable targets including lost time injury frequency and the number of recorded auto accidents.

Customers

Building and maintaining long-term customer relationships is a competitive strength of UPS. In 2020, we served 1.7 million shipping customers and more than 11.8 million delivery customers daily. For the year ended December 31, 2020, one customer, Amazon.com, Inc. and its affiliates, represented approximately 13.3% of our consolidated revenues, substantially all of which was within our U.S. Domestic Package segment. For additional information on our customers, see "Risk Factors - Business and Operating Risks - Changes in our relationships with any of our significant customers, including the loss or reduction in business from one or more of them, could have a material adverse effect on us" and note 14 to the audited, consolidated financial statements.

Competition

We offer a broad array of transportation and logistics services and compete with many local, regional, national and international logistics providers as well as national postal services. We believe our strategy, network and competitive strengths position us well to compete in the marketplace. For additional information on our competitive environment, see "Risk Factors - Business and Operating Risks - Our industry is rapidly evolving. We expect to continue to face significant competition, which could materially adversely affect us".

Government Regulation

We are subject to numerous laws and regulations in the countries in which we operate. Continued compliance with increasingly stringent laws, regulations and policies in the U.S. and in the other countries in which we operate may result in materially increased costs, or we could be subject to substantial fines or possible revocation of our authority to conduct our operations.

Air Operations

The U.S. Department of Transportation ("DOT"), the Federal Aviation Administration ("FAA") and the U.S. Department of Homeland Security, through the Transportation Security Administration ("TSA"), have primary regulatory authority over our air transportation services.

The DOT’s authority primarily relates to economic aspects of air transportation, such as operations, authority, insurance requirements, pricing, non-competitive practices, interlocking relations and cooperative agreements. The DOT also regulates international routes, fares, rates and practices and is authorized to investigate and take action against discriminatory treatment of U.S. air carriers abroad. International operating rights for U.S. airlines are usually subject to bilateral agreements between the U.S. and foreign governments or, in the absence of such agreements, by principles of reciprocity. We are also subject to current and potential aviation regulations imposed by governments in other countries in which we operate, including registration and license requirements and security regulations. We have international route operating rights granted by the DOT and we may apply for additional authorities when those operating rights are available and are required for the efficient operation of our international network. The efficiency and flexibility of our international air transportation network is subject to DOT and foreign government regulations and operating restrictions.

The FAA’s authority primarily relates to safety aspects of air transportation, including certification, aircraft operating procedures, transportation of hazardous materials, record keeping standards and maintenance activities and personnel. In addition, we are subject to non-U.S. government regulation of aviation rights involving non-U.S. jurisdictions and non-U.S. customs regulation.

UPS's aircraft maintenance programs and procedures, including aircraft inspection and repair at periodic intervals, are approved for all aircraft under FAA regulations. The future cost of repairs pursuant to these programs may fluctuate according to aircraft condition, age and the enactment of additional FAA regulatory requirements.

The TSA regulates various security aspects of air cargo transportation. Our airport and off-airport locations, as well as our personnel, facilities and procedures involved in air cargo transportation must comply with TSA regulations.

Our airline, along with a number of other U.S. domestic airlines, participates in the Civil Reserve Air Fleet (“CRAF”) program. Our participation in the CRAF program allows the U.S. Department of Defense (“DOD”) to requisition specified UPS aircraft for military use during a national defense emergency. The DOD is required to compensate us for any use of aircraft under the CRAF program. In addition, participation in CRAF entitles us to bid for other U.S. Government opportunities including small package and air freight.

Ground Operations

Our ground transportation of packages in the U.S. is subject to regulation by the DOT and its agency, the Federal Motor Carrier Safety Administration (the “FMCSA”). Ground transportation also falls under state jurisdiction with respect to the regulation of operations, safety and insurance. Our ground transportation of hazardous materials in the U.S. is subject to regulation by the DOT's Pipeline and Hazardous Materials Safety Administration. We also must comply with safety and fitness regulations promulgated by the FMCSA, including those relating to drug and alcohol testing and hours of service for drivers. Ground transportation of packages outside of the U.S. is subject to similar regulatory schemes in the countries in which we transport those packages.

The Postal Reorganization Act of 1970 created the U.S. Postal Service as an independent establishment of the executive branch of the federal government, and created the Postal Rate Commission, an independent agency, to recommend postal rates. The Postal Accountability and Enhancement Act of 2006 amended the 1970 Act to give the re-named Postal Regulatory Commission revised oversight authority over many aspects of the U.S. Postal Service, including postal rates, product offerings and service standards. We sometimes participate in proceedings before the Postal Regulatory Commission in an attempt to secure fair postal rates for competitive services.

Our ground operations are also subject to compliance with various cargo-security and transportation regulations issued by the U.S. Department of Homeland Security, including regulation by the TSA in the U.S., and similar regulations issued by foreign governments in other countries.

Customs

We are subject to the customs laws regarding the import and export of shipments in the countries in which we operate, including those related to the filing of documents on behalf of client importers and exporters. Our activities in the U.S., including customs brokerage and freight forwarding, are subject to regulation by the Bureau of Customs and Border Protection, the TSA, the U.S. Federal Maritime Commission and the DOT. Our international operations are subject to similar regulatory structures in their respective jurisdictions.

For additional information, see “Risk Factors – Business and Operating Risks – Increased security requirements impose substantial costs on us and we could be the target of an attack or have a security breach, which could materially adversely affect us”.

Environmental

We are subject to federal, state and local environmental laws and regulations across all of our operations. These laws and regulations cover a variety of processes, including, but not limited to: properly storing, handling and disposing of waste materials; appropriately managing waste water and storm water; monitoring and maintaining the integrity of underground storage tanks; complying with laws regarding clean air, including those governing emissions; protecting against and appropriately responding to spills and releases and communicating the presence of reportable quantities of hazardous materials to local responders. We maintain site- and activity-specific environmental compliance and pollution prevention programs to address our environmental responsibilities and remain compliant. In addition, we maintain numerous programs which seek to minimize waste and prevent pollution within our operations.

Pursuant to the Federal Aviation Act, the FAA, with the assistance of the Environmental Protection Agency is authorized to establish standards governing aircraft noise. Our aircraft fleet is in compliance with current noise standards of the federal aviation regulations. Our international operations are also subject to noise regulations in certain other countries in which we operate.

For additional information, see "Risk Factors – Regulatory and Legal Risks – Increasingly stringent regulations related to climate change could materially increase our operating costs".

Communications and Data Protection

Because of our extensive use of radio and other communication facilities in our aircraft and ground transportation operations, we are subject to the Federal Communications Act of 1934, as amended. In addition, the Federal Communications Commission regulates and licenses our activities pertaining to satellite communications. There has recently been increased regulatory and enforcement focus on data protection in the U.S. (at both the state and federal level) and in other countries.

For additional information, see "Risk Factors – Business and Operating Risks – A significant data breach or information technology system disruption could materially adversely affect us".

For additional information on governmental regulations and their potential impact on us generally, see "Risk Factors – Regulatory and Legal Risks".

Where You Can Find More Information

We maintain a website at *www.ups.com*. Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to those reports filed with or furnished to the SEC pursuant to Section 13(a) of the Securities Exchange Act of 1934 are made available free of charge through our investor relations website at *www.investors.ups.com* under the heading "Financials - SEC Filings" as soon as reasonably practical after we electronically file or furnish the reports to the SEC. We have a written Code of Business Conduct that applies to all of our directors, officers and employees, including our principal executive and financial officers. It is available under the heading "ESG - Governance Documents" on our investor relations website. In the event that we make changes in, or provide waivers from, the provisions of the Code of Business Conduct that the SEC requires us to disclose, we intend to disclose these events within four business days following the date of the amendment or waiver in that section of our investor relations website.

Our Corporate Governance Guidelines and the Charters for our Audit Committee, Compensation Committee, Executive Committee, Risk Committee and Nominating and Corporate Governance Committee are also available under the heading "ESG- Governance Documents" on our investor relations website.

Our sustainability report, which describes our activities that support our commitment to acting responsibly and contributing to society, is available at *www.sustainability.ups.com*.

We provide the addresses to our internet sites solely for information. We do not intend for any addresses to be active links or to otherwise incorporate the contents of any website into this or any other report we file with the SEC.

Item 1A. *Risk Factors*

Our business, financial condition and results of operations are subject to numerous risks and uncertainties. In connection with any investment decision, you should carefully consider the following risk factors, which may have materially affected or could materially affect us, including impacting our business, financial condition, results of operations, stock price or credit rating, as well as our reputation. You should read these risk factors in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7 and our Consolidated Financial Statements and related notes in Item 8. These risks are not the only ones we face. We could also be affected by other events, factors or uncertainties that are unknown to us, or that we do not currently consider to be material risks.

Business and Operating Risks

The outbreak and spread of the novel strain of coronavirus COVID-19 has had a significant impact on us, as well as on the operations, financial performance and liquidity of many of our customers. We are unable to predict the full extent to which the coronavirus will continue to adversely impact us.

The COVID-19 pandemic resulted in, and is expected to continue to result in, a substantial curtailment of business activities (including the decrease in demand for a broad variety of goods and services), weakened economic conditions, supply chain disruptions, significant economic uncertainty and volatility in the financial markets, both in the United States and abroad. The pandemic has significantly impacted, and is expected to continue to significantly impact us, and has had, and is expected to continue to have, a material adverse impact on the operations, financial performance and liquidity of many of our customers.

Because the ongoing severity, magnitude and duration of the COVID-19 pandemic and its economic consequences are uncertain, rapidly changing and difficult to predict, the future impact on our operations, financial condition and liquidity remains uncertain and difficult to predict. The impact of the pandemic will depend on evolving factors, many of which are not within our control, and to which we may not be able to effectively respond. These risks include, but are not limited to: a significant reduction in revenue due to curtailment of business from our customers; a significant increase in our expenses or a reduction in our operating margins due to long-term changes in the mix of our products and services; effects from governmental, business and individuals' actions that have been and continue to be taken in response to the pandemic (including restrictions on travel and transportation and workforce pressures); reductions in operating effectiveness due to employees working remotely; unavailability of personnel; the delay or cancellation of capital projects and related delays in, or loss of, expected benefits therefrom; limited access to liquidity; increased volatility and pricing in the capital and commercial paper markets; further disruption of our global supply chains; an impairment in the fair value of our assets; an increase in our pension funding obligations; and the effect of the pandemic on the credit-worthiness of our customers. Further, the COVID-19 pandemic, and the volatile regional and global economic conditions stemming from it, could also precipitate or aggravate risk factors that we identify herein or affect our operations and financial performance in a manner that is not presently known to us or that we currently do not consider material. The occurrence or continuation of any of the foregoing could have a material adverse effect on us.

Changes in general economic conditions, in the U.S. and internationally, may adversely affect us.

We conduct operations in over 220 countries and territories. Our operations are subject to cyclicality affecting national and international economies in general, as well as the local economic environments in which we operate. The factors that result in general economic changes are beyond our control, and it may be difficult for us to adjust our business model to mitigate the impact of these factors. In particular, we are affected by levels of industrial production, consumer spending and retail activity and we could be materially affected by adverse developments in these aspects of the economy, including without limitation the impact of the ongoing COVID-19 pandemic. In addition, there remains substantial economic uncertainty arising from the United Kingdom's departure from the European Union. The U.K. and the E.U. continue to negotiate their future relationship, which could take several years to finalize. The outcome of these negotiations could result in, among other things, transportation delays, increased costs, fewer goods being transported globally, additional volatility in currency exchange rates and further regulations relating to, among other things, trade, aviation and the transport of goods. Changes in general economic conditions, or our inability to accurately forecast these changes, could materially adversely affect us.

Our industry is rapidly evolving. We expect to continue to face significant competition, which could materially adversely affect us.

Our industry is rapidly evolving, including in response to demand for faster deliveries and increased visibility into shipments. We expect to continue to face significant competition on a local, regional, national and international basis. Current competitors include the postal services of the U.S. and other nations, various motor carriers, express companies, freight forwarders, air couriers, large transportation and e-commerce companies that are making significant investments in their capabilities, and start ups and other companies that combine technologies with crowdsourcing to focus on local market needs, some of whom are currently our customers. Competition may also come from other sources in the future, including as new technologies are developed. Competitors have cost and organizational structures that differ from ours and from time to time may offer services or pricing terms that we may not be willing or able to offer. Additionally, to sustain the level of services and value that we deliver to our customers, from time to time we may raise prices and our customers may not be willing to accept these higher prices. If we are unable to timely and appropriately respond to competitive pressures, we could be materially adversely affected.

Continued transportation industry consolidation may further increase competition. As a result of consolidation, competitors may increase their market share, improve their financial capacity and strengthen their competitive positions. Business combinations could also result in competitors providing a wider variety of services and products at competitive prices, which could materially adversely affect us.

Changes in our relationships with any of our significant customers, including the loss or reduction in business from one or more of them, could have a material adverse effect on us.

For the year ended December 31, 2020, business from one customer, Amazon.com, Inc. and its affiliates, accounted for 13.3% of our consolidated revenues. Some of our other significant customers can account for a relatively significant portion of our revenues in a particular quarter or year. Customer impact on our revenue is based on factors such as: product launches; e-commerce or other industry trends, including those related to the fourth quarter holiday season; business combinations and the overall growth of a customer's underlying business; as well as any disruptions to their businesses. These customers could choose to divert all or a portion of their business with us to one of our competitors, demand pricing concessions for our services, require us to provide enhanced services that increase our costs, or develop their own shipping and distribution capabilities. In addition, certain of our significant customer contracts include termination rights of either party upon the occurrence of certain events or without cause upon advance notice to the other party. If all or a portion of our business relationships with one or more significant customers were to terminate, significantly change or be canceled, this could materially adversely affect us.

Failure to attract or retain qualified employees could materially adversely affect us.

We maintain a large workforce, and necessarily depend on the skills and continued service of our employees, including our experienced management team. We also regularly hire a large number of part-time and seasonal workers. We must be able to attract, engage, develop and retain a large and diverse global workforce, while controlling related labor costs and maintaining an environment that supports our core values. Our ability to control labor costs is subject to numerous factors, including turnover, training costs, regulatory changes, market pressures, unemployment levels and healthcare and other benefit costs. If we are unable to hire, properly train and retain qualified employees, we could experience higher employment costs, reduced sales, further increased workers' compensation and automobile liability claims, regulatory noncompliance, losses of customers and diminution of our brand value or company culture, which could materially adversely affect us.

In addition, our strategic initiatives, including transformation, have and may in the future lead to the creation of fewer, more impactful jobs as we strive to lower our cost to serve. Our inability to continue to retain experienced and motivated employees may also materially adversely affect us.

Increased security requirements impose substantial costs on us and we could be the target of an attack or have a security breach, which could materially adversely affect us.

As a result of concerns about global terrorism and homeland security, governments around the world have adopted or may adopt stricter security requirements that will result in increased operating costs for businesses in the transportation industry. These requirements may change periodically as a result of regulatory and legislative requirements and in response to evolving threats. We cannot determine the effect that any new requirements will have on our cost structure or our operating results, and new rules or other future security requirements may increase our operating costs and reduce operating efficiencies. Regardless of our compliance with security requirements or the steps we take to secure our facilities or fleet, we could also be the target of an attack or security breaches could occur, which could materially adversely affect us.

Strikes, work stoppages and slowdowns by our employees could materially adversely affect us.

Many of our U.S. employees are employed under a national master agreement and various supplemental agreements with local unions affiliated with the International Brotherhood of Teamsters ("the Teamsters"). Our airline pilots, airline mechanics, ground mechanics and certain other employees are employed under other collective bargaining agreements. In addition, some of our international employees are employed under collective bargaining or similar agreements. Strikes, work stoppages or slowdowns by our employees could adversely affect our ability to meet our customers' needs. As a result, 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.

Failure to maintain our brand image and corporate reputation could materially adversely affect us.

Our success depends in part on our ability to maintain the image of the UPS brand and our reputation for providing excellent service to our customers. Service quality issues, actual or perceived, even when false or unfounded, could tarnish the image of our brand and may cause customers to use other companies. Also, adverse publicity surrounding labor relations, environmental concerns, security matters, political activities and similar matters, or attempts to connect our company to such issues, either in the U.S. or other countries in which we operate, could negatively affect our overall reputation and use of our services by customers. Social media accelerates and amplifies the scope of negative publicity, and makes responding to negative claims more difficult. Damage to our reputation and loss of brand equity could reduce demand for our services and thus have a material adverse effect on us, and could require additional resources to rebuild our reputation and restore the value of our brand.

A significant data breach or information technology system disruption could materially adversely affect us.

We rely heavily on information technology networks and systems, including the internet and a number of internally-developed systems and applications, to manage or support a wide variety of important business processes and activities throughout our operations. For example, we rely on information technology to receive package level information in advance of physical receipt of packages, to track items that move through our delivery systems, to efficiently plan deliveries, to execute billing processes, and to track and report financial and operational data. Our franchise locations and businesses we have acquired also are reliant on the use of information technology systems to manage their business processes and activities.

In addition, the provision of service to our customers and the operation of our networks and systems involve the collection, storage and transmission of significant amounts of proprietary information and sensitive or confidential data, including personal information of customers, employees and others. To conduct our operations, we regularly move data across national borders, and consequently we are subject to a variety of continuously evolving and developing laws and regulations in the U.S. and abroad regarding privacy, data protection and data security. The scope of the laws that may be applicable to us is often uncertain and may be conflicting, particularly with respect to foreign laws. For example, the E.U. has enacted the General Data Protection Regulation, which greatly increases the jurisdictional reach of E.U. law and adds a broad array of requirements for handling personal data, including the public disclosure of significant data breaches. Other countries have also enacted or are enacting data localization laws that require data to stay within their borders. These evolving compliance and operational requirements impose significant costs that are likely to increase over time.

Information technology systems (ours, as well as those of our franchisees, acquired businesses, and third-party service providers) are susceptible to damage, disruptions or shutdowns due to programming errors, defects or other vulnerabilities, power outages, hardware failures, computer viruses, cyber-attacks, ransomware attacks, malware attacks, theft, misconduct by employees or other insiders, telecommunications failures, misuse, human errors or other catastrophic events. Hackers, foreign governments, cyber-terrorists and cyber-criminals, acting individually or in coordinated groups, may launch distributed denial of service attacks or other coordinated attacks that may cause service outages, gain inappropriate or block legitimate access to systems or information, or result in other interruptions in our business. In addition, the foregoing breaches in security could expose us, our customers and franchisees, or the individuals affected, to a risk of loss, disclosure or misuse of proprietary information and sensitive or confidential data, including personally identifiable information. The techniques used to obtain unauthorized access, disable or degrade service or sabotage systems change frequently, may be difficult to detect and often are not recognized until launched against a target. As a result, we may be unable to anticipate these techniques or to implement adequate measures to prevent any of the events described above.

We also depend on and interact with the information technology networks and systems of third-parties for many aspects of our business operations, including our customers, franchisees and service providers such as cloud service providers and third-party delivery services. These third parties may have access to information we maintain about our company, operations, customers, employees and vendors, or operating systems that are critical to or can significantly impact our business operations. Like us, these third parties are subject to risks imposed by data breaches and information technology systems disruptions like those described above, and other events or actions that could damage, disrupt or close down their networks or systems. Security processes, protocols and standards that we have implemented and contractual provisions requiring security measures that we may have sought to impose on such third-parties may not be sufficient or effective at preventing such events. These events could result in unauthorized access to, or disruptions or denials of access to, misuse or disclosure of, information or systems that are important to our business, including proprietary information, sensitive or confidential data, and other information about our operations, customers, employees and suppliers, including personal information.

Any of these events that impact our information technology networks or systems, or those of acquired businesses, franchisees, customers, service providers or other third-parties, could result in disruptions in our operations, the loss of existing or potential customers, damage to our brand and reputation, regulatory scrutiny, and litigation and potential liability for us. Among other consequences, our customers' confidence in our ability to protect data and systems and to provide services consistent with their expectations could be impacted, further disrupting our operations. Similarly, an actual or alleged failure to comply with applicable U.S. or foreign data protection regulations or other data protection standards may expose us to litigation, fines, sanctions or other penalties.

We have invested and continue to invest in technology security initiatives, information technology risk management and disaster recovery plans. The cost and operational consequences of implementing, maintaining and enhancing further data or system protection measures could increase significantly to overcome increasingly intense, complex and sophisticated global cyber threats. Despite our best efforts, we are not fully insulated from data breaches and system disruptions. Although to date we are unaware of a data breach or system disruption, including a cyber-attack, that has been material to us, we cannot provide any assurances that such events and impacts will not be material in the future, and our efforts to deter, identify, mitigate and/or eliminate future breaches may require significant additional effort and expense and may not be successful.

Severe weather or other natural or manmade disasters could materially adversely affect us.

Severe weather conditions or other natural or manmade disasters, including storms, floods, fires, earthquakes, epidemics, pandemics, conflicts, unrest, or terrorist attacks, have in the past and may in the future disrupt our business and result in decreased revenues. Customers may reduce shipments, or our costs to operate our business may increase, either of which could have a material adverse effect on us. Any such event affecting one of our major facilities could result in a significant interruption in or disruption of our business.

Economic, political, or social developments and other risks associated with international operations could materially adversely affect us.

We have significant international operations. As a result, we are continually exposed to changing economic, political and social developments that are beyond our control. Emerging markets are typically more volatile than those in the developed world, and any broad-based downturn in these markets could reduce our revenues and adversely affect our business, financial condition and results of operations. We are subject to many laws governing our international operations, including those that prohibit improper payments to government officials and commercial customers, govern our environmental impact or labor matters, and restrict where we can do business, our shipments to certain countries and the information that we can provide to non-U.S. governments. Our failure to manage and anticipate these and other risks associated with our international operations could materially adversely affect us.

Changes in markets and our business plans have resulted, and may in the future result, in substantial write-downs of the carrying value of our assets, thereby reducing our net income.

Our regular review of the carrying value of our assets, changes in business strategy, government regulations, and economic or market conditions have resulted from time to time, and may in the future result, in substantial impairments of our intangible, fixed or other assets. For example, in connection with our entry into a definitive agreement to divest our UPS Freight business, we recognized a $629 million after-tax impairment charge as of December 31, 2020. In addition, we have been and may be required in the future to recognize increased depreciation and amortization charges if we determine that the useful lives of our fixed assets or intangible assets are shorter than we originally estimated. Such changes have in the past, and may in the future, reduce our net income.

Insurance and claims expense could materially affect us.

We have a combination of both self-insurance and high-deductible insurance programs for the risks arising out of the services we provide and the nature of our global operations, including claims exposure resulting from cargo loss, personal injury, property damage, aircraft and related liabilities, business interruption and workers' compensation. Self-insured workers' compensation, automobile and general liabilities are determined using actuarial estimates of the aggregate liability for claims incurred and an estimate of incurred but not reported claims, on an undiscounted basis. Our accruals for insurance reserves reflect certain actuarial assumptions and management judgments, which are subject to a high degree of variability. If the number or severity of claims for which we are retaining risk continues to increase, which has occurred in recent periods, our financial condition and results of operations could be materially adversely affected. If we lose our ability to self-insure these risks, our insurance cost could materially increase and we may find it difficult to obtain adequate levels of insurance coverage.

Our inability to effectively integrate any acquired operations and realize the anticipated benefits of any acquisitions, joint ventures, strategic alliances or dispositions could materially adversely affect us.

As part of our business strategy, we may acquire businesses and form joint ventures or strategic alliances, or may dispose of operations. Whether we realize the anticipated benefits from these transactions will depend, in part, upon the successful integration between the businesses involved, the performance of the underlying operations, capabilities or technologies and the management of the acquired operations. Accordingly, our financial results could be materially adversely affected by our failure to effectively integrate the acquired operations, unanticipated performance issues or transaction-related charges.

Financial Risks

We are exposed to the effects of changing fuel and energy prices, including gasoline, diesel and jet fuel, and interruptions in supplies of these commodities.

Changing fuel and energy costs have a significant impact on our operations. We require significant quantities of fuel for our aircraft and delivery vehicles and are exposed to the risks associated with variations in the market price for petroleum products, including gasoline, diesel and jet fuel. We mitigate our exposure to changing fuel prices through our indexed fuel surcharges and we utilize hedging transactions from time to time. If we are unable to maintain or increase our fuel surcharges, higher fuel costs could adversely impact our operating results. Even if we are able to offset changes in fuel costs with surcharges, high fuel surcharges may result in a shift from our higher-yielding products to lower-yielding products or an overall reduction in volume. There can also be no assurance that hedging transactions will be effective to protect us from changes in fuel prices. Moreover, we could experience a disruption in energy supplies as a result of war, weather-related events or natural disasters, actions by producers or other factors beyond our control, which could have a material adverse effect on us.

Changes in exchange rates or interest rates may have a material adverse effect on us.

We conduct business across the globe with a significant portion of our revenue derived from operations outside the United States. Our operations in international markets are affected by changes in the exchange rates for local currencies, in particular the Euro, British Pound Sterling, Canadian Dollar, Chinese Renminbi and Hong Kong Dollar.

We are exposed to changes in interest rates, primarily on our short-term debt and that portion of our long-term debt that carries floating interest rates. The impact of a 100-basis-point change in interest rates affecting our debt is discussed in Part II, “Item 7A - Quantitative and Qualitative Disclosures about Market Risk” section of this report. Additionally, changes in interest rates impact the valuation of our pension and postretirement benefit obligations and the related benefit cost recognized in the statements of consolidated income. The impact of changes in interest rates on our pension and postretirement benefit obligations and costs is discussed further in Part I, "Item 7 - Critical Accounting Policies and Estimates" section of this report.

We monitor and manage our exposures to changes in currency exchange rates and interest rates, and use derivative instruments to mitigate the impact of changes in these rates on our financial condition and results of operations; however, changes in exchange rates and interest rates cannot always be predicted or hedged and may have a material adverse effect on us.

The proposed phase out of the London Interbank Offer Rate ("LIBOR") could have a material adverse effect on us.

Certain of our debt and other financial instruments have interest rates tied to LIBOR. The Chief Executive of the United Kingdom Financial Conduct Authority (“FCA”), which regulates LIBOR, has announced that the FCA will no longer persuade or compel banks to submit rates for the calculation of LIBOR after 2021. However, the ICE Benchmark Administration, in its capacity as administrator of U.S. Dollar LIBOR, has announced that it intends to extend publication of certain U.S. Dollar LIBOR rates to June 2023. Notwithstanding this possible extension, a joint statement by key regulatory authorities calls on banks to cease entering into new contracts that use U.S. Dollar LIBOR as a reference rate after 2021.

At this time, it is not possible to predict the effect any discontinuance, modification or other reforms to LIBOR, or the establishment of alternative reference rates, may have on our cost of capital. Any further changes or reforms to the determination or supervision of LIBOR may result in a sudden or prolonged increase or decrease in reported LIBOR, which could have an adverse impact on extensions of credit held by us and could have a material adverse effect on us.

We are required to make significant capital and other investments in our business, of which a significant portion is tied to projected volume levels.

We require significant capital investments in our business consisting of aircraft, vehicles, technology, facilities and sorting and other types of equipment. In addition to forecasting our capital investment requirements, we adjust other elements of our operations and cost structure in response to economic conditions. These investments support both our existing business and anticipated growth. Forecasting projected volume involves many factors which are subject to uncertainty, such as general economic trends, changes in governmental regulation and competition. If we do not accurately forecast our future capital investment needs, we could have excess capacity or insufficient capacity, either of which would negatively affect our revenues and profitability.

Employee health and retiree health and pension benefit costs represent a significant expense to us; further cost increases could materially adversely affect us.

Our expenses relating to employee health and retiree health and pension benefits are significant. In recent years, we have experienced significant increases in some of these costs, largely as a result of economic factors beyond our control, including, in particular, ongoing increases in healthcare costs in excess of the rate of inflation and historically low discount rates that we use to value our company-sponsored benefit plan obligations. Continually increasing healthcare costs, volatility in investment returns and discount rates, as well as changes in laws, regulations and assumptions used to calculate retiree health and pension benefit expenses, may adversely affect our business, financial condition, or results of operations, and may require significant contributions to our benefit plans. Our national master agreement with the Teamsters includes provisions that are designed to mitigate certain healthcare expenses, but there can be no assurance that our efforts will be successful or that the failure or success of these efforts will not materially adversely affect us.

We participate in a number of trustee-managed multiemployer pension and health and welfare plans for employees covered under collective bargaining agreements. As part of the overall collective bargaining process for wage and benefit levels, we have agreed to contribute certain amounts to the multiemployer benefit plans during the contract period. The multiemployer benefit plans set benefit levels and are responsible for benefit delivery to participants. Future contribution amounts to multiemployer benefit plans will be determined only through collective bargaining, and we have no additional legal or constructive obligation to increase contributions beyond the agreed-upon amounts. However, in future collective bargaining negotiations, we could agree to make significantly higher future contributions to improve the funded status of one or more of these plans. The funded status of these multiemployer plans is impacted by various factors, including investment performance, healthcare inflation, changes in demographics and changes in participant benefit levels. At this time, we are unable to determine the amount of additional future contributions, if any, or whether any material adverse effect on us could result from our participation in these plans.

In addition to our on-going multiemployer pension plan obligations, we may have an obligation to pay significant coordinating benefits that were earned by UPS employees in the Central States Pension Fund (the "CSPF"). For additional information on our potential liabilities related to the CSPF, see note 6 to the audited, consolidated financial statements.

We may have significant additional tax liabilities.

We are subject to income taxes in the U.S. and many foreign jurisdictions. Significant judgment is required in determining our worldwide provision for income taxes. In the course of our business, there are many transactions and calculations where the ultimate tax determination is uncertain.

We are regularly under audit by tax authorities in different jurisdictions. Economic and political pressures to increase tax revenue in various jurisdictions may make resolving tax disputes more difficult. Although we believe our tax estimates are reasonable, the final determination of tax audits and any related litigation in the jurisdictions where we are subject to taxation could be materially different from our historical income tax provisions and accruals. In addition, changes in U.S. federal and state or international tax laws applicable to corporate multinationals, other fundamental law changes currently being considered by many countries, and changes in taxing jurisdictions' administrative interpretations, decisions, policies and positions may materially adversely impact our tax expense and cash flows.

Regulatory and Legal Risks

Increasingly complex and stringent laws, regulations and policies could materially increase our operating costs.

We are subject to complex and stringent aviation, transportation, environmental, security, labor, employment, safety, privacy and data protection and other governmental laws, regulations and policies, both in the U.S. and in other countries in which we operate. In addition, we are impacted by laws, regulations and policies that affect global trade, including tariff and trade policies, export requirements, taxes, monetary policies and other restrictions and charges. Recently, trade discussions between the U.S. and various of its trading partners have been fluid, and existing and future trade agreements are, and are expected to continue to be, subject to a number of uncertainties, including the imposition of new tariffs or adjustments and changes to the products covered by existing tariffs. The impact of new laws, regulations and policies or decisions or interpretations by authorities applying those laws and regulations, cannot be predicted. Compliance with any new laws, regulations or policies may increase our operating costs or require significant capital expenditures. Any failure to comply with applicable laws, regulations or policies in the U.S. or in any of the other countries in which we operate could result in substantial fines or possible revocation of our authority to conduct our operations, which could adversely affect us.

Increasingly stringent regulations related to climate change could materially increase our operating costs.

Regulation of greenhouse gas ("GHG") emissions exposes our transportation and logistics businesses to potentially significant new taxes, fees and other costs. Compliance with such regulation, and any increased or additional regulation, or the associated costs is further complicated by the fact that various countries and regions are following different approaches to the regulation of climate change.

For example, in 2009, the European Commission approved the extension to the airline industry of the E.U. Emissions Trading Scheme ("ETS") for GHG emissions. Under this decision, all of our flights operating within the E.U. are covered by the ETS requirements, and we are required annually to purchase emission allowances in an amount exceeding the number of free allowances allocated to us under the ETS. Similarly, in 2016, the International Civil Aviation Organization ("ICAO") passed a resolution adopting the Carbon Offsetting and Reduction Scheme for International Aviation ("CORSIA"), which is a global, market-based emissions offset program to encourage carbon-neutral growth beyond 2020. A pilot phase is scheduled to begin in 2021 in which countries may voluntarily participate, and full mandatory participation is scheduled to begin in 2027. ICAO continues to develop details regarding implementation, but compliance with CORSIA will increase our operating costs.

In the U.S., Congress in the past several years has considered various bills that would regulate GHG emissions, but these bills so far have not received sufficient Congressional support for enactment. Nevertheless, some form of federal climate change legislation is possible in the future. Even in the absence of such legislation, the Environmental Protection Agency could determine to regulate GHG emissions, especially aircraft or diesel engine emissions, and this could impose substantial costs on us.

In addition, the impact that the recent re-entry into the Paris climate accord may have on future U.S. policy regarding GHG emissions, on CORSIA and on other GHG regulation is uncertain. The extent to which other countries implement that accord could also have an adverse direct or indirect effect on us.

Potential costs to us of increased regulation regarding GHG emissions in the U.S. or abroad, especially aircraft or diesel engine emissions, include an increase in the cost of the fuel and other energy we purchase and capital costs associated with updating or replacing our aircraft or vehicles prematurely. We cannot predict the impact any future regulation would have on our cost structure or our operating results. It is possible that such regulation could significantly increase our operating costs and that we may not be willing or able to pass such costs along to our customers. Moreover, even without such regulation, increased awareness and any adverse publicity in the global marketplace about the GHGs emitted by companies in the airline and transportation industries could harm our reputation and reduce customer demand for our services, especially our air services.

We may be subject to various claims and lawsuits that could result in significant expenditures.

The nature of our business exposes us to the potential for various claims and litigation related to labor and employment, personal injury, property damage, business practices, environmental liability and other matters. Any material litigation or a catastrophic accident or series of accidents could result in significant expenditures and have a material adverse effect on us.

Item 1B. *Unresolved Staff Comments*

None.

Information About Our Executive Officers

For information about our executive officers, see Part III, "Item 10. Directors, Executive Officers and Corporate Governance".

Item 2. *Properties*

Operating Facilities

We own our corporate headquarters in Atlanta, Georgia, our UPS Supply Chain Solutions headquarters, located in Alpharetta, Georgia and our information technology headquarters, located in Parsippany, New Jersey. Our primary information technology operations are consolidated in an owned facility in New Jersey and we own a backup facility in Georgia.

We own or lease over 1,000 package operating facilities in the U.S., with approximately 81 million square feet of floor space. These facilities have vehicles and drivers stationed for the pickup and delivery of packages, and capacity to sort and transfer packages. Our larger facilities also service our vehicles and equipment, and employ specialized mechanical equipment for the sorting and handling of packages. We own or lease approximately 800 facilities that support our international package operations, with approximately 23 million square feet of floor space.

Our aircraft are operated in a hub and spoke pattern in the U.S., with our principal air hub, Worldport, located in Louisville, Kentucky. Our major air hub in Europe is located in Germany, and in Asia we operate two major air hubs in China and one in Hong Kong.

We own or lease more than 500 facilities, with approximately 40 million square feet of floor space, which support our freight forwarding and logistics operations. We own and operate a logistics campus consisting of approximately 4 million square feet in Louisville, Kentucky. In addition, we own or lease approximately 200 UPS Freight service centers with approximately 6 million square feet of floor space which are classified as held for sale in the consolidated balance sheet as of December 31, 2020. For additional information see note 4 to the audited, consolidated financial statements.

Fleet

Aircraft

The following table shows information about our aircraft fleet as of December 31, 2020:

Description	Owned & Finance Leases	Operating Leases & Charters From Others	On Order	Under Option
Boeing 757-200	75	—	—	—
Boeing 767-300	69	—	3	—
Boeing 767-300BCF	4	—	—	—
Boeing 767-300BDSF	4	—	—	
Airbus A300-600	52	—	—	—
Boeing MD-11	40	—	2	—
Boeing 747-400F	11	—	—	—
Boeing 747-400BCF	2	—	—	—
Boeing 747-8F	20	—	8	—
Other	—	311	—	—
Total	277	311	13	—

Vehicles

We operate a global ground fleet of approximately 127,000 package cars, vans, tractors and motorcycles, of which approximately 5,700 tractors used in our UPS Freight operations are classified as held for sale in the consolidated balance sheet as of December 31, 2020.

Our ground support fleet consists of 38,000 pieces of equipment designed specifically to support our aircraft fleet, ranging from non-powered container dollies and racks to powered aircraft main deck loaders and cargo tractors. We also have 58,000 containers used to transport cargo in our aircraft.

Item 3. *Legal Proceedings*

See note 6 to the audited, consolidated financial statements for a discussion of pension related matters and note 10 to the audited, consolidated financial statements for a discussion of judicial proceedings and other matters arising from the conduct of our business activities.

Item 4. *Mine Safety Disclosures*

Not applicable.

PART II

Item 5. *Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities*

Our class A common stock is not listed on a national securities exchange or traded in an organized over-the-counter market, but each share of our class A common stock is convertible into one share of our class B common stock. Our class B common stock is listed on the New York Stock Exchange under the symbol "UPS".

As of February 8, 2021, there were 159,333 and 19,412 shareowners of record of class A and class B common stock, respectively.

Our practice has been to pay dividends on a quarterly basis. The declaration of dividends is subject to the discretion of the Board of Directors and will depend on various factors, including our net income, financial condition, cash requirements, future prospects and other relevant factors.

On February 10, 2021, our Board declared a dividend of $1.02 per share, which is payable on March 10, 2021 to shareowners of record on February 22, 2021.

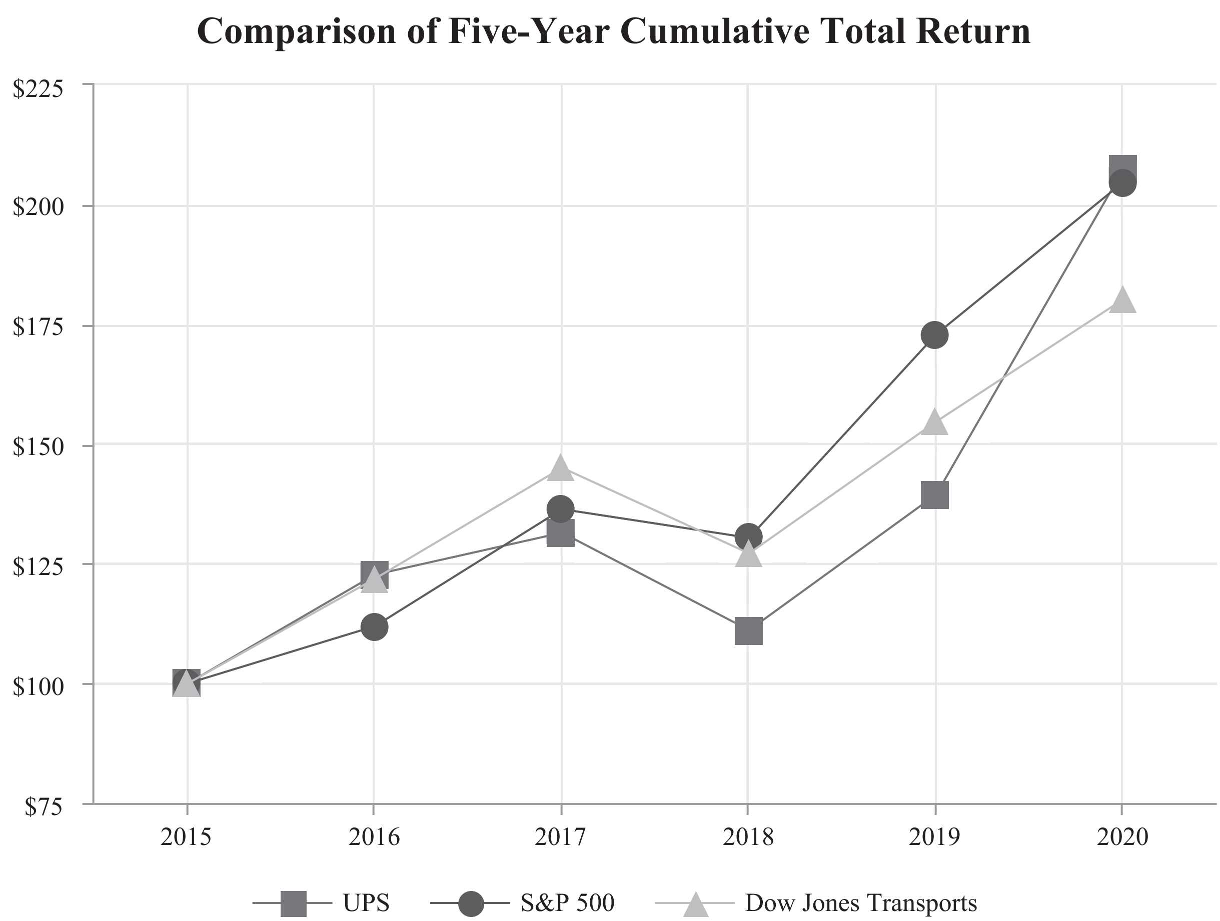
In May 2016, the Board of Directors approved a share repurchase authorization of $8.0 billion for shares of class A and class B common stock. In the first quarter of 2020, our share repurchases totaled approximately $217 million. On April 28, 2020, we announced our intention to suspend share repurchases under our stock repurchase program. There were no repurchases of class A or class B common stock during the last nine months of 2020 and we do not currently anticipate any share repurchases in 2021. As of December 31, 2020, we had $2.1 billion available under our share repurchase authorization.

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

Shareowner Return Performance Graph

The following performance graph and related information shall not be deemed "soliciting material" or to be "filed" with the SEC, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933 or Securities Exchange Act of 1934, each as amended, except to the extent that the Company specifically incorporates such information by reference into such filing.

The following graph shows a five-year comparison of cumulative total shareowners' returns for our class B common stock, the Standard & Poor's 500 Index and the Dow Jones Transportation Average. The comparison of the total cumulative return on investment, which is the change in the stock price plus reinvested dividends for each of the quarterly periods, assumes that $100 was invested on December 31, 2015 in the Standard & Poor's 500 Index, the Dow Jones Transportation Average and our class B common stock.



	12/31/2015	12/31/2016	12/31/2017	12/31/2018	12/31/2019	12/31/2020
United Parcel Service, Inc.	$ 100.00	$ 122.71	$ 131.47	$ 111.12	$ 139.45	$ 207.36
Standard & Poor's 500 Index	$ 100.00	$ 111.95	$ 136.38	$ 130.40	$ 172.92	$ 204.72
Dow Jones Transportation Average	$ 100.00	$ 121.86	$ 145.04	$ 127.15	$ 154.68	$ 180.23

For information regarding our equity compensation plans, see Item 12 of this report.

Item 6. Selected Financial Data

The following table sets forth selected financial data for each of the five years in the period ended December 31, 2020 (in millions, except per share amounts). This financial data should be read together with our consolidated financial statements and related notes, Management's Discussion and Analysis of Financial Condition and Results of Operations, including the *Supplemental Information - Items Affecting Comparability* section, and other financial data appearing elsewhere in this report.

	Years Ended December 31,				
	2020	2019	2018	2017	2016
Selected Income Statement Data					
Revenue:					
U.S. Domestic Package	$ 53,499	$ 46,493	$ 43,593	$ 40,761	$ 38,284
International Package	15,945	14,220	14,442	13,342	12,346
Supply Chain & Freight	15,184	13,381	13,826	12,482	10,980
Total Revenue	84,628	74,094	71,861	66,585	61,610
Operating Expenses:					
Compensation and benefits	44,529	38,908	37,235	34,577	32,534
Other	32,415	27,388	27,602	24,479	21,388
Total Operating Expenses	76,944	66,296	64,837	59,056	53,922
Operating Profit:					
U.S. Domestic Package	3,891	4,164	3,643	4,303	4,628
International Package	3,436	2,657	2,529	2,429	2,417
Supply Chain & Freight	357	977	852	797	643
Total Operating Profit	7,684	7,798	7,024	7,529	7,688
Other Income and (Expense):					
Investment income (expense) and other	(5,139)	(1,493)	(400)	61	(2,186)
Interest expense	(701)	(653)	(605)	(453)	(381)
Income Before Income Taxes	1,844	5,652	6,019	7,137	5,121
Income Tax Expense	501	1,212	1,228	2,232	1,699
Net Income	$ 1,343	$ 4,440	$ 4,791	$ 4,905	$ 3,422
Per Share Amounts:					
Basic Earnings Per Share	$ 1.55	$ 5.14	$ 5.53	$ 5.63	$ 3.88
Diluted Earnings Per Share	$ 1.54	$ 5.11	$ 5.51	$ 5.61	$ 3.86
Dividends Declared Per Share	$ 4.04	$ 3.84	$ 3.64	$ 3.32	$ 3.12
Weighted Average Shares Outstanding:					
Basic	867	864	866	871	883
Diluted	871	869	870	875	887

	As of December 31,				
	2020	2019	2018	2017	2016
Selected Balance Sheet Data:					
Cash and marketable securities	$ 6,316	$ 5,741	$ 5,035	$ 4,069	$ 4,567
Total assets	62,408	57,857	50,016	45,574	40,545
Long-term debt and finance leases	22,031	21,818	19,931	20,278	12,394
Shareowners' equity	669	3,283	3,037	1,024	430

This table reflects the impact of the adoption of new accounting standards in 2018 and 2019. Refer to note 1 to the audited, consolidated financial statements.

Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations*

Overview

As described above, during 2020 we began implementing our *Customer First, People Led, Innovation Driven* strategy, as we seek to transform nearly every aspect of our business, improve our financial performance, provide the best customer experience and benefit our shareowners. We focused on, among other things, enhancing the capabilities that we believe our customers value the most; speed and ease of access to our services. We completed enhancements to our U.S. ground network to improve time-in-transit and continued to deploy our digital access program into e-commerce platforms.

Beginning in the first quarter of 2020, unexpected business shutdowns and government restrictions implemented in many countries in response to the COVID-19 pandemic have significantly impacted the mix of demand for our services. In our global small package business, business-to-business activity has declined, while we continue to experience a significant increase in the level of business-to-consumer shipping, which we partially attribute to the capability enhancements described above. While business-to-business activity began to recover in the latter part of 2020, we believe that the market shift towards e-commerce will persist, with a continuing high level of residential deliveries that may continue to increase demand, but also drive higher operating costs. The pandemic also resulted in a reduction in global air cargo capacity. This caused market rates in the industry to increase and we experienced increased demand for our services.

On January 24, 2021, we entered into a definitive agreement to divest our UPS Freight business. This will allow us to be even more focused on the core parts of our business that drive the greatest value for our shareholders. The transaction, which is subject to customary closing conditions and regulatory approvals, is expected to close during the second quarter of 2021. We expect this divestiture to result in an improvement to our operating margin and return on invested capital.

We believe that we are well positioned for long-term growth, however we cannot reasonably estimate the duration or severity of the COVID-19 pandemic or the timing and extent of the anticipated economic recovery, and the resulting impacts on our business results or liquidity. For additional information on these risks and uncertainties, see Part I, "Item 1A. Risk Factors" of this report.

Highlights of our results for the years ended December 31, 2020 and 2019, which are discussed in more detail in the sections that follow, include:

	Year Ended December 31,		Change	
	2020	2019	$	%
Revenue (in millions)	$ 84,628	$ 74,094	$ 10,534	14.2 %
Operating Expenses (in millions)	76,944	66,296	10,648	16.1 %
Operating Profit (in millions)	$ 7,684	$ 7,798	$ (114)	(1.5)%
Operating Margin	9.1 %	10.5 %		
Net Income (in millions)	$ 1,343	$ 4,440	$ (3,097)	(69.8)%
Basic Earnings Per Share	$ 1.55	$ 5.14	$ (3.59)	(69.8)%
Diluted Earnings Per Share	$ 1.54	$ 5.11	$ (3.57)	(69.9)%
Operating Days	255	253		
Average Daily Package Volume (in thousands)	24,676	21,880		12.8 %
Average Revenue Per Piece	$ 10.94	$ 10.87	$ 0.07	0.6 %

- Revenue increased in all segments.
- Average daily package volume increased due to increases in business-to-consumer shipping.
- Operating expenses increased due to volume growth.

- Operating profit and operating margin were relatively flat, and included goodwill and other asset impairment charges of $686 million related to the anticipated divestiture of UPS Freight.
- We reported net income of $1.3 billion and diluted earnings per share of $1.54. Adjusted diluted earnings per share was $8.23 after adjusting for the after-tax impacts of:
    - goodwill and other asset impairment charges of $629 million or $0.72 per share;
    - transformation strategy costs of $265 million or $0.31 per share; and
    - pension mark-to-market losses recognized outside of a 10% corridor of $4.9 billion or $5.66 per share.

In the U.S. Domestic Package segment, volume and revenue growth was highest in our residential ground products. The increase in residential delivery volume drove increases in headcount, delivery stops per day, average daily miles driven and average daily union labor hours, all of which increased expense and compressed operating margins as described below. Operating expenses also increased as a result of the investments we made to improve our ground network.

The International Package segment experienced volume and revenue growth, driven by strong outbound demand from Asia as well as growth from e-commerce within Europe. Residential delivery volume growth drove an increase in third-party pickup and delivery expense.

In the Supply Chain & Freight segment, growth was primarily driven by our Forwarding and mail services businesses. The Forwarding business benefited from strong outbound demand from Asia and the implementation of capacity surcharges as COVID-19 led to reduced capacity in the air cargo market. Mail services benefited from the increase in e-commerce activity and favorable changes in shipment characteristics. We also experienced growth in demand for our healthcare logistics and distribution solutions, partly driven by the impacts of the COVID-19 pandemic.

2019 compared to 2018

See *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations* of the Company's Annual Report on Form 10-K for the year ended December 31, 2019 filed with the Securities and Exchange Commission on February 20, 2020.

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 including "adjusted" compensation and benefits, operating expenses, operating profit, operating margin, other income and (expense), income before income taxes, income tax expense, effective tax rate, net income and earnings per share. Adjusted financial measures may exclude the impact of period over period exchange rate changes and hedging activities, amounts related to mark-to-market gains or losses, restructuring costs, including transformation strategy costs, and costs related to certain legal contingencies and expenses, as described below. We believe that these adjusted financial measures provide additional meaningful information to assist users of our financial statements in understanding our financial results and cash flows and assessing our ongoing performance. We believe these adjusted financial measures are important indicators of our recurring results of operations because they exclude items that may not be indicative of, or are unrelated to, our underlying operations, and may provide a useful baseline for analyzing trends in our underlying businesses. Additionally, these adjusted financial measures are used internally by management for business unit operating performance analysis, business unit resource allocation and in connection with incentive compensation award determination.

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. Therefore, our adjusted financial measures may not be comparable to similarly titled measures reported by other companies.

Year over year comparisons of our financial results are affected by the following (in millions):

	Year Ended December 31,	
Non-GAAP Adjustments	**2020**	**2019**
Operating Expenses:		
Transformation Strategy Costs	$ 348	$ 255
Goodwill and Other Asset Impairment Charges	686	—
Legal Contingencies and Expenses	—	97
Total Adjustments to Operating Expenses	$ 1,034	$ 352
Other Income and (Expense):		
Defined Benefit Plans Mark-to-Market Charges	$ 6,484	$ 2,387
Total Adjustments to Other Income and (Expense)	$ 6,484	$ 2,387
Total Adjustments to Income Before Income Taxes	$ 7,518	$ 2,739
Income Tax Benefit from Defined Benefit Plans Mark-to-Market Charges	$ (1,555)	$ (571)
Income Tax Benefit from Transformation Strategy Costs	(83)	(59)
Income Tax Benefit from Goodwill and Other Asset Impairment Charges	(57)	—
Income Tax Benefit from Legal Contingencies and Expenses	—	(6)
Total Adjustments to Income Tax Expense	$ (1,695)	$ (636)
Total Adjustments to Net Income	$ 5,823	$ 2,103

These items have been excluded from comparisons of "adjusted" compensation and benefits, operating expenses, operating profit, operating margin, other income and (expense), income tax expense and effective tax rate in the discussion that follows. The income tax benefit from restructuring and other costs, legal contingencies and expenses and mark-to-market charges are calculated by multiplying the statutory tax rates applicable in each tax jurisdiction, including the U.S. federal jurisdiction and various U.S. state and non-U.S. jurisdictions, by the tax-deductible adjustments. The blended average of the effective tax rates in 2020 and 2019 was 22.5% and 23.2%, respectively.

Impact of Changes in Foreign Currency Exchange Rates and Hedging Activities

We supplement the reporting of our revenue, revenue per piece and operating profit with non-GAAP measures that exclude the period over period impact of foreign currency exchange rate changes and hedging activities.

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.

Restructuring and Other Charges

We supplement the presentation of our operating profit, operating margin, income before income taxes, net income and earnings per share with similar non-GAAP measures that exclude the impact of charges related to restructuring activities, including transformation strategy costs and asset impairments. For more information regarding transformation strategy costs, see note 18 to the audited, consolidated financial statements. For more information regarding asset impairments, see note 4 to the audited, consolidated financial statements.

Costs Related to Certain Legal Contingencies and Expenses

We supplement the presentation of our operating profit, operating margin, income before income taxes, net income and earnings per share with similar non-GAAP measures that exclude the impact of costs related to certain legal contingencies and expenses.

Defined Benefit Plans Mark-to-Market Charges

We recognize changes in the fair value of plan assets and net actuarial gains and losses in excess of a 10% corridor for our pension and postretirement defined benefit plans immediately as part of other pension income (expense). We supplement the presentation of our income before income taxes, net income and earnings per share with non-GAAP measures that exclude the impact of gains and losses recognized in excess of the 10% corridor and the related income tax effects. We believe excluding these mark-to-market impacts provides important supplemental information by removing the volatility associated with short-term changes in market interest rates, equity values and similar factors.

This adjusted net periodic benefit cost ($641 million in 2020 and $754 million in 2019) utilizes the expected return on plan assets (7.70% in 2020 and 7.68% in 2019) and the discount rate used to determine net periodic benefit cost (3.55% in 2020 and 4.45% in 2019). The unadjusted net periodic benefit cost reflects the actual return on plan assets (12.54% in 2020 and 17.57% in 2019) and the discount rate used to measure the projected benefit obligation at the December 31st measurement date (2.87% in 2020 and 3.55% in 2019).

We recognized pre-tax mark-to-market losses outside of a 10% corridor related to the remeasurement of our pension and postretirement defined benefit plans' assets and liabilities in "Other Income and (Expense)" of $6.5 and $2.4 billion for 2020 and 2019, respectively. In 2019, we refined the bond matching approach used to determine the discount rate for our U.S. pension and postretirement plans by implementing advances in technology and modeling techniques discussed in note 6 to the audited, consolidated financial statements.

The table below shows the amounts associated with each component of the pre-tax mark-to-market loss, as well as the weighted-average actuarial assumptions used to determine our net periodic benefit cost, for each year:

	Year Ended December 31,	
Components of mark-to-market gain (loss) (in millions):	**2020**	**2019**
Discount rates	$ (6,540)	$ (5,670)
Return on assets	2,390	3,850
Demographic and other assumption changes	(381)	(24)
Coordinating benefits attributable to the Central States Pension Fund	(1,953)	(543)
Total mark-to-market gain (loss)	$ (6,484)	$ (2,387)

	Year Ended December 31,	
Weighted-average actuarial assumptions used to determine net periodic benefit cost:	**2020**	**2019**
Expected rate of return on plan assets	7.70 %	7.68 %
Actual rate of return on plan assets	12.54 %	17.57 %
Discount rate used for net periodic benefit cost	3.55 %	4.45 %
Discount rate at measurement date	2.87 %	3.55 %

The pre-tax mark-to-market losses for the years ended December 31, 2020 and 2019 were comprised of the following:

2020 - $6.5 billion pre-tax mark-to-market loss:

- *Discount Rates* ($6.5 billion pre-tax loss): The weighted-average discount rate for our pension and postretirement medical plans decreased from 3.55% as of December 31, 2019 to 2.87% as of December 31, 2020, primarily due to a decline in U.S. treasury yields that was slightly offset by an increase in credit spreads on AA-rated corporate bonds.
- *Return on Assets* ($2.4 billion pre-tax gain): In 2020, the actual rate of return on plan assets was higher than our expected rate of return, primarily due to strong global equity and U.S. bond market performance.
- *Demographic and Other Assumption Changes* ($381 million pre-tax loss): This represents the difference between actual and estimated participant data and demographic factors, including items such as healthcare cost trends, compensation rate increases and rates of termination, retirement and mortality.
- *Coordinating benefits attributable to the Central States Pension Fund* ($2.0 billion pre-tax loss): This represents our current best estimate of additional potential coordinating benefits that may be required to be paid related to the Central States Pension Fund.

2019 - $2.4 billion pre-tax mark-to-market loss:

- *Discount Rates* ($5.7 billion pre-tax loss): The weighted-average discount rate for our pension and postretirement medical plans decreased from 4.45% as of December 31, 2018 to 3.55% as of December 31, 2019, primarily due to a decline in U.S. treasury yields and a decrease in credit spreads on AA-rated corporate bonds in 2019. This was partially offset by a refinement to the bond matching approach used to determine the discount rate for our U.S. pension and postretirement plans as described in note 6 to the audited, consolidated financial statements.
- *Return on Assets* ($3.9 billion pre-tax gain): In 2019, the actual rate of return on plan assets was higher than our expected rate of return, primarily due to strong global equity and U.S. bond market performance.
- *Demographic and Other Assumption Changes* ($24 million pre-tax loss): This represented the difference between actual and estimated participant data and demographic factors, including items such as healthcare cost trends, compensation rate increases and rates of termination, retirement and mortality.
- *Coordinating benefits attributable to the Central States Pension Fund* ($543 million pre-tax loss): This represented our then-best estimate of additional potential coordinating benefits that may be required to be paid related to the Central States Pension Fund.

Expense Allocations

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 would 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. Beginning in 2020, we updated our cost allocation methodology for the Ground with Freight Pricing ("GFP") product. The cost associated with GFP that is allocated from the U.S. Domestic Package segment to UPS Freight, within the Supply Chain & Freight segment, was adjusted to better reflect operational activities associated with this product. This change in methodology had only an immaterial impact on the expense allocated to UPS Freight for 2020. There were no significant changes in our expense allocation methodologies during 2019 or 2018.

U.S. Domestic Package Operations

	Year Ended December 31,		Change	
	2020	2019	$	%
Average Daily Package Volume (in thousands):				
Next Day Air	1,987	1,889		5.2 %
Deferred	1,783	1,622		9.9 %
Ground	17,371	15,176		14.5 %
Total Average Daily Package Volume	21,141	18,687		13.1 %
Average Revenue Per Piece:				
Next Day Air	$ 16.82	$ 17.74	$ (0.92)	(5.2)%
Deferred	12.46	12.62	(0.16)	(1.3)%
Ground	8.87	8.55	0.32	3.7 %
Total Average Revenue Per Piece	$ 9.92	$ 9.83	$ 0.09	0.9 %
Operating Days in Period	255	253		
Revenue (in millions):				
Next Day Air	$ 8,522	$ 8,479	$ 43	0.5 %
Deferred	5,665	5,180	485	9.4 %
Ground	39,312	32,834	6,478	19.7 %
Total Revenue	$ 53,499	$ 46,493	$ 7,006	15.1 %
Operating Expenses (in millions):				
Operating Expenses	$ 49,608	$ 42,329	$ 7,279	17.2 %
Transformation Strategy Costs	(237)	(108)	(129)	119.4 %
Legal Contingencies and Expenses	—	(97)	97	N/M
Adjusted Operating Expenses	$ 49,371	$ 42,124	$ 7,247	17.2 %
Operating Profit (in millions) and Operating Margin:				
Operating Profit	$ 3,891	$ 4,164	$ (273)	(6.6)%
Adjusted Operating Profit	$ 4,128	$ 4,369	$ (241)	(5.5)%
Operating Margin	7.3 %	9.0 %		
Adjusted Operating Margin	7.7 %	9.4 %		

Revenue

The change in total revenue was due to the following:

Revenue Change Drivers:	Volume	Rates / Product Mix	Fuel Surcharges	Total Revenue Change
2020 vs. 2019	14.0 %	1.8 %	(0.7)%	15.1 %

Volume

2020 compared to 2019

Volume increased across all products, with growth strongest in residential ground services. Volume growth was primarily driven by business-to-consumer e-commerce, which grew by approximately 33%, partly due to the impact of the COVID-19 pandemic. We also benefited from the impact of two additional operating days in 2020. Volume growth was led by our largest customer, Amazon, with growth stronger in the first half of the year. We also experienced growth from SMBs, as well as other large customers. Volume from SMBs grew 14.8% for the year, with growth accelerating in the second half of the year as a result of our investments to improve both time-in-transit and our digital access platform.

Business-to-consumer shipments represented approximately 64% of total average daily volume for the year compared to approximately 54% in 2019. We believe that the COVID-19 pandemic has accelerated a change in consumer behavior, speeding up what we believe will be a long-term market shift towards e-commerce. Business-to-business shipments decreased 10% for the year, primarily in our ground products, as many businesses experienced disruption and periods of closure due to the pandemic. Business-to-business activity began to recover in the latter part of 2020.

Average daily volume increased in both our Next Day Air and Deferred products, driven by increased residential demand as a result of the growth in e-commerce. This was slightly offset by declines in business-to-business shipments, primarily as a result of COVID-19, as well as continued declines in Second Day Letter volume due to ongoing shifts in customer preferences.

Residential Ground and SurePost average daily volumes increased by 35% and 39%, respectively for the year, driven by changes in customer mix and the growth in e-commerce activity. Ground commercial average daily volume declined, as many businesses temporarily closed or operated on a limited basis as a result of COVID-19.

Rates and Product Mix

2020 compared to 2019

Overall revenue per piece increased due to changes in base rates, customer and product mix and residential surcharges that went into effect in October 2020, partially offset by declines in fuel surcharges. Rates for UPS ground and UPS air services increased an average net 4.9% in December 2019. SurePost rates increased effective October 2020.

Revenue per piece for our Next Day Air and Deferred products decreased primarily due to shifts in customer and product mix, lower fuel surcharges and a decrease in average billable weight per piece. Revenue per piece for our Ground products increased primarily due to the shift in customer mix, with a significant increase in SMB volume, and higher residential surcharges. These benefits were partially offset by shifts in product mix, lower fuel surcharges and a decrease in average billable weight per piece.

Fuel Surcharges

We apply a fuel surcharge on our domestic air and ground services. The air fuel surcharge is based on the U.S. Department of Energy’s (“DOE”) Gulf Coast spot price for a gallon of kerosene-type jet fuel, while the ground fuel surcharge is based on the DOE’s On-Highway Diesel Fuel Price. Based on published rates, the average fuel surcharge rates for domestic Air and Ground products were as follows:

	Year Ended December 31,		**% Point Change**
	2020	**2019**	**2020 vs. 2019**
Next Day Air / Deferred	3.9 %	7.3 %	(3.4)%
Ground	6.6 %	7.2 %	(0.6)%

While fluctuations in fuel surcharges can be significant from period to period, fuel surcharges represent one of the many individual components of our pricing structure that impact our overall revenue and yield. Additional components include the mix of products sold, the base price and any additional charges or discounts on these services.

Total domestic fuel surcharge revenue decreased by $344 million for the year as a result of lower fuel surcharge indices, partially offset by increases in volume and shifts in product mix.

Operating Expenses

2020 compared to 2019

Operating expenses, and operating expenses excluding the impact of transformation strategy costs and legal contingencies and expenses, increased largely due to higher pickup and delivery costs (up $4.2 billion). In addition, the costs of operating our domestic integrated air and ground network increased $1.4 billion, costs of package sorting increased $927 million and other indirect operating costs increased $744 million. The overall increase in expense was driven by several factors:

- Employee compensation and benefit costs increased $5.0 billion, largely resulting from:
    - residential volume growth that negatively impacted our delivery density, driving an increase in package delivery stops per day and in average daily miles driven. This drove an increase in average daily union labor hours of 14.1%;
    - union pay rate increases;
    - growth in the overall size of the workforce; and
    - acceleration of certain previously-issued incentive compensation awards for certain non-executive employees that resulted in additional expense of approximately $104 million.

  We also incurred higher employee benefit expenses due to additional headcount, contractual contribution rate increases to union multiemployer plans, and higher service costs for our company-sponsored pension and postretirement plans, primarily driven by lower discount rates used to measure the projected benefit obligations of these plans. Workers' compensation expense increased $114 million as a result of additional hours, medical and wage inflation and claims experience.
- Higher third-party transportation costs were driven by increased SurePost volume and utilization of outside carriers as part of our improvements to time-in-transit within our U.S. ground network.
- We incurred lower fuel costs for the year, driven by lower prices for jet fuel, diesel and gasoline that were partially offset by increased usage as a result of volume growth and higher average daily miles driven.

Total cost per piece, and adjusted cost per piece excluding the year over year impact of transformation strategy costs and legal contingencies and expenses, increased 2.8% as a result of the factors described above.

Operating Profit and Margin

2020 compared to 2019

As a result of the factors described above, operating profit decreased $273 million, with operating margins decreasing 170 basis points to 7.3%. Excluding the year over year impact of transformation strategy costs and legal contingencies and expenses, adjusted operating profit decreased $241 million, with operating margins decreasing 170 basis points to 7.7%.

International Package Operations

	Year Ended December 31,		Change	
	2020	2019	$	%
Average Daily Package Volume (in thousands):				
Domestic	1,863	1,721		8.3 %
Export	1,672	1,472		13.6 %
Total Average Daily Package Volume	3,535	3,193		10.7 %
Average Revenue Per Piece:				
Domestic	$ 6.65	$ 6.51	$ 0.14	2.2 %
Export	28.52	29.10	(0.58)	(2.0)%
Total Average Revenue Per Piece	$ 16.99	$ 16.93	$ 0.06	0.4 %
Operating Days in Period	255	253		
Revenue (in millions):				
Domestic	$ 3,160	$ 2,836	$ 324	11.4 %
Export	12,159	10,837	1,322	12.2 %
Cargo & Other	626	547	79	14.4 %
Total Revenue	$ 15,945	$ 14,220	$ 1,725	12.1 %
Operating Expenses (in millions):				
Operating Expenses	$ 12,509	$ 11,563	$ 946	8.2 %
Transformation Strategy Costs	(96)	(122)	26	(21.3)%
Adjusted Operating Expenses	$ 12,413	$ 11,441	$ 972	8.5 %
Operating Profit (in millions) and Operating Margin:				
Operating Profit	$ 3,436	$ 2,657	$ 779	29.3 %
Adjusted Operating Profit	$ 3,532	$ 2,779	$ 753	27.1 %
Operating Margin	21.5 %	18.7 %		
Adjusted Operating Margin	22.2 %	19.5 %		
Currency Translation Benefit / (Cost)—(in millions)*:				
Revenue			$ 129	
Operating Expenses			(59)	
Operating Profit			$ 70	

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

Revenue

The change in total revenue was due to the following:

Revenue Change Drivers:	Volume	Rates / Product Mix	Fuel Surcharges	Currency	Revenue Change
2020 vs. 2019	11.6 %	1.5 %	(1.9)%	0.9 %	12.1 %

Volume

2020 compared to 2019

Average daily volume increased for both domestic and export products. Business-to-consumer volume increased as the COVID-19 pandemic drove growth in e-commerce. Business-to-business volume declined as the pandemic negatively impacted business operations globally, however we experienced a slight increase in volumes in the fourth quarter.

Average daily volume growth was driven primarily by strong demand from the retail and technology sectors due to the increase in e-commerce activity. This was partially offset by lower volumes in manufacturing and other sectors as COVID-19 caused a decline in commercial activity.

Export volume increased across most major trade lanes, driven by Europe and Asia. Europe export volume growth was highest on the Europe to U.S. trade lane, with intra-Europe volumes also growing significantly. Asia export volume growth was strongest on the Asia to U.S. trade lane. We experienced volume growth from both our large customers and SMBs, with SMB growth accelerating during the second half of the year. Our premium products saw volume growth, primarily driven by our Worldwide Express product, however growth was stronger in our non-premium products, such as World Wide Expedited and Transborder Standard due to shifts in customer preference for these products.

Domestic volume increased in many of our markets, driven by growth in Canada and several European countries that was primarily due to residential volume growth resulting from the increase in e-commerce.

Rates and Product Mix

2020 compared to 2019

Rate changes for shipments originating outside the U.S. are made throughout the year and vary by geographic market. In response to market capacity constraints resulting from the COVID-19 pandemic, we implemented surcharges on certain lanes during the year. In December 2019, we implemented an average 4.9% net increase in base and accessorial rates for international shipments originating in the United States.

Total revenue per piece increased 0.4% as a result of changes in customer and product mix, the impact of demand surcharges and currency movements, which were largely offset by a decline in fuel surcharges. Excluding the impact of currency, revenue per piece decreased 0.5%.

Domestic revenue per piece increased 2.2% due to changes in customer and product mix, demand surcharges and currency movements that were partially offset by a decline in fuel surcharges. Excluding the impact of currency, revenue per piece increased 1.2%.

Export revenue per piece decreased 2.0% primarily due to a decline in fuel surcharges that were partially offset by changes in demand surcharges. Excluding the impact of currency, revenue per piece decreased 2.8%.

Fuel Surcharges

We apply fuel surcharges on our international air and ground services. The fuel surcharge for 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.

While fluctuations can be significant from period to period, fuel surcharges represent one of the many individual components of our pricing structure that impact our overall revenue and yield. Additional components include the mix of services sold, the base price and extra service charges and the pricing discounts offered. Total international fuel surcharge revenue decreased by $263 million in 2020 as a result of declines in fuel surcharge indices, partially offset by volume growth and changes in customer and product mix.

Operating Expenses

2020 compared to 2019

Operating expenses, and operating expenses excluding the year over year impact of transformation strategy costs, increased in 2020. Pickup and delivery costs increased $540 million due to volume growth and an increase in residential deliveries that drove additional third-party pickup and delivery expense.

The costs of operating our integrated international air and ground network increased $66 million, as increased block hours were partially offset by lower fuel prices.

In addition to variability in usage and market prices, the manner in which we purchase fuel also influences the net impact of costs on our results. The majority of our contracts for fuel purchases utilize index-based pricing formulas plus or minus a fixed locational/supplier differential. While many of the indices are aligned, each index may fluctuate at a different pace, driving variability in the prices paid for fuel. Because of this, our operating results may be affected should the market price of fuel suddenly change by a significant amount or change by amounts that do not result in an adjustment in our fuel surcharges, which can significantly affect our earnings either positively or negatively in the short-term.

The remaining increase in operating expenses in 2020 was due to package sorting and other indirect operating costs.

Operating Profit and Margin

2020 compared to 2019

As a result of the factors described above, operating profit increased $779 million, with operating margin increasing 280 basis points to 21.5%. Excluding the year over year impact of transformation strategy costs, adjusted operating profit increased for the year, with operating margin increasing 270 basis points to 22.2%.

Supply Chain & Freight Operations

	Year Ended December 31,		Change	
	2020	2019	$	%
Freight LTL Statistics:				
Revenue (in millions)	$ 2,566	$ 2,679	$ (113)	(4.2)%
Revenue Per Hundredweight	$ 27.46	$ 26.54	$ 0.92	3.5 %
Shipments (in thousands)	8,847	9,281		(4.7)%
Shipments Per Day (in thousands)	34.8	36.7		(5.2)%
Gross Weight Hauled (in millions of lbs)	9,343	10,096		(7.5)%
Weight Per Shipment (in lbs)	1,056	1,088		(2.9)%
Operating Days in Period	254	253		
Revenue (in millions):				
Forwarding	$ 6,975	$ 5,867	$ 1,108	18.9 %
Logistics	4,073	3,435	638	18.6 %
Freight	3,149	3,265	(116)	(3.6)%
Other	987	814	173	21.3 %
Total Revenue	$ 15,184	$ 13,381	$ 1,803	13.5 %
Operating Expenses (in millions):				
Operating Expenses	$ 14,827	$ 12,404	$ 2,423	19.5 %
Transformation Strategy Costs	(15)	(25)	10	(40.0)%
Goodwill and Other Asset Impairment Charges	(686)	—	(686)	N/M
Adjusted Operating Expenses	$ 14,126	$ 12,379	$ 1,747	14.1 %
Operating Profit (in millions) and Operating Margins:				
Operating Profit	$ 357	$ 977	$ (620)	(63.5)%
Adjusted Operating Profit	$ 1,058	$ 1,002	$ 56	5.6 %
Operating Margin	2.4 %	7.3 %		
Adjusted Operating Margin	7.0 %	7.5 %		
Currency Translation Benefit / (Cost)—(in millions)*:				
Revenue			$ (92)	
Operating Expenses			90	
Operating Profit			$ (2)	

* Amount represents the change compared to the prior year.

	Year Ended December 31,		Change	
	2020	2019	$	%
Transformation Strategy Costs (in millions):				
Forwarding	$ 8	$ 12	$ (4)	(33.3)%
Logistics	6	13	(7)	(53.8)%
Freight	1	—	1	N/M
Total Transformation Strategy Costs	$ 15	$ 25	$ (10)	(40.0)%

In January 2021, we entered into a definitive agreement to sell our UPS Freight business. As of December 31, 2020, we classified certain assets and liabilities of UPS Freight as held for sale in the consolidated balance sheet. Upon classification as held for sale, we recognized a total impairment charge of $686 million within Other expenses in the statements of consolidated income. This was comprised of a goodwill impairment charge of $494 million and a valuation allowance to adjust the carrying value of the disposal group to fair value less cost to sell of $192 million. See note 4 to the audited, consolidated financial statements for additional information.

Revenue

2020 compared to 2019

Total revenue in the Supply Chain & Freight segment increased $1.8 billion. The impact of the COVID-19 pandemic varied within the segment. Our LTL business faced excess capacity and reduced demand in the first half of the year before market conditions began to improve. Conversely, our international air freight forwarding business benefited from demand for personal protective equipment out of Asia as well as increases in market rates caused by a sharp decline in passenger aircraft cargo capacity. Our Logistics business experienced increased demand from the healthcare and retail sectors, while activity in other sectors declined.

Overall Forwarding revenue increased for the year. In our international air freight business, revenue grew as a result of higher market rates, capacity surcharges and strong demand in Asia. Ocean freight forwarding revenue increased due to Asia-export volume growth in the second half of the year. Revenue in our truckload brokerage business increased as volume levels recovered in the third and fourth quarters. Higher demand, together with capacity constraints in the truckload brokerage market, drove rate increases.

Within Logistics, revenue in our mail services business increased as a result of e-commerce growth, which also led to a favorable shift in product characteristics. In addition, we implemented a peak surcharge in mail services in the fourth quarter which contributed to the overall increase in revenue. In the healthcare sector, we experienced growth in demand for our healthcare logistics and distribution solutions, partly driven by the impacts of the COVID-19 pandemic.

UPS Freight revenue declined due to volume and tonnage declines in our LTL business driven by overall market conditions, as well as volume optimization initiatives that resulted in an increase in revenue per hundredweight. Revenue from the Ground with Freight Pricing product grew as volume levels increased in the second half of the year.

Revenue from the other businesses within the segment increased, driven by growth within UPS Customer Solutions, as well as additional volume from service contracts with the U.S. Postal Service.

Operating Expenses

2020 compared to 2019

Total operating expenses for the segment, and operating expenses excluding the year over year impact of restructuring and other costs, increased in 2020.

Forwarding operating expenses increased $1.1 billion, largely due to higher market rates and additional charter flights out of Asia which increased purchased transportation expense for international air freight. This increase was slightly offset by declines in tonnage and volume. In truckload brokerage, volume growth and higher market rates also contributed to the increase in purchased transportation expense. Other expenses decreased slightly as a result of ongoing cost management initiatives.

Logistics operating expenses increased $582 million, driven by higher purchased transportation expense in mail services as a result of volume growth and carrier rate increases, as well as volume growth in the healthcare sector.

UPS Freight operating expenses increased $607 million, due primarily to an impairment charge of $686 million in respect of goodwill and assets held for sale as a result of entering into an agreement to divest our UPS Freight business. We expect this divestiture to be completed in the second quarter of 2021.

Operating Profit and Margin

2020 compared to 2019

As a result of the factors described above, total operating profit for the Supply Chain & Freight segment decreased $620 million. Excluding the year over year impact of restructuring and other costs, adjusted operating profit increased $56 million. Operating margin decreased 490 basis points to 2.4%, while adjusted operating margin decreased 50 basis points to 7.0%.

Consolidated Operating Expenses

	Year Ended December 31,		Change	
	2020	2019	$	%
Operating Expenses (in millions):				
Compensation and benefits	$ 44,529	$ 38,908	$ 5,621	14.4 %
Transformation strategy costs	(211)	(166)	(45)	27.1 %
Adjusted Compensation and benefits	44,318	38,742	5,576	14.4 %
Repairs and maintenance	2,365	1,838	527	28.7 %
Depreciation and amortization	2,698	2,360	338	14.3 %
Purchased transportation	15,631	12,590	3,041	24.2 %
Fuel	2,582	3,289	(707)	(21.5)%
Other occupancy	1,539	1,392	147	10.6 %
Other expenses	7,600	5,919	1,681	28.4 %
Total Other expenses	32,415	27,388	5,027	18.4 %
Other Transformation strategy costs	(137)	(89)	(48)	53.9 %
Legal contingencies and expenses	—	(97)	97	(100.0)%
Goodwill and other asset impairment charges	(686)	—	(686)	N/M
Adjusted Total Other expenses	$ 31,592	$ 27,202	$ 4,390	16.1 %
Total Operating Expenses	$ 76,944	$ 66,296	$ 10,648	16.1 %
Adjusted Total Operating Expenses	$ 75,910	$ 65,944	$ 9,966	15.1 %
Currency Translation Benefit - (in millions)*			$ 31	

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

	Year Ended December 31,		Change	
	2020	2019	$	%
Adjustments to Operating Expenses (in millions):				
Transformation strategy costs:				
Compensation	$ 34	$ 21	$ 13	61.9 %
Benefits	177	145	32	22.1 %
Depreciation and amortization	—	3	(3)	(100.0)%
Other occupancy	8	8	—	— %
Other expenses	129	78	51	65.4 %
Total Transformation strategy costs	$ 348	$ 255	$ 93	36.5 %
Legal contingencies and expenses:				
Other expenses	$ —	$ 97	$ (97)	(100.0)%
Goodwill and other asset impairment charges:				
Other expenses	$ 686	$ —	$ 686	N/M
Total Adjustments to Operating Expenses	$ 1,034	$ 352	$ 682	193.8 %

Compensation and Benefits

2020 compared to 2019

Total compensation and benefits, and total compensation and benefits excluding the year over year impact of transformation strategy costs, increased in 2020.

Total compensation costs, and total compensation costs excluding the year over year impact of transformation strategy costs, increased $3.1 billion or 13.3%, primarily as a result of:

- U.S. Domestic labor costs increased as a result of residential volume growth, driving a 21.5% increase in package delivery stops per day. This drove additional headcount and an increase in average daily union hours of 14.1%. Contractual union wage increases also contributed to the increase in compensation for hourly employees.
- Management compensation expense increased due to salary increases, higher incentive compensation, including the acceleration of certain previously-issued incentive compensation awards, and growth in the overall size of the workforce.

Benefits costs, and benefits costs excluding the year over year impact of transformation strategy costs, increased $2.5 billion as a result of:

- Health and welfare costs increased $558 million, driven by increased contributions to multiemployer plans resulting from growth in the workforce and contractually-mandated contribution rate increases.
- Pension and postretirement benefits increased $798 million. Higher service costs for company-sponsored plans were driven by a reduction in discount rates and an increase in participating employees. Contributions to multiemployer plans increased as a result of contractually-mandated contribution increases and an overall increase in the size of the workforce.
- Vacation, excused absence, payroll taxes and other expenses increased $587 million, primarily driven by salary increases and growth in the overall size of the workforce.
- Workers' compensation expense increased $517 million due to an increase in total hours worked, wage and medical cost inflation and unfavorable claims trends.

Repairs and Maintenance

2020 compared to 2019

The increase in repairs and maintenance expense was driven by additional aircraft engine maintenance cost, primarily due to the replacement of parts on our A300-600 fleet, as well as an increase in routine repairs to buildings and facilities and maintenance of our other transportation equipment.

Depreciation and Amortization

2020 compared to 2019

Depreciation and amortization expense increased as a result of additional investments in facility automation and capacity expansion projects, increases in the size of our vehicle and aircraft fleets and investments in internally developed software.

Purchased Transportation

2020 compared to 2019

The increase in purchased transportation expense charged to us by third-party air, rail, ocean and truck carriers was primarily driven by:

- U.S. Domestic Package expense increased $1.2 billion due to investments to improve time-in-transit in our U.S. ground network, an increase in SurePost volume that drove approximately $480 million of incremental third-party transportation expense and volume growth in our other products.

- Forwarding and Logistics expense increased $1.5 billion due to increased market rates in our international air freight business, as well as volume growth and rate increases in our mail services and truckload brokerage businesses. The rate increases in our international air freight and truckload brokerage businesses were primarily driven by market capacity constraints.
- International Package expense increased $521 million primarily due to volume increases in Asia and Europe that drove higher third-party pickup and delivery cost, as well as additional charter flights originating from Asia.

Fuel

2020 compared to 2019

The decrease in fuel expense was driven by lower prices for jet fuel, diesel and gasoline. These decreases were partially offset by higher consumption due to increases in aircraft block hours and miles driven as a result of increased volume, as well as the impact of higher alternative fuel tax credits in 2019.

Other Occupancy

2020 compared to 2019

The increase in other occupancy expense, and other occupancy expense excluding the year over year impact of transformation strategy costs, was driven by additional operating facilities coming into service, rent and property tax increases and ongoing facility maintenance.

Other Expenses

2020 compared to 2019

Other expenses, and other expenses excluding the year over year impact of transformation strategy costs, legal contingencies and expenses and goodwill and other asset impairment charges, increased as a result of:

- Other operational expenses, including vehicle and equipment rentals, increased $385 million driven by volume growth. This included cleaning and other safety supplies related to COVID-19 amounting to $89 million.
- Professional fees increased $139 million, primarily related to information technology and other business support services.
- Self-insured automobile liability claims increased $125 million as a result of higher average daily miles driven in our U.S. Domestic business and unfavorable claims experience.
- Other increases included reserves for certain tax positions and contingencies, payment processing fees, recruitment costs, telecommunications costs, information technology expenses and allowances for credit losses and other bad debt expense.

Other Income and (Expense)

The following table sets forth investment income (expense) and other and interest expense for the years ended December 31, 2020 and 2019 (in millions):

	Year Ended December 31,		Change	
	2020	2019	$	%
Investment Income (Expense) and Other	$ (5,139)	$ (1,493)	$ (3,646)	N/M
Defined Benefit Plans Mark-to-Market Charges	6,484	2,387	4,097	171.6 %
Adjusted Investment Income (Expense) and Other	$ 1,345	$ 894	$ 451	50.4 %
Interest Expense	(701)	(653)	(48)	7.4 %
Total Other Income and (Expense)	$ (5,840)	$ (2,146)	$ (3,694)	172.1 %
Adjusted Other Income and (Expense)	$ 644	$ 241	$ 403	167.2 %

Investment Income (Expense) and Other

2020 compared to 2019

Investment and other expense for the year increased $3.6 billion, which included a $4.1 billion increase in defined benefit plans mark-to-market charges. Excluding the impact of these mark-to-market charges, adjusted investment and other income increased $451 million for the year, primarily due to an increase in other pension income, which includes expected investment returns on pension assets, net of interest cost on projected benefit obligations and prior service costs. Expected returns on plan assets increased as a result of a higher asset base due to positive asset returns in 2019 and discretionary contributions made in 2020. Pension interest cost decreased due to the impact of lower year end discount rates, partially offset by ongoing plan growth and an increase in the projected benefit obligation as a result of the 2019 year end measurement of our plans. Investment income decreased due to lower yields on higher average invested asset balances and impairments of certain non-current investments, partially offset by foreign currency gains.

Interest Expense

2020 compared to 2019

Interest expense increased as a result of higher average outstanding debt balances and lower capitalization of interest, partially offset by lower effective interest rates on floating rate debt and commercial paper balances.

Income Tax Expense

The following table sets forth income tax expense and our effective tax rate for the years ended December 31, 2020 and 2019 (in millions):

	Year Ended December 31,		Change	
	2020	2019	$	%
Income Tax Expense:	$ 501	$ 1,212	$ (711)	(58.7)%
Income Tax Impact of:				
Defined Benefit Plans Mark-to-Market Charges	1,555	571	984	172.3 %
Transformation Strategy Costs	83	59	24	40.7 %
Goodwill and Other Asset Impairment Charges	57	—	57	N/M
Legal Contingencies and Expenses	—	6	(6)	N/M
Adjusted Income Tax Expense	$ 2,196	$ 1,848	$ 348	18.8 %
Effective Tax Rate	27.2 %	21.4 %		
Adjusted Effective Tax Rate	23.5 %	22.0 %		

For additional information on income tax expense and our effective tax rate, see note 15 to the audited, consolidated financial statements.

Liquidity and Capital Resources

As of December 31, 2020, we had $6.3 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 operating requirements, 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. We have currently suspended share repurchases under our stock repurchase program.

Cash Flows From Operating Activities

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

	2020	2019
Net income	$ 1,343	$ 4,440
Non-cash operating activities[a]	11,181	6,405
Pension and postretirement benefit plan contributions (company-sponsored plans)	(3,125)	(2,362)
Hedge margin receivables and payables	(507)	171
Income tax receivables and payables	205	599
Changes in working capital and other non-current assets and liabilities	1,383	(634)
Other operating activities	(21)	20
Net cash from operating activities	$ 10,459	$ 8,639

(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 benefit 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 increased $1.8 billion for the year, driven by the following:

- Total contributions to our company-sponsored pension and U.S. postretirement medical benefit plans were $3.1 billion during 2020 compared to $2.4 billion in 2019. We made discretionary contributions of $2.8 billion to our three primary, company-sponsored U.S. pension plans during 2020 compared to $2.0 billion in 2019.
- Our net hedge margin collateral decreased by $678 million due to the change in net fair value of derivative contracts used in our currency and interest rate hedging programs.
- Cash payments for income taxes were $1.1 billion and $514 million for 2020 and 2019, respectively, with changes driven by the timing of deductions related to pension contributions, depreciation and employer payroll taxes.
- Favorable changes in working capital were driven by the deferral of approximately $1.1 billion of employer payroll taxes under the Coronavirus Aid, Relief and Economic Security (CARES) Act that was signed into law on March 27, 2020, as well as changes in incentive compensation plan payouts. These benefits were partially offset by an increase in working capital demand as a result of business growth.

As part of our ongoing efforts to improve our working capital efficiency, certain financial institutions offer a voluntary Supply Chain Finance ("SCF") program to certain of our suppliers. We agree 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. Then, if they are participating 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 December 31, 2020 and 2019, suppliers sold them $639 and $268 million, respectively, of our outstanding payment obligations. Amounts due to suppliers that participate in the SCF program may be reflected in cash flows from operating activities or cash flows from investing activities in our consolidated statements of cash flows. The amount settled through the SCF program was approximately $1.8 billion for the year ended December 31, 2020.

As of December 31, 2020, our total worldwide holdings of cash, cash equivalents and marketable securities were $6.3 billion, of which approximately $3.0 billion was 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.

Cash Flows From Investing Activities

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

	2020	2019
Net cash used in investing activities	$ (5,283)	$ (6,061)
Capital Expenditures:		
Buildings, facilities and plant equipment	$ (2,460)	$ (2,729)
Aircraft and parts	(1,145)	(1,890)
Vehicles	(1,002)	(987)
Information technology	(805)	(774)
Total Capital Expenditures[1]:	$ (5,412)	$ (6,380)
Capital Expenditures as a % of revenue	6.4 %	8.6 %
Other Investing Activities:		
Proceeds from disposals of property, plant and equipment	$ 40	$ 65
Net change in finance receivables	$ 44	$ 13
Net (purchases), sales and maturities of marketable securities	$ 106	$ 322
Cash paid for business acquisitions, net of cash and cash equivalents acquired	$ (20)	$ (6)
Other investing activities	$ (41)	$ (75)

[1] In addition to capital expenditures of $5.4 and $6.4 billion in 2020 and 2019, respectively, there were capital expenditures relating to principal repayments of finance lease obligations of $192 and $140 million. 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 maintenance of buildings, facilities and plant equipment, as well as investments in technology initiatives and additional network capabilities. We currently expect that our capital expenditures will be approximately $4.0 billion in 2021.

In 2020, capital expenditures on buildings, facilities and plant equipment decreased in our global small package business, as we reduced spending on facility automation and capacity expansion projects. Capital spending on aircraft decreased due to reductions in contract deposits on open aircraft orders and in final payments associated with the delivery of aircraft.

Proceeds from the disposal of property, plant and equipment were largely attributable to sales of international property in 2020 and 2019. The net change in finance receivables was primarily due to reductions in outstanding balances within our finance portfolios. Purchases and sales of marketable securities are largely determined by liquidity needs and the periodic rebalancing of investment types, and will fluctuate from period to period.

Cash paid for business acquisitions in 2020 related to the acquisition of area franchise rights for The UPS Store. In 2019, we also acquired area franchise rights for The UPS Store, as well as made immaterial acquisitions in our International Small Package and Healthcare Logistics business units. Other investing activities were impacted by changes in our non-current investments, purchase contract deposits and various other items.

We anticipate that the divestiture of UPS Freight will be completed in the second quarter of 2021. We intend to use the proceeds from this divestiture to repay outstanding debt.

Cash Flows From Financing Activities

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

	2020	2019
Net cash used in financing activities	$ (4,517)	$ (1,727)
Share Repurchases:		
Cash expended for shares repurchased	$ (224)	$ (1,004)
Number of shares repurchased	(2.1)	(9.1)
Shares outstanding at period end	865	857
Percent increase (decrease) in shares outstanding	0.9 %	(0.1)%
Dividends:		
Dividends declared per share	$ 4.04	$ 3.84
Cash expended for dividend payments	$ (3,374)	$ (3,194)
Borrowings:		
Net borrowings (repayments) of debt principal	$ (851)	$ 2,419
Other Financing Activities:		
Cash received for common stock issuances	$ 285	$ 218
Other financing activities	$ (353)	$ (166)
Capitalization:		
Total debt outstanding at year end	$ 24,654	$ 25,238
Total shareowners’ equity at year end	669	3,283
Total capitalization	$ 25,323	$ 28,521

We repurchased a total of 2.1 million shares of class A and class B common stock for $217 million in 2020; substantially all of those purchases were in the first quarter of 2020. As previously disclosed, we have suspended share repurchases under our stock repurchase program. We repurchased 9.1 million shares for $1.0 billion throughout 2019 ($224 million and $1.0 billion in repurchases for 2020 and 2019, respectively, are reported on the statement of cash flows due to the timing of settlements). For additional information on our share repurchase activities, see note 12 to the audited, consolidated financial statements.

For the years ended December 31, 2020 and 2019, dividends reported within shareowners' equity include $178 and $147 million, respectively, of non-cash dividends that were settled in shares of class A common stock.

The declaration of dividends is subject to the discretion of the Board of Directors and depends on various factors, including our net income, financial condition, cash requirements, future prospects and other relevant factors. We expect to continue the practice of paying regular cash dividends. In February 2021, we increased our quarterly dividend payment from $1.01 to $1.02 per share.

Issuances of debt in 2020 and 2019 consisted of borrowings under our commercial paper program and issuances of fixed-rate senior notes as follows (in millions):

		Principal Amount in USD
2020		
Fixed-rate senior notes:		
3.900% senior notes	$	1,000
4.450% senior notes		750
5.200% senior notes		500
5.300% senior notes		1,250
Total	$	3,500

		Principal Amount in USD
2019		
Fixed-rate senior notes:		
2.200% senior notes	$	400
2.500% senior notes		400
3.400% senior notes (multiple issuances)		1,450
4.250% senior notes		750
Total	$	3,000

Repayments of debt in 2020 included our $424 million 8.375% debentures that matured in April 2020 and our €500 million floating rate senior notes that matured in July 2020. We also paid down commercial paper and made scheduled principal payments on our finance lease obligations. Repayments of debt in 2019 included fixed-rate senior notes in the amount of $1.0 billion, commercial paper and scheduled principal payments on our finance lease obligations.

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. We have $2.6 billion of senior notes that mature in 2021. We do not currently intend to refinance this debt when it becomes due.

The amount of commercial paper outstanding fluctuates throughout the year based on daily liquidity needs. The following is a summary of our commercial paper program (in millions):

	Functional currency outstanding balance at year end		Outstanding balance at year end ($)		Average balance outstanding		Average balance outstanding ($)		Average interest rate
2020									
USD	$	15	$	15	$	1,426	$	1,426	0.78 %
EUR	€	—	$	—	€	432	$	493	(0.39)%
Total			$	15					

	Functional currency outstanding balance at year end		Outstanding balance at year end ($)		Average balance outstanding		Average balance outstanding ($)		Average interest rate
2019									
USD	$	2,172	$	2,172	$	1,665	$	1,665	2.24 %
EUR	€	949	$	1,062	€	903	$	1,011	(0.39)%
Total			$	3,234					

The variation in cash received from common stock issuances was primarily due to the number of stock option exercises by employees in 2020 and 2019.

Other financing activities includes cash used to repurchase shares from employees sold to satisfy tax withholding obligations on vested stock awards of $340 and $180 million in 2020 and 2019, respectively. The increase in cash used was driven by changes in the vesting schedule for certain of our awards. Net cash inflows from premium payments and settlements of capped call options for the purchase of UPS class B shares were $0 and $21 million in 2020 and 2019, respectively.

Sources of Credit

See note 9 to the audited, consolidated financial statements for a discussion of our available credit and debt covenants.

Guarantees and Other Off-Balance Sheet Financing Arrangements

Except as disclosed in note 9 to the audited, consolidated financial statements, 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 financial condition or liquidity.

Contractual Commitments

We have contractual obligations and commitments in the form of finance leases, operating leases, debt obligations, purchase commitments and certain other liabilities. We intend to satisfy these obligations primarily through the use of cash flows from operations. The following table summarizes the expected cash outflow to satisfy our contractual obligations and commitments as of December 31, 2020 (in millions):

Commitment Type	**2021**	**2022**	**2023**	**2024**	**2025**	**After 2025**	**Total**
Finance Leases	$ 69	$ 64	$ 50	$ 30	$ 27	$ 188	$ 428
Operating Leases (1)	815	557	458	335	259	1,468	3,892
Debt Principal	2,568	2,001	2,360	1,485	1,860	14,198	24,472
Debt Interest	754	725	671	633	638	7,703	11,124
Purchase Commitments	2,730	1,415	404	201	60	1	4,811
Tax Act Repatriation Liability	—	—	13	49	61	—	123
Pension Funding	252	—	—	—	—	—	252
Total	$ 7,188	$ 4,762	$ 3,956	$ 2,733	$ 2,905	$ 23,558	$ 45,102

(1) Operating lease commitments for 2021 include $184 million of committed leases that have not yet commenced.

Our finance lease obligations relate primarily to leases on aircraft and real estate. Finance leases and operating leases are discussed further in note 11 to the audited, consolidated financial statements. Purchase commitments, as well as our debt principal obligations, are discussed further in note 9 to the audited, consolidated financial statements. The amount of interest on our debt was calculated as the contractual interest payments due on our fixed-rate debt and variable rate debt based on interest rates as of December 31, 2020. The calculations of debt interest take into account the effect of any interest rate swap agreements. For debt denominated in a foreign currency, the U.S. Dollar equivalent principal amount of the debt at the end of the year was used as the basis to calculate future interest payments.

Purchase commitments represent contractual agreements to purchase assets, goods or services that are legally binding, including contracts for aircraft, construction of new or expanded facilities and orders for technology equipment and vehicles. As of December 31, 2020, we had firm commitments to purchase three new Boeing 767-300 aircraft to be delivered in 2021 and 8 new Boeing 747-8F aircraft to be delivered between 2021 and 2022. We also had a firm commitment to purchase two Boeing MD-11 aircraft to be delivered in 2021. We paid a deposit equal to the full purchase price for these MD-11 aircraft in December 2019; therefore these aircraft are not included in the commitment table above.

In December 2017, the United States enacted into law the Tax Act, requiring a one-time transition tax on certain unrepatriated earnings of foreign subsidiaries. We elected to pay the tax over eight years based on an installment schedule outlined in the Tax Act and, as required, have reflected our remaining transition tax due by year as a contractual obligation.

There are no anticipated required minimum cash contributions to our qualified U.S. pension plans (these plans are discussed further in note 6 to the audited, consolidated financial statements). The amount of any minimum funding requirement, as applicable, for these plans could change significantly in future periods depending on many factors, including future plan asset returns, discount rates, other actuarial assumptions and changes to pension plan funding regulations. A decline in discount rates or a sustained significant decline in equity or bond returns could result in our U.S. pension plans being subject to significantly higher minimum funding requirements. Actual contributions made in future years could materially differ and consequently required minimum contributions beyond 2021 cannot be reasonably estimated.

As discussed in note 7 to the audited, consolidated financial statements, we are not currently subject to any minimum contributions or surcharges with respect to the multiemployer pension and health and welfare plans in which we participate. Contribution rates to these multiemployer pension and health and welfare plans are established through the collective bargaining process. As we are not subject to any minimum contribution levels, we have not included any amounts in the contractual commitments table with respect to these multiemployer plans.

The table above does not include approximately $398 million of liabilities for uncertain tax positions because we are uncertain if or when such amounts will ultimately be settled in cash. Uncertain tax positions are further discussed in note 15 to the audited, consolidated financial statements.

As of December 31, 2020, we had outstanding letters of credit totaling approximately $1.4 billion issued in connection with our self-insurance reserves and other routine business requirements. We also issue surety bonds as an alternative to letters of credit in certain instances, and as of December 31, 2020, we had $1.3 billion of surety bonds written. As of December 31, 2020, we had unfunded loan commitments totaling $52 million associated with UPS Capital.

We believe that funds from operations and borrowing programs will provide adequate sources of liquidity and capital resources to meet our expected long-term needs for the operation of our business, including anticipated capital expenditures, transformation strategy costs and pension contributions for the foreseeable future.

Contingencies

See note 6 to the audited, consolidated financial statements for a discussion of pension related matters and note 10 to the audited, consolidated financial statements for a discussion of judicial proceedings and other matters arising from the conduct of our business activities.

Collective Bargaining Agreements

Status of Collective Bargaining Agreements

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

Multiemployer Benefit Plans

We contribute to a number of multiemployer pension 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 will remain in effect throughout the terms of the existing collective bargaining agreements.

New Accounting Pronouncements

Recently Adopted Accounting Standards

See note 1 to the audited, consolidated financial statements for a discussion of recently adopted accounting standards.

Accounting Standards Issued But Not Yet Effective

See note 1 to the audited, consolidated financial statements for a discussion of accounting standards issued, but not yet effective.

Rate Adjustments

We announced various adjustments to our peak surcharges during the fourth quarter as follows:

- Effective October 25, 2020, surcharges applied to China and Hong Kong origin international shipments increased.
- Effective November 1, 2020, surcharges for certain Europe origin shipments increased.
- Effective November 8, 2020, surcharges increased for China Mainland, Hong Kong Special Administrative Region, Australia, New Zealand and other Asia origin shipments and a surcharge was applied to international shipments from Korea.
- Effective November 15, 2020, surcharges for certain Europe origin shipments increased.
- Effective December 27, 2020, surcharges for shipments from China Mainland and Hong Kong Special Administrative Region to the U.S. decreased.
- Effective January 17, 2021, updated surcharges were applied to U.S. shipments.

The following changes took effect on December 27, 2020:

- The rates for UPS Ground, UPS Air and International services increased by an average net 4.9%.
- UPS Air Freight rates within and between the U.S., Canada and Puerto Rico increased an average net 4.8%.
- Rates for all UPS SurePost services increased.

Additionally, effective January 10, 2021, an additional handling charge was applied to any package with a combined length plus girth exceeding 105 inches. Effective April 11, 2021, additional handling and large package surcharge rates for non-Hundredweight service packages will differ by zone and effective July 11, 2021, additional handling and large package surcharge rates for Hundredweight Service packages will differ by zone.

Critical Accounting Estimates

This discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which are prepared in accordance with GAAP. As indicated in note 1 to the audited, consolidated financial statements, the amounts of assets, liabilities, revenue and expenses reported in our financial statements are affected by estimates and judgments that are necessary to comply with GAAP. We base our estimates on prior experience, current trends, various other assumptions and third-party input that we consider reasonable to our circumstances. Actual results could differ materially from our estimates, which would affect the related amounts reported in our consolidated financial statements. While estimates and judgments are applied in arriving at many reported amounts, we believe that the following critical accounting policies involve a higher degree of judgment and complexity.

Contingencies

As discussed in note 10 to the audited, consolidated financial statements, we are involved in various legal proceedings and subject to various contingencies. The events that may impact our contingent liabilities are often unique and generally are not predictable. At the time a contingency is identified, we consider all relevant facts as part of our evaluation. We record a liability for a loss when the loss is probable of occurring and reasonably estimable. Events may arise that were not anticipated and the outcome of a contingency may result in a loss to us that differs from our previously estimated liability. This difference could be material. Income taxes and self-insurance are discussed below. Except as disclosed in note 10 to the audited, consolidated financial statements, other contingent losses that were probable and estimable were not material to our financial position or results of operations as of, or for the year ended, December 31, 2020. In addition, we have certain contingent liabilities that have not been recognized as of, or for the year ended, December 31, 2020, because a loss was not reasonably estimable.

Goodwill and Intangible Asset Impairments

We test goodwill and indefinite-lived intangible assets for impairment on an annual basis as of 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. We assess goodwill for impairment at the reporting unit level, initially evaluating qualitative factors to determine if it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If the qualitative assessment is not conclusive, we calculate the fair value of a reporting unit to test goodwill for impairment. If the carrying amount of a reporting unit exceeds the reporting unit’s fair value, we record the excess amount as goodwill impairment, not to exceed the total amount of goodwill allocated to the reporting unit. Our reporting units are set out in note 8 to the audited, consolidated financial statements.

We primarily determine the fair value of our reporting units using a discounted cash flow (“DCF”) model and supplement this with observable valuation multiples for comparable companies, as appropriate. The completion of the DCF model requires that we make a number of significant assumptions to produce an estimate of future cash flows. These assumptions include projections of future revenue, 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. The projections that we use in our DCF model are updated annually and will change over time based on the historical performance and changing business conditions for each of our reporting units.

The determination of whether goodwill is impaired involves a significant level of judgment in these assumptions, and changes in our forecasts, business strategy, government regulations, or economic or market conditions could significantly impact these judgments, potentially decreasing the fair value of one or more reporting units. Any resulting impairment charges could have a material impact on our results of operations.

We recognized a goodwill impairment charge of $494 million for our UPS Freight reporting unit in 2020 in conjunction with our evaluation of assets held for sale, which is discussed in note 4 to the audited, consolidated financial statements. Based on the most recent tests, the fair value of our remaining reporting units exceeds their carrying value. None of our reporting units incurred any goodwill impairment charges in 2019.

A trade name with a carrying value of $200 million and licenses with a carrying value of $5 million as of December 31, 2020 are considered to be indefinite-lived intangibles. We determined that the income approach, specifically the relief from royalty method, is the most appropriate valuation method to estimate the fair value of the trade name. This valuation approach requires that we make a number of assumptions to estimate fair value. These assumptions include projections of future revenues, market royalty rates, tax rates, discount rates and other relevant variables. The projections we use in the model are updated annually and will change over time based on the historical performance and changing business conditions. If the carrying value of the trade name exceeds its estimated fair value, an impairment charge would be recognized for the excess amount.

All of our remaining intangible assets are deemed to be finite-lived and are amortized over their estimated useful lives. Impairment tests for these assets are only performed when a triggering event occurs that indicates that the carrying value of the intangible may not be recoverable based on its undiscounted future cash flows. If the carrying amount of the intangible is determined not to be recoverable, a write-down to fair value is recorded. Fair values are estimated using a DCF model. If impairment indicators are present, the resulting impairment charges could have a material impact on our results of operations. See note 8 to the audited, consolidated financial statements for details of finite-lived intangible asset impairments.

Self-Insurance Accruals

We self-insure costs associated with workers' compensation claims, automobile liability, health and welfare and general business liabilities, up to certain limits. Insurance reserves are based on third-party actuarial estimates, which incorporate historical loss experience and judgments about the present and expected cost per claim. Trends in actual experience are a significant factor in the determination of our reserves.

Workers' compensation, automobile liability and general liability insurance claims may take several years to completely settle. Consequently, actuarial estimates are required to project the ultimate cost that will be incurred to fully resolve a claim. A number of factors can affect the actual cost of a claim, including the severity and length of time the claim remains open, trends in healthcare costs, the results of any related litigation and changes in legislation. Furthermore, claims may emerge in a future year for events that occurred in a prior year at a rate that differs from actuarial projections. All of these factors can result in revisions to actuarial projections and produce a material difference between estimated and actual operating results. Based on our historical experience, in 2019 we changed our self-insurance reserves from the central estimate to the low end of the actuarial range of losses. We believe our estimated reserves for such claims are adequate; actual experience in claim frequency and/or severity could materially differ from our estimates and affect our results of operations. For additional information on our self-insurance reserves, refer to note 1 of the audited, consolidated financial statements.

We sponsor a number of health and welfare insurance plans for our employees. Liabilities and expenses related to these plans are based on estimates of, among other things, the number of employees and eligible dependents covered under the plans, global health events, anticipated medical usage by participants and overall trends in medical costs and inflation. We believe our estimates are reasonable/appropriate. Actual experience may differ from these estimates and, therefore, produce a material difference between estimated and actual operating results.

Pension and Other Postretirement Medical Benefits

Our pension and other postretirement medical benefit costs are calculated using various actuarial assumptions and methodologies. These assumptions include discount rates, healthcare cost trend rates, inflation, compensation increases, expected returns on plan assets, mortality rates, regulatory requirements and other factors. The assumptions utilized in recording the obligations under our plans represent our best estimates, and we believe that they are reasonable, based on information as to historical experience and performance as well as other factors that might cause future expectations to differ from past trends.

Differences in actual experience or changes in assumptions may affect our pension and other postretirement obligations and future expenses. The primary factors contributing to actuarial gains and losses each year are (1) changes in the discount rate used to value pension and postretirement benefit obligations as of the measurement date, (2) differences between the expected and the actual return on plan assets, (3) changes in demographic assumptions including mortality, (4) participant experience different from demographic assumptions and (5) changes in coordinating benefits with plans not sponsored by UPS. In 2019, we refined the bond matching approach used to determine the discount rate for our U.S. pension and postretirement plans by implementing advances in technology and modeling techniques as discussed in note 6 to the audited, consolidated financial statements.

We recognize changes in the fair value of plan assets and net actuarial gains or losses in excess of a corridor (defined as 10% of the greater of the fair value of plan assets or the plans' projected benefit obligations) in pension expense annually at December 31st each year. The remaining components of pension expense (herein referred to as "ongoing net periodic benefit cost"), primarily service and interest costs and the expected return on plan assets, are reported on a quarterly basis.

The following sensitivity analysis shows the impact of a 25 basis point change in the assumed discount rate and return on assets for our pension and postretirement benefit plans, and the resulting increase (decrease) on our obligations and expense as of, and for the year ended, December 31, 2020 (in millions):

Pension Plans	**25 Basis Point Increase**	**25 Basis Point Decrease**
Discount Rate:		
Effect on ongoing net periodic benefit cost	$ (41)	$ 42
Effect on net periodic benefit cost for amounts recognized outside the 10% corridor	(2,434)	2,618
Effect on projected benefit obligation	(2,761)	2,942
Return on Assets:		
Effect on ongoing net periodic benefit cost[1]	(118)	118
Effect on net periodic benefit cost for amounts recognized outside the 10% corridor[2]	(115)	115
Postretirement Medical Plans		
Discount Rate:		
Effect on ongoing net periodic benefit cost	3	(3)
Effect on net periodic benefit cost for amounts recognized outside the 10% corridor	(54)	64
Effect on accumulated postretirement benefit obligation	(60)	71
Healthcare Cost Trend Rate:		
Effect on ongoing net periodic benefit cost	1	(1)
Effect on net periodic benefit cost for amounts recognized outside the 10% corridor	13	(14)
Effect on accumulated postretirement benefit obligation	14	(16)

(1) Amount calculated based on 25 basis point increase / decrease in the expected return on assets.
(2) Amount calculated based on 25 basis point increase / decrease in the actual return on assets.

Refer to note 6 to the audited, consolidated financial statements for information on our potential liability for coordinating benefits related to the Central States Pension Fund.

Depreciation, Residual Value and Impairment of Fixed Assets

As of December 31, 2020, we had $32.3 billion of net fixed assets, the most significant category of which is aircraft. In accounting for fixed assets, we make estimates of the expected useful lives and residual values. We review long-lived assets for impairment at either the individual asset level or the asset group for which the lowest level of independent cash flows can be identified. Impairment reviews occur when circumstances indicate the carrying amount of an asset or asset group may not be recoverable based on undiscounted future cash flows. The circumstances that would indicate potential impairment may include, but are not limited to, a significant change in the extent to which an asset is utilized and operating or cash flow losses associated with the use of the asset. If the carrying amount of the asset is determined not to be recoverable, a write-down to fair value is recorded. Fair values are determined based on quoted market values, discounted cash flows or external appraisals, as appropriate. There were no material impairment charges on our fixed assets during 2020 or 2019.

In estimating the lives and expected residual values of aircraft, we rely upon actual experience with the same or similar aircraft types. Revisions to these estimates could be caused by changes to our maintenance programs, changes in the utilization of the aircraft, governmental regulations on aging aircraft and changing market prices of new and used aircraft of the same or similar types. We periodically evaluate these estimates and assumptions, and adjust them as necessary. Adjustments are accounted for on a prospective basis through depreciation expense. In estimating cash flows, we project future volume levels for our different air products in all geographic regions in which we do business. Adverse changes in these volume forecasts, or a shortfall of our actual volume compared with our projections, could result in our current aircraft capacity exceeding current or projected demand. This situation could lead to an excess of a particular aircraft, resulting in an impairment charge or a reduction of the expected useful life of an aircraft that may result in increased depreciation expense.

We evaluate the useful lives of our property, plant and equipment based on our usage, maintenance and replacement policies, and taking into account physical and economic factors that may affect the useful lives of the assets. See note 1 to the audited, consolidated financial statements for a discussion of our accounting policies for long-lived assets.

Fair Value Measurements

In the normal course of business, we hold and issue financial instruments that contain elements of market risk, including derivatives, marketable securities, finance receivables, pension assets, other investments and debt. Certain of these financial instruments are required to be recorded at fair value, principally derivatives, marketable securities, pension assets and certain other investments. Fair values are based on listed market prices, 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. 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. Certain financial instruments, including over-the-counter derivative instruments, are valued using pricing models that consider, among other factors, contractual and market prices, correlations, time value, credit spreads and yield curve volatility factors. Changes in the fixed income, foreign currency exchange and commodity markets will impact our estimates of fair value in the future, potentially affecting our results of operations. A quantitative sensitivity analysis of our exposure to changes in commodity prices, foreign currency exchange rates and interest rates is presented in the “Quantitative and Qualitative Disclosures about Market Risk” section of this report.

Certain non-financial assets and liabilities are measured at fair value on a nonrecurring basis, including property, plant, and equipment, goodwill and intangible assets. These assets are not measured at fair value on a recurring basis; however, they are subject to fair value adjustments in certain circumstances, such as when there is evidence of an impairment or when an asset or disposal group is classified as held for sale.

For business acquisitions, we allocate the fair value of purchase consideration to the tangible assets acquired, liabilities assumed and intangible assets acquired based on their estimated fair values. The excess of the fair value of purchase consideration over the fair values of these identifiable assets and liabilities is recorded as goodwill. Such valuations require management to make significant estimates and assumptions, especially with respect to intangible assets. Significant estimates in valuing certain intangible assets include, but are not limited to, future expected cash flows from acquired customers, technology and trade names from a market participant perspective, useful lives and discount rates. Management’s estimates of fair value are based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable. As a result, actual results may differ from estimates. During the measurement period, which is one year from the acquisition date, we may record adjustments to the assets acquired and liabilities assumed, with the corresponding offset to goodwill. Upon the conclusion of the measurement period, any subsequent adjustments are recorded to earnings.

Income Taxes

We make certain estimates and judgments in determining income tax expense for financial statement purposes. These estimates and judgments occur in the calculation of income by legal entity and jurisdiction, tax credits, benefits and deductions, and in the calculation of deferred tax assets and liabilities, which arise from differences in the timing of recognition of revenue and expense for tax and financial statement purposes, as well as tax, interest and penalties related to uncertain tax positions. Significant changes to these estimates may result in an increase or decrease to our tax provision in a subsequent period.

We assess the likelihood that we will be able to recover our deferred tax assets. If recovery is not likely, we must increase our provision for taxes by recording a valuation allowance against the deferred tax assets that we estimate will not ultimately be recoverable. We believe that we will ultimately recover a substantial majority of the deferred tax assets recorded on our consolidated balance sheets. However, should there be a change in our ability to recover our deferred tax assets, our tax provision would increase in the period in which we determined that the recovery was not likely.

The calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax regulations. We recognize liabilities for uncertain tax positions based on a two-step process. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. Once it is determined that the position meets the recognition threshold, the second step requires us to estimate and measure the largest amount of tax benefit that is more likely than not to be realized upon ultimate settlement. The difference between the amount of recognizable tax benefit and the total amount of tax benefit from positions filed or to be filed with the tax authorities is recorded as a liability for uncertain tax benefits. It is inherently difficult and subjective to estimate such amounts, as we have to determine the probability of various possible outcomes. We reevaluate uncertain tax positions on a quarterly basis. This evaluation is based on factors including, but not limited to, changes in facts or circumstances, changes in tax law, effectively settled issues under audit and new audit activity. Such a change in recognition or measurement could result in the recognition of a tax benefit or an additional charge to the tax provision.

Item 7A. *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 rate and interest rate forward contracts, options and swaps. A discussion of our accounting policies for derivative instruments and further disclosures are provided in note 1 to the audited, consolidated financial statements.

Commodity Price Risk

We are exposed to changes in the prices of refined fuels, principally jet-A, diesel and unleaded gasoline, as well as changes in the price of natural gas and other alternative fuels. Currently, the fuel surcharges that we apply to our domestic and international package and LTL services are the primary means of reducing the risk of adverse fuel price changes. 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, inter-modal and truckload services. The majority of our contracts for fuel purchases utilize index-based pricing formulas plus or minus a fixed locational/supplier differential. While many of the indices are aligned, each index may fluctuate at a different pace, driving variability in the prices paid for fuel. Because of this, our operating results may be affected should the market price of fuel suddenly change by a significant amount or change by amounts that do not result in an adjustment in our fuel surcharges, which can significantly affect our results either positively or negatively in the short-term. As of December 31, 2020 and 2019, we had no commodity contracts outstanding.

Foreign Currency Exchange Rate Risk

We have foreign currency risks related to our revenue, operating expenses and financing transactions in currencies other than the local currencies in which we operate. We are exposed to currency risk from the potential changes in functional currency values of our foreign currency-denominated assets, liabilities and cash flows. Our most significant foreign currency exposures relate to the Euro, British Pound Sterling, Canadian Dollar, Chinese Renminbi and Hong Kong Dollar. We use forward contracts as well as a combination of purchased and written options to hedge forecasted cash flow currency exposures. These derivative instruments generally cover forecasted foreign currency exposures for periods of 12 to 48 months. We also utilize forward contracts to hedge portions of our anticipated cash settlements of intercompany transactions and interest payments on certain debt subject to foreign currency remeasurement.

Interest Rate Risk

We have issued debt instruments, including debt associated with finance leases, that accrue expense at fixed and floating rates of interest. We use a combination of interest rate swaps 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. The notional amount, interest payment and maturity dates of the swaps match the terms of the associated debt. We also utilize forward starting swaps and similar instruments to lock in all or a portion of the borrowing cost of anticipated debt issuances. Our floating-rate debt and interest rate swaps subject us to risk resulting from changes in short-term interest rates. For a discussion of the risks associated with the anticipated cessation of LIBOR, see Part I, "Item 1A. Risk Factors - Financial Risks - The proposed phase out of the London Interbank Offer Rate ("LIBOR") could have a material adverse effect on us".

We also are subject to interest rate risk with respect to our pension and postretirement benefit obligations, as changes in interest rates will effectively increase or decrease our liabilities associated with these benefit plans, which also results in changes to the amount of pension and postretirement benefit expense recognized in future periods.

We have investments in debt securities, as well as cash-equivalent instruments, some of which accrue income at variable rates of interest. Additionally, we hold a portfolio of finance receivables that accrue income at fixed and floating rates of interest.

Sensitivity Analysis

The following analysis provides quantitative information regarding our exposure to foreign currency exchange risk, interest rate risk and equity price risk embedded in our existing financial instruments. We utilize valuation models to evaluate the sensitivity of the fair value of financial instruments with exposure to market risk that assume instantaneous, parallel shifts in exchange rates, interest rate yield curves and commodity and equity prices. For options and instruments with non-linear returns, models appropriate to the instrument are utilized to determine the impact of market shifts.

There are certain limitations inherent in the sensitivity analyses presented, primarily due to the assumption that foreign currency exchange rates change in a parallel fashion and that interest rates change instantaneously. In addition, the analyses are unable to reflect the complex market reactions that normally would arise from the market shifts modeled. While this is our best estimate of the impact of the specified interest rate scenarios, these estimates should not be viewed as forecasts. We adjust the fixed and floating interest rate mix of our interest rate sensitive assets and liabilities in response to changes in market conditions. Additionally, changes in the fair value of foreign currency derivatives and commodity derivatives are offset by changes in the cash flows of the underlying hedged foreign currency and commodity transactions.

	Shock-Test Result As of December 31,	
(in millions)	**2020**	**2019**
Change in Fair Value:		
Currency Derivatives(1)	$ (809)	$ (786)
Change in Annual Interest Expense:		
Variable Rate Debt(2)	$ 26	$ 64
Interest Rate Derivatives(2)	$ 33	$ 37

(1) The potential change in fair value from a hypothetical 10% weakening of the U.S. Dollar against local currency exchange rates across all maturities.
(2) The potential change in annual interest expense resulting from a hypothetical 100 basis point increase in short-term interest rates, applied to our variable rate debt and swap instruments (excluding hedges of anticipated debt issuances).

The sensitivity of our pension and postretirement benefit obligations to changes in interest rates is quantified in "Critical Accounting Estimates". The sensitivity in the fair value and interest income of our finance receivables and marketable securities due to changes in interest rates was not material as of December 31, 2020 or 2019.

Item 8. ***Financial Statements and Supplementary Data***

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Report of Independent Registered Public Accounting Firm

To the Shareowners and Board of Directors of
United Parcel Service, Inc.
Atlanta, Georgia

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of United Parcel Service, Inc. and subsidiaries (the "Company") as of December 31, 2020 and 2019, the related consolidated statements of income, comprehensive income, and cash flows, for each of the three years in the period ended December 31, 2020, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2020, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 22, 2021, expressed an unqualified opinion on the Company's internal control over financial reporting.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, the Company changed its method of accounting for leases due to the adoption of Financial Accounting Standards Board Accounting Standards Update 2016-02, *Leases (Topic 842)*. This change has been applied on a modified retrospective basis effective on January 1, 2019.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current-period audit of the financial statements that were communicated or required to be communicated to the audit committee and that (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Central States Pension Fund coordinating benefit obligation assumptions - Refer to Note 6, Company-Sponsored Employee Benefit Plans (Actuarial Assumptions - Central States Pension Fund), to the financial statements

Critical Audit Matter Description

The Company was a contributing employer to the Central States Pension Fund ("CSPF") until 2007 when it withdrew and fully funded its allocable share of unvested benefits. The Company agreed to provide coordinating benefits in the UPS/IBT Full Time Employee Pension Plan ("UPS/IBT Plan") to CSPF participants whose last employer was the Company and who had not retired as of January 1, 2008 (the "UPS Transfer Group") if the CSPF were to lawfully reduce benefits consistent with the terms of its withdrawal agreement with the Company. The CSPF has asserted that, absent legislative reform, it will become insolvent in 2025. If the CSPF were to become insolvent consistent with that assertion, the Company may be required to provide coordinating benefits through the UPS/IBT Plan to the UPS Transfer Group.

Under accounting standards generally accepted in the United States of America ("GAAP"), the Company is required to determine its best estimate of the eventual outcome of this matter and is prohibited from anticipating potential changes in law in making that best estimate. The Company considered potential outcomes based on the existing legislative framework, including the eventual insolvency of the CSPF or an approved application to reduce benefits under the U.S. Multiemployer Pension Reform Act ("MPRA"). Due to the passage of time and further deterioration of the CSPF's funded status, the Company believes the trustees of the CSPF (the "Trustees") can no longer submit and implement another benefit reduction plan under MPRA. As such, the Company developed a deterministic cash flow projection that reflects updated estimated CSPF cash flows and investment earnings, the lack of legislative action, and the projected financial assistance to the CSPF from the Pension Benefit Guaranty Corporation ("PBGC") to fund the PBGC's guaranteed benefit levels.

As a result, at the December 31, 2020 measurement date, the best estimate of the Company's projected benefit obligation for coordinating benefits that may be required to be directly provided by the UPS/IBT Plan to the UPS Transfer Group increased by $2.9 billion. At the December 31, 2020 measurement date, the total obligation for the CSPF coordinating benefits was $5.5 billion.

The assumptions require significant management judgment and the following audit considerations:

1. Auditing management's assumption related to the level of financial assistance that CSPF may receive from the PBGC based on enacted law is subjective.
2. Auditing the actuarial assumptions used to estimate the timing and present value of future CSPF cash flows is challenging because the underlying data is limited to information made publicly available by the CSPF.
3. Auditing the sufficiency of the Company's disclosure of this matter in the footnotes to the financial statements is challenging due to the number of uncertainties associated with the obligation.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures to address the Company's assumptions used to measure its obligation to pay for CSPF coordinating benefits to the UPS Transfer Group (the "Coordinating Benefits") included the following, among others:

- We tested the effectiveness of controls over Coordinating Benefits assumptions, including those over the determination of the accounting model, the key legal position relevant to the level of financial assistance guaranteed by the PBGC based upon enacted law, the other actuarial assumptions used to project the Coordinating Benefits obligation; and the related financial statement disclosures.
- With the assistance of professionals in our firm having expertise in pension accounting, we evaluated the Company's conclusions regarding the accounting model applied to the Coordinating Benefits obligation.
- With the assistance of our actuarial specialists, we tested the underlying data and actuarial model used by management to estimate the obligation to provide Coordinating Benefits, including consideration of (1) the discount rate; (2) the projected contributions and benefit payments, including PBGC contributions to the CSPF and (3) the expected return on CSPF assets. Further, because the data used by management is limited to publicly available CSPF information, we considered whether other available sources of data may yield a more precise estimate.
- We compared the Company's footnote disclosure relating to this matter to the information communicated between management and the Company's audit committee to evaluate whether significant uncertainties had been omitted from the disclosure.

Valuation of U.S. hedge fund, risk parity, private debt, private equity and real estate investments - Refer to Note 6, Company-Sponsored Employee Benefit Plans (Fair Value Measurements), to the financial statements

Critical Audit Matter Description

The Company's U.S. pension and postretirement medical benefit plans (the "U.S. Plans") held hedge fund, risk parity, private debt, private equity and real estate investments valued at $7.9 billion as of December 31, 2020.

The Company determines the reported values of the U.S. Plans' investments in hedge, risk parity, private debt, private equity and real estate funds primarily based on the estimated net asset value ("NAV") of the fund. In order to estimate NAV, the Company evaluates audited and unaudited financial reports from fund managers, and makes adjustments, as appropriate, for investment activity between the date of the financial reports and December 31st. These investments are not actively traded, and their values can only be estimated using these subjective assumptions.

Auditing the estimated NAV of these hedge fund, risk parity, private debt, private equity and real estate investments requires a high degree of auditor judgment and subjectivity to evaluate the completeness, reliability and relevance of the inputs used by management.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to the inputs used by management to estimate the NAV of the U.S. Plans' hedge fund, risk parity, private debt, private equity and real estate investments included the following, among others:

- We tested the effectiveness of controls, including those related to the reliability of values reported by fund managers, the relevance of asset class benchmark returns, and the completeness and accuracy of unobservable inputs related to the underlying assets of the funds.
- For certain investments, we confirmed directly with the respective fund manager its preliminary estimate of the fund's NAV as of December 31, 2020.
- For certain investments, we inquired of management to understand year over year changes in the fund manager's estimate of NAV and compared the fund's return on investment to other available qualitative and quantitative information relevant to the fund.
- We evaluated the Company's historical ability to accurately estimate NAV for these funds by comparing each fund's recorded valuation as of its prior fiscal year end to the NAV per the audited fund financial statements (which are received in arrears of the Company's reporting timetable).

Revenue - Refer to Note 2, Revenue Recognition, to the financial statements

Critical Audit Matter Description

Approximately 82 percent of the Company's revenues are from its global small package operations that provide time-definite delivery services for express letters, documents, small packages and palletized freight via air and ground services. The Company's global small package revenues are comprised of a significant volume of low-dollar transactions sourced from systems that were primarily developed by the Company. The processing of transactions, including the recording of them, is highly automated and based on contractual terms with the Company's customers.

Auditing global small package revenue required a significant extent of effort and the involvement of professionals with expertise in information technology ("IT") necessary for us to identify, test, and evaluate the Company's systems, software applications, and automated controls.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to the Company's systems to process global small package revenue transactions included the following, among others:

- With the assistance of our IT specialists, we:
    - Identified the significant systems used to process global small package revenue transactions and tested the effectiveness of the general IT controls over each of these systems, including testing of user access controls, change management controls and IT operations controls.
    - Tested the effectiveness of system interface controls and automated controls within the global small package revenue stream, as well as the controls designed to ensure the accuracy and completeness of revenue.
- We tested the effectiveness of controls over the relevant global small package revenue business processes, including those in place to reconcile the various systems to the Company's general ledger.
- We performed analytical procedures to evaluate the Company's recorded revenue and evaluate trends.
- For a sample of customers, we read the Company's contract with the customer and evaluated the Company's pattern of revenue recognition for the customer. In addition, we evaluated the accuracy of the Company's recorded global small package revenue for a sample of customer invoices.

/s/ Deloitte & Touche LLP

Atlanta, Georgia
February 22, 2021

We have served as the Company's auditor since 1969.

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(In millions)

	December 31, 2020	December 31, 2019
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 5,910	$ 5,238
Marketable securities	406	503
Accounts receivable	10,888	9,645
Less: Allowance for credit losses	(138)	(93)
Accounts receivable, net	10,750	9,552
Assets held for sale	1,197	—
Other current assets	1,953	1,810
Total Current Assets	20,216	17,103
Property, Plant and Equipment, Net	32,254	30,482
Operating Lease Right-Of-Use Assets	3,073	2,856
Goodwill	3,367	3,813
Intangible Assets, Net	2,274	2,167
Investments and Restricted Cash	25	24
Deferred Income Tax Assets	527	330
Other Non-Current Assets	672	1,082
Total Assets	$ 62,408	$ 57,857
LIABILITIES AND SHAREOWNERS' EQUITY		
Current Liabilities:		
Current maturities of long-term debt, commercial paper and finance leases	$ 2,623	$ 3,420
Current maturities of operating leases	560	538
Accounts payable	6,455	5,555
Accrued wages and withholdings	3,569	2,552
Self-insurance reserves	1,085	914
Accrued group welfare and retirement plan contributions	927	793
Liabilities to be disposed of	347	—
Other current liabilities	1,450	1,641
Total Current Liabilities	17,016	15,413
Long-Term Debt and Finance Leases	22,031	21,818
Non-Current Operating Leases	2,540	2,391
Pension and Postretirement Benefit Obligations	15,817	10,601
Deferred Income Tax Liabilities	488	1,632
Other Non-Current Liabilities	3,847	2,719
Shareowners' Equity:		
Class A common stock (147 and 156 shares issued in 2020 and 2019)	2	2
Class B common stock (718 and 701 shares issued in 2020 and 2019)	7	7
Additional paid-in capital	865	150
Retained earnings	6,896	9,105
Accumulated other comprehensive loss	(7,113)	(5,997)
Deferred compensation obligations	20	26
Less: Treasury stock (0.4 shares in 2020 and 2019)	(20)	(26)
Total Equity for Controlling Interests	657	3,267
Noncontrolling Interests	12	16
Total Shareowners' Equity	669	3,283
Total Liabilities and Shareowners' Equity	$ 62,408	$ 57,857

See notes to audited, consolidated financial statements.

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

	Years Ended December 31, 2020	2019	2018
Revenue	$ 84,628	$ 74,094	$ 71,861
Operating Expenses:			
Compensation and benefits	44,529	38,908	37,235
Repairs and maintenance	2,365	1,838	1,732
Depreciation and amortization	2,698	2,360	2,207
Purchased transportation	15,631	12,590	13,409
Fuel	2,582	3,289	3,427
Other occupancy	1,539	1,392	1,362
Other expenses	7,600	5,919	5,465
Total Operating Expenses	76,944	66,296	64,837
Operating Profit	7,684	7,798	7,024
Other Income and (Expense):			
Investment income (expense) and other	(5,139)	(1,493)	(400)
Interest expense	(701)	(653)	(605)
Total Other Income and (Expense)	(5,840)	(2,146)	(1,005)
Income Before Income Taxes	1,844	5,652	6,019
Income Tax Expense	501	1,212	1,228
Net Income	$ 1,343	$ 4,440	$ 4,791
Basic Earnings Per Share	$ 1.55	$ 5.14	$ 5.53
Diluted Earnings Per Share	$ 1.54	$ 5.11	$ 5.51

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

	Years Ended December 31, 2020	2019	2018
Net Income	$ 1,343	$ 4,440	$ 4,791
Change in foreign currency translation adjustment, net of tax	97	48	(149)
Change in unrealized gain (loss) on marketable securities, net of tax	2	6	—
Change in unrealized gain (loss) on cash flow hedges, net of tax	(335)	72	485
Change in unrecognized pension and postretirement benefit costs, net of tax	(880)	(1,129)	272
Comprehensive Income (Loss)	$ 227	$ 3,437	$ 5,399

See notes to audited, consolidated financial statements.

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES

STATEMENTS OF CONSOLIDATED CASH FLOWS

(In millions)

	Years Ended December 31,		
	2020	**2019**	**2018**
Cash Flows From Operating Activities:			
Net income	$ 1,343	$ 4,440	$ 4,791
Adjustments to reconcile net income to net cash from operating activities:			
Depreciation and amortization	2,698	2,360	2,207
Pension and postretirement benefit expense	7,125	3,141	2,242
Pension and postretirement benefit contributions	(3,125)	(2,362)	(186)
Self-insurance reserves	503	(185)	(86)
Deferred tax (benefit) expense	(858)	100	758
Stock compensation expense	796	915	634
Other (gains) losses	917	74	293
Changes in assets and liabilities, net of effects of business acquisitions:			
Accounts receivable	(1,562)	(717)	(421)
Other assets	218	698	754
Accounts payable	904	419	1,034
Accrued wages and withholdings	1,631	(446)	505
Other liabilities	(110)	182	170
Other operating activities	(21)	20	16
Net cash from operating activities	10,459	8,639	12,711
Cash Flows From Investing Activities:			
Capital expenditures	(5,412)	(6,380)	(6,283)
Proceeds from disposals of property, plant and equipment	40	65	37
Purchases of marketable securities	(254)	(561)	(973)
Sales and maturities of marketable securities	360	883	886
Net change in finance receivables	44	13	4
Cash paid for business acquisitions, net of cash and cash equivalents acquired	(20)	(6)	(2)
Other investing activities	(41)	(75)	1
Net cash (used in) investing activities	(5,283)	(6,061)	(6,330)
Cash Flows From Financing Activities:			
Net change in short-term debt	(2,462)	310	63
Proceeds from long-term borrowings	5,003	5,205	1,202
Repayments of long-term borrowings	(3,392)	(3,096)	(2,887)
Purchases of common stock	(224)	(1,004)	(1,011)
Issuances of common stock	285	218	240
Dividends	(3,374)	(3,194)	(3,011)
Other financing activities	(353)	(166)	(288)
Net cash (used in) financing activities	(4,517)	(1,727)	(5,692)
Effect Of Exchange Rate Changes On Cash, Cash Equivalents and Restricted Cash	13	20	(91)
Net Increase (Decrease) In Cash, Cash Equivalents and Restricted Cash	672	871	598
Cash, Cash Equivalents and Restricted Cash:			
Beginning of period	5,238	4,367	3,769
End of period	$ 5,910	$ 5,238	$ 4,367
Cash Paid During The Period For:			
Interest (net of amount capitalized)	$ 691	$ 628	$ 595
Income taxes (net of refunds and overpayments)	$ 1,138	$ 514	$ 2

See notes to audited, consolidated financial statements.

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

NOTE 1. SUMMARY OF ACCOUNTING POLICIES

Basis of Financial Statements and Business Activities

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP"), and include the accounts of United Parcel Service, Inc., and all of its consolidated subsidiaries (collectively "UPS" or the "Company"). All intercompany balances and transactions have been eliminated.

We provide transportation services, primarily domestic and international letter and package delivery. Through our Supply Chain & Freight subsidiaries, we are also a global provider of transportation, logistics and financial services.

Use of Estimates

The preparation of our consolidated financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, the reported amounts of revenues and expenses and the disclosure of contingencies. Estimates have been prepared on the basis of the most current and best information, and actual results could differ materially from those estimates. In particular, a number of estimates have been and will continue to be affected by the ongoing COVID-19 pandemic. The severity, magnitude and duration of the pandemic, and the resulting economic consequences, remain uncertain, rapidly changing and difficult to predict. As a result, our accounting estimates and assumptions may change over time.

Revenue Recognition

U.S. Domestic and International Package Operations: Revenue is recognized over time as we perform the services in the contract.

Forwarding: Freight forwarding revenue and the expense related to the transportation of freight are recognized over time as we perform the services. Truckload brokerage revenue and related transportation costs are recognized over time as we perform the services. Customs brokerage revenue is recognized upon completing documents necessary for customs entry purposes.

Logistics & Distribution: In our Logistics & Distribution business we have a right to consideration from customers in an amount that corresponds directly with the value to the customers of our performance completed to date, and as such we recognize revenue in the amount to which we have a right to invoice the customer.

UPS Freight: Revenue is recognized over time as we perform the services in the contract.

Financial Services: Income on loans and direct finance leases is recognized on the effective interest method. Accrual of interest income is suspended at the earlier of the time at which collection of an account becomes doubtful or the account becomes 90 days delinquent. Income on operating leases is recognized on the straight-line method over the terms of the underlying leases.

Principal vs. Agent Considerations: We utilize independent contractors and third-party carriers in the performance of some transportation services. GAAP requires us to evaluate whether our businesses themselves promise to transfer services to the customer (as the principal) or to arrange for services to be provided by another party (as the agent) using a control model. Based on our evaluation of the control model, we determined that all of our major businesses act as the principal rather than the agent within their revenue arrangements. Revenue and the associated purchased transportation costs are reported on a gross basis within our statements of consolidated income.

Refer to note 2 for further discussion of our revenue recognition policies.

Cash and Cash Equivalents

Cash and cash equivalents consist of highly liquid investments that are readily convertible into cash. We consider securities with maturities of three months or less, when purchased, to be cash equivalents. The carrying amount of these securities approximates fair value because of the short-term maturity of these instruments.

Investments

Debt securities are either classified as trading or available-for-sale securities and are carried at fair value. Unrealized gains and losses on trading securities are reported as Investment income (expense) and other on the statements of consolidated income. Unrealized gains and losses on available-for-sale securities are reported as accumulated other comprehensive income ("AOCI"), a separate component of shareowners' equity. The amortized cost of debt securities is adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization and accretion is included in Investment income (expense) and other, along with interest and dividends. The cost of securities sold is based on the specific identification method; realized gains and losses resulting from such sales are included in Investment income (expense) and other.

We periodically review our available-for-sale investments for indications of other-than-temporary impairment considering many factors, including the extent and duration to which a security's fair value has been less than its cost, overall economic and market conditions and the financial condition and specific prospects for the issuer. Impairment of available-for-sale securities results in a charge to income when a market decline below cost is other-than-temporary.

Inventories

Fuel and other materials and supplies inventories are recognized as inventory when purchased, and then charged to expense when used in our operations. Jet fuel, diesel and unleaded gasoline inventories are valued at the lower of average cost or net realizable value. Total inventories were $620 and $511 million as of December 31, 2020 and 2019, respectively, and are included in "Other current assets" in the consolidated balance sheets.

Property, Plant and Equipment

Property, plant and equipment are carried at cost. We evaluate the useful lives of our property, plant and equipment based on our usage, maintenance and replacement policies, and taking into account physical and economic factors that may affect the useful lives of the assets.

Depreciation and amortization are provided by the straight-line method over the estimated useful lives of the assets, which are as follows:

- Aircraft: 12 to 40 years
- Buildings: 10 to 40 years
- Leasehold Improvements: lesser of asset useful life or lease term
- Plant Equipment: 3 to 20 years
- Technology Equipment: 3 to 10 years
- Vehicles: 5 to 15 years

For substantially all of our aircraft, the costs of major airframe and engine overhauls, as well as routine maintenance and repairs, are charged to expense as incurred.

Interest incurred during the construction period of certain property, plant and equipment is capitalized until the underlying assets are placed in service, at which time amortization of the capitalized interest begins, straight-line, over the estimated useful lives of the related assets. Capitalized interest was $87 and $91 million in 2020 and 2019, respectively.

We review long-lived assets for impairment when circumstances indicate the carrying amount of an asset may not be recoverable based on its undiscounted future cash flows. If the carrying amount of the asset is determined not to be recoverable, a write-down to fair value is recorded. Fair values are determined based on quoted market values, discounted cash flows or external appraisals, as appropriate. We review long-lived assets for impairment at the individual asset level or the asset group for which the lowest level of independent cash flows can be identified.

Leased Assets

For a discussion of our accounting policies related to leased assets, refer to note 11.

Goodwill and Intangible Assets

Costs of purchased businesses in excess of net identifiable assets acquired (goodwill), and indefinite-lived intangible assets are tested for impairment at least annually, unless changes in circumstances indicate an impairment may have occurred sooner. We are required to test goodwill on a reporting unit basis. A reporting unit is the operating segment unless, for businesses within that operating segment, discrete financial information is prepared and regularly reviewed by management, in which case such a component business is the reporting unit.

In assessing goodwill for impairment, we initially evaluate qualitative factors to determine if it is more likely than not that the fair value of a reporting unit is less than its carrying amount. We consider several factors, including macroeconomic conditions, industry and market conditions, overall financial performance of the reporting unit, changes in management, strategy or customers and relevant reporting unit-specific events such as a change in the carrying amount of net assets, a more likely than not expectation of selling or disposing of all, or a portion of, a reporting unit, and the testing for recoverability of a significant asset group within a reporting unit. If this qualitative assessment results in a conclusion that it is more likely than not that the fair value of a reporting unit exceeds the carrying value, then no further testing is performed for that reporting unit.

If the qualitative assessment is not conclusive, we calculate the fair value of a reporting unit to test goodwill for impairment. If the carrying amount of a reporting unit exceeds the reporting unit's fair value, we record the excess amount as goodwill impairment, not to exceed the total amount of goodwill allocated to the reporting unit. We primarily determine the fair value of our reporting units using a discounted cash flow model and supplement this with observable valuation multiples for comparable companies, as appropriate.

A trade name with a carrying value of $200 million and licenses with a carrying value of $5 million as of December 31, 2020 are considered to be indefinite-lived intangibles, and therefore are not amortized. We determined that the income approach, specifically the relief from royalty method, is the most appropriate valuation method to estimate the fair value of the trade name. The estimated fair value of the trade name is compared to the carrying value of the asset. If the carrying value of the trade name exceeds its estimated fair value, an impairment charge is recognized for the amount by which the carrying amount of the asset exceeds its fair value.

Finite-lived intangible assets, including trademarks, licenses, patents, customer lists, non-compete agreements and franchise rights are amortized on a straight-line basis over the estimated useful lives of the assets, which range from 2 to 22 years. Capitalized software is generally amortized over 7 years.

Assets Held for Sale

We classify long-lived assets or disposal groups as held for sale in the period when all of the following conditions have been met:

- we have approved and committed to a plan to sell the assets or disposal group;
- the asset or disposal group is available for immediate sale in its present condition;
- an active program to locate a buyer and other actions required to complete the sale have been initiated;
- the sale of the asset or disposal group is probable and expected to be completed within one year;
- the asset or disposal group is being actively marketed for sale at a price that is reasonable in relation to its current fair value; and
- it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

We initially measure a long-lived asset or disposal group that is classified as held for sale at the lower of its carrying value or fair value less any costs to sell and recognize any loss in the period in which the held for sale criteria are met. Gains are not recognized until the date of sale. We cease depreciation and amortization of a long-lived asset, or assets within a disposal group, upon their designation as held for sale and subsequently assess fair value less any costs to sell at each reporting period until the asset or disposal group is no longer classified as held for sale.

Self-Insurance Accruals

We self-insure costs associated with workers' compensation claims, automobile liability, health and welfare and general business liabilities, up to certain limits. Insurance reserves are established for estimates of the loss that we will ultimately incur on reported claims, as well as estimates of claims that have been incurred but not yet reported. The expected ultimate cost for claims incurred is estimated based upon historical loss experience and judgments about the present and expected levels of cost per claim. Trends in actual experience are a significant factor in the determination of our reserves.

Workers' compensation, automobile liability and general liability insurance claims may take several years to completely settle. Consequently, actuarial estimates are required to project the ultimate cost that will be incurred to fully resolve a claim. A number of factors can affect the actual cost of a claim, including the length of time the claim remains open, trends in healthcare costs, the results of any related litigation and with respect to workers' compensation claims, changes in legislation. Furthermore, claims may emerge in a future year for events that occurred in a prior year at a rate that differs from actuarial projections. All of these factors can result in revisions to actuarial projections and produce a material difference between estimated and actual operating results. Based on our historical experience, in 2019 we changed our self-insurance reserves from the central estimate to the low end of the actuarial range of losses. The principal result of this change was a decrease in expense of $94 million and an increase in net income of $72 million, or $0.08 per share on a basic and diluted basis. We believe our estimated reserves for such claims are adequate, but actual experience in claim frequency and/or severity could materially differ from our estimates and affect our results of operations.

We sponsor a number of health and welfare insurance plans for our employees. These liabilities and related expenses are based on estimates of the number of employees and eligible dependents covered under the plans, anticipated medical usage by participants and overall trends in medical costs and inflation.

Pension and Postretirement Benefits

We incur certain employment-related expenses associated with pension and postretirement medical benefits. These pension and postretirement medical benefit 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 or losses in excess of a corridor (defined as 10% of the greater of the fair value of plan assets or the plan's projected benefit obligation) in Investment income (expense) and other annually at December 31st each year. The remaining components of pension expense, primarily service and interest costs and the expected return on plan assets, are recorded on a quarterly basis.

For eligible employees hired after July 1, 2016, UPS contributes annually to a defined contribution plan. We recognize expense for the required contribution quarterly, and we recognize a liability for any contributions due and unpaid within Other current liabilities.

We participate in a number of trustee-managed multiemployer pension and health and welfare plans for employees covered under collective bargaining agreements. Our contributions to these plans are determined in accordance with the respective collective bargaining agreements. We recognize expense for the contractually required contribution for each period, and we recognize a liability for any contributions due and unpaid within Other current liabilities.

Income Taxes

Income taxes are accounted for on an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in our consolidated financial statements or tax returns. In estimating future tax consequences, we generally consider all expected future events other than proposed changes in the tax law or rates. Valuation allowances are provided if it is more likely than not that a deferred tax asset will not be realized.

We recognize liabilities for uncertain tax positions based on a two-step process. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. Once it is determined that the position meets the recognition threshold, the second step requires us to estimate and measure the largest amount of tax benefit that is more likely than not to be realized upon ultimate settlement. The difference between the amount of recognizable tax benefit and the total amount of tax benefit from positions filed or to be filed with the tax authorities is recorded as a liability for uncertain tax benefits. It is inherently difficult and subjective to estimate such amounts, as we have to determine the probability of various possible outcomes. We reevaluate uncertain tax positions on a quarterly basis. This evaluation is based on factors including, but not limited to, changes in facts or circumstances, changes in tax law, effectively settled issues under audit and new audit activity. Such a change in recognition or measurement could result in the recognition of a tax benefit or an additional charge to the tax provision.

Foreign Currency Translation and Remeasurement

We translate the results of operations of our foreign subsidiaries using average exchange rates during each period, whereas balance sheet accounts are translated using exchange rates at the end of each period. Balance sheet currency translation adjustments are recorded in AOCI. Pre-tax foreign currency transaction gains (losses) from remeasurement, net of hedging, included in Investment income (expense) and other were $9, $(6) and $(19) million in 2020, 2019 and 2018, respectively.

Stock-Based Compensation

All share-based awards to employees are measured based on their fair values and expensed over the period during which an employee is required to provide service in exchange for the award (the vesting period), less estimated forfeitures. We have issued employee share-based awards under the UPS Incentive Compensation Plan that are subject to specific vesting conditions, including service conditions, where the awards cliff vest or vest ratably over a one, three, or five year period (the "nominal vesting period”) or at the date the employee retires (as defined by the plan), if earlier. Compensation cost is generally recognized immediately for awards granted to retirement-eligible employees, or over the period from the grant date to the date retirement eligibility is achieved, if that is expected to occur during the nominal vesting period. We estimate forfeiture rates based on historical rates of forfeitures for awards with similar characteristics, historical rates of employee turnover and the nature and terms of the vesting conditions of the awards. We reevaluate our forfeiture rates on an annual basis.

Fair Value Measurements

Our financial assets and liabilities measured at fair value on a recurring basis have been categorized based upon a fair value hierarchy. Level 1 inputs utilize quoted prices in active markets for identical assets or liabilities. Level 2 inputs are based on other observable market data, such as quoted prices for similar assets and liabilities, and inputs other than quoted prices that are observable, such as interest rates and yield curves. Level 3 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.

Certain non-financial assets and liabilities are measured at fair value on a nonrecurring basis, including property, plant, and equipment, goodwill and intangible assets. These assets are subject to fair value adjustments in certain circumstances, such as when there is evidence of an impairment. A general description of the valuation methodologies used for assets and liabilities measured at fair value, including the general classification of such assets and liabilities pursuant to the valuation hierarchy, is included in each footnote with fair value measurements present.

For acquisitions, we allocate the fair value of purchase consideration to the tangible assets acquired, liabilities assumed and intangible assets acquired based on their estimated fair values. The excess of the fair value of purchase consideration over the fair values of these identifiable assets and liabilities is recorded as goodwill. During the measurement period, which is one year from the acquisition date, we may record adjustments to the assets acquired and liabilities assumed, with the corresponding offset to goodwill. Upon the conclusion of the measurement period, any subsequent adjustments are recorded to earnings.

Derivative Instruments

We recognize all derivative instruments as assets or liabilities in the consolidated balance sheets at fair value. The accounting for changes in the fair value of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and, further, on the type of hedging relationship. For those derivative instruments that are designated and qualify as hedging instruments, we designate the derivative as a cash flow hedge, a fair value hedge or a hedge of a net investment in a foreign operation based upon the exposure being hedged.

A cash flow hedge refers to hedging the exposure to variability in expected future cash flows that is attributable to a particular risk. For derivative instruments that are designated and qualify as cash flow hedges, the gain or loss on the derivative instrument is reported as a component of AOCI, and reclassified into earnings in the period during which the hedged transaction affects earnings.

A fair value hedge refers to hedging the exposure to changes in the fair value of an existing asset or liability that is attributable to a particular risk. For derivative instruments that are designated and qualify as fair value hedges, the gain or loss on the derivative instrument is recognized during the current period, as well as the offsetting gain or loss on the hedged item.

A net investment hedge refers to the use of cross currency swaps, forward contracts or foreign currency denominated debt to hedge portions of net investments in foreign operations. For instruments that meet the hedge accounting requirements, the net gains or losses attributable to changes in spot exchange rates are recorded in the foreign currency translation adjustment within AOCI, and are recorded in the income statement when the hedged item affects earnings.

Adoption of New Accounting Standards

In February 2016, the FASB issued Accounting Standards Update ("ASU") 2016-02, Leases (Topic 842), which requires lessees to recognize a right-of-use asset and lease obligation on their balance sheet for all leases with terms beyond twelve months. The new standard also requires enhanced disclosures that provide more transparency and information to financial statement users about lease portfolios. Effective January 1, 2019, we adopted the requirements of this ASU using the modified retrospective approach. We elected the transition package of practical expedients permitted within the standard. As a result, we did not reassess initial direct costs, lease classification, or whether our contracts contain or are leases. We also made an accounting policy election to not recognize right-of-use assets and liabilities for leases with an original lease term of twelve months or less, unless the leases include options to renew or purchase the underlying asset that are reasonably certain to be exercised.

The adoption on January 1, 2019 resulted in the recognition of right-of-use assets for operating leases of approximately $2.7 billion and operating lease liabilities of approximately $2.7 billion. The consolidated financial statements for the years ended December 31, 2020 and 2019 are presented under the new standard, while earlier periods presented have not been adjusted and continue to be reported in accordance with the previous standard. See note 11 for additional disclosures required by this ASU.

In June 2016, the FASB issued an ASU introducing an expected credit loss methodology for the measurement of financial assets not accounted for at fair value. The methodology replaced the probable, incurred loss model for those assets. We adopted this standard on January 1, 2020 by updating our process for calculating our allowance for credit losses to include reasonable and supportable forecasts that could affect expected collectability. In 2020, we increased our allowance for credit losses by $45 million based upon our current forecasts that reflect ongoing economic uncertainty resulting from the COVID-19 pandemic.

In January 2017, the FASB issued an ASU to simplify the accounting for goodwill impairment by eliminating the requirement to calculate the implied fair value of goodwill using a hypothetical purchase price allocation. Under this ASU, goodwill impairment is the amount by which a reporting unit’s carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. We adopted this standard on January 1, 2020, applying the simplified approach to calculate the goodwill impairment charge of $494 million that we recorded in conjunction with the pending divestiture of UPS Freight.

In March 2017, the FASB issued an ASU requiring the premium on callable debt securities to be amortized to the earliest call date. We adopted this standard on January 1, 2019. It did not have a material impact on our consolidated financial position, results of operations or cash flows.

In August 2017, the FASB issued an ASU to enhance recognition of the economic results of hedging activities in the financial statements. In addition, the update made certain targeted improvements to simplify the application of hedge accounting guidance and increase transparency regarding the scope and results of hedging activities. We adopted this standard on January 1, 2019. It did not have a material impact on our consolidated financial position, results of operations or cash flows but did require additional disclosures. See note 17 for disclosures required by this ASU.

In February 2018, the FASB issued an ASU that allows a reclassification from AOCI to retained earnings for stranded tax effects resulting from the Tax Act. Effective January 1, 2018, we early adopted this ASU and elected to reclassify the income tax effects of the Tax Act from AOCI to retained earnings. This resulted in a $735 million increase to retained earnings and a $735 million decrease to AOCI. Our current accounting policy for releasing income tax effects from other comprehensive income is based on a portfolio approach.

In December 2019, the FASB issued an ASU to simplify the accounting for income taxes. The update removes certain exceptions to the general income tax principles. Effective October 1, 2020, we early adopted this ASU. It did not have a material impact on our consolidated financial position, results of operations or cash flows.

In March 2020, the FASB issued ASU 2020-04, Reference Rate Reform (Topic 848), to temporarily ease the potential burden in accounting for reference rate reform. The standard provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships and other transactions affected by reference rate reform. The guidance was effective upon issuance and generally can be applied through December 31, 2022. We are evaluating the potential impacts of reference rate reform on our various contractual positions to determine whether we may apply any of the practical expedients set forth in this standard.

Other accounting pronouncements adopted during the periods covered by the 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, but not effective until after December 31, 2020, are not expected to have a material impact on our consolidated financial position, results of operations or cash flows.

NOTE 2. 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"), whether carried out by or arranged by UPS, either domestically or internationally, which generally occurs over a short period of time. Additionally, we provide value-added logistics services to customers, both domestically and internationally, through our global network of company-owned and leased distribution centers and field stocking locations.

Disaggregation of Revenue

	Year Ended December 31,		
	2020	2019	2018
Revenue:			
Next Day Air	$ 8,522	$ 8,479	$ 7,618
Deferred	5,665	5,180	4,752
Ground	39,312	32,834	31,223
U.S. Domestic Package	$ 53,499	$ 46,493	$ 43,593
Domestic	$ 3,160	$ 2,836	$ 2,874
Export	12,159	10,837	10,973
Cargo & Other	626	547	595
International Package	$ 15,945	$ 14,220	$ 14,442
Forwarding	$ 6,975	$ 5,867	$ 6,580
Logistics	4,073	3,435	3,234
Freight	3,149	3,265	3,218
Other	987	814	794
Supply Chain & Freight	$ 15,184	$ 13,381	$ 13,826
Consolidated revenue	$ 84,628	$ 74,094	$ 71,861

We account for a contract when both parties have approved the contract and are committed to perform their obligations, the rights of the parties are identified, payment terms are identified, the contract has commercial substance and collectability of consideration is probable.

Performance Obligations

A performance obligation is a promise in a contract to transfer a distinct good or service to the customer, and is the basis of revenue recognition in accordance with GAAP. To determine the proper revenue recognition method for contracts, we evaluate whether two or more contracts should be combined and accounted for as a single contract, and whether the combined or single contract should be accounted for as more than one performance obligation. This evaluation requires judgment, and the decision to combine a group of contracts or separate the combined or single contract into multiple performance obligations could change the amount of revenue and profit recorded in a given period. Within most of our contracts, the customer contracts with us to provide distinct services, such as transportation services. The vast majority of our contracts with customers for transportation services include only one performance obligation; the transportation services themselves. However, if a contract is separated into more than one performance obligation, we allocate the total transaction price to each performance obligation based on the estimated relative standalone selling prices of the promised goods or services underlying each performance obligation. We frequently sell standard transportation services with observable standalone sales prices. In these instances, the observable standalone sales are used to determine the standalone selling price.

In certain business units, such as Logistics, we sell customized, customer-specific solutions in which we integrate a complex set of tasks and components into a single capability (even if that single capability results in the delivery of multiple units). Hence, the entire contract is accounted for as one performance obligation. In these cases we typically use the expected cost plus a margin approach to estimate the standalone selling price of each performance obligation.

Satisfaction of Performance Obligations

We generally recognize revenue over time as we perform the services in the contract because of the continuous transfer of control to the customer. Our customers receive the benefit of our services as the goods are transported from one location to another. Further, if we were unable to complete delivery to the final location, another entity would not need to reperform the transportation service already performed.

As control transfers over time, revenue is recognized based on the extent of progress towards completion of the performance obligation. The selection of the method to measure progress towards completion requires judgment and is based on the nature of the products or services to be provided. We use the cost-to-cost measure of progress for our package delivery contracts because it best depicts the transfer of control to the customer which occurs as we incur costs on our contracts. Under the cost-to-cost measure of progress, the extent of progress towards completion is measured based on the ratio of costs incurred to date to the total estimated costs at completion of the performance obligation. Revenues, including ancillary or accessorial fees and reductions for estimated customer incentives, are recorded proportionally as costs are incurred. Costs to fulfill include labor and other direct costs and an allocation of indirect costs. For our freight and freight forwarding contracts, an output method of progress based on time-in-transit is utilized as the timing of costs incurred does not best depict the transfer of control to the customer. In our Logistics business we have a right to consideration from customers in an amount that corresponds directly with the value to the customers of our performance completed to date, and as such, we recognize revenue in the amount to which we have a right to invoice the customer.

Variable Consideration

It is common for our contracts to contain customer incentives, guaranteed service refunds or other provisions that can either increase or decrease the transaction price. These variable amounts are generally dependent upon achievement of certain incentive tiers or performance metrics. We estimate variable consideration at the most likely amount to which we expect to be entitled. We include estimated amounts of revenue, which may be reduced by incentives or other contract provisions, in the transaction price to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is resolved. Our estimates of variable consideration and determination of whether to include estimated amounts in the transaction price are based on an assessment of anticipated customer spending and all information (historical, current and forecasted) that is reasonably available to us.

Contract Modifications

Contracts are often modified to account for changes in the rates we charge our customers or to add additional distinct services. We consider contract modifications to exist when the modification either creates new, or changes the existing, enforceable rights and obligations. Contract modifications that add additional distinct goods or services are treated as separate contracts. Contract modifications that do not add distinct goods or services typically change the price of existing services. These contract modifications are accounted for prospectively as the remaining performance obligations are distinct.

Payment Terms

Under the typical payment terms of our customer contracts, the customer pays at periodic intervals, which are generally seven days within our U.S. Domestic Package business, for shipments included on invoices received. Invoices are generated each week on the week-ending day, which is Saturday for the majority of our U.S. Domestic Package business, but could be another day depending on the business unit or the specific agreement with the customer. It is not customary business practice to extend payment terms past 90 days, and as such, we do not have a practice of including a significant financing component within our contracts with customers.

Principal vs. Agent Considerations

In our transportation businesses, we utilize independent contractors and third-party carriers in the performance of some transportation services. GAAP requires us to evaluate, using a control model, whether our businesses themselves promise to transfer services to the customer (as the principal) or to arrange for services to be provided by another party (as the agent). Based on our evaluation of the control model, we determined that all of our major businesses act as the principal rather than the agent within their revenue arrangements. Revenue and the associated purchased transportation costs are both reported on a gross basis within our statements of consolidated income.

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. These estimates require consideration of historical loss experience, adjusted for current conditions, forwarding-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.

We increased our allowance for expected credit losses by $45 million during 2020 based upon current forecasts that anticipate a slight decline in the economic outlook. Our allowance for credit losses as of December 31, 2020 and 2019 was $138 and $93 million, respectively. Amounts for credit losses charged to expense before recoveries during the twelve months ended December 31, 2020 and 2019 were $254 and $194 million, respectively.

Contract Assets and Liabilities

Contract assets include billed and unbilled amounts resulting from in-transit packages, as we have an unconditional right to payment only once all performance obligations have been completed (i.e. packages have been delivered), and our right to payment is not solely based on the passage of time. Amounts may 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 of consideration 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 advance payment will be earned. We classify deferred revenue as current based on the timing of when we expect to recognize revenue, which typically occurs within a short window after period-end. The full balance of deferred revenue is converted each quarter 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.

Contract assets related to in-transit packages were $279 and $272 million as of December 31, 2020 and 2019, respectively, net of deferred revenue related to in-transit packages of $279 and $264 million as of December 31, 2020 and 2019, respectively. Contract assets are included within "Other current assets" in the consolidated balance sheets. Short-term contract liabilities related to advance payments from customers were $21 and $7 million as of December 31, 2020 and 2019, respectively. Short-term contract liabilities are included within "Other current liabilities" in the consolidated balance sheets. Long-term contract liabilities related to advance payments from customers were $26 million as of both December 31, 2020 and 2019. Long-term contract liabilities are included within "Other Non-Current Liabilities" in the consolidated balance sheets.

NOTE 3. INVESTMENTS AND RESTRICTED CASH

The following is a summary of marketable securities classified as trading and available-for-sale as of December 31, 2020 and 2019 (in millions):

	Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
2020				
Current trading marketable securities:				
Corporate debt securities	$ —	$ —	$ —	$ —
Equity securities	2	—	—	2
Total trading marketable securities	2	—	—	2
Current available-for-sale marketable securities:				
U.S. government and agency debt securities	181	3	—	184
Mortgage and asset-backed debt securities	30	1	—	31
Corporate debt securities	174	4	—	178
Non-U.S. government debt securities	11	—	—	11
Total available-for-sale marketable securities	396	8	—	404
Total current marketable securities	$ 398	$ 8	$ —	$ 406

	Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
2019				
Current trading marketable securities:				
Corporate debt securities	$ 112	$ —	$ —	$ 112
Equity securities	2	—	—	2
Total trading marketable securities	114	—	—	114
Current available-for-sale marketable securities:				
U.S. government and agency debt securities	191	2	—	193
Mortgage and asset-backed debt securities	46	1	—	47
Corporate debt securities	130	3	—	133
Non-U.S. government debt securities	16	—	—	16
Total available-for-sale marketable securities	383	6	—	389
Total current marketable securities	$ 497	$ 6	$ —	$ 503

Total current marketable securities that were pledged as collateral for our self-insurance requirements had an estimated fair value of $404 and $389 million as of December 31, 2020 and 2019, respectively.

The gross realized gains on sales of available-for-sale marketable securities totaled $5 and $8 million in 2020 and 2019, respectively. There were no gross realized gains on sales of available-for-sale marketable securities in 2018. The gross realized losses on sales of available-for-sale marketable securities totaled $0, $2 and $4 million in 2020, 2019 and 2018, respectively.

There were no material impairment losses recognized on marketable securities during 2020, 2019 or 2018.

Investment Impairments

We have concluded that no material impairment losses existed as of December 31, 2020. 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.

Unrealized Losses

The following table presents the age of gross unrealized losses and fair value by investment category for all securities in a loss position as of December 31, 2020 (in millions):

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. government and agency debt securities	$ 31	$ —	$ —	$ —	$ 31	$ —
Mortgage and asset-backed debt securities	—	—	1	—	1	—
Corporate debt securities	16	—	—	—	16	—
Non-U.S. government debt securities	—	—	—	—	—	—
Total marketable securities	$ 47	$ —	$ 1	$ —	$ 48	$ —

The unrealized losses for the U.S. government and agency debt securities, mortgage and asset-backed debt securities, and corporate debt securities are primarily due to changes in market interest rates. We have both the intent and ability to hold these securities for the time necessary to recover the cost basis.

Maturity Information

The amortized cost and estimated fair value of marketable securities as of December 31, 2020, 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	$ 27	$ 27
Due after one year through three years	323	327
Due after three years through five years	10	10
Due after five years	36	40
	396	404
Equity securities	2	2
	$ 398	$ 406

Non-Current Investments and Restricted Cash

We previously held various marketable securities and cash equivalents as collateral under an escrow agreement to guarantee our self-insurance obligations which were reflected in "Cash, Cash Equivalents and Restricted Cash" in the statements of consolidated cash flows. In 2019 we fully liquidated our investment balance associated with this agreement and pledged the required collateral with a surety bond. For additional information on surety bonds written as of December 31, 2020, see note 9.

We held a $23 and $21 million investment in a variable life insurance policy to fund benefits for the UPS Excess Coordinating Benefit Plan as of December 31, 2020 and 2019, respectively. The change in investment fair value is recognized in "Investment income (expense) and other" in the statements of consolidated income. Additionally, we held escrowed cash related to the acquisition and disposition of certain assets of $2 and $3 million as of December 31, 2020 and 2019, respectively. These amounts are classified as “Investments and Restricted Cash” in the consolidated balance sheets.

A reconciliation of cash and cash equivalents and restricted cash from the consolidated balance sheets to the statements of consolidated cash flows is shown below (in millions):

	December 31, 2020	December 31, 2019	December 31, 2018
Cash and cash equivalents	$ 5,910	$ 5,238	$ 4,225
Restricted cash	—	—	142
Total cash, cash equivalents and restricted cash	$ 5,910	$ 5,238	$ 4,367

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.

The following table presents information about our investments measured at fair value on a recurring basis as of December 31, 2020 and 2019, 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
2020				
Marketable Securities:				
U.S. government and agency debt securities	$ 184	$ —	$ —	$ 184
Mortgage and asset-backed debt securities	—	31	—	31
Corporate debt securities	—	178	—	178
Equity securities	—	2	—	2
Non-U.S. government debt securities	—	11	—	11
Total marketable securities	184	222	—	406
Other non-current investments	23	—	—	23
Total	$ 207	$ 222	$ —	$ 429

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
2019				
Marketable Securities:				
U.S. government and agency debt securities	$ 193	$ —	$ —	$ 193
Mortgage and asset-backed debt securities	—	47	—	47
Corporate debt securities	—	245	—	245
Equity securities	—	2	—	2
Non-U.S. government debt securities	—	16	—	16
Total marketable securities	193	310	—	503
Other non-current investments	21	—	1	22
Total	$ 214	$ 310	$ 1	$ 525

There were no transfers of investments between Level 1 and Level 2 during 2020 or 2019.

NOTE 4. ASSETS HELD FOR SALE

On January 24, 2021, we entered into a definitive agreement to divest our UPS Freight business to TFI International Inc. for $800 million, subject to working capital and other adjustments. The following table summarizes the carrying values of the assets and liabilities classified as held for sale in our consolidated balance sheet as of December 31, 2020 (in millions):

	2020
Assets:	
Accounts receivable, net	$ 263
Other current assets	62
Property, plant and equipment, net	940
Other non-current assets	124
Total assets	1,389
Valuation allowance	(192)
Total assets held for sale	$ 1,197
Liabilities:	
Accounts payable	$ 50
Other current liabilities	112
Other non-current liabilities	185
Total liabilities to be disposed of	$ 347
Net assets held for sale	$ 850

Self-insurance reserves for the UPS Freight business and obligations for benefits earned within UPS-sponsored pension and postretirement medical benefit plans will be retained by us at closing and are not included in the amounts presented above.

Upon classification as held for sale, we recognized a total impairment charge of $686 million within Other expenses in the statements of consolidated income. This was comprised of a goodwill impairment charge of $494 million and a valuation allowance to adjust the carrying value of the disposal group to fair value less cost to sell of $192 million.

We expect the transaction, which is subject to customary closing conditions and regulatory approvals, to close during the second quarter of 2021.

NOTE 5. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment, including both owned assets as well as assets subject to finance leases, consists of the following as of December 31, 2020 and 2019 (in millions):

	2020	2019
Vehicles	$ 9,786	$ 10,613
Aircraft	20,549	19,045
Land	2,052	2,087
Buildings	5,425	5,046
Building and leasehold improvements	4,921	4,898
Plant equipment	14,684	13,849
Technology equipment	2,626	2,206
Construction-in-progress	2,048	1,983
	62,091	59,727
Less: Accumulated depreciation and amortization	(29,837)	(29,245)
Property, Plant and Equipment, Net	$ 32,254	$ 30,482

Property, plant and equipment purchased on account was $319 and $372 million as of December 31, 2020 and 2019, respectively.

We continually monitor our aircraft fleet utilization in light of current and projected volume levels, aviation fuel prices and other factors. Additionally, we monitor all other property, plant and equipment categories for any indicators that the carrying value of the assets may not be recoverable. There were no material impairment charges during the years ended December 31, 2020 or 2019.

NOTE 6. COMPANY-SPONSORED EMPLOYEE BENEFIT PLANS

We sponsor various retirement and pension plans, including defined benefit and defined contribution plans which cover our employees worldwide.

U.S. Pension Benefits

In the U.S. we maintain the following single-employer defined benefit pension plans: the UPS Retirement Plan, the UPS Pension Plan, the UPS/IBT Full-Time Employee Pension Plan and the UPS Excess Coordinating Benefit Plan, a non-qualified plan.

The UPS Retirement Plan is noncontributory and includes substantially all eligible employees of participating domestic subsidiaries hired prior to July 1, 2016 who are not members of a collective bargaining unit, as well as certain employees covered by a collective bargaining agreement. This plan generally provides for retirement benefits based on average compensation earned by employees prior to retirement. Benefits payable under this plan are subject to maximum compensation limits and the annual benefit limits for a tax-qualified defined benefit plan as prescribed by the Internal Revenue Service (“IRS”).

The UPS Pension Plan is noncontributory and includes certain eligible employees of participating domestic subsidiaries and members of collective bargaining units that elect to participate in the plan. This plan generally provides for retirement benefits based on service credits earned by employees prior to retirement.

The UPS/IBT Full-Time Employee Pension Plan is noncontributory and includes employees that were previously members of the Central States Pension Fund ("CSPF"), a multiemployer pension plan, in addition to other eligible employees who are covered under certain collective bargaining agreements. This plan generally provides for retirement benefits based on service credits earned by employees prior to retirement.

The UPS Excess Coordinating Benefit Plan is a non-qualified plan that provides benefits to certain participants in the UPS Retirement Plan, hired prior to July 1, 2016, for amounts that exceed the benefit limits described above.

In the year ended December 31, 2017, we amended the UPS Retirement Plan and the UPS Excess Coordinating Benefit Plan to cease accruals of additional benefits for future service and compensation for non-union participants effective January 1, 2023.

During the fourth quarter of 2019, certain former U.S. employees were offered the option to receive a one-time payment of their vested pension benefit. Approximately 18,800 former employees accepted this option, accelerating $820 million in benefit payments during 2019 while reducing the number of participants who are due future payments from U.S. pension plans. As the cost of these settlements did not exceed the plans' service cost and interest cost for the year, the impact of the settlement was not recognized in earnings.

On January 24, 2021, we entered into a definitive agreement to divest our UPS Freight business as discussed in note 4. Upon closing, our U.S. pension and postretirement plans may be subject to remeasurement of plan assets and pension benefit obligations.

International Pension Benefits

We also sponsor various defined benefit plans covering certain of our international employees. The majority of our international obligations are for defined benefit plans in Canada and the United Kingdom. In addition, many of our international employees are covered by government-sponsored retirement and pension plans. We are not directly responsible for providing benefits to participants of government-sponsored plans.

U.S. Postretirement Medical Benefits

We also sponsor postretirement medical plans in the U.S. that provide healthcare benefits to our non-union retirees, as well as select union retirees who meet certain eligibility requirements and who are not otherwise covered by multiemployer plans. Generally, this includes employees with at least 10 years of service who have reached age 55 and employees who are eligible for postretirement medical benefits from a Company-sponsored plan pursuant to collective bargaining agreements. We have the right to modify or terminate certain of these plans. These benefits have been provided to certain retirees on a noncontributory basis; however, in many cases, retirees are required to contribute all or a portion of the total cost of the coverage.

Defined Contribution Plans

We sponsor a defined contribution plan for employees not covered under collective bargaining agreements, and several smaller defined contribution plans for certain employees covered under collective bargaining agreements. We match, in shares of UPS common stock or cash, a portion of the participating employees' contributions. Matching contributions charged to expense were $139, $130 and $127 million for 2020, 2019 and 2018, respectively.

In addition to current benefits under the UPS 401(k) Savings Plan, non-union employees hired after July 1, 2016, receive a retirement contribution. UPS contributes 3% to 8% of eligible pay to the UPS 401(k) Savings Plan based on years of vesting service and business unit. Contributions under this plan are subject to maximum compensation and contribution limits for a tax-qualified defined contribution plan as prescribed by the IRS. Contributions charged to expense were $84, $67 and $28 million for 2020, 2019 and 2018 respectively.

Effective June 23, 2017, the Company amended the UPS 401(k) Savings Plan so that non-union employees who currently participate in the UPS Retirement Plan will, in addition to current benefits under the UPS 401(k) Savings Plan, earn a retirement contribution beginning January 1, 2023. UPS will contribute 5% to 8% of eligible compensation to the UPS 401(k) Savings Plan based on years of vesting service. The amendment also provides for transition contributions for certain participants. There was no impact to the statements of consolidated income for 2020, 2019 and 2018 as a result of this change.

The UPS Restoration Savings Plan is a non-qualified plan that provides benefits to certain participants in the UPS 401(k) Savings Plan for amounts that exceed the benefit limits described above.

Contributions are also made to defined contribution money purchase plans under certain collective bargaining agreements. Amounts charged to expense were $107, $97 and $92 million for 2020, 2019 and 2018, respectively.

Net Periodic Benefit Cost

Information about net periodic benefit cost for the company-sponsored pension and postretirement defined benefit plans is as follows (in millions):

	U.S. Pension Benefits			U.S. Postretirement Medical Benefits			International Pension Benefits		
	2020	**2019**	**2018**	**2020**	**2019**	**2018**	**2020**	**2019**	**2018**
Net Periodic Benefit Cost:									
Service cost	$ 1,853	$ 1,439	$ 1,661	$ 29	$ 23	$ 29	$ 67	$ 57	$ 62
Interest cost	1,977	2,067	1,799	91	108	104	40	47	45
Expected return on plan assets	(3,549)	(3,130)	(3,201)	(8)	(8)	(8)	(86)	(76)	(77)
Amortization of prior service cost	218	218	193	7	7	7	2	2	1
Actuarial (gain) loss	6,211	2,296	1,603	246	37	—	27	54	24
Curtailment and settlement loss	—	—	—	—	—	—	—	—	—
Net periodic benefit cost	$ 6,710	$ 2,890	$ 2,055	$ 365	$ 167	$ 132	$ 50	$ 84	$ 55

Actuarial Assumptions

The table below provides the weighted-average actuarial assumptions used to determine the net periodic benefit cost:

	U.S. Pension Benefits			U.S. Postretirement Medical Benefits			International Pension Benefits		
	2020	2019	2018	2020	2019	2018	2020	2019	2018
Service cost discount rate	3.60 %	4.50 %	3.84 %	3.59 %	4.51 %	3.82 %	3.01 %	3.58 %	3.35 %
Interest cost discount rate	3.60 %	4.50 %	3.84 %	3.59 %	4.51 %	3.82 %	2.67 %	3.25 %	3.01 %
Rate of compensation increase	4.22 %	4.25 %	4.25 %	N/A	N/A	N/A	3.00 %	3.24 %	3.22 %
Expected return on plan assets	7.77 %	7.75 %	7.75 %	7.20 %	7.20 %	7.20 %	5.55 %	5.69 %	5.76 %
Cash balance interest credit rate	2.50 %	2.98 %	2.50 %	N/A	N/A	N/A	2.59 %	3.17 %	3.07 %

The table below provides the weighted-average actuarial assumptions used to determine the benefit obligations of our plans:

	U.S. Pension Benefits		U.S. Postretirement Medical Benefits		International Pension Benefits	
	2020	2019	2020	2019	2020	2019
Discount rate	2.90 %	3.60 %	2.88 %	3.59 %	1.94 %	2.21 %
Rate of compensation increase	4.21 %	4.22 %	N/A	N/A	2.93 %	3.00 %
Cash balance interest credit rate	2.50 %	2.50 %	N/A	N/A	2.74 %	2.59 %

A discount rate is used to determine the present value of our future benefit obligations. To determine the discount rate for our U.S. pension and postretirement benefit plans, we use a bond matching approach to select specific bonds that would satisfy our projected benefit payments. We believe the bond matching approach reflects the process we would employ to settle our pension and postretirement benefit obligations. In 2019, we refined the bond matching approach used to determine the discount rate for our U.S. pension and postretirement plans. Following a routine, periodic review of their standard bond matching tool which we reference to support discount rates, our external consultants refined their model to reflect the increased availability of longer duration high-quality corporate bonds, changes in the content and sources of available data and improvements in computational capabilities. We believe these refinements enhance the simulation of bond portfolios that match the plans' expected cash flows and result in a better estimate of the plan discount rates. These refinements resulted in an increase of approximately 10 basis points in the discount rates used to measure our plans, decreasing the total projected benefit obligation in our consolidated balance sheet at the December 31, 2019 measurement date by approximately $900 million and the resulting pre-tax mark-to-market charge within Other income and (expense) in our statements of consolidated income by approximately $810 million, and increasing net income by $616 million, or $0.71 per share on a basic and diluted basis. For our international plans, the discount rate is determined by matching the expected cash flows of the plan, where available, or of a sample plan of similar duration, to a yield curve based on long-term, high quality fixed income debt instruments available as of the measurement date. These assumptions are updated each measurement date, which is typically annually.

As of December 31, 2020, the impact of each basis point change in the discount rate on the projected benefit obligation of our pension and postretirement medical benefit plans is as follows (in millions):

	Increase (Decrease) in the Projected Benefit Obligation	
	Pension Benefits	Postretirement Medical Benefits
One basis point increase in discount rate	$ (110)	$ (2)
One basis point decrease in discount rate	118	3

The Society of Actuaries ("SOA") published mortality tables and improvement scales are used in developing the best estimate of mortality for our U.S. plans. In October 2020, the SOA published an updated improvement scale which reduced expected mortality improvements from previously published improvement scales. Based on our perspective of future longevity, we updated the mortality assumptions to incorporate the improvement scale for purposes of measuring pension and other postretirement benefit obligations.

Assumptions for the expected return on plan assets are used to determine a component of net periodic benefit cost for the year. The assumption for our U.S. plans is developed using a long-term projection of returns for each asset class. Our asset allocation targets are reviewed and, if necessary, updated taking into consideration plan changes, funded status and actual performance. The expected return for each asset class is a function of passive, long-term capital market assumptions and excess returns generated from active management. The capital market assumptions used are provided by independent investment advisors, while excess return assumptions are supported by historical performance, fund mandates and investment expectations.

For plans outside the U.S., consideration is given to local market expectations of long-term returns. Strategic asset allocations are determined by plan, based on the nature of liabilities and considering the demographic composition of the plan participants.

Actuarial Assumptions - Central States Pension Fund

UPS was a contributing employer to the CSPF until 2007 when we withdrew from the CSPF and fully funded our allocable share of unfunded vested benefits by paying a $6.1 billion withdrawal liability. 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 lawfully reduced by the CSPF in the future consistent with the terms of our withdrawal agreement with the CSPF.

Under our withdrawal agreement with the CSPF, benefits to the UPS Transfer Group cannot be reduced without our consent and can only be reduced in accordance with applicable law.

In 2014, Congress passed the Multiemployer Pension Reform Act (“MPRA”). This change in law for the first time permitted multiemployer pension plans to reduce benefit payments to retirees, subject to specific guidelines in the statute and government approval. In 2015, the CSPF submitted a proposed pension benefit reduction plan to the U.S. Department of the Treasury (“Treasury”). In 2016, Treasury rejected the proposed plan submitted by the CSPF. In 2018, Congress established a Joint Select Committee to develop a recommendation to improve the solvency of multiemployer plans and the Pension Benefit Guaranty Corporation (“PBGC”) before a November 30, 2018 deadline. While the Committee’s efforts failed to meet its deadline, the Committee made significant progress towards finding solutions that would address the long term solvency of multiemployer pension plans. In 2019, the U.S. House of Representatives passed the Rehabilitation for Multiemployer Pensions Act of 2019 to provide assistance to critical and declining multiemployer pension plans. Additionally, in 2020, the U.S. House of Representatives passed two versions of the Health and Economic Recovery Omnibus Emergency Solutions Act ("HEROES Act"), which would provide financial support to those same plans. These bills remain with the U.S. Senate for consideration. UPS continues to work with all stakeholders, including legislators and regulators, to implement an acceptable solution.

The CSPF has said that it believes a legislative solution to its funded status is necessary or that it will become insolvent in 2025. We expect that the CSPF will continue to explore options to avoid insolvency. Numerous factors could affect the CSPF’s funded status and UPS’s potential obligation to pay coordinating benefits under the UPS/IBT Plan, including whether the CSPF submits a revised benefit reduction plan under MPRA and the terms thereof, or whether it otherwise seeks federal government assistance, as well as the terms of any applicable legislation, the extent to which benefits are paid by the PBGC and our ability to successfully defend legal positions we may take in the future under the MPRA, including the suspension ordering provisions, our withdrawal agreement and other applicable law.

We account for the potential obligation to pay coordinating benefits to the UPS Transfer Group under Accounting Standards Codification Topic 715- Compensation- Retirement Benefits (“ASC 715”), which requires us to provide a best estimate of various actuarial assumptions, including the eventual outcome of this matter, in measuring our pension benefit obligation at the December 31st measurement date. While we currently believe the most likely outcome to this matter and the broader systemic problems facing multiemployer pension plans is intervention by the federal government, ASC 715 does not permit anticipation of changes in law in making a best estimate of pension liabilities. As such, our best estimate in accordance with ASC 715 at the December 31, 2020 measurement date is that the CSPF can no longer submit and implement another benefit reduction plan under the MPRA.

We developed our best estimate using a deterministic cash flow projection that reflects updated estimated CSPF cash flows and investment earnings, the lack of legislative action, payment of guaranteed benefits by the PBGC and the absence of a benefit reduction plan under MPRA having been filed by the CSPF. As a result, at the December 31, 2020 measurement date, the best estimate of our projected benefit obligation for coordinating benefits that may be required to be directly provided by the UPS/IBT Plan to the UPS Transfer Group increased by $2.3 billion. Since 2018, we have recorded $4.9 billion for coordinating benefits that the UPS/IBT Plan may be required to pay. At the December 31, 2020 measurement date, discount rate changes increased this liability to $5.5 billion.

The future value of this estimate will be influenced by a number of factors, including the terms and timing of any benefit reduction plan under MPRA, changes in our discount rate, rate of return on assets and other actuarial assumptions, the ability of the PBGC to sustain its commitments, as well as potential solutions resulting from federal government intervention. Any such event may result in a decrease or an increase in the best estimate of our projected benefit obligation. If a future change in law occurs, it may be a significant event requiring an interim remeasurement of the UPS/IBT Plan at the date the law is enacted. We will continue to assess the impact of these uncertainties on our projected benefit obligation in accordance with ASC 715.

Other Actuarial Assumptions

Healthcare cost trends are used to project future postretirement medical benefits payable from our plans. For 2020 U.S. plan obligations, future postretirement medical benefit costs were forecasted assuming an initial annual rate of increase of 6.5%, decreasing to 4.5% by the year 2029 and with consistent annual increases at that ultimate level thereafter.

Funded Status

The following table discloses the funded status of our plans and the amounts recognized in our consolidated balance sheets as of December 31 (in millions):

	U.S. Pension Benefits		U.S. Postretirement Medical Benefits		International Pension Benefits	
	2020	2019	2020	2019	2020	2019
Funded Status:						
Fair value of plan assets	$ 52,997	$ 46,172	$ 49	$ 37	$ 1,835	$ 1,558
Benefit obligation	(65,922)	(54,039)	(2,759)	(2,616)	(2,177)	(1,906)
Funded status	$ (12,925)	$ (7,867)	$ (2,710)	$ (2,579)	$ (342)	$ (348)
Funded Status Recognized in our Balance Sheet:						
Other non-current assets	$ —	$ —	$ —	$ —	$ 51	$ 34
Other current liabilities	(22)	(22)	(184)	(200)	(5)	(5)
Pension and postretirement benefit obligations	(12,903)	(7,845)	(2,526)	(2,379)	(388)	(377)
Net liability	$ (12,925)	$ (7,867)	$ (2,710)	$ (2,579)	$ (342)	$ (348)
Amounts Recognized in AOCI:						
Unrecognized net prior service cost	$ (753)	$ (800)	$ (9)	$ (16)	$ (11)	$ (12)
Unrecognized net actuarial gain (loss)	(6,592)	(5,404)	(276)	(240)	(151)	(162)
Gross unrecognized cost	(7,345)	(6,204)	(285)	(256)	(162)	(174)
Deferred tax assets (liabilities)	1,770	1,497	69	62	38	40
Net unrecognized cost	$ (5,575)	$ (4,707)	$ (216)	$ (194)	$ (124)	$ (134)

The accumulated benefit obligation for our pension plans as of the measurement dates in 2020 and 2019 was $66.9 and $55.0 billion, respectively. The accumulated benefit obligation for our postretirement medical benefit plans as of the measurement dates in 2020 and 2019 was $2.8 and $2.6 billion, respectively.

Benefit payments under the pension plans include $26 and $27 million paid from employer assets in 2020 and 2019, respectively. Benefit payments (net of participant contributions) under the postretirement medical benefit plans include $77 and $82 million paid from employer assets in 2020 and 2019, respectively. Such benefit payments from employer assets are also categorized as employer contributions.

As of December 31, 2020 and 2019, the projected benefit obligation, the accumulated benefit obligation and the fair value of plan assets for pension plans with benefit obligations in excess of plan assets were as follows (in millions):

	Projected Benefit Obligation Exceeds the Fair Value of Plan Assets		Accumulated Benefit Obligation Exceeds the Fair Value of Plan Assets	
	2020	2019	2020	2019
U.S. Pension Benefits:				
Projected benefit obligation	$ 65,922	$ 54,039	$ 65,922	$ 54,039
Accumulated benefit obligation	64,937	53,194	64,937	53,194
Fair value of plan assets	52,997	46,172	52,997	46,172
International Pension Benefits:				
Projected benefit obligation	$ 845	$ 1,319	$ 845	$ 1,319
Accumulated benefit obligation	728	1,210	728	1,210
Fair value of plan assets	452	948	452	948

The accumulated postretirement benefit obligation presented in the funded status table exceeds plan assets for all U.S. postretirement medical benefit plans.

Benefit Obligations and Fair Value of Plan Assets

The following tables provide a reconciliation of the changes in the plans' benefit obligations and fair value of plan assets as of the respective measurement dates in each year (in millions):

	U.S. Pension Benefits		U.S. Postretirement Medical Benefits		International Pension Benefits	
	2020	**2019**	**2020**	**2019**	**2020**	**2019**
Benefit Obligations:						
Projected benefit obligation at beginning of year	$ 54,039	$ 45,333	$ 2,616	$ 2,510	$ 1,906	$ 1,552
Service cost	1,853	1,439	29	23	67	57
Interest cost	1,977	2,067	91	108	40	47
Gross benefits paid	(1,846)	(2,394)	(274)	(288)	(38)	(40)
Plan participants' contributions	—	—	32	30	3	3
Plan amendments	171	—	—	—	1	1
Actuarial (gain)/loss	9,728	7,594	265	233	123	213
Foreign currency exchange rate changes	—	—	—	—	80	47
Curtailments and settlements	—	—	—	—	(6)	(2)
Other	—	—	—	—	1	28
Projected benefit obligation at end of year	$ 65,922	$ 54,039	$ 2,759	$ 2,616	$ 2,177	$ 1,906

	U.S. Pension Benefits		U.S. Postretirement Medical Benefits		International Pension Benefits	
	2020	**2019**	**2020**	**2019**	**2020**	**2019**
Fair Value of Plan Assets:						
Fair value of plan assets at beginning of year	$ 46,172	$ 39,554	$ 37	$ 26	$ 1,558	$ 1,284
Actual return on plan assets	5,878	6,991	(9)	(5)	184	171
Employer contributions	2,793	2,021	263	274	69	67
Plan participants' contributions	—	—	32	30	3	3
Gross benefits paid	(1,846)	(2,394)	(274)	(288)	(38)	(40)
Foreign currency exchange rate changes	—	—	—	—	62	49
Curtailments and settlements	—	—	—	—	(3)	(2)
Other	—	—	—	—	—	26
Fair value of plan assets at end of year	$ 52,997	$ 46,172	$ 49	$ 37	$ 1,835	$ 1,558

2020 - $10.1 billion pre-tax actuarial loss related to benefit obligation:

- *Discount Rates* ($7.3 billion pre-tax loss): The weighted-average discount rate for our pension and postretirement medical plans decreased from 3.55% as of December 31, 2019 to 2.87% as of December 31, 2020, primarily due to a decline in U.S. treasury yields that was slightly offset by an increase in credit spreads on AA-rated corporate bonds.
- *Coordinating benefits attributable to the Central States Pension Fund* ($2.3 billion pre-tax loss): This represents our current best estimate of additional potential coordinating benefits that may be required to be paid related to the Central States Pension Fund before taking into account the impact of the change in discount rates.
- *Demographic and Assumption Changes* ($513 million pre-tax loss): This represents the difference between actual and estimated participant data and demographic factors, including items such as healthcare cost trends, compensation changes, rates of termination, retirement, mortality and other changes.

<u>2019 - $8.0 billion pre-tax actuarial loss related to benefit obligation:</u>

- *Discount Rates* ($7.5 billion pre-tax loss): The weighted-average discount rate for our pension and postretirement medical plans decreased from 4.45% as of December 31, 2018 to 3.55% as of December 31, 2019, primarily due to both a decline in U.S. treasury yields and a decrease in credit spreads on AA-rated corporate bonds. This was partially offset by a refinement to the bond matching approach used to determine the discount rate for our U.S. pension and postretirement plans discussed above.
- *Coordinating benefits attributable to the Central States Pension Fund* ($603 million pre-tax loss): This represents our current best estimate of additional potential coordinating benefits that may be required to be paid related to the Central States Pension Fund before taking into account the impact of the change in discount rates.
- *Demographic and Assumption Changes* ($40 million pre-tax gain): This represents the difference between actual and estimated participant data and demographic factors, including items such as healthcare cost trends, compensation changes, rates of termination, retirement, mortality and other changes.

Pension and Postretirement Plan Assets

Under the governance of plan trustees, the Investment Committee establishes investment guidelines and strategies and regularly monitors the performance of investments and investment managers. The investment guidelines address items such as establishing appropriate governance provisions; defining investment objectives; determining strategic asset allocation; monitoring and reporting the investments on a regular basis; appointing/dismissing investment managers, custodians, consultants and advisors; risk management; determining/defining the mandates for investment managers; rebalancing of assets and determining investment restrictions/prohibited investments.

Plan assets are invested in accordance with applicable laws and regulations. The primary long-term investment objective for pension assets is to provide for a reasonable amount of long-term growth of capital given prudent levels of risk exposure while minimizing permanent loss of capital. To meet this objective, investment managers are engaged to actively manage assets within the guidelines and strategies set forth by the Investment Committee. Active managers are monitored regularly and their performance is compared to applicable benchmarks.

Fair Value Measurements

Plan assets valued utilizing Level 1 inputs include equity investments, corporate debt instruments and U.S. government securities. Fair values were determined by closing prices for those securities traded on national stock exchanges, while securities traded in the over-the-counter market and listed securities for which no sale was reported on the valuation date are valued at the mean between the last reported bid and ask prices.

Level 2 assets include certain bonds that are valued based on yields currently available on comparable securities of other issues with similar credit ratings; mortgage-backed securities that are valued based on cash flow and yield models using acceptable modeling and pricing conventions; and certain investments that are pooled with other investments in a commingled fund. We value our investments in commingled funds by taking the percentage ownership of the underlying assets, each of which has a readily determinable fair value.

Fair value estimates for certain investments are based on unobservable inputs that are not corroborated by observable market data and are thus classified as Level 3.

Investments that do not have a readily determinable fair value, and which provide a net asset value ("NAV") or its equivalent developed consistent with FASB measurement principles, are valued using NAV as a practical expedient. These investments are not classified in Levels 1, 2, or 3 of the fair value hierarchy but instead included within the subtotals by asset category. Such investments include hedge funds, risk parity funds, real estate investments, private debt and private equity funds. Investments in hedge funds and risk parity funds are valued using the reported NAV as of December 31st. Real estate investments, private debt and private equity funds are valued at NAV per the most recent partnership audited financial reports, and adjusted, as appropriate, for investment activity between the date of the financial reports and December 31st. Due to the inherent limitations in obtaining a readily determinable fair value measurement for alternative investments, the fair values reported may differ from the values that would have been used had readily available market information for the alternative investments existed. These investments are described further below:

- Hedge Funds: Plan assets are invested in hedge funds that pursue multiple strategies to diversify risk and reduce volatility. Most of these hedge funds allow redemptions either quarterly or semi-annually after a two to three month notice period, while others allow for redemption after only a brief notification period with no restriction on redemption frequency. No unfunded commitments existed with respect to hedge funds as of December 31, 2020.
- Risk Parity Funds: Plan assets are invested in risk parity strategies in order to provide diversification and balance risk/return objectives. These strategies reflect a multi-asset class balanced risk approach generally consisting of equity, interest rates, credit and commodities. These funds allow for monthly redemptions with only a brief notification period. No unfunded commitments existed with respect to risk parity funds as of December 31, 2020.
- Real Estate, Private Debt and Private Equity Funds: Plan assets are invested in limited partnership interests in various private equity, private debt and real estate funds. Limited provision exists for the redemption of these interests by the limited partners that invest in these funds until the end of the term of the partnerships, typically ranging between 10 and 15 years from the date of inception. An active secondary market exists for similar partnership interests, although no particular value (discount or premium) can be guaranteed. As of December 31, 2020, unfunded commitments to such limited partnerships totaling approximately $3.3 billion are expected to be contributed over the remaining investment period, typically ranging between three and six years.

The fair values of U.S. and international pension and postretirement benefit plan assets by asset category as of December 31, 2020 are presented below (in millions), as well as the percentage that each category comprises of our total plan assets and the respective target allocations:

	Total Assets[1]	Level 1	Level 2	Level 3	Percentage of Plan Assets	Target Allocation
Asset Category (U.S. Plans):						
Cash and cash equivalents	$ 1,593	$ 1,510	$ 83	$ —	3.0 %	1-5
Equity Securities:						
U.S. Large Cap	8,294	4,272	4,022	—		
U.S. Small Cap	370	370	—	—		
Emerging Markets	2,106	1,503	603	—		
Global Equity	3,940	3,624	316	—		
International Equity	4,335	2,043	2,292	—		
Total Equity Securities	19,045	11,812	7,233	—	35.9	25-55
Fixed Income Securities:						
U.S. Government Securities	16,145	14,646	1,499	—		
Corporate Bonds	6,146	—	6,143	3		
Global Bonds	42	—	42	—		
Municipal Bonds	27	—	27	—		
Total Fixed Income Securities	22,360	14,646	7,711	3	42.2	35-55
Other Investments:						
Hedge Funds	3,518	—	1,652	—	6.6	5-15
Private Equity	3,424	—	—	—	6.5	1-10
Private Debt	695	—	—	—	1.3	1-10
Real Estate	1,986	244	82	—	3.7	1-10
Structured Products[2]	161	—	161	—	0.3	1-5
Risk Parity Funds	264	—	—	—	0.5	1-10
Total U.S. Plan Assets	$ 53,046	$ 28,212	$ 16,922	$ 3	100.0 %	
Asset Category (International Plans):						
Cash and cash equivalents	$ 84	$ 45	$ 39	—	4.6	1-10
Equity Securities:						
Local Markets Equity	214	—	214	—		
U.S. Equity	59	—	59	—		
Emerging Markets	55	41	14	—		
International / Global Equity	534	210	324	—		
Total Equity Securities	862	251	611	—	47.0	25-55
Fixed Income Securities:						
Local Government Bonds	102	—	102	—		
Corporate Bonds	215	22	193	—		
Global Bonds	125	125	—	—		
Total Fixed Income Securities	442	147	295	—	24.1	20-40
Other Investments:						
Real Estate	154	—	80	21	8.3	5-10
Other	293	—	236	41	16.0	1-20
Total International Plan Assets	$ 1,835	$ 443	$ 1,261	$ 62	100.0 %	
Total Plan Assets	$ 54,881	$ 28,655	$ 18,183	$ 65		

(1) Certain investments that are measured at fair value using the NAV per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy but are included in the category totals.
(2) Represents mortgage and asset-backed securities.

The fair values of U.S. and international pension and postretirement benefit plan assets by asset category as of December 31, 2019 are presented below (in millions), as well as the percentage that each category comprises of our total plan assets and the respective target allocations:

	Total Assets(1)	Level 1	Level 2	Level 3	Percentage of Plan Assets	Target Allocation
Asset Category (U.S. Plans):						
Cash and cash equivalents	$ 964	$ 818	$ 146	$ —	2.1 %	1-5
Equity Securities:						
U.S. Large Cap	6,607	2,889	3,718	—		
U.S. Small Cap	505	376	129	—		
Emerging Markets	2,039	1,523	516	—		
Global Equity	2,892	2,553	339	—		
International Equity	4,591	2,499	2,092	—		
Total Equity Securities	16,634	9,840	6,794	—	36.0	25-55
Fixed Income Securities:						
U.S. Government Securities	14,077	12,980	1,097	—		
Corporate Bonds	5,051	—	5,051	—		
Global Bonds	50	—	50	—		
Municipal Bonds	24	—	24	—		
Total Fixed Income Securities	19,202	12,980	6,222	—	41.5	35-55
Other Investments:						
Hedge Funds	3,273	—	1,380	—	7.1	5-15
Private Equity	3,030	—	—	—	6.6	1-10
Private Debt	772	—	—	—	1.7	1-10
Real Estate	1,940	149	74	—	4.2	1-10
Structured Products(2)	153	—	153	—	0.3	1-5
Risk Parity Funds	241	—	—	—	0.5	1-10
Total U.S. Plan Assets	$ 46,209	$ 23,787	$ 14,769	$ —	100.0 %	
Asset Category (International Plans):						
Cash and cash equivalents	$ 72	$ 32	$ 40	—	4.6	1-10
Equity Securities:						
Local Markets Equity	209	—	209	—		
U.S. Equity	47	—	47	—		
Emerging Markets	33	33	—	—		
International / Global Equity	441	179	262	—		
Total Equity Securities	730	212	518	—	46.8	30-60
Fixed Income Securities:						
Local Government Bonds	94	—	94	—		
Corporate Bonds	177	20	157	—		
Global Bonds	110	110	—	—		
Total Fixed Income Securities	381	130	251	—	24.5	25-45
Other Investments:						
Real Estate	128	—	80	—	8.2	5-10
Other	247	—	218	12	15.9	1-20
Total International Plan Assets	$ 1,558	$ 374	$ 1,107	$ 12	100.0 %	
Total Plan Assets	$ 47,767	$ 24,161	$ 15,876	$ 12		

(1) Certain investments that are measured at fair value using the NAV per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy but are included in the category totals.
(2) Represents mortgage and asset-backed securities.

The following table presents the changes in the Level 3 instruments measured on a recurring basis for the years ended December 31, 2020 and 2019 (in millions):

	Corporate Bonds	Other	Total
Balance on January 1, 2019	$ 2	$ 4	$ 6
Actual Return on Assets:			
Assets Held at End of Year	—	1	1
Assets Sold During the Year	(4)	—	(4)
Purchases	4	7	11
Sales	(2)	—	(2)
Transfers Into (Out of) Level 3	—	—	—
Balance on December 31, 2019	$ —	$ 12	$ 12
Actual Return on Assets:			
Assets Held at End of Year	—	3	3
Assets Sold During the Year	(5)	—	(5)
Purchases	10	51	61
Sales	(2)	(4)	(6)
Transfers Into (Out of) Level 3	—	—	—
Balance on December 31, 2020	$ 3	$ 62	$ 65

There were no shares of UPS class A or B common stock directly held in plan assets as of December 31, 2020 or 2019.

Expected Cash Flows

Information about expected cash flows for the pension and postretirement medical benefit plans is as follows (in millions):

	U.S. Pension Benefits	U.S. Postretirement Medical Benefits	International Pension Benefits
Expected Employer Contributions:			
2021 to plan trusts	$ —	$ 186	$ 66
2021 to plan participants	23	70	6
Expected Benefit Payments:			
2021	$ 1,758	$ 236	$ 37
2022	1,892	227	42
2023	2,022	216	47
2024	2,156	205	54
2025	2,395	195	60
2026 - 2030	14,745	831	406

Our funding policy for U.S. plans is to contribute amounts annually that are at least equal to the amounts required by applicable laws and regulations, or to directly fund payments to plan participants, as applicable. International plans will be funded in accordance with local regulations. Additional discretionary contributions may be made when deemed appropriate to meet the long-term obligations of the plans. Expected benefit payments for pensions will be primarily paid from plan trusts. Expected benefit payments for postretirement medical benefits will be paid from plan trusts and corporate assets.

NOTE 7. MULTIEMPLOYER EMPLOYEE BENEFIT PLANS

We contribute to a number of multiemployer defined benefit plans under the terms of collective bargaining agreements that cover our union-represented employees. These plans generally provide for retirement, death and/or termination benefits for eligible employees within the applicable collective bargaining units, based on specific eligibility/participation requirements, vesting periods and benefit formulas. The risks of participating in multiemployer plans are different from single-employer plans in the following respects:

- Assets contributed to a multiemployer plan by one employer may be used to provide benefits to employees of other participating employers.
- If we negotiate to cease participating in a multiemployer plan, we may be required to pay that plan an amount based on our allocable share of its underfunded status, referred to as a "withdrawal liability". However, cessation of participation in a multiemployer plan and subsequent payment of any withdrawal liability is subject to the collective bargaining process.
- If any of the multiemployer pension plans in which we participate enter critical status, and our contributions are not sufficient to satisfy any rehabilitation plan funding schedule, we could be required under the Pension Protection Act of 2006 to make additional surcharge contributions to the multiemployer pension plan in the amount of five to ten percent of the existing contributions required by our labor agreement. Such surcharges would cease upon the ratification of a new collective bargaining agreement, and could not recur unless a plan re-entered critical status at a later date.

The discussion that follows sets forth the financial impact on our results of operations and cash flows for 2020, 2019 and 2018, from our participation in multiemployer benefit plans. As part of the overall collective bargaining process for wage and benefit levels, we have agreed to contribute certain amounts to the multiemployer benefit plans during the contract period. The multiemployer benefit plans set benefit levels and are responsible for benefit delivery to participants. Future contribution amounts to multiemployer benefit plans are determined only through collective bargaining, and we have no additional legal or constructive obligation to increase contributions beyond the agreed-upon amounts (except potential surcharges under the Pension Protection Act of 2006 described above).

The number of employees covered by our multiemployer pension plans has increased with the growth in our business. There have been no other significant changes that affect the comparability of 2020, 2019 and 2018 contributions. We recognize expense for the contractually-required contribution for each period, and we recognize a liability for any contributions due and unpaid at the end of a reporting period.

Status of Collective Bargaining Agreements

As of December 31, 2020, we had approximately 327,000 employees employed under a national master agreement and various supplemental agreements with local unions affiliated with the Teamsters, of which approximately 11,000 are employees of UPS Freight. These agreements run through July 31, 2023.

We have approximately 3,000 pilots who are employed under a collective bargaining agreement with the Independent Pilots Association ("IPA"). This collective bargaining agreement becomes amendable September 1, 2023.

We have approximately 1,600 airline mechanics who are covered by a collective bargaining agreement with Teamsters Local 2727 which becomes amendable November 1, 2023. In addition, approximately 3,400 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.

Multiemployer Pension Plans

The following table outlines our participation in multiemployer pension plans for 2020, 2019 and 2018, and sets forth our calendar year contributions and accruals for each plan. The "EIN/Pension Plan Number" column provides the Employer Identification Number ("EIN") and the three-digit plan number. The most recent Pension Protection Act zone status available in 2020 and 2019 relates to the plans' two most recent fiscal year ends. The zone status is based on information that we received from the plans' administrators and is certified by each plan's actuary. Plans certified in the red zone are generally less than 65% funded; plans certified in the orange zone are both less than 80% funded and have an accumulated funding deficiency, or are expected to have a deficiency in any of the next six plan years; plans certified in the yellow zone are less than 80% funded; and plans certified in the green zone are at least 80% funded. The "FIP/RP Status Pending/Implemented" column indicates whether a financial improvement plan ("FIP") for yellow/orange zone plans, or a rehabilitation plan ("RP") for red zone plans, is either pending or has been implemented. As of December 31, 2020, all plans that have either a FIP or RP requirement have had the respective plan implemented.

Our collectively-bargained contributions satisfy the requirements of all implemented FIPs and RPs and do not currently require the payment of any surcharges. In addition, minimum contributions outside of the agreed upon contractual rates are not required. For the plans detailed in the following table, the expiration date of the associated collective bargaining agreements is July 31, 2023, with the exception of the IAM National Pension Fund / National Pension Plan, which has a July 31, 2024 expiration date. For all plans detailed in the following table, we provided more than 5% of the total plan contributions from all employers for 2020, 2019 and 2018 (as disclosed in the annual filing with the Department of Labor for each respective plan).

Certain plans have been aggregated in the "All Other Multiemployer Pension Plans" line in the following table, as the contributions to each of these individual plans are not material.

		Pension Protection Act Zone Status				(in millions) UPS Contributions and Accruals			
Pension Fund	**EIN / Pension Plan Number**	**2020**	**2019**	**FIP / RP Status Pending / Implemented**		**2020**	**2019**	**2018**	**Surcharge Imposed**
Central Pennsylvania Teamsters Defined Benefit Plan	23-6262789-001	Green	Green	No	NA	$ 57	$ 48	$ 44	No
Employer-Teamsters Local Nos. 175 & 505 Pension Trust Fund	55-6021850-001	Red	Red	Yes	Implemented	16	14	13	No
Hagerstown Motor Carriers and Teamsters Pension Fund	52-6045424-001	Red	Red	Yes	Implemented	11	10	9	No
I.A.M. National Pension Fund / National Pension Plan	51-6031295-002	Red	Green	Yes	Implemented	44	41	38	No
International Brotherhood of Teamsters Union Local No. 710 Pension Fund	36-2377656-001	Green	Green	No	NA	161	142	129	No
Local 705, International Brotherhood of Teamsters Pension Plan	36-6492502-001	Yellow	Yellow	Yes	Implemented	120	113	104	No
Local 804 I.B.T. & Local 447 I.A.M.—UPS Multiemployer Retirement Plan	51-6117726-001	Yellow	Yellow	Yes	Implemented	124	112	116	No
Milwaukee Drivers Pension Trust Fund	39-6045229-001	Green	Green	No	NA	53	48	42	No
New England Teamsters & Trucking Industry Pension Fund	04-6372430-001	Red	Red	Yes	Implemented	140	120	121	No
New York State Teamsters Conference Pension and Retirement Fund	16-6063585-074	Red	Red	Yes	Implemented	135	119	108	No
Teamster Pension Fund of Philadelphia and Vicinity	23-1511735-001	Yellow	Yellow	Yes	Implemented	85	74	66	No
Teamsters Joint Council No. 83 of Virginia Pension Fund	54-6097996-001	Green	Green	No	NA	82	75	69	No
Teamsters Local 639—Employers Pension Trust	53-0237142-001	Green	Green	No	NA	74	68	61	No
Teamsters Negotiated Pension Plan	43-6196083-001	Green	Green	No	NA	40	37	34	No
Truck Drivers and Helpers Local Union No. 355 Retirement Pension Plan	52-6043608-001	Green	Green	No	NA	27	24	22	No
United Parcel Service, Inc.—Local 177, I.B.T. Multiemployer Retirement Plan	13-1426500-419	Red	Red	Yes	Implemented	107	100	95	No
Western Conference of Teamsters Pension Plan	91-6145047-001	Green	Green	No	NA	1,138	939	868	No
Western Pennsylvania Teamsters and Employers Pension Fund	25-6029946-001	Red	Red	Yes	Implemented	37	34	31	No
All Other Multiemployer Pension Plans						104	102	72	
					Total Contributions	$2,555	$2,220	$2,042	

Agreement with the New England Teamsters and Trucking Industry Pension Fund

In 2012, we reached an agreement with the New England Teamsters and Trucking Industry Pension Fund ("NETTI Fund"), a multiemployer pension plan in which UPS is a participant, to restructure the pension liabilities for approximately 10,200 UPS employees represented by the Teamsters. As of December 31, 2020 and 2019, we had $837 and $845 million, respectively, recognized in "Other Non-Current Liabilities" as well as $7 million as of December 31, 2020 and 2019 recorded in "Other current liabilities" in our consolidated balance sheets, representing the remaining balance of the NETTI Fund withdrawal liability. This liability is payable in equal monthly installments over a remaining term of approximately 42 years. Based on the borrowing rates currently available to us for long-term financing of a similar maturity, the fair value of the NETTI Fund withdrawal liability as of December 31, 2020 and 2019 was $1.0 billion and $929 million, respectively. We utilized Level 2 inputs in the fair value hierarchy of valuation techniques to determine the fair value of this liability.

Multiemployer Health and Welfare Plans

We also contribute to a number of multiemployer health and welfare plans covering both active and retired employees. Healthcare benefits are provided to participants who meet certain eligibility requirements as covered under the applicable collective bargaining unit. The following table sets forth our calendar year plan contributions and accruals. Certain plans have been aggregated in the “All Other Multiemployer Health and Welfare Plans” line, as the contributions to each of these individual plans are not material.

	(in millions) UPS Contributions and Accruals		
Health and Welfare Fund	**2020**	**2019**	**2018**
Bay Area Delivery Drivers	$ 39	$ 37	$ 40
Central Pennsylvania Teamsters Health & Pension Fund	35	31	29
Central States, South East & South West Areas Health and Welfare Fund	3,202	2,899	2,530
Delta Health Systems—East Bay Drayage Drivers	37	30	30
Joint Council #83 Health & Welfare Fund	50	45	40
Local 804 Welfare Trust Fund	110	101	90
Milwaukee Drivers Pension Trust Fund—Milwaukee Drivers Health and Welfare Trust Fund	53	48	43
New York State Teamsters Health & Hospital Fund	84	71	62
Northern California General Teamsters (DELTA)	188	157	153
Northern New England Benefit Trust	72	59	54
Oregon / Teamster Employers Trust	59	51	43
Teamsters 170 Health & Welfare Fund	22	19	18
Teamsters Benefit Trust	57	47	48
Teamsters Local 251 Health & Insurance Plan	23	18	17
Teamsters Local 638 Health Fund	60	53	48
Teamsters Local 639—Employers Health & Pension Trust Funds	39	32	29
Teamsters Local 671 Health Services & Insurance Plan	23	20	19
Teamsters Union 25 Health Services & Insurance Plan	69	59	56
Teamsters Western Region & Local 177 Health Care Plan	859	769	656
Truck Drivers and Helpers Local 355 Baltimore Area Health & Welfare Fund	22	19	18
Utah-Idaho Teamsters Security Fund	45	37	32
Washington Teamsters Welfare Trust	76	67	57
All Other Multiemployer Health and Welfare Plans	175	141	156
Total Contributions	$ 5,399	$ 4,810	$ 4,268

NOTE 8. GOODWILL AND INTANGIBLE ASSETS

The following table indicates the allocation of goodwill by segment (in millions):

	U.S. Domestic Package	International Package	Supply Chain & Freight	Consolidated
Balance on January 1, 2019	$ 715	$ 417	$ 2,679	$ 3,811
Acquired	—	2	3	5
Currency / Other	—	(3)	—	(3)
Balance on December 31, 2019	$ 715	$ 416	$ 2,682	$ 3,813
Acquired	—	—	—	—
Impairments	—	—	(494)	(494)
Currency / Other	—	6	42	48
Balance on December 31, 2020	$ 715	$ 422	$ 2,230	$ 3,367

2020 Goodwill Activity

As of December 31, 2020 we classified our UPS Freight reporting unit as held for sale, which resulted in a goodwill impairment charge of $494 million for the Supply Chain & Freight segment.

The remaining change in goodwill for both the Supply Chain & Freight and International Package segments was due to immaterial purchase accounting adjustments and the impact of changes in the value of the U.S. Dollar on the translation of non-U.S. Dollar goodwill balances.

2019 Goodwill Activity

The change in goodwill acquired for the International Package segment was due to our January 2019 acquisition of Transmodal Services Private Limited in India. The goodwill acquired in the Supply Chain & Freight segment was primarily due to our July 2019 acquisitions by Marken in Europe.

The remaining change in goodwill for the International Package segment was due to immaterial purchase accounting adjustments and the impact of changes in the value of the U.S. Dollar on the translation of non-U.S. Dollar goodwill balances.

Goodwill Impairment

We completed our annual goodwill impairment evaluation as of July 1st on a reporting unit basis. Except as discussed below, no triggering events were identified for the periods presented that required an interim impairment test.

U.S. Domestic Package is our largest reporting segment and reporting unit. In our International Package reporting segment, we have the following reporting units: Europe, Asia, Americas and ISMEA. In our Supply Chain & Freight reporting segment we have the following reporting units: Forwarding, Logistics, UPS Mail Innovations, UPS Freight, The UPS Store, UPS Capital, Marken and Coyote.

In assessing goodwill for impairment, we initially evaluate qualitative factors to determine if it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If the qualitative assessment is not conclusive, we calculate the fair value of a reporting unit to test goodwill for impairment. We primarily determine the fair value of our reporting units using a discounted cash flow model, and supplement this with observable valuation multiples for comparable companies, as applicable. A comparison of the fair value of the reporting unit with its aggregate carrying value, including goodwill, is performed. If the carrying amount of a reporting unit exceeds its fair value, we record the excess amount as goodwill impairment, not to exceed the total amount of goodwill allocated to the reporting unit.

In 2020, we utilized a qualitative assessment to determine that it was more likely than not that the reporting unit fair value exceeded the carrying value for U.S. Domestic Package, Europe Package, Asia Package, Americas Package, ISMEA Package, The UPS Store and UPS Capital. For the remaining reporting units owned at the annual goodwill impairment testing date, we utilized the quantitative process to test goodwill for impairment.

In the fourth quarter of 2020, we determined that our UPS Freight reporting unit should be classified as held for sale. Accordingly, we tested goodwill for impairment as of December 31, 2020, and determined that the fair value of the reporting unit had decreased. A goodwill impairment charge of $494 million, representing the remaining goodwill balance for UPS Freight, is included within Other expenses in the statements of consolidated income. We did not record any goodwill impairment charges in 2019 or 2018. Cumulatively, our Supply Chain & Freight segment has recorded $1.1 billion of goodwill impairment charges, while our International and U.S. Domestic Package segments have not recorded any goodwill impairment charges. For additional information on the pending divestiture of UPS Freight, see note 4.

Intangible Assets

The following is a summary of intangible assets as of December 31, 2020 and 2019 (in millions):

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value	Weighted-Average Amortization Period (in years)
December 31, 2020				
Capitalized software	$ 4,531	$ (2,962)	$ 1,569	6.9
Licenses	100	(37)	63	3.8
Franchise rights	165	(113)	52	20.0
Customer relationships	729	(344)	385	10.6
Trade name	200	—	200	N/M
Trademarks, patents and other	18	(13)	5	12.0
Total Intangible Assets	$ 5,743	$ (3,469)	$ 2,274	7.7
December 31, 2019				
Capitalized software	$ 4,125	$ (2,704)	$ 1,421	
Licenses	117	(64)	53	
Franchise rights	146	(109)	37	
Customer relationships	730	(282)	448	
Trade name	200	—	200	
Trademarks, patents and other	29	(21)	8	
Total Intangible Assets	$ 5,347	$ (3,180)	$ 2,167	

A trade name and licenses with carrying values of $200 and $5 million, respectively, as of December 31, 2020 are deemed to be indefinite-lived intangible assets, and therefore are not amortized. Impairment tests for indefinite-lived intangible assets are performed on an annual basis. All of our other recorded intangible assets are deemed to be finite-lived intangibles, and are amortized over their estimated useful lives. Impairment tests for these intangible assets are only performed when a triggering event occurs that may indicate that the carrying value of the intangible may not be recoverable. Impairments of finite-lived intangible assets were $13 and $2 million in 2020 and 2019, respectively.

Amortization of intangible assets was $416, $377 and $339 million during 2020, 2019 and 2018, respectively. Expected amortization of finite-lived intangible assets recorded as of December 31, 2020 for the next five years is as follows (in millions): 2021—$512; 2022—$437; 2023—$372; 2024—$297; 2025—$222. Amortization expense in future periods will be affected by business acquisitions and divestitures, software development, licensing agreements, franchise rights purchased and other factors.

NOTE 9. DEBT AND FINANCING ARRANGEMENTS

The carrying value of our outstanding debt obligations, as of December 31, 2020 and 2019 consists of the following (in millions):

	Principal Amount	Maturity	Carrying Value 2020	Carrying Value 2019
Commercial paper	$ 15	2021	$ 15	$ 3,234
Fixed-rate senior notes:				
3.125% senior notes	1,500	2021	1,507	1,524
2.050% senior notes	700	2021	700	699
2.450% senior notes	1,000	2022	1,028	1,003
2.350% senior notes	600	2022	599	598
2.500% senior notes	1,000	2023	997	995
2.800% senior notes	500	2024	498	497
2.200% senior notes	400	2024	398	398
3.900% senior notes	1,000	2025	995	—
2.400% senior notes	500	2026	498	498
3.050% senior notes	1,000	2027	993	992
3.400% senior notes	750	2029	746	745
2.500% senior notes	400	2029	397	397
4.450% senior notes	750	2030	743	—
6.200% senior notes	1,500	2038	1,483	1,483
5.200% senior notes	500	2040	493	—
4.875% senior notes	500	2040	490	490
3.625% senior notes	375	2042	368	368
3.400% senior notes	500	2046	491	491
3.750% senior notes	1,150	2047	1,137	1,136
4.250% senior notes	750	2049	742	742
3.400% senior notes	700	2049	688	688
5.300% senior notes	1,250	2050	1,231	—
Floating-rate senior notes:				
Floating-rate senior notes	350	2021	350	349
Floating-rate senior notes	400	2022	399	399
Floating-rate senior notes	500	2023	499	499
Floating-rate senior notes	1,039	2049-2067	1,027	1,028
8.375% Debentures:				
8.375% debentures	—	2020	—	426
8.375% debentures	276	2030	281	281
Pound Sterling Notes:				
5.500% notes	90	2031	90	86
5.125% notes	618	2050	586	566
Euro Senior Notes:				
0.375% senior notes	860	2023	857	779
1.625% senior notes	860	2025	856	779
1.000% senior notes	614	2028	611	556
1.500% senior notes	614	2032	611	556
Floating-rate senior notes	—	2020	—	559
Canadian senior notes:				
2.125% senior notes	585	2024	583	571
Finance lease obligations	342	2021 – 2159	342	498
Facility notes and bonds	320	2029 – 2045	320	320
Other debt	6	2021 – 2025	5	8
Total debt	$ 24,814		24,654	25,238
Less: current maturities			(2,623)	(3,420)
Long-term debt			$ 22,031	$ 21,818

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 December 31, 2020 we had U.S. commercial paper outstanding of $15 million with an average interest rate of 0.17% and we had no outstanding balances under our European commercial paper program. As of December 31, 2020, we have classified the entire commercial paper balance as a current liability on our consolidated balance sheets. The amount of commercial paper outstanding under these programs in 2021 is expected to fluctuate.

Debt Repayments

On July 15, 2020 our Euro floating-rate senior notes with a principal balance of €500 million ($566 million) matured and were repaid in full. On April 1, 2020, our 8.375% senior notes with a principal balance of $424 million matured and were repaid in full.

Debt Issuances

On March 24, 2020 we issued four series of notes, in the following principal amounts: $1.0 billion, $750 million, $500 million and $1.25 billion. These notes bear interest at 3.90%, 4.45%, 5.20% and 5.30%, respectively, and will mature on April 1, 2025, April 1, 2030, April 1, 2040 and April 1, 2050, respectively. Interest on the notes is payable semi-annually, beginning October 2020. 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.

In such event, the present values of scheduled principal and interest payments are discounted to the redemption date on a semi-annual basis at the discount rate of the Treasury Rate plus 50 basis points, and are determined as follows:

- On the 3.90% notes, payments from the redemption date until one month prior to maturity
- On the 4.45% notes, payments from the redemption date until three months prior to maturity
- On the 5.20% and 5.30% notes, payments from the redemption date until six months prior to maturity

Fixed-Rate Senior Notes

All of our fixed-rate notes pay interest semi-annually, and allow for redemption by UPS at any time by paying the greater of the principal amount or a "make-whole" amount, plus accrued interest. We subsequently entered into interest rate swaps on several of these notes, which effectively converted the fixed interest rates on the notes to variable LIBOR-based interest rates. The average interest rate payable on the notes where fixed interest rates were swapped to variable-based interest rates, including the impact of the interest rate swaps, for 2020 and 2019 were as follows:

	Principal Value	Maturity	Average Effective Interest Rate	
			2020	2019
5.125% senior notes	$ 1,000	2019	— %	4.48 %
3.125% senior notes	1,500	2021	1.60 %	2.59 %
2.450% senior notes	1,000	2022	1.55 %	3.03 %

8.375% Debentures

The 8.375% debentures consist of two separate tranches, as follows:

- $276 million of the debentures have a maturity of April 1, 2030. These debentures have an 8.375% interest rate until April 1, 2020, and, thereafter, the interest rate will be 7.62% for the final 10 years. These debentures are redeemable in whole or in part at our option at any time. The redemption price is equal to the greater of 100% of the principal amount and accrued interest, or the sum of the present values of the remaining scheduled payments of principal and interest thereon discounted to the date of redemption (at a benchmark treasury yield plus five basis points) plus accrued interest.
- $424 million of the debentures matured and were paid in full on April 1, 2020. These debentures were not subject to redemption prior to maturity.

Interest is payable semi-annually in April and October for both tranches and neither tranche is subject to sinking fund requirements. We subsequently entered into interest rate swaps on the 2020 debentures, which effectively converted the fixed interest rates on the debentures to variable LIBOR-based interest rates. The average interest rate payable on the 2020 debentures, including the impact of the interest rate swaps, for 2020 and 2019 was 6.66% and 7.20%, respectively.

Floating-Rate Senior Notes

The floating-rate senior notes, with principal amounts totaling $1.0 billion, bear interest at either one or three-month LIBOR, less a spread ranging from 30 to 45 basis points. The average interest rate for 2020 and 2019 was 0.40% and 2.05%, respectively. These notes are callable at various times after 30 years at a stated percentage of par value, and putable by the note holders at various times after one year at a stated percentage of par value. The notes have maturities ranging from 2049 through 2067. We classified the floating-rate senior notes that are putable by 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 by the note holder.

The remaining three floating-rate senior notes in the principal amounts of $350, $400 and $500 million, bear interest at three-month LIBOR, plus a spread ranging from 15 to 45 basis points. The average interest rate for 2020 and 2019 was 1.29% and 2.82%, respectively. These notes are not callable. The notes have maturities ranging from 2021 through 2023.

Finance Lease Obligations

We have certain property, plant and equipment subject to finance leases. For additional information on finance lease obligations, see note 11.

Facility Notes and Bonds

We have entered into agreements with certain municipalities or related entities to finance the construction of, or improvements to, facilities that support our operations in the United States. These facilities are located around airport properties in Louisville, Kentucky; Dallas, Texas; and Philadelphia, Pennsylvania. Under these arrangements, we enter into a lease or loan agreement that covers the debt service obligations on the bonds issued by these entities, as follows:

- Bonds with a principal balance of $149 million issued by the Louisville Regional Airport Authority associated with our Worldport facility in Louisville, Kentucky. The bonds, which are due in January 2029, bear interest at a variable rate, and the average interest rates for 2020 and 2019 were 0.50% and 1.49%, respectively.
- Bonds with a principal balance of $42 million and due in November 2036 issued by the Louisville Regional Airport Authority associated with our air freight facility in Louisville, Kentucky. The bonds bear interest at a variable rate, and the average interest rates for 2020 and 2019 were 0.56% and 1.49%, respectively.
- Bonds with a principal balance of $29 million issued by the Dallas / Fort Worth International Airport Facility Improvement Corporation associated with our Dallas, Texas airport facilities. The bonds are due in May 2032 and bear interest at a variable rate, however the variable cash flows on the obligation have been swapped to a fixed 5.11%.
- Bonds with a principal balance of $100 million issued by the Delaware County, Pennsylvania Industrial Development Authority associated with our Philadelphia, Pennsylvania airport facilities. These bonds, which are due September 2045, bear interest at a variable rate. The average interest rate for 2020 and 2019 was 0.62% and 1.48%, respectively.

Pound Sterling Notes

The Pound Sterling notes consist of two separate tranches, as follows:

- Notes with a principal amount of £66 million accrue interest at a 5.50% fixed rate, and are due in February 2031. These notes are not callable.
- Notes with a principal amount of £455 million accrue interest at a 5.125% fixed rate, and are due in February 2050. These notes are callable at our option at a redemption price equal to the greater of 100% of the principal amount plus accrued interest, or the sum of the present values of the remaining scheduled payments of principal and interest thereon discounted to the date of redemption at a benchmark U.K. government bond yield plus 15 basis points, plus accrued interest.

Canadian Dollar Senior Notes

The Canadian Dollar notes consist of a single series, as follows:

- Notes in the principal amount of C$750 million, which bear interest at a 2.125% fixed interest rate and mature in May 2024. Interest on the notes is payable semi-annually. The notes are callable at our option, in whole or in part, at the Government of Canada yield plus 21.5 basis points and on or after the par call date, at par value.

Euro Senior Notes

The Euro notes consist of three separate issuances, as follows:

- Notes in the principal amount of €500 million accrue interest at a 1.00% fixed rate and are due in November 2028. Interest is payable annually on the notes. These notes are 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 the remaining scheduled payments of principal and interest thereon discounted to the date of redemption at a benchmark comparable German government bond yield plus 15 basis points, plus accrued interest.
- Notes with a principal amount of €700 million accrue interest at a 1.625% fixed rate and are due in November 2025. Interest is payable annually on the notes. These notes are 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 the remaining scheduled payments of principal and interest thereon discounted to the date of redemption at a benchmark German government bond yield plus 20 basis points, plus accrued interest.
- Notes with principal amounts of €700 million and €500 million accrue interest at 0.375% and 1.50% fixed rates, respectively, and are due in November 2023 and November 2032, respectively. Interest on these notes is payable annually. The notes are 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 the remaining scheduled payments of principal and interest thereon discounted to the date of redemption at a benchmark comparable government bond yield plus 10 and 20 basis points, respectively, plus accrued interest.

Contractual Commitments

The following table sets forth the aggregate annual principal payments due under our long-term debt and the aggregate amounts expected to be spent for purchase commitments (in millions):

Year	Debt Principal	Purchase Commitments
2021	$ 2,568	$ 2,730
2022	2,001	1,415
2023	2,360	404
2024	1,485	201
2025	1,860	60
After 2025	14,198	1
Total	$ 24,472	$ 4,811

As of December 31, 2020, we had outstanding letters of credit totaling approximately $1.4 billion issued in connection with our self-insurance reserves and other routine business requirements. We also issue surety bonds as an alternative to letters of credit in certain instances, and as of December 31, 2020, we had $1.3 billion of surety bonds written.

Sources of Credit

We maintain two credit agreements with a consortium of banks. The first of these agreements provides revolving credit facilities of $2.0 billion, and expires on December 7, 2021. Amounts outstanding under this agreement bear interest at a periodic fixed rate equal to LIBOR for the applicable interest period and currency denomination, plus a margin of 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) LIBOR for a one-month interest period plus 1.0%, may be used at our discretion.

The second agreement provides revolving credit facilities of $2.5 billion, and expires on December 11, 2023. Amounts outstanding under this facility bear interest at a periodic fixed rate equal to LIBOR for the applicable interest period and currency denomination, plus an applicable margin. 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%; and (3) LIBOR for a one month interest period plus 1.00%, plus an applicable margin, may be used at our discretion.

The applicable margin for advances bearing interest based on LIBOR is a percentage determined by quotations from Markit Group Ltd. for our one-year credit default swap spread, subject to a minimum rate of 0.10% and a maximum rate of 0.75% per annum. The rate is interpolated for a period of time from the date of determination of such credit default swap spread in connection with a new interest period until the latest maturity date of the facility then in effect (but not less than a period of one year).

The applicable margin for advances bearing interest based on the prime rate is 1.00% below the applicable margin for LIBOR advances (but not lower than 0%). 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 December 31, 2020.

Debt Covenants

Our existing debt instruments and credit facilities subject us to certain financial covenants. As of December 31, 2020 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 December 31, 2020, 10% of net tangible assets is equivalent to $4.0 billion; however, we have 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, is approximately $28.3 and $26.9 billion as of December 31, 2020 and 2019, 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.

NOTE 10. 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 assurance 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 have appealed this decision.

Other Matters

In October 2015, the Department of Justice ("DOJ") informed us of an industry-wide inquiry into the transportation of mail under the United States Postal Service ("USPS") International Commercial Air contracts. In October 2017, we received a Civil Investigative Demand seeking certain information relating to our contracts. The DOJ has indicated it is investigating potential violations of the False Claims Act or other statutes. We are cooperating with the DOJ. An immaterial accrual with respect to this matter is included in our consolidated balance sheets. We do not believe that any loss from this matter would have a material impact on our operations or financial condition, although we are unable to predict what action, if any, might be taken in the future by any government authorities as a result of their investigation.

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, UPS received a Statement of Objections issued by the CNMC. In July 2017, UPS received a Proposed Decision from the CNMC. On March 8, 2018, the CNMC adopted a final decision, finding an infringement and imposing an immaterial fine on UPS. UPS appealed the decision and in September 2018, obtained a suspension of the implementation of the decision (including payment of the fine). The appeal is pending. 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 and fact that could be important to the ultimate resolution of this matter.

In May 2020, the Environmental Protection Agency (“EPA”) sent us an information request related to hazardous waste regulatory compliance at certain of our facilities. The EPA indicated that it was investigating potential recordkeeping violations of the Resource Conservation and Recovery Act at those facilities. We have settled this matter with the payment of an immaterial amount.

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.

NOTE 11. LEASES

We recognize a right-of-use ("ROU") asset and lease obligation for all leases. Some of our leases contain both lease and non-lease components, which we have elected to treat as a single lease component. We have also elected not to recognize leases that have an original lease term, including reasonably certain renewal or purchase options, of twelve months or less in our consolidated balance sheets for all classes of underlying assets. Lease costs for short-term leases are recognized on a straight-line basis over the lease term. We elected the package of transition practical expedients for existing contracts, which allowed us to carry forward our historical assessments of whether contracts are, or contain, leases, lease classification and determination of initial direct costs.

We lease property and equipment under finance and operating leases. We have finance and operating leases for package centers, airport facilities, warehouses, office space, aircraft, aircraft engines, information technology equipment (primarily mainframes, servers and copiers), 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. Determining the lease term and amount of lease payments to include in the calculation of the ROU asset and lease obligation for leases containing options requires the use of judgment to determine whether the exercise of an option is reasonably certain and whether the optional period and payments should be included in the calculation of the associated ROU asset and lease obligation. In making this determination, we consider all relevant economic factors that would compel us to exercise or not exercise an option.

When our leases contain future payments that are dependent on an index or rate, such as the consumer price index, we initially measure the lease obligation and ROU asset using the index or rate at the commencement date. In subsequent periods, lease payments dependent on an index or rate are not remeasured. Rather, changes to payments due to a change in an index or rate are recognized in our statements of consolidated income in the period of the change.

When available, we use the rate implicit in the lease to discount lease payments; however, the rate implicit in the lease is not readily determinable for substantially all of our leases. For these leases, we use an estimate of our incremental borrowing rate to discount lease payments based on information available at lease commencement. The incremental borrowing rate is derived using multiple inputs including our credit rating, the impact of full collateralization, lease term and denominated currency. The remaining lease terms vary from 1 month to 140 years.

Aircraft

In addition to the aircraft that we own, we have leases for 338 aircraft. Of these leased aircraft, 27 are classified as finance leases, 17 are classified as operating leases and the remaining 294 are classified as short-term leases. A majority of the obligations associated with the aircraft classified as finance leases have been legally defeased. Most 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.

In order to meet customers' needs, 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. Additionally, the lease payments associated with these charter agreements are variable in nature based on the number of hours flown.

Real Estate

We have operating and finance leases for package centers, airport facilities, warehouses, office space and expansion facilities utilized during peak shipping periods. Many of our leases contain charges for common area maintenance or other expenses that are updated based on landlord estimates. Due to this variability, the cash flows associated with these charges are not included in the minimum lease payments used in determining the ROU asset and associated lease obligation.

Some of our real estate leases contain options to renew or extend the lease or terminate the lease before the expiration date. These options are factored into the determination of the lease term and lease payments when their exercise is considered to be reasonably certain.

We also enter into real estate leases that contain lease incentives, such as tenant improvement allowances or move-in allowances, that are received or receivable at lease commencement. These incentives reduce lease payments for classification purposes and reduce the initial ROU asset. When lease incentives are receivable at lease commencement, they also reduce the initial lease obligation.

From time to time, we enter into leases with the intention of purchasing the property, either through purchase options with a fixed price or a purchase agreement negotiated contemporaneously with the lease agreement. We classify these leases as finance leases and include the purchase date and purchase price in the determination of the lease term and lease payments, respectively, when the option to exercise or purchase is reasonably certain.

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. The lease term for these types of leases is determined by the length of the underlying customer contract or based on the judgment of the business unit. We also enter into multi-year leases for trailers to increase capacity during periods of high demand, which are typically only used for 90-120 days during the year. These leases are treated as short-term as the cumulative right-of-use is less than 12 months over the term of the contract.

The remainder of our leases are primarily related to equipment used in our air operations, vehicles required to meet capacity needs during periods of higher demand for our shipping services, technology equipment and office equipment used in our facilities.

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 ROU asset and associated lease obligation.

The components of lease expense for the years ended December 31, 2020 and 2019 were as follows (in millions):

	2020	2019
Operating lease costs	$ 711	$ 643
Finance lease costs:		
Amortization of assets	$ 79	$ 73
Interest on lease liabilities	18	19
Total finance lease costs	97	92
Variable lease costs	247	206
Short-term lease costs	1,299	1,122
Total lease costs	$ 2,354	$ 2,063

We perform impairment assessments for our ROU assets when events or changes in circumstances indicate that their carrying values may not be recoverable. In addition to the lease costs disclosed in the table above, impairment charges for ROU assets were $17 million in 2020. We did not record any impairment charges in 2019 or 2018. Rent expense related to our operating leases was $959 million for 2018.

Supplemental information related to leases and location within our consolidated balance sheets as of December 31, 2020 and 2019 are as follows (in millions, except lease term and discount rate):

	2020	2019
Operating Leases:		
Operating lease right-of-use assets	$ 3,073	$ 2,856
Current maturities of operating leases	$ 560	$ 538
Non-current operating leases	2,540	2,391
Total operating lease obligations	$ 3,100	$ 2,929
Finance Leases:		
Property, plant and equipment, net	$ 1,225	$ 1,502
Current maturities of long-term debt, commercial paper and finance leases	$ 56	$ 181
Long-term debt and finance leases	286	317
Total finance lease obligations	$ 342	$ 498
Weighted average remaining lease term (in years):		
Operating leases	11.2	9.7
Finance leases	9.3	8.9
Weighted average discount rate:		
Operating leases	2.28 %	2.78 %
Finance leases	4.14 %	4.03 %

Supplemental cash flow information related to leases for the years ended December 31, 2020 and 2019 were as follows (in millions):

	2020	2019
Cash paid for amounts included in measurement of obligations:		
Operating cash flows from operating leases	$ 686	$ 620
Operating cash flows from finance leases	18	19
Financing cash flows from finance leases	192	140
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases	$ 787	$ 810
Finance leases	$ 66	$ 110

Maturities of lease obligations as of December 31, 2020 are as follows (in millions):

	Finance Leases	Operating Leases
2021	$ 69	$ 631
2022	64	557
2023	50	458
2024	30	335
2025	27	259
Thereafter	188	1,468
Total lease payments	428	3,708
Less: Imputed interest	(86)	(608)
Total lease obligations	342	3,100
Less: Current obligations	(56)	(560)
Long-term lease obligations	$ 286	$ 2,540

As of December 31, 2020, we have additional leases which have not commenced of $184 million. These leases will commence in 2021 and 2022 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.

NOTE 12. SHAREOWNERS' EQUITY

Capital Stock, Additional Paid-In Capital, Retained Earnings and Non-Controlling Minority Interests

We maintain two classes of common stock, which are distinguished from each other 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 New York Stock Exchange ("NYSE") under the symbol "UPS". Class A and B shares both have a $0.01 par value, and as of December 31, 2020, 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 December 31, 2020, 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 years ended December 31, 2020, 2019 and 2018 (in millions, except per share amounts):

	2020		2019		2018	
	Shares	Dollars	Shares	Dollars	Shares	Dollars
Class A Common Stock:						
Balance at beginning of year	156	$ 2	163	$ 2	173	$ 2
Common stock purchases	—	—	(3)	—	(3)	—
Stock award plans	6	—	5	—	3	—
Common stock issuances	4	—	3	—	4	—
Conversions of class A to class B common stock	(19)	—	(12)	—	(14)	—
Class A shares issued at end of year	147	$ 2	156	$ 2	163	$ 2
Class B Common Stock:						
Balance at beginning of year	701	$ 7	696	$ 7	687	$ 7
Common stock purchases	(2)	—	(7)	—	(5)	—
Conversions of class A to class B common stock	19	—	12	—	14	—
Class B shares issued at end of year	718	$ 7	701	$ 7	696	$ 7
Additional Paid-In Capital:						
Balance at beginning of year		$ 150		$ —		$ —
Stock award plans		498		778		419
Common stock purchases		(217)		(1,005)		(859)
Common stock issuances		434		356		406
Option premiums received (paid)		—		21		34
Balance at end of year		$ 865		$ 150		$ —
Retained Earnings:						
Balance at beginning of year		$ 9,105		$ 8,006		$ 5,852
Net income attributable to controlling interests		1,343		4,440		4,791
Dividends ($4.04, $3.84, and $3.64 per share) [1]		(3,552)		(3,341)		(3,189)
Common stock purchases		—		—		(141)
Reclassification from AOCI pursuant to the early adoption of ASU 2018-02		—		—		735
Other		—		—		(42)
Balance at end of year		$ 6,896		$ 9,105		$ 8,006
Non-Controlling Interests:						
Balance at beginning of year		$ 16		$ 16		$ 30
Change in non-controlling interests		(4)		—		(14)
Balance at end of year		$ 12		$ 16		$ 16

[1] The dividend per share amount is the same for both class A and class B common stock. Dividends include $178, $147 and $178 million for 2020, 2019 and 2018, respectively, that were settled in shares of class A common stock.

In May 2016, the Board of Directors approved a share repurchase authorization of $8.0 billion for shares of class A and class B common stock, which has no expiration date. As of December 31, 2020, we had $2.1 billion of this share repurchase authorization available.

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, the program will expire when we have purchased all shares authorized for repurchase under the program. On April 28, 2020, we announced our intention to suspend stock repurchases.

For the years ended December 31, 2020, 2019 and 2018, we repurchased a total of 2.1, 9.1 and 8.9 million shares of class A and class B common stock for $217 million, $1.0 and $1.0 billion, respectively ($224 million, $1.0 and $1.0 billion in repurchases for 2020, 2019 and 2018, respectively, are reported on the statements of consolidated cash flows due to the timing of settlements).

In order to lower the average cost of acquiring shares in our ongoing share repurchase program, we periodically enter into structured repurchase agreements involving the use of capped call options for the purchase of UPS class B shares. We pay a fixed sum of cash upon execution of each agreement in exchange for the right to receive either a predetermined amount of cash or stock. Upon expiration of each agreement, if the closing market price of our common stock is above the predetermined price, we will have our initial investment returned with a premium in either cash or shares (at our election). If the closing market price of our common stock is at or below the pre-determined price, we will receive the number of shares specified in the agreement. We received net premiums of $21 and $34 million during the years ended December 31, 2019 and 2018, respectively, related to entering into and settling capped call options for the purchase of class B shares. As of December 31, 2020, we had no capped call options outstanding, nor did we enter into any of these structured repurchase agreements during the year.

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. The movement year over year was driven by changes in the vesting schedule for certain of our awards.

Accumulated Other Comprehensive Income (Loss)

We recognize activity in AOCI 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 AOCI for the years ended December 31, 2020, 2019 and 2018 was as follows (in millions):

	2020	2019	2018
Foreign Currency Translation Gain (Loss), Net of Tax:			
Balance at beginning of year	$ (1,078)	$ (1,126)	$ (930)
Translation adjustment (net of tax effect of $(36), $10 and $37)	97	48	(149)
Reclassification to retained earnings pursuant to the early adoption of ASU 2018-02	—	—	(47)
Balance at end of year	$ (981)	$ (1,078)	$ (1,126)
Unrealized Gain (Loss) on Marketable Securities, Net of Tax:			
Balance at beginning of year	$ 4	$ (2)	$ (2)
Current period changes in fair value (net of tax effect of $1, $4 and $(1))	6	11	(3)
Reclassification to earnings (net of tax effect of $(1), $(1) and $1)	(4)	(5)	3
Balance at end of year	$ 6	$ 4	$ (2)
Unrealized Gain (Loss) on Cash Flow Hedges, Net of Tax:			
Balance at beginning of year	$ 112	$ 40	$ (366)
Current period changes in fair value (net of tax effect of $(61), $61 and $135)	(192)	195	429
Reclassification to earnings (net of tax effect of $(45), $(39) and $18)	(143)	(123)	56
Reclassification to retained earnings pursuant to the early adoption of ASU 2018-02	—	—	(79)
Balance at end of year	$ (223)	$ 112	$ 40
Unrecognized Pension and Postretirement Benefit Costs, Net of Tax:			
Balance at beginning of year	$ (5,035)	$ (3,906)	$ (3,569)
Net actuarial gain (loss) and prior service cost resulting from remeasurements of plan assets and liabilities (net of tax effect of $(1,885), $(979)and $(355))	(5,984)	(3,117)	(1,117)
Reclassification to earnings (net of tax effect of $1,607, $626 and $439)	5,104	1,988	1,389
Reclassification to retained earnings pursuant to the early adoption of ASU 2018-02	—	—	(609)
Balance at end of year	$ (5,915)	$ (5,035)	$ (3,906)
Accumulated other comprehensive income (loss) at end of year	$ (7,113)	$ (5,997)	$ (4,994)

Detail of the gains (losses) reclassified from AOCI to the statements of consolidated income for the years ended December 31, 2020, 2019 and 2018 was as follows (in millions):

	Amount Reclassified from AOCI			Affected Line Item in the Income Statement
	2020	2019	2018	
Unrealized Gain (Loss) on Marketable Securities:				
Realized gain (loss) on sale of securities	$ 5	$ 6	$ (4)	Investment income (expense) and other
Income tax (expense) benefit	(1)	(1)	1	Income tax expense
Impact on net income	4	5	(3)	Net income
Unrealized Gain (Loss) on Cash Flow Hedges:				
Interest rate contracts	(8)	(15)	(24)	Interest expense
Foreign currency exchange contracts	196	177	(50)	Revenue
Income tax (expense) benefit	(45)	(39)	18	Income tax expense
Impact on net income	143	123	(56)	Net income
Unrecognized Pension and Postretirement Benefit Costs:				
Prior service costs	(227)	(227)	(201)	Investment income (expense) and other
Remeasurement of benefit obligation	(6,484)	(2,387)	(1,627)	Investment income (expense) and other
Income tax (expense) benefit	1,607	626	439	Income tax expense
Impact on net income	(5,104)	(1,988)	(1,389)	Net income
Total amount reclassified for the year	$ (4,957)	$ (1,860)	$ (1,448)	Net income

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" in the shareowners' equity section of 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 years ended December 31, 2020, 2019 and 2018 is as follows (in millions):

	2020		2019		2018	
	Shares	Dollars	Shares	Dollars	Shares	Dollars
Deferred Compensation Obligations:						
Balance at beginning of year		$ 26		$ 32		$ 37
Reinvested dividends		1		2		2
Benefit payments		(7)		(8)		(7)
Balance at end of year		$ 20		$ 26		$ 32
Treasury Stock:						
Balance at beginning of year	—	$ (26)	(1)	$ (32)	(1)	$ (37)
Reinvested dividends	—	(1)	—	(2)	—	(2)
Benefit payments	—	7	1	8	—	7
Balance at end of year	—	$ (20)	—	$ (26)	(1)	$ (32)

NOTE 13. STOCK - BASED COMPENSATION

The UPS Incentive Compensation Plan permits the grant of non-qualified and incentive stock options, stock appreciation rights, restricted stock and stock units, and restricted performance shares and units to eligible employees. On May 14, 2018, our shareholders approved our 2018 Omnibus Incentive Compensation Plan under which we are authorized to issue an additional 26 million shares. Each share issued in the form of restricted stock units and restricted performance units (collectively referred to as "Restricted Units"), stock options and other permitted awards reduces the share reserve by one share. We had 7 million shares available to be issued under the UPS Incentive Compensation Plan as of December 31, 2020.

The primary compensation programs offered under the UPS Incentive Compensation Plan include the UPS Management Incentive Award program, the UPS Long-Term Incentive Performance Award program and the UPS Stock Option program. These awards are discussed in the following paragraphs. We also match a portion of participating employees' contributions to the UPS 401(k) Savings Plan in shares of UPS class A common stock. The total expense recognized in our statements of consolidated income under all stock compensation programs was $796, $915 and $634 million during 2020, 2019 and 2018, respectively. The associated income tax benefit recognized in our statements of consolidated income was $210, $216 and $186 million during 2020, 2019 and 2018, respectively. The cash income tax benefit received from the exercise of stock options and conversion of Restricted Units to class A shares was $272, $148 and $175 million during 2020, 2019 and 2018, respectively.

Management Incentive Award Program ("MIP")

Non-executive management earning the right to receive MIP awards is determined annually by the Salary Committee, which is comprised of executive officers of UPS. Awards granted to executive officers are determined annually by the Compensation Committee of the UPS Board of Directors. Our MIP provides, with certain exceptions, that one-half to two-thirds of the annual award will be made in Restricted Units, depending upon the level of management involved. The remaining one-third to one-half of the award is electable in the form of cash or unrestricted shares of class A common stock, and is fully vested at the time of grant. Upon conversion, Restricted Units result in the issuance of an equivalent number of UPS class A common shares after required tax withholdings.

Except in the case of death, Restricted Units granted under the MIP prior to 2019 previously vested over a five-year period with approximately 20% of the award vesting and converting to class A shares at the anniversary of each grant date. The grant value, less estimated forfeitures, was expensed on a straight-line basis over the requisite service period except in the case of death, disability or retirement, in which case immediate expensing occurred. On November 3, 2020, the Compensation Committee of the UPS Board of Directors approved an acceleration of the five-year vesting period for all outstanding Restricted Units granted to non-executive management under the MIP prior to 2019. These Restricted Units became fully vested as of December 31, 2020, however, conversion to class A shares will continue to occur over a five-year period. The elimination of the future service requirement for these awards resulted in the recognition of an additional $133 million of stock compensation expense for the year, of which approximately $104 million was recorded in U.S. Domestic Package.

Beginning with the MIP grant in the first quarter of 2019, Restricted Units vest one year following the grant date, except in the case of death, disability or retirement, in which case immediate vesting occurs. The grant value is expensed on a straight-line basis, less estimated forfeitures, over the requisite service period except in the case of death, disability or retirement, in which case immediate expensing occurs.

All Restricted Units granted are subject to early cancellation or vesting under certain conditions. Dividends earned on Restricted Units are reinvested in additional Restricted Units at each dividend payable date until they have fully vested. As of December 31, 2020, we had the following outstanding Restricted Units, including reinvested dividends, granted under the MIP:

	Restricted Units (in thousands)	Weighted-Average Grant Date Fair Value	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in millions)
Non-vested as of January 1, 2020	10,739	$ 106.94		
Vested	(12,195)	106.60		
Granted	3,638	102.54		
Reinvested Dividends	276	N/A		
Forfeited / Expired	(165)	101.80		
Non-vested as of December 31, 2020	2,293	$ 102.91	0.26	$ 386

The fair value of each Restricted Unit is the NYSE closing price of class B common stock on the date of grant. The weighted-average grant date fair value of Restricted Units granted during 2020, 2019 and 2018 was $102.54, $108.78 and $110.95, respectively. The total fair value of Restricted Units vested was $827, $457 and $596 million in 2020, 2019 and 2018, respectively. As of December 31, 2020, there was $37 million of total unrecognized compensation cost related to non-vested Restricted Units. That cost is expected to be recognized over a weighted-average period of eight months.

Long-Term Incentive Performance Award Program ("LTIP")

We award Restricted Units under the LTIP to certain eligible management employees. These Restricted Units generally vest at the end of a three-year performance period except in the case of death, disability or retirement, in which case immediate vesting occurs on a prorated basis. The number of Restricted Units earned is based on the achievement of the performance targets established on the grant date.

For awards granted prior to 2020, the performance targets are equally weighted among consolidated operating return on invested capital ("ROIC"), growth in currency-constant consolidated revenue and total shareholder return ("RTSR") relative to a peer group of companies. For the two-thirds of the award related to ROIC and growth in currency-constant consolidated revenue, we recognize the grant date fair value of these Restricted Units, less estimated forfeitures, as compensation expense ratably over the vesting period, based on the number of awards expected to be earned. The remaining one-third of the award related to RTSR is valued using a Monte Carlo model. We recognize the grant date fair value of this portion of the award, less estimated forfeitures, as compensation expense ratably over the vesting period.

Beginning with the LTIP grant in 2020, the performance targets are equally weighted between adjusted earnings per share and adjusted cumulative free cash flow. The final number of Restricted Units earned will then be subject to adjustment based on RTSR relative to the companies within the Standard & Poor's 500 Index. We determine the grant date fair value of the Restricted Units 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.

For the 2020 award, the LTIP will be subdivided into two measurement periods. The first measurement period will evaluate the achievement of performance targets for the year 2020. The second measurement period will evaluate the achievement of performance targets for the years 2021 through 2022. The performance targets for the second measurement period will be determined at a future date.

The weighted-average assumptions used in our Monte Carlo models for each award year were as follows:

	2020	2019	2018
Risk-free interest rate	0.15 %	2.23 %	2.61 %
Expected volatility	27.53 %	19.64 %	16.51 %
Weighted-average fair value of units granted	$ 92.77	$ 123.44	$ 137.57
Share payout	101.00 %	115.04 %	123.47 %

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

As of December 31, 2020, we had the following Restricted Units outstanding, including reinvested dividends, that were granted under our LTIP program:

	Restricted Units (in thousands)	Weighted-Average Grant Date Fair Value	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in millions)
Non-vested as of January 1, 2020	1,691	$ 109.18		
Vested	(867)	110.79		
Granted	230	92.76		
Reinvested Dividends	64	N/A		
Forfeited / Expired	(114)	107.34		
Non-vested as of December 31, 2020	1,004	$ 104.15	1.22	$ 169

The fair value of each Restricted Unit is the NYSE closing price of class B common stock on the date of grant. The weighted-average grant date fair value of Restricted Units granted during 2020, 2019 and 2018 was $92.76, $107.30 and $111.42, respectively. The total fair value of Restricted Units vested was $112, $71 and $97 million in 2020, 2019 and 2018, respectively. As of December 31, 2020, there was $31 million of total unrecognized compensation cost related to non-vested Restricted Units. That cost is expected to be recognized over a weighted-average period of one year.

Non-qualified Stock Options

We maintain stock option plans under which options are granted to purchase shares of UPS class A common stock. Stock options granted in connection with the UPS Incentive Compensation Plan must have an exercise price at least equal to the NYSE closing price of UPS class B common stock on the date the option is granted.

We grant non-qualified stock options to a limited group of eligible senior management employees annually, in which the value granted is determined as a percentage of salary. Options granted generally 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 options granted expire 10 years after the date of the grant. Option holders may exercise their options via the payment of cash or class A common stock and new class A shares are issued upon exercise.

The following is an analysis of options to purchase shares of class A common stock issued and outstanding:

	Options (in thousands)	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in millions)
Outstanding at January 1, 2020	1,498	$ 100.74		
Exercised	(375)	92.76		
Granted	441	104.10		
Forfeited / Expired	—	—		
Outstanding at December 31, 2020	1,564	$ 103.60	6.84	$ 101
Options Vested and Expected to Vest	1,564	$ 103.60	6.84	$ 101
Exercisable at December 31, 2020	801	$ 101.33	5.46	$ 54

The fair value of each option grant is estimated using the Black-Scholes option pricing model. The weighted-average assumptions used by year, and the calculated weighted-average fair values of options, are as follows:

	2020	2019	2018
Expected dividend yield	3.51 %	2.94 %	2.93 %
Risk-free interest rate	1.26 %	2.60 %	2.84 %
Expected life in years	7.5	7.5	7.5
Expected volatility	19.25 %	17.79 %	16.72 %
Weighted-average fair value of options granted	$ 11.74	$ 16.34	$ 15.23

The expected dividend yield is based on the recent historical dividend yields for our stock, taking into account changes in dividend policy. The risk-free interest rate is based on the term structure of interest rates at the time of the option grant. The expected life represents an estimate of the period of time options are expected to remain outstanding, and we have relied upon a combination of the observed exercise behavior of our prior grants with similar characteristics, the vesting schedule of the grants and an index of peer companies with similar grant characteristics in estimating this variable. Expected volatilities are based on the historical returns on our stock and the implied volatility of our publicly-traded options.

We received cash of $28, $7 and $12 million during 2020, 2019 and 2018, respectively, from option holders resulting from the exercise of stock options. The total intrinsic value of options exercised during 2020, 2019 and 2018 was $17, $5 and $6 million, respectively. As of December 31, 2020, there was $3 million of total unrecognized compensation cost related to non-vested options. That cost is expected to be recognized over a weighted-average period of three years and five months.

The following table summarizes information about stock options outstanding and exercisable as of December 31, 2020:

	Options Outstanding			Options Exercisable	
Exercise Price Range	Options (in thousands)	Weighted-Average Remaining Contractual Term (in years)	Weighted-Average Exercise Price	Options (in thousands)	Weighted-Average Exercise Price
$65.01 - $80.00	67	0.90	$ 76.02	67	$ 76.02
$80.01 - $95.00	46	2.17	82.87	46	82.87
$95.01 - $110.00	1,208	7.09	104.28	587	103.87
$110.01 - $125.00	243	8.12	111.80	101	111.80
	1,564	6.84	$ 103.60	801	$ 101.33

Discounted Employee Stock Purchase Plan

We maintain an employee stock purchase plan for all eligible employees. Under this plan, shares of UPS class A common stock may be purchased at quarterly intervals at 95% of the NYSE closing price of UPS class B common stock on the last day of each quarterly period. Employees purchased 0.9, 1.0 and 0.9 million shares at average prices of $110.92, $102.11 and $105.53 per share, during 2020, 2019 and 2018, respectively. This plan is not considered to be compensatory, and therefore no compensation cost is measured for the employees' purchase rights.

NOTE 14. SEGMENT AND GEOGRAPHIC INFORMATION

We report our operations in three reporting segments: U.S. Domestic Package, International Package and Supply Chain & Freight. 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.

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, Americas and ISMEA.

Supply Chain & Freight

Supply Chain & Freight includes our Forwarding, Logistics, Coyote, Marken, UPS Mail Innovations, UPS Freight and other aggregated business units. Our Forwarding, Logistics and UPS Mail Innovations units 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, mail and consulting services. UPS Freight offers a variety of less-than-truckload and truckload services to customers in North America. On January 24, 2021, we entered into a definitive agreement to sell our UPS Freight business as discussed in note 4. Coyote offers truckload brokerage services primarily in the United States. Marken is a global provider of supply chain solutions to the healthcare and life sciences industry, specializing in clinical trials logistics. Other aggregated business units within this segment include The UPS Store and UPS Capital.

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 as described in Part I, "Item 7. Supplemental Information - Items Affecting Comparability" section of Management's Discussion and Analysis. As we operate an integrated, global multimodal network, we evaluate many of our capital expenditure decisions at a network level. Accordingly, expenditures on property, plant and equipment by segment are not presented. Unallocated assets are comprised primarily of cash, marketable securities and certain investment partnerships. In 2018, we changed the segment allocation methodology for certain shared assets. All prior periods have been recast to reflect this change in methodology.

Segment information for the years ended December 31, 2020, 2019 and 2018 is as follows (in millions):

	2020	2019	2018
Revenue:			
U.S. Domestic Package	$ 53,499	$ 46,493	$ 43,593
International Package	15,945	14,220	14,442
Supply Chain & Freight	15,184	13,381	13,826
Consolidated revenue	$ 84,628	$ 74,094	$ 71,861
Operating Profit:			
U.S. Domestic Package	$ 3,891	$ 4,164	$ 3,643
International Package	3,436	2,657	2,529
Supply Chain & Freight	357	977	852
Consolidated operating profit	$ 7,684	$ 7,798	$ 7,024
Assets:			
U.S. Domestic Package	$ 35,067	$ 32,795	$ 28,216
International Package	15,717	14,044	12,070
Supply Chain & Freight[(1)]	9,041	9,045	8,411
Unallocated	2,583	1,973	1,319
Consolidated assets	$ 62,408	$ 57,857	$ 50,016
Depreciation and Amortization Expense:			
U.S. Domestic Package	$ 1,805	$ 1,520	$ 1,375
International Package	597	547	526
Supply Chain & Freight	296	293	306
Consolidated depreciation and amortization expense	$ 2,698	$ 2,360	$ 2,207

[(1)] Includes $1.2 billion of assets held for sale related to the UPS Freight divestiture.

Revenue by product type for the years ended December 31, 2020, 2019 and 2018 is as follows (in millions):

	2020	2019	2018
U.S. Domestic Package:			
Next Day Air	$ 8,522	$ 8,479	$ 7,618
Deferred	5,665	5,180	4,752
Ground	39,312	32,834	31,223
Total U.S. Domestic Package	53,499	46,493	43,593
International Package:			
Domestic	3,160	2,836	2,874
Export	12,159	10,837	10,973
Cargo	626	547	595
Total International Package	15,945	14,220	14,442
Supply Chain & Freight:			
Forwarding	6,975	5,867	6,580
Logistics	4,073	3,435	3,234
Freight	3,149	3,265	3,218
Other	987	814	794
Total Supply Chain & Freight	15,184	13,381	13,826
Consolidated revenue	$ 84,628	$ 74,094	$ 71,861

Geographic information for the years ended December 31, 2020, 2019 and 2018 is as follows (in millions):

	2020	2019	2018
United States:			
Revenue	$ 66,580	$ 58,699	$ 56,115
Long-lived assets	$ 28,354	$ 27,976	$ 24,918
International:			
Revenue	$ 18,048	$ 15,395	$ 15,746
Long-lived assets	$ 10,213	$ 9,567	$ 8,577
Consolidated:			
Revenue	$ 84,628	$ 74,094	$ 71,861
Long-lived assets	$ 38,567	$ 37,543	$ 33,495

Long-lived assets include property, plant and equipment, pension and postretirement benefit assets, long-term investments, goodwill and intangible assets.

No countries outside of the United States provided 10% or more of consolidated revenue for the years ended December 31, 2020, 2019 or 2018. For the year ended December 31, 2020, Amazon.com, Inc. and its affiliates ("Amazon") represented 13.3% of our consolidated revenues. Substantially all of this revenue was attributed to U.S. Domestic Package. Amazon accounted for approximately 18.1% and 16.9% of accounts receivable, net, included within the consolidated balance sheets as of December 31, 2020 and 2019, respectively. No single customer represented 10% or more of our consolidated revenues for the year ended December 31, 2018.

NOTE 15. INCOME TAXES

The income tax expense (benefit) for the years ended December 31, 2020, 2019 and 2018 consists of the following (in millions):

	2020	2019	2018
Current:			
U.S. Federal	$ 839	$ 570	$ 89
U.S. State and Local	100	183	7
Non-U.S.	420	359	374
Total Current	1,359	1,112	470
Deferred:			
U.S. Federal	(725)	255	668
U.S. State and Local	(159)	(93)	75
Non-U.S.	26	(62)	15
Total Deferred	(858)	100	758
Total Income Tax Expense	$ 501	$ 1,212	$ 1,228

Income before income taxes includes the following components (in millions):

	2020	2019	2018
United States	$ (39)	$ 3,972	$ 4,307
Non-U.S.	1,883	1,680	1,712
Total Income Before Income Taxes:	$ 1,844	$ 5,652	$ 6,019

A reconciliation of the statutory federal income tax rate to the effective income tax rate for the years ended December 31, 2020, 2019 and 2018 consists of the following:

	2020	2019	2018
Statutory U.S. federal income tax rate	21.0 %	21.0 %	21.0 %
U.S. state and local income taxes (net of federal benefit) (1)	(2.6)	1.4	1.4
Non-U.S. tax rate differential	1.6	0.3	0.2
U.S. federal tax credits	(3.6)	(1.4)	(1.1)
Goodwill and other asset impairments	5.1	—	—
Net uncertain tax positions	3.6	0.1	(0.6)
Non-U.S. valuation allowance release	—	(1.2)	—
Other	2.1	1.2	(0.5)
Effective income tax rate	27.2 %	21.4 %	20.4 %

(1) The 2020 state tax impact to the effective tax rate is negative due to the favorable proportion of state tax credits in comparison to pretax income.

Our effective tax rate is affected by recurring factors, such as statutory tax rates in the jurisdictions in which we operate and the relative amounts of taxable income we earn in those jurisdictions. It is also affected by discrete items that may occur in any given year, but may not be consistent from year to year.

Our effective tax rate was 27.2% in 2020, compared with 21.4% in 2019 and 20.4% in 2018, primarily due to the effects of the aforementioned recurring factors and the following discrete tax items.

2020 Discrete Items

In the fourth quarter of 2020, we recognized an income tax benefit of $1.6 billion related to pre-tax mark-to-market losses of $6.5 billion on our pension and postretirement defined benefit plans. This income tax benefit was generated at a higher average tax rate than the 2020 U.S. federal statutory tax rate because it included the effect of U.S. state and local and foreign taxes.

We recorded pre-tax transformation strategy costs of $348 million during the year ended December 31, 2020. As a result, we recorded an additional income tax benefit of $83 million. This income tax benefit was generated at a higher average tax rate than the 2020 U.S. federal statutory tax rate due to the effect of U.S. state and local and foreign taxes.

We recorded goodwill and other asset impairment charges of $686 million during the year ended December 31, 2020. As a result, we recorded an additional income tax benefit of $57 million. This income tax benefit was generated at a lower average tax rate than the U.S. federal statutory tax rate due to the portion of the costs related to goodwill impairment, which is not deductible for tax purposes.

The recognition of excess tax benefits and deficiencies related to share-based compensation in income tax expense resulted in a net tax benefit of $28 million and reduced our effective tax rate by 1.5% during the year ended December 31, 2020.

Our 2020 effective tax rate was also unfavorably impacted by new uncertain tax positions.

2019 Discrete Items

In the fourth quarter of 2019, we recognized an income tax benefit of $571 million related to pre-tax mark-to-market losses of $2.4 billion on our pension and postretirement defined benefit plans. This income tax benefit was generated at a higher average tax rate than the 2019 U.S. federal statutory tax rate because it included the effect of U.S. state and local and foreign taxes.

We recorded pre-tax transformation strategy costs of $255 million during the year ended December 31, 2019. As a result, we recorded an additional income tax benefit of $59 million. This income tax benefit was generated at a higher average tax rate than the 2019 U.S. federal statutory tax rate due to the effect of U.S. state and local and foreign taxes.

Legal contingencies and expenses of $97 million were accrued during 2019 in respect of certain legal proceedings for which we recorded an additional income tax benefit of $6 million. This income tax benefit was generated at a lower average tax rate than the U.S. federal statutory tax rate due to the portion of the accrual related to penalties, which are not deductible for tax purposes.

As of December 31, 2018, we maintained a valuation allowance against certain deferred tax assets, primarily related to foreign net operating loss carryforwards. As of each reporting date, we consider new evidence, both positive and negative, that could affect the future realization of deferred tax assets. During 2019, we determined that there was sufficient positive evidence to conclude that it was more likely than not that the deferred tax assets related to certain foreign net operating loss carryforwards would be realized. This conclusion was primarily related to achieving cumulative three-year income and anticipated future earnings within the relevant jurisdiction. Accordingly, we reversed the related valuation allowance and recognized a discrete tax benefit of approximately $68 million.

Other factors that impacted our 2019 effective tax rate include favorable tax provisions enacted in the Taxpayer Certainty and Disaster Tax Relief Act of 2019.

2018 Discrete Items

In the fourth quarter of 2018, we recognized an income tax benefit of $390 million related to pre-tax mark-to-market losses of $1.6 billion on our pension and postretirement defined benefit plans. This income tax benefit was generated at a higher average tax rate than the 2018 U.S. federal statutory tax rate because it included the effect of U.S. state and local and foreign taxes.

We recorded pre-tax transformation strategy costs of $360 million during the year ended December 31, 2018. As a result, we recorded an additional income tax benefit of $87 million. This income tax benefit was generated at a higher average tax rate than the 2018 U.S. federal statutory tax rate due to the effect of U.S. state and local and foreign taxes.

The recognition of excess tax benefits and deficiencies related to share-based compensation in income tax expense resulted in a net tax benefit of $38 million and reduced our effective tax rate by 0.6% during the year ended December 31, 2018.

Other factors that impacted our 2018 effective tax rate include favorable resolutions of uncertain tax positions, favorable U.S. state and local tax law changes, favorable tax provisions enacted in the Bipartisan Budget Act of 2018 and discrete tax credits associated with the filing of our 2017 U.S. federal income tax return.

Other Items

Beginning in 2012, we were granted a tax incentive for certain of our non-U.S. operations, which is effective through December 31, 2021. The tax incentive is conditional upon our meeting specific employment and investment thresholds. The impact of this tax incentive decreased non-U.S. tax expense by $35, $27 and $27 million (increased diluted earnings per share by $0.04, $0.03 and $0.03) for 2020, 2019 and 2018, respectively.

Deferred income tax assets and liabilities are comprised of the following as of December 31, 2020 and 2019 (in millions):

	2020	2019
Fixed assets and capitalized software	$ (5,355)	$ (4,720)
Operating lease right-of-use assets	(730)	(685)
Other	(501)	(538)
Deferred tax liabilities	(6,586)	(5,943)
Pension and postretirement benefits	3,994	2,522
Loss and credit carryforwards	325	328
Insurance reserves	535	413
Stock compensation	183	249
Accrued employee compensation	583	287
Operating lease liabilities	736	691
Other	357	205
Deferred tax assets	6,713	4,695
Deferred tax assets valuation allowance	(88)	(54)
Deferred tax asset (net of valuation allowance)	6,625	4,641
Net deferred tax asset (liability)	$ 39	$ (1,302)
Amounts recognized in the consolidated balance sheets:		
Deferred tax assets	$ 527	$ 330
Deferred tax liabilities	(488)	(1,632)
Net deferred tax asset (liability)	$ 39	$ (1,302)

The valuation allowance changed by $34, $(58) and $(14) million during the years ended December 31, 2020, 2019 and 2018, respectively.

We have a U.S. federal capital loss carryforward of $38 million as of December 31, 2020, $15 million of which expires on December 31, 2021 and the remainder of which expires on December 31, 2025.

Further, we have U.S. state and local operating loss and credit carryforwards as follows (in millions):

	2020	2019
U.S. state and local operating loss carryforwards	$ 1,253	$ 1,374
U.S. state and local credit carryforwards	$ 108	$ 110

The U.S. state and local operating loss carryforwards and credits can be carried forward for periods ranging from one year to indefinitely. We also have non-U.S. loss carryforwards of $716 million as of December 31, 2020, the majority of which may be carried forward indefinitely. As indicated in the table above, we have established a valuation allowance for certain U.S. federal, state and non-U.S. carryforwards and outside basis differences due to the uncertainty resulting from a lack of previous taxable income within the applicable tax jurisdictions and other limitations.

Undistributed earnings and profits ("E&P") of our foreign subsidiaries amounted to $5.6 billion as of December 31, 2020. Currently, $1.4 billion of the undistributed E&P of our foreign subsidiaries is considered to be indefinitely reinvested and, accordingly, no deferred income taxes have been provided thereon. Upon distribution of those earnings in the form of dividends or otherwise, we would be subject to U.S. state and local taxes and withholding taxes payable in various jurisdictions. Determination of the amount of unrecognized deferred income tax liability is not practicable because of the complexities associated with its hypothetical calculation.

The following table summarizes the activity related to our uncertain tax positions (in millions):

	Tax	Interest	Penalties
Balance at January 1, 2018	$ 160	$ 43	$ 9
Additions for tax positions of the current year	47	—	1
Additions for tax positions of prior years	7	10	—
Reductions for tax positions of prior years for:			
Changes based on facts and circumstances	(43)	(8)	(5)
Settlements during the period	(1)	(1)	—
Lapses of applicable statute of limitations	(3)	—	—
Balance as of December 31, 2018	167	44	5
Additions for tax positions of the current year	6	—	—
Additions for tax positions of prior years	51	13	—
Reductions for tax positions of prior years for:			
Changes based on facts and circumstances	(45)	(4)	(1)
Settlements during the period	(3)	(1)	—
Lapses of applicable statute of limitations	(4)	—	—
Balance as of December 31, 2019	172	52	4
Additions for tax positions of the current year	61	—	—
Additions for tax positions of prior years	154	34	2
Reductions for tax positions of prior years for:			
Changes based on facts and circumstances	(54)	(24)	(2)
Settlements during the period	—	(1)	—
Lapses of applicable statute of limitations	—	—	—
Balance as of December 31, 2020	$ 333	$ 61	$ 4

The total amount of gross uncertain tax positions as of December 31, 2020, 2019 and 2018 that, if recognized, would affect the effective tax rate was $332, $171 and $165 million, respectively. Our continuing policy is to recognize interest and penalties associated with income tax matters as a component of income tax expense.

We file income tax returns in the U.S. federal jurisdiction, most U.S. state and local jurisdictions, and many non-U.S. jurisdictions. We have substantially resolved all U.S. federal income tax matters for tax years prior to 2016.

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. It is reasonably possible that the liability for uncertain tax positions could significantly increase or decrease within the next twelve months. Items that may cause changes to uncertain tax positions include the timing of interest 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. At this time, an estimate of the range of the reasonably possible change cannot be made.

NOTE 16. 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 (in millions, except per share amounts):

	2020	2019	2018
Numerator:			
Net income attributable to common shareowners	$ 1,343	$ 4,440	$ 4,791
Denominator:			
Weighted-average shares	862	859	860
Deferred compensation obligations	—	—	1
Vested portion of restricted shares	5	5	5
Denominator for basic earnings per share	867	864	866
Effect of Dilutive Securities:			
Restricted performance units	4	5	4
Denominator for diluted earnings per share	871	869	870
Basic Earnings Per Share	$ 1.55	$ 5.14	$ 5.53
Diluted Earnings Per Share	$ 1.54	$ 5.11	$ 5.51

Diluted earnings per share for the years ended December 31, 2020, 2019 and 2018 exclude the effect of 0.6, 0.5 and 0.2 million shares, respectively, of common stock that may be issued upon the exercise of employee stock options because such effect would be antidilutive.

NOTE 17. 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. To manage the impact of these exposures, we may enter into a variety of derivative financial instruments. Our objective is to manage, where it is deemed appropriate to do so, fluctuations in earnings and cash flows associated with changes in foreign currency exchange rates, commodity prices and interest rates. It is our policy and practice to use derivative financial instruments only to the extent necessary to manage exposures. As we use price sensitive instruments to hedge a certain portion of our existing and anticipated transactions, we expect that any loss in value from those instruments generally would be offset by increases in the value of those hedged transactions. 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; 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 counterparties to prevent concentrations of credit risk with any single counterparty.

We have agreements with all of our active counterparties (covering the majority 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.

As of December 31, 2020 and 2019, we held cash collateral of $146 and $495 million, respectively, under these agreements. This collateral is included in Cash and cash equivalents in the consolidated balance sheets and its use by UPS is not restricted. As of December 31, 2020, $158 million of collateral was required to be posted with our counterparties. As of December 31, 2019, no collateral was required to be posted with our counterparties.

Events such as a counterparty 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. Alternatively, we could be required to provide additional collateral or terminate transactions with certain counterparties in the event of a downgrade of our credit rating. The amount of collateral required would be determined by the net fair value of the associated derivatives with each counterparty. We have not historically incurred, and do not expect to incur in the future, any losses as a result of counterparty default.

As of December 31, 2020, there were no instruments in a net liability position that were not covered by the zero threshold bilateral collateral provisions.

Types of Hedges

Commodity Risk Management

Currently, the fuel surcharges that we apply to our domestic and international package and LTL services 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, inter-modal and truckload 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 hedge portions of our forecasted revenue denominated in foreign currencies with forward contracts. We normally designate and account for these contracts as cash flow hedges of anticipated foreign currency denominated revenue and, therefore, the resulting gains and losses from these hedges are recognized as a component of international package revenue when the underlying sales transactions occur.

We also hedge portions of our anticipated cash settlements of intercompany transactions and interest payments on certain debt subject to foreign currency remeasurement using foreign currency forward contracts. We normally designate and account for these contracts as cash flow hedges of forecasted foreign currency denominated transactions; therefore, the resulting gains and losses from these hedges are recognized as a component of Investment income (expense) and other when the underlying transactions are subject to currency remeasurement.

We hedge our net investment in certain foreign operations with foreign currency denominated debt instruments. The use of foreign denominated debt as the hedging instrument allows the debt to be remeasured to foreign currency translation adjustment within AOCI to offset the translation risk from those investments. Balances in the cumulative translation adjustment accounts remain until the sale or substantially complete liquidation of the foreign entity, upon which they are recognized as a component of Investment income (expense) and other.

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. Interest rate swaps allow us to maintain a target range of floating-rate debt within our capital structure. The notional amount, interest payment date and maturity date of the swaps match the terms of the associated debt being hedged.

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. Therefore, the gains and losses resulting from fair value adjustments to the interest rate swaps and fair value adjustments to the associated debt instruments are recorded to interest expense in the period in which the gains and losses occur. 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. The gains and losses resulting from fair value adjustments to these interest rate swaps are recorded to AOCI.

We 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. These agreements effectively lock a portion of our interest rate exposure between the time the agreement is entered into and the date when the debt offering is completed, thereby mitigating the impact of interest rate changes on future interest expense. These derivatives are settled commensurate with the issuance of the debt, and any gain or loss upon settlement is amortized as an adjustment to the effective interest yield on the debt.

Outstanding Positions

The notional amounts of our outstanding derivative positions were as follows as of December 31, 2020 and 2019 (in millions):

		2020	2019
Currency hedges:			
Euro	EUR	4,197	4,571
British Pound Sterling	GBP	1,400	1,494
Canadian Dollar	CAD	1,576	1,402
Hong Kong Dollar	HKD	3,717	3,327
Interest rate hedges:			
Fixed to Floating Interest Rate Swaps	USD	3,250	3,674
Floating to Fixed Interest Rate Swaps	USD	778	778

As of December 31, 2020 and 2019, 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 December 31, 2020 and December 31, 2019 (in millions):

			Gross Amounts Presented in Consolidated Balance Sheets		Net Amounts if Right of Offset had been Applied	
Asset Derivatives	**Balance Sheet Location**	**Fair Value Hierarchy Level**	**2020**	**2019**	**2020**	**2019**
Derivatives designated as hedges:						
Foreign currency exchange contracts	Other current assets	Level 2	$ 56	$ 138	$ 45	$ 131
Interest rate contracts	Other current assets	Level 2	2	2	2	2
Foreign currency exchange contracts	Other non-current assets	Level 2	35	252	4	236
Interest rate contracts	Other non-current assets	Level 2	29	21	26	20
Derivatives not designated as hedges:						
Foreign currency exchange contracts	Other current assets	Level 2	4	7	4	7
Interest rate contracts	Other non-current assets	Level 2	—	12	—	11
Total Asset Derivatives			$ 126	$ 432	$ 81	$ 407

			Gross Amounts Presented in Consolidated Balance Sheets		Net Amounts if Right of Offset had been Applied	
Liability Derivatives	**Balance Sheet Location**	**Fair Value Hierarchy Level**	**2020**	**2019**	**2020**	**2019**
Derivatives designated as hedges:						
Foreign currency exchange contracts	Other current liabilities	Level 2	$ 34	$ 7	$ 23	$ —
Foreign currency exchange contracts	Other non-current liabilities	Level 2	142	16	111	—
Interest rate contracts	Other non-current liabilities	Level 2	13	11	10	10
Derivatives not designated as hedges:						
Foreign currency exchange contracts	Other current liabilities	Level 2	2	—	2	—
Interest rate contracts	Other current liabilities		1	—	1	—
Interest rate contracts	Other non-current liabilities	Level 2	—	3	—	2
Total Liability Derivatives			$ 192	$ 37	$ 147	$ 12

Our foreign currency exchange, 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, currency exchange rates and investment forward prices; therefore, these derivatives are classified as Level 2. As of December 31, 2020 and 2019 we did not have any derivatives that were classified as Level 1 (valued using quoted prices in active markets for identical assets) or Level 3 (valued using significant unobservable inputs).

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 December 31, 2020 and 2019 (in millions):

	2020		2019	
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**
Long-Term Debt and Finance Leases	$ 2,816	$ 42	$ 3,234	$ 40

The cumulative amount of fair value hedging losses remaining for any hedged assets and liabilities for which hedge accounting has been discontinued as of December 31, 2020 is $7 million. These amounts will be recognized over the next 10 years.

Income Statement and AOCI Recognition

The following table indicates the amount of gains and (losses) that have been recognized in the statements of consolidated income for fair value and cash flow hedges, as well as the associated gain or (loss) for the underlying hedged item for fair value hedges for the years ended December 31, 2020 and 2019 (in millions):

	2020			2019		
Location and Amount of Gain (Loss) Recognized in Income on Fair Value and Cash Flow Hedging Relationships	**Revenue**	**Interest Expense**	**Investment Income and Other**	**Revenue**	**Interest Expense**	**Investment Income and Other**
Gain or (loss) on fair value hedging relationships:						
Interest Contracts:						
Hedged items	$ —	$ (8)	$ —	$ —	$ (38)	$ —
Derivatives designated as hedging instruments	—	8	—	—	38	—
Gain or (loss) on cash flow hedging relationships:						
Interest Contracts:						
Amount of gain or (loss) reclassified from accumulated other comprehensive income	—	(8)	—	—	(15)	—
Foreign Currency Exchange Contracts:						
Amount of gain or (loss) reclassified from accumulated other comprehensive income	196	—	—	177	—	—
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	$ 196	$ (8)	$ —	$ 177	$ (15)	$ —

The following table indicates the amount of gains and (losses) that have been recognized in AOCI for the years ended December 31, 2020 and 2019 for those derivatives designated as cash flow hedges (in millions):

	Amount of Gain (Loss) Recognized in AOCI on Derivatives	
Derivative Instruments in Cash Flow Hedging Relationships	**2020**	**2019**
Interest rate contracts	$ —	$ 6
Foreign currency exchange contracts	(253)	250
Total	$ (253)	$ 256

As of December 31, 2020, there were $11 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 December 31, 2021. 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 12 years.

The following table indicates the amount of gains and (losses) that have been recognized in AOCI within foreign currency translation adjustment for the years ended December 31, 2020 and 2019 for those instruments designated as net investment hedges (in millions):

	Amount of Gain (Loss) Recognized in AOCI on Debt	
Non-derivative Instruments in Net Investment Hedging Relationships	**2020**	**2019**
Foreign denominated debt	$ (265)	$ 75
Total	$ (265)	$ 75

Additionally, we maintain interest rate swaps, foreign currency exchange forwards and investment market price forward contracts that are not designated as hedges. The interest rate swap contracts are intended to provide an economic hedge of portions of our outstanding debt. The foreign currency exchange forward contracts are intended to provide an economic offset to foreign currency remeasurement and settlement risk for certain assets and liabilities in our consolidated balance sheets. The investment market price forward contracts are intended to provide an economic offset to fair value fluctuations of certain investments in marketable securities.

We also periodically terminate interest rate swaps and foreign currency exchange forward contracts by entering into offsetting swap and foreign currency positions with different counterparties. As part of this process, we de-designate our original swap and foreign currency exchange contracts. These transactions provide an economic offset that effectively eliminates the effects of changes in market valuation.

The following is a summary of the amounts recorded in the statements of consolidated income related to fair value changes and settlements of these interest rate swaps, foreign currency forward and investment market price forward contracts not designated as hedges for the years ended December 31, 2020 and 2019 (in millions):

		Amount of Gain (Loss) Recognized in Income	
Derivative Instruments Not Designated in Hedging Relationships	**Location of Gain (Loss) Recognized in Income**	**2020**	**2019**
Interest rate contracts	Interest expense	$ (9)	$ (9)
Foreign currency exchange contracts	Investment income and other	27	(1)
Total		$ 18	$ (10)

NOTE 18. TRANSFORMATION STRATEGY COSTS

In the first quarter of 2018, we launched the first phase of a multi-year, enterprise-wide transformation strategy impacting our organization. Over the next several years additional phases will be implemented. The program includes investments, as well as changes in processes and technology, that impact global direct and indirect operating costs.

The table below presents the transformation strategy costs for the years ended December 31, 2020, 2019 and 2018 (in millions):

Transformation Strategy Costs	**2020**	**2019**	**2018**
Compensation and benefits	$ 211	$ 166	$ 262
Total other expenses	137	89	98
Total Transformation Strategy Costs	$ 348	$ 255	$ 360
Income Tax Benefit from Transformation Strategy Costs	(83)	(59)	(87)
After-Tax Transformation Strategy Costs	$ 265	$ 196	$ 273

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.

NOTE 19. QUARTERLY INFORMATION (UNAUDITED)

Our segment revenue, segment operating profit, other income and (expense), net income (loss), basic and diluted earnings (loss) per share on a quarterly basis are presented below (in millions, except per share amounts):

	First Quarter		Second Quarter		Third Quarter		Fourth Quarter	
	2020	2019	2020	2019	2020	2019	2020	2019
Revenue:								
U.S. Domestic Package	$ 11,456	$10,480	$13,074	$11,150	$13,225	$11,455	$15,744	$13,408
International Package	3,383	3,459	3,705	3,505	4,087	3,494	4,770	3,762
Supply Chain & Freight	3,196	3,221	3,680	3,393	3,926	3,369	4,382	3,398
Total revenue	18,035	17,160	20,459	18,048	21,238	18,318	24,896	20,568
Operating Profit (Loss):								
U.S. Domestic Package	364	666	1,182	1,208	1,098	1,216	1,247	1,074
International Package	551	528	771	663	966	667	1,148	799
Supply Chain & Freight	157	200	259	272	299	245	(358)	260
Total operating profit	1,072	1,394	2,212	2,143	2,363	2,128	2,037	2,133
Total Other Income and (Expense)	$ 178	$ 46	$ 145	$ 61	$ 162	$ 78	$ (6,325)	$ (2,331)
Net Income (Loss)	$ 965	$ 1,111	$ 1,768	$ 1,685	$ 1,957	$ 1,750	$ (3,347)	$ (106)
Net Income (Loss) Per Share:								
Basic Earnings (Loss) Per Share	$ 1.12	$ 1.28	$ 2.04	$ 1.95	$ 2.25	$ 2.03	$ (3.84)	$ (0.12)
Diluted Earnings (Loss) Per Share	$ 1.11	$ 1.28	$ 2.03	$ 1.94	$ 2.24	$ 2.01	$ (3.84)	$ (0.12)

Our quarterly results were impacted by restructuring and other costs, legal contingencies and expenses and defined benefit plans mark-to-market charges. The table below presents the impact on operating profit and other income and (expense) for each period (in millions, except per share amounts):

	First Quarter		Second Quarter		Third Quarter		Fourth Quarter	
	2020	2019	2020	2019	2020	2019	2020	2019
Impact to Operating Profit								
Restructuring & Other - Employee Benefits	$ 12	$ 106	$ 81	$ 2	$ 18	$ 41	$ 100	$ 17
Restructuring & Other - Other Costs	33	17	31	19	26	22	47	31
Restructuring & Other - Impairment Charges	—	—	—	—	—	—	686	—
Legal Contingencies and Expenses	—	—	—	—	—	—	—	97
Allocation of Matters Impacting Operating Profit to Segments								
U.S. Domestic Package	$ 37	$ 28	$ 33	$ 18	$ 35	$ 26	$ 132	$ 133
International Package	7	84	71	2	6	26	12	10
Supply Chain & Freight	1	11	8	1	3	11	689	2
Impact to Other Income and (Expense)								
Defined Benefit Plans Mark-to-Market Charges	$ —	$ —	$ —	$ —	$ —	$ —	$ 6,484	$ 2,387

NOTE 20. SUBSEQUENT EVENTS

On January 24, 2021, we entered into a definitive agreement to divest our UPS Freight business to TFI International Inc. for $800 million, subject to working capital and other adjustments. This agreement provides for the continuation of certain pension and postretirement benefits within UPS-sponsored plans that we estimate will require us to record an additional pre-tax expense when we close on the UPS Freight divestiture and amend the impacted plans. Upon closing, we also anticipate recording a pre-tax curtailment gain resulting from the acceleration of prior service credits. We currently anticipate that a favorable impact from reducing future benefit accruals for UPS Freight employees will be offset by net losses recorded in AOCI. The divestiture of UPS Freight may require an interim measurement of certain of our U.S. pension and postretirement benefit plans. We expect to record the impacts discussed herein by the second quarter of 2021.

As of December 31, 2020, UPS Freight was classified as held for sale in the consolidated balance sheet. For additional information, see note 4.

Item 9. ***Changes in and Disagreements with Accountants on Accounting and Financial Disclosure***

None.

Item 9A. ***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 Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures. Based upon, and as of the date of, the evaluation, our Principal Executive Officer and Principal Financial 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 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 December 31, 2020 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. We have not experienced any material impact to our internal controls over financial reporting despite the fact that more of our employees are working remotely during the COVID-19 pandemic. We have enhanced our oversight and monitoring during the close and reporting process and we are continually monitoring and assessing the effects of the COVID-19 situation on our internal controls to minimize the impact on their design and operating effectiveness.

Management's Report on Internal Control Over Financial Reporting:

UPS management is responsible for establishing and maintaining adequate internal control over financial reporting for United Parcel Service, Inc. and its subsidiaries (the "Company"). Based on the criteria for effective internal control over financial reporting established in *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, management has assessed our internal control over financial reporting as effective as of December 31, 2020. The independent registered public accounting firm of Deloitte & Touche LLP, as auditors of the consolidated balance sheets of United Parcel Service, Inc. and its subsidiaries as of December 31, 2020 and the related statements of consolidated income, consolidated comprehensive income and consolidated cash flows for the year ended December 31, 2020, has issued an attestation report on our internal control over financial reporting, which is included herein.

Report of Independent Registered Public Accounting Firm

To the Shareowners and Board of Directors of
United Parcel Service, Inc.
Atlanta, Georgia

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of United Parcel Service, Inc. and subsidiaries (the "Company") as of December 31, 2020, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated financial statements as of and for the year ended December 31, 2020, of the Company and our report dated February 22, 2021, expressed an unqualified opinion on those financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Deloitte & Touche LLP

Atlanta, Georgia
February 22, 2021

Item 9B. ***Other Information***

None.

PART III

Item 10. ***Directors, Executive Officers and Corporate Governance***
Information about our Executive Officers

Name and Office	Age	Principal Occupation and Employment For the Last Five Years
Carol B.Tomé Chief Executive Officer	64	Chief Executive Officer (2020 - present), Chief Financial Officer, The Home Depot, Inc. (2001 - 2019).
Norman M. Brothers, Jr. Chief Legal and Compliance Officer and Corporate Secretary	53	Chief Legal and Compliance Officer and Corporate Secretary (2020 - present), Senior Vice President, General Counsel and Corporate Secretary (2016 - 2020), Corporate Legal Department Manager (2014 - 2016).
Nando Cesarone President, U.S. Operations	49	President, U.S. Operations (2020 - present), President, UPS International (2018 - 2020), Europe Region Manager (2016 - 2018), Asia Pacific Region Manager (2013 - 2016).
Darrell Ford Chief Human Resources Officer	56	Chief Human Resources Officer (2021 - present), Chief Human Resources Officer, DuPont (2018 - 2020), Chief Human Resources Officer, Xerox Corporation (2015 - 2018).
Philippe Gilbert President, UPS Supply Chain Solutions	56	President, UPS Supply Chain Solutions (2019 - present), Regional CEO, Americas, DB Schenker Logistics (2015 - 2018), Regional CEO, West Europe, DB Schenker Logistics (2013 - 2015).
Kate M. Gutmann Chief Sales and Solutions Officer, Executive VP, UPS Healthcare and Life Sciences Unit	52	Chief Sales and Solutions Officer, Executive VP, UPS Healthcare and Life Sciences Unit (2020 - present), Chief Sales and Solutions Officer; Senior Vice President The UPS Store and UPS Capital (2017 - 2019) Senior Vice President, Worldwide Sales and Solutions (2014 - 2017).
Laura Lane Chief Corporate Affairs, Communications and Sustainability Officer	54	Chief Corporate Affairs, Communications and Sustainability Officer (2020 - present), Chief Corporate Affairs and Communications Officer (August 2020 - October 2020), President, Global Public Affairs (2011 - 2020).
Brian Newman Chief Financial Officer and Treasurer	52	Chief Financial Officer and Treasurer (2019 - present), Executive Vice President, Finance and Operations, Latin America, PepsiCo, Inc. (2017 - 2019), Executive Vice President, Global Operations, PepsiCo, Inc. (2015 - 2017), Global Head of e-Commerce, PepsiCo, Inc. (2014 - 2015).
Juan R. Perez Chief Information and Engineering Officer	54	Chief Information and Engineering Officer (2017 - present), Chief Information Officer (2016 - 2017), Vice President, Information Services (2011 - 2016).
Scott A. Price President, UPS International	58	President, UPS International (2020 - present), Chief Strategy and Transformation Officer (2017 - 2020), Executive Vice President of Global Leverage, Walmart International, Walmart Stores, Inc. (2017), Chief Administrative Officer and Executive Vice President, Walmart International, Walmart Stores Inc. (2016 - 2017), Chief Executive Officer and President of Walmart Asia Pte. Ltd. (2014 - 2016).
Charlene Thomas Chief Diversity, Equity and Inclusion Officer	53	Chief Diversity, Equity and Inclusion Officer (2021 - present), Chief Human Resources Officer (2019 - 2020), President, Human Capital Transformation (March 2019 - July 2019), West Region Manager (2018 - 2019), North Atlantic District Manager (2018 - 2018), Mid-South District Manager (2016-2018), West-OPS Package Operations Manager (March 2016 - August 2016), U.S. Operations Training Staff Manager (2015-2016).
Kevin Warren Chief Marketing Officer	58	Chief Marketing Officer (2018 - present), Executive Vice President and Chief Commercial Officer, Xerox Corp. (2017 - 2018), President, Commercial Business Group, Xerox Corp. (2016 - 2017), President, Industrial, Retail and Hospitality Business Group, Xerox Corp. (2015 - 2016), President of Strategic Growth Initiatives, Xerox Corp. (2014 - 2015).

Information about our directors will be presented under the caption “Our Board of Directors" in our definitive proxy statement for our meeting of shareowners to be held on May 13, 2021 (the “Proxy Statement”) and is incorporated herein by reference.

Information about our Audit Committee will be presented under the caption “Our Board of Directors - Committees of the Board of Directors” and "Audit Committee Matters" in our Proxy Statement and is incorporated herein by reference.

Information about our Code of Business Conduct is presented under the caption “Where You Can Find More Information” in Part I, Item 1 of this report.

Item 11. ***Executive Compensation***

Information about our board and executive compensation will be presented under the captions “Our Board of Directors - Director Compensation" and "Executive Compensation" in our Proxy Statement and is incorporated herein by reference.

Item 12. ***Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters***

Information about security ownership will be presented under the caption “Ownership of Our Securities - Securities Ownership of Certain Beneficial Owners and Management” in our Proxy Statement and is incorporated herein by reference.

Information about our equity compensation plans will be presented under the caption “Executive Compensation - Equity Compensation Plans” in our Proxy Statement and is incorporated herein by reference.

Item 13. ***Certain Relationships and Related Transactions, and Director Independence***

Information about transactions with related persons will be presented under the caption “Corporate Governance - Conflicts of Interest and Related Person Transactions” in our Proxy Statement and is incorporated herein by reference.

Information about director independence will be presented under the caption “Corporate Governance - Director Independence” in our Proxy Statement and is incorporated herein by reference.

Item 14. ***Principal Accountant Fees and Services***

Information about aggregate fees billed to us by our principal accountant will be presented under the caption “Audit Committee Matters - Principal Accounting Firm Fees” in our Proxy Statement and is incorporated herein by reference.

PART IV

Item 15. ***Exhibits and Financial Statement Schedules***

(a) *Documents filed as a part of this report:*

1. *Financial Statements*.

See Item 8 for the financial statements filed with this report.

2. *Financial Statement Schedules*.

None.

3. *Exhibits*.

See the Exhibit Index below for a list of the exhibits incorporated by reference into or filed with this report.

(b) *Exhibits Required To Be Filed*

See Item 15(a)1 above.

(c) *Financial Statement Schedules Required To Be Filed*

See Item 15(a) 2 above.

Item 16. ***Form 10-K Summary***

None.

EXHIBIT INDEX

Exhibit No.		Description
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).
4.1	—	Indenture dated as of December 18, 1997 (incorporated by reference to Exhibit T-3C to Form T-3 (No. 022-22295), filed on December 18, 1997) [(1)].
4.2	—	Indenture dated as of January 26, 1999 (incorporated by reference to Exhibit 4.1 to Pre-Effective Amendment No. 1 to Form S-3 (No. 333-08369), filed on January 26, 1999) [(1)].
4.3	—	Form of First Supplemental Indenture to Indenture dated as of January 26, 1999 (incorporated by reference to Exhibit 4.2 to Post-Effective Amendment No. 1 to Form S-3 (No. 333-08369-01), filed on March 15, 2000).
4.4	—	Second Supplemental Indenture dated as of September 21, 2001 to Indenture dated as of January 26, 1999 (incorporated by reference to Exhibit 4 to Form 10-Q for the quarter ended September 30, 2001).
4.5	—	Indenture dated as of August 26, 2003 (incorporated by reference to Exhibit 4.1 to Form S-3 (No. 333-108272), filed on August 27, 2003).
4.6	—	First Supplemental Indenture dated as of November 15, 2013 to Indenture dated as of August 26, 2003 (incorporated by reference to Exhibit 4.2 to Form S-3ASR (No. 333-192369), filed on November 15, 2013).
4.7	—	Second Supplemental Indenture dated as of May 18, 2017 (incorporated by reference to Exhibit 4.1 to Form 8-K, filed on May 18, 2017).
4.8	—	Form of 6.20% Senior Notes due January 15, 2038 (incorporated by reference to Exhibit 4.3 to Form 8-K, filed on January 15, 2008).
4.9	—	Form of 4.875% Senior Notes due November 15, 2040 (incorporated by reference to Exhibit 4.2 to Form 8-K, filed on November 12, 2010).
4.10	—	Form of 2.450% Senior Notes due October 1, 2022 (incorporated by reference to Exhibit 4.2 to Form 8-K, filed on September 27, 2012).
4.11	—	Form of 3.625% Senior Notes due October 1, 2042 (incorporated by reference to Exhibit 4.3 to Form 8-K, filed on September 27, 2012).
4.12	—	Form of Floating Rate Senior Notes due December 15, 2064 (incorporated by reference to Exhibit 4.1 to Form 8-K, filed on December 15, 2014).
4.13	—	Form of Floating Rate Senior Notes due September 15, 2065 (incorporated by reference to Exhibit 4.1 to Form 8-K, filed on September 17, 2015).
4.14	—	Form of 1.625% Senior Notes due November 15, 2025 (incorporated by reference to Exhibit 4.2 to Form 8-K, filed on November 20, 2015).
4.15	—	Form of Floating Rate Senior Notes due March 15, 2066 (incorporated by reference to Exhibit 4.1 to Form 8-K, filed on April 1, 2016).
4.16	—	Form of 2.40% Senior Notes Due November 2026 (incorporated by reference to Exhibit 4.2 to Form 8-K, filed on October 25, 2016).
4.17	—	Form of 3.40% Senior Notes Due November 2046 (incorporated by reference to Exhibit 4.3 to Form 8-K, filed on October 25, 2016).
4.18	—	Form of 1.00% Senior Notes Due November 2028 (incorporated by reference to Exhibit 4.1 to Form 8-K, filed on October 25, 2016).
4.19	—	Form of Floating Rate Senior Notes due March 15, 2067 (incorporated by reference to Exhibit 4.1 to Form 8-K, filed on March 31, 2017).
4.20	—	Form of Floating Rate Senior Notes due May 16, 2022 (incorporated by reference to Exhibit 4.1 to Form 8-K, filed on May 16, 2017).

4.21	—	Form of 2.350% Senior Notes due May 16, 2022 (incorporated by reference to Exhibit 4.2 to Form 8-K, filed on May 16, 2017).
4.22	—	Form of 2.125% Senior Notes due May 21, 2024 (incorporated by reference to Exhibit 4.2 to Form 8-K, filed on May 18, 2017).
4.23	—	Form of 0.375% Senior Notes due November 15, 2023 (incorporated by reference to Exhibit 4.1 to Form 8-K, filed on November 13, 2017).
4.24	—	Form of 1.500% Senior Notes due November 15, 2032 (incorporated by reference to Exhibit 4.2 to Form 8-K, filed on November 13, 2017).
4.25	—	Form of Floating Rate Senior Notes due April 1, 2021 (incorporated by reference to Exhibit 4.1 to Form 8-K, filed on November 14, 2017).
4.26	—	Form of Floating Rate Senior Notes due April 1, 2023 (incorporated by reference to Exhibit 4.2 to Form 8-K, filed on November 14, 2017).
4.27	—	Form of 2.050% Senior Notes due April 1, 2021 (incorporated by reference to Exhibit 4.3 to Form 8-K, filed on November 14, 2017).
4.28	—	Form of 2.500% Senior Notes due April 1, 2023 (incorporated by reference to Exhibit 4.4 to Form 8-K, filed on November 14, 2017).
4.29	—	Form of 2.800% Senior Notes due November 15, 2024 (incorporated by reference to Exhibit 4.5 to Form 8-K, filed on November 14, 2017).
4.30	—	Form of 3.050% Senior Notes due November 15, 2027 (incorporated by reference to Exhibit 4.6 to Form 8-K, filed on November 14, 2017).
4.31	—	Form of 3.750% Senior Notes due November 15, 2047 (incorporated by reference to Exhibit 4.7 to Form 8-K, filed on November 14, 2017).
4.32	—	Form of Floating Rate Senior Notes due November 15, 2067 (incorporated by reference to Exhibit 4.8 to Form 8-K, filed on November 14, 2017).
4.33	—	Form of 3.400% Senior Notes due March 15, 2029 (incorporated by reference to Exhibit 4.1 to Form 8-K, filed on March 15, 2019).
4.34	—	Form of 4.250% Senior Notes due March 15, 2049 (incorporated by reference to Exhibit 4.2 to Form 8-K, filed on March 15, 2019).
4.35	—	Form of 2.200% Senior Notes due September 1, 2024 (incorporated by reference to Exhibit 4.1 to Form 8-K filed on August 16, 2019).
4.36	—	Form of 2.500% Senior Notes due September 1, 2029 (incorporated by reference to Exhibit 4.2 to Form 8-K filed on August 16, 2019).
4.37	—	Form of 3.400% Senior Notes due September 1, 2049 (incorporated by reference to Exhibit 4.3 to Form 8-K filed on August 16, 2019).
4.38	—	Form of 3.900% Senior Notes due 2025 (incorporated by reference to Exhibit 4.1 to Form 8-K filed on March 25, 2020).
4.39	—	Form of 4.450% Senior Notes due 2030 (incorporated by reference to Exhibit 4.2 to Form 8-K filed on March 25, 2020).
4.40	—	Form of 5.200% Senior Notes due 2040 (incorporated by reference to Exhibit 4.3 to Form 8-K filed on March 25, 2020).
4.41	—	Form of 5.300% Senior Notes due 2050 (incorporated by reference to Exhibit 4.4 to Form 8-K filed on March 25, 2020).
4.42	—	Description of Securities.
10.1	—	UPS Retirement Plan Amendment and Restatement Effective January 1, 2014 (incorporated by reference to Exhibit 10.1 to Form 10-K for the year ended December 31, 2014).*
10.1(a)	—	Amendment No. 1 to UPS Retirement Plan, as Amended and Restated, effective as of June 30, 2016 (incorporated by reference to Exhibit 10.1 to Form 10-Q for the quarter ended June 30, 2016).*

10.1(b)	—	Amendment Four to the Amended and Restated UPS Retirement Plan effective June 23, 2017 (incorporated by reference to Exhibit 10.2 to Form 8-K, filed on June 27, 2017).*
10.2	—	UPS 401(k) Savings Plan, Amendment and Restatement effective as of January 1, 2017 (incorporated by reference to Exhibit 10.1 to Form 8-K, filed on June 27, 2017).*
10.3	—	UPS Restoration Savings Plan effective January 1, 2017 (incorporated by reference to Exhibit 10.3 to Form 8-K, filed on June 27, 2017).*
10.4	—	Amendment One to the Amended and Restated UPS Excess Coordinating Benefit Plan effective June 23, 2017 (incorporated by reference to Exhibit 10.4 to Form 8-K, filed on June 27, 2017).*
10.4(a)	—	UPS Excess Coordinating Benefit Plan, as Amended and Restated, effective as of January 1, 2012 (incorporated by reference to Exhibit 10.5 to Form 10-K for the year ended December 31, 2012).*
10.5	—	United Parcel Service, Inc. 2012 Omnibus Incentive Compensation Plan (incorporated by reference to Annex A to the Definitive Proxy Statement, filed on March 12, 2012).*
10.5(a)	—	Form of Long-Term Incentive Performance Award Agreement (incorporated by reference to Exhibit 10.3 to the Quarterly Report on Form 10-Q for the quarter ended March 31, 2011).*
10.5(b)	—	Form of Non-Employee Director Restricted Stock Unit Award Agreement (incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q for the quarter ended June 30, 2019).*
10.5(c)	—	UPS Management Incentive Program Terms and Conditions effective as of January 1, 2011 (incorporated by reference to Exhibit 10.10(3) to the Form 10-K) for the year ended December 31, 2010).*
10.5(d)	—	UPS Stock Option Program Terms and Conditions effective as of January 1, 2012 (incorporated by reference to Exhibit 10.7(4) to the Form 10-K for the year ended December 31, 2011).*
10.5(e)	—	UPS Long-Term Incentive Performance Program Terms and Conditions effective as of January 1, 2012 (incorporated by reference to Exhibit 10.7(5) to the Form 10-K for the year ended December 31, 2011).*
10.6	—	Form of UPS Deferred Compensation Plan as Amended and Restated effective January 1, 2012 (incorporated by reference to Exhibit 10.6 to Form 10-K for the year ended December 31, 2018).*
10.6(a)	—	Amendment No. 1 to Amended and Restated UPS Deferred Compensation Plan (incorporated by reference to Exhibit 10.7(1) to the Form 10-K for the year ended December 31, 2012).*
10.7	—	2015 Omnibus Incentive Compensation Plan (incorporated by reference to Annex A to the Definitive Proxy Statement filed on March 24, 2015).*
10.8	—	2018 Omnibus Incentive Compensation Plan (incorporated by reference to Annex A to the Definitive Proxy Statement filed on March 16, 2018).*
10.8(a)	—	UPS Management Incentive Program Amended and Restated Terms and Conditions effective November 8, 2018 (incorporated by reference to Exhibit 10.8(a) to Form 10-K for the year ended December 31, 2018).*
10.8(b)	—	UPS Stock Option Program Amended and Restated Terms and Conditions effective November 8, 2018 (incorporated by reference to Exhibit 10.8(b) to Form 10-K for the year ended December 31, 2018).*
10.8(c)	—	UPS Long-Term Incentive Performance Program Amended and Restated Terms and Conditions effective as of November 8, 2018 (incorporated by reference to Exhibit 10.8(c) to Form 10-K for the year ended December 31, 2018).*
10.9	—	Employment offer letter agreement between the Company and Scott Price, dated November 28, 2017 (incorporated by reference to Exhibit 10.9 to Form 10-K for the year ended December 31, 2018).*
10.10	—	Form of Protective Covenant Agreement between the Company and Scott Price (incorporated by reference to Exhibit 10.10 to Form 10-K for the year ended December 31, 2018).*
10.11	—	Employment offer letter agreement between the Company and Kevin Warren, dated May 5, 2018 (incorporated by reference to Exhibit 10.11 to Form 10-K for the year ended December 31, 2018).*
10.12	—	Form of Protective Covenant Agreement between the Company and Kevin Warren (incorporated by reference to Exhibit 10.12 to Form 10-K for the year ended December 31, 2018).*
10.13	—	Employment offer letter agreement between the Company and Brian Newman, dated August 7, 2019 (incorporated by reference to Exhibit 10.1 to Form 8-K filed on August 13, 2019).*
10.14	—	Protective Covenant Agreement between the Company and Brian Newman, dated August 7, 2019 (incorporated by reference to Exhibit 10.2 to Form 8-K filed on August 13, 2019).*

10.15	—	UPS Long-Term Incentive Performance Program Amended and Restated Terms and Conditions effective as of February 13, 2020 (incorporated by reference to Exhibit 10.16 to Form 10-K for the year ended December 31, 2019). *.
10.16	—	Employment offer letter agreement between UPS and Carol B Tomé, dated March 11, 2020 (incorporated by reference to Exhibit 10.1 to Form 8-K filed on March 13, 2020).*
10.17	—	Protective Covenant Agreement between UPS and Carol Tomé, dated March 11, 2020 (incorporated by reference to Exhibit 10.2 to Form 8-K filed on March 13, 2020).*
10.18	—	Transition Agreement between UPS and David P. Abney, dated March 11, 2020 (incorporated by reference to Exhibit 10.3 to Form 8-K filed on March 13, 2020).*
10.19	—	Form of Protective Covenant Agreement between UPS and each of Nando Cesarone, Kate Gutmann, Juan Perez and George Willis.*
10.20	—	Retention Arrangement Letter between UPS and Nando Cesarone, dated April 15, 2020.*
10.21	—	Retention Arrangement Letter between UPS and Kate Gutmann, dated April 15, 2020.*
10.22	—	Retention Arrangement Letter between UPS and Juan Perez, dated April 14, 2020.*
10.23	—	Retention Arrangement Letter between UPS and George Willis, dated April 15, 2020.*
21	—	Subsidiaries.
23	—	Consent of Deloitte & Touche LLP.
31.1	—	Certificate 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	—	Certificate of the Principal Financial 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 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 financial information from the Annual Report on Form 10-K for the year ended December 31, 2020, formatted in Inline XBRL (Extensible Business Reporting Language): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Income, (iii) the Consolidated Statements of Comprehensive Income (Loss), (iv) the Consolidated Statements of Cash Flows and (v) the Notes to the Consolidated Financial Statements.
104	—	Cover Page Interactive Data File - The cover page from this Annual Report on Form 10-K for the year ended December 31, 2020 is formatted in iXBRL (included as Exhibit 101).

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(1) Filed in paper format.

* Management contract or compensatory plan or arrangement.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, United Parcel Service, Inc. has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

UNITED PARCEL SERVICE, INC.
(REGISTRANT)

By: /S/ CAROL B. TOMÉ

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

Date: February 22, 2021

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/S/ CAROL B. TOMÉ **Carol B. Tomé**	Chief Executive Officer (Principal Executive Officer)	February 22, 2021
/S/ BRIAN O. NEWMAN **Brian O. Newman**	Senior Vice President, Chief Financial Officer and Treasurer (Principal Financial Officer)	February 22, 2021
/S/ RODNEY C. ADKINS **Rodney C. Adkins**	Director	February 22, 2021
/S/ EVA C. BORATTO **Eva C. Boratto**	Director	February 22, 2021
/S/ MICHAEL J. BURNS **Michael J. Burns**	Director	February 22, 2021
/S/ WAYNE M. HEWETT **Wayne M. Hewett**	Director	February 22, 2021
/S/ ANGELA HWANG **Angela Hwang**	Director	February 22, 2021
/S/ KATE E. JOHNSON **Kate E. Johnson**	Director	February 22, 2021
/S/ WILLIAM R. JOHNSON **William R. Johnson**	Director	February 22, 2021
/S/ ANN M. LIVERMORE **Ann M. Livermore**	Director	February 22, 2021
/S/ RUDY H.P. MARKHAM **Rudy H.P. Markham**	Director	February 22, 2021
/S/ FRANCK J. MOISON **Franck J. Moison**	Director	February 22, 2021
/S/ CLARK T. RANDT, JR. **Clark T. Randt, Jr.**	Director	February 22, 2021
/S/ CHRISTIANA SMITH SHI **Christiana Smith Shi**	Director	February 22, 2021
/S/ RUSSELL STOKES **Russell Stokes**	Director	February 22, 2021
/S/ KEVIN M. WARSH **Kevin M. Warsh**	Director	February 22, 2021

Reconciliation of Non-GAAP Financial Measures
(amounts in millions, except per share amounts)

	Operating Profit 2020	2019	2018	2017	2016
Reported / GAAP	$ 7,684	$ 7,798	$ 7,024	$ 7,529	$ 7,688
Restructuring & Other	1,034	255	360	-	-
Legal Contingencies and Expenses	-	97	-	-	-
Adjusted	$ 8,718	$ 8,150	$ 7,384	$ 7,529	$ 7,688

	Operating Margin 2020	2019	2018	2017	2016
Reported / GAAP	9.1%	10.5%	9.8%	11.3%	12.5%
Restructuring & Other	1.2%	0.4%	0.5%	-	-
Legal Contingencies and Expenses	-	0.1%	-	-	-
Adjusted	10.3%	11.0%	10.3%	11.3%	12.5%

	Operating Profit					
	U.S. Domestic Package		International Package		Supply Chain & Freight	
	2020	2019	2020	2019	2020	2019
Reported / GAAP	$ 3,891	$ 4,164	$ 3,436	$ 2,657	$ 357	$ 977
Restructuring & Other	237	108	96	122	701	25
Legal Contingencies and Expenses	-	97	-	-	-	-
Adjusted	$ 4,128	$ 4,369	$ 3,532	$ 2,779	$ 1,058	$ 1,002

	Operating Margin					
	U.S. Domestic Package		International Package		Supply Chain & Freight	
	2020	2019	2020	2019	2020	2019
Reported / GAAP	7.3%	9.0%	21.5%	18.7%	2.4%	7.3%
Restructuring & Other	0.4%	0.2%	0.7%	0.8%	4.6%	0.2%
Legal Contingencies and Expenses	-	0.2%	-	-	-	-
Adjusted	7.7%	9.4%	22.2%	19.5%	7.0%	7.5%

	Adjusted Free Cash Flow 2020	2019
Cash Flows from Operating Activities	$ 10,459	$ 8,639
Capital Expenditures	(5,412)	(6,380)
Proceeds from Disposals of PP&E	40	65
Net Change in Finance Receivables	44	13
Other Investing Activities	(41)	(75)
Free Cash Flow (Non-GAAP measure)	$ 5,090	$ 2,262
Principal Repayments of Finance Lease Obligations	(192)	(140)
Adjusted Free Cash Flow (Non-GAAP measure)	$ 4,898	$ 2,122
Discretionary Pension Contributions	2,770	2,000
Adjusted Free Cash Flow (Non-GAAP measure) excluding Discretionary Pension Contributions	$ 4,898	$ 2,122

	Adjusted Capital Expenditures 2020	2019
Reported / GAAP	$ 5,412	$ 6,380
Principal Repayments of Finance Lease Obligations	192	140
Adjusted	$ 5,604	$ 6,520

Note: The adjustments denoted in the tables above are further described in our annual reports on Form 10-K for the years ended December 31, 2020, 2019, 2018, 2017, and 2016.

Note: We supplement the reporting of our financial information determined under generally accepted accounting principles ("GAAP") with certain non-GAAP financial measures, including "adjusted" compensation and benefits, operating expenses, operating profit, operating margin, other income and (expense), income before income taxes, income tax expense, effective tax rate, net income and earnings per share. We also 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. Additionally, we periodically disclose free cash flow, free cash flow excluding discretionary pension contributions, and capital expenditures including principal repayments of finance lease obligations. The equivalent measures determined in accordance with GAAP are also referred to as "reported" or "unadjusted."

We believe that these adjusted measures provide additional meaningful information to assist users of our financial statements in understanding our financial results and cash flows and assessing our ongoing performance, because they exclude items that may not be indicative of, or are unrelated to, our underlying operations and may provide a useful baseline for analyzing trends in our underlying businesses. These adjusted measures are used internally by management for business unit operating performance analysis, business unit resource allocation and in connection with incentive compensation award determinations.

INVESTOR INFORMATION

ANNUAL MEETING
Our annual meeting of shareowners will be held virtually at 8 a.m. on May 13, 2021 at www.virtualshareholdermeeting.com/UPS2021. Shareowners of record as of March 22, 2021 are entitled to vote at the meeting.

GO PAPERLESS
Go paperless and sign up for e-delivery of your UPS Proxy materials. The UPS Foundation will donate $1.00* to the Arbor Day Foundation for each investor that selects electronic delivery of future proxy materials. To sign up, go to icsdelivery.com/ups and select electronic delivery of proxy materials by May 12, 2021.

INVESTOR RELATIONS
You can contact our Investor Relations Department at:

UPS
55 Glenlake Parkway, NE
Atlanta, GA 30328-3474
800.877.1503 or 404.828.6059
investors.ups.com

EXCHANGE LISTING
Our Class B common stock is listed on the New York Stock Exchange under the symbol "UPS".

TRANSFER AGENT AND REGISTRAR
Computershare
Send notices of address changes or questions regarding account status, stock transfer, lost certificates, or dividend payments to:

Regular Mail
UPS
c/o Computershare
PO Box 505002
Louisville, KY 40233-5002

or:

Expedited Delivery
UPS
c/o Computershare
462 South 4th Street, Suite 1600
Louisville, KY 40202

FORM 10-K
Our Annual Report on Form 10-K for the year ended December 31, 2020 forms part of the UPS 2020 Annual Report. If you would like an additional copy of our Form 10-K, you can access it through the Investor Relations website at http://www.investors.ups.com or at the Securities and Exchange Commission website, sec.gov. The Form 10-K also is available free of charge by calling, contacting via the website, or writing to the Investor Relations Department.

UPS SHAREOWNER SERVICES
Convenient access 24 hours a day, seven days a week.

Class A Common Shareowners
www.computershare.com/ups
888.663.8325

Class B Common Shareowners
www.computershare.com/ups
800.758.4674

Calls from outside the United States: 201.680.6612
TDD for hearing impaired: 800.231.5469
TDD for non-U.S. shareowners: 201.680.6610

DIRECT STOCK PURCHASE PLAN
To make an initial purchase of UPS Class B Common Stock online, visit www.computershare.com/Investor and click "Make a Purchase" in the upper right, next to the Help button. Follow the instructions provided to get started, select a company to invest in and access the Enrollment Wizard.

Current Class B shareowners can enroll in the plan online by accessing their accounts through www.computershare.com/ups or by calling 800.758.4674.

DIVIDEND REINVESTMENT PLAN
To reinvest dividends in additional UPS shares:

Class A and B Shareowners
www.computershare.com/ups

ONLINE ACCESS TO SHAREOWNER ACCOUNT MATERIALS
Enroll in E-Communications, a self-service program that provides electronic notification and secure access to shareowner communications. To enroll, access your account at www.computershare.com/ups. After accessing your account, click the "What would you like to do" dropdown menu in the upper left of the page. Under "Holdings" click "Manage My Stock," select "My Profile," click "Update" under "E-Communications" and follow the enrollment instructions.

UPS WEBSITES
Investor Relations........... investors.ups.com
UPS Corporate............... ups.com
Sustainability/
Corporate Responsibility ... sustainability.ups.com
Services and Solutions ...... ups.com/businesssolutions

** donation up to $25,000*

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