Table of Contents

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

# Form 10-Q

(Mark One)

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

**For the quarterly period ended March 31, 2021 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)*** | ***(IRS 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 $0.01 per share | UPS | New York Stock Exchange |
| 0.375% Senior Notes due 2023 | UPS23A | New York Stock Exchange |
| 1.625% Senior Notes due 2025 | UPS25 | New York Stock Exchange |
| 1% Senior Notes due 2028 | UPS28 | New York Stock Exchange |
| 1.500% Senior Notes due 2032 | UPS32 | New York Stock Exchange |

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer", "accelerated filer", "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 is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes☐ No ☑

There were 147,215,404 Class A shares, and 723,317,204 Class B shares, with a par value of $0.01 per share, outstanding at April 22, 2021.

TABLE OF CONTENTS

# PART I. FINANCIAL INFORMATION

**Cautionary Statement About Forward-Looking Statements**

This report, our Annual Report on Form 10-K for the year ended December 31, 2020 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 forward-looking statements in other publicly disclosed materials. Such statements may 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 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, present expectations or anticipated results. These risks and uncertainties, many of which are outside of our control, include, but are not limited to, continued uncertainties related to the impact of the COVID-19 pandemic on our business and operations, financial performance and liquidity, our customers and suppliers, and on the global economy; changes in general economic conditions, in the U.S. or internationally; significant competition on a local, regional, national and international basis; changes in our relationships with our significant customers; changes in the regulatory environment in the U.S. or internationally; increased or more complex physical or data security requirements; legal, regulatory or market responses to global climate change; results of negotiations and ratifications of labor contracts; strikes, work stoppages or slowdowns by our employees; the effects of changing prices of energy, including gasoline, diesel and jet fuel, and interruptions in supplies of these commodities; changes in exchange rates or interest rates; uncertainty from the expected discontinuance of LIBOR and transition to any other interest rate benchmark; our ability to maintain our brand image; our ability to attract and retain qualified employees; breaches in data security; disruptions to the Internet or our technology infrastructure; interruptions in or impacts on our business from natural or man-made events or disasters including terrorist attacks, epidemics or pandemics; our ability to accurately forecast our future capital investment needs; exposure to changing economic, political and social developments in international and emerging markets; changes in business strategy, government regulations, or economic or market conditions that may result in impairment of our assets; increases in our expenses or funding obligations relating to employee health, retiree health and/or pension benefits; potential additional U.S. or international tax liabilities; potential claims or litigation related to labor and employment, personal injury, property damage, business practices, environmental liability and other matters; our ability to realize the anticipated benefits from acquisitions, dispositions, joint ventures or strategic alliances; our ability to realize the anticipated benefits from our transformation initiatives; cyclical and seasonal fluctuations in our operating results; our ability to manage insurance and claims expenses; and other risks discussed in our filings with the SEC from time to time, including our Annual Report on Form 10-K for the year ended December 31, 2020 and subsequently filed reports. You should consider the limitations on, and risks associated with, forward-looking statements and not unduly rely on the accuracy of information contained in such forward-looking statements. We do not undertake any obligation to update forward-looking statements to reflect events, circumstances, changes in expectations, or the occurrence of unanticipated events after the date of those statements, except as required by law.

**Item 1.** ***Financial Statements***

**UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES**
**CONSOLIDATED BALANCE SHEETS**
**March 31, 2021 (unaudited) and December 31, 2020 (in millions)**

| | March 31, 2021 | December 31, 2020 |
|---|---|---|
| **ASSETS** | | |
| Current Assets: | | |
| Cash and cash equivalents | $ 7,731 | $ 5,910 |
| Marketable securities | 351 | 406 |
| Accounts receivable | 10,258 | 10,888 |
| Less: Allowance for credit losses | (131) | (138) |
| Accounts receivable, net | 10,127 | 10,750 |
| Assets held for sale | 1,135 | 1,197 |
| Other current assets | 1,641 | 1,953 |
| Total Current Assets | 20,985 | 20,216 |
| Property, Plant and Equipment, Net | 32,455 | 32,254 |
| Operating Lease Right-Of-Use Assets | 3,044 | 3,073 |
| Goodwill | 3,346 | 3,367 |
| Intangible Assets, Net | 2,268 | 2,274 |
| Investments and Restricted Cash | 25 | 25 |
| Deferred Income Tax Assets | 243 | 527 |
| Other Non-Current Assets | 946 | 672 |
| **Total Assets** | $ 63,312 | $ 62,408 |
| **LIABILITIES AND SHAREOWNERS' EQUITY** | | |
| Current Liabilities: | | |
| Current maturities of long-term debt, commercial paper and finance leases | $ 1,811 | $ 2,623 |
| Current maturities of operating leases | 548 | 560 |
| Accounts payable | 6,305 | 6,455 |
| Accrued wages and withholdings | 3,701 | 3,569 |
| Self-insurance reserves | 1,103 | 1,085 |
| Accrued group welfare and retirement plan contributions | 934 | 927 |
| Liabilities to be disposed of | 296 | 347 |
| Other current liabilities | 1,608 | 1,450 |
| Total Current Liabilities | 16,306 | 17,016 |
| Long-Term Debt and Finance Leases | 21,916 | 22,031 |
| Non-Current Operating Leases | 2,524 | 2,540 |
| Pension and Postretirement Benefit Obligations | 9,594 | 15,817 |
| Deferred Income Tax Liabilities | 1,997 | 488 |
| Other Non-Current Liabilities | 3,816 | 3,847 |
| **Shareowners' Equity:** | | |
| Class A common stock (148 and 147 shares issued in 2021 and 2020, respectively) | 2 | 2 |
| Class B common stock (722 and 718 shares issued in 2021 and 2020, respectively) | 7 | 7 |
| Additional paid-in capital | 1,049 | 865 |
| Retained earnings | 10,748 | 6,896 |
| Accumulated other comprehensive loss | (4,659) | (7,113) |
| Deferred compensation obligations | 15 | 20 |
| Less: Treasury stock (0.4 shares in 2021 and 2020) | (15) | (20) |
| Total Equity for Controlling Interests | 7,147 | 657 |
| Noncontrolling interests | 12 | 12 |
| Total Shareowners' Equity | 7,159 | 669 |
| **Total Liabilities and Shareowners' Equity** | $ 63,312 | $ 62,408 |

See notes to unaudited, consolidated financial statements.

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

| | Three Months Ended March 31, | |
|---|---|---|
| | 2021 | 2020 |
| Revenue | 22,908 | 18,035 |
| Operating Expenses: | | |
| Compensation and benefits | $ 11,483 | $ 10,086 |
| Repairs and maintenance | 619 | 563 |
| Depreciation and amortization | 722 | 648 |
| Purchased transportation | 4,243 | 2,931 |
| Fuel | 807 | 761 |
| Other occupancy | 466 | 383 |
| Other expenses | 1,803 | 1,591 |
| Total Operating Expenses | 20,143 | 16,963 |
| Operating Profit | 2,765 | 1,072 |
| Other Income and (Expense): | | |
| Investment income and other | 3,616 | 345 |
| Interest expense | (177) | (167) |
| Total Other Income and (Expense) | 3,439 | 178 |
| Income Before Income Taxes | 6,204 | 1,250 |
| Income Tax Expense | 1,412 | 285 |
| Net Income | $ 4,792 | $ 965 |
| Basic Earnings Per Share | $ 5.50 | $ 1.12 |
| Diluted Earnings Per Share | $ 5.47 | $ 1.11 |

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

| | Three Months Ended March 31, | |
|---|---|---|
| | 2021 | 2020 |
| Net Income | $ 4,792 | $ 965 |
| Change in foreign currency translation adjustment, net of tax | (82) | (141) |
| Change in unrealized gain (loss) on marketable securities, net of tax | (4) | 2 |
| Change in unrealized gain (loss) on cash flow hedges, net of tax | 114 | 217 |
| Change in unrecognized pension and postretirement benefit costs, net of tax | 2,426 | 43 |
| Comprehensive Income (Loss) | $ 7,246 | $ 1,086 |

See notes to unaudited, consolidated financial statements.

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

| | Three Months Ended March 31, 2021 | Three Months Ended March 31, 2020 |
|---|---|---|
| **Cash Flows From Operating Activities:** | | |
| Net income | $ 4,792 | $ 965 |
| Adjustments to reconcile net income to net cash from operating activities: | | |
| Depreciation and amortization | 722 | 648 |
| Pension and postretirement benefit (income) expense | (3,024) | 160 |
| Pension and postretirement benefit contributions | (215) | (222) |
| Self-insurance reserves | 4 | 124 |
| Deferred tax (benefit) expense | 942 | 86 |
| Stock compensation expense | 315 | 231 |
| Other (gains) losses | 57 | 33 |
| Changes in assets and liabilities, net of effects of business acquisitions: | | |
| Accounts receivable | 435 | 1,223 |
| Other assets | 363 | 209 |
| Accounts payable | (261) | (1,101) |
| Accrued wages and withholdings | 199 | 83 |
| Other liabilities | 180 | 102 |
| Other operating activities | 22 | 9 |
| Net cash from operating activities | 4,531 | 2,550 |
| **Cash Flows From Investing Activities:** | | |
| Capital expenditures | (834) | (933) |
| Proceeds from disposals of property, plant and equipment | 10 | 1 |
| Purchases of marketable securities | (78) | (80) |
| Sales and maturities of marketable securities | 134 | 80 |
| Net change in finance receivables | 11 | 3 |
| Cash paid for business acquisitions, net of cash and cash equivalents acquired | (3) | — |
| Other investing activities | (6) | (5) |
| Net cash used in investing activities | (766) | (934) |
| **Cash Flows From Financing Activities:** | | |
| Net change in short-term debt | 697 | (91) |
| Proceeds from long-term borrowings | — | 4,253 |
| Repayments of long-term borrowings | (1,528) | (687) |
| Purchases of common stock | — | (220) |
| Issuances of common stock | 78 | 70 |
| Dividends | (858) | (840) |
| Other financing activities | (334) | (318) |
| Net cash (used in) / from financing activities | (1,945) | 2,167 |
| **Effect of Exchange Rate Changes on Cash, Cash Equivalents and Restricted Cash** | 1 | (65) |
| **Net Increase (Decrease) in Cash, Cash Equivalents and Restricted Cash** | 1,821 | 3,718 |
| **Cash, Cash Equivalents and Restricted Cash:** | | |
| Beginning of period | 5,910 | 5,238 |
| End of period | $ 7,731 | $ 8,956 |

See notes to unaudited, consolidated financial statements.

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

## NOTE 1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES

*Principles of Consolidation*

The accompanying interim unaudited, consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. These interim unaudited, consolidated financial statements contain all adjustments (consisting of normal recurring accruals) necessary to present fairly our financial position as of March 31, 2021 and our results of operations and cash flows for the three months ended March 31, 2021 and 2020. The results reported in these interim unaudited, consolidated financial statements should not be regarded as indicative of results that may be expected for any other period or the entire year. The interim unaudited, consolidated financial statements should be read in conjunction with the audited, consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2020.

*Fair Value of Financial Instruments*

The carrying amounts of our cash and cash equivalents, accounts receivable, finance receivables and accounts payable approximate fair value as of March 31, 2021 and December 31, 2020. The fair values of our investment securities are disclosed in note 5, our recognized multiemployer pension withdrawal liabilities in note 8, our short- and long-term debt in note 10 and our derivative instruments in note 16. We utilized Level 1 inputs in the fair value hierarchy of valuation techniques to determine the fair value of our cash and cash equivalents, and Level 2 inputs to determine the fair value of our accounts receivable, finance receivables and accounts payable.

*Use of Estimates*

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

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

For interim unaudited, consolidated financial statement purposes, we provide for accruals under our various company-sponsored employee benefit plans for each three month period based on one quarter of the estimated annual expense.

## NOTE 2. RECENT ACCOUNTING PRONOUNCEMENTS

*Adoption of New Accounting Standards*

In March 2020, the Financial Accounting Standards Board issued Accounting Standards Update ("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. While we do not currently anticipate any material impacts to our financial position, results of operations or cash flows from reference rate reform, we continue to monitor our contracts and transactions for potential application of this ASU.

For accounting standards adopted in the period ended March 31, 2020, refer to note 1 to our audited, consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2020. Other accounting pronouncements adopted during the periods covered by the unaudited, consolidated financial statements did not have a material impact on our consolidated financial position, results of operations or cash flows.

*Accounting Standards Issued But Not Yet Effective*

Accounting pronouncements issued before, but not effective until after, March 31, 2021, are not expected to have a material impact on our consolidated financial position, results of operations or cash flows.

## NOTE 3. REVENUE RECOGNITION

*Revenue Recognition*

Substantially all of our revenues are from contracts associated with the pickup, transportation and delivery of packages and freight ("transportation services"), 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*

| | Three Months Ended March 31, 2021 | Three Months Ended March 31, 2020 |
|---|---|---|
| **Revenue:** | | |
| Next Day Air | $ 2,331 | $ 2,055 |
| Deferred | 1,260 | 1,197 |
| Ground | 10,419 | 8,204 |
| U.S. Domestic Package | 14,010 | 11,456 |
| | | |
| Domestic | 928 | 688 |
| Export | 3,493 | 2,561 |
| Cargo & Other | 186 | 134 |
| International Package | 4,607 | 3,383 |
| | | |
| Forwarding | 2,072 | 1,373 |
| Logistics | 1,104 | 845 |
| Freight | 767 | 766 |
| Other | 348 | 212 |
| Supply Chain & Freight | 4,291 | 3,196 |
| | | |
| Consolidated revenue | $ 22,908 | $ 18,035 |

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, forward looking indicators, trends in customer payment frequency and judgments about the probable effects of relevant observable data, including present and future economic conditions and the financial health of specific customers and market sectors. Our risk management process includes standards and policies for reviewing major account exposures and concentrations of risk.

We decreased our allowance for expected credit losses by $7 million during the first quarter of 2021 based upon current forecasts that reflect improvements in the economic outlook. Our allowance for credit losses as of March 31, 2021 and December 31, 2020 was $131 and $138 million, respectively. Our total allowance for credit losses charged to expense, before recoveries, during the three months ended March 31, 2021 and 2020 was $41 and $69 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 $205 and $279 million as of March 31, 2021 and December 31, 2020, respectively, net of deferred revenue related to in-transit packages of $131 and $279 million as of March 31, 2021 and December 31, 2020, 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 $8 and $21 million as of March 31, 2021 and December 31, 2020, 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 at both March 31, 2021 and December 31, 2020. Long-term contract liabilities are included within "Other Non-Current Liabilities" in the consolidated balance sheets.

## NOTE 4. STOCK-BASED COMPENSATION

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

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. We also maintain an employee stock purchase plan which allows eligible employees to purchase shares of UPS class A common stock at a discount. Additionally, our matching contributions to our primary employee defined contribution savings plan are made in shares of UPS class A common stock.

*Management Incentive Award Program ("MIP")*

We award Restricted Units under the MIP to certain eligible management employees. These 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).

Based on the date that the eligible management population and performance targets were approved for the 2020 MIP, we determined the award measurement dates to be February 10, 2021 (for U.S.-based employees and executive management) and March 22, 2021 (for international-based employees); therefore, the Restricted Units awarded were valued for stock compensation expense purposes using the closing New York Stock Exchange ("NYSE") price of $165.66, and $161.06 on those dates, respectively.

*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 that was made in the second quarter of 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 Standard & Poors 500 Index ("S&P 500"). 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 was divided into two measurement periods. The first measurement period evaluated the achievement of the performance targets for 2020. The second measurement period will evaluate the achievement of the performance targets for the years 2021 through 2022. The performance targets for the second measurement period were approved on March 25, 2021 and the target Restricted Units awarded were valued at $167.66 on that date.

The eligible management employees and performance targets for the 2021 LTIP award were also approved on March 25, 2021. We therefore determined this to be the award measurement date and the target Restricted Units awarded were valued at $166.52.

The weighted-average assumptions used and the calculated weighted-average fair values of the LTIP awards granted in 2021 and 2020 are as follows:

| | 2021 | 2020 |
|---|---|---|
| Risk-free interest rate | 0.19 % | 0.15 % |
| Expected volatility | 30.70 % | 27.53 % |
| Weighted-average fair value of units granted | $ 167.17 | $ 92.77 |
| Share payout | 102.40 % | 101.00 % |

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

*Non-Qualified Stock Options*

We grant non-qualified stock options to a limited group of eligible senior management employees under the UPS Stock Option program. Stock option awards 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. In the first quarter of 2021, we granted 0.2 million stock options at a grant price of $165.66, which was the NYSE closing price on February 10, 2021.

The fair value of each option grant is estimated using the Black-Scholes option pricing model. The weighted-average assumptions used and the calculated weighted-average fair values of options granted in 2021 and 2020 are as follows:

| | 2021 | 2020 |
|---|---|---|
| Expected dividend yield | 3.31 % | 3.51 % |
| Risk-free interest rate | 0.84 % | 1.26 % |
| Expected life (in years) | 7.5 | 7.5 |
| Expected volatility | 23.15 % | 19.25 % |
| Weighted-average fair value of options granted | $ 23.71 | $ 11.74 |

Pre-tax compensation expense for share-based awards recognized in "Compensation and benefits" on the statements of consolidated income for the three months ended March 31, 2021 and 2020 was $315 and $231 million, respectively.

## NOTE 5. CASH AND INVESTMENTS

The following is a summary of marketable securities classified as trading and available-for-sale as of March 31, 2021 and December 31, 2020 (in millions):

| | Cost | Unrealized Gains | Unrealized Losses | Estimated Fair Value |
|---|---|---|---|---|
| **March 31, 2021:** | | | | |
| Current trading marketable securities: | | | | |
| Equity securities | $ 2 | $ — | $ — | $ 2 |
| Total trading marketable securities | 2 | — | — | 2 |
| | | | | |
| Current available-for-sale securities: | | | | |
| U.S. government and agency debt securities | 187 | 1 | — | 188 |
| Mortgage and asset-backed debt securities | 3 | — | — | 3 |
| Corporate debt securities | 144 | 3 | — | 147 |
| Non-U.S. government debt securities | 11 | — | — | 11 |
| Total available-for-sale marketable securities | 345 | 4 | — | 349 |
| | | | | |
| Total current marketable securities | $ 347 | $ 4 | $ — | $ 351 |

| | Cost | Unrealized Gains | Unrealized Losses | Estimated Fair Value |
|---|---|---|---|---|
| **December 31, 2020:** | | | | |
| Current trading marketable securities: | | | | |
| Equity securities | $ 2 | $ — | $ — | $ 2 |
| Total trading marketable securities | 2 | — | — | 2 |
| | | | | |
| Current available-for-sale 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 |

*Investment Impairments*

We have concluded that no material impairment losses existed as of March 31, 2021. 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.

*Maturity Information*

The amortized cost and estimated fair value of marketable securities as of March 31, 2021 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 | $ 35 | $ 36 |
| Due after one year through three years | 310 | 313 |
| Due after three years through five years | — | — |
| Due after five years | — | — |
| | 345 | 349 |
| Equity securities | 2 | 2 |
| | $ 347 | $ 351 |

*Non-Current Investments and Restricted Cash*

We held a $22 and $23 million investment in a variable life insurance policy to fund benefits for the UPS Excess Coordinating Benefit Plan as of March 31, 2021 and December 31, 2020, respectively. The change in investment fair value is recognized in Investment income and other in the statements of consolidated income. Additionally, we held escrowed cash related to the acquisition and disposition of certain assets of $3 million and $2 million as of March 31, 2021 and December 31, 2020, 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):

| | March 31, 2021 | December 31, 2020 | March 31, 2020 |
|---|---|---|---|
| Cash and cash equivalents | $ 7,731 | $ 5,910 | $ 8,955 |
| Restricted cash | — | — | 1 |
| Total cash, cash equivalents and restricted cash | $ 7,731 | $ 5,910 | $ 8,956 |

*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 March 31, 2021 and December 31, 2020, 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) | Balance |
|---|---|---|---|---|
| **March 31, 2021:** | | | | |
| Marketable Securities: | | | | |
| U.S. government and agency debt securities | $ 188 | $ — | $ — | $ 188 |
| Mortgage and asset-backed debt securities | — | 3 | — | 3 |
| Corporate debt securities | — | 147 | — | 147 |
| Equity securities | — | 2 | — | 2 |
| Non-U.S. government debt securities | — | 11 | — | 11 |
| Total marketable securities | 188 | 163 | — | 351 |
| Other non-current investments | 22 | — | — | 22 |
| Total | $ 210 | $ 163 | $ — | $ 373 |
| | | | | |
| **December 31, 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 |

There were no transfers of investments between Level 1 and Level 2 during the three months ended March 31, 2021 or 2020.

## NOTE 6. 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 sheets as of March 31, 2021 and December 31, 2020 (in millions):

| | 2021 | 2020 |
|---|---|---|
| **Assets:** | | |
| Accounts receivable, net | $ 284 | $ 263 |
| Other current assets | 67 | 62 |
| Property, plant and equipment, net | 949 | 940 |
| Other non-current assets | 93 | 124 |
| Total assets | 1,393 | 1,389 |
| Valuation allowance | (258) | (192) |
| Total assets held for sale | $ 1,135 | $ 1,197 |
| | | |
| **Liabilities:** | | |
| Accounts payable | $ 47 | $ 50 |
| Other current liabilities | 118 | 112 |
| Other non-current liabilities | 131 | 185 |
| Total liabilities to be disposed of | $ 296 | $ 347 |
| | | |
| Net assets held for sale | $ 839 | $ 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.

As of December 31, 2020, we recognized a total pre-tax impairment charge of $686 million ($629 million after tax), comprised of a goodwill impairment charge of $494 million and a valuation allowance of $192 million to adjust the carrying value of the disposal group to fair value less cost to sell.

As of March 31, 2021, we increased the valuation allowance by $66 million ($50 million after tax) to adjust the carrying value of the disposal group to our current estimate of fair value less cost to sell. This charge was recognized within Other expenses in the statements of consolidated income.

On April 30, 2021, we completed the previously announced divestiture of UPS Freight.

## NOTE 7. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment as of March 31, 2021 and December 31, 2020 consisted of the following (in millions):

| | 2021 | 2020 |
|---|---|---|
| Vehicles | $ 9,901 | $ 9,786 |
| Aircraft | 20,844 | 20,549 |
| Land | 2,042 | 2,052 |
| Buildings | 5,445 | 5,425 |
| Building and leasehold improvements | 4,960 | 4,921 |
| Plant equipment | 14,821 | 14,684 |
| Technology equipment | 2,736 | 2,626 |
| Construction-in-progress | 1,889 | 2,048 |
| | 62,638 | 62,091 |
| Less: Accumulated depreciation and amortization | (30,183) | (29,837) |
| Property, Plant and Equipment, Net | $ 32,455 | $ 32,254 |

Property, plant and equipment purchased on account was $454 and $319 million as of March 31, 2021 and December 31, 2020, 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. We recognized impairment charges of $24 million for the three months ended March 31, 2021 due to the timing of cancellation of certain facility expansion projects. We recognized these impairment charges within Other expenses in the statements of consolidated income. No impairment charges were recorded for the three months ended March 31, 2020.

## NOTE 8. EMPLOYEE BENEFIT PLANS

*Company-Sponsored Benefit Plans*

Information about the net periodic benefit (income) cost for our company-sponsored pension and postretirement benefit plans for the three months ended March 31, 2021 and 2020 is as follows (in millions):

| | U.S. Pension Benefits | | U.S. Postretirement Medical Benefits | | International Pension Benefits | |
|---|---|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 | 2021 | 2020 |
| **Three Months Ended March 31:** | | | | | | |
| Service cost | $ 553 | $ 464 | $ 7 | $ 7 | $ 19 | $ 16 |
| Interest cost | 488 | 494 | 19 | 23 | 10 | 10 |
| Expected return on assets | (846) | (888) | (2) | (2) | (17) | (21) |
| Amortization of prior service cost | 33 | 55 | 2 | 2 | — | — |
| Actuarial (gain) loss | (3,290) | — | — | — | — | — |
| Net periodic benefit (income) cost | $ (3,062) | $ 125 | $ 26 | $ 30 | $ 12 | $ 5 |

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

On January 24, 2021, we entered into a definitive agreement to divest our UPS Freight business, details of which are set out in note 6. Upon closing, certain U.S. pension and postretirement benefit plans will be subject to remeasurement of plan assets and benefit obligations.

During the first three months of 2021, we contributed $22 and $193 million to our company-sponsored pension and U.S. postretirement medical benefit plans, respectively. We currently expect to contribute approximately $72 and $63 million over the remainder of the year to our pension and U.S. postretirement medical benefit plans, respectively. Subject to market conditions, we continually evaluate opportunities for additional discretionary contributions.

*Multiemployer Benefit Plans*

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

As of March 31, 2021 and December 31, 2020, we had $835 and $837 million, respectively, recorded in Other non-current liabilities as well as $8 and $7 million as of March 31, 2021 and December 31, 2020, respectively, recorded in Other current liabilities on our consolidated balance sheets associated with our previous withdrawal from a multiemployer pension plan. 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 this withdrawal liability as of March 31, 2021 and December 31, 2020 was $916 million and $1.0 billion, respectively. We utilized Level 2 inputs in the fair value hierarchy of valuation techniques to determine the fair value of this liability.

UPS was a contributing employer to the Central States Pension Fund (“CSPF”) until 2007 at which time UPS withdrew and paid a $6.1 billion withdrawal liability to satisfy our allocable share of unfunded vested benefits. 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 this withdrawal agreement, benefits to the UPS Transfer Group cannot be reduced without our consent and can only be reduced in accordance with applicable law. The financial crisis of 2008 created extensive asset losses at the CSPF, contributing to the plan’s projected insolvency, at which time benefits would be reduced to the legally permitted Pension Benefit Guaranty Corporation ("PBGC") limits, triggering the coordination of benefits provision in the collective bargaining agreement.

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 light of its financial difficulties, the CSPF had stated that it believed a legislative solution to its funded status would be necessary or that it would become insolvent in 2025, at which time benefits would be reduced to the applicable PBGC benefit levels.

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 and at interim periods when a significant event occurs. ASC 715 does not permit anticipation of changes in law when developing a best estimate.

At the December 31, 2020 measurement date, we developed our best estimate for the potential obligation to pay coordinating benefits to the UPS Transfer Group using a deterministic cash flow projection that reflected estimated CSPF cash flows and investment earnings, the lack of legislative action having been taken, the expectation of payment of guaranteed benefits by the PBGC and the lack of a benefit reduction plan under MPRA having been filed by the CSPF. As a result, our best estimate at that time of the obligation for coordinating benefits that may have been required to be directly provided by the UPS/IBT Plan to the UPS Transfer Group was $5.5 billion.

In March 2021, the American Rescue Plan Act (“ARPA”) was enacted into law. The ARPA contains provisions that allow for qualifying financially distressed multiemployer pension plans to apply for special financial assistance from the PBGC, which will be funded by Treasury. Following approval of an application, a qualifying multiemployer pension plan will receive a lump sum payment to enable it to continue paying unreduced benefits through 2051. The multiemployer plan is not obligated to repay the special financial assistance. The ARPA is intended to prevent both the PBGC and certain financially distressed multiemployer pension plans, including the CSPF, from becoming insolvent through 2051. We expect that the CSPF will apply for special financial assistance during 2021 in order to continue payment of unreduced benefits through 2051.

The passage of the ARPA and the expected receipt of special financial assistance by the CSPF currently obviates our obligation to provide additional coordinating benefits to the UPS Transfer Group through 2051. These matters also triggered a remeasurement under ASC 715. Accordingly, we remeasured the plan assets and pension benefit obligation of the UPS/IBT Plan as of March 31, 2021.

The interim remeasurement resulted in an actuarial gain of $6.4 billion, reflecting reduction of the liability for coordinating benefits of $5.1 billion and a gain from other updated actuarial assumptions of $1.3 billion. The assumption gain reflects a $1.6 billion benefit from a 72 basis point increase in the discount rate compared to December 31, 2020, offset by $0.3 billion asset loss resulting from actual asset returns approximately 220 basis points below our expected return. As a result, $3.1 billion of the actuarial gain was recorded in accumulated other comprehensive income within the equity section of the consolidated balance sheet. The remaining pre-tax actuarial gain of $3.3 billion ($2.5 billion after tax) that exceeded the corridor (defined as 10% of the greater of the fair value of plan assets and the plan's projected benefit obligation) was recognized as a mark-to-market gain in the statement of consolidated income for the quarter ended March 31, 2021.

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

*Collective Bargaining Agreements*

We have 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.

## NOTE 9. GOODWILL AND INTANGIBLE ASSETS

The following table indicates the allocation of goodwill by reportable segment as of March 31, 2021 and December 31, 2020 (in millions):

| | U.S. Domestic Package | International Package | Supply Chain & Freight | Consolidated |
|---|---|---|---|---|
| **December 31, 2020:** | $ 715 | $ 422 | $ 2,230 | $ 3,367 |
| Acquired | — | — | — | — |
| Currency / Other | — | (9) | (12) | (21) |
| **March 31, 2021:** | $ 715 | $ 413 | $ 2,218 | $ 3,346 |

The change in goodwill for both the International Package and Supply Chain & Freight segments was primarily due to the impact of changes in the value of the U.S. Dollar on the translation of non-U.S. Dollar goodwill balances.

The following is a summary of intangible assets as of March 31, 2021 and December 31, 2020 (in millions):

| | Gross Carrying Amount | Accumulated Amortization | Net Carrying Value |
|---|---|---|---|
| **March 31, 2021:** | | | |
| Capitalized software | $ 4,610 | $ (3,027) | $ 1,583 |
| Licenses | 102 | (44) | 58 |
| Franchise rights | 168 | (114) | 54 |
| Customer relationships | 725 | (359) | 366 |
| Trade name | 200 | — | 200 |
| Trademarks, patents and other | 22 | (15) | 7 |
| Total Intangible Assets, Net | $ 5,827 | $ (3,559) | $ 2,268 |
| **December 31, 2020:** | | | |
| Capitalized software | $ 4,531 | $ (2,962) | $ 1,569 |
| Licenses | 100 | (37) | 63 |
| Franchise rights | 165 | (113) | 52 |
| Customer relationships | 729 | (344) | 385 |
| Trade name | 200 | — | 200 |
| Trademarks, patents and other | 18 | (13) | 5 |
| Total Intangible Assets, Net | $ 5,743 | $ (3,469) | $ 2,274 |

As of March 31, 2021, we had a trade name with a carrying value of $200 million and licenses with a carrying value of $4 million, which are deemed to be indefinite-lived intangible assets and are included in the table above.

Impairment tests for finite-lived intangible assets are performed when a triggering event occurs that may indicate that the carrying value of the intangible asset may not be recoverable. We recorded $6 million in impairment charges for finite-lived intangible assets during the three months ended March 31, 2021. There were no impairment charges during the same period of 2020.

## NOTE 10. DEBT AND FINANCING ARRANGEMENTS

The carrying value of our outstanding debt obligations as of March 31, 2021 and December 31, 2020 consists of the following (in millions):

| | Principal Amount | Maturity | Carrying Value 2021 | Carrying Value 2020 |
|---|---|---|---|---|
| Commercial paper | $ 697 | 2021 | $ 697 | $ 15 |
| Fixed-rate senior notes: | | | | |
| 3.125% senior notes | — | 2021 | — | 1,507 |
| 2.050% senior notes | 700 | 2021 | 700 | 700 |
| 2.450% senior notes | 1,000 | 2022 | 1,028 | 1,028 |
| 2.350% senior notes | 600 | 2022 | 599 | 599 |
| 2.500% senior notes | 1,000 | 2023 | 997 | 997 |
| 2.800% senior notes | 500 | 2024 | 498 | 498 |
| 2.200% senior notes | 400 | 2024 | 398 | 398 |
| 3.900% senior notes | 1,000 | 2025 | 995 | 995 |
| 2.400% senior notes | 500 | 2026 | 498 | 498 |
| 3.050% senior notes | 1,000 | 2027 | 993 | 993 |
| 3.400% senior notes | 750 | 2029 | 746 | 746 |
| 2.500% senior notes | 400 | 2029 | 397 | 397 |
| 4.450% senior notes | 750 | 2030 | 744 | 743 |
| 6.200% senior notes | 1,500 | 2038 | 1,483 | 1,483 |
| 5.200% senior notes | 500 | 2040 | 493 | 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 | 1,137 |
| 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 | 1,231 |
| Floating-rate senior notes: | | | | |
| Floating-rate senior notes | 350 | 2021 | 350 | 350 |
| Floating-rate senior notes | 400 | 2022 | 400 | 399 |
| Floating-rate senior notes | 500 | 2023 | 499 | 499 |
| Floating-rate senior notes | 1,039 | 2049-2067 | 1,027 | 1,027 |
| 8.375% Debentures: | | | | |
| 8.375% debentures | 276 | 2030 | 281 | 281 |
| Pound Sterling Notes: | | | | |
| 5.500% notes | 91 | 2031 | 91 | 90 |
| 5.125% notes | 626 | 2050 | 594 | 586 |
| Euro Senior Notes: | | | | |
| 0.375% senior notes | 821 | 2023 | 818 | 857 |
| 1.625% senior notes | 821 | 2025 | 818 | 856 |
| 1.000% senior notes | 587 | 2028 | 584 | 611 |
| 1.500% senior notes | 587 | 2032 | 583 | 611 |
| Canadian senior notes: | | | | |
| 2.125% senior notes | 594 | 2024 | 592 | 583 |
| Finance lease obligations | 352 | 2021-2159 | 352 | 342 |
| Facility notes and bonds | 320 | 2029-2045 | 320 | 320 |
| Other debt | 5 | 2021-2025 | 5 | 5 |
| Total debt | $ 23,891 | | 23,727 | 24,654 |
| Less: current maturities | | | (1,811) | (2,623) |
| Long-term debt | | | $ 21,916 | $ 22,031 |

*Commercial Paper*

We are authorized to borrow up to $10.0 billion under a U.S. commercial paper program and €5.0 billion (in a variety of currencies) under a European commercial paper program. As of March 31, 2021, we had U.S. commercial paper outstanding of $697 million with an average interest rate of 0.06% and no outstanding balances under our European commercial paper program. As of March 31, 2021, 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 Classification*

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

*Debt Repayments*

On January 15, 2021, our 3.125% senior notes with a principle balance of $1.5 billion matured and were repaid in full.

*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 1.00%, 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 March 31, 2021.

*Debt Covenants*

Our existing debt instruments and credit facilities subject us to certain financial covenants. As of March 31, 2021, and for all prior periods presented, we have satisfied these financial covenants. These covenants limit the amount of secured indebtedness that we may incur, and limit the amount of attributable debt in sale-leaseback transactions, to 10% of net tangible assets. As of March 31, 2021, 10% of net tangible assets was equivalent to $4.1 billion and we had no covered sale-leaseback transactions or secured indebtedness outstanding. We do not expect these covenants to have a material impact on our financial condition or liquidity.

*Fair Value of Debt*

Based on the borrowing rates currently available to us for long-term debt with similar terms and maturities, the fair value of long-term debt, including current maturities, was approximately $26.3 and $28.3 billion as of March 31, 2021 and December 31, 2020, 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 11. LEASES

We recognize a right-of-use ("ROU") asset and lease liability 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 liability for leases containing options requires the use of judgment to determine whether the exercise of an option is reasonably certain and if the optional period and payments should be included in the calculation of the associated ROU asset and lease liability. 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 liability 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 139 years.

*Aircraft*

In addition to the aircraft that we own, we have leases for 314 aircraft. Of these leased aircraft, 24 are classified as finance leases, 17 are classified as operating leases and the remaining 273 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 liability.

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 liability.

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 lease liability.

The components of lease expense for the three months ended March 31, 2021 and 2020 were as follows (in millions):

| | Three Months Ended March 31, | |
|---|---|---|
| | **2021** | **2020** |
| Operating lease costs | $ 175 | $ 175 |
| Finance lease costs: | | |
| Amortization of assets | 23 | 18 |
| Interest on lease liabilities | 4 | 5 |
| Total finance lease costs | 27 | 23 |
| Variable lease costs | 65 | 58 |
| Short-term lease costs | 279 | 203 |
| Total lease costs | $ 546 | $ 459 |

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

| | March 31, 2021 | December 31, 2020 |
|---|---|---|
| **Operating Leases:** | | |
| Operating lease right-of-use assets | $ 3,044 | $ 3,073 |
| | | |
| Current maturities of operating leases | $ 548 | $ 560 |
| Non-current operating leases | 2,524 | 2,540 |
| Total operating lease liabilities | $ 3,072 | $ 3,100 |
| | | |
| **Finance Leases:** | | |
| Property, plant and equipment, net | $ 1,167 | $ 1,225 |
| | | |
| Current maturities of long-term debt, commercial paper and finance leases | $ 61 | $ 56 |
| Long-term debt and finance leases | 291 | 286 |
| Total finance lease liabilities | $ 352 | $ 342 |
| | | |
| Weighted average remaining lease term (in years): | | |
| Operating leases | 12.4 | 11.2 |
| Finance leases | 8.9 | 9.3 |
| | | |
| Weighted average discount rate: | | |
| Operating leases | 2.17 % | 2.28 % |
| Finance leases | 4.02 % | 4.14 % |

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

| | Three Months Ended March 31, | |
|---|---|---|
| | 2021 | 2020 |
| Cash paid for amounts included in measurement of liabilities: | | |
| Operating cash flows from operating leases | $ 171 | $ 175 |
| Operating cash flows from finance leases | 1 | 2 |
| Financing cash flows from finance leases | 13 | 6 |
| | | |
| Right-of-use assets obtained in exchange for lease liabilities: | | |
| Operating leases | $ 174 | $ 305 |
| Finance leases | 23 | 10 |

Maturities of lease liabilities as of March 31, 2021 are as follows (in millions):

| | Finance Leases | Operating Leases |
|---|---|---|
| 2021 | $ 61 | $ 457 |
| 2022 | 70 | 569 |
| 2023 | 55 | 467 |
| 2024 | 34 | 344 |
| 2025 | 29 | 266 |
| Thereafter | 188 | 1,504 |
| Total lease payments | 437 | 3,607 |
| Less: Imputed interest | (85) | (535) |
| Total lease obligations | 352 | 3,072 |
| Less: Current obligations | (61) | (548) |
| Long-term lease obligations | $ 291 | $ 2,524 |

As of March 31, 2021, we have additional leases which have not commenced of $178 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. 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 into10 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.

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 13. SHAREOWNERS' EQUITY

*Capital Stock, Additional Paid-In Capital, Retained Earnings and Non-Controlling Minority Interests*

We are authorized to issue two classes of common stock, which are distinguished from each other by their respective voting rights. Class A shares of UPS are entitled to 10 votes per share, whereas class B shares are entitled to one vote per share. Class A shares are primarily held by UPS employees and retirees, as well as trusts and descendants of the Company's founders, and these shares are fully convertible into class B shares at any time. Class B shares are publicly traded on the NYSE under the symbol "UPS". Class A and B shares both have a $0.01 par value, and as of March 31, 2021, there were 4.6 billion class A shares and 5.6 billion class B shares authorized to be issued. Additionally, there are 200 million preferred shares authorized to be issued, with a par value of $0.01 per share. As of March 31, 2021, no preferred shares had been issued.

The following is a rollforward of our common stock, additional paid-in capital, retained earnings and non-controlling minority interests accounts for the three months ended March 31, 2021 and 2020 (in millions, except per share amounts):

| | 2021 | | 2020 | |
|---|---|---|---|---|
| | Shares | Dollars | Shares | Dollars |
| **Class A Common Stock** | | | | |
| Balance at beginning of period | 147 | $ 2 | 156 | $ 2 |
| Common stock purchases | — | — | — | — |
| Stock award plans | 4 | — | 4 | — |
| Common stock issuances | 1 | — | 2 | — |
| Conversions of class A to class B common stock | (4) | — | (4) | — |
| Class A shares issued at end of period | 148 | $ 2 | 158 | $ 2 |
| **Class B Common Stock** | | | | |
| Balance at beginning of period | 718 | $ 7 | 701 | $ 7 |
| Common stock purchases | — | — | (2) | — |
| Conversions of class A to class B common stock | 4 | — | 4 | — |
| Class B shares issued at end of period | 722 | $ 7 | 703 | $ 7 |
| **Additional Paid-In Capital** | | | | |
| Balance at beginning of period | | $ 865 | | $ 150 |
| Common stock purchases | | — | | (217) |
| Stock award plans | | 30 | | (67) |
| Common stock issuances | | 154 | | 163 |
| Balance at end of period | | $ 1,049 | | $ 29 |
| **Retained Earnings** | | | | |
| Balance at beginning of period | | $ 6,896 | | $ 9,105 |
| Net income attributable to common shareowners | | 4,792 | | 965 |
| Dividends ($1.02 and $1.01 per share) [1] | | (938) | | (933) |
| Other | | (2) | | — |
| Balance at end of period | | $ 10,748 | | $ 9,137 |
| **Non-Controlling Minority Interest** | | | | |
| Balance at beginning of period | | $ 12 | | $ 16 |
| Change in non-controlling minority interest | | — | | (2) |
| Balance at end of period | | $ 12 | | $ 14 |

[1] The dividend per share amount is the same for both class A and class B common stock. Dividends include $80 and $93 million as of March 31, 2021 and March 31, 2020, 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 March 31, 2021, 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. We have currently suspended stock repurchases under this program and as of March 31, 2021, we have no plans to repurchase shares.

We did not repurchase any shares under this program during the three months ended March 31, 2021. During the three months ended March 31, 2020, we repurchased 2.1 million shares of class A and class B common stock for $217 million ($220 million in repurchases are reported on the statements of consolidated cash flows due to the timing of settlements).

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

*Accumulated Other Comprehensive Income (Loss)*

We recognize activity in 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 three months ended March 31, 2021 and 2020 was as follows (in millions):

| **Three Months Ended March 31:** | **2021** | **2020** |
|---|---|---|
| **Foreign Currency Translation Gain (Loss), Net of Tax:** | | |
| Balance at beginning of period | $ (981) | $ (1,078) |
| Translation adjustment (net of tax effect of $30 and $13) | (82) | (141) |
| Balance at end of period | (1,063) | (1,219) |
| **Unrealized Gain (Loss) on Marketable Securities, Net of Tax:** | | |
| Balance at beginning of period | 6 | 4 |
| Current period changes in fair value (net of tax effect of $0 and $0) | (1) | 2 |
| Reclassification to earnings (net of tax effect of $0 and $0) | (3) | — |
| Balance at end of period | 2 | 6 |
| **Unrealized Gain (Loss) on Cash Flow Hedges, Net of Tax:** | | |
| Balance at beginning of period | (223) | 112 |
| Current period changes in fair value (net of tax effect of $39 and $83) | 124 | 263 |
| Reclassification to earnings (net of tax effect of $(3) and $(15)) | (10) | (46) |
| Balance at end of period | (109) | 329 |
| **Unrecognized Pension and Postretirement Benefit Costs, Net of Tax:** | | |
| Balance at beginning of period | (5,915) | (5,035) |
| Net actuarial gain (loss) resulting from remeasurements of plan assets and liabilities (net of tax effect of $1,544 and $0) | 4,901 | — |
| Reclassification to earnings (net of tax effect of $(780) and $14) | (2,475) | 43 |
| Balance at end of period | (3,489) | (4,992) |
| Accumulated other comprehensive income (loss) at end of period | $ (4,659) | $ (5,876) |

Detail of the gains (losses) reclassified from AOCI to the statements of consolidated income for the three months ended March 31, 2021 and 2020 was as follows (in millions):

| | Amount Reclassified from AOCI | | |
|---|---|---|---|
| **Three Months Ended March 31:** | **2021** | **2020** | **Affected Line Item in the Income Statement** |
| **Unrealized Gain (Loss) on Marketable Securities:** | | | |
| Realized gain (loss) on sale of securities | $ 3 | $ — | Investment income and other |
| Income tax (expense) benefit | — | — | Income tax expense |
| Impact on net income | 3 | — | Net income |
| **Unrealized Gain (Loss) on Cash Flow Hedges:** | | | |
| Interest rate contracts | (2) | (3) | Interest expense |
| Foreign exchange contracts | 15 | 64 | Revenue |
| Income tax (expense) benefit | (3) | (15) | Income tax expense |
| Impact on net income | 10 | 46 | Net income |
| **Unrecognized Pension and Postretirement Benefit Costs:** | | | |
| Prior service costs | (35) | (57) | Investment income and other |
| Remeasurement of benefit obligation | 3,290 | — | Investment income and other |
| Income tax (expense) benefit | (780) | 14 | Income tax expense |
| Impact on net income | 2,475 | (43) | Net income |
| Total amount reclassified for the period | $ 2,488 | $ 3 | 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 three months ended March 31, 2021 and 2020 was as follows (in millions):

| | 2021 | | 2020 | |
|---|---|---|---|---|
| **Three Months Ended March 31:** | **Shares** | **Dollars** | **Shares** | **Dollars** |
| **Deferred Compensation Obligations:** | | | | |
| Balance at beginning of period | | $ 20 | | $ 26 |
| Reinvested dividends | | — | | — |
| Benefit payments | | (5) | | (7) |
| Balance at end of period | | $ 15 | | $ 19 |
| **Treasury Stock:** | | | | |
| Balance at beginning of period | — | $ (20) | — | $ (26) |
| Reinvested dividends | — | — | — | — |
| Benefit payments | — | 5 | — | 7 |
| Balance at end of period | — | $ (15) | — | $ (19) |

## NOTE 14. SEGMENT INFORMATION

We report our operations in three 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 (Indian Subcontinent, Middle East and Africa).

*Supply Chain & Freight*

Supply Chain & Freight includes 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 April 30, 2021, we completed the previously announced divestiture of our UPS Freight business, details of which are set out in note 6. 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 and other, interest expense and income tax expense. Certain expenses are allocated between the segments using activity-based costing methods as described in the audited, consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2020, and in the "Results of Operations - Segment Review" section of Management's Discussion and Analysis included in this report.

Segment information for the three months ended March 31, 2021 and 2020 is as follows (in millions):

| | Three Months Ended March 31, 2021 | Three Months Ended March 31, 2020 |
|---|---|---|
| **Revenue:** | | |
| U.S. Domestic Package | $ 14,010 | $ 11,456 |
| International Package | 4,607 | 3,383 |
| Supply Chain & Freight | 4,291 | 3,196 |
| Consolidated revenue | $ 22,908 | $ 18,035 |
| **Operating Profit:** | | |
| U.S. Domestic Package | $ 1,359 | $ 364 |
| International Package | 1,085 | 551 |
| Supply Chain & Freight | 321 | 157 |
| Consolidated operating profit | $ 2,765 | $ 1,072 |

## NOTE 15. EARNINGS PER SHARE

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

The following table sets forth the computation of basic and diluted earnings per share for the three months ended March 31, 2021 and 2020 (in millions, except per share amounts):

| | Three Months Ended March 31, | |
|---|---|---|
| | 2021 | 2020 |
| **Numerator:** | | |
| Net income attributable to common shareowners | $ 4,792 | $ 965 |
| **Denominator:** | | |
| Weighted average shares | 867 | 858 |
| Vested portion of restricted units | 5 | 6 |
| **Denominator for basic earnings per share** | 872 | 864 |
| **Effect of dilutive securities:** | | |
| Restricted units | 3 | 5 |
| Stock options | 1 | — |
| **Denominator for diluted earnings per share** | 876 | 869 |
| **Basic earnings per share** | $ 5.50 | $ 1.12 |
| **Diluted earnings per share** | $ 5.47 | $ 1.11 |

Diluted earnings per share for the three months ended March 31, 2021 and 2020 excluded the effect of0.2 and 1.2 million shares of common stock, respectively, that may be issued upon the exercise of employee stock options because such effect would have been antidilutive.

## NOTE 16. 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 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 March 31, 2021 and December 31, 2020, we held cash collateral of $122 and $146 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 March 31, 2021 and December 31, 2020, we were required to post $49 and $158 million, respectively, of cash collateral 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 March 31, 2021, all of our instruments were covered by the zero threshold bilateral collateral provision. 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 less-than-truckload ("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*

As of March 31, 2021 and December 31, 2020, the notional amounts of our outstanding derivative positions were as follows (in millions):

| | March 31, 2021 | | December 31, 2020 | |
|---|---|---|---|---|
| **Currency hedges:** | | | | |
| Euro | EUR | 3,885 | EUR | 4,197 |
| British Pound Sterling | GBP | 1,346 | GBP | 1,400 |
| Canadian Dollar | CAD | 1,497 | CAD | 1,576 |
| Hong Kong Dollar | HKD | 3,352 | HKD | 3,717 |
| | | | | |
| **Interest rate hedges:** | | | | |
| Fixed to Floating Interest Rate Swaps | USD | 1,000 | USD | 3,250 |
| Floating to Fixed Interest Rate Swaps | USD | 28 | USD | 778 |

As of March 31, 2021 and December 31, 2020, we hadno 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:

| | | | 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** | **March 31, 2021** | **December 31, 2020** | **March 31, 2021** | **December 31, 2020** |
| **Derivatives designated as hedges:** | | | | | | |
| Foreign currency exchange contracts | Other current assets | Level 2 | $ 93 | $ 56 | $ 78 | $ 45 |
| Interest rate contracts | Other current assets | Level 2 | — | 2 | — | 2 |
| Foreign currency exchange contracts | Other non-current assets | Level 2 | 67 | 35 | 28 | 4 |
| Interest rate contracts | Other non-current assets | Level 2 | 24 | 29 | 21 | 26 |
| **Derivatives not designated as hedges:** | | | | | | |
| Foreign currency exchange contracts | Other current assets | Level 2 | 1 | 4 | 1 | 4 |
| Total Asset Derivatives | | | $ 185 | $ 126 | $ 128 | $ 81 |

| | | | 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** | **March 31, 2021** | **December 31, 2020** | **March 31, 2021** | **December 31, 2020** |
| **Derivatives designated as hedges:** | | | | | | |
| Foreign currency exchange contracts | Other current liabilities | Level 2 | $ 26 | $ 34 | $ 11 | $ 23 |
| Foreign currency exchange contracts | Other non-current liabilities | Level 2 | 73 | 142 | 34 | 111 |
| Interest rate contracts | Other non-current liabilities | Level 2 | 11 | 13 | 8 | 10 |
| **Derivatives not designated as hedges:** | | | | | | |
| Foreign currency exchange contracts | Other current liabilities | Level 2 | — | 2 | — | 2 |
| Interest rate contracts | Other current liabilities | Level 2 | — | 1 | — | 1 |
| Total Liability Derivatives | | | $ 110 | $ 192 | $ 53 | $ 147 |

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 March 31, 2021 and December 31, 2020 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 March 31, 2021 and December 31, 2020 (in millions):

| Line Item in the Consolidated Balance Sheets in Which the Hedged Item is Included | Carrying Amount of Hedged Liabilities | Cumulative Amount of Fair Value Hedge Adjustments | Carrying Amount of Hedged Liabilities | Cumulative Amount of Fair Value Hedge Adjustments |
|---|---|---|---|---|
| | March 31, 2021 | March 31, 2021 | December 31, 2020 | December 31, 2020 |
| Long-term debt and finance leases | $ 1,309 | $ 35 | $ 2,816 | $ 42 |

The cumulative amount of fair value hedging losses remaining for any hedged assets and liabilities for which hedge accounting has been discontinued as of March 31, 2021 is $6 million. These amounts will be recognized over the next10 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 three months ended March 31, 2021 and 2020 (in millions):

| Location and Amount of Gain (Loss) Recognized in Income on Fair Value and Cash Flow Hedging Relationships | Three Months Ended March 31, 2021 | | | 2020 | | |
|---|---|---|---|---|---|---|
| | 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 | $ — | $ 6 | $ — | $ — | $ (36) | $ — |
| Derivatives designated as hedging instruments | — | (6) | — | — | 36 | — |
| **Gain or (loss) on cash flow hedging relationships:** | | | | | | |
| Interest Contracts: | | | | | | |
| Amount of gain or (loss) reclassified from accumulated other comprehensive income | — | (2) | — | — | (3) | — |
| Foreign Exchange Contracts: | | | | | | |
| Amount of gain or (loss) reclassified from accumulated other comprehensive income | 15 | — | — | 64 | — | — |
| 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 | $ 15 | $ (2) | $ — | $ 64 | $ (3) | $ — |

The following table indicates the amount of gains and (losses) that have been recognized in AOCI for the three months ended March 31, 2021 and 2020 for those derivatives designated as cash flow hedges (in millions):

**Three Months Ended March 31:**

| | Amount of Gain (Loss) Recognized in AOCI on Derivatives | |
|---|---|---|
| **Derivative Instruments in Cash Flow Hedging Relationships** | **2021** | **2020** |
| Interest rate contracts | $ 3 | $ (1) |
| Foreign exchange contracts | 160 | 347 |
| Total | $ 163 | $ 346 |

As of March 31, 2021, there were $67 million of pre-tax gains related to cash flow hedges deferred in AOCI that are expected to be reclassified to income over the 12 month period ending March 31, 2022. 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 three months ended March 31, 2021 and 2020 for those instruments designated as net investment hedges (in millions):

**Three Months Ended March 31:**

| | Amount of Gain (Loss) Recognized in AOCI on Debt | |
|---|---|---|
| **Non-derivative Instruments in Net Investment Hedging Relationships** | **2021** | **2020** |
| Foreign denominated debt | $ 124 | $ 150 |
| Total | $ 124 | $ 150 |

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 three months ended March 31, 2021 and 2020 (in millions):

| | | Amount of Gain (Loss) Recognized in Income | |
|---|---|---|---|
| **Derivative Instruments Not Designated in Hedging Relationships** | **Location of Gain (Loss) Recognized in Income** | **2021** | **2020** |
| **Three Months Ended March 31:** | | | |
| Interest rate contracts | Interest expense | $ — | $ (2) |
| Foreign exchange contracts | Investment income and other | (6) | (51) |
| Total | | $ (6) | $ (53) |

## NOTE 17. INCOME TAXES

Our effective tax rate for both the three months ended March 31, 2021 and March 31, 2020 was approximately 22.8%. The recognition in income tax of excess tax benefits related to share-based compensation reduced our effective rate by 1.1% for the three months ended March 31, 2021 compared to 0.7% in the same period of 2020. Other items that impacted our effective tax rate in the first quarter of 2021 compared to 2020 included unfavorable changes in uncertain tax positions.

As discussed in our Annual Report on Form 10-K for the year ended December 31, 2020, we have recognized liabilities for uncertain tax positions. We reevaluate these uncertain tax positions on a quarterly basis. A number of years may elapse before an uncertain tax position is audited and ultimately settled. It is difficult to predict the ultimate outcome or the timing of resolution for uncertain tax positions. It is reasonably possible that the amount of unrecognized tax benefits could significantly increase or decrease within the next twelve months. However, an estimate of the range of reasonably possible outcomes cannot be made. Items that may cause changes to unrecognized tax benefits 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 statutes of limitations or other unforeseen circumstances.

In the first quarter of 2021, we recognized an income tax expense of $788 million related to pre-tax mark-to-market income of $3.3 billion on our pension and postretirement defined benefit plans. This income tax expense was generated at a higher average tax rate than the U.S. federal statutory tax rate because it included the effect of U.S. state and local taxes.

As discussed in note 18, we recognized pre-tax transformation strategy costs of $118 million in the first quarter of 2021 compared to $45 million in the first quarter of 2020. As a result, we recorded an additional income tax benefit of $28 million in the first quarter of 2021 compared to $10 million in the first quarter of 2020. This benefit was generated at a higher average tax rate than the U.S. federal statutory tax rate primarily due to the effect of U.S. state and local taxes and foreign taxes.

We recorded a pre-tax valuation allowance against assets held for sale of $66 million during the first quarter of 2021. As a result, we recorded an additional income tax benefit of $16 million. This income tax benefit was generated at a higher average tax rate than the U.S. federal statutory tax rate due to the effect of U.S. state and local taxes.

## NOTE 18. TRANSFORMATION STRATEGY COSTS

In 2018, we launched a multi-year, enterprise-wide transformation strategy impacting our organization. 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 three months ended March 31, 2021 and 2020 (in millions):

| | Three Months Ended March 31, | |
|---|---|---|
| | 2021 | 2020 |
| **Transformation Strategy Costs:** | | |
| Compensation and benefits | $ 76 | $ 12 |
| Total other expenses | 42 | 33 |
| Total Transformation Strategy Costs | $ 118 | $ 45 |
| | | |
| Income Tax Benefit from Transformation Strategy Costs | (28) | (10) |
| After Tax Transformation Strategy Costs | $ 90 | $ 35 |

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. SUBSEQUENT EVENTS**

On April 1, 2021, our 2.050% fixed-rate senior notes with a principal balance of $700 million and our floating-rate senior notes with a principal balance of $350 million matured and were repaid in full.

On April 30, 2021, we completed the previously announced divestiture of our UPS Freight business to TFI International Inc. We intend to use the proceeds received from this divestiture to repay outstanding indebtedness. Prior to the completion of this transaction, the results of our UPS Freight business were reported in our Supply Chain & Freight reporting segment. Following the completion of this transaction and beginning in the quarter ending June 30, 2021, we intend to rename this reporting segment our Supply Chain Solutions reporting segment. No other changes are being made to this segment that would impact prior period results.

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

## Overview

We continue to make progress implementing our *Customer First, People Led, Innovation Driven* strategy, which focuses on transforming nearly every aspect of our business, improving our financial performance, providing the best customer experience and benefiting our shareowners. The *Customer First* component of our strategy focuses on, among other things, enhancing the capabilities that we believe our customers value the most: speed and ease of access to our services. As a result, we are continuing to expand our weekend operations and enhance our digital access program.

In the first quarter, overall growth was driven by business-to-consumer demand that resulted from elevated e-commerce activity due to the ongoing COVID-19 pandemic. We continued to experience strong volume growth from small- and medium-sized businesses ("SMBs"), largely driven by our efforts to improve time-in-transit in our U.S. ground network and the ease of accessing our services. Business-to-business activity grew in our International Package segment for the quarter, but declined in our U.S. Domestic Package segment until March, when we began to experience growth. Overall, we continue to expect the higher level of residential deliveries to persist. In our Supply Chain & Freight segment, market demand was elevated in nearly all business units, led by Forwarding and our healthcare activities.

As previously disclosed, on January 24, 2021, we entered into a definitive agreement to divest our UPS Freight business. The transaction closed on April 30, 2021.

On March 11, 2021, the American Rescue Plan Act ("ARPA") was signed into law. The ARPA is intended to prevent certain multiemployer pension plans from becoming insolvent through 2051. Enactment of the ARPA resulted in a reduction of our liability for potential coordinating benefits related to the Central States Pension Fund, triggering a remeasurement of our UPS/IBT Full Time Employee Pension Plan ("UPS/IBT Plan").

Highlights of our consolidated results for the three months ended March 31, 2021 and 2020, which are discussed in more detail below, include:

| | Three Months Ended March 31, | | Change | |
|---|---|---|---|---|
| | 2021 | 2020 | $ | % |
| Revenue (in millions) | $ 22,908 | $ 18,035 | $ 4,873 | 27.0 % |
| Operating Expenses (in millions) | 20,143 | 16,963 | 3,180 | 18.7 % |
| Operating Profit (in millions) | $ 2,765 | $ 1,072 | $ 1,693 | 157.9 % |
| Operating Margin | 12.1 % | 5.9 % | | |
| Net Income (in millions) | $ 4,792 | $ 965 | $ 3,827 | 396.6 % |
| Basic Earnings Per Share | $ 5.50 | $ 1.12 | $ 4.38 | 391.1 % |
| Diluted Earnings Per Share | $ 5.47 | $ 1.11 | $ 4.36 | 392.8 % |
| | | | | |
| Operating Days | 63 | 64 | | |
| Average Daily Package Volume (in thousands) | 24,145 | 21,125 | | 14.3 % |
| Average Revenue Per Piece | $ 12.12 | $ 10.88 | $ 1.24 | 11.4 % |

- Revenue increased in all segments, with double digit revenue per piece growth in both our U.S. Domestic Package and International Package segments.
- Average daily package volume increased, driven by growth in business-to-consumer shipping.
- Operating expenses increased primarily due to volume growth.
- Operating profit increased and operating margin expanded in all segments.
- We reported net income of $4.8 billion and diluted earnings per share of $5.47. Adjusted diluted earnings per share was $2.77 after adjusting for the after-tax impacts of:
    - a pension mark-to-market gain recognized outside of a 10% corridor of $2.5 billion or $2.86 per diluted share;

- transformation strategy costs of $90 million or $0.10 per diluted share; and
- a valuation allowance against assets held for sale of $50 million or $0.06 per diluted share.

In the U.S. Domestic Package segment, volume and revenue growth was highest in our Ground residential products. Revenue and revenue per piece increased due to a favorable shift in customer mix, with a significant increase in SMB volume, base rate increases and capacity surcharges. 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. Our investments to improve time-in-transit within our U.S. ground network also increased expense for the quarter.

The International Package segment experienced volume and revenue growth across all regions, driven by growth from both large customers and SMBs. Revenue and revenue per piece increased due to growth in premium and non-premium products, base rate increases and capacity surcharges. 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 continued to benefit from strong outbound demand from Asia and the application of capacity surcharges for air freight as the impacts of COVID-19 continued to constrain capacity in the air cargo market. Mail services benefited from the growth in e-commerce activity and favorable changes in shipment characteristics. Healthcare operations experienced strong and broad-based growth, which included COVID-19 relief efforts. Expense increases were driven by higher third party transportation costs.

**Supplemental Information - Items Affecting Comparability**

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 believe that these adjusted measures provide additional meaningful information to assist users of our financial statements in understanding our financial results 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.

Adjusted amounts reflect the following:

| | Three Months Ended March 31, | |
|---|---|---|
| **Non-GAAP Adjustments** | **2021** | **2020** |
| **Operating Expenses:** | | |
| Transformation Strategy and Other Costs | $ 184 | $ 45 |
| **Total Adjustments to Operating Expenses** | $ 184 | $ 45 |
| | | |
| **Other Income and (Expense):** | | |
| Defined Benefit Plan Mark-to-Market Gain | $ (3,290) | $ — |
| **Total Adjustments to Other Income and (Expense)** | $ (3,290) | $ — |
| | | |
| **Total Adjustments to Income Before Income Taxes** | $ (3,106) | $ 45 |
| | | |
| Income Tax Expense (Benefit) from Defined Benefit Plan Mark-to-Market Gain | $ 788 | $ — |
| Income Tax Expense (Benefit) from Transformation Strategy and Other Costs | (44) | (10) |
| **Total Adjustments to Income Tax Expense** | $ 744 | $ (10) |
| | | |
| **Total Adjustments to Net Income** | $ (2,362) | $ 35 |

Transformation strategy and other costs include a valuation allowance against assets held for sale of $66 million. For additional information regarding assets held for sale, see note 6 to the unaudited, consolidated financial statements included within this report. For additional information regarding our transformation strategy costs see note 18.

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. We believe currency-neutral revenue, revenue per piece and operating profit information allows users of our financial statements to understand growth trends in our products and results. We evaluate the performance of our International Package and Supply Chain & Freight segments on this currency-neutral basis.

Currency-neutral revenue, revenue per piece and operating profit are calculated by dividing current period reported U.S. dollar revenue, revenue per piece and operating profit by the current period average exchange rates to derive current period local currency revenue, revenue per piece and operating profit. The derived amounts are then multiplied by the average foreign 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.

Adjusted financial measures should not be considered in isolation or as a substitute for the related GAAP measures. Our adjusted financial measures may differ from similar measures used by other companies.

*Defined Benefit Plan Mark-to-Market Gain*

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 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 adjusted 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.

As a result of the ARPA, we remeasured the UPS/IBT Plan assets and pension benefit obligation and recognized a pre-tax mark-to-market gain outside of the 10% corridor of $3.3 billion ($2.5 billion after-tax). For additional information, refer to note 8 to the unaudited, consolidated financial statements included within this report.

The components of this gain, which are included in "Other Income and (Expense)" in the statements of consolidated income, are as follows:

- *Coordinating benefits attributable to the Central States Pension Fund*($1.8 billion pre-tax gain): This represents the reduction of the liability for potential coordinating benefits that may have been required to be paid related to the Central States Pension Fund.
- *Discount rates* ($1.8 billion pre-tax gain): The discount rate for the UPS/IBT Plan increased from 2.98% as of December 31, 2020 to 3.70% as of March 31, 2021, primarily due to an increase in U.S. treasury yields.
- *Return on assets* ($0.3 billion pre-tax loss): In the first quarter of 2021, the actual rate of return on plan assets was approximately 220 basis points lower than our expected rate of return, primarily due to weaker than expected global equity and U.S. bond market performance.

## Results of Operations - Segment Review

The results and discussions that follow are reflective of how management monitors and evaluates the performance of our reporting segments.

Certain operating expenses are allocated between our reporting segments using activity-based costing methods. These activity-based costing methods require us to make estimates that impact the amount of each expense category that is attributed to each segment. Changes in these estimates directly impact the amount of expense allocated to each segment and therefore the operating profit of each reporting segment. Our allocation methodologies are refined periodically, as necessary, to reflect changes in our businesses.

Beginning in the first quarter of 2021, we updated our cost allocation methodology for aircraft engine maintenance expense to better align with aircraft utilization by segment. This change resulted in a reallocation of expense from our U.S. Domestic Package segment to our International Package segment of approximately $15 million for the quarter. There were no other significant changes in our expense allocation methodologies that affect period over period comparisons during 2021 or 2020.

Following completion of the divestiture of our UPS Freight business, we intend to rename our Supply Chain & Freight reporting segment. For additional information, see note 19 to the unaudited, consolidated financial statements included within this report.

*U.S. Domestic Package Operations*

| | Three Months Ended March 31, | | Change | |
|---|---|---|---|---|
| | 2021 | 2020 | $ | % |
| Average Daily Package Volume (in thousands): | | | | |
| Next Day Air | 2,012 | 1,883 | | 6.9 % |
| Deferred | 1,513 | 1,492 | | 1.4 % |
| Ground | 16,827 | 14,669 | | 14.7 % |
| Total Average Daily Package Volume | 20,352 | 18,044 | | 12.8 % |
| Average Revenue Per Piece: | | | | |
| Next Day Air | $ 18.39 | $ 17.05 | $ 1.34 | 7.9 % |
| Deferred | 13.22 | 12.54 | 0.68 | 5.4 % |
| Ground | 9.83 | 8.74 | 1.09 | 12.5 % |
| Total Average Revenue Per Piece | $ 10.93 | $ 9.92 | $ 1.01 | 10.2 % |
| Operating Days in Period | 63 | 64 | | |
| Revenue (in millions): | | | | |
| Next Day Air | $ 2,331 | $ 2,055 | $ 276 | 13.4 % |
| Deferred | 1,260 | 1,197 | 63 | 5.3 % |
| Ground | 10,419 | 8,204 | 2,215 | 27.0 % |
| Total Revenue | $ 14,010 | $ 11,456 | $ 2,554 | 22.3 % |
| Operating Expenses (in millions): | | | | |
| Operating Expenses | $ 12,651 | $ 11,092 | $ 1,559 | 14.1 % |
| Transformation Strategy Costs | (104) | (37) | (67) | 181.1 % |
| Adjusted Operating Expense | $ 12,547 | $ 11,055 | $ 1,492 | 13.5 % |
| Operating Profit (in millions) and Operating Margin: | | | | |
| Operating Profit | $ 1,359 | $ 364 | $ 995 | 273.4 % |
| Adjusted Operating Profit | $ 1,463 | $ 401 | $ 1,062 | 264.8 % |
| Operating Margin | 9.7 % | 3.2 % | | |
| Adjusted Operating Margin | 10.4 % | 3.5 % | | |

*Revenue*

The change in overall revenue was due to the following factors:

| | Volume | Rates / Product Mix | Fuel Surcharge | Total Revenue Change |
|---|---|---|---|---|
| **Revenue Change Drivers:** | | | | |
| First quarter 2021 vs. 2020 | 11.0 % | 10.6 % | 0.7 % | 22.3 % |

*Volume*

Average daily volume increased across all products in the first quarter, despite the impact of one less operating day, with growth strongest in residential ground services. Business-to-consumer volume grew by approximately 24% year over year, driven by continued e-commerce growth. Volume growth came from both SMBs and large customers. SMB volume grew 35.6% for the quarter as a result of investments to improve time-in-transit in our ground network and to expand our digital access platform.

Business-to-consumer shipments represented approximately 60% of total average daily volume in the first quarter, compared to approximately 55% in the first quarter of 2020. We believe the COVID-19 pandemic accelerated a long-term market shift towards e-commerce that will result in the level of residential deliveries remaining elevated. Business-to-business shipments decreased 0.6% for the quarter, but experienced year over year growth of 8.0% in March as businesses continued to reopen.

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. We continued to experience declines in Second Day Letter and Second Day Package volume, due to ongoing shifts in customer preferences.

Ground Residential and SurePost average daily volumes increased by 24% and 35%, respectively, for the quarter, driven by changes in customer mix and e-commerce activity. Ground Commercial volume declined overall for the quarter; however, we experienced Ground Commercial growth in March from certain sectors of the economy.

*Rates and Product Mix*

Overall revenue per piece increased in the first quarter due to increases in base rates, favorable changes in customer mix and continued application of capacity-driven surcharges. Rates for our ground and air services increased an average net 4.9% in December 2020 and our SurePost rates also increased in December 2020.

Revenue per piece increases for our Next Day Air and Deferred products were driven by base rates increases and shifts in customer and product mix, partially offset by a decrease in average billable weight per piece. Revenue per piece for our Ground products increased primarily due to base rate increases and a shift in customer mix, slightly offset by a decrease in average billable weight per piece.

*Fuel Surcharges*

We apply a fuel surcharge to domestic air and ground services that is adjusted weekly. 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 surcharges for domestic Air and Ground products were as follows:

| | Three Months Ended March 31, | | % Point Change |
|---|---|---|---|
| | 2021 | 2020 | 2021 vs 2020 |
| Next Day Air / Deferred | 5.9 % | 5.9 % | — % |
| Ground | 7.2 % | 7.2 % | — % |

While fluctuations in fuel surcharge percentages can be significant from period to period, fuel surcharges are only 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 additional charges for these services and the pricing discounts offered.

Total domestic fuel surcharge revenue increased by $75 million in the first quarter primarily as a result of volume growth and shifts in product mix.

*Operating Expenses*

Operating expenses, and operating expenses excluding the year over year impact of transformation strategy costs, increased in the first quarter, driven by a $670 million increase in pickup and delivery costs. In addition, the costs of operating our domestic integrated air and ground network increased $461 million, the costs of package sorting increased $154 million and other indirect operating costs increased $207 million. The increases in expense were driven by several factors:

- Employee compensation and benefit costs increased $975 million, largely resulting from:
  - residential volume growth and an increase in average daily direct union labor hours of 13.3%;
  - union pay rate increases that were partially offset by productivity improvements; and
  - management payroll increases as a result of salary increases, growth in the overall size of the workforce and increases in incentive compensation and commission payments.

  We 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.

- Higher third party transportation costs were driven by additional SurePost volume, increased utilization of outside carriers as part of our investments to improve time-in-transit within our U.S. ground network and rate increases.
- We incurred higher fuel costs as a result of volume growth and higher average daily miles driven, as well as increases in the price of diesel and gasoline, partially offset by lower prices for jet fuel.

Our self-insured automobile liability losses decreased by $76 million compared to the first quarter of 2020 due to favorable developments in case reserves.

Total cost per piece, and cost per piece excluding the year over year impact of transformation strategy costs, increased 2.7% and 2.2%, respectively.

*Operating Profit and Margin*

As a result of the factors described above, operating profit increased $995 million in the first quarter, with operating margins increasing 650 basis points to 9.7%. Excluding the year over year impact of transformation strategy costs, adjusted operating profit increased $1.1 billion in the first quarter, with adjusted operating margins increasing 690 basis points to 10.4%.

*International Package Operations*

| | Three Months Ended March 31, | | Change | |
|---|---|---|---|---|
| | 2021 | 2020 | $ | % |
| Average Daily Package Volume (in thousands): | | | | |
| Domestic | 2,010 | 1,668 | | 20.5 % |
| Export | 1,783 | 1,413 | | 26.2 % |
| Total Average Daily Package Volume | 3,793 | 3,081 | | 23.1 % |
| Average Revenue Per Piece: | | | | |
| Domestic | $ 7.33 | $ 6.44 | $ 0.89 | 13.8 % |
| Export | 31.10 | 28.32 | 2.78 | 9.8 % |
| Total Average Revenue Per Piece | $ 18.50 | $ 16.48 | $ 2.02 | 12.3 % |
| Operating Days in Period | 63 | 64 | | |
| Revenue (in millions): | | | | |
| Domestic | $ 928 | $ 688 | $ 240 | 34.9 % |
| Export | 3,493 | 2,561 | 932 | 36.4 % |
| Cargo and Other | 186 | 134 | 52 | 38.8 % |
| Total Revenue | $ 4,607 | $ 3,383 | $ 1,224 | 36.2 % |
| Operating Expenses (in millions): | | | | |
| Operating Expenses | $ 3,522 | $ 2,832 | $ 690 | 24.4 % |
| Transformation Strategy Costs | (6) | (7) | 1 | (14.3)% |
| Adjusted Operating Expenses | $ 3,516 | $ 2,825 | $ 691 | 24.5 % |
| Operating Profit (in millions) and Operating Margin: | | | | |
| Operating Profit | $ 1,085 | $ 551 | $ 534 | 96.9 % |
| Adjusted Operating Profit | $ 1,091 | $ 558 | $ 533 | 95.5 % |
| Operating Margin | 23.6 % | 16.3 % | | |
| Adjusted Operating Margin | 23.7 % | 16.5 % | | |
| Currency Benefit / (Cost) – (in millions)*: | | | | |
| Revenue | | | $ 176 | |
| Operating Expenses | | | (137) | |
| Operating Profit | | | $ 39 | |

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

The change in revenue was due to the following:

| | Volume | Rates / Product Mix | Fuel Surcharge | Currency | Total Revenue Change |
|---|---|---|---|---|---|
| Revenue Change Drivers: | | | | | |
| First quarter 2021 vs. 2020 | 21.2 % | 7.8 % | 2.0 % | 5.2 % | 36.2 % |

*Volume*

Average daily volume increased in the first quarter for both domestic and export products, with growth across all customer segments. Business-to-consumer volume increased 78% in the first quarter, driven by strong growth from the retail sector due to the continued growth of e-commerce. Business-to-business volume increased 10% in the first quarter, with growth increasing as the quarter progressed, reaching 24% in March as countries continued to resume commercial activities.

Export volume increased across all regions, led by Europe and Asia. Europe export volume growth was highest on the Europe to U.S. and intra-Europe trade lanes, while United Kingdom trade with Europe experienced a slight decline as a result of Brexit challenges. 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 across all regions. Our premium products saw volume growth of 34% for the quarter, driven by our Worldwide Express and Transborder Express products. Volume growth for our non-premium products was 30%, primarily driven by our Transborder Standard product.

Domestic volume increased in many of our markets, with growth strongest in Canada as well as several countries in western Europe, primarily due to residential volume growth driven by e-commerce.

*Rates and Product Mix*

In December 2020, we implemented an average 4.9% net increase in base and accessorial rates for international shipments originating in the United States. Rate changes for shipments originating outside the U.S. are made throughout the year and vary by geographic market. In response to capacity constraints resulting from the COVID-19 pandemic, we implemented surcharges on certain lanes beginning in the second quarter of 2020.

Total revenue per piece increased 12.3% as a result of changes in customer and product mix, capacity surcharges, favorable currency movements and fuel surcharges. Excluding the impact of currency, revenue per piece increased 7.8%.

Domestic revenue per piece increased 13.8% due to changes in customer and product mix, capacity surcharges and favorable currency movements. Excluding the impact of currency, revenue per piece increased 6.7%.

Export revenue per piece increased 9.8% primarily due to changes in customer and product mix, capacity surcharges, favorable currency movements and fuel surcharges. Excluding the impact of currency, revenue per piece increased 6.1%.

*Fuel Surcharges*

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 increased by $89 million as a result of volume growth and changes in customer and product mix, partially offset by declines in fuel surcharge indices.

*Operating Expenses*

Operating expenses, and operating expenses excluding the year over year impact of transformation strategy costs, increased for the first quarter of 2021. Pickup and delivery costs increased $310 million as volume growth and an increase in residential deliveries drove additional third-party pickup and delivery expense. Package sorting costs also increased $69 million as a result of volume growth.

The costs of operating our integrated international air and ground network increased $204 million, driven by overall volume growth. This volume growth, together with additional flights to support outbound demand from Asia, resulted in increased block hours which were partially offset by lower jet 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 was driven by other indirect costs.

*Operating Profit and Margin*

Operating profit increased 96.9% to $1.1 billion, with operating margin increasing 730 basis points to 23.6%. Excluding the year over year impact of transformation strategy costs, adjusted operating profit increased, with adjusted operating margin increasing 720 basis points to 23.7%. Operating profit increased as a result of the factors described above.

*Supply Chain & Freight Operations*

| | Three Months Ended March 31, | | Change | |
|---|---|---|---|---|
| | 2021 | 2020 | $ | % |
| Freight LTL Statistics: | | | | |
| Revenue (in millions) | $ 634 | $ 637 | $ (3) | (0.5)% |
| Revenue Per Hundredweight | $ 29.63 | $ 26.50 | $ 3.13 | 11.8 % |
| Shipments (in thousands) | 2,060 | 2,225 | | (7.4)% |
| Shipments Per Day (in thousands) | 32.7 | 34.8 | | (6.0)% |
| Gross Weight Hauled (in millions of lbs) | 2,140 | 2,404 | | (11.0)% |
| Weight Per Shipment (in lbs) | 1,039 | 1,081 | | (3.9)% |
| Operating Days in Period | 63 | 64 | | |
| Revenue (in millions): | | | | |
| Forwarding | $ 2,072 | $ 1,373 | $ 699 | 50.9 % |
| Logistics | 1,104 | 845 | 259 | 30.7 % |
| Freight | 767 | 766 | 1 | 0.1 % |
| Other | 348 | 212 | 136 | 64.2 % |
| Total Revenue | $ 4,291 | $ 3,196 | $ 1,095 | 34.3 % |
| Operating Expenses (in millions): | | | | |
| Operating Expenses | $ 3,970 | $ 3,039 | $ 931 | 30.6 % |
| Transformation Strategy and Other Costs | (74) | (1) | (73) | N/M |
| Adjusted Operating Expenses: | $ 3,896 | $ 3,038 | $ 858 | 28.2 % |
| Operating Profit (in millions) and Operating Margin: | | | | |
| Operating Profit | $ 321 | $ 157 | $ 164 | 104.5 % |
| Adjusted Operating Profit | $ 395 | $ 158 | $ 237 | 150.0 % |
| Operating Margin | 7.5 % | 4.9 % | | |
| Adjusted Operating Margin | 9.2 % | 4.9 % | | |
| Currency Benefit / (Cost) – (in millions)*: | | | | |
| Revenue | | | $ 45 | |
| Operating Expenses | | | (47) | |
| Operating Profit | | | $ (2) | |

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

| | Three Months Ended March 31, | | Change | |
|---|---|---|---|---|
| | 2021 | 2020 | $ | % |
| Transformation Strategy Costs (in millions): | | | | |
| Forwarding | $ 5 | $ 1 | $ 4 | 400.0 % |
| Logistics | 2 | — | 2 | N/A |
| Freight | 1 | — | 1 | N/A |
| Total Transformation Strategy Costs | $ 8 | $ 1 | $ 7 | N/M |

In January 2021, we entered into a definitive agreement to divest 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. In the first quarter of 2021, we recognized an additional valuation allowance of $66 million. See note 6 to the unaudited, consolidated financial statements for additional information.

*Revenue*

Total revenue for the Supply Chain & Freight segment increased $1.1 billion in the first quarter.

Forwarding revenue increased in the first quarter. In our international air freight business, revenue growth was primarily driven by year over year increases in market rates and by capacity surcharges, as well as continued strong outbound demand from Asia. Ocean freight forwarding revenue increased due to Asia-export volume growth and higher market rates. Revenue in our truckload brokerage business increased due to volume growth and higher market rates.

Within Logistics, revenue in our mail services business increased as a result of volume growth, a favorable shift in product characteristics and annual rate increases. Our healthcare logistics operations experienced strong revenue growth across a broad range of customers.COVID-19 relief efforts also contributed to this growth.

UPS Freight revenue was relatively flat in the first quarter. Revenue from our Ground with Freight Pricing product grew; however this growth was largely offset by lower volume and revenue in our truckload businesses.

Revenue for the other businesses within Supply Chain & Freight increased, driven by growth in our logistics consulting services, as well as additional volume from service contracts with the U.S. Postal Service.

*Operating Expenses*

Total operating expenses for the Supply Chain & Freight segment, and operating expenses excluding the year over year impact of transformation strategy and other costs, increased in the first quarter.

Forwarding operating expenses increased $624 million. Purchased transportation increased $591 million due to cost per load and volume increases in our truckload brokerage business, as well as higher market rates and volumes in our international air freight and ocean freight businesses.

Logistics operating expenses increased $224 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 decreased $2 million in the first quarter. The impact of lower volumes in our less-than-truckload ("LTL") and truckload businesses and a year over year reduction in self-insurance costs were largely offset by an additional valuation allowance related to the divestiture of UPS Freight.

Expense for the other businesses within Supply Chain & Freight increased due to growth in our logistics consulting services and additional volume from the U.S. Postal Service.

*Operating Profit and Margin*

Operating profit for the Supply Chain & Freight segment increased $164 million in the first quarter, with operating margin increasing 260 basis points to 7.5%. Excluding the year over year impact of transformation strategy and other costs, adjusted operating profit increased $237 million, with adjusted operating margin increasing 430 basis points to 9.2%. Operating profit and adjusted operating profit increased as a result of the factors described above.

**Consolidated Operating Expenses**

| | Three Months Ended March 31, | | Change | |
|---|---|---|---|---|
| | **2021** | **2020** | **$** | **%** |
| **Operating Expenses (in millions):** | | | | |
| Compensation and benefits | $ 11,483 | $ 10,086 | $ 1,397 | 13.9 % |
| Transformation Strategy and Other Costs | (76) | (12) | (64) | N/M |
| Adjusted Compensation and benefits | $ 11,407 | $ 10,074 | $ 1,333 | 13.2 % |
| | | | | |
| Repairs and maintenance | $ 619 | $ 563 | $ 56 | 9.9 % |
| Depreciation and amortization | 722 | 648 | 74 | 11.4 % |
| Purchased transportation | 4,243 | 2,931 | 1,312 | 44.8 % |
| Fuel | 807 | 761 | 46 | 6.0 % |
| Other occupancy | 466 | 383 | 83 | 21.7 % |
| Other expenses | 1,803 | 1,591 | 212 | 13.3 % |
| Total Other expenses | 8,660 | 6,877 | 1,783 | 25.9 % |
| Transformation Strategy and Other Costs | (108) | (33) | (75) | 227.3 % |
| Adjusted Total Other expenses | $ 8,552 | $ 6,844 | $ 1,708 | 25.0 % |
| | | | | |
| Total Operating Expenses | $ 20,143 | $ 16,963 | $ 3,180 | 18.7 % |
| Adjusted Total Operating Expenses | $ 19,959 | $ 16,918 | $ 3,041 | 18.0 % |
| | | | | |
| Currency (Benefit) / Cost - (in millions)* | | | $ 184 | |

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

| | Three Months Ended March 31, | | Change | |
|---|---|---|---|---|
| | **2021** | **2020** | **$** | **%** |
| **Adjustments to Operating Expenses (in millions):** | | | | |
| Transformation Strategy Costs: | | | | |
| Compensation | $ 6 | $ 8 | $ (2) | (25.0)% |
| Benefits | 70 | 4 | 66 | N/M |
| Other occupancy | 1 | 2 | (1) | (50.0)% |
| Other expenses | 41 | 31 | 10 | 32.3 % |
| Total Transformation Strategy Costs | $ 118 | $ 45 | $ 73 | 162.2 % |
| Valuation allowance on assets held for sale: | | | | |
| Other expenses | $ 66 | $ — | $ 66 | N/A |
| Total Adjustments to Operating Expenses | $ 184 | $ 45 | $ 139 | 308.9 % |

*Compensation and Benefits*

Total compensation and benefits, and total compensation and benefits excluding the year over year impact of transformation strategy costs, increased in the first quarter of 2021.

Total compensation costs increased $795 million or 13.5%. Excluding the year over year impact of transformation strategy costs, adjusted total compensation costs increased $797 million, driven by higher U.S. Domestic direct labor costs as a result of growth in average daily volume. This volume growth drove additional headcount and an increase in average daily union hours of 13.3%. Contractual union wage increases also contributed to the increase in compensation costs for hourly employees. Compensation costs for management employees increased due to salary increases, growth in the overall size of the workforce and increases in incentive compensation and commission payments.

Benefits costs increased $602 million or 14.4%. Excluding the year over year impact of transformation strategy costs, adjusted benefits costs increased $536 million as a result of:

- Health and welfare costs increased $164 million, primarily as a result of increased contributions to multiemployer plans driven by the overall increase in the size of the workforce and contractual rate increases.
- Pension and other postretirement benefits increased $225 million due to higher service costs for company-sponsored plans, primarily driven by a reduction in discount rates, as well as increased contributions to multiemployer plans as a result of contractually-mandated contribution increases and the overall increase in the size of the workforce.
- Vacation, excused absence, payroll taxes and other costs increased $156 million, primarily driven by salary and wage increases and growth in the overall size of the workforce, as well as additional discretionary bonus payments.
- Workers' compensation costs decreased $9 million driven by favorable developments in claims reserves that were partially offset by growth in hours, medical trends and wage increases.

*Repairs and Maintenance*

We incurred higher costs for aircraft engine maintenance, primarily due to the increase in operating activity as well as the replacement of parts on certain types of aircraft. Repairs and maintenance for buildings and facilities also increased, primarily as a result of additional facilities coming into service.

*Depreciation and Amortization*

Depreciation and amortization expense increased as a result of investments in facility automation and capacity expansion projects that came online after the first quarter of 2020, as well as growth in the size of our vehicle and aircraft fleets and additional investments in internally developed software.

*Purchased Transportation*

The overall increase in third-party transportation expense charged to us by third-party air, ocean and truck carriers was primarily driven by:

- Forwarding and Logistics expense increased $724 million, primarily due to increased market rates in our international air freight business, as well as volume growth and rate increases in our ocean freight, mail services and truckload brokerage businesses.
- U.S. Domestic Package expense increased $296 million resulting from investments to improve time-in-transit in our U.S. ground network. Additionally, increases in SurePost volume and growth in our other products resulted in approximately $70 million of incremental third-party transportation cost.
- International Package expense increased $253 million, primarily due to volume increases in Asia and Europe that drove higher third-party pickup and delivery cost and unfavorable currency movements.

*Fuel*

The increase in fuel expense was driven by an increase in aircraft block hours and delivery miles driven as a result of increased package volume. These increases were partially offset by lower jet fuel prices.

*Other Occupancy*

Other occupancy expense, and other occupancy expense excluding the year over year impact of transformation strategy costs, increased due to additional operating facilities coming into service and higher costs for weather related expenses, such as snow removal.

*Other Expenses*

Other expenses, and other expenses excluding the year over year impact of transformation strategy and other costs, increased as a result of the following:

- Other operational expenses, including vehicle and equipment rentals, increased $74 million as a result of volume growth.
- Professional fees related to business support services increased $32 million.
- Asset impairments increased $24 million driven by the timing of cancellation of certain facility expansion projects.
- Other increases included reserves for certain tax positions and legal contingencies, payment processing fees, non-income based taxes, package claims and information technology expenses. These were largely offset by reductions in self-insured automobile liability claims of $91 million due to improvements in claims experience, allowances for credit losses and employee expense reimbursements.

**Other Income and (Expense)**

The following table sets forth investment income and other and interest expense for the three months ended March 31, 2021 and 2020 (in millions):

| | Three Months Ended March 31, | | Change | |
|---|---|---|---|---|
| | 2021 | 2020 | $ | % |
| Investment Income and Other | $ 3,616 | $ 345 | $ 3,271 | N/M |
| Defined Benefit Plan Mark-to-Market Gain | $ (3,290) | $ — | $ (3,290) | N/A |
| Adjusted Investment Income and Other | $ 326 | $ 345 | $ (19) | (5.5)% |
| | | | | |
| Interest Expense | (177) | (167) | (10) | 6.0 % |
| Total Other Income and (Expense) | $ 3,439 | $ 178 | $ 3,261 | N/M |
| Adjusted Other Income and (Expense) | $ 149 | $ 178 | $ (29) | (16.3)% |

*Investment Income and Other*

Investment income and other increased $3.3 billion, inclusive of a defined benefit plan mark-to-market gain recognized in March 2021. Excluding the impact of this mark-to-market gain, adjusted investment income and other decreased $19 million, primarily due to a decrease 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 pension assets decreased as a result of a reduction in the expected rate of return assumption, partially offset by a higher asset base due to discretionary contributions and positive asset returns in 2020.
- Pension interest cost decreased due to the impact of lower year end discount rates that was partially offset by ongoing plan growth and an increase in projected benefit obligations.

Additional impacts included foreign currency losses, lower yields on invested assets and a gain from fair value changes in certain non-current investments.

*Interest Expense*

Interest expense increased, primarily driven by the effect of debt issuances at the end of the first quarter of 2020 partially offset by lower average outstanding balances and effective interest rates on floating rate debt and commercial paper.

**Income Tax Expense**

The following table sets forth our income tax expense and effective tax rate for the three months ended March 31, 2021 and 2020 (in millions):

| | Three Months Ended March 31, | | Change | |
|---|---|---|---|---|
| | 2021 | 2020 | $ | % |
| Income Tax Expense | $ 1,412 | $ 285 | $ 1,127 | 395.4 % |
| Income Tax Impact of: | | | | |
| Defined Benefit Plan Mark-to-Market Gain | (788) | — | (788) | N/A |
| Transformation Strategy and Other Costs | 44 | 10 | 34 | 340.0 % |
| Adjusted Income Tax Expense | $ 668 | $ 295 | $ 373 | 126.4 % |
| Effective Tax Rate | 22.8 % | 22.8 % | | |
| Adjusted Effective Tax Rate | 21.6 % | 22.8 % | | |

For additional information on our income tax expense and effective tax rate, see note 17 to the unaudited, consolidated financial statements included in this report.

## Liquidity and Capital Resources

As of March 31, 2021, we had $8.1 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, 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. As previously disclosed, we have suspended share repurchases under our stock repurchase program and do not have plans to repurchase shares at this time.

### *Cash Flows From Operating Activities*

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

| | Three Months Ended March 31, | |
|---|---|---|
| | 2021 | 2020 |
| Net income | $ 4,792 | $ 965 |
| Non-cash operating activities [(a)] | (984) | 1,282 |
| Pension and postretirement benefit plan contributions (company-sponsored plans) | (215) | (222) |
| Hedge margin receivables and payables | 85 | 211 |
| Income tax receivables and payables | 353 | 102 |
| Changes in working capital and other non-current assets and liabilities | 478 | 203 |
| Other operating activities | 22 | 9 |
| Net cash from operating activities | $ 4,531 | $ 2,550 |

(a) Represents depreciation and amortization, gains and losses on derivative transactions and foreign exchange, deferred income taxes, allowances for expected credit losses, amortization of operating lease assets, pension and postretirement benefit plan 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 $2.0 billion in the first quarter, and was impacted by the following:

- Income taxes payable increased due to higher income and the timing of payments.
- Contributions to our company-sponsored pension and U.S. postretirement medical benefit plans totaled $215 million during 2021 compared to $222 million in 2020.
- Our net hedge margin collateral position decreased by $126 million due to changes in the fair value of derivative contracts used in our currency and interest rate hedging programs.
- Favorable changes in our working capital largely resulted from lower interest payments on outstanding debt and changes in incentive compensation plan payouts and other compensation-related items. Additionally, we benefited from a reduction in working capital as increases in our accounts payable outpaced growth in our accounts receivable.

As part of our ongoing efforts to improve our working capital efficiency, certain financial institutions offer a 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. If they participate in the SCF program, our suppliers, at their sole discretion, determine which invoices, if any, to sell to the financial institutions. Our suppliers' voluntary inclusion of invoices in the SCF program has no bearing on our payment terms. No guarantees are provided by us under the SCF program. We have no economic interest in a supplier's decision to participate, and we have no direct financial relationship with the financial institutions, as it relates to the SCF program.

Amounts due to our suppliers that participate in the SCF program are included in accounts payable in our consolidated balance sheets. We have been informed by the participating financial institutions that as of March 31, 2021 and 2020, suppliers sold them $343 and $387 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. Amounts settled through the SCF program totaled approximately $267 million for the three months ended March 31, 2021.

As of March 31, 2021, approximately $3.2 billion of our total worldwide holdings of cash, cash equivalents and marketable securities were held by foreign subsidiaries. The amount of cash, cash equivalents and marketable securities held by our U.S. and foreign subsidiaries fluctuates throughout the year due to a variety of factors, including the timing of cash receipts and disbursements in the normal course of business. Cash provided by operating activities in the U.S. continues to be our primary source of funds to finance domestic operating needs, capital expenditures, share repurchases, pension contributions and dividend payments to shareowners. All cash, cash equivalents and marketable securities held by foreign subsidiaries are generally available for distribution to the U.S. without any U.S. federal income taxes. Any such distributions may be subject to foreign withholding and U.S. state taxes. When amounts earned by foreign subsidiaries are expected to be indefinitely reinvested, no accrual for taxes is provided.

***Cash Flows From Investing Activities***

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

| | Three Months Ended March 31, | |
|---|---|---|
| | 2021 | 2020 |
| Net cash used in investing activities | $ (766) | $ (934) |
| **Capital Expenditures:** | | |
| Buildings, facilities and plant equipment | $ (325) | $ (519) |
| Aircraft and parts | (239) | (179) |
| Vehicles | (135) | (62) |
| Information technology | (135) | (173) |
| | $ (834) | $ (933) |
| Capital Expenditures as a % of revenue | 3.6 % | 5.2 % |
| **Other Investing Activities:** | | |
| Proceeds from disposals of property, plant and equipment | $ 10 | $ 1 |
| Net change in finance receivables | $ 11 | $ 3 |
| Net (purchases), sales and maturities of marketable securities | $ 56 | $ — |
| Cash paid for business acquisitions, net of cash and cash equivalents acquired | $ (3) | $ — |
| Other investing activities | $ (6) | $ (5) |

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.

Capital expenditures on buildings, facilities and plant equipment decreased in our global small package business, as we reduced spending on facility expansion projects. Capital spending on aircraft increased as we made final payments associated with the delivery of aircraft, partially offset by a reduction in contract deposits on open aircraft orders.

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 2021 related to the acquisition of area franchise rights for The UPS Store. There was no cash paid for business acquisitions in the first three months of 2020. Other investing activities were impacted by changes in our non-current investments, purchase contract deposits and various other items.

On April 30, 2021, we completed the previously announced divestiture of our UPS Freight business to TFI International Inc. We intend to use the proceeds received from this divestiture to repay outstanding indebtedness.

***Cash Flows From Financing Activities***

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

| | Three Months Ended March 31, | |
|---|---|---|
| | **2021** | **2020** |
| Net cash (used in) / from financing activities | $ (1,945) | $ 2,167 |
| **Share Repurchases:** | | |
| Cash expended for shares repurchased | — | (220) |
| Number of shares repurchased | — | (2.1) |
| Shares outstanding at period end | 870 | 861 |
| Percent increase (decrease) in shares outstanding | 0.6 % | 0.5 % |
| **Dividends:** | | |
| Dividends declared per share | $ 1.02 | $ 1.01 |
| Cash expended for dividend payments | $ (858) | $ (840) |
| **Borrowings:** | | |
| Net borrowings (repayments) of debt principal | $ (831) | $ 3,475 |
| **Other Financing Activities:** | | |
| Cash received for common stock issuances | $ 78 | $ 70 |
| Other financing activities | $ (334) | $ (318) |
| **Capitalization:** | | |
| Total debt outstanding at period end | 23,727 | 28,601 |
| Total shareowners' equity at period end | 7,159 | 3,313 |
| Total capitalization | $ 30,886 | $ 31,914 |

We have suspended share repurchases under our stock repurchase program and therefore we did not repurchase any shares under this program during the three months ended March 31, 2021. We repurchased a total of 2.1 million shares of class A and class B common stock for $217 million in the first quarter of 2020 ($220 million in repurchases is reported on the statement of cash flows due to timing of settlements). For additional information on our share repurchase activities, see note 13 to the unaudited, consolidated financial statements included in this report.

The declaration of dividends is subject to the discretion of the Board and depends on various factors, including our net income, financial condition, cash requirements, future prospects and other relevant factors. We expect to continue paying regular cash dividends. We increased our quarterly cash dividend payment to $1.02 per share in 2021, compared to $1.01 in 2020.

Issuances of debt in the first quarter of 2021 consisted of borrowings under our commercial paper program. Repayments of debt for the first quarter of 2021 included fixed-rate senior notes totaling $1.5 billion, commercial paper and scheduled principal payments on our finance lease obligations. In the first quarter of 2020, issuances of debt consisted primarily of fixed-rate senior notes of varying maturities totaling $3.5 billion, as well as borrowings under our commercial paper program. Repayments included 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. Additionally, $1.1 billion of senior notes matured on April 1, 2021 and was repaid in full.

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 quarter-end | Outstanding balance at quarter-end ($) | Average balance outstanding | Average balance outstanding ($) | Average interest rate |
|---|---|---|---|---|---|
| **2021** | | | | | |
| USD | $ 697 | $ 697 | $ 141 | $ 141 | 0.06 % |
| Total | | $ 697 | | | |

We had no outstanding balances under our European commercial paper program in the first three months of 2021.

Cash flows for other financing activities were driven by the repurchase of shares to satisfy tax withholding obligations on vested employee stock awards. Cash outflows were $330 and $310 million in the first three months of 2021 and 2020, respectively. The increase was driven by changes in payment levels for certain of our awards.

**Sources of Credit**

See note 10 to the unaudited, consolidated financial statements for a discussion of our available credit and the financial covenants that we are subject to as part of our credit agreements.

**Guarantees and Other Off-Balance Sheet Arrangements**

Except as disclosed in our Annual Report on Form 10-K for the year ended December 31, 2020, we do not have guarantees or other off-balance sheet financing arrangements, including variable interest entities, which we believe could have a material impact on our financial condition or liquidity.

**Legal Proceedings and Contingencies**

See note 8 and note 12 to the unaudited, consolidated financial statements for a discussion of judicial proceedings and other matters arising from the conduct of our business activities, and note 17 for a discussion of income tax related matters.

**Collective Bargaining Agreements**

See note 8 to the unaudited, consolidated financial statements for a discussion of the status of our collective bargaining agreements.

**Multiemployer Benefit Plans**

See note 8 to the unaudited, consolidated financial statements for a discussion of our participation in multiemployer benefit plans.

**Recent Accounting Pronouncements**

*Adoption of New Accounting Standards*

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

*Accounting Standards Issued But Not Yet Effective*

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

**Rate Adjustments**

From time to time we adjust published rates applicable to our services. These rates, when published, are made available on our website at *www.ups.com*. We provide the address to our internet site solely for information. We do not intend for this address to be an active link or to otherwise incorporate the contents of any website into this or any other report we file with the Securities and Exchange Commission.

## Item 3. *Quantitative and Qualitative Disclosures About Market Risk*

We are exposed to market risk from changes in certain commodity prices, foreign currency exchange rates, interest rates and equity prices. All of these market risks arise in the normal course of business, as we do not engage in speculative trading activities. In order to manage the risk arising from these exposures, we utilize a variety of commodity, foreign exchange and interest rate forward contracts, options and swaps. A discussion of our accounting policies for derivative instruments and further disclosures are provided in note 16 to the unaudited, consolidated financial statements.

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

| | March 31, 2021 | December 31, 2020 |
|---|---|---|
| Currency Derivatives | $ 62 | $ (83) |
| Interest Rate Derivatives | 13 | 17 |
| | $ 75 | $ (66) |

As of March 31, 2021 and December 31, 2020, we had no outstanding commodity hedge positions.

Our market risks, hedging strategies and financial instrument positions as of March 31, 2021 have not materially changed from those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2020. In 2021, we entered into several foreign exchange forward contracts on the Euro, British Pound Sterling, Canadian Dollar and Hong Kong Dollar, and had forward contracts expire. The remaining fair value changes between December 31, 2020 and March 31, 2021 in the preceding table are primarily due to interest rate and foreign currency exchange rate fluctuations between those dates.

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

We have agreements with all of our active counterparties (covering 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. Events such as a credit rating downgrade (depending on the ultimate rating level) could also allow us to take additional protective measures such as the early termination of trades. As of March 31, 2021, we held cash collateral of $122 million and were required to post cash collateral of $49 million with our counterparties under these agreements.

We have not historically incurred, and do not expect to incur in the future, any losses as a result of counterparty default.

The information concerning market risk in Item 7A under the caption “Quantitative and Qualitative Disclosures about Market Risk” of our Annual Report on Form 10-K for the year ended December 31, 2020 is hereby incorporated by reference.

## Item 4. *Controls and Procedures*

*Evaluation of Disclosure Controls and Procedures*

As of the end of the period covered by this report, management, including our Principal Executive Officer and Principal Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 ("Exchange Act")). Based upon, and as of the date of, the evaluation, our Principal Executive Officer and Principal Financial 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 March 31, 2021 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.

## PART II. OTHER INFORMATION

**Item 1.** ***Legal Proceedings***

For a discussion of material legal proceedings affecting the Company, see note 12 to the unaudited, consolidated financial statements included in this report.

**Item 1A.** ***Risk Factors***

The occurrence of any of the significant risk factors described in Part 1, Item 1A in our Annual Report on Form 10-K for the year ended December 31, 2020 could materially affect us, including impacting our business, financial condition, results of operations, stock price or credit rating, as well as our reputation. These risks are not the only ones we face. We could also be materially adversely affected by other events, factors or uncertainties that are unknown to us, or that we do not currently consider to be significant.

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

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. We have currently suspended share repurchases under our stock repurchase program. As of March 31, 2021, we had $2.1 billion available under our share repurchase authorization.

For additional information on our share repurchase activities, see note 13 to the unaudited, consolidated financial statements included in this report.

***Exhibits***

| | | |
|---|---|---|
| 3.1 | — | Restated Certificate of Incorporation of United Parcel Service, Inc. (incorporated by reference to Exhibit 3.3 to Form 8-K filed on May 12, 2010). |
| 3.2 | — | Amended and Restated Bylaws of United Parcel Service, Inc. as of February 14, 2013 (incorporated by reference to Exhibit 3.1 to Form 8-K, filed on February 19, 2013). |
| 10.1 | — | UPS Long-Term Incentive Performance Program Amended and Restated Terms and Conditions effective as of March 25, 2021 |
| 31.1 | — | Certification of the Principal Executive Officer Pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | — | Certification of the Principal Financial 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 unaudited financial information from this Quarterly Report on Form 10-Q for the quarter ended March 31, 2021 is formatted in Inline XBRL (Inline Extensible Business Reporting Language): (i) the Consolidated Balance Sheets, (ii) the Statements of Consolidated Income, (iii) the Statements of Consolidated Comprehensive Income (Loss), (iv) the Statements of Consolidated Cash Flows, and (v) the Notes to the Consolidated Financial Statements. |
| 104 | — | Cover Page Interactive Data File - The cover page from this Quarterly Report on Form 10-Q for the quarter ended March 31, 2021 is formatted in Inline XBRL (included as Exhibit 101). |

**SIGNATURES**

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

UNITED PARCEL SERVICE, INC.
(Registrant)

| | | | |
|---|---|---|---|
| Date: | May 5, 2021 | By: | /S/ BRIAN O. NEWMAN |
| | | | **Brian O. Newman** |
| | | | **Senior Vice President, Chief Financial Officer and Treasurer** |
| | | | **(Principal Financial Officer)** |

**Exhibit 10.1**

# UPS LONG-TERM INCENTIVE PERFORMANCE PROGRAM

Amended and Restated Terms and Conditions

Approved March 25, 2021

## 1. Establishment, Objectives and Duration.

**1.1 Establishment of the Program and Effective Date.** The Compensation Committee of the Board of Directors of United Parcel Service, Inc. ("Committee") hereby amends and restates the terms and conditions of the UPS Long-Term Incentive Performance Program ("LTIP") which provides for Awards in the form of Restricted Performance Units ("Units") pursuant to the United Parcel Service, Inc. 2018 Omnibus Incentive Compensation Plan ("ICP"). Unless otherwise defined in this document, capitalized terms shall have the meanings set forth in the ICP. These LTIP Terms and Conditions shall be effective for any LTIP Awards made on or after the date set forth above ("LTIP Effective Date").

**1.2 Objectives of the LTIP.** The objectives of the LTIP are to align incentive pay with long-term performance related to key business objectives, enhance retention of key talent, and align the interests of shareowners with the incentive compensation opportunity for executives.

**1.3 Duration of the Program.** The LTIP shall commence on the LTIP Effective Date and shall remain in effect, subject to the right of the Committee to amend or terminate the LTIP at any time pursuant to Section 13.6 hereof.

## 2. Administration.

**2.1 Authority of the Committee.** The LTIP shall be administered by the Committee, which shall have the same power and authority to administer the LTIP as it does to administer the ICP.

**2.2 Decisions Binding.** All decisions of the Committee shall be final, conclusive and binding on all persons, including the Company, its shareowners, any employee, and their estates and beneficiaries.

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

4. **Award Document.** You will receive a grant notice that specifies the Grant Date, the target number of Units subject to an Award, and such other provisions as the Committee shall determine. Such grant notice, together with this document, shall constitute the "Award Document" for the applicable Award for purposes of the ICP.

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

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

   **6.1 Adjusted Earnings Per Share Growth.** Adjusted **e**arnings 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. The adjusted earnings per share growth target is the projected average annual adjusted earnings per share growth during each of the years within the Performance Period. The actual adjusted earnings per share growth for each year of the Performance Period will be compared to the target and assigned a payout percentage; the average of the three payout percentages will be used to calculate the final payout percentage under this metric. Following the completion of the Performance Period, the Committee will certify (i) the actual adjusted earnings per share growth for the Performance Period; (ii) the actual adjusted earnings per share growth for the Performance Period as compared to the target; and (iii) the final payout percentage for this metric.

   **6.2 Adjusted Free Cash Flow.** 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 entire three years of the Performance Period. Following the completion of the 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.

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

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

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

**6.3.2 TSR Calculation**: TSR is determined as follows:

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

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

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

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

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

**7. Employee Covenants.**

**7.1 Acknowledgements.** You acknowledge and agree that, by reason of your highly specialized skillset and the Company's investment of time, training, money, trust, and exposure to Confidential Information, you are intimately involved in the planning and direction of the Company's global business operations. You further acknowledge and agree that your agreement to enter into, and your compliance with, your covenants in this Section 7 are material factors in the Company's decision to grant you the Units, which constitutes good and valuable consideration for the covenants set forth in this Section 7.

**7.2 Unfair Competition.** You acknowledge and agree that, as a result of your receipt of Confidential Information, your role at the Company, and your relationships with Company customers and/or employees you would have an unfair competitive advantage if you were to violate this Section 7 and that, in the event that your employment with the Company terminates for any reason, you possess marketable skills and abilities that will enable you to find suitable employment without violating the covenants set forth in this Section 7. You further acknowledge and affirm that you are accepting this Agreement voluntarily, that you have read this Agreement carefully, that you have had a full and reasonable opportunity to consider this Agreement (including actual consultation with legal counsel), and that you have not been pressured or in any way coerced, threatened or intimidated into entering into this Agreement.

**7.3 Non-Disclosure and Prohibition Against Use of Confidential Information and Trade Secrets.** You agree that you will not, directly or indirectly, reveal, divulge, or disclose any Confidential Information or Trade Secrets to any person not expressly authorized by the Company to receive such information. You further agree that you will not, directly or indirectly, use or make use of any Confidential Information or Trade Secrets in connection with any business activity other than business activity that you are pursuing on behalf of the Company. You acknowledge and agree that this Section 7 is not intended to, and does not, alter either the Company's rights or your obligations under any state or federal statutory or common law regarding trade secrets and unfair trade practices. You also understand that nothing contained in this Section 7 limits your ability to communicate with any federal, state or local governmental agency or commission ("Government Agencies") or otherwise participate in any investigation or proceeding that may be conducted by any Government Agencies in connection with any charge or complaint, whether filed by you, on your behalf, or by any other individual. You additionally understand and agree that as required by the Defend Trade Secrets Act of 2016 ("DTSA"), 18 U.S.C. § 1833(b), you have been notified that if you make a confidential disclosure of a Company Trade Secret (as defined in 18 U.S.C. § 1839) to a government official or an attorney for the sole purpose of reporting or investigating a suspected violation of law, or in a complaint or other document filed in a legal proceeding, so long as any document you file containing the trade secret is filed under seal and you do not disclose the trade secret except pursuant to court order, you shall not be held civilly or criminally liable under this Agreement or under any federal or state trade secret law for such a disclosure. The DTSA does not authorize, or limit liability for, an act that is otherwise prohibited by law, such as the unlawful access of material by unauthorized means.

**7.4 Non-Solicitation of Protected Employees.** During the Non-Solicit Restricted Period, you will not, without the prior written consent of the Company, directly or indirectly, interfere with the Company's business by soliciting or inducing or attempting to solicit or induce any Protected Employee to terminate or cease his/her employment relationship with the Company or to enter into employment with you or any other person or entity.

**7.5 Non-Solicitation of Protected Customers.** During the Non-Solicit Restricted Period, you will not, without the prior written consent of the Company, directly or indirectly, solicit, divert, take away or attempt to solicit, divert or take away a Protected Customer for purposes of providing products and services that are competitive with those provided by the Company.

**7.6 Covenant Not to Compete.** During the Non-Compete Restricted Period, you will not, without the prior written consent of the Company, (a) work for a Restricted Competitor; (b) provide consulting services to a Restricted Competitor; or (c) otherwise provide services to a Restricted Competitor, in each of (a) through (c) that involves the provision of services that are similar to those services that you provided to the Company and that relate to the Restricted Competitor's competition with the transportation, delivery or logistics services provided by the Company during your employment. You understand and agree that this non-compete provision is limited to the geographic area where the Company did business during your employment.

**7.7 Enforcement.** You acknowledge and agree that the covenants in Sections 7.3 through 7.6 ("Protective Covenants") are necessary to protect the Company's legitimate business interests. In the event that you breach, or threaten to breach, the Protective Covenants, you agree that the Company shall have the right and remedy to: (a) enjoin you, preliminarily and permanently (without the necessity of posting bond), from violating or threatening to violate the Protective Covenants because any breach or threatened breach of the Protective Covenants would cause irreparable injury to the Company and that money damages would not provide an adequate remedy; (b) require you to account for and pay over to the Company all compensation, profits, monies, or other benefits derived or received by you as the result of any breach of the Protective Covenants; and (c) require you to pay the reasonable attorneys' fees and costs incurred by the Company in enforcing the Protective Covenants. In addition, in the event of such a violation, you will automatically forfeit all Units.

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

**7.9 Exclusive Jurisdiction.** You agree that the federal or state courts of Georgia have exclusive jurisdiction over any dispute relating to this Section 7 and you specifically consent to personal jurisdiction in such courts, even if you do not reside in Georgia at the time of any dispute arising out of or involving this Section 7; provided that, if, following the termination of your Company employment, you continue to reside or work in California, you agree that (a) California law shall apply to this Section 7, and (ii) the federal or state courts of California have exclusive jurisdiction over any dispute relating to this Section 7 and you specifically consent to personal jurisdiction in such courts if you reside in California at the time of any dispute arising out of or involving this Section 7.

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

**7.11** **Disclosure.** In the event that you leave the Company for any reason, you agree to disclose the existence and terms of this Section 7 to any prospective employer, partner, co-venturer, investor or lender prior to entering into an employment, partnership or other business relationship with such prospective employer, partner, co-venturer, investor or lender.

**7.12** **Definitions**. For purposes of this Section 7:

**7.12.1** "Company" means, for purposes of this Section 7 only, United Parcel Service, Inc., a Delaware Corporation with its principal place of business in Atlanta, Georgia, and all of its Affiliates (as defined in O.C.G.A. § 13-8-51(1)).

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

**7.12.3** “Non-Compete Restricted Period” means during your employment with the Company and for a period of one (1) year after your employment ends for any reason.

**7.12.4** “Non-Solicit Restricted Period” means during your employment with the Company and for a period of two (2) years after your employment ends for any reason.

**7.12.5** “Protected Customers” means customers or actively sought potential customers with whom you had material involvement in the two (2) years following your termination of employment, which shall include customers or actively sought potential customers (i) who you dealt with on behalf of the Company; (ii) whose dealings with the Company are or were coordinated or supervised by you; or (iii) about whom you obtained Confidential Information as a result of your employment with the Company.

**7.12.6** “Protected Employee” means an employee of the Company who is employed by the Company at the time of any solicitation or attempted solicitation by you and with whom (a) you had contact during the two (2) years prior to your termination of employment, or (b) about whom you learned Confidential Information during the two (2) years prior to your termination of employment.

**7.12.7** “Restricted Competitor” means a person engaged in any business competitive with the Company’s and its Subsidiaries’ businesses of package delivery and global supply chain management solutions. The Restricted Competitors include, without limitation, the entities listed on Exhibit B.

**7.12.8** “Trade Secret” means all of the Company’s information that you learned about as a result of your employment, without regard to form, including, but not limited to, technical or nontechnical data, a formula, a pattern, a compilation, a program, a device, a method, a technique, a drawing, a process, financial data, financial plans, product plans, distribution lists or a list of actual or potential customers, advertisers or suppliers, that (i) derives economic value, actual or potential, from not being generally known to the public or to other persons who can obtain economic value from its disclosure or use; and (ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy. This definition shall not limit any definition of “trade secrets” or any equivalent term under applicable law.

**7.13 Amendments for Certain Employees.**

**7.13.1 Amendments for California Employees.** Sections 7.4 through 7.6 do not apply to you if, following the termination of your Company employment, you continue to reside or work in California. Notwithstanding the foregoing, you are and shall continue to be prohibited from any unauthorized use, transfer, or disclosure of the Company’s Confidential Information, including trade secrets, pursuant to the California Trade Secrets Act, the U.S. Defend Trade Secrets Act of 2016, any other confidentiality and non-disclosure agreements with the Company, and any other applicable federal, state and common law protections afforded proprietary business and trade secret information. You also agree that you will not, without the prior written consent of the Company, directly or indirectly, interfere with the Company’s business by soliciting or inducing or attempt to solicit or induce any Protected Employee to terminate or cease his/her employment relationship with the Company for a period of twelve (12) months from and after your employment ends.

**7.13.2 Amendments for Hawaii, North Dakota and Oklahoma Employees. S**ection 7.6 does not apply to you if, following the termination of your Company employment, you continue to reside or work in Hawaii, North Dakota or Oklahoma.

**7.13.3 Amendment for Massachusetts Employees**. Section 7.6 does not apply to you if, following the termination of your Company employment, you continue to reside or work in Massachusetts and Section 7.6 is unenforceable pursuant to Massachusetts General Laws c. 149 § 24L.

**7.14 Other Restrictions.** For the avoidance of doubt, if you are based in the US this Section 7 does not supersede any protective covenants applicable to you with respect to the Company, and those covenants shall continue in full force and effect in accordance with their terms. If you are based outside the US any protective covenants set out in your contract of employment, or otherwise applicable to your employment with the Company, whether concluded prior to or after the date of this Agreement, supersede the equivalent provisions set out in this Section 7.

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

| | | | | | | |
|---|---|---|---|---|---|---|
| (a)<br>Adjusted Earnings Per Share<br>Payout %<br>x<br>½ Target Number of Units | + | (b)<br>Adjusted<br>Free Cash Flow<br>Payout %<br>x<br>½ Target Number of Units | +/ - | (c)<br>RTSR Payout Modifier<br>(if applicable) | = | Award<br>Payout % (Based on Target<br>Number of Units) |

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

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

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

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

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

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

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

**11.** **Repayment.** If an Award has been paid to an Executive Participant or to his or her spouse or beneficiary, and the Committee later determines that financial results used to determine the amount of that Award are materially restated and that the Executive Participant engaged in fraud or intentional misconduct, then the Company will seek repayment or recovery of the Award, as appropriate, notwithstanding any contrary provision of the ICP. In addition, any benefits you may receive hereunder shall be subject to repayment or forfeiture as may be required to comply with the requirements of the U.S. Securities and Exchange Commission or any applicable law, including the requirements of the Dodd-Frank Wall Street Reform and Consumer Protection Act, or any securities exchange on which the Stock is traded, as may be in effect from time to time.

**12.** **Withholding.** Awards shall be reduced for applicable taxes or you will be required to remit taxes to the Company in accordance with the terms of the ICP.

**13.** **Dividend Equivalents.** Dividends payable on the number of shares represented by your Units (including whole and fractional Units) will be allocated to your account in the form of dividend equivalent units (“DEUs”) (whole and fractional). DEUs will be allocated to your account each time dividends are paid by (i) multiplying the cash (or stock) dividend paid per share of the Company’s class B common stock by the number of outstanding target number Units (and previously credited DEUs) prior to adjustment for the dividend, and (ii) dividing the product by the Fair Market Value of a Share on the day the dividend is declared, provided that the record date occurs after the Grant Date. DEUs will be subject to the same vesting conditions as the underlying Award.

**14.** **Miscellaneous.**

**14.1** **Awards Subject to the Terms of the ICP.** LTIP Awards are subject to the terms of the ICP**.**

**14.2** **Section 409A.** Each Award is intended either to be exempt from Code § 409A and the 409A Guidance or to comply with Code § 409A and the 409A Guidance. The Award Document and the ICP shall be administered in a manner consistent with this intent, and any provision that would cause the Award Document or the ICP to fail to satisfy Code § 409A or the 409A Guidance shall have no force or effect until amended to comply with or be exempt from Code § 409A and the

409A Guidance (which amendment may be retroactive to the extent permitted by Code § 409A and the 409A Guidance and may be made by the Company without your consent). To the extent that benefits provided under an Award constitute deferred compensation for purposes of Code § 409A and the 409A Guidance and to the extent that deferred compensation is payable upon a "separation from service" as defined in Code § 409A and the 409A Guidance, no amount of deferred compensation shall be paid or transferred to you as a result of your separation from service until the date which is the earlier of (i) the first day of the seventh month after your separation from service or (ii) the date of your death (the "Delay Period").

**14.3** **Severability.** The provisions of this LTIP are severable and if any one or more provisions are determined to be illegal or otherwise unenforceable, in whole or in part, the remaining provisions shall nevertheless be binding and enforceable.

**14.4** **Waiver.** You acknowledge that a waiver by the Company of breach of any provision of this LTIP shall not operate or be construed as a waiver of any other provision of this LTIP, or of any subsequent breach by you or any other participant.

**14.5** **Imposition of Other Requirements.** The Committee reserves the right to impose other requirements on your participation in the LTIP, on the Units and on any shares of Stock acquired under the ICP, to the extent the Committee determines it is necessary or advisable for legal or administrative reasons, and to require you to sign any additional agreements or undertakings that may be necessary to accomplish the foregoing.

**14.6** **Amendment and Termination.** The Committee may amend, alter, suspend or terminate the LTIP and any Award at any time subject to the terms of the ICP. Any such amendment shall be in writing and approved by the Committee. The UPS People Led Committee may make administrative amendments to the LTIP from time to time; provided, however, that any such amendment shall be reviewed with the Committee and kept with the records of the LTIP.

**14.7** **Electronic Delivery.** The Company may, in its sole discretion, deliver any documents related to the Units and your participation in the ICP, or future awards that may be granted under the ICP, by electronic means or request your consent to participate in the ICP by electronic means. You hereby consent to receive such documents by electronic delivery and, if requested, agree to participate in the ICP through an on-line or electronic system established and maintained by the Company or another third party designated by the Company.

**14.8** **No Right to Future Awards or Employment.** The grant of the Units under an Award to you is a voluntary, discretionary award being made on a one-time basis and it does not constitute a commitment to make any future awards. Nothing contained in the Award Document shall confer upon you any right to be employed or remain employed by the Company or any of its Subsidiaries, nor limit or affect in any manner the right of the Company or any of its Subsidiaries to terminate your employment or adjust your compensation.

**14.9** **Acknowledgement.** You acknowledge that you (a) have received a copy of the ICP, (b) have had an opportunity to review the terms of the Award Document and the ICP, (c) understand the terms and conditions of the Award Document and the ICP and (d) agree to such terms and conditions.

**Exhibit A**

Long-Term Incentive Performance Program

| CLASSIFICATION | TARGET LTIP AWARD PERCENTAGE |
|---|---|
| Chief Executive Officer | 760% |
| Executive Leadership Team Member | 350% - 550% |
| Region Managers | 200% |
| District Managers | 100% |
| Region Staff Managers | 50% |

**Exhibit 31.1**

**CERTIFICATE OF PRINCIPAL EXECUTIVE OFFICER**

I, Carol B. Tomé, certify that:

1. I have reviewed this quarterly report on Form 10-Q of United Parcel Service, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ CAROL B. TOMÉ

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

May 5, 2021

**Exhibit 31.2**

**CERTIFICATE OF PRINCIPAL FINANCIAL OFFICER**

I, Brian O. Newman, certify that:

1. I have reviewed this quarterly report on Form 10-Q of United Parcel Service, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ BRIAN O. NEWMAN

**Brian O. Newman**
**Senior Vice President, Chief Financial Officer and Treasurer**
**(Principal Financial Officer)**

May 5, 2021

**Exhibit 32.1**

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

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and in connection with the Quarterly Report on Form 10-Q of United Parcel Service, Inc. (the "Corporation") for the period ended March 31, 2021, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, the Chief Executive Officer of the Corporation, certifies that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

/s/ CAROL B. TOMÉ

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

May 5, 2021

**Exhibit 32.2**

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

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and in connection with the Quarterly Report on Form 10-Q of United Parcel Service, Inc. (the "Corporation") for the period ended March 31, 2021, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, the Senior Vice President, Chief Financial Officer and Treasurer of the Corporation, certifies that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

/s/ BRIAN O. NEWMAN

**Brian O. Newman**
**Senior Vice President, Chief Financial Officer and Treasurer**
**(Principal Financial Officer)**

May 5, 2021