UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K
**FOR ANNUAL AND TRANSITION REPORTS
PURSUANT TO SECTIONS 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934**

(Mark One)

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

For the fiscal year ended December 31, 2011

or

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

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

United Parcel Service, Inc.
(Exact Name of Registrant as Specified in Its Charter)

Delaware	**58-2480149**
(State or Other Jurisdiction of Incorporation or Organization)	***(I.R.S. Employer Identification No.)***
55 Glenlake Parkway, N.E. Atlanta, Georgia	**30328**
(Address of Principal Executive Offices)	***(Zip Code)***

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

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

Title of Each Class	Name of Each Exchange on Which Registered
Class B common stock, par value $.01 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
Class A common stock, par value $.01 per share
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☑ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes ☐ No ☑

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☑ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☑

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "accelerated filer", "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. Check one:

Large accelerated filer ☑ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐

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

The aggregate market value of the class B common stock held by non-affiliates of the registrant was $53,668,942,247 as of June 30, 2011. The registrant's class A common stock is not listed on a national securities exchange or traded in an organized over-the-counter market, but each share of the registrant's class A common stock is convertible into one share of the registrant's class B common stock.

As of February 10, 2012, there were 236,015,165 outstanding shares of class A common stock and 722,705,229 outstanding shares of class B common stock.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement for its annual meeting of shareowners scheduled for May 3, 2012 are incorporated by reference into Part III of this report.

UNITED PARCEL SERVICE, INC.
ANNUAL REPORT ON FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2011
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PART I

Cautionary Statement About Forward-Looking Statements

This report includes certain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Statements in the future tense, and all statements accompanied by terms such as "believe," "project," "expect," "estimate," "assume," "intend," "anticipate," "target," "plan," and variations thereof and similar terms are intended to be forward-looking statements. We intend that all forward-looking statements we make will be subject to safe harbor protection 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.

Our disclosure and analysis in this report, in our Annual Report to Shareholders and in our other filings with the Securities and Exchange Commission ("SEC") contain forward-looking statements regarding our intent, belief and current expectations about our strategic direction, prospects and future results. From time to time, we also provide forward-looking statements in other materials we release as well as oral forward-looking statements. Such statements give our current expectations or forecasts of future events; they do not relate strictly to historical or current facts. Management believes that these forward-looking statements are reasonable as and when made. However, caution should be taken not to place undue reliance on any such forward-looking statements because such statements speak only as of the date when made.

Forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from our historical experience and our present expectations or anticipated results. These risks and uncertainties are described in Part I, "Item 1A. Risk Factors" and may also be described from time to time in our future reports filed with the SEC. You should consider the limitations on, and risks associated with, forward-looking statements and not unduly rely on the accuracy of predictions contained in such forward-looking statements. We do not undertake any obligation to update forward-looking statements to reflect events, circumstances, changes in expectations, or the occurrence of unanticipated events after the date of those statements.

Item 1. *Business*

Overview

United Parcel Service, Inc. ("UPS") was founded in 1907 as a private messenger and delivery service in Seattle, Washington. Today, UPS is the world's largest package delivery company, a leader in the U.S. less-than-truckload industry and the premier provider of global supply chain management solutions. We deliver packages each business day for 1.1 million shipping customers to 7.7 million consignees in over 220 countries and territories. In 2011, we delivered an average of 15.8 million pieces per day worldwide, or a total of 4.01 billion packages. Total revenue in 2011 was $53.1 billion.

We are a global leader in logistics, and we create value for our customers through solutions that lower costs, improve service and provide highly customizable supply chain control and visibility. Customers are attracted to our broad set of services that are delivered as promised through our integrated ground, air and ocean global network.

Our services and integrated network allow shippers to simplify their supply chains by using fewer carriers and to adapt their transportation requirements and spend as their businesses evolve. Across our service portfolio, we also provide control and visibility of customers' inventories and supply chains via our UPS technology platform. The information flow from UPS technology drives improvements for our customers, as well as for UPS, in reliability, flexibility, productivity and efficiency.

Particularly over the last decade, UPS has significantly expanded the scope of our capabilities to include more than package delivery. Our logistics and distribution capabilities give companies the power to easily expand their businesses to new markets around the world. By leveraging our international infrastructure, UPS enables our customers to bridge time zones, cultures, distances and languages to keep the entire supply chain moving smoothly. We operate approximately 800 logistics facilities, in more than 120 countries, offering warehouse space of 35 million square feet.

We serve the global market for logistics services, which include transportation, distribution, forwarding, ground, ocean and air freight, brokerage and financing. Our technology seamlessly binds our service portfolio. We have three reportable segments: U.S. Domestic Package, International Package and Supply Chain & Freight, all of which are described below. For financial information concerning our reportable segments and geographic regions, refer to note 12 of our consolidated financial statements.

Business Strategy

Customers leverage our broad array of services; balanced global presence in North America, Europe, Asia and Latin America; reliability; and industry leading technology for competitive advantage in markets where they choose to compete. We prudently invest to expand our integrated network and our service portfolio. Technology investments create user-friendly shipping, e-commerce, logistics management and visibility tools for our customers, while supporting UPS's ongoing efforts to increase operational efficiencies.

Our service portfolio and investments are rewarded with among the best returns on invested capital and operating margins in the industry. We have a long history of sound financial management. Our balance sheet reflects financial strength that few companies can match. As of December 31, 2011, we had a balance of cash and marketable securities of approximately $4.275 billion and shareowners' equity of $7.108 billion. Our Moody's and Standard & Poor's short-term credit ratings are P-1 and A-1+, respectively, and our Moody's and Standard & Poor's long-term credit ratings are Aa3 and AA-, respectively. We have a stable outlook from both of these credit rating agencies. Cash generation is a significant strength of UPS. This gives us strong capacity to service our obligations and allows for distributions to shareowners, reinvestment in our businesses and the pursuit of growth opportunities.

We enable and are the beneficiaries of the following trends:

Expansion of Global Trade

Trade across borders is predicted to grow at rates that are at least double the growth rates of U.S. and global domestic production for the foreseeable future. As a result, U.S. and international economies are becoming more inter-connected and dependent on foreign trade.

UPS plays an important role in global trade and is uniquely positioned to take advantage of trade growth, wherever it emerges. Our balanced global presence and productivity enhancing technologies allow customers to effortlessly expand to new markets. We advocate the expansion of free trade, including the passage of regional trade pacts and the removal of trade barriers. Free trade is a catalyst for job creation, economic growth and improved living standards; additionally, it propels our growth.

Emerging Market Growth

As our current and prospective customers seek growth outside of developed markets, they look to emerging markets for expansion. We make long-term, measured investments in markets where our customers choose to grow. Our investments are scaled to the local opportunity. We typically follow a pattern of entering a market through importing and exporting, expanding domestically with a partner or alliance, and then ultimately acquiring domestic operations where we see value and return. China is a prime example of this strategy as we continue to clear hurdles that will enable us to realize this vision. Our two key air hubs in Shanghai and Shenzhen support market expansion through increased cargo capacity and faster intra-Asia transit times, while enabling our customers to ship later in the day. We link Asia to Europe with overnight flights from Hong Kong through our air hub in Cologne, Germany.

Taken together, these two trends (expanding global trade and emerging market growth) underscore why our international business is a catalyst for UPS's growth.

Increasing need for vertical expertise in the integrated carrier space

We provide repeatable, scalable sector solutions for our customers. We invest in global capabilities and create value propositions for certain industries where there is a fit between our customers' needs and our offerings. Segments where we bring unique value propositions include health care, high-tech, automotive & industrial manufacturing, retail, government and professional services.

The health care industry faces complex challenges, including the continuing expiration of drug patents and the shifting landscape of regulatory requirements and drug pricing controls that differ by country. To counter these threats, many pharmaceutical companies have embarked on global expansion strategies that require infrastructure. UPS has aligned our resources to serve these needs through a well-developed supply chain management capability that is designed to satisfy regulatory and compliance requirements. We have built 33 dedicated health care facilities with over 5 million square feet of distribution space. These facilities allow us to provide reliable, secure, cost-effective warehousing and distribution for pharmaceutical firms' supply chains, which, in turn, allow them to easily navigate across and within borders.

We will continue to expand our vertical offerings, growing not only our physical and market footprint, but also our expertise and technology to support industry specific needs. Our growth strategy is to increase the number of customers benefitting from these vertical solutions and gain their associated small package and freight transportation.

Outsourcing

Outsourcing supply chain management is becoming more prevalent, as customers increasingly view professional management and operation of their supply chains as a strategic advantage. This trend enables companies to focus on what they do best. We can meet our customers' needs for outsourced logistics with our global capabilities in customized forwarding, warehousing, distribution, delivery and post-sales services. As we move deeper into customers' supply chains, we do so with a shared vision on how to best serve those who rely on our customers. We integrate our technology for efficiencies, visibility and control to ensure that we execute as promised.

Retail e-Commerce Growth

Throughout much of the world, e-commerce growth continues to outpace traditional lines of business. We continue to create new services, supported by UPS technology, that complement the traditional UPS premium home delivery service to address the needs of e-commerce shippers and receivers ("consignees"). Our offerings span a broad spectrum from cost-sensitive solutions such as SurePost, for shipments where economy takes precedence over speed, up to feature-rich solutions, including our new UPS My Choice service that provides consignees with revolutionary visibility and control of their inbound shipments.

With UPS My Choice, consignees direct the timing and location of their deliveries before a delivery attempt is made. Premium features include online delivery planners, detailed driver instructions, alternate delivery locations and a two-hour delivery window. Delivery alerts come via the channel chosen by the consignee—email, SMS text, etc. We strive to give our customers that ship using UPS My Choice the best delivery experience in the industry—delivery on the first attempt, where and when their customers want it.

Technology

Technology powers logistics. We bring industry leading UPS technology to our customers who, in turn, realize increased productivity, greater control of their supply chains and improved customer experience when they integrate with our technology. Customers benefit through offerings such as:

- UPS Quantum View which can speed up the revenue cycle (i.e. faster transit times, coupled with confirmation of delivery, allow shippers to collect accounts receivable more quickly), allow for inbound volume planning, manage third party shipping costs, automatically notify customers of incoming shipments, and of course, track shipments and let the customer react if a specific shipment status changes.

- Flex Global View which provides customs alerts, supplier key performance indicators and inventory monitoring.
- UPS Paperless Invoice which enables customers to submit a commercial invoice electronically when shipping internationally. This eliminates redundant data entry and errors, while reducing customs holds and paper waste.
- UPS Import Control which gives our customers the ability to initiate their import shipments, define billing terms and assign accounts to charge, and remove commercial invoices prior to delivery to a third-party.
- UPS Mobile apps, which allow our customers to track, ship and find UPS locations from mobile devices, are among the top downloaded applications for businesses.
- UPS My Choice which focuses on the consignee and transforms the residential delivery experience. Receivers direct the timing and circumstances of their deliveries. This innovative service, which is unmatched in our industry, is powered by the complex integration of real-time route optimization and other technologies with our delivery network. We believe that UPS My Choice gives us a substantial lead over the competition.

Technology, coupled with high-quality UPS employees, forms the foundation of our reliability and allows us to take customer experience to a higher level. Technology delivers value to our customers and returns to our shareholders. Recent advancements that evidence further gains in UPS's operational efficiency, flexibility, reliability and customer experience include:

- Continuing to rollout telematics to our delivery and tractor-trailer fleet. Telematics helps UPS determine a truck's performance and condition by capturing data on more than 200 elements, including speed, RPM, oil pressure, seat belt use, number of times the truck is placed in reverse and idling time. Together, improved data and driver coaching help reduce fuel consumption, emissions and maintenance costs, while improving driver safety. Moreover, customers experience more consistent pickup times and more reliable deliveries, thereby enhancing their profitability and competitiveness.
- Implementing our On Road Integrated Optimization and Navigation ("ORION") system, which employs advanced algorithms to determine the optimal route for each delivery while meeting service commitments.
- Converting our package cars to keyless entry, where drivers will be able to remotely turn the engine off with a button that will unlock the bulkhead door at the same time.
- Ramping up installations of our Next Generation Small Sort ("NGSS") technology, which reduces the amount of memorization required to sort a package, thereby improving productivity and quality. Employees sort packages to bins tagged with flashing lights, rather than memorizing addresses, allowing us to dramatically reduce training time.

Reporting Segments and Products & Services

As a global leader in logistics, UPS offers a broad range of domestic and export delivery services; the facilitation of international trade; and the deployment of advanced technology to more efficiently manage the world of business. We seek to streamline our customers' shipment processing and integrate critical transportation information into their own business processes, helping them to create supply chain efficiencies, better serve their customers and improve their cash flows.

Global Small Package

UPS's global small package operations provide time-definite delivery services for express letters, documents and small packages via air and ground services. We provide domestic delivery services within 56 countries and export services to more than 220 countries and territories around the world. We handle packages that weigh up to 150 pounds and are up to 165 inches in combined length and girth. All of our package services are supported by numerous shipping, visibility and billing technologies.

UPS handles all levels of service (air, ground, domestic, international, commercial, residential) through one global integrated pickup and delivery network. All packages are commingled throughout their journey in our network, except when necessary to meet their specific service commitments. This enables one UPS driver to pick up our customers' shipments, for any of our services, at the same scheduled time, day after day. Compared to companies with single service network designs, our integrated network uniquely provides operational and capital efficiencies while being easier on the environment.

Upon request, we offer same-day pickup of air and ground packages. Based on their needs, customers can schedule pickups for one to five days a week. Additionally, we provide our customers with easy access to UPS, with over 150,000 domestic and international entry points including: 40,000 drop boxes, 1,000 customer centers, 4,700 independently owned and operated locations of The UPS Store worldwide, 13,000 authorized shipping outlets and commercial counters, 6,300 alliance locations and 86,300 UPS drivers who can accept packages provided to them.

With the growth of online shopping, our customers' needs for efficient and reliable returns have increased. To this end, we have developed a robust selection of returns services that are available in over 100 countries. Options vary based on customer needs and country, and range from cost-effective solutions such as UPS Returns, which simply enables shippers to provide their customers with a return shipping label, to services as specialized as UPS Returns Exchange. In this new service, the UPS driver simplifies product exchanges by delivering a replacement item and picking up a return item in the same stop, and assisting with the re-packaging process.

We operate a global ground fleet of approximately 101,000 vehicles, of which our U.S. ground fleet serves all business and residential zip codes in the contiguous U.S. We operate a global air fleet of 523 aircraft, and we are one of the largest airlines in the world. Our global air network is centered at our Worldport hub in Louisville, Kentucky. Worldport sort capacity, currently at 416,000 packages per hour, has expanded over the years due to volume growth and a centralization effort. This facility is supplemented by our regional U.S. air hubs in Hartford, Connecticut; Ontario, California; Philadelphia, Pennsylvania; and Rockford, Illinois. This network design allows for cost-effective package processing in our most technology-enabled facility while enabling us to use fewer, larger and more fuel-efficient aircraft. Our largest international air hub is in Cologne, Germany, with other regional international hubs in Miami, Florida; Canada; Hong Kong; Singapore; Taiwan; and China.

U.S. Domestic Package Reporting Segment

UPS is a leader in time-definite, money-back guaranteed, small package delivery services. We offer a full spectrum of U.S. domestic guaranteed ground and air package transportation services. Depending on the delivery speed needed, customers can select from a range of guaranteed time and day definite delivery options.

- Customers can select from same day, next day, two day and three day delivery alternatives. Many of these services offer options that enable customers to specify a time of day cut-off for their delivery (e.g. by 8:30, 10:30, noon, end of day, etc.)
- Customers can also leverage our extensive ground network to ship using our day-definite guaranteed ground service that serves every U.S. business and residential address. UPS delivers more ground packages than any other carrier, with over 11 million ground packages delivered on time every day in the U.S., most within one to three business days.

- UPS also offers UPS SurePost, an economy residential ground service for customers with non-urgent, light weight residential shipments. UPS SurePost is a contractual residential ground service that combines the consistency and reliability of the UPS Ground network with final delivery provided by the U.S. Postal Service.

International Package Reporting Segment

Our International Package reporting segment includes the small package operations in Europe, Asia, Canada and Latin America. UPS offers a wide selection of guaranteed, day and time-definite international shipping services.

- We offer three guaranteed time-definite express options (Express Plus, Express and Express Saver) to more locations than any other carrier.
- For international shipments that do not require express services, UPS Worldwide Expedited offers a reliable, deferred, guaranteed day-definite service option.
- For cross-border ground package delivery, we offer UPS Transborder Standard delivery services within Europe, between the U.S. and Canada and between the U.S. and Mexico.

Europe, our largest region outside of the U.S., accounts for roughly half of international revenue and is one of our growth engines. Factors contributing to this are the highly fragmented nature of the market and the fact that exports make up a significant part of Europe's GDP. Given our well-known, trusted brand and distinctive integrated network, we believe there is continued strong potential for growth in small package exports in Germany, the U.K., France, Italy, Spain and the Netherlands. Due to our strong growth, we are expanding our main European air hub in Cologne by 70% to a capacity of 190,000 packages per hour. Expansion will come in stages; the first stage was completed in the fourth quarter of 2011 with the final stage targeted for 2013.

Asia is another growth engine due to attractive growth rates in intra-Asian trade and the dynamic Chinese economy. We are bringing faster time-in-transit to customers focused on intra-Asian trade, reducing transit days from Asia to Europe, and continuing to build our China presence. Our recent China investments include:

- Material outlays to add capabilities, facilities and quality employees. We are building awareness and relevance while demonstrating superior UPS performance.
- Opened an air hub in Shenzhen in mid-2010.
- Added intra-Asia and around-the-world flight frequencies allowing customers to reach more of Europe the next day, guaranteed, than any other express carrier.

We serve more than 40 Asia-Pacific countries and territories through more than two dozen alliances with local delivery companies that supplement company-owned operations. In Vietnam, our volume has doubled since entering into an alliance with a local partner in 2010.

Additional International highlights include the following:

- Since our 2009 acquisition of Unsped Paket Servisi San ve Ticaret A.S. in Turkey, we have seen double-digit export and domestic growth in that country.
- In South and Central America, we benefit from the strong regional economy. Our offerings include express package delivery in major cities as well as distribution and forwarding.
- We continue to grow our business organically in Mexico. We are well positioned with freight, domestic, international and distribution services.
- In February 2012 we broadened our European business-to-consumer service portfolio by acquiring Kiala S.A., a Belgium-based developer of a platform that enables e-commerce retailers to offer consumers the option of having goods delivered to a convenient retail location.

Supply Chain & Freight Reporting Segment

The Supply Chain & Freight segment consists of our forwarding and logistics services, our UPS Freight business, and our financial offerings through UPS Capital. We manage supply chains in over 195 countries and territories, with approximately 35 million square feet of distribution space worldwide. Supply chain complexity creates demand for a global service offering that incorporates transportation, distribution and international trade and brokerage services, with financial and information services. We meet this demand by offering a broad array of services, which are described below.

The 2011 acquisition of Italy-based Pieffe Group ("Pieffe") supports our global health care strategy, which has seen us make investments to better serve our growing customer base in the pharmaceutical, biotech and medical device industries. Previously family-owned, Pieffe is a pharmaceutical logistics business with more than 35 years of experience offering high-quality storage, distribution and cold chain solutions to some of the world's leading pharmaceutical brands.

Freight Forwarding

UPS is the second largest U.S. domestic air freight carrier and among the top six international air freight forwarders globally. UPS offers a portfolio of guaranteed and non-guaranteed global air freight services. Additionally, as one of the world's leading non-vessel operating common carriers, UPS also provides ocean freight full-container load and less-than container load shipments between most major ports around the world.

Customs Brokerage

UPS is among the world's largest customs brokers by both the number of shipments processed annually and by the number of dedicated brokerage employees worldwide. With decades of customs brokerage experience, we provide our customers with customs clearance, trade management and international trade consulting services.

Logistics and Distribution

UPS Logistics offers the following:

- Distribution Services: UPS's comprehensive distribution services are provided through a global network of distribution centers that manage the flow of goods from receiving to storage and order processing to shipment, allowing companies to save time and money by minimizing their capital investment and positioning products closer to their customers.
- Post Sales: Post Sales services support goods after they have been delivered or installed in the field. The four core service offerings within Post Sales include: 1) Critical Parts Fulfillment; 2) Reverse Logistics; 3) Test, Repair, and Refurbish; and 4) Network and Parts Planning. We leverage our global distribution network of 600+ field stocking locations to ensure that the right type and quantity of our customers' stock is in the right locations to meet the needs of their end-customers. Our customers are able to minimize spend and maximize service.
- UPS Mail Innovations: UPS Mail Innovations offers an efficient, cost-effective method for sending lightweight parcels and flat mail to global addresses from the U.S. We pick up customers' domestic and international mail, sort, post, manifest and then expedite the secured mail containers to the destination postal service for last-mile delivery.

UPS Freight

UPS Freight offers regional, inter-regional and long-haul less-than-truckload ("LTL") services, as well as full truckload services, in all 50 states, Canada, Puerto Rico, Guam, the U.S. Virgin Islands and Mexico. UPS Freight provides reliable LTL service backed by a day-definite, on-time guarantee at no additional cost. Additionally, many user-friendly small package technology offerings are also available for freight. Applications such as UPS WorldShip, Billing Center, and Quantum View allow customers to process and track LTL shipments, create electronic bills of lading and reconcile billing.

UPS Capital

UPS Capital offers a range of services, including export and import financing to help improve cash flow, risk mitigation offerings to protect goods, as well as payment solutions that help speed the conversion cycle of payments.

Sustainability

UPS's business and corporate responsibility strategies pursue a common interest to increase the vitality and environmental sustainability of the global economy by aggregating the shipping activity of millions of businesses and individuals worldwide into a single, highly efficient logistics network. This provides benefits to:

- UPS, by ensuring strong demand for our services.
- The economy, by making global supply chains more efficient and less expensive.
- The environment, by enabling our global customers to leverage UPS's carbon efficiency and thereby reduce the carbon intensity of their supply chains.

We pursue sustainable business practices worldwide through operational efficiency, fleet advances, facility engineering projects and conservation enabling technology and service offerings. We help our customers to do the same.

Sustainability highlights in 2011 include:

- Rated 1st in Social Responsibility in Fortune Magazine's 2011 "World's Most Admired" for the Delivery Industry.
- One of Corporate Responsibility's "100 Best Corporate Citizens" and one of "The Best Corporate Citizens in Government Contracting".
- Recognized by Ethisphere Institute as one of the "World's Most Ethical Companies".
- Named to Interbrands "Best Global Brands" for the 7th consecutive year. We ranked in the Top 100 in brand value around the world (#27) and were the only company in the transportation sector to make the list in 2011.
- Recognized as a constituent of the Dow Jones Sustainability Index for the 10th consecutive year.
- One of America's Top Organizations for Multicultural Business Opportunities by DiversityBusiness.com.
- Achieved a score of 99% in response to the Carbon Disclosure Project. Our Carbon Disclosure Leadership Index score is the highest in the U.S. and ties with only three other companies globally.
- Recognized by ClimateCounts.org as best company in the consumer shipping sector for the 3rd consecutive year.

More information is available on the UPS Sustainability website.

Community

We believe that strong communities are vital to the success of our company. By combining our philanthropy with the volunteer time and talents of our employees, UPS helps drive positive change for organizations and communities in need across the globe. The highlights of our corporate citizenship efforts in 2011 include:

- Local non-profits around the world received more than 1.6 million hours of volunteer service from UPS employees participating in our Neighbor-to-Neighbor program.
- The UPS Foundation, our charitable organization, oversaw $97 million in donations of cash and in-kind services to global causes primarily in four focus areas—community safety, environmental sustainability, diversity and volunteerism.
- UPS led all U.S. companies in United Way donations last year with more than $55 million, and surpassed $1 billion in cumulative donations to United Way.
- UPS continued to help save lives through our UPS Humanitarian Relief program by providing our logistics expertise and resources to aid the famine-stricken Horn of Africa and areas impacted by the Japan earthquake.
- Thousands of teenagers and novice drivers in the U.S., Canada, the U.K., and Germany participated in UPS Road Code. This safety program for new drivers features UPS employees as instructors – a role where they get to share driving knowledge and safety tips amassed over our 104-year history of safe driving.

Reputation

Many of our customers trust UPS to extend their brand. We were pleased that UPS earned the top rating in our industry on the American Customer Satisfaction Index in 2011. As noted in Millward Brown's and Interbrand's top brand rankings, we have one of the most valuable brands in the world. UPS also has been named to industry leading positions in Fortune Magazine's Most Admired and Harris Interactive's Reputation Quotient surveys.

Employees

The strength of our company is our people, working together with a common purpose. We had approximately 398,000 employees as of December 31, 2011, of which 323,000 are in the U.S. and 75,000 are located internationally. Our global workforce includes approximately 71,000 management employees (36% of whom are part-time) and 327,000 hourly employees (46% of whom are part-time).

As of December 31, 2011, we had approximately 245,000 employees employed under a national master agreement and various supplemental agreements with local unions affiliated with the International Brotherhood of Teamsters ("Teamsters"). These agreements run through July 31, 2013.

We have approximately 2,700 pilots who are employed under a collective bargaining agreement with the Independent Pilots Association ("IPA"), which became amendable at the end of 2011.

Our airline mechanics are covered by a collective bargaining agreement with Teamsters Local 2727, which runs through November 1, 2013. In addition, approximately 3,200 of our ground 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"). Our agreement with the IAM runs through July 31, 2014.

The experience of our management team continues to be an organizational strength. Nearly 40% of our full-time managers have more than 20 years of service with UPS.

We believe that our relations with our employees are good. We periodically survey all our employees to determine their level of job satisfaction. Areas of concern receive management attention as we strive to keep UPS the employer of choice among our employees. We consistently receive numerous awards and wide recognition as an employer-of-choice, resulting in part from our emphasis on diversity and corporate citizenship.

Safety

We promote safety throughout our operations. Our Automotive Fleet Safety Program is built with the following components:

- *Selection.* Five out of every six drivers come from our part-time ranks. Therefore, many of our new drivers are familiar with our philosophies, policies, practices and training programs.
- *Training.* Training is the cornerstone of our Fleet Safety Program. Our approach starts with training the trainer. All trainers are certified to ensure that they have the skills and motivation to effectively train novice drivers. A new driver's employment includes extensive classroom and online training as well as on-road training, followed by three safety training rides integrated into his or her training cycle.
- *Responsibility.* Our operations managers are responsible for their drivers' safety records. We investigate every accident. If we determine that an accident could have been prevented, we retrain the driver.
- *Preventive Maintenance.* An integral part of our Fleet Safety Program is a comprehensive Preventive Maintenance Program. Our fleet is tracked electronically to ensure that each vehicle is serviced before a breakdown or accident is likely to occur.
- *Honor Plan.* A well-defined safe driver honor plan recognizes and rewards our drivers when they achieve success. We have over 4,000 drivers who have driven for 25 years or more without an avoidable accident.

Our workplace safety program is built upon a comprehensive health and safety process. The foundation of this process is our employee-management health and safety committees. The workplace safety process focuses on employee conditioning and safety-related habits. Our employee co-chaired health and safety committees complete comprehensive facility audits and injury analyses, and recommend facility and work process changes.

Competition

We are the largest package delivery company in the world, in terms of both revenue and volume. We offer a broad array of services in the package and freight delivery industry and, therefore, compete with many different local, regional, national and international companies. Our competitors include worldwide postal services, various motor carriers, express companies, freight forwarders, air couriers and others. Through our supply chain service offerings, we compete with a number of participants in the supply chain, financial services and information technology industries.

Competitive Strengths

Our competitive strengths include:

Integrated Global Network. We believe that our integrated global ground and air network is the most extensive in the industry. We handle all levels of service (air, ground, domestic, international, commercial, residential) through a single pickup and delivery service network.

Our sophisticated engineering systems allow us to optimize our network efficiency and asset utilization on a daily basis. This unique, integrated global business model creates consistent and superior returns.

We believe we have the most comprehensive integrated delivery and information services portfolio of any carrier in Europe. In other regions of the world, we rely on both our own and local service providers' capabilities to meet our service commitments.

Global Presence. UPS serves more than 220 countries and territories around the world. We have a presence in all of the world's major economies.

Leading-edge Technology. We are a global leader in developing technology that helps our customers optimize their shipping and logistics business processes to lower costs, improve service and increase efficiency.

Technology powers virtually every service we offer and every operation we perform. Our technology offerings are initiated by our customers' needs. We offer a variety of on-line service options that enable our customers to integrate UPS functionality into their own businesses not only to conveniently send, manage and track their shipments, but also to provide their customers with better information services. We provide the infrastructure for an Internet presence that extends to tens of thousands of customers who have integrated UPS tools directly into their own web sites.

Broad Portfolio of Services. Our portfolio of services enables customers to choose the delivery option that is most appropriate for their requirements. Increasingly, our customers benefit from business solutions that integrate many UPS services in addition to package delivery. For example, our supply chain services—such as freight forwarding, customs brokerage, order fulfillment, and returns management—help improve the efficiency of the supply chain management process.

Customer Relationships. We focus on building and maintaining long-term customer relationships. We serve 1.1 million pick-up customers and 7.7 million delivery customers daily. Cross-selling small package, supply chain and freight services across our customer base is an important growth mechanism for UPS.

Brand Equity. We have built a leading and trusted brand that stands for quality service, reliability and product innovation. The distinctive appearance of our vehicles and the friendliness and helpfulness of our drivers are major contributors to our brand equity.

Distinctive Culture. We believe that the dedication of our employees results in large part from our distinctive "employee-owner" concept. Our employee stock ownership tradition dates from 1927, when our founders, who believed that employee stock ownership was a vital foundation for successful business, first offered stock to employees. To facilitate employee stock ownership, we maintain several stock-based compensation programs.

Our long-standing policy of "promotion from within" complements our tradition of employee ownership, and this policy reduces the need for us to hire managers and executive officers from outside UPS. The majority of our management team began their careers as full-time or part-time hourly UPS employees, and have spent their entire careers with us. Many of our executive officers have more than 30 years of service with UPS and have accumulated a meaningful ownership stake in our company. Therefore, our executive officers have a strong incentive to effectively manage UPS, which benefits all our shareowners.

Financial Strength. Our balance sheet reflects financial strength that few companies can match. Our financial strength gives us the resources to achieve global scale; to invest in employee development, technology, transportation equipment and buildings; to pursue strategic opportunities that facilitate our growth; to service our obligations; and to return value to our shareowners in the form of dividends and share repurchases.

Government Regulation

Air Operations

The U.S. Department of Transportation ("DOT"), the Federal Aviation Administration ("FAA"), and the U.S. Department of Homeland Security, through the Transportation Security Administration ("TSA"), have regulatory authority over United Parcel Service Co.'s ("UPS Airlines'") air transportation services. The Federal Aviation Act of 1958, as amended, is the statutory basis for DOT and FAA authority and the Aviation and Transportation Security Act of 2001, as amended, is the basis for TSA aviation security authority.

The DOT's authority primarily relates to economic aspects of air transportation, such as discriminatory pricing, non-competitive practices, interlocking relations and cooperative agreements. The DOT also regulates, subject to the authority of the President of the United States, international routes, fares, rates and practices, and is authorized to investigate and take action against discriminatory treatment of U.S. air carriers abroad. International operating rights for U.S. airlines are usually subject to bilateral agreement between the U.S. and foreign governments. UPS Airlines has international route operating rights granted by the DOT and we may apply for additional authorities when those operating rights are available and are required for the efficient operation of our international network. The efficiency and flexibility of our international air transportation network is dependent on DOT and foreign government regulations and operating restrictions.

The FAA's authority primarily relates to safety aspects of air transportation, including aircraft operating procedures, transportation of hazardous materials, record keeping standards and maintenance activities, personnel and ground facilities. In 1988, the FAA granted us an operating certificate, which remains in effect so long as we meet the safety and operational requirements of the applicable FAA regulations. In addition, we are subject to non-U.S. government regulation of aviation rights involving non-U.S. jurisdictions, and non-U.S. customs regulation.

FAA regulations mandate an aircraft corrosion control program, along with aircraft inspection and repair at periodic intervals specified by approved programs and procedures, for all aircraft. Our total expenditures under these programs for 2011 were not material. The future cost of repairs pursuant to these programs may fluctuate according to aircraft condition, age and the enactment of additional FAA regulatory requirements.

The TSA regulates various security aspects of air cargo transportation in a manner consistent with the TSA mission statement to "protect the Nation's transportation systems to ensure freedom of movement for people and commerce." UPS Airlines, and specified airport and off airport locations, are regulated under TSA regulations applicable to the transportation of cargo in an air network. In addition, personnel, facilities and procedures involved in air cargo transportation must comply with TSA regulations.

UPS Airlines, along with a number of other domestic airlines, participates in the Civil Reserve Air Fleet ("CRAF") program. Our participation in the CRAF program allows the U.S. Department of Defense ("DOD") to requisition specified UPS Airlines wide-body aircraft for military use during a national defense emergency. The DOD compensates us for the use of aircraft under the CRAF program. In addition, participation in CRAF entitles UPS Airlines to bid for military cargo charter operations.

Ground Operations

Our ground transportation of packages in the U.S. is subject to the DOT's jurisdiction with respect to the regulation of routes and to both the DOT's and the states' jurisdiction with respect to the regulation of safety, insurance and hazardous materials. We are subject to similar regulation in many non-U.S. jurisdictions.

The Postal Reorganization Act of 1970 created the U.S. Postal Service as an independent establishment of the executive branch of the federal government, and created the Postal Rate Commission, an independent agency, to recommend postal rates. The Postal Accountability and Enhancement Act of 2006 amended the 1970 Act to give the re-named Postal Regulatory Commission revised oversight authority over many aspects of the Postal Service, including postal rates, product offerings and service standards. We sometimes participate in the proceedings before the Postal Regulatory Commission in an attempt to secure fair postal rates for competitive services.

Customs

We are subject to the customs laws in the countries in which we operate, regarding the import and export of shipments, including those related to the filing of documents on behalf of client importers and exporters.

Environmental

We are subject to federal, state and local environmental laws and regulations across all of our business units. These laws and regulations cover a variety of processes, including, but not limited to: proper storage, handling, and disposal of hazardous and other waste; managing wastewater and stormwater; monitoring and maintaining the integrity of underground storage tanks; complying with laws regarding clean air, including those governing emissions; protecting against and appropriately responding to spills and releases; and communicating the presence of reportable quantities of hazardous materials to local responders. UPS has established site- and activity-specific environmental compliance and pollution prevention programs to address our environmental responsibilities and remain compliant. In addition, UPS has created numerous programs which seek to minimize waste and prevent pollution within our operations.

Other Regulations

We are subject to numerous other U.S. federal and state laws and regulations, in addition to applicable foreign laws, in connection with our package and non-package businesses in the countries in which we operate. These laws and regulations include those enforced by U.S. Customs and Border Protection and other agencies of the U.S. Department of Homeland Security, the U.S. Department of Treasury, the Federal Maritime Commission, the U.S. Drug Enforcement Administration, the U.S. Food and Drug Administration and the U.S. Department of Agriculture.

Where You Can Find More Information

UPS maintains a website at *www.ups.com*. Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports filed or furnished pursuant to Section 13(a) of the Securities Exchange Act of 1934 are made available through our website *www.investors.ups.com* as soon as reasonably practical after we electronically file or furnish the reports to the SEC. Also available on the Corporation's website are the Company's Corporate Governance Guidelines and Committee Charters. Information on these websites, however, is not incorporated by reference into this report or any other report filed with or furnished to the SEC.

We have adopted a written Code of Business Conduct that applies to all of our directors, officers and employees, including our principal executive officer and senior financial officers. It is available in the governance section of the investor relations website, located at *www.investors.ups.com*. In the event that we make changes in, or provide waivers from, the provisions of the Code of Business Conduct that the SEC requires us to disclose, we intend to disclose these events in the governance section of our investor relations website.

Our Corporate Governance Guidelines and the charters for our Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee are also available in the governance section of the investor relations website.

Our sustainability report, which describes our activities that support our commitment to acting responsibly and contributing to society, is available at *www.sustainability.ups.com.* We provide the addresses to our internet sites solely for the information of investors. We do not intend any addresses to be active links or to otherwise incorporate the contents of any website into this report.

Item 1A. *Risk Factors*

You should carefully consider the following factors, which could materially affect our business, financial condition or results of operations. You should read these Risk Factors in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Item 7 and our Consolidated Financial Statements and related notes in Item 8.

General economic conditions, both in the U.S. and internationally, may adversely affect our results of operations.

We conduct operations in over 220 countries and territories. Our U.S. and international operations are subject to normal cycles affecting the economy in general, as well as the local economic environments in which we operate. The factors that create cyclical changes to the economy and to our business are beyond our control, and it may be difficult for us to adjust our business model to mitigate the impact of these factors. In particular, our business is affected by levels of industrial production, consumer spending and retail activity, and our business, financial position and results of operations could be materially affected by adverse developments in these aspects of the economy.

We face significant competition which could adversely affect our business, financial position and results of operations.

We face significant competition on a local, regional, national and international basis. Our competitors include the postal services of the U.S. and other nations, various motor carriers, express companies, freight forwarders, air couriers and others. Competition may also come from other sources in the future. Some of our competitors have cost and organizational structures that differ from ours and may offer services and pricing terms that we may not be willing or able to offer. If we are unable to timely and appropriately respond to competitive pressures, our business, financial position and results of operations could be adversely affected.

The transportation industry continues to consolidate and competition remains strong. As a result of consolidation, our competitors may increase their market share and improve their financial capacity, and may strengthen their competitive positions. Business combinations could also result in competitors providing a wider variety of services and products at competitive prices, which could adversely affect our financial performance.

Our business is subject to complex and stringent regulation in the U.S. and internationally.

We are subject to complex and stringent aviation, transportation, environmental, security, labor, employment and other governmental laws and regulations, both in the U.S. and in the other countries in which we operate. In addition, our business is impacted by laws and regulations that affect global trade, including tariff and trade policies, export requirements, taxes and other restrictions and charges. Changes in laws, regulations and the related interpretations may alter the landscape in which we do business and may affect our costs of doing business. The impact of new laws and regulations cannot be predicted. Compliance with new laws and regulations may increase our operating costs or require significant capital expenditures. Any failure to comply with applicable laws or regulations in the U.S. or in any of the countries in which we operate could result in substantial fines or possible revocation of our authority to conduct our operations, which could adversely affect our financial performance.

Increased security requirements could impose substantial costs on us and we could be the target of an attack or have a security breach.

As a result of concerns about global terrorism and homeland security, governments around the world have adopted or may adopt stricter security requirements that will result in increased operating costs for businesses in the transportation industry. These requirements may change periodically as a result of regulatory and legislative requirements and in response to evolving threats. We cannot determine the effect that these new requirements will have on our cost structure or our operating results, and these rules or other future security requirements may increase our costs of operations and reduce operating efficiencies. Regardless of our compliance with security requirements or the steps we take to secure our facilities or fleet, we could be the target of an attack or security breaches could occur, which could adversely affect our operations or our reputation.

We may be affected by global climate change or by legal, regulatory or market responses to such potential change.

Concern over climate change, including the impact of global warming, has led to significant federal, state and international legislative and regulatory efforts to limit greenhouse gas ("GHG") emissions. For example, in the past several years, the U.S. Congress has considered various bills that would regulate GHG emissions. While these bills have not yet received sufficient Congressional support for enactment, some form of federal climate change legislation is possible in the future. Even in the absence of such legislation, the Environmental Protection Agency, spurred by judicial interpretation of the Clean Air Act, may regulate GHG emissions, especially aircraft or diesel engine emissions, and this could impose substantial costs on us. These costs include an increase in the cost of the fuel and other energy we purchase and capital costs associated with updating or replacing our aircraft or vehicles prematurely. Until the timing, scope and extent of any future regulation becomes known, we cannot predict its effect on our cost structure or our operating results. It is reasonably possible that such legislation or regulation could impose material costs on us. Moreover, even without such legislation or regulation, increased awareness and any adverse publicity in the global marketplace about the GHGs emitted by companies in the airline and transportation industries could harm our reputation and reduce customer demand for our services, especially our air services.

Strikes, work stoppages and slowdowns by our employees could adversely affect our business, financial position and results of operations.

A significant number of our employees are employed under a national master agreement and various supplemental agreements with local unions affiliated with the Teamsters and our airline pilots, airline mechanics, ground mechanics and certain other employees are employed under other collective bargaining agreements. Strikes, work stoppages and slowdowns by our employees could adversely affect our ability to meet our customers' needs, and customers may do more business with competitors if they believe that such actions or threatened actions may adversely affect our ability to provide services. We may face permanent loss of customers if we are unable to provide uninterrupted service, and this could adversely affect our business, financial position and results of operations. The terms of future collective bargaining agreements also may affect our competitive position and results of operations.

We are exposed to the effects of changing prices of energy, including gasoline, diesel and jet fuel, and interruptions in supplies of these commodities.

Changing fuel and energy costs may have a significant impact on our operations. We require significant quantities of fuel for our aircraft and delivery vehicles and are exposed to the risk associated with variations in the market price for petroleum products, including gasoline, diesel and jet fuel. We mitigate our exposure to changing fuel prices through our indexed fuel surcharges and we may also enter into hedging transactions from time to time. If we are unable to maintain or increase our fuel surcharges, higher fuel costs could adversely impact our operating results. Even if we are able to offset the cost of fuel with our surcharges, high fuel surcharges may result in a mix shift from our higher yielding air products to lower yielding ground products or an overall reduction in volume. If fuel prices rise sharply, even if we are successful in increasing our fuel surcharge, we could experience a lag time in implementing the surcharge, which could adversely affect our short-term operating results. There can be no assurance that our hedging transactions will be effective to protect us from changes in fuel prices. Moreover, we could experience a disruption in energy supplies, including our supply of gasoline, diesel and jet fuel, as a result of war, actions by producers, or other factors which are beyond our control, which could have an adverse effect on our business.

Changes in exchange rates or interest rates may have an adverse effect on our results.

We conduct business across the globe with a significant portion of our revenue derived from operations outside the United States. Our operations in international markets are affected by changes in the exchange rates for local currencies, and in particular the Euro, British Pound Sterling and Canadian Dollar.

We are exposed to changes in interest rates, primarily on our short-term debt and that portion of our long-term debt that carries floating interest rates. The impact of a 100-basis-point change in interest rates affecting our debt is discussed in the "Quantitative and Qualitative Disclosures about Market Risk" section of this report.

We monitor and manage our exposures to changes in currency exchange rates and interest rates, and make limited use of currency exchange contracts, over the counter option contracts, commodity forwards, swaps and futures contracts to mitigate the impact of changes in currency values, but changes in exchange rates and interest rates cannot always be predicted or hedged.

If we are unable to maintain our brand image and corporate reputation, our business may suffer.

Our success depends in part on our ability to maintain the image of the UPS brand and our reputation for providing excellent service to our customers. Service quality issues, actual or perceived, even when false or unfounded, could tarnish the image of our brand and may cause customers to use other companies. Also, adverse publicity surrounding labor relations, environmental concerns, security matters, political activities and the like, or attempts to connect our company to these sorts of issues, either in the United States or other countries in which we operate, could negatively affect our overall reputation and acceptance of our services by customers. Damage to our reputation and loss of brand equity could reduce demand for our services and thus have an adverse effect on our business, financial position and results of operations, and could require additional resources to rebuild our reputation and restore the value of our brand.

A significant privacy breach or IT system disruption could adversely affect our business and we may be required to increase our spending on data and system security.

We rely on information technology networks and systems, including the Internet, to process, transmit and store electronic information, and to manage or support a variety of business processes and activities. In addition, the provision of service to our customers and the operation of our network involve the storage and transmission of proprietary information and sensitive or confidential data, including personal information of customers, employees and others. Our information technology systems, some of which are managed by third-parties, may be susceptible to damage, disruptions or shutdowns due to failures during the process of upgrading or replacing software, databases or components thereof, power outages, hardware failures, computer viruses, attacks by computer hackers, telecommunication failures, user errors or catastrophic events. Groups of hackers may also act in a coordinated manner to launch distributed denial of service attacks or other coordinated attacks that may cause service outages or other interruptions. In addition, breaches in security could expose us, our customers or the individuals affected to a risk of loss or misuse of proprietary information and sensitive or confidential data. Any of these occurrences could result in disruptions in our operations, the loss of existing or potential customers, damage to our brand and reputation, and litigation and potential liability for the company. In addition, the cost and operational consequences of implementing further data or system protection measures could be significant.

Severe weather or other natural or manmade disasters could adversely affect our business.

Severe weather conditions and other natural or manmade disasters, including storms, floods, fires and earthquakes, may result in decreased revenues, as our customers reduce their shipments, or increased costs to operate our business, which could have an adverse effect on our results of operations for a quarter or year. Any such event affecting one of our major facilities could result in a significant interruption in or disruption of our business.

We make significant capital investments in our business of which a significant portion is tied to projected volume levels.

We require significant capital investments in our business consisting of aircraft, vehicles, technology, facilities and sorting and other types of equipment to support both our existing business and anticipated growth. Forecasting projected volume involves many factors which are subject to uncertainty, such as general economic trends, changes in governmental regulation and competition. If we do not accurately forecast our future capital investment needs, we could have excess capacity or insufficient capacity, either of which would negatively affect our revenues and profitability. In addition to forecasting our capital investment requirements, we adjust other elements of our operations and cost structure in response to adverse economic conditions; however, these adjustments may not be sufficient to allow us to maintain our operating margins in an adverse economy.

We derive a significant portion of our revenues from our international operations and are subject to the risks of doing business in emerging markets.

We have significant international operations and while the geographical diversity of our international operations helps ensure that we are not overly reliant on a single region or country, we are continually exposed to changing economic, political and social developments beyond our control. Emerging markets are typically more volatile than those in the developed world, and any broad-based downturn in these markets could reduce our revenues and adversely affect our business, financial position and results of operations.

We are subject to changes in markets and our business plans that have resulted, and may in the future result, in substantial write-downs of the carrying value of our assets, thereby reducing our net income.

Our regular review of the carrying value of our assets has resulted, from time to time, in significant impairments, and we may in the future be required to recognize additional impairment charges. Changes in business strategy, government regulations, or economic or market conditions have resulted and may result in further substantial impairments of our intangible or other assets at any time in the future. In addition, we have been and may be required in the future to recognize increased depreciation and amortization charges if we determine that the useful lives of our fixed assets are shorter than we originally estimated. Such changes could reduce our net income.

Employee health and retiree health and pension benefit costs represent a significant expense to us.

With approximately 398,000 employees, including approximately 323,000 in the U.S., our expenses relating to employee health and retiree health and pension benefits are significant. In recent years, we have experienced significant increases in certain of these costs, largely as a result of economic factors beyond our control, including, in particular, ongoing increases in health care costs well in excess of the rate of inflation. Continued increasing health care costs, volatility in investment returns and discount rates, as well as changes in laws, regulations and assumptions used to calculate retiree health and pension benefit expenses, may adversely affect our business, financial position, results of operations or require significant contributions to our pension plans.

We participate in a number of trustee-managed multiemployer pension and health and welfare plans for employees covered under collective bargaining agreements. Several factors could cause us to make significantly higher future contributions to these plans, including unfavorable investment performance, increases in health care costs, changes in demographics and increased benefits to participants. At this time, we are unable to determine the amount of additional future contributions, if any, or whether any material adverse effect on our financial condition, results of operations or liquidity could result from our participation in these plans.

We may be subject to various claims and lawsuits that could result in significant expenditures.

The nature of our business exposes us to the potential for various claims and litigation related to labor and employment, personal injury, property damage, business practices, environmental liability and other matters. Any material litigation or a catastrophic accident or series of accidents could have a material adverse effect on our business, financial position and results of operations.

We may not realize the anticipated benefits of acquisitions, joint ventures or strategic alliances.

As part of our business strategy, we may acquire businesses and form joint ventures or strategic alliances. Whether we realize the anticipated benefits from these transactions depends, in part, upon the successful integration between the businesses involved, the performance of the underlying operation, capabilities or technologies and the management of the transacted operations. Accordingly, our financial results could be adversely affected by our failure to effectively integrate the acquired operations, unanticipated performance issues, transaction-related charges or charges for impairment of long-term assets that we acquire.

Insurance and claims expenses could have a material adverse effect on our business, financial condition and results of operations.

We have a combination of both self-insurance and high-deductible insurance programs for the risks arising out of the services we provide and the nature of our global operations, including claims exposure resulting from cargo loss, personal injury, property damage, aircraft and related liabilities, business interruption and workers' compensation. Workers' compensation, automobile and general liabilities are determined using actuarial estimates of the aggregate liability for claims incurred and an estimate of incurred but not reported claims, on an undiscounted basis. Our accruals for insurance reserves reflect certain actuarial assumptions and management judgments, which are subject to a high degree of variability. If the number or severity of claims for which we are retaining risk increases, our financial condition and results of operations could be adversely affected. If we lose our ability to self-insure these risks, our insurance costs could materially increase and we may find it difficult to obtain adequate levels of insurance coverage.

Item 1B. *Unresolved Staff Comments*

Not applicable.

Item 2. *Properties*

Operating Facilities

We own our headquarters, which are located in Atlanta, Georgia and consist of about 735,000 square feet of office space on an office campus, and our UPS Supply Chain Solutions group's headquarters, which are located in Alpharetta, Georgia, and consist of about 310,000 square feet of office space.

We also own our 27 principal U.S. package operating facilities, which have floor spaces that range from approximately 310,000 to 693,000 square feet. In addition, we have a 1.9 million square foot operating facility near Chicago, Illinois, which is designed to streamline shipments between East Coast and West Coast destinations, and we own or lease over 1,000 additional smaller package operating facilities in the U.S. The smaller of these facilities have vehicles and drivers stationed for the pickup of packages and facilities for the sorting, transfer and delivery of packages. The larger of these facilities also service our vehicles and equipment and employ specialized mechanical installations for the sorting and handling of packages.

We own or lease almost 800 facilities that support our international package operations and an additional 800 facilities that support our freight forwarding and logistics operations. Our freight forwarding and logistics operations maintain facilities with approximately 35 million square feet of floor space. We own and operate a logistics campus consisting of approximately 3.1 million square feet in Louisville, Kentucky.

UPS Freight operates 196 service centers with a total of 5.9 million square feet of floor space. UPS Freight owns 148 of these service centers, while the remainder are occupied under operating lease agreements. The main offices of UPS Freight are located in Richmond, Virginia and consist of about 240,000 square feet of office space.

Our aircraft are operated in a hub and spokes pattern in the U.S. Our principal air hub in the U.S., known as Worldport, is located in Louisville, Kentucky. The Worldport facility consists of over 5.2 million square feet and the site includes approximately 596 acres. Between 2009 and 2010, we completed an expansion of our Worldport facility, which increased the sorting capacity to approximately 416,000 packages per hour. The expansion, which cost over $1 billion, involved the addition of two aircraft load / unload wings to the hub building, followed by the installation of high-speed conveyor and computer control systems.

We also have regional air hubs in Hartford, Connecticut; Ontario, California; Philadelphia, Pennsylvania; and Rockford, Illinois. These hubs house facilities for the sorting, transfer and delivery of packages. Our European air hub is located in Cologne, Germany, and we maintain Asia-Pacific air hubs in Shanghai, China; Shenzhen, China; Taipei, Taiwan; Hong Kong; and Singapore. Our regional air hub in Canada is located in Hamilton, Ontario, and our regional air hub for Latin America and the Caribbean is in Miami, Florida.

In 2011, we announced plans to significantly expand our European air hub in Cologne, Germany. The expansion project, due to be completed by the end of 2013, will equip the existing facility with additional state-of-art technology and will include a major extension to the existing building. This extension would be partially dedicated to processing larger freight shipments. Together these initiatives will significantly increase the hub's package sorting capacity from today's 110,000 to 190,000 packages per hour. The total cost of the expansion is estimated to be approximately $200 million.

Over the past several years, UPS has made a successful transition to become the first wholly-owned foreign express carrier in China. In 2008, we opened the UPS International Air Hub at Pudong International Airport, which was built on a parcel totaling 2.4 million square feet with a planned sorting capacity of 17,000 packages per hour. The hub links all of China via Shanghai to UPS's international network with direct service to the Americas, Europe and Asia. It also connects points served in China by UPS through a dedicated service provided by Yangtze River Express, a Chinese all-cargo airline.

In February 2010, we opened a new intra-Asia air hub at Shenzhen Baoan International Airport in China. The Shenzhen facility replaced our intra-Asia air hub at Clark Air Force Base in the Philippines, and serves as our primary transit hub in Asia. The facility was built on a parcel of almost 1 million square feet, and has a sorting capacity of 18,000 packages per hour.

Our primary information technology operations are consolidated in a 435,000 square foot owned facility, the Ramapo Ridge facility, which is located on a 39-acre site in Mahwah, New Jersey. We also own a 175,000 square foot facility located on a 25-acre site in Alpharetta, Georgia, which serves as a backup to the main information technology operations facility in New Jersey. This facility provides production functions and backup capacity in the event that a power outage or other disaster incapacitates the main data center. It also helps to meet our internal communication needs.

We believe that our facilities are adequate to support our current operations.

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Fleet

Aircraft

The following table shows information about our aircraft fleet as of December 31, 2011:

Description	Owned and Capital Leases	Short-term Leased or Chartered From Others	On Order	Under Option
Boeing 747-400F	11	—	—	—
Boeing 747-400BCF	2	—	—	—
Boeing 757-200	75	—	—	—
Boeing 767-300	44	—	15	—
Boeing MD-11	38	—	—	—
Airbus A300-600	53	—	—	—
Other	—	300	—	—
Total	223	300	15	—

We maintain an inventory of spare engines and parts for each aircraft.

All of the aircraft we own meet Stage IV federal noise regulations and can operate at airports that have aircraft noise restrictions.

During 2011, we took delivery of five Boeing 767-300F aircraft and two Boeing 747-400F aircraft. We have firm commitments to purchase 15 Boeing 767-300ER freighters to be delivered between 2012 and 2013. We sold the remainder of our McDonnell-Douglas DC-8-73 and Boeing 747-100 aircraft fleets during 2011.

Vehicles

We operate a global ground fleet of approximately 101,000 package cars, vans, tractors and motorcycles. Our ground support fleet consists of 31,800 pieces of equipment designed specifically to support our aircraft fleet, ranging from non-powered container dollies and racks to powered aircraft main deck loaders and cargo tractors. We also have 35,000 containers used to transport cargo in our aircraft.

Item 3. *Legal Proceedings*

For a discussion of legal proceedings affecting us and our subsidiaries, please see the information under the sub-caption “Contingencies” of the caption “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included in this report.

Item 4. *Mine Safety Disclosures*

Not applicable.

PART II

Item 5. *Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities*

Our class A common stock is not listed on a national securities exchange or traded in an organized over-the-counter market, but each share of our class A common stock is convertible into one share of our class B common stock.

The following is a summary of our class B common stock price activity and dividend information for 2011 and 2010. Our class B common stock is listed on the New York Stock Exchange under the symbol "UPS."

	High	Low	Close	Dividends Declared
2011:				
First Quarter	$76.99	$70.22	$74.32	$ 0.52
Second Quarter	$75.58	$68.14	$72.93	$ 0.52
Third Quarter	$75.79	$60.75	$63.15	$ 0.52
Fourth Quarter	$73.80	$61.27	$73.19	$ 0.52
2010:				
First Quarter	$64.95	$55.77	$64.41	$ 0.47
Second Quarter	$70.89	$56.70	$56.89	$ 0.47
Third Quarter	$69.50	$56.47	$66.69	$ 0.47
Fourth Quarter	$73.94	$65.44	$72.58	$ 0.47

As of January 31, 2012, there were 157,455 and 18,024 record holders of class A and class B common stock, respectively.

The policy of our Board of Directors is to declare dividends out of current earnings. The declaration of dividends is subject to the discretion of the Board of Directors and will depend on various factors, including our net income, financial condition, cash requirements, future prospects, and other relevant factors.

On February 9, 2012, our Board declared a dividend of $0.57 per share, which is payable on March 7, 2012 to shareowners of record on February 21, 2012. This represents a 10% increase from the previous $0.52 quarterly dividend in 2011.

In January 2008, the Board of Directors approved an increase in our share repurchase authorization to $10.0 billion. Share repurchases may take the form of accelerated share repurchases, open market purchases, or other such methods as we deem appropriate. The timing of our share repurchases will depend upon market conditions. Unless terminated earlier by the resolution of our Board, the program will expire when we have purchased all shares authorized for repurchase under the program.

A summary of repurchases of our class A and class B common stock during the fourth quarter of 2011 is as follows (in millions, except per share amounts):

	Total Number of Shares Purchased(1)	Average Price Paid Per Share(1)	Total Number of Shares Purchased as Part of Publicly Announced Program	Approximate Dollar Value of Shares that May Yet be Purchased Under the Program (as of month-end)
October 1—October 31	1.5	$ 67.78	1.5	$ 2,895
November 1—November 30	4.2	68.72	4.0	2,615
December 1—December 31	1.4	70.18	1.3	2,525
Total October 1—December 31	7.1	$ 68.79	6.8	

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

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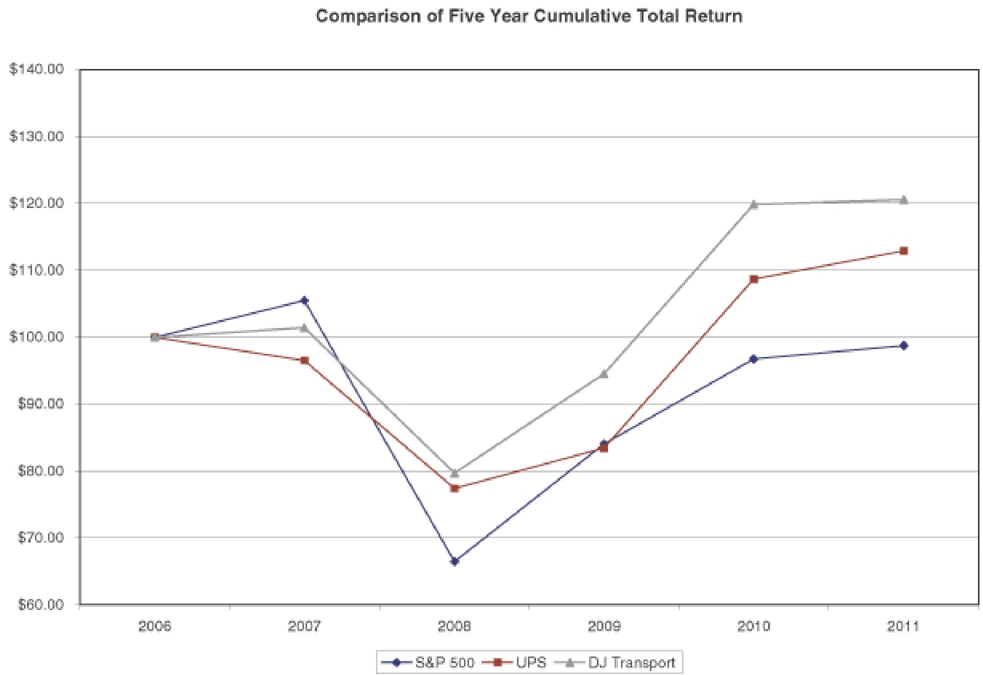
Shareowner Return Performance Graph

The following performance graph and related information shall not be deemed "soliciting material" or to be "filed" with the SEC, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933 or Securities Exchange Act of 1934, each as amended, except to the extent that the Company specifically incorporates such information by reference into such filing.

The following graph shows a five year comparison of cumulative total shareowners' returns for our class B common stock, the Standard & Poor's 500 Index, and the Dow Jones Transportation Average. The comparison of the total cumulative return on investment, which is the change in the quarterly stock price plus reinvested dividends for each of the quarterly periods, assumes that $100 was invested on December 31, 2006 in the Standard & Poor's 500 Index, the Dow Jones Transportation Average, and our class B common stock.



	12/31/06	12/31/07	12/31/08	12/31/09	12/31/10	12/31/11
United Parcel Service, Inc.	$ 100.00	$ 96.50	$ 77.40	$ 83.40	$ 108.66	$ 112.88
Standard & Poor's 500 Index	$ 100.00	$ 105.49	$ 66.46	$ 84.05	$ 96.71	$ 98.76
Dow Jones Transportation Average	$ 100.00	$ 101.43	$ 79.70	$ 94.51	$ 119.83	$ 119.84

Item 6. *Selected Financial Data*

Information in Items 6, 7, 8 and Exhibit 12 of this report for the years ended December 31, 2011, 2010, 2009, 2008 and 2007 have been revised, as applicable, for the retrospective application of our changes in accounting policies for recognizing the expense associated with our pension and postretirement benefit plans. These changes in accounting policies are further discussed in Note 1 to the audited consolidated financial statements.

The following table sets forth selected financial data for each of the five years in the period ended December 31, 2011 (in millions, except per share amounts). This financial data should be read together with our consolidated financial statements and related notes, Management's Discussion and Analysis of Financial Condition and Results of Operations, and other financial data appearing elsewhere in this report.

	Years Ended December 31,				
	2011	2010	2009	2008	2007
Selected Income Statement Data					
Revenue:					
U.S. Domestic Package	$31,717	$29,742	$28,158	$31,278	$30,985
International Package	12,249	11,133	9,699	11,293	10,281
Supply Chain & Freight	9,139	8,670	7,440	8,915	8,426
Total revenue	53,105	49,545	45,297	51,486	49,692
Operating expenses:					
Compensation and benefits	27,575	26,557	25,933	29,826	31,565
Other	19,450	17,347	15,856	20,041	17,369
Total operating expenses	47,025	43,904	41,789	49,867	48,934
Operating profit (loss):					
U.S. Domestic Package	3,764	3,238	1,919	823	(1,406)
International Package	1,709	1,831	1,279	1,246	1,870
Supply Chain and Freight	607	572	310	(450)	294
Total operating profit	6,080	5,641	3,508	1,619	758
Other income (expense):					
Investment income	44	3	10	75	99
Interest expense	(348)	(354)	(445)	(442)	(246)
Income before income taxes	5,776	5,290	3,073	1,252	611
Income tax expense	(1,972)	(1,952)	(1,105)	(597)	(115)
Net income	$ 3,804	$ 3,338	$ 1,968	$ 655	$ 496
Per share amounts:					
Basic earnings per share	$ 3.88	$ 3.36	$ 1.97	$ 0.64	$ 0.47
Diluted earnings per share	$ 3.84	$ 3.33	$ 1.96	$ 0.64	$ 0.47
Dividends declared per share	$ 2.08	$ 1.88	$ 1.80	$ 1.80	$ 1.68
Weighted average shares outstanding:					
Basic	981	994	998	1,016	1,057
Diluted	991	1,003	1,004	1,022	1,063

	As of December 31,				
	2011	2010	2009	2008	2007
Selected Balance Sheet Data					
Cash and marketable securities	$ 4,275	$ 4,081	$ 2,100	$ 1,049	$ 2,604
Total assets	34,701	33,597	31,883	31,879	39,042
Long-term debt	11,095	10,491	8,668	7,797	7,506
Shareowners' equity	7,108	8,047	7,696	6,780	12,183

Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations*

Overview

The slow pace of the U.S. economic recovery in 2011 put pressure during the first three quarters of the year on volume and revenue growth in our U.S. Domestic Package segment, as well as U.S. import volume in our International Package and Supply Chain & Freight segments. Slower growth in industrial production and the lack of significant inventory rebuilding also pressured our volume in certain industrial sectors; however, overall growth in retail sales, particularly in e-commerce, resulted in solid business-to-consumer shipment activity during the year. Growth accelerated in the fourth quarter of 2011 due in large part to a strong holiday season for e-commerce sales, which resulted in higher volume and revenue for our deferred and ground residential products.

Outside of the U.S., economic growth slowed throughout 2011 due to volatility in world markets. Despite this sluggish economic environment, we experienced favorable volume and revenue growth for most of the year, although the growth trend slowed during the latter half of 2011.

In 2011, we continued to undertake initiatives to improve yield management, increase operational efficiency and contain costs, which led to solid improvements in operating margin and profit in our U.S. Domestic Package and Supply Chain & Freight segments. During 2010, we completed the second phase of our Worldport expansion which has allowed the use of larger and more fuel-efficient aircraft, and further improved network efficiencies. We also streamlined our U.S. domestic management structure and continued to better align our cost structure with prevailing volume levels.

In our International Package segment, we have continued to invest to support our growth initiatives. In 2010, we opened our new intra-Asia air hub in Shenzhen, China, which has allowed us to better serve our customers by reducing time in transit for shipments in the region. We have also continued to optimize our aircraft network, to leverage the new route authority we have gained over the last several years and to take full advantage of faster growing trade lanes. In Asia, we expanded our air network during 2011 by adding flights from Hong Kong to Cologne, Germany, adding a daily flight from Chengdu, China to Cologne, and adding new routes from Japan, as well as increasing our capacity to serve the South Korea to U.S. trade lane by adding a flight to and from Incheon. In Europe, we announced a $200 million expansion of our Cologne hub in Germany in 2011, which will increase the hub's sorting capacity from 110,000 to 190,000 packages per hour when completed in 2013. In the Americas, we have expanded our air capacity more than 50% on 19 weekly flights into key markets in Central and South America during 2011.

Even though we continue to experience solid overall growth in our International Package business, in the latter half of 2011, we experienced weakness in the important Asia-to-U.S. trade lane. To align our capacity and cost structure with prevailing volume levels, we reduced our tonnage capacity in this lane, while retaining the network enhancements and service upgrades previously implemented.

Volatile fuel prices have continued to impact both revenue and expense in all three of our segments. Rising fuel prices have led to higher fuel surcharge rates and increased fuel and purchased transportation costs.

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Our consolidated results are presented in the table below:

	Year Ended December 31, 2011	2010	2009	% Change 2011 / 2010	2010 / 2009
Revenue (in millions)	$53,105	$49,545	$45,297	7.2%	9.4%
Operating Expenses (in millions)	47,025	43,904	41,789	7.1%	5.1%
Operating Profit (in millions)	$ 6,080	$ 5,641	$ 3,508	7.8%	60.8%
Operating Margin	11.4%	11.4%	7.7%		
Average Daily Package Volume (in thousands)	15,797	15,574	15,064	1.4%	3.4%
Average Revenue Per Piece	$ 10.82	$ 10.24	$ 9.83	5.7%	4.2%
Net Income (in millions)	$ 3,804	$ 3,338	$ 1,968	14.0%	69.6%
Basic Earnings Per Share	$ 3.88	$ 3.36	$ 1.97	15.5%	70.6%
Diluted Earnings Per Share	$ 3.84	$ 3.33	$ 1.96	15.3%	69.9%

Items Affecting Comparability

The year-over-year comparisons of our financial results are affected by the following items (in millions):

	Year Ended December 31, 2011	2010	2009
Operating Expenses:			
Pension and Postretirement Benefit Plans Mark-to-Market Charge	$ 827	$ 112	$ 16
Restructuring Charge	—	98	—
Gain on Sales of Businesses	—	(20)	—
Gains on Real Estate Transactions	(33)	(109)	—
Aircraft Impairment Charge	—	—	181
Interest Expense:			
Currency Remeasurement Charge	—	—	77
Income Tax Expense (Benefit) from the Items Above	(287)	—	(99)
Charge for Change in Tax Filing Status for German Subsidiary	—	76	—

Pension and Postretirement Benefit Plans Mark-to-Market Charge

In 2011, 2010 and 2009, we incurred pre-tax mark-to-market losses on our pension and postretirement benefit plans related to the remeasurement of plan assets and liabilities recognized outside of a 10% corridor of $827, $112 and $16 million, respectively, on a consolidated basis ($527, $75 and $11 million after-tax, respectively). These mark-to-market losses for 2011, 2010 and 2009 primarily resulted from decreases in the discount rates used to value our projected benefit obligations in each year. These charges impacted each of our three reporting segments in 2011 and 2010, and our International Package segment in 2009.

Restructuring Charge

In 2010, we streamlined the management structure in our U.S. Domestic Package segment, and incurred a restructuring charge associated with this reorganization. This pre-tax charge totaled $98 million ($64 million after-tax), and reflects the value of voluntary retirement benefits, severance benefits and unvested stock compensation.

Gain on Sales of Businesses

In 2010, we sold our UPS Logistics Technologies business unit within our Supply Chain & Freight segment, and recognized a pre-tax gain of $71 million ($44 million after-tax). Also in 2010, we sold a specialized transportation business in Germany within our Supply Chain & Freight segment, and incurred a pre-tax loss on the sale of $51 million ($47 million after-tax), which includes a fair value adjustment loss due to a financial guarantee associated with this business sale.

Gains on Real Estate Transactions

In 2011, we recognized a net $33 million pre-tax gain ($20 million after-tax) on a consolidated basis on certain real estate transactions (consisting of a $48 million pre-tax gain in our Supply Chain & Freight segment, and a $15 million pre-tax loss in our U.S. Domestic Package segment). In 2010, we recognized a pre-tax gain of $109 million ($61 million after-tax) on the sale of real estate within our U.S. Domestic Package segment.

Aircraft Impairment Charges

In 2009, we completed an impairment assessment of our McDonnell-Douglas DC-8 aircraft fleet, and recorded an impairment charge of $181 million ($116 million after-tax), which affected our U.S. Domestic Package segment. This charge, as well as our accounting policies pertaining to long-lived assets, is discussed further in “Critical Accounting Policies and Estimates”.

Currency Remeasurement Charge

During 2009, we incurred a $77 million non-cash, pre-tax currency remeasurement charge ($48 million after-tax) on certain foreign currency denominated obligations.

Charge for Change in Tax Filing Status for German Subsidiary

In 2010, we changed the tax status of a German subsidiary that was taxable in the U.S. and its local jurisdiction to one that is solely taxed in its local jurisdiction. As a result of this change in tax status, we recorded a non-cash charge of $76 million to income tax expense, which resulted primarily from the write-off of related deferred tax assets which will not be realizable following the change in tax status.

Results of Operations—Segment Review

The results and discussions that follow are reflective of how our executive management monitors the performance of our reporting segments. We supplement the reporting of our financial information determined under generally accepted accounting principles (“GAAP”) with certain non-GAAP financial measures, including operating profit, operating margin, pre-tax income, net income and earnings per share adjusted for the non-comparable items discussed previously. We believe that these adjusted measures provide meaningful information to assist investors and analysts in understanding our financial results and assessing our prospects for future performance. We believe these adjusted financial measures are important indicators of our recurring results of operations because they exclude items that may not be indicative of, or are unrelated to, our core operating results, and provide a better baseline for analyzing trends in our underlying businesses.

U.S. Domestic Package Operations

	Year Ended December 31,			% Change	
	2011	2010	2009	2011 / 2010	2010 / 2009
Average Daily Package Volume (in thousands):					
Next Day Air	1,206	1,205	1,198	0.1%	0.6%
Deferred	975	941	957	3.6%	(1.7)%
Ground	11,230	11,140	10,895	0.8%	2.2%
Total Avg. Daily Package Volume	13,411	13,286	13,050	0.9%	1.8%
Average Revenue Per Piece:					
Next Day Air	$ 20.33	$ 19.14	$ 18.00	6.2%	6.3%
Deferred	13.32	12.50	11.81	6.6%	5.8%
Ground	7.78	7.43	7.20	4.7%	3.2%
Total Avg. Revenue Per Piece	$ 9.31	$ 8.85	$ 8.53	5.2%	3.8%
Operating Days in Period	254	253	253		
Revenue (in millions):					
Next Day Air	$ 6,229	$ 5,835	$ 5,456	6.8%	6.9%
Deferred	3,299	2,975	2,859	10.9%	4.1%
Ground	22,189	20,932	19,843	6.0%	5.5%
Total Revenue	$31,717	$29,742	$28,158	6.6%	5.6%
Operating Expenses (in millions):					
Operating Expenses	$27,953	$26,504	$26,239	5.5%	1.0%
Pension and Postretirement Benefit Plans Mark-to-Market Charge	(479)	(31)	—		
Restructuring Charge	—	(98)	—		
Gains (Losses) on Real Estate Transactions	(15)	109	—		
Aircraft Impairment Charge	—	—	(181)		
Adjusted Operating Expenses	$27,459	$26,484	$26,058	3.7%	1.6%
Operating Profit (in millions) and Operating Margin:					
Operating Profit	$ 3,764	$ 3,238	$ 1,919	16.2%	68.7%
Adjusted Operating Profit	$ 4,258	$ 3,258	$ 2,100	30.7%	55.1%
Operating Margin	11.9%	10.9%	6.8%		
Adjusted Operating Margin	13.4%	11.0%	7.5%		

Revenue

The change in overall revenue was impacted by the following factors for the years ended December 31, 2011 and 2010, compared with the prior years:

	Volume	Rates / Product Mix	Fuel Surcharge	Total Revenue Change
Revenue Change Drivers:				
2011 vs 2010	1.3%	2.3%	3.0%	6.6%
2010 vs 2009	1.8%	1.7%	2.1%	5.6%

Volume

2011 compared to 2010

Our overall volume increased slightly in 2011 compared with 2010, and was largely impacted by the slowing U.S. economy during the first three quarters of the year. Business-to-consumer shipments, which represent approximately 40% of total U.S. Domestic Package volume, experienced stronger growth than commercial volume. Volume growth accelerated in the fourth quarter, with average daily volume increasing 3.8% over the fourth quarter of 2010.

Among our air products, we experienced a 4.8% increase in Next Day and Second Day air package volume, as a result of retail sales growth, with particular growth in our Next Day Air Saver product. Air letter volume declined, largely due to weakness in the financial and other service industries. Within ground, our light weight products, which target low-cost, non-urgent ground residential deliveries, experienced solid growth during 2011. During the fourth quarter of 2011, volume growth accelerated to 12.3% and 3.5% in our deferred and ground products, respectively, compared with the fourth quarter of 2010. These increases were primarily driven by higher business-to-consumer shipment growth during the holiday season.

2010 compared to 2009

In 2010, our overall volume increased as improvements in industrial production and retail sales increased overall demand in the U.S. small package market. Among our air products, Next Day and Second Day air package volume increased 2.1% as inventory rebuilding in the manufacturing and retailing sectors contributed to growth. However, our letter volume declined largely due to weakness in the financial and other service industries. The growth in ground volume was driven by increased volume from the manufacturing and retailing sectors.

Rates and Product Mix

2011 compared to 2010

Overall revenue per piece increased for our ground and air products during 2011 due to a combination of base price increases and fuel surcharge rate changes, which are discussed further below. The overall revenue per piece increase was also positively affected by our focus on revenue management initiatives. In addition, the revenue per piece increase for our air products was positively impacted by the overall mix shift from letters to packages. Comparing the fourth quarter of 2011 with 2010, the average revenue per piece increase slowed to 3.4% due to the higher volume of lighter-weight business-to-consumer packages.

Revenue per piece for our ground and air products was also impacted by an increase in base rates that took effect on January 3, 2011. We increased the base rates 6.9% on UPS Next Day Air, UPS 2nd Day Air, and UPS 3 Day Select, and 5.9% on UPS Ground, while reducing our fuel surcharge indexes (discussed further below). Other pricing changes included an increase in the residential surcharge, and an increase in the delivery area surcharge on both residential and commercial services to certain ZIP codes.

2010 compared to 2009

Overall revenue per piece increased for our ground and air products in 2010, largely due to a combination of base price increases and fuel surcharge rate changes, which are discussed further below. The revenue per piece for our air products also improved as a result of higher average package weights and the overall mix shift from letters to packages. For both our air and ground products, revenue per piece was negatively affected by a shift in product mix to our less premium services, such as Next Day Air Saver and Ground Basic.

Revenue per piece for our ground and air products was impacted by an increase in base rates that took effect on January 4, 2010. We increased the base rates 6.9% on UPS Next Day Air, UPS 2nd Day Air, and UPS 3 Day Select, and 4.9% on UPS Ground. Other pricing changes included an increase in the residential surcharge, and an increase in the delivery area surcharge on both residential and commercial services to certain ZIP codes.

Fuel Surcharges

UPS applies a fuel surcharge on our domestic air and ground services. The air fuel surcharge is based on the U.S. Department of Energy's ("DOE") Gulf Coast spot price for a gallon of kerosene-type jet fuel, while the ground fuel surcharge is based on the DOE's On-Highway Diesel Fuel Price. Based on published rates, the average fuel surcharge for domestic air and ground products was as follows:

	Year Ended December 31,			% Point Change	
	2011	2010	2009	2011 / 2010	2010 / 2009
Next Day Air / Deferred	13.3%	8.0%	4.0%	5.3%	4.0%
Ground	8.0%	5.6%	3.3%	2.4%	2.3%

In connection with our base rate increase on January 3, 2011, we modified the fuel surcharge on air and ground services by reducing the index used to determine the fuel surcharge by 2% and 1%, respectively. In connection with a base rate increase on January 4, 2010, we modified the fuel surcharge on air services by reducing the index used to determine the fuel surcharge by 2%. The 2011 and 2010 increases in the air and ground fuel surcharges were due to the significant increases in jet and diesel fuel prices each year, but partially offset by the reductions in the index on the air and ground surcharges in 2011 and the index on the air surcharge in 2010. Total domestic fuel surcharge revenue increased by $884 and $592 million in 2011 and 2010, respectively, primarily due to the higher fuel surcharge rates discussed above.

Operating Expenses

2011 compared to 2010

Overall adjusted operating expenses for the segment increased $975 million in 2011 compared with 2010, while the total adjusted cost per piece increased 2.3% for the year. A large component of this increase relates to the cost of operating our domestic integrated air and ground network, which increased $579 million in 2011 due largely to higher fuel costs, as well as an increase in aircraft repair and maintenance expenses and higher rates passed to us from outside transportation carriers, primarily railroads. Pickup and delivery costs increased $354 million in 2011 compared to 2010, primarily as a result of higher fuel prices and a 3.1% union contractual driver wage increase.

Cost increases have been mitigated due to network efficiencies that we have achieved, as we adjust our air and ground networks to better match volume levels, and continued to utilize our expanded Worldport facility to operate larger aircraft and to increase package sorting efficiency. These network efficiency improvements resulted in a 0.8% reduction in total labor hours and a 0.8% reduction in miles driven in 2011 compared with 2010. Increased delivery densities as a result of improved planning and technology, and growth in our SurePost product, have also contained increases in cost.

2010 compared to 2009

Overall adjusted operating expenses for the segment increased $426 million in 2010 compared with 2009, while the total adjusted cost per piece decreased 0.2% for the year. Network costs increased $167 million in 2010 due largely to higher fuel costs. Pickup and delivery costs increased $148 million for the year, primarily as a result of higher fuel prices and a 3.5% union contractual driver wage increase. Sort costs increased $59 million for the year, largely due to contractual union wage increases as well as higher depreciation expense for certain operating facilities, including our Worldport Hub.

Network efficiencies were achieved in 2010, as we adjusted our air and ground networks to better match volume levels, and increased our package sorting efficiency. Improved pick-up and delivery densities also increased productivity in our operations. These network efficiency improvements resulted in a 1.8% reduction in direct labor hours, a 6.7% reduction in aircraft block hours and a 1.4% reduction in miles driven in 2010 compared with 2009. In addition to these factors, management salary costs declined as a result of a decrease in the total number of management employees through attrition combined with voluntary and involuntary workforce reductions.

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Operating Profit and Margin

2011 compared to 2010

Higher adjusted operating profit during 2011 compared with 2010 was driven by the increased network efficiencies, combined with strong improvements in revenue per piece and a small increase in volume. Fourth quarter 2011 adjusted operating profit was particularly strong, with adjusted operating margins of 15.2% in comparison to 12.6% in the fourth quarter of 2010. Strong volume growth in the business-to-consumer sector, along with solid cost control and strong network efficiencies, were the primary factors for the fourth quarter 2011 performance.

2010 compared to 2009

Adjusted operating profit in 2010 was positively impacted by the overall economic growth in the U.S., which drove increased volume and yields. We achieved strong operating leverage through increased network efficiencies and cost containment initiatives, leading to an increase in the operating margin in 2010 compared with 2009.

International Package Operations

	Year Ended December 31,			% Change	
	2011	2010	2009	2011 / 2010	2010 / 2009
Average Daily Package Volume (in thousands):					
Domestic	1,444	1,403	1,218	2.9%	15.2%
Export	942	885	796	6.4%	11.2%
Total Avg. Daily Package Volume	2,386	2,288	2,014	4.3%	13.6%
Average Revenue Per Piece:					
Domestic	$ 7.17	$ 6.66	$ 6.85	7.7%	(2.8)%
Export	37.85	36.77	35.63	2.9%	3.2%
Total Avg. Revenue Per Piece	$ 19.28	$ 18.31	$18.23	5.3%	0.4%
Operating Days in Period	254	253	253		
Revenue (in millions):					
Domestic	$ 2,628	$ 2,365	$2,111	11.1%	12.0%
Export	9,056	8,234	7,176	10.0%	14.7%
Cargo	565	534	412	5.8%	29.6%
Total Revenue	$12,249	$11,133	$9,699	10.0%	14.8%
Operating Expenses (in millions):					
Operating Expenses	$10,540	$ 9,302	$8,420	13.3%	10.5%
Pension and Postretirement Benefit Plan Mark-to-Market Charge	(171)	(42)	(16)		
Adjusted Operating Expenses	$10,369	$ 9,260	$8,404	12.0%	10.2%
Operating Profit (in millions) and Operating Margin:					
Operating Profit	$ 1,709	$ 1,831	$1,279	(6.7)%	43.2%
Adjusted Operating Profit	$ 1,880	$ 1,873	$1,295	0.4%	44.6%
Operating Margin	14.0%	16.4%	13.2%		
Adjusted Operating Margin	15.3%	16.8%	13.4%		
Currency Translation Benefit / (Cost)—(in millions)*:					
Revenue	$ 75	$ (24)			
Operating Profit	(123)	6			

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

Revenue

The change in overall revenue was impacted by the following factors for the years ended December 31, 2011 and 2010, compared with the prior years:

	Volume	Rates / Product Mix	Fuel Surcharge	Currency	Total Revenue Change
Revenue Change Drivers:					
2011 vs 2010	4.7%	0.6%	4.0%	0.7%	10.0%
2010 vs 2009	13.6%	(1.7)%	3.1%	(0.2)%	14.8%

Volume

2011 compared to 2010

Export volume increased in 2011 compared to 2010, primarily due to strong growth in key markets in Europe and the Americas. Our transborder products experienced strong growth, particularly in key countries within Europe. Volume for our premium Worldwide Express and Worldwide Expedited products increased as well, particularly in the Asia-to-Europe, Europe-to-Americas and Europe-to-Asia export trade lanes. Additionally, intra-Asia export volume experienced solid growth during 2011 compared with 2010, and was impacted by the continued economic growth in Asia overall. Our export volume growth slowed in the latter half of 2011, largely due to decelerating growth in exports out of China and the rest of Asia, as well as difficult comparisons with a relatively strong latter half of 2010.

Non-U.S. domestic volume increases were driven by continued strong growth in key markets, including Germany, France and Poland.

2010 compared to 2009

Export volume increased for 2010, as the worldwide economy and world trade continued to improve. We experienced strong growth in Asia, where volume grew 28% due to a combination of regional economic growth and geographic expansion of our service offerings. European export volume also had strong growth for 2010, increasing 10% compared with 2009, due to market share gains, economic growth in certain key markets, and an overall expansion of trade in the European Union. U.S. origin export volume also had solid growth during 2010. Our premium Worldwide Express and Expedited products grew at a relatively faster rate than our standard transborder and trade direct products.

Non-U.S. domestic volume increased 15.2% for 2010, due in part to the acquisition of Unsped Paket Servisi San ve Ticaret A.S. (“Unsped”) in Turkey in the third quarter of 2009. Excluding the acquisition of Unsped, non-U.S. domestic volume increased 9.7%, led by the strength in core European markets, Canada and Mexico.

Rates and Product Mix

2011 compared to 2010

Total average revenue per piece increased 4.6% for 2011 on a currency-adjusted basis. Export revenue per piece increased, largely due to a combination of higher fuel surcharge rates and base rate increases, which are discussed further below. Currency-adjusted export revenue per piece increased 3.0% for 2011 compared with 2010. Product mix adversely impacted export revenue per piece, due to strong growth among our lower-yielding Transborder products. Revenue per piece was pressured as average trade lanes shortened, due to volume declines in the higher-yielding Asia-to-U.S. export lane, and higher volume growth among the relatively lower-yielding intra-Europe and intra-Asia export lanes. Domestic revenue per piece increased 3.9% on a currency-adjusted basis for 2011, largely due to comparatively faster growth in our premium express products.

On January 3, 2011, we increased the base rates 6.9% for international shipments originating in the United States (Worldwide Express, Worldwide Express Plus, UPS Worldwide Expedited and UPS International Standard service), while reducing fuel surcharge indexes. Rate changes for shipments originating outside the U.S. are made throughout the year and vary by geographic market.

2010 compared to 2009

Export revenue per piece increased during 2010, largely due to higher fuel surcharge rates, base rate increases and product mix. Export revenue per piece increased as higher-yielding products (such as Worldwide Express and Worldwide Expedited) grew at a relatively faster pace. In 2010, we experienced an overall lengthening of trade lanes, as inter-regional trade increased (especially in our Asia-to-Europe and Asia-to-U.S. export lanes), leading to relatively stronger growth for our premium products. The impact of currency, net of hedging, resulted in a decrease to revenue growth during the year. Domestic revenue per piece decreased, primarily due to the impact of lower-yielding domestic packages from the Unsped acquisition. Total average revenue per piece increased 0.7% for the year on a currency-adjusted basis.

On January 4, 2010, we increased the base rates 6.9% for international shipments originating in the United States (Worldwide Express, Worldwide Express Plus, UPS Worldwide Expedited and UPS International Standard service). Rate changes for shipments originating outside the U.S. were made throughout the year and varied by geographic market.

Fuel Surcharges

In connection with our base rate increases on January 3, 2011 and January 4, 2010, we modified the fuel surcharges on certain U.S.-related international air services by reducing the index used to determine the fuel surcharge by 2% in each of the two years. The fuel surcharges for products originating outside the United States continue to be indexed to fuel prices in the international region where the shipment takes place. Total international fuel surcharge revenue increased by $449 and $299 million in 2011 and 2010, respectively, due to higher fuel surcharge rates caused by increased fuel prices as well as an increase in international air volume.

Operating Expenses

2011 compared to 2010

Overall adjusted operating expenses for the segment increased $1.109 billion in 2011 compared with 2010. The impact of foreign currency exchange rate changes resulted in an adverse impact on operating expense comparisons between 2011 and 2010 of $198 million. Excluding the impact of currency exchange rate changes, the total adjusted cost per piece for the segment increased 4.7% for the year.

The increase in adjusted operating expenses, excluding the impact of currency, was largely due to the increased cost of operating our international integrated air and ground network, and also higher pick-up and delivery costs. Network costs increased $745 million for the year, largely due to higher fuel costs and increased block hours, as well as an increase in aircraft repair and maintenance expenses. Pick-up and delivery costs increased $123 million for the year, primarily as a result of higher fuel prices and increased package volume.

2010 compared to 2009

Overall adjusted operating expenses for the segment increased $856 million in 2010 compared with 2009. The impact of foreign currency exchange rate changes resulted in a favorable impact on operating expense comparisons between 2010 and 2009 of $30 million. Excluding the impact of currency exchange rate changes, the total adjusted cost per piece for the segment decreased 2.6% for the year.

The increase in adjusted operating expenses, excluding the impact of currency, was primarily due to the cost of operating our international integrated air and ground network, as well as pick-up and delivery costs and package sort expenses. Network costs increased $498 million for the year due largely to higher fuel costs and increased block hours. Pick-up and delivery costs increased $270 million for the year, primarily as a result of higher fuel prices and increased package volume. Package sorting expenses increased $61 million, and were impacted by higher labor costs and increased depreciation on certain operating facilities.

Operating Profit and Margin

2011 compared to 2010

Adjusted operating profit increased slightly in 2011 compared with 2010, while the segment operating margin declined for the year due to several factors. The overall increase in adjusted operating profit was largely due to the volume and revenue per piece increases previously discussed; however, the impact of these items was largely offset by excess capacity and the adverse impact of fuel prices and currency exchange rate movements. Volume softness in the Asia-to-U.S. trade lane in the latter half of 2011 resulted in excess transportation capacity, which pressured margins while our transportation network was being adjusted for the slowing demand. Fluctuations in foreign currency exchange rates (net of our hedging programs) resulted in an adverse impact on operating profit comparisons between 2011 and 2010 of $123 million. Additionally, fuel prices adversely impacted the operating profit comparison between 2011 and 2010, as fuel expense increased at a faster pace than fuel surcharge revenue. These factors resulted in a decrease in the operating margin in 2011 compared with 2010.

2010 compared to 2009

The increase in operating profit for 2010 was primarily driven by volume increases in all major regions and trade lanes worldwide. The shift in product mix to our higher-margin premium services also contributed to the increase in operating profits. Additionally, network efficiencies and cost containment initiatives created operating leverage throughout our operations. These factors led to an increase in the operating margin in 2010 compared with 2009.

Supply Chain & Freight Operations

	Year Ended December 31, 2011	2010	2009	% Change 2011 / 2010	2010 / 2009
Freight LTL Statistics:					
Revenue (in millions)	$ 2,299	$ 2,002	$ 1,807	14.8%	10.8%
Revenue Per Hundredweight	$ 21.17	$ 19.18	$ 17.69	10.4%	8.4%
Shipments (in thousands)	10,247	9,952	9,880	3.0%	0.7%
Shipments Per Day (in thousands)	40.5	39.5	39.1	2.5%	1.0%
Gross Weight Hauled (in millions of lbs)	10,858	10,440	10,211	4.0%	2.2%
Weight Per Shipment (in lbs)	1,060	1,049	1,033	1.0%	1.5%
Operating Days in Period	253	252	253		
Revenue (in millions):					
Forwarding and Logistics	$ 6,103	$ 6,022	$ 5,080	1.3%	18.5%
Freight	2,563	2,208	1,943	16.1%	13.6%
Other	473	440	417	7.5%	5.5%
Total Revenue	$ 9,139	$ 8,670	$ 7,440	5.4%	16.5%
Operating Expenses (in millions):					
Operating Expenses	$ 8,532	$ 8,098	$ 7,130	5.4%	13.6%
Pension and Postretirement Benefit Plans Mark-to-Market Charge	(177)	(39)	—		
Gain on Real Estate Transactions	48	—	—		
Gain on Sales of Businesses	—	20	—		
Adjusted Operating Expenses	$ 8,403	$ 8,079	$ 7,130	4.0%	13.3%
Operating Profit (in millions) and Operating Margins:					
Operating Profit	$ 607	$ 572	$ 310	6.1%	84.5%
Adjusted Operating Profit	$ 736	$ 591	$ 310	24.5%	90.6%
Operating Margin	6.6%	6.6%	4.2%		
Adjusted Operating Margin	8.1%	6.8%	4.2%		
Currency Translation Benefit / (Cost)—(in millions)*:					
Revenue	$ 139	$ 48			
Operating Profit	7	7			

* Amount represents the change compared to the prior year.

Revenue

2011 compared to 2010

Forwarding and logistics revenue increased in 2011 compared with 2010, primarily due to growth in our logistics services, where we experienced solid growth in our mail services, retail and health care solutions. Forwarding revenue decreased primarily due to volume and tonnage declines in our air and ocean forwarding businesses, as well as lower third-party transportation carrier rates. The tonnage decrease was mainly the result of revenue management initiatives that improve the matching of customer pricing with market conditions, as well as the impact of the global economic slowdown.

Freight revenue increased in 2011, primarily due to growth in LTL shipments, an increase in base rates, and increased fuel surcharge rates. LTL shipments per day increased in 2011, largely due to improving LTL market conditions in the first half of the year and an increase in market share. However, volume declined in the latter half of the year, and was impacted by our focus on yield management and also due to the overall LTL market being adversely impacted by the slowing economy. LTL revenue per hundredweight increased, primarily as a result of a base rate increase that took effect during the year, negotiated increases on existing contract rates and higher fuel surcharge rates, as total fuel surcharge revenue increased $159 million for the year driven by higher diesel fuel prices. An increase in base prices took effect on August 1, 2011, as our freight unit increased minimum charge, LTL and TL rates an average of 6.9%, covering non-contractual shipments in the United States, Canada and Mexico.

The other businesses within Supply Chain & Freight experienced an increase in revenue, primarily due to growth at UPS Capital, the UPS Store, UPS Customer Solutions and our contract to provide domestic air transportation services for the U.S. Postal Service.

2010 compared to 2009

Forwarding and logistics revenue increased in 2010, primarily due to growth in the demand for forwarding as a result of the continued expansion of the worldwide economy, inventory rebuilding and world trade. In our forwarding business, both air freight and ocean freight experienced solid revenue growth, due primarily to higher volumes, fuel surcharges, and other accessorial charges. International air freight tonnage increased 19% for 2010 compared with the prior year. In our logistics products, we experienced growth in mail services and distribution revenue, with solid increases being achieved in the health care and technology sectors.

Freight revenue increased, primarily due to higher fuel surcharge rates and a base rate increase that took effect in January 2010. Average LTL shipments per day, weight per shipment and LTL revenue per hundredweight all increased during the year, largely due to our strategy of maintaining our focus on yields and targeting certain customer segments. The increase in LTL revenue per hundredweight was primarily due to an increase in base prices that took effect in January 2010, as UPS Freight increased minimum charge, LTL and TL rates an average of 5.7%, covering non-contractual shipments in the United States, Canada, and Mexico. An additional 5.9% rate increase took effect October 18, 2010. Additionally, LTL revenue per hundredweight increased as a result of higher fuel surcharge rates, as total fuel surcharge revenue increased $105 million for the year primarily resulting from higher diesel fuel prices.

The other businesses within Supply Chain & Freight experienced an increase in revenue. A primary driver of this increase was our UPS Customer Solutions business, which provides a range of services (e.g. project management, industrial engineering, transportation fleet services, distribution network analysis, package engineering, and package visibility).

Operating Expenses

2011 compared to 2010

Forwarding and logistics adjusted operating expenses were flat in 2011 compared with 2010. Purchased transportation expense declined by $87 million in 2011, due to lower air freight volume as well as lower rates passed to us from third-party transportation carriers. The reduction in third-party carrier rates was largely due to over-capacity in the Asia-to-U.S. trade lane that began in the latter half of 2010 and continued into the first half of 2011. This reduction in purchased transportation costs was offset by increases in several other expense categories, including other occupancy costs, depreciation and amortization, repairs and maintenance, and other expenses.

Freight operating expenses increased $317 million for 2011 on an adjusted basis, with the total cost per LTL shipment increasing 10.0% for the year. The two largest components of this increase relate to the cost of operating our linehaul network, which increased $134 million in 2011, and pick-up, delivery and dock costs, which increased $112 million for the year. We incurred higher fuel costs operating our vehicle fleet, as well as higher fuel surcharge rates passed to us from outside transportation carriers, as a result of higher diesel fuel prices and increased volume. Additionally, compensation and benefit costs increased primarily as a result of higher pension and health care costs, and effective wage increases of 4.1% for drivers in our linehaul network and 3.5% for drivers and dock workers in our pick-up and delivery network. These expense increases were somewhat offset by improved productivity measures, including pick-up and delivery stops per hour, dock bills per hour and improved linehaul network utilization.

Expenses for the other businesses within Supply Chain & Freight increased $6 million in 2011 compared to 2010, and the increases were spread among several operating expense categories and business units.

2010 compared to 2009

Forwarding and logistics adjusted operating expenses increased $697 million in 2010 compared with 2009, due to several factors. Purchased transportation costs increased by $843 million in 2010, largely due to a strong increase in tonnage in our air and ocean forwarding businesses, as well as rapidly escalating rates on air freight due to capacity constraints from outside carriers in the first half of 2010. The capacity constraints in the air freight business began to recede in the second half of 2010, and the increases in purchased transportation costs lessened. Cost controls partly offset the purchased transportation expense growth, as total compensation and benefits expense declined $73 million and other occupancy expense declined by $23 million, among other factors. The decrease in compensation and benefits expense was impacted by reduced pension expense, while the decline in other occupancy expense was largely due to lower rent expense on warehouses and other facilities.

Freight adjusted operating expenses increased $240 million in 2010 compared with 2009, while the total cost per LTL shipment increased 8.8% for year. The two largest components of this increase relate to the cost of operating our linehaul network which increased $73 million in 2010 compared with 2009, and pick-up, delivery and dock costs which increased $98 million for the year. We incurred higher fuel costs operating our vehicle fleet, as well as higher fuel surcharge rates passed to us from outside transportation carriers, as a result of higher diesel fuel prices and increased volume. Additionally, compensation and benefit costs increased primarily as a result of higher pension and health care costs, and effective wage increases of 2.0% for drivers in our linehaul network and 3.3% for drivers and dock workers in our pick-up and delivery network. These expense increases were somewhat offset by improved productivity measures, including pick-up and delivery stops per hour, dock bills per hour and improved linehaul network utilization.

Adjusted operating expenses for the other businesses within Supply Chain & Freight increased by $12 million for 2010 compared with 2009, largely due to a gain recorded in 2009 (recorded as a reduction to operating expenses) on the sale of substantially all our international Mail Boxes Etc. operations.

Operating Profit and Margin

2011 compared to 2010

The forwarding and logistics unit experienced an $80 million increase in adjusted operating profit in 2011 compared with 2010, largely due to revenue management initiatives and cost containment in our forwarding unit, which improved operating leverage. Additionally, excess market capacity, especially in the Asia-to-U.S. trade lane, reduced our purchased transportation costs and improved the operating profitability in this business. Our logistics business had a small decrease in operating profit in 2011, primarily due to our continued investment in expanding our global health care capabilities.

Our freight unit had an increase of $38 million in adjusted operating profit in 2011 compared with 2010, primarily due to increased yields, volume growth and improved productivity in our operations.

The combined operating income for all of our other businesses in this segment increased $27 million in 2011, primarily due to improved results at our UPS Capital unit.

2010 compared to 2009

Adjusted operating profit in the forwarding and logistics units increased by $245 million in 2010 compared with 2009 as a result of several factors. The operating profit increase in the forwarding unit was largely due to a strong increase in tonnage in our air and ocean forwarding businesses, but was partially offset by capacity constraints from outside carriers in the first half of 2010. Capacity constraints led to rapidly escalating rates on air freight which could not be passed on to customers in a timely manner, resulting in a negative impact to our operating profit and margin. This situation improved during the second half of 2010, as capacity constraints lessened and we were able to implement revenue management plans which better matched customer pricing with market conditions. Our logistics unit had a solid increase in profitability in 2010, which was driven primarily by an expansion of operating margins due to operating efficiencies and a focus on higher margin industry sectors.

Adjusted operating profit for our UPS Freight unit increased by $25 million in 2010 compared with the prior year, largely due to better productivity, and increases in base pricing and volume. Productivity metrics increased, including increases in pickup and delivery stops per hour and linehaul utilization.

All of the remaining businesses combined within this segment increased adjusted operating profit by $11 million during the year, primarily due to improved results in our UPS Capital business unit.

Operating Expenses

	Year Ended December 31,			% Change	
	2011	2010	2009	2011 / 2010	2010 / 2009
Operating Expenses (in millions):					
Compensation and Benefits	$27,575	$26,557	$25,933	3.8%	2.4%
Pension and Postretirement Benefit Plans Mark-to-Market Charge	(827)	(112)	(16)		
Restructuring Charge	—	(98)	—		
Adjusted Compensation and Benefits	26,748	26,347	25,917	1.5%	1.7%
Repairs and Maintenance	1,286	1,131	1,075	13.7%	5.2%
Depreciation and Amortization	1,782	1,792	1,747	(0.6)%	2.6%
Purchased Transportation	7,232	6,640	5,379	8.9%	23.4%
Fuel	4,046	2,972	2,365	36.1%	25.7%
Other Occupancy	943	939	985	0.4%	(4.7)%
Other Expenses	4,161	3,873	4,305	7.4%	(10.0)%
Gain on Real Estate Transactions	33	109	—		
Gain on Sales of Businesses	—	20	—		
Aircraft Impairment Charge	—	—	(181)		
Adjusted Other Expenses	4,194	4,002	4,124	4.8%	(3.0)%
Total Operating Expenses	$47,025	$43,904	$41,789	7.1%	5.1%
Adjusted Total Operating Expenses	46,231	43,823	41,592	5.5%	5.4%
Currency Translation Cost	$ 330	$ 11			

Compensation and Benefits

2011 compared to 2010

Employee payroll costs increased $237 million in 2011 compared with 2010, largely due to contractual union wage rate increases that took effect under our collective bargaining agreement with the Teamsters, but partially offset by a decline in union labor hours. Management payroll costs declined slightly primarily due to a lower management incentive award.

Adjusted benefits expense increased $164 million in 2011 compared with 2010, primarily due to higher employee health and welfare costs and expense associated with our self-insurance for worker's compensation claims, but partially offset by a decline in pension expense. These factors are discussed further as follows:

- Employee health and welfare program costs increased $132 million in 2011, and were impacted by higher required union plan contribution rates and general health care inflation.

- The expense associated with our self-insurance programs for worker's compensation claims increased by $48 million in 2011. Insurance reserves are established for estimates of the loss that we will ultimately incur on reported claims, as well as estimates of claims that have been incurred but not reported. Insurance reserves also take into account a number of factors including our history of claim losses, payroll growth and the impact of safety improvement initiatives. In 2010, we experienced more favorable actuarial expense adjustments compared with 2011, thus leading to the increase in expense in 2011.
- Adjusted pension expense decreased $50 million in 2011 due to several factors. Most significantly, contributions to the company-sponsored pension plans in 2011 increased the expected return on assets used for expense calculation purposes. The increase in the expected return on assets more than offset increased service and interest costs (due to a decline in discount rates), resulting in a net reduction in pension expense. This was partially offset by higher contribution rates for multiemployer pension plans, as well as the reinstatement of matching contributions to our primary employee defined contribution savings plan.

2010 compared to 2009

The increase in adjusted compensation and benefits expense in 2010 compared with 2009 was impacted by several items. Payroll costs increased $416 million, largely due to higher accruals for management incentive compensation plans resulting from improved company financial results. Union payroll costs also increased due to contractual wage increases. These factors were partially offset by a decline in union labor hours, as well as a reduction in management salary costs resulting from a decrease in the total number of management employees through attrition combined with voluntary and involuntary workforce reductions.

Adjusted benefits expense increased $14 million in 2010 compared with 2009, due largely to increases in health and welfare costs and relocation-related benefits for management employees. The increase in health and welfare costs, which was primarily driven by health cost inflation, was somewhat mitigated by reductions in the total number of management employees and union employees covered by UPS-sponsored health and welfare benefit plans. The relocation benefit costs relate to the restructuring of our domestic package operations that occurred in the first quarter of 2010. These increases were largely offset by a reduction in pension expense, due to an increase in the expected return on assets more than offsetting increasing service and interest costs. The increased expected return on assets was largely due to significant contributions to company-sponsored pension plans in 2010.

Repairs and Maintenance

2011 compared to 2010

The increase in repairs and maintenance expense was largely due to aircraft maintenance costs, which increased $121 million in 2011 compared with 2010. This increase resulted from an increase in flight hours due to higher air volume, additional scheduled maintenance checks and higher contractual maintenance rates. The remaining increase in repairs and maintenance expense primarily relates to higher maintenance costs on our office buildings and operating facilities.

2010 compared to 2009

The increase in repairs and maintenance expense in 2010 compared with 2009 was largely due to maintenance costs on our vehicle fleet, which increased by $35 million during the year. The remaining increase in repairs and maintenance expense was largely due to higher maintenance costs on our aircraft fleet and operating facilities.

Depreciation and Amortization

2011 compared to 2010

The decrease in depreciation and amortization expense in 2011 was primarily the result of a reduction in depreciation expense on technology equipment and software. This decline was primarily related to certain technology hardware and capitalized software becoming fully depreciated.

2010 compared to 2009

Depreciation and amortization expense increased in 2010, primarily as a result of depreciation expense on equipment and facilities capitalized in conjunction with the recent Worldport expansion. Amortization of intangible assets also increased as a result of new intangibles recognized related to the Unsped acquisition in Turkey in the third quarter of 2009, as well as corporate sponsorships entered into in 2010.

Purchased Transportation

2011 compared to 2010

The increase in purchased transportation in 2011 was caused by a combination of higher volume, as well as increased fuel surcharges and base rates charged to us by third-party air, ocean and truck carriers across all segments. The combination of these factors increased expense by $387 million in 2011. Additionally, we incurred a $97 million increase in expense in 2011 for the use of rail carriers, which was due primarily to higher rates and fuel surcharges, as well as increased volumes. The remaining increase in expense for 2011 was primarily due to foreign currency exchange rate changes.

2010 compared to 2009

The increase in purchased transportation in 2010 was caused by several factors, including higher volume, as well as increased fuel surcharges and base rates charged to us by third-party air, ocean and truck carriers. The combination of these factors increased expense by $1.224 billion in 2010 compared with 2009. Additionally, the expense for the use of rail carriers increased $53 million, which was due primarily to higher rates and fuel surcharges, as well as increased volumes. Partially offsetting these increases in expense for 2010 was the impact of foreign currency exchange rate changes.

Fuel

2011 compared to 2010

The increase in fuel expense in 2011 compared with 2010 was primarily caused by higher prices for jet-A fuel, diesel and unleaded gasoline, which increased expense by $982 million. Higher usage of these products in our operations accounted for the remaining increase in expense of $92 million in 2011.

2010 compared to 2009

In 2010, higher prices for jet-A fuel, diesel, and unleaded gasoline increased fuel expense by $564 million compared with 2009, while greater fuel usage increased expense by $43 million.

Other Occupancy

2011 compared to 2010

Other occupancy expense increased in 2011 compared with 2010, primarily due to an increase in utilities expense resulting from increased electricity costs in our facilities. The remainder of the increase is primarily due to higher rent expense resulting from increased rates on warehouses.

2010 compared to 2009

The decrease in other occupancy expense in 2010 compared with 2009 was primarily due to decreased labor and overhead expenses, and lower rent expense on leased facilities.

Other Expenses

2011 compared to 2010

The increase in adjusted other expenses in 2011 compared with 2010 was caused by several factors, including foreign currency remeasurement losses, advertising costs, employee expense reimbursements, equipment rentals, air cargo handling costs and data processing fees. These increases were partially offset by a reduction in bad debt and employee relocation expenses.

2010 compared to 2009

The decrease in adjusted other expenses in 2010 compared with 2009 was largely due to reductions in bad debt expense and foreign currency transaction expense, which reflected gains during 2010 compared to losses in 2009. Additionally, we incurred a loss on the sale of a French repair business in 2009. Additional expense reductions in 2010 were due to cost containment programs, including reductions in telecom costs, office supplies, and outside professional fees. We also incurred lower expenses associated with auto liability insurance and customer claims for lost or damaged packages.

Investment Income and Interest Expense

The following table sets forth investment income and interest expense for the years ended December 31, 2011, 2010 and 2009 (in millions):

	Year Ended December 31,			% Change	
	2011	2010	2009	2011 / 2010	2010 / 2009
Investment Income	$ 44	$ 3	$ 10	N/A	(70.0)%
Interest Expense	$(348)	$(354)	$(445)	(1.7)%	(20.4)%
Impact of Currency Remeasurement Charge	—	—	77		
Adjusted Interest Expense	$(348)	$(354)	$(368)	(1.7)%	(3.8)%

Investment Income

The increase in investment income in 2011 compared with 2010 was caused by a combination of factors. During 2011, we realized $20 million in net gains on the sales of auction rate securities, preferred equity securities and an S&P 500 index fund, as well as a mark-to-market gain on investments. In 2010, we recorded a $21 million impairment on certain asset-backed auction rate securities, which resulted from provisions that allowed the issuers of the securities to subordinate our holdings to newly-issued debt or to tender for the securities at less than their par value. Additionally in 2010, we recorded an $8 million loss on the sale of auction rate securities. The remaining change in investment income was caused by a lower yield earned on our invested assets; however, this was largely offset by a higher average balance of interest-earning investments in our portfolio.

The decrease in investment income in 2010 was primarily due to a lower yield earned on our invested assets as a result of declines in short-term interest rates in the United States, as well as higher impairment losses on our holdings of auction rate and preferred securities.

Interest Expense

Interest expense declined slightly in 2011 due to a lower average interest rate incurred on variable rate debt and interest rate swaps, which reduced expense by $60 million for 2011 compared with 2010. However, this was largely offset as a result of a higher average balance of outstanding debt in 2011 compared with 2010.

The decrease in adjusted interest expense in 2010 compared with 2009 was primarily due to lower average debt balances, but this was partially offset by lower capitalized interest, due to the recent completion of several large construction projects, including our Worldport expansion.

Income Tax Expense

The following table sets forth income tax expense and our effective tax rate for the years ended December 31, 2011, 2010 and 2009 (in millions):

	Year Ended December 31,			% Change	
	2011	2010	2009	2011 / 2010	2010 / 2009
Income Tax Expense	$1,972	$1,952	$1,105	1.0%	76.7%
Income Tax Impact of:					
Pension and Postretirement Benefit Plans Mark-to-Market Charge	300	37	5		
Change in Tax Filing Status for German Subsidiary	—	(76)	—		
Restructuring Charge	—	34	—		
Gain on Sales of Businesses	—	(23)	—		
Gain on Real Estate Transactions	(13)	(48)	—		
Aircraft Impairment Charge	—	—	65		
Currency Remeasurement Charge	—	—	29		
Adjusted Income Tax Expense	$2,259	$1,876	$1,204	20.4%	55.8%
Effective Tax Rate	34.1%	36.9%	36.0%		
Adjusted Effective Tax Rate	34.4%	34.9%	36.0%		

2011 compared to 2010

Adjusted income tax expense increased primarily due to higher pre-tax income. Our adjusted effective tax rate declined in 2011 compared with 2010 as a result of several factors, including changes in deferred tax asset valuation allowances, the relative proportion of taxable income in certain non-U.S. jurisdictions, and favorable developments with U.S. state tax audit and litigation matters.

2010 compared to 2009

The increase in our effective tax rate in 2010 compared with 2009 was attributable to the higher marginal tax rate applied to the gain on the sale of real estate, as well as the change in the tax filing status of a German subsidiary that occurred in the first quarter of 2010. Additionally, we were unable to recognize the entire potential tax benefit of tax loss carryforwards generated from the sale of a Supply Chain & Freight business in Germany in the first quarter of 2010.

Excluding these items, our adjusted effective tax rate decreased in 2010 compared to 2009 primarily due to the effect of having a higher proportion of our taxable income in 2010 being subject to tax outside the United States, where statutory tax rates are generally lower.

Liquidity and Capital Resources

Operating Activities

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

	2011	2010	2009
Net income	$ 3,804	$ 3,338	$1,968
Non-cash operating activities(a)	4,505	4,398	4,047
Pension and postretirement plan contributions (UPS-sponsored plans)	(1,436)	(3,240)	(924)
Income tax receivables and payables	236	(319)	245
Changes in working capital and other noncurrent assets and liabilities	(12)	(340)	(137)
Other operating activities	(24)	(2)	86
Net cash from operating activities	$ 7,073	$ 3,835	$5,285

(a) Represents depreciation and amortization, gains and losses on derivative and foreign exchange transactions, deferred income taxes, provisions for uncollectible accounts, pension and postretirement benefit expense, stock compensation expense, impairment charges and other non-cash items.

Cash from operating activities remained strong throughout the 2009 to 2011 time period. Operating cash flow was favorably impacted in 2011, compared with 2010, by higher net income, changes in our working capital position, the timing of income tax payments and the amount of contributions into our defined benefit pension and postretirement benefit plans. The favorable changes in working capital were impacted by the change in the timing of the elective awards under our management incentive awards program, which shifted the payout of $253 million in awards from 2011 to the first quarter of 2012. The change in the cash flows for income tax receivables and payables in 2011 and 2010 was primarily related to the timing of discretionary pension contributions during 2010, as discussed further in the following paragraph.

Except for discretionary or accelerated fundings of our plans, contributions to our company-sponsored pension plans have largely varied based on whether any minimum funding requirements are present for individual pension plans.

- In 2011, we made a $1.2 billion contribution to the UPS IBT Pension Plan, which satisfied our 2011 contribution requirements and also approximately $440 million in contributions that would not have been required until after 2011.
- In 2010, operating cash flow was reduced by $2.0 billion in discretionary contributions to our UPS Retirement and UPS Pension Plans, and $980 million in required contributions to our UPS IBT Pension Plan.
- In 2009, operating cash flow was reduced by $778 million in required contributions to our UPS IBT Pension Plan.
- The remaining contributions in the 2009 through 2011 period were largely due to contributions to our international pension plans and U.S. postretirement medical benefit plans.

As discussed further in the “Contractual Commitments” section, we have minimum funding requirements in the next several years, primarily related to the UPS IBT Pension, UPS Retirement and UPS Pension plans.

Investing Activities

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

	2011	2010	2009
Net cash used in investing activities	$(2,537)	$ (654)	$(1,248)
Capital Expenditures:			
Buildings and facilities	$ (373)	$ (352)	$ (568)
Aircraft and parts	(598)	(416)	(611)
Vehicles	(659)	(339)	(209)
Information technology	(375)	(282)	(214)
	$(2,005)	$(1,389)	$(1,602)
Capital Expenditures as a % of Revenue	3.8%	2.8%	3.5%
Other Investing Activities:			
Proceeds from disposals of property, plant and equipment	$ 27	$ 304	$ 60
Net decrease in finance receivables	$ 184	$ 108	$ 261
Net (purchases) sales of marketable securities	$ (413)	$ 30	$ (11)
Cash received (paid) for business acquisitions and dispositions	$ (73)	$ 63	$ (9)
Other investing activities	$ (257)	$ 230	$ 53

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. We generally fund our capital expenditures with our cash from operations. Capital spending increased in 2011 to support several growth initiatives. In 2010 and 2009, we had reduced capital spending to a level commensurate with our operating needs in the economic environment at that time. Future capital spending for anticipated growth and replacement assets will depend on a variety of factors, including economic and industry conditions. We anticipate that our capital expenditures for 2012 will be approximately $2.2 billion, or approximately 4% of revenue.

Capital spending on aircraft over the 2009 to 2011 period was largely due to scheduled deliveries of previous orders for the Boeing 767-300 and 747-400 aircraft. Capital spending on vehicles increased during 2010 and 2011 in our U.S. and international package businesses and our freight unit, due to vehicle replacements, technology enhancements and new vehicle orders to support volume growth.

Capital expenditures on buildings and facilities declined over the 2009 through 2011 period, primarily resulting from the completion of several large hub construction and expansion projects, including our Worldport hub expansion. In 2009, we completed the first phase of our Worldport expansion, which increased the sorting capacity by 15%. The final phase of the Worldport expansion was completed in 2010, with an additional sorting capacity of approximately 20%. We anticipate that capital spending on buildings and facilities will increase in 2012, due to expansion and new construction projects at facilities in Europe and Asia, including a $200 million expansion at our European air hub in Cologne, Germany during 2012 and 2013.

The 2010 increase in proceeds from the disposal of property, plant and equipment is largely due to real estate sales and the proceeds from insurance recoveries. The net decline in finance receivables in the 2009 through 2011 period is primarily due to customer paydowns and loan sales activity, primarily in our commercial lending, asset-based lending and leasing portfolios. The purchases and sales of marketable securities are largely determined by liquidity needs and the periodic rebalancing of investment types, and will therefore fluctuate from period to period.

The cash paid for business acquisitions in 2011 was largely due to the acquisition of Pieffe Group in Italy. The cash received from business dispositions in 2010 was largely due to the sale of UPS Logistics Technologies, Inc. In 2009, the cash outflow for the purchase of Unsped Paket Servisi San ve Ticaret A.S. was largely offset by the cash received from the sale of the international franchise operations of our Mail Boxes Etc. unit.

Other investing activities include the cash settlement of derivative contracts used in our currency hedging programs, the timing of aircraft purchase contract deposits on our Boeing 767-300 and Boeing 747-400 aircraft orders, and the equity investments in five new leveraged aircraft leases. We received (paid) cash related to purchases and settlements of energy and currency derivative contracts used in our hedging programs of $(78), $111 and $117 million during 2011, 2010 and 2009, respectively.

Financing Activities

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

	2011	2010	2009
Net cash used in financing activities	$ (4,862)	$ (1,346)	$ (3,045)
Share Repurchases:			
Cash expended for shares repurchased	$ (2,665)	$ (817)	$ (561)
Number of shares repurchased	(38.7)	(12.4)	(10.9)
Shares outstanding at year-end	963	991	994
Percent reduction in shares outstanding	(2.8)%	(0.3)%	(0.2)%
Dividends:			
Dividends declared per share	$ 2.08	$ 1.88	$ 1.80
Cash expended for dividend payments	$ (1,997)	$ (1,818)	$ (1,751)
Borrowings:			
Net borrowings (repayments) of debt principal	$ (95)	$ 1,246	$ (522)
Other Financing Activities:			
Cash received for common stock issuances	$ 290	$ 218	$ 149
Other financing activities	$ (395)	$ (175)	$ (360)
Capitalization:			
Total debt outstanding at year-end	$11,128	$10,846	$ 9,521
Total shareowners' equity at year-end	7,108	8,047	7,696
Total capitalization	$18,236	$18,893	$17,217
Debt to Total Capitalization %	61.0%	57.4%	55.3%

In January 2008, the Board of Directors approved an increase in our share repurchase authorization to $10.0 billion. Share repurchases may take the form of accelerated share repurchases, open market purchases, or other such methods as we deem appropriate. The timing of our share repurchases will depend upon market conditions. As a result of the uncertain economic environment in 2010 and 2009, we slowed our share repurchase activity, and repurchased shares at a rate that approximately offset the dilution from our stock compensation programs. Unless terminated earlier by the resolution of our Board, the program will expire when we have purchased all shares authorized for repurchase under the program. As of December 31, 2011, we had $2.525 billion of our share repurchase authorization remaining. In 2012, pending Board of Directors approval of an additional share repurchase authorization, we anticipate repurchasing approximately $2.7 billion in shares.

The declaration of dividends is subject to the discretion of the Board of Directors and will depend on various factors, including our net income, financial condition, cash requirements, future prospects, and other relevant factors. We expect to continue the practice of paying regular cash dividends. In February 2012, we increased our quarterly dividend payment from $0.52 to $0.57 per share, a 10% increase.

Issuances of debt in 2011 consisted primarily of commercial paper and five new aircraft leases. In 2010 and 2009, we completed senior fixed rate note offerings of $2.0 billion in each year. These note offerings were used for various purposes, including discretionary contributions to UPS-sponsored pension plans, the retirement of existing debt instruments and other general corporate purposes.

Repayments of debt in 2011, 2010 and 2009 consisted primarily of paydowns of commercial paper, early redemptions of our UPS Notes program and certain facilities bonds, and scheduled principal payments on our capitalized lease obligations. We consider the overall fixed and floating interest rate mix of our portfolio and the related overall cost of borrowing when planning for future issuances and non-scheduled repayments of debt.

We had no commercial paper outstanding at December 31, 2011 and $341 million outstanding at December 31, 2010. The amount of commercial paper outstanding fluctuates throughout each year based on daily liquidity needs. The average commercial paper balance was $849 million and the average interest rate paid was 0.08% in 2011 ($947 million and 0.14% in 2010, respectively).

Cash received from common stock issuances to employees increased primarily due to additional stock option exercises in 2011 and 2010. The cash outflows in other financing activities are largely due to repurchases of shares from employees to satisfy tax withholding obligations, as well as certain hedging activities on forecasted debt issuances and premiums paid on capped call options for the purchase of UPS class B shares. In conjunction with the senior fixed rate debt offerings in 2010 and 2009, we settled several interest rate derivatives that were designated as hedges of these debt offerings, which resulted in cash inflows (outflows) of $7 and $(243) million, respectively. As of December 31, 2011, we had paid premiums of $200 million on capped call options for the purchase of 3.3 million class B shares that will settle in the first half of 2012.

Sources of Credit

We are authorized to borrow up to $10.0 billion under our U.S. commercial paper program. As of December 31, 2011, we had no commercial paper outstanding. The amount of commercial paper outstanding in 2012 is expected to fluctuate. We also maintain a European commercial paper program under which we are authorized to borrow up to €1.0 billion in a variety of currencies, however no amounts were outstanding under this program as of December 31, 2011.

We maintain two credit agreements with a consortium of banks. One of these agreements provides revolving credit facilities of $1.5 billion, and expires on April 12, 2012. Generally, 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 Citibank's publicly announced base rate, plus an applicable margin, may be used at our discretion. In each case, the applicable margin for advances bearing interest based on LIBOR is a percentage determined by quotations from Markit Group Ltd. for our 1-year credit default swap spread, subject to a minimum rate of 0.15% and a maximum rate of 0.75%. The applicable margin for advances bearing interest based on the base rate is 1.00% below the applicable margin for LIBOR advances (but not lower than 0.00%). We are also able to request advances under this facility based on competitive bids for the applicable interest rate. There were no amounts outstanding under this facility as of December 31, 2011.

The second agreement provides revolving credit facilities of $1.0 billion, and expires on April 14, 2015. Generally, 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 Citibank's publicly announced base rate, plus an applicable margin, may be used at our discretion. In each case, the applicable margin for advances bearing interest based on LIBOR is a percentage determined by quotations from Markit Group Ltd. for our credit default swap spread, interpolated for a period from the date of determination of such credit default swap spread in connection with a new interest period until the latest maturity date of this facility then in effect (but not less than a period of one year). The applicable margin is subject to certain minimum rates and maximum rates based on our public debt ratings from Standard & Poor's Rating Service and Moody's Investors Service. The minimum applicable margin rates range from 0.250% to 0.500%, and the maximum applicable margin rates range from 1.000% to 1.500%. The applicable margin for advances bearing interest based on the base rate is 1.00% below the applicable margin for LIBOR advances (but not less than 0.00%). We are also able to request advances under this facility based on competitive bids. There were no amounts outstanding under this facility as of December 31, 2011.

Our existing debt instruments and credit facilities do not have cross-default or ratings triggers, however these debt instruments and credit facilities do subject us to certain financial covenants. As of December 31, 2011 and for all prior periods presented, we have satisfied these financial covenants. These covenants limit the amount of secured indebtedness that we may incur, and limit the amount of attributable debt in sale-leaseback transactions, to 10% of net tangible assets. As of December 31, 2011, 10% of net tangible assets is equivalent to $2.550 billion, however we have no covered sale-leaseback transactions or secured indebtedness outstanding. Additionally, we are required to maintain a minimum net worth, as defined, of $5.0 billion on a quarterly basis. As of December 31, 2011, our net worth, as defined, was equivalent to $10.138 billion. We do not expect these covenants to have a material impact on our financial condition or liquidity.

Guarantees and Other Off-Balance Sheet Arrangements

We do not have guarantees or other off-balance sheet financing arrangements, including variable interest entities, which we believe could have a material impact on financial condition or liquidity.

Contractual Commitments

We have contractual obligations and commitments in the form of capital leases, operating leases, debt obligations, purchase commitments, and certain other liabilities. We intend to satisfy these obligations through the use of cash flow from operations. The following table summarizes the expected cash outflow to satisfy our contractual obligations and commitments as of December 31, 2011 (in millions):

Commitment Type	2012	2013	2014	2015	2016	After 2016	Total
Capital Leases	$ 59	$ 56	$ 51	$ 50	$ 48	$ 474	$ 738
Operating Leases	329	257	192	140	97	393	1,408
Debt Principal	—	1,750	1,000	100	—	7,366	10,216
Debt Interest	315	292	263	257	257	4,622	6,006
Purchase Commitments	517	453	32	16	34	—	1,052
Pension Fundings	355	738	1,081	702	1,161	1,818	5,855
Other Liabilities	67	64	58	43	23	15	270
Total	$ 1,642	$ 3,610	$ 2,677	$ 1,308	$ 1,620	$ 14,688	$ 25,545

Our capital lease obligations relate primarily to leases on aircraft. Capital leases, operating leases, and purchase commitments, as well as our debt principal obligations, are discussed further in Note 8 to our consolidated financial statements. The amount of interest on our debt was calculated as the contractual interest payments due on our fixed-rate debt, in addition to interest on variable rate debt that was calculated based on interest rates as of December 31, 2011. The calculations of debt interest take into account the effect of interest rate swap agreements. For debt denominated in a foreign currency, the U.S. Dollar equivalent principal amount of the debt at the end of the year was used as the basis to calculate future interest payments.

Purchase commitments represent contractual agreements to purchase goods or services that are legally binding, the largest of which are orders for aircraft, engines, and parts. As of December 31, 2011, we have firm commitments to purchase 15 Boeing 767-300ER freighters to be delivered between 2012 and 2013. These aircraft purchase orders will provide for anticipated future growth.

Pension fundings represent the anticipated required cash contributions that will be made to our qualified pension plans. These contributions include those to the UPS IBT Pension Plan, the UPS Pension Plan and the UPS Retirement Plan. These plans are discussed further in Note 5 to the consolidated financial statements. The pension funding requirements were estimated under the provisions of the Pension Protection Act of 2006 and the Employee Retirement Income Security Act of 1974, using discount rates, asset returns and other assumptions appropriate for these plans. To the extent that the funded status of these plans in future years differs from our current projections, the actual contributions made in future years could materially differ from the amounts shown in the table above. Additionally, we have not included minimum funding requirements beyond 2017, because these projected contributions are not reasonably determinable.

We are not subject to any minimum funding requirement for cash contributions in 2012 in the UPS Retirement Plan or UPS Pension Plan. The amount of any minimum funding requirement, as applicable, for these plans could change significantly in future periods, depending on many factors, including future plan asset returns and discount rates. A sustained significant decline in the world equity markets, and the resulting impact on our pension assets and investment returns, could result in our domestic pension plans being subject to significantly higher minimum funding requirements. Such an outcome could have a material adverse impact on our financial position and cash flows in future periods.

As discussed in Note 6 to our consolidated financial statements, we are not currently subject to any minimum contributions or surcharges with respect to the multiemployer pension and health and welfare plans in which we participate. Contribution rates to these multiemployer pension and health and welfare plans are established through the collective bargaining process. As we are not subject to any minimum contribution levels, we have not included any amounts in the contractual commitments table with respect to these multiemployer plans.

The contractual payments due for “other liabilities” primarily include commitment payments related to our investment in certain partnerships. The table above does not include approximately $252 million of liabilities for uncertain tax positions because we are uncertain if or when such amounts will ultimately be settled in cash. In addition, we also have recognized assets associated with uncertain tax positions in excess of the related liabilities such that we do not believe a net contractual obligation exists to the taxing authorities. Uncertain tax positions are further discussed in Note 13 to the consolidated financial statements.

As of December 31, 2011, we had outstanding letters of credit totaling approximately $1.551 billion issued in connection with routine business requirements. We also issue surety bonds as an alternative to letters of credit in certain instances, and as of December 31, 2011, we had $583 million of surety bonds written. As of December 31, 2011, we had unfunded loan commitments totaling $248 million associated with our financial business.

We believe that funds from operations and borrowing programs will provide adequate sources of liquidity and capital resources to meet our expected long-term needs for the operation of our business, including anticipated capital expenditures, for the foreseeable future.

Contingencies

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

Although there can be no assurance as to the ultimate outcome, we have generally denied, or believe we have a meritorious defense and will deny, liability in all litigation pending against us, including the matters described below, and we intend to defend vigorously each case. We have accrued for legal claims when, and to the extent that, amounts associated with the claims become probable and can be reasonably estimated. The actual costs of resolving legal claims may be substantially higher or lower than the amounts accrued for those claims.

For those matters as to which we are not able to estimate a possible loss or range of loss, we are not able to determine whether the loss will have a material adverse effect on our business, financial condition or results of operations or liquidity. For matters in this category, we have indicated in the descriptions that follow the reasons that we are unable to estimate the possible loss or range of loss.

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 these matters, would have a material adverse effect on our financial condition, results of operations or liquidity.

UPS and our subsidiary Mail Boxes Etc., Inc. are defendants in two lawsuits about the rebranding or purchase of The UPS Store franchises—Morgate and Samica. We prevailed at the trial court level in both cases, and plaintiffs appealed. Morgate was filed in March 2003. The plaintiffs are 125 individual franchisees who did not rebrand and a certified class of all franchisees who did rebrand to The UPS Store. A bellwether trial for three individual plaintiffs was set for early 2010, but the trial court entered judgment against one of the three plaintiffs prior to trial, which was affirmed in January 2012. The trial court also granted our motion for summary judgment against the members of the certified class, which was reversed in January 2012. The remainder of the case has been stayed pending appeal. Samica was filed in March 2006. The plaintiffs are 250 individual The UPS Store franchisees who either elected to rebrand or purchased new The UPS Store franchises. Summary judgment was granted in UPS's favor and affirmed on appeal in December 2011. There are multiple factors that prevent us from being able to estimate the amount of loss, if any, that may result from these matters including: (1) three separate components of these cases are being appealed to federal and state courts following decisions favorable to UPS and we cannot predict the final outcomes of these appeals; and (2) it remains uncertain what evidence of damages, if any, plaintiffs will be able to present if any aspects of these cases proceed forward. Accordingly, at this time, we are not able to estimate a possible loss or range of loss that may result from these matters or to determine whether such loss, if any, would have a material adverse effect on our financial condition, results of operations or liquidity.

In Barber Auto Sales v. UPS, which a federal court in Alabama certified as a class action in September 2009, the plaintiff asserts a breach of contract claim arising from UPS's assessment of shipping charge corrections when UPS determines that the "dimensional weight" of packages is greater than that reported by the shipper. On June 1, 2011, we reached an agreement in principle to settle the case for an immaterial amount. The settlement has been preliminarily approved, and remains subject to a final fairness hearing.

In AFMS LLC v. UPS and FedEx Corporation, a lawsuit filed in federal court in the Central District of California in August 2010, the plaintiff asserts that UPS and FedEx violated U.S. antitrust law by conspiring to refuse to negotiate with third party negotiators retained by shippers and/or to monopolize a so-called market for shipping consultation services. The Antitrust Division of the U.S. Department of Justice ("DOJ") has informed us that it has opened a civil investigation of our policies and practices for dealing with third party negotiators. We are cooperating with this investigation. We deny any liability with respect to these matters and intend to vigorously defend ourselves. There are multiple factors that prevent us from being able to estimate the amount of loss, if any, that may result from these matters including: (1) we believe that we have a number of meritorious defenses; (2) AFMS has not articulated any measure of damages; and (3) the DOJ investigation is ongoing. Accordingly, at this time, we are not able to estimate a possible loss or range of loss that may result from these matters or to determine whether such loss, if any, would have a material adverse effect on our financial condition, results of operations or liquidity.

In Canada, three purported class-action cases were filed against us in British Columbia (2006); Ontario (2007) and Québec (2006). The cases each allege inadequate disclosure concerning the existence and cost of brokerage services provided by us under applicable provincial consumer protection legislation and infringement of interest restriction provisions under the Criminal Code of Canada. The British Columbia class-action was declared inappropriate for certification and dismissed by the trial judge. That decision was upheld by the British Columbia Court of Appeal in March 2010, which ended the case in our favor. The Ontario class action was certified in September 2011. Partial summary judgment was granted to us and the plaintiffs by the Ontario motions court. The complaint under the Criminal Code was dismissed. No appeal is being taken from that decision. The allegations of inadequate disclosure were granted and we are appealing that decision. The request to certify the case in Québec will be heard in February 2012. We have denied all liability and are vigorously defending the two outstanding cases. There are multiple factors that prevent us from being able to estimate the amount of loss, if any, that may result from these matters, including (1) we are vigorously defending ourselves and believe that we have a number of meritorious legal defenses and (2) there are unresolved questions of law and fact that could be important to the ultimate resolution of these matters. Accordingly, at this time, we are not able to estimate a possible loss or range of loss that may result from these matters or to determine whether such loss, if any, would have a material adverse effect on our financial condition, results of operation or liquidity.

Other Matters

In May and December 2007 and August 2008 we received and responded to grand jury subpoenas from the DOJ in the Northern District of California in connection with an investigation by the Drug Enforcement Administration. We also have responded to informal requests for information in connection with this investigation, which relates to transportation of packages on behalf of on-line pharmacies that may have operated illegally. We are cooperating with this investigation and intend to continue to vigorously defend ourselves. There are multiple factors that prevent us from being able to estimate the amount of loss, if any, that may result from this matter, including (1) we are vigorously defending ourselves and believe we have a number of meritorious legal defenses and (2) there are unresolved questions of law and fact that could be important to the ultimate resolution of this matter. Accordingly, at this time, we are not able to estimate a possible loss or range of loss that may result from this matter or to determine whether such loss, if any, would have a material adverse effect on our financial condition, results of operations or liquidity.

We received a grand jury subpoena from the Antitrust Division of the DOJ regarding the DOJ's investigation into certain pricing practices in the freight forwarding industry in December 2007.

In October 2007, June 2008 and February 2009, we received information requests from the European Commission ("Commission") relating to its investigation of certain pricing practices in the freight forwarding industry, and subsequently responded to each request. In February 2010, UPS received a Statement of Objections by the Commission. This document contains the Commission's preliminary view with respect to alleged anticompetitive behavior in the freight forwarding industry by 18 freight forwarders, including UPS. Although it alleges anticompetitive behavior, it does not prejudge the Commission's final decision, as to facts or law (which is subject to appeal to the European courts). The options available to the Commission include taking no action or imposing a monetary fine; the range of any potential action by the Commission is not reasonably estimable. Any decision imposing a fine would be subject to appeal. UPS has responded to the Statement of Objections, including at a July 2010 Commission hearing, and we intend to continue to vigorously defend ourselves in this proceeding. We received additional information requests from the Commission in January and July 2011, and we have responded to those requests.

In August 2010, competition authorities in Brazil opened an administrative proceeding to investigate alleged anticompetitive behavior in the freight forwarding industry. Approximately 45 freight forwarding companies and individuals are named in the proceeding, including UPS, UPS SCS Transportes (Brasil) S.A., and a former employee in Brazil. UPS will have an opportunity to respond to these allegations.

We are cooperating with each of these investigations, and intend to continue to vigorously defend ourselves. There are multiple factors that prevent us from being able to estimate the amount of loss, if any, that may result from these matters including (1) we are vigorously defending each matter and believe that we have a number of meritorious legal defenses; (2) there are unresolved questions of law that could be of importance to the ultimate resolutions of these matters, including the calculation of any potential fine; and (3) there is uncertainty about the time period that is the subject of the investigations. Accordingly, at this time, we are not able to estimate a possible loss or range of loss that may result from these matters or to determine whether such loss, if any, would have a material adverse effect on our financial condition, results of operations or liquidity.

In January 2008, a class action complaint was filed in the United States District Court for the Eastern District of New York alleging price-fixing activities relating to the provision of freight forwarding services. UPS was not named in this case. In July 2009, the plaintiffs filed a first amended complaint naming numerous global freight forwarders as defendants. UPS and UPS Supply Chain Solutions are among the 60 defendants named in the amended complaint. We intend to vigorously defend ourselves in this case. There are multiple factors that prevent us from being able to estimate the amount of loss, if any, that may result from these matters including: (1) the magistrate judge recommended that the district court grant our motion to dismiss, with leave to amend, and the scope of the plaintiffs' claims is therefore unclear; (2) the scope and size of the proposed class is ill-defined; (3) there are significant legal questions about the adequacy and standing of the putative class representatives; and (4) we believe that we have a number of meritorious legal defenses. Accordingly, at this time, we are not able to estimate a possible loss or range of loss that may result from these matters or to determine whether such loss, if any, would have a material adverse effect on our financial condition, results of operations or liquidity.

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

In June 2011, we received Internal Revenue Service ("IRS") reports covering income taxes and excise taxes for tax years 2005 through 2007 and 2003 through 2007, respectively. The reports propose assessments related to amounts paid for software, research credit expenditures and deductibility of financing and post-acquisition integration costs as well as taxes on amounts paid for air transportation. Receipt of the reports represents only the conclusion of the examination process. We disagree with the proposed assessments related to these matters. Therefore, we have filed protests and protective tax refund claims. During the third quarter of 2011, the IRS responded to our protests and forwarded the cases to IRS Appeals. There are multiple factors that prevent us from being able to estimate the amount of loss, if any, that may result from these matters including: (1) we are vigorously defending these matters and believe that we have a number of meritorious legal defenses; (2) we have filed refund claims in excess of the proposed assessments; (3) there are unresolved questions of law and fact that could be of importance to the ultimate resolutions of these matters, including the calculation of any additional taxes and/or tax refunds; and (4) these matters are at the initial stage of a multi-level administrative appeals process that may ultimately be resolved by litigation. Accordingly, at this time, we are not able to estimate a possible loss or range of loss that may result from these matters or to determine whether such loss, if any, would have a material adverse effect on our financial condition, results of operations or liquidity.

Collective Bargaining Agreements

As of December 31, 2011, we had approximately 245,000 employees employed under a national master agreement and various supplemental agreements with local unions affiliated with the Teamsters. These agreements run through July 31, 2013. We have approximately 2,700 pilots who are employed under a collective bargaining agreement with the IPA, which became amendable at the end of 2011. Our airline mechanics are covered by a collective bargaining agreement with Teamsters Local 2727, which runs through November 1, 2013. In addition, approximately 3,200 of our ground mechanics who are not employed under agreements with the Teamsters are employed under collective bargaining agreements with the IAM. Our agreement with the IAM runs through July 31, 2014.

We participate in a number of trustee-managed multiemployer pension and health and welfare plans for employees covered under collective bargaining agreements. Our current collective bargaining agreements set forth the annual contribution increases allotted to the plans that we participate in, and we are in compliance with these contribution rates. These limitations will remain in effect throughout the terms of the existing collective bargaining agreements.

Rate Adjustments

In November 2011, we announced an increase in base rates and changes in our fuel surcharge for package shipments that took effect January 2, 2012. UPS Ground service rates increased a net 4.9% through a combination of a 5.9% increase in rates and a 1% reduction in the index used to determine the ground fuel surcharge. UPS Next Day Air, UPS 2nd Day Air, UPS 3 Day Select, and international air shipments originating in the United States (including Worldwide Express, Worldwide Express Plus, UPS Worldwide Expedited and UPS International Standard Service) increased a net 4.9%, through a combination of a 6.9% increase in base rates and a 2% reduction in the index used to determine the air fuel surcharge. These rate changes are customary and occur on an annual basis. Rate changes for shipments originating outside the U.S. are made throughout the year and vary by geographic market.

New Accounting Pronouncements

Recently Adopted Accounting Standards

In September 2011, the Financial Accounting Standards Board ("FASB") issued an accounting standards update regarding disclosure of an employer's participation in multiemployer pension and health and welfare plans. This new guidance requires companies to provide additional qualitative and quantitative disclosures about financial obligations, risks and commitments, as well as the level of participation in multiemployer plans. Companies are required to disclose detailed information about significant multiemployer plans, including contributions made to the plans, financial health and funded status of the plans, and expiration of the collective-bargaining agreements that require contributions to the plans. This accounting standards update impacted our disclosures only, and did not have any impact on our financial condition, results of operations or liquidity. The disclosures required by this accounting standards update are presented in Note 6 to the consolidated financial statements.

In September 2011, the FASB issued an accounting standards update that amends the accounting guidance on goodwill impairment testing. This accounting standards update is intended to reduce complexity and costs by allowing an entity the option to make a qualitative evaluation about the likelihood of goodwill impairment to determine whether it should calculate the fair value of a reporting unit. This accounting standards update also amends existing guidance by expanding upon the examples of events and circumstances that an entity should consider between annual impairment tests in determining whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. We adopted this accounting standards update and applied its provisions to certain of our reporting units for our annual goodwill impairment testing as of October 1, 2011.

Other accounting pronouncements adopted during the periods covered by the consolidated financial statements had an immaterial impact on our consolidated financial position and results of operations.

Accounting Standards Issued But Not Yet Effective

Accounting pronouncements issued, but not effective until after December 31, 2011, are not expected to have a significant impact on our consolidated financial position or results of operations.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which are prepared in accordance with accounting principles generally accepted in the United States of America. As indicated in Note 1 to our consolidated financial statements, the amounts of assets, liabilities, revenue, and expenses reported in our financial statements are affected by estimates and judgments that are necessary to comply with generally accepted accounting principles. We base our estimates on prior experience and other assumptions that we consider reasonable to our circumstances. Actual results could differ from our estimates, which would affect the related amounts reported in our consolidated financial statements. While estimates and judgments are applied in arriving at many reported amounts, we believe that the following matters may involve a higher degree of judgment and complexity.

Contingencies

As discussed in Note 9 to our consolidated financial statements, we are involved in various legal proceedings and contingencies. We record a liability based on our estimate of the probable cost of the resolution of a contingency. The actual resolution of these contingencies may differ from our estimates. If a contingency is settled for an amount greater than our estimate, a future charge to income would result. Likewise, if a contingency is settled for an amount that is less than our estimate, a future credit to income would result.

The events that may impact our contingent liabilities are often unique and generally are not predictable. At the time a contingency is identified, we consider all relevant facts as part of our evaluation. We record a liability for a loss when the loss is probable of occurring and reasonably estimable. Events may arise that were not anticipated and the outcome of a contingency may result in a loss to us that differs from our previously estimated liability. These factors could result in a material difference between estimated and actual operating results. Contingent losses that are probable and estimable, excluding those related to income taxes and self-insurance which are discussed further below, were not material to our financial position as of December 31, 2011. In addition, we have certain contingent liabilities that have not been recognized as of December 31, 2011, because a loss is not reasonably estimable.

Goodwill and Intangible Impairment

We perform impairment testing of goodwill for each of our reporting units on an annual basis. Our reporting units are comprised of the Europe, Asia, and Americas reporting units in the International Package reporting segment, and the Forwarding, Logistics, UPS Freight, MBE / The UPS Store and UPS Capital reporting units in the Supply Chain & Freight reporting segment. Our annual goodwill impairment testing date is October 1st for each reporting unit. In assessing goodwill for impairment, we initially evaluate qualitative factors to determine if it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If the qualitative assessment is not conclusive and it is necessary to calculate the fair value of a reporting unit, then we utilize a two-step process to test goodwill for impairment. First, a comparison of the fair value of the applicable reporting unit with the aggregate carrying value, including goodwill, is performed. If the carrying amount of a reporting unit exceeds the reporting unit's fair value, we perform the second step of the goodwill impairment test to determine the amount of impairment loss. The second step includes comparing the implied fair value of the affected reporting unit's goodwill with the carrying value of that goodwill.

We primarily determine the fair value of our reporting units using a discounted cash flow model ("DCF model"), and supplement this with observable valuation multiples for comparable companies, as applicable. The completion of the DCF model requires that we make a number of significant assumptions to produce an estimate of future cash flows. These assumptions include projections of future revenue, costs and working capital changes. In addition, we make assumptions about the estimated cost of capital and other relevant variables, as required, in estimating the fair value of our reporting units. The projections that we use in our DCF model are updated annually and will change over time based on the historical performance and changing business conditions for each of our reporting units. The determination of whether goodwill is impaired involves a significant level of judgment in these assumptions, and changes in our business strategy, government regulations or economic or market conditions could significantly impact these judgments. We will continue to monitor market conditions and other factors to determine if interim impairment tests are necessary in future periods. If impairment indicators are present in future periods, the resulting impairment charges could have a material impact on our results of operations.

None of the reporting units incurred any goodwill impairment charges in 2011, 2010 or 2009. Changes in our forecasts could cause carrying values of our reporting units to exceed their fair values in future periods, potentially resulting in a goodwill impairment charge. As of our October 1, 2011 goodwill impairment testing date, our UPS Freight reporting unit's fair value exceeded its carrying value by approximately 10%. The fair value of this reporting unit was negatively impacted in 2011 by the difficult market environment for the LTL industry, resulting in reduced equity valuations for market comparable companies. Several factors, including lower than expected revenues and/or operating margins, an increased cost of capital and higher than anticipated capital expenditure requirements, could result in the reporting unit's fair value declining below its carrying value in a future period. Additionally, a sustained decline in the valuations of publicly-traded comparable companies in the LTL industry would also reduce the calculated fair value of this reporting unit. Our UPS Freight reporting unit has a total goodwill balance of $441 million as of December 31, 2011. A 10% decrease in the estimated fair value of our other reporting units as of our most recent goodwill testing date (October 1, 2011) would not result in a goodwill impairment charge.

Licenses with a carrying value of $5 million as of December 31, 2011 are deemed to be indefinite-lived intangibles, and therefore are not amortized. Impairment tests for indefinite-lived intangibles are performed on an annual basis. All of our remaining recorded intangible assets are deemed to be finite-lived intangibles, and are thus amortized over their estimated useful lives. Impairment tests for these intangible assets are only performed when a triggering event occurs that indicates that the carrying value of the intangible may not be recoverable based on the undiscounted future cash flows of the intangible. If the carrying amount of the intangible is determined not to be recoverable, a write-down to fair value is recorded. Fair values are determined based on a DCF model. No impairments of indefinite-lived or finite-lived intangible assets were recognized in 2011, 2010 or 2009.

Self-Insurance Accruals

We self-insure costs associated with workers' compensation claims, automotive liability, health and welfare and general business liabilities, up to certain limits. Insurance reserves are established for estimates of the loss that we will ultimately incur on reported claims, as well as estimates of claims that have been incurred but not yet reported. Recorded balances are based on reserve levels, which incorporate historical loss experience and judgments about the present and expected levels of cost per claim. Trends in actual experience are a significant factor in the determination of such reserves. We believe our estimated reserves for such claims are adequate, but actual experience in claim frequency and/or severity could materially differ from our estimates and affect our results of operations.

Workers' compensation, automobile liability and general liability insurance claims may take several years to completely settle. Consequently, actuarial estimates are required to project the ultimate cost that will be incurred to fully resolve the claims. A number of factors can affect the actual cost of a claim, including the length of time the claim remains open, trends in health care costs and the results of related litigation. Furthermore, claims may emerge in future years for events that occurred in a prior year at a rate that differs from previous actuarial projections. Changes in state legislation with respect to workers compensation can affect the adequacy of our self-insurance accruals. All of these factors can result in revisions to prior actuarial projections and produce a material difference between estimated and actual operating results.

We sponsor a number of health and welfare insurance plans for our employees. These liabilities and related expenses are based on estimates of the number of employees and eligible dependents covered under the plans, anticipated medical usage by participants and overall trends in medical costs and inflation. Actual results may differ from these estimates and, therefore, produce a material difference between estimated and actual operating results.

Fair Value Measurements

In the normal course of business, we hold and issue financial instruments that contain elements of market risk, including derivatives, marketable securities, finance receivables, other investments and debt. Certain of these financial instruments are required to be recorded at fair value, principally derivatives, marketable securities, pension assets and certain other investments. Fair values are based on listed market prices, when such prices are available. To the extent that listed market prices are not available, fair value is determined based on other relevant factors, including dealer price quotations. Certain financial instruments, including over-the-counter derivative instruments, are valued using pricing models that consider, among other factors, contractual and market prices, correlations, time value, credit spreads and yield curve volatility factors. Changes in the fixed income, equity, foreign exchange and commodity markets will impact our estimates of fair value in the future, potentially affecting our results of operations. A quantitative sensitivity analysis of our exposure to changes in commodity prices, foreign currency exchange rates, interest rates and equity prices is presented in the "Market Risk" section of this report.

Pension and Postretirement Medical Benefits

Our pension and other postretirement benefit costs are calculated using various actuarial assumptions and methodologies. These assumptions include discount rates, health care cost trend rates, inflation, compensation increase rates, expected returns on plan assets, mortality rates and other factors. The assumptions utilized in recording the obligations under our plans represent our best estimates, and we believe that they are reasonable, based on information as to historical experience and performance as well as other factors that might cause future expectations to differ from past trends.

Differences in actual experience or changes in assumptions may affect our pension and other postretirement obligations and future expense. The primary factors contributing to actuarial gains and losses each year are (1) changes in the discount rate used to value pension and postretirement benefit obligations as of the measurement date and (2) differences between the expected and the actual return on plan assets.

In the fourth quarter of 2011, we elected to change our accounting methodologies for recognizing expense for our company-sponsored U.S. and International pension and other postretirement benefit plans. Previously, net actuarial gains or losses in excess of 10% of the greater of the market-related value of plan assets or the plans' projected benefit obligations (the "corridor") were recognized over the average remaining service life of employees in each respective plan. Further, for our largest pension plan (the UPS Retirement Plan), we used a calculated value of plan assets reflecting changes in the fair value of plan assets over a five-year period.

Under our new accounting methods, we will recognize changes in the fair value of plan assets and net actuarial gains or losses in excess of the corridor annually in the fourth quarter each year. These new accounting methods result in changes in the fair value of plan assets and net actuarial gains and losses being recognized in expense faster than our previous amortization method. The remaining components of pension expense, primarily service and interest costs and the expected return on plan assets, will be recorded on a quarterly basis as ongoing pension expense (herein referred to as "ongoing expense" or "ongoing net periodic benefit cost").

The following sensitivity analysis shows the impact of a 25 basis point change in the assumed discount rate, expected return on assets, and health care cost trend rate for our pension and postretirement benefit plans, and the resulting increase (decrease) on our obligations and ongoing expense as of, and for the year ended, December 31, 2011 (in millions).

	25 Basis Point Increase	25 Basis Point Decrease
Pension Plans		
Discount Rate:		
Effect on ongoing net periodic benefit cost	$ (43)	$ 45
Effect on projected benefit obligation	(976)	1,017
Return on Assets:		
Effect on ongoing net periodic benefit cost	(54)	54
Postretirement Medical Plans		
Discount Rate:		
Effect on ongoing net periodic benefit cost	—	—
Effect on accumulated postretirement benefit obligation	(102)	105
Health Care Cost Trend Rate:		
Effect on ongoing net periodic benefit cost	1	(1)
Effect on accumulated postretirement benefit obligation	15	(16)

Ongoing expense will increase in 2012 compared with 2011, due primarily to the decline in the U.S. discount rate used to determine expense from 5.95% for 2011 to 5.61% for 2012. This is partially offset by the contributions to the plans in 2011 that increased the expected return on assets used for expense calculation purposes.

Depreciation, Residual Value and Impairment of Fixed Assets

As of December 31, 2011, we had $17.621 billion of net fixed assets, the most significant category of which is aircraft. In accounting for fixed assets, we make estimates about the expected useful lives and the expected residual values of the assets, and the potential for impairment based on the fair values of the assets and the cash flows generated by these assets.

In estimating the lives and expected residual values of aircraft, we have relied upon actual experience with the same or similar aircraft types. Subsequent revisions to these estimates could be caused by changes to our maintenance program, changes in the utilization of the aircraft, governmental regulations on aging aircraft and changing market prices of new and used aircraft of the same or similar types. We periodically evaluate these estimates and assumptions, and adjust the estimates and assumptions as necessary. Adjustments to the expected lives and residual values are accounted for on a prospective basis through depreciation expense.

We review long-lived assets for impairment when circumstances indicate the carrying amount of an asset may not be recoverable based on the undiscounted future cash flows of the asset. If the carrying amount of the asset is determined not to be recoverable, a write-down to fair value is recorded. Fair values are determined based on quoted market values, discounted cash flows or external appraisals, as applicable. We review long-lived assets for impairment at the individual asset or the asset group level for which the lowest level of independent cash flows can be identified. The circumstances that would indicate potential impairment may include, but are not limited to, a significant change in the extent to which an asset is utilized, a significant decrease in the market value of an asset and operating or cash flow losses associated with the use of the asset. In estimating cash flows, we project future volume levels for our different air express products in all geographic regions in which we do business. Adverse changes in these volume forecasts, or a shortfall of our actual volume compared with our projections, could result in our current aircraft capacity exceeding current or projected demand. This situation would lead to an excess of a particular aircraft type, resulting in an aircraft impairment charge or a reduction of the expected life of an aircraft type (thus resulting in increased depreciation expense).

In 2011 and 2010, there were no indicators of impairment in our aircraft fleet, and no impairment charges were recorded in either period. In 2009, we recorded a $181 million impairment charge, as described in the following paragraphs.

In 2008, we had announced that we were in negotiations with DHL to provide air transportation services for all of DHL's express, deferred and international package volume within the United States, as well as air transportation services between the United States, Canada and Mexico. In early April 2009, UPS and DHL mutually agreed to terminate further discussions on providing these services. Additionally, our U.S. Domestic Package air delivery volume had declined for several quarters as a result of persistent economic weakness and shifts in product mix from our premium air services to our lower cost ground services. As a result of these factors, the utilization of certain aircraft fleet types had declined and was expected to be lower in the future.

Based on the factors noted above, as well as FAA aging aircraft directives that would require significant future maintenance expenditures, we determined that a triggering event had occurred that required an impairment assessment of our McDonnell-Douglas DC-8-71 and DC-8-73 aircraft fleets. We conducted an impairment analysis as of March 31, 2009, and determined that the carrying amount of these fleets was not recoverable due to the accelerated expected retirement dates of the aircraft. Based on anticipated residual values for the airframes, engines, and parts, we recognized an impairment charge of $181 million in the first quarter of 2009. The DC-8 fleets were subsequently retired from service.

Income Taxes

We make certain estimates and judgments in determining income tax expense for financial statement purposes. These estimates and judgments occur in the calculation of income by legal entity and jurisdiction, tax credits, benefits, and deductions, and in the calculation of certain tax assets and liabilities, which arise from differences in the timing of recognition of revenue and expense for tax and financial statement purposes, as well as the interest and penalties related to these uncertain tax positions. Significant changes to these estimates may result in an increase or decrease to our tax provision in a subsequent period.

We assess the likelihood that we will be able to recover our deferred tax assets. If recovery is not likely, we must increase our provision for taxes by recording a valuation allowance against the deferred tax assets that we estimate will not ultimately be recoverable. We believe that we will ultimately recover a substantial majority of the deferred tax assets recorded on our consolidated balance sheets. However, should there be a change in our ability to recover our deferred tax assets, our tax provision would increase in the period in which we determined that the recovery was not likely.

The calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax regulations. We recognize liabilities for uncertain tax positions based on a two-step process. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. Once it is determined that the position meets the recognition threshold, the second step requires us to estimate and measure the tax benefit as the largest amount that is more likely than not to be realized upon ultimate settlement. It is inherently difficult and subjective to estimate such amounts, as we have to determine the probability of various possible outcomes. We reevaluate these uncertain tax positions on a quarterly basis. This evaluation is based on factors including, but not limited to, changes in facts or circumstances, changes in tax law, effectively settled issues under audit, and new audit activity. Such a change in recognition or measurement could result in the recognition of a tax benefit or an additional charge to the tax provision.

Allowance for Doubtful Accounts

Losses on accounts receivable are recognized when they are incurred, which requires us to make our best estimate of the probable losses inherent in our customer receivables at each balance sheet date. These estimates require consideration of historical loss experience adjusted for current conditions, trends in customer payment frequency, and judgments about the probable effects of relevant observable data, including present 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. Deterioration in macroeconomic variables could result in our ultimate loss exposures on our accounts receivable being significantly higher than what we have currently estimated and reserved for in our allowance for doubtful accounts. Our total allowance for doubtful accounts as of December 31, 2011 and 2010 was $117 and $127 million, respectively. Our total provision for doubtful accounts charged to expense during the years ended December 31, 2011, 2010 and 2009 was $147, $199 and $254 million, respectively.

Item 7A. *Quantitative and Qualitative Disclosures about Market Risk*

We are exposed to market risk from changes in certain commodity prices, foreign currency exchange rates, interest rates and equity prices. All of these market risks arise in the normal course of business, as we do not engage in speculative trading activities. In order to manage the risk arising from these exposures, we 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 15 to the consolidated financial statements.

Commodity Price Risk

We are exposed to changes in the prices of refined fuels, principally jet-A, diesel and unleaded gasoline. Currently, the fuel surcharges that we apply to our domestic and international package and LTL services are the primary means of reducing the risk of adverse fuel price changes. Additionally, we periodically use a combination of option contracts to provide partial protection from changing fuel and energy prices. As of December 31, 2011 and 2010, however, we had no commodity option contracts outstanding.

Foreign Currency Exchange Risk

We have foreign currency risks related to our revenue, operating expenses and financing transactions in currencies other than the local currencies in which we operate. We are exposed to currency risk from the potential changes in functional currency values of our foreign currency-denominated assets, liabilities and cash flows. Our most significant foreign currency exposures relate to the Euro, the British Pound Sterling and the Canadian Dollar. We use a combination of purchased and written options and forward contracts to hedge forecasted cash flow currency exposures. These derivative instruments generally cover forecasted foreign currency exposures for periods of 12 to 24 months. Additionally, we utilize cross-currency interest rate swaps to hedge the currency risk inherent in the interest and principal payments associated with foreign currency denominated debt obligations. The terms of these swap agreements are commensurate with the underlying debt obligations.

Interest Rate Risk

We have issued debt instruments, including debt associated with capital leases, that accrue expense at fixed and floating rates of interest. We use a combination of interest rate swaps as part of our program to manage the fixed and floating interest rate mix of our total debt portfolio and related overall cost of borrowing. The notional amount, interest payment and maturity dates of the swaps match the terms of the associated debt. We also utilize forward starting swaps and similar instruments to lock in all or a portion of the borrowing cost of anticipated debt issuances. Our floating rate debt and interest rate swaps subject us to risk resulting from changes in short-term (primarily LIBOR) interest rates.

We also are subject to interest rate risk with respect to our pension and postretirement benefit obligations, as changes in interest rates will effectively increase or decrease our liabilities associated with these benefit plans, which also results in changes to the amount of pension and postretirement benefit expense recognized in future periods.

We have investments in debt securities, as well as cash-equivalent instruments, some of which accrue income at variable rates of interest. Additionally, we hold a portfolio of finance receivables that accrue income at fixed and floating rates of interest.

Equity Price Risk

We hold investments in various common equity securities that are subject to price risk. These securities are primarily in the form of equity index funds.

Sensitivity Analysis

The following analysis provides quantitative information regarding our exposure to commodity price risk, foreign currency exchange risk, interest rate risk and equity price risk embedded in our existing financial instruments. We utilize valuation models to evaluate the sensitivity of the fair value of financial instruments with exposure to market risk that assume instantaneous, parallel shifts in exchange rates, interest rate yield curves and commodity and equity prices. For options and instruments with non-linear returns, models appropriate to the instrument are utilized to determine the impact of market shifts.

There are certain limitations inherent in the sensitivity analyses presented, primarily due to the assumption that exchange rates change in a parallel fashion and that interest rates change instantaneously. In addition, the analyses are unable to reflect the complex market reactions that normally would arise from the market shifts modeled. While this is our best estimate of the impact of the specified interest rate scenarios, these estimates should not be viewed as forecasts. We adjust the fixed and floating interest rate mix of our interest rate sensitive assets and liabilities in response to changes in market conditions. Additionally, changes in the fair value of foreign currency derivatives and commodity derivatives are offset by changes in the cash flows of the underlying hedged foreign currency and commodity transactions.

	Shock-Test Result As of December 31,	
(in millions)	2011	2010
Change in Fair Value:		
Currency Derivatives(1)	$ (64)	$ (89)
Change in Annual Expense:		
Variable Rate Debt(2)	$ 7	$ 10
Interest Rate Derivatives(2)	$ 71	$ 58

(1) The potential change in fair value from a hypothetical 10% weakening of the U.S. Dollar against local currency exchange rates across all maturities.
(2) The potential change in annual interest expense resulting from a hypothetical 100 basis point increase in short-term interest rates, applied to our variable rate debt and swap instruments (excluding hedges of anticipated debt issuances).

The sensitivity of our pension and postretirement benefit obligations to changes in interest rates is quantified in "Critical Accounting Policies and Estimates". The sensitivity in the fair value and interest income of our marketable securities due to changes in equity prices and interest rates, respectively, was not material as of December 31, 2011 or 2010. The sensitivity in the fair value and interest income of our finance receivables due to changes in interest rates was also not material as of December 31, 2011 or 2010.

Item 8. ***Financial Statements and Supplementary Data***

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Report of Independent Registered Public Accounting Firm

Board of Directors and Shareowners
United Parcel Service, Inc.
Atlanta, Georgia

We have audited the internal control over financial reporting of United Parcel Service, Inc. and subsidiaries (the "Company") as of December 31, 2011, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on the criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of United Parcel Service, Inc. and its subsidiaries as of December 31, 2011, and the related statements of consolidated income, comprehensive income, and cash flows for the year ended December 31, 2011 and our report dated February 27, 2012 expressed an unqualified opinion on those financial statements and included an explanatory paragraph regarding changes in certain of the Company's methods of accounting for defined benefit pension and other postretirement benefit costs.

/s/ Deloitte & Touche LLP

Atlanta, Georgia
February 27, 2012

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Report of Independent Registered Public Accounting Firm

Board of Directors and Shareowners
United Parcel Service, Inc.
Atlanta, Georgia

We have audited the accompanying consolidated balance sheets of United Parcel Service, Inc. and subsidiaries (the "Company") as of December 31, 2011 and 2010, and the related statements of consolidated income, comprehensive income, and cash flows for each of the three years in the period ended December 31, 2011. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of United Parcel Service, Inc. and subsidiaries at December 31, 2011 and 2010, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2011, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the consolidated financial statements, the Company has elected to change its methods of accounting for defined benefit pension and other post-retirement benefit plan costs in 2011. Such changes are reflected in the accompanying consolidated balance sheets as of December 31, 2011 and 2010, and the related statements of consolidated income, comprehensive income, and cash flows for each of the three years in the period ended December 31, 2011.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2011, based on the criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 27, 2012 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ Deloitte & Touche LLP

Atlanta, Georgia
February 27, 2012

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UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(In millions)

	December 31, 2011	December 31, 2010
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 3,034	$ 3,370
Marketable securities	1,241	711
Accounts receivable, net	6,246	5,627
Deferred income tax assets	611	659
Other current assets	1,152	1,202
Total Current Assets	12,284	11,569
Property, Plant and Equipment, Net	17,621	17,387
Goodwill	2,101	2,081
Intangible Assets, Net	585	599
Non-Current Investments and Restricted Cash	303	458
Other Non-Current Assets	1,807	1,503
Total Assets	$34,701	$33,597
LIABILITIES AND SHAREOWNERS' EQUITY		
Current Liabilities:		
Current maturities of long-term debt and commercial paper	$ 33	$ 355
Accounts payable	2,300	1,974
Accrued wages and withholdings	1,843	1,505
Self-insurance reserves	781	725
Other current liabilities	1,557	1,343
Total Current Liabilities	6,514	5,902
Long-Term Debt	11,095	10,491
Pension and Postretirement Benefit Obligations	5,505	4,663
Deferred Income Tax Liabilities	1,900	1,870
Self-Insurance Reserves	1,806	1,809
Other Non-Current Liabilities	773	815
Shareowners' Equity:		
Class A common stock (240 and 258 shares issued in 2011 and 2010)	3	3
Class B common stock (725 and 735 shares issued in 2011 and 2010)	7	7
Additional paid-in capital	—	—
Retained earnings	10,128	10,604
Accumulated other comprehensive loss	(3,103)	(2,635)
Deferred compensation obligations	88	103
Less: Treasury stock (2 shares in 2011 and 2010)	(88)	(103)
Total Equity for Controlling Interests	7,035	7,979
Noncontrolling Interests	73	68
Total Shareowners' Equity	7,108	8,047
Total Liabilities and Shareowners' Equity	$34,701	$33,597

See notes to consolidated financial statements.

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

	Years Ended December 31,		
	2011	2010	2009
Revenue	$53,105	$49,545	$45,297
Operating Expenses:			
Compensation and benefits	27,575	26,557	25,933
Repairs and maintenance	1,286	1,131	1,075
Depreciation and amortization	1,782	1,792	1,747
Purchased transportation	7,232	6,640	5,379
Fuel	4,046	2,972	2,365
Other occupancy	943	939	985
Other expenses	4,161	3,873	4,305
Total Operating Expenses	47,025	43,904	41,789
Operating Profit	6,080	5,641	3,508
Other Income and (Expense):			
Investment income	44	3	10
Interest expense	(348)	(354)	(445)
Total Other Income and (Expense)	(304)	(351)	(435)
Income Before Income Taxes	5,776	5,290	3,073
Income Tax Expense	1,972	1,952	1,105
Net Income	$ 3,804	$ 3,338	$ 1,968
Basic Earnings Per Share	$ 3.88	$ 3.36	$ 1.97
Diluted Earnings Per Share	$ 3.84	$ 3.33	$ 1.96

STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME
(In millions)

	Years Ended December 31,		
	2011	2010	2009
Net income	$3,804	$3,338	$1,968
Change in foreign currency translation adjustment, net of tax	(92)	(105)	75
Change in unrealized gain (loss) on marketable securities, net of tax	(6)	39	33
Change in unrealized gain (loss) on cash flow hedges, net of tax	35	(39)	(93)
Change in unrecognized pension and postretirement benefit costs, net of tax	(405)	(813)	684
Comprehensive income	$3,336	$2,420	$2,667

See notes to consolidated financial statements.

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

	Years Ended December 31, 2011	2010	2009
Cash Flows From Operating Activities:			
Net income	$ 3,804	$ 3,338	$ 1,968
Adjustments to reconcile net income to net cash from operating activities:			
Depreciation and amortization	1,782	1,792	1,747
Pension and postretirement benefit expense	1,660	1,136	1,165
Pension and postretirement benefit contributions	(1,436)	(3,240)	(924)
Self-insurance reserves	53	45	47
Deferred taxes, credits and other	241	919	362
Stock compensation expense	524	519	430
Asset impairment charges	—	—	181
Other (gains) losses	245	(13)	115
Changes in assets and liabilities, net of effect of acquisitions:			
Accounts receivable	(657)	(532)	(30)
Income taxes receivable	169	(146)	27
Other current assets	(62)	(60)	136
Accounts payable	249	265	(107)
Accrued wages and withholdings	339	98	(102)
Other current liabilities	186	(284)	184
Other operating activities	(24)	(2)	86
Net cash from operating activities	7,073	3,835	5,285
Cash Flows From Investing Activities:			
Capital expenditures	(2,005)	(1,389)	(1,602)
Proceeds from disposals of property, plant and equipment	27	304	60
Purchases of marketable securities	(4,903)	(2,490)	(2,251)
Sales and maturities of marketable securities	4,490	2,520	2,240
Net decrease in finance receivables	184	108	261
Cash received (paid) for business acquisitions and dispositions	(73)	63	(9)
Other investing activities	(257)	230	53
Net cash used in investing activities	(2,537)	(654)	(1,248)
Cash Flows From Financing Activities:			
Net change in short-term debt	(183)	(481)	(1,738)
Proceeds from long-term borrowings	279	2,195	3,160
Repayments of long-term borrowings	(191)	(468)	(1,944)
Purchases of common stock	(2,665)	(817)	(561)
Issuances of common stock	290	218	149
Dividends	(1,997)	(1,818)	(1,751)
Other financing activities	(395)	(175)	(360)
Net cash used in financing activities	(4,862)	(1,346)	(3,045)
Effect Of Exchange Rate Changes On Cash And Cash Equivalents	(10)	(7)	43
Net Increase (Decrease) In Cash And Cash Equivalents	(336)	1,828	1,035
Cash And Cash Equivalents:			
Beginning of period	3,370	1,542	507
End of period	$ 3,034	$ 3,370	$ 1,542
Cash Paid During The Period For:			
Interest (net of amount capitalized)	$ 248	$ 340	$ 390
Income taxes	$ 1,527	$ 1,312	$ 443

See notes to consolidated financial statements.

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

NOTE 1. SUMMARY OF ACCOUNTING POLICIES

Basis of Financial Statements and Business Activities

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP"), and include the accounts of United Parcel Service, Inc., and all of its consolidated subsidiaries (collectively "UPS" or the "Company"). All intercompany balances and transactions have been eliminated.

UPS concentrates its operations in the field of transportation services, primarily domestic and international letter and package delivery. Through our Supply Chain & Freight subsidiaries, we are also a global provider of specialized transportation, logistics, and financial services.

Use of Estimates

The preparation of our consolidated financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, the reported amounts of revenues and expenses and the disclosure of contingencies. Estimates have been prepared on the basis of the most current and best information, and actual results could differ materially from those estimates.

Revenue Recognition

U.S. Domestic and International Package Operations—Revenue is recognized upon delivery of a letter or package.

Forwarding and Logistics—Freight forwarding revenue and the expense related to the transportation of freight are recognized at the time the services are performed. Material management and distribution revenue is recognized upon performance of the service provided. Customs brokerage revenue is recognized upon completing documents necessary for customs entry purposes.

Freight—Revenue is recognized upon delivery of a less-than-truckload ("LTL") or truckload ("TL") shipment.

We utilize independent contractors and third party carriers in the performance of some transportation services. In situations where we act as principal party to the transaction, we recognize revenue on a gross basis; in circumstances where we act as an agent, we recognize revenue net of the cost of the purchased transportation.

Financial Services—Income on loans and direct finance leases is recognized on the effective interest method. Accrual of interest income is suspended at the earlier of the time at which collection of an account becomes doubtful or the account becomes 90 days delinquent. Income on operating leases is recognized on the straight-line method over the terms of the underlying leases.

Cash and Cash Equivalents

Cash and cash equivalents consist of highly liquid investments that are readily convertible into cash. We consider securities with maturities of three months or less, when purchased, to be cash equivalents. The carrying amount of these securities approximates fair value because of the short-term maturity of these instruments.

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Investments

Marketable securities are classified as available-for-sale and are carried at fair value, with related unrealized gains and losses reported, net of tax, as accumulated other comprehensive income (“AOCI”), a separate component of shareowners’ equity. The amortized cost of debt securities is adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization and accretion is included in investment income, along with interest and dividends. The cost of securities sold is based on the specific identification method; realized gains and losses resulting from such sales are included in investment income.

We periodically review our investments for indications of other than temporary impairment considering many factors, including the extent and duration to which a security’s fair value has been less than its cost, overall economic and market conditions and the financial condition and specific prospects for the issuer. Impairment of investment securities results in a charge to income when a market decline below cost is other than temporary.

Accounts Receivable

Losses on accounts receivable are recognized when they are incurred, which requires us to make our best estimate of the probable losses inherent in our customer receivables at each balance sheet date. These estimates require consideration of historical loss experience, adjusted for current conditions, trends in customer payment frequency, and judgments about the probable effects of relevant observable data, including present 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.

Our total allowance for doubtful accounts as of December 31, 2011 and 2010 was $117 and $127 million, respectively. Our total provision for doubtful accounts charged to expense during the years ended December 31, 2011, 2010 and 2009 was $147, $199 and $254 million, respectively.

Inventories

Jet fuel, diesel, and unleaded gasoline inventories are valued at the lower of average cost or market. Fuel and other materials and supplies inventories are recognized as inventory when purchased, and then charged to expense when used in our operations. Total inventories were $345 and $319 million as of December 31, 2011 and 2010, respectively, and are included in “other current assets” on the consolidated balance sheet.

Property, Plant and Equipment

Property, plant and equipment are carried at cost. Depreciation and amortization are provided by the straight-line method over the estimated useful lives of the assets, which are as follows: Vehicles—6 to 15 years; Aircraft—12 to 30 years; Buildings—20 to 40 years; Leasehold Improvements—terms of leases; Plant Equipment—6 to 8 1/4 years; Technology Equipment—3 to 5 years. The costs of major airframe and engine overhauls, as well as routine maintenance and repairs, are charged to expense as incurred.

Interest incurred during the construction period of certain property, plant and equipment is capitalized until the underlying assets are placed in service, at which time amortization of the capitalized interest begins, straight-line, over the estimated useful lives of the related assets. Capitalized interest was $17, $18 and $37 million for 2011, 2010, and 2009, respectively.

We review long-lived assets for impairment when circumstances indicate the carrying amount of an asset may not be recoverable based on the undiscounted future cash flows of the asset. If the carrying amount of the asset is determined not to be recoverable, a write-down to fair value is recorded. Fair values are determined based on quoted market values, discounted cash flows, or external appraisals, as applicable. We review long-lived assets for impairment at the individual asset or the asset group level for which the lowest level of independent cash flows can be identified.

Goodwill and Intangible Assets

Costs of purchased businesses in excess of net identifiable assets acquired (goodwill), and indefinite-lived intangible assets are tested for impairment at least annually, unless changes in circumstances indicate an impairment may have occurred sooner. We are required to test goodwill on a "reporting unit" basis. A reporting unit is the operating segment unless, for businesses within that operating segment, discrete financial information is prepared and regularly reviewed by management, in which case such a component business is the reporting unit.

In assessing goodwill for impairment, we initially evaluate qualitative factors to determine if it is more likely than not that the fair value of a reporting unit is less than its carrying amount. We consider several factors, including macroeconomic conditions, industry and market conditions, overall financial performance of the reporting unit, changes in management, strategy or customers, and relevant reporting unit specific events such as a change in the carrying amount of net assets, a more-likely-than-not expectation of selling or disposing all, or a portion, of a reporting unit, and the testing for recoverability of a significant asset group within a reporting unit. If this qualitative assessment results in a conclusion that it is more likely than not that the fair value of a reporting unit exceeds the carrying value, then no further testing is performed for that reporting unit.

If the qualitative assessment is not conclusive and it is necessary to calculate the fair value of a reporting unit, then we utilize a two-step process to test goodwill for impairment. First, a comparison of the fair value of the applicable reporting unit with the aggregate carrying value, including goodwill, is performed. If the carrying amount of a reporting unit exceeds its calculated fair value, then the second step is performed, and an impairment charge is recognized for the amount, if any, by which the carrying amount of goodwill exceeds its implied fair value. We primarily determine the fair value of our reporting units using a discounted cash flow model, and supplement this with observable valuation multiples for comparable companies, as applicable.

Finite-lived intangible assets, including trademarks, licenses, patents, customer lists, non-compete agreements and franchise rights are amortized on a straight-line basis over the estimated useful lives of the assets, which range from 2 to 20 years. Capitalized software is amortized over periods ranging from 3 to 5 years.

Self-Insurance Accruals

We self-insure costs associated with workers' compensation claims, automotive liability, health and welfare, and general business liabilities, up to certain limits. Insurance reserves are established for estimates of the loss that we will ultimately incur on reported claims, as well as estimates of claims that have been incurred but not yet reported. Recorded balances are based on reserve levels, which incorporate historical loss experience and judgments about the present and expected levels of cost per claim.

Pension and Postretirement Benefits

We incur certain employment-related expenses associated with pension and postretirement medical benefits. These pension and postretirement medical benefit costs for company-sponsored benefit plans are calculated using various actuarial assumptions and methodologies, including discount rates, expected returns on plan assets, health care cost trend rates, inflation, compensation increase rates, mortality rates, and other factors. Actuarial assumptions are reviewed on an annual basis, unless circumstances require an interim remeasurement date for any of our plans.

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

We participate in a number of trustee-managed multiemployer pension and health and welfare plans for employees covered under collective bargaining agreements. Our contributions to these plans are determined in accordance with the respective collective bargaining agreements. We recognize expense for the contractually required contribution for each period, and we recognize a liability for any contributions due and unpaid (included in “other current liabilities”).

In the fourth quarter of 2011, we elected to change our accounting methodologies for recognizing expense for our company-sponsored U.S. and international pension and other postretirement benefit plans. Previously, net actuarial gains or losses in excess of 10% of the greater of the market-related value of plan assets or the plans’ projected benefit obligations (the “corridor”) were recognized over the average remaining service life of employees in each respective plan. Further, for our largest pension plan (the UPS Retirement Plan), we used a calculated value of plan assets reflecting changes in the fair value of plan assets over a five-year period.

Under our new accounting methods, we will recognize changes in the fair value of plan assets and net actuarial gains or losses in excess of the corridor annually in the fourth quarter each year. These new accounting methods result in changes in the fair value of plan assets and net actuarial gains and losses being recognized in expense faster than our previous amortization method. The remaining components of pension expense, primarily service and interest costs and the expected return on plan assets, will be recorded on a quarterly basis as ongoing pension expense. While the historical policy of recognizing pension and other postretirement benefit expense was considered acceptable, we believe that these new policies are preferable as they accelerate the recognition in our operating results of changes in the fair value of plan assets and actuarial gains and losses outside the corridor.

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

These changes have been reported through retrospective application of the new policies to all periods presented. We recorded a cumulative reduction of retained earnings as of January 1, 2009 of $3.226 billion related to these changes in accounting methodology. The impact of all adjustments made to the financial statements presented is summarized below (amounts in millions, except per share data):

	2011		2010		2009	
	Recognized Under Previous Method	Recognized Under New Method	Previously Reported	Adjusted	Previously Reported	Adjusted
Statements of Consolidated Income:						
Operating Expenses:						
Compensation and benefits	$ 26,935	$ 27,575	$ 26,324	$26,557	$ 25,640	$25,933
Operating Profit	6,720	6,080	5,874	5,641	3,801	3,508
Income Before Income Taxes	6,416	5,776	5,523	5,290	3,366	3,073
Income Tax Expense	2,203	1,972	2,035	1,952	1,214	1,105
Net Income	$ 4,213	$ 3,804	$ 3,488	$ 3,338	$ 2,152	$ 1,968
Per Share Amounts:						
Basic Earnings Per Share	$ 4.29	$ 3.88	$ 3.51	$ 3.36	$ 2.16	$ 1.97
Diluted Earnings Per Share	$ 4.25	$ 3.84	$ 3.48	$ 3.33	$ 2.14	$ 1.96
Statements of Consolidated Comprehensive Income:						
Net Income	$ 4,213	$ 3,804	$ 3,488	$ 3,338	$ 2,152	$ 1,968
Change in Unrecognized Pension and Postretirement Benefit Costs, Net of Tax	(814)	(405)	(963)	(813)	500	684
Consolidated Balance Sheet:						
Accumulated Other Comprehensive Income (Loss)	$ (7,072)	$ (3,103)	$ (6,195)	$ (2,635)	$ (5,127)	$ (1,717)
Retained Earnings	14,097	10,128	14,164	10,604	12,745	9,335
Statement of Consolidated Cash Flows:						
Cash Flows From Operating Activities:						
Net Income	$ 4,213	$ 3,804	$ 3,488	$ 3,338	$ 2,152	$ 1,968
Pension and Postretirement Benefit Expense	1,020	1,660	903	1,136	872	1,165
Deferred Taxes, Credits and Other	472	241	1,002	919	471	362

Income Taxes

Income taxes are accounted for on an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in our consolidated financial statements or tax returns. In estimating future tax consequences, we generally consider all expected future events other than proposed changes in the tax law or rates. Valuation allowances are provided if it is more likely than not that a deferred tax asset will not be realized.

We recognize liabilities for uncertain tax positions based on a two-step process. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. Once it is determined that the position meets the recognition threshold, the second step requires us to estimate and measure the tax benefit as the largest amount that is more likely than not to be realized upon ultimate settlement. It is inherently difficult and subjective to estimate such amounts, as we have to determine the probability of various possible outcomes. We reevaluate these uncertain tax positions on a quarterly basis. This evaluation is based on factors including, but not limited to, changes in facts or circumstances, changes in tax law, effectively settled issues under audit, and new audit activity. Such a change in recognition or measurement could result in the recognition of a tax benefit or an additional charge to the tax provision.

Foreign Currency Translation

We translate the results of operations of our foreign subsidiaries using average exchange rates during each period, whereas balance sheet accounts are translated using exchange rates at the end of each period. Balance sheet currency translation adjustments are recorded in AOCI. Net currency transaction gains and losses included in other operating expenses were pre-tax gains (losses) of $(1), $7 and $(45) million in 2011, 2010 and 2009, respectively.

Stock-Based Compensation

All share-based awards to employees are measured based on their fair values and expensed over the period during which an employee is required to provide service in exchange for the award (the vesting period). We issue employee share-based awards under the UPS Incentive Compensation Plan that are subject to specific vesting conditions; generally, the awards cliff vest or vest ratably over a five year period, "the nominal vesting period," or at the date the employee retires (as defined by the plan), if earlier. Compensation cost is recognized immediately for awards granted to retirement-eligible employees, or over the period from the grant date to the date retirement eligibility is achieved, if that is expected to occur during the nominal vesting period.

Fair Value Measurements

Our financial assets and liabilities measured at fair value on a recurring basis have been categorized based upon a fair value hierarchy. Level 1 inputs utilize quoted prices in active markets for identical assets or liabilities. Level 2 inputs are based on other observable market data, such as quoted prices for similar assets and liabilities, and inputs other than quoted prices that are observable, such as interest rates and yield curves. Level 3 inputs are developed from unobservable data reflecting our own assumptions, and include situations where there is little or no market activity for the asset or liability.

Certain non-financial assets and liabilities are measured at fair value on a nonrecurring basis, including property, plant, and equipment, goodwill and intangible assets. These assets are not measured at fair value on a recurring basis; however, they are subject to fair value adjustments in certain circumstances, such as when there is evidence of an impairment. A general description of the valuation methodologies used for assets and liabilities measured at fair value, including the general classification of such assets and liabilities pursuant to the valuation hierarchy, is included in each footnote with fair value measurements present.

Derivative Instruments

All financial derivative instruments are recorded on our consolidated balance sheets at fair value. Derivatives not designated as hedges must be adjusted to fair value through income. If a derivative is designated as a hedge, depending on the nature of the hedge, changes in its fair value that are considered to be effective, as defined, either offset the change in fair value of the hedged assets, liabilities or firm commitments through income, or are recorded in AOCI until the hedged item is recorded in income. Any portion of a change in a derivative's fair value that is considered to be ineffective, or is excluded from the measurement of effectiveness, is recorded immediately in income.

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Recently Adopted Accounting Standards

In September 2011, the Financial Accounting Standards Board ("FASB") issued an accounting standards update regarding disclosure of an employer's participation in multiemployer pension and health and welfare plans. This new guidance requires companies to provide additional qualitative and quantitative disclosures about financial obligations, risks and commitments, as well as the level of participation in multiemployer plans. Companies are required to disclose detailed information about significant multiemployer plans, including contributions made to the plans, financial health and funded status of the plans, and expiration of the collective-bargaining agreements that require contributions to the plans. This accounting standards update impacted our disclosures only, and did not have any impact on our financial condition, results of operations or liquidity. The disclosures required by this accounting standards update are presented in Note 6.

In September 2011, the FASB issued an accounting standards update that amends the accounting guidance on goodwill impairment testing. This accounting standards update is intended to reduce complexity and costs by allowing an entity the option to make a qualitative evaluation about the likelihood of goodwill impairment to determine whether it should calculate the fair value of a reporting unit. This accounting standards update also amends existing guidance by expanding upon the examples of events and circumstances that an entity should consider between annual impairment tests in determining whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. We adopted this accounting standards update and applied its provisions to certain of our reporting units for our annual goodwill impairment testing as of October 1, 2011.

Other accounting pronouncements adopted during the periods covered by the consolidated financial statements had an immaterial impact on our consolidated financial position and results of operations.

Accounting Standards Issued But Not Yet Effective

Accounting pronouncements issued, but not effective until after December 31, 2011, are not expected to have a significant impact on our consolidated financial position or results of operations.

Changes in Presentation

Certain prior year amounts have been reclassified to conform to the current year presentation. These reclassifications had no impact on our financial position or results of operations.

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

NOTE 2. CASH AND INVESTMENTS

The following is a summary of marketable securities classified as available-for-sale at December 31, 2011 and 2010 (in millions):

	Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
2011				
Current marketable securities:				
U.S. government and agency debt securities	$ 184	$ 3	$ —	$ 187
Mortgage and asset-backed debt securities	188	4	(1)	191
Corporate debt securities	835	4	(2)	837
U.S. state and local municipal debt securities	15	—	—	15
Other debt and equity securities	10	1	—	11
Total marketable securities	$1,232	$ 12	$ (3)	$ 1,241

	Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
2010				
Current marketable securities:				
U.S. government and agency debt securities	$ 207	$ 1	$ (2)	$ 206
Mortgage and asset-backed debt securities	220	3	(1)	222
Corporate debt securities	179	5	(1)	183
U.S. state and local municipal debt securities	33	—	—	33
Other debt and equity securities	62	5	—	67
Current marketable securities	701	14	(4)	711
Non-current marketable securities:				
Mortgage and asset-backed debt securities	79	2	(2)	79
U.S. state and local municipal debt securities	49	2	(6)	45
Common equity securities	20	14	—	34
Preferred equity securities	16	1	(3)	14
Non-current marketable securities	164	19	(11)	172
Total marketable securities	$ 865	$ 33	$ (15)	$ 883

The gross realized gains on sales of marketable securities totaled $49, $24 and $16 million in 2011, 2010, and 2009, respectively. The gross realized losses totaled $20, $18 and $12 million in 2011, 2010 and 2009, respectively. There were no impairment losses recognized on marketable securities during 2011, while impairment losses totaled $21 and $17 million during 2010 and 2009 (discussed further below), respectively.

Auction Rate Securities

During 2011, we sold all remaining investments in auction rate securities, which had been classified as non-current marketable securities as of December 31, 2010. These sales did not have a material impact on our statement of consolidated income.

Investment Other-Than-Temporary Impairments

We have concluded that no other-than-temporary impairment losses existed as of December 31, 2011. In making this determination, we considered the financial condition and prospects of the issuer, the magnitude of

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

the losses compared with the investments' 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.

During the second quarter of 2010, we recorded impairment losses on certain asset-backed auction rate securities. The impairment charge resulted from provisions that allow the issuers of the securities to subordinate our holdings to newly issued debt or to tender for the securities at less than their par value. These securities, which had a cost basis of $128 million, were written down to their fair value of $107 million as of June 30, 2010, as an other-than-temporary impairment. The $21 million total impairment charge during the second quarter was recorded as a loss in investment income on the statement of consolidated income.

During the second quarter of 2009, we recorded impairment losses on certain perpetual preferred securities, and an auction rate security collateralized by preferred securities, issued by large financial institutions. The impairment charge resulted from conversion offers from the issuers of these securities at prices well below the stated redemption value of the preferred shares. These securities, which had a cost basis of $42 million, were written down to their fair value of $25 million as of June 30, 2009, as an other-than-temporary impairment. The $17 million total impairment charge during the second quarter was recorded as a loss in investment income on the statement of consolidated income.

Unrealized Losses

The following table presents the age of gross unrealized losses and fair value by investment category for all securities in a loss position as of December 31, 2011 (in millions):

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. government and agency debt securities	$ 34	$ —	$—	$ —	$ 34	$ —
Mortgage and asset-backed debt securities	10	—	11	(1)	21	(1)
Corporate debt securities	621	(2)	7	—	628	(2)
U.S. state and local municipal debt securities	—	—	—	—	—	—
Other debt securities	2	—	1	—	3	—
Total debt securities	667	(2)	19	(1)	686	(3)
Common equity securities	—	—	—	—	—	—
	$667	$ (2)	$ 19	$ (1)	$686	$ (3)

The unrealized losses for the U.S. government and agency debt securities, mortgage and asset-backed debt securities, corporate debt securities and other debt securities primarily relate to holdings of various fixed income securities, and are primarily due to changes in market interest rates. We have both the intent and ability to hold the securities contained in the previous table for a time necessary to recover the cost basis.

Maturity Information

The amortized cost and estimated fair value of marketable securities at December 31, 2011, 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 without prepayment penalties.

	Cost	Estimated Fair Value
Due in one year or less	$ 669	$ 668
Due after one year through three years	207	207
Due after three years through five years	51	51
Due after five years	303	313
	1,230	1,239
Equity securities	2	2
	$1,232	$ 1,241

Non-Current Investments and Restricted Cash

Restricted cash and cash equivalents relate to our self-insurance requirements. We entered into an escrow agreement with an insurance carrier to guarantee our self-insurance obligations. This agreement requires us to provide cash collateral to the insurance carrier, which is reported in “Non-Current Investments and Restricted Cash” on our consolidated balance sheets. Additional cash collateral provided is reflected in other investing activities in the statements of consolidated cash flows. This restricted cash is invested in money market funds and similar cash equivalent type assets. As of December 31, 2011 and 2010, we had $286 million in restricted cash.

At December 31, 2011, we held a $17 million investment in a variable life insurance policy to fund benefits for the UPS Excess Coordinating Benefit Plan. This investment is classified as “Non-Current Investments and Restricted Cash” in the consolidated balance sheets with the quarterly change in investment value recognized in investment income on the statements of consolidated income.

Fair Value Measurements

Marketable securities 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 utilizing Level 2 inputs include non-auction rate 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.

We classified our previous holdings of auction rate securities as utilizing Level 3 inputs, as their valuation required substantial judgment and estimation of factors that were not observable in the market due to the lack of trading in the securities. These securities were valued as of December 31, 2010 considering several factors, including the credit quality of the securities, the rate of interest received since the failed auctions began, the yields of securities similar to the underlying auction rate securities and the input of broker-dealers in these securities.

We maintain holdings in certain investment partnerships that are measured at fair value utilizing Level 3 inputs (classified as “other investments” in the tables below, and as “Other Non-Current Assets” in the consolidated balance sheets). These partnership holdings do not have quoted prices, nor can they be valued using inputs based on observable market data. These investments are valued internally using a discounted cash flow model based on each partnership’s financial statements and cash flow projections.

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The following table presents information about our investments measured at fair value on a recurring basis as of December 31, 2011 and 2010, 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 as of December 31, 2011
2011				
Marketable Securities:				
U.S. Government and Agency Debt Securities	$ 187	$ —	$ —	$ 187
Mortgage and Asset-Backed Debt Securities	—	191	—	191
Corporate Debt Securities	—	837	—	837
U.S. State and Local Municipal Debt Securities	—	15	—	15
Other Debt and Equity Securities	—	11	—	11
Total Marketable Securities	187	1,054	—	1,241
Other investments	17	—	217	234
Total	$ 204	$ 1,054	$ 217	$ 1,475

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of December 31, 2010
2010				
Marketable Securities:				
U.S. Government and Agency Debt Securities	$ 206	$ —	$ —	$ 206
Mortgage and Asset-Backed Debt Securities	—	222	79	301
Corporate Debt Securities	—	183	—	183
U.S. State and Local Municipal Debt Securities	—	33	45	78
Other Debt and Equity Securities	41	60	14	115
Total Marketable Securities	247	498	138	883
Other investments	—	—	267	267
Total	$ 247	$ 498	$ 405	$ 1,150

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following table presents the changes in the above Level 3 instruments measured on a recurring basis for the years ended December 31, 2011 and 2010 (in millions).

	Marketable Securities	Other Investments	Total
Balance on January 1, 2010	$ 216	$ 301	$ 517
Transfers into (out of) Level 3	—	—	—
Net realized and unrealized gains (losses):			
Included in earnings (in investment income)	(27)	(34)	(61)
Included in accumulated other comprehensive income (pre-tax)	59	—	59
Purchases	—	—	—
Settlements	(110)	—	(110)
Balance on December 31, 2010	$ 138	$ 267	$ 405
Transfers into (out of) Level 3	—	—	—
Net realized and unrealized gains (losses):			
Included in earnings (in investment income)	—	(50)	(50)
Included in accumulated other comprehensive income (pre-tax)	—	—	—
Purchases	—	—	—
Settlements	(138)	—	(138)
Balance on December 31, 2011	$ —	$ 217	$ 217

NOTE 3. FINANCE RECEIVABLES

The following is a summary of finance receivables at December 31, 2011 and 2010 (in millions):

	2011	2010
Commercial term loans	$197	$266
Other financing receivables	154	245
Gross finance receivables	351	511
Less: Allowance for credit losses	(16)	(20)
Balance at December 31	$335	$491

Our finance receivables portfolio consists of two product groups: commercial term loans and other financing receivables. Other financing receivables consist of investments in finance leases, asset-based lending, cargo finance and receivable factoring. The current portion of finance receivables is included in “Other current assets” and the non-current portion of finance receivables is included in “Other non-current assets” on our consolidated balance sheets. Outstanding receivable balances at December 31, 2011 and 2010 are net of unearned income of $12 and $15 million, respectively.

When we “factor” (i.e., purchase) a customer invoice from a client, we record the customer receivable as an asset and also establish a liability for the funds due to the client, which is recorded in accounts payable on the consolidated balance sheets. As of December 31, 2011 and 2010, the amounts due to clients under our factoring programs were $79 and $71 million, respectively.

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following is a rollforward of the allowance for credit losses on finance receivables (in millions):

	2011	2010
Balance at January 1	$20	$ 31
Provisions charged to operations	4	10
Charge-offs, net of recoveries	(8)	(21)
Balance at December 31	$16	$ 20

We use a multiple tier risk assessment matrix to grade and monitor asset quality. The primary assessments are made to determine the degree of risk that an obligor may default in principal or interest payments and the potential range of loss in the event of default. The risk assessment categories are:

- *U.S. Government Guaranteed*—Payments are guaranteed by the Small Business Administration or U.S. Department of Agriculture, and no loss is likely.
- *Acceptable Risk*—Payments are current, and no loss is likely.
- *Sub-Standard Risk*—In default or high probability of default, but loss is unlikely.
- *Classified*—In default, loss is probable, specific allowance for loss is assigned.

The following is an allocation of the finance receivables portfolio by risk rating category as of December 31, 2011 (in millions):

	Commercial Lending	Other Financing Receivables	Total
U.S. Government guaranteed	$ 62	$ —	$ 62
Acceptable risk	119	151	270
Sub-standard risk	7	3	10
Classified	9	—	9
	$ 197	$ 154	$351

The following is an aging analysis of our finance receivables as of December 31, 2011 (in millions):

	30-59 Days Past Due	60-90 Days Past Due	Greater than 90 Days Past Due	Current	Total Finance Receivables
Commercial term loans:					
U.S. Government guaranteed	$ 1	$ —	$ 30	$ 31	$ 62
Other unguaranteed	—	5	15	115	135
Other financing receivables	—	—	1	153	154
Total finance receivables	$ 1	$ 5	$ 46	$ 299	$ 351

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following is an analysis of impaired finance receivables as of December 31, 2011 (in millions):

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Impaired loans with related allowance	$ 9	$ 36	$ 7	$ 14	$ —
Impaired loans with no related allowance	7	80	—	12	—
Impaired loans with U.S. government guarantee	35	35	—	51	—
Total impaired loans	$ 51	$ 151	$ 7	$ 77	$ —

The carrying value of finance receivables at December 31, 2011, by contractual maturity, is shown below (in millions). Actual maturities may differ from contractual maturities because some borrowers have the right to prepay these receivables without prepayment penalties.

	Carrying Value
Due in one year or less	$ 130
Due after one year through three years	33
Due after three years through five years	28
Due after five years	160
	$ 351

Based on interest rates for financial instruments with similar terms and maturities, the estimated fair value of finance receivables is approximately $335 and $491 million as of December 31, 2011 and 2010, respectively. At December 31, 2011, we had unfunded loan commitments totaling $248 million, consisting of standby letters of credit of $29 million and other unfunded lending commitments of $219 million.

During 2009, impaired finance receivables with a carrying amount of $13 million were written down to a net fair value of $8 million, based on the fair value for the related collateral which was determined using unobservable inputs (Level 3).

NOTE 4. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment, including both owned assets as well as assets subject to capital leases, consists of the following as of December 31 (in millions):

	2011	2010
Vehicles	$ 5,981	$ 5,519
Aircraft	14,616	14,063
Land	1,114	1,081
Buildings	3,095	3,102
Building and leasehold improvements	2,943	2,860
Plant equipment	6,803	6,656
Technology equipment	1,593	1,552
Equipment under operating leases	93	122
Construction-in-progress	303	265
	36,541	35,220
Less: Accumulated depreciation and amortization	(18,920)	(17,833)
	$ 17,621	$ 17,387

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

We continually monitor our aircraft fleet utilization in light of current and projected volume levels, aircraft fuel prices and other factors. In 2011 and 2010, there were no indicators of impairment in our aircraft fleet, and no impairment charges were recorded in either period. In 2009, we recorded a $181 million impairment charge, as described in the following paragraphs.

In 2008, we announced that we were in negotiations with DHL to provide air transportation services for all of DHL's express, deferred and international package volume within the United States, as well as air transportation services between the United States, Canada and Mexico. In early April 2009, UPS and DHL mutually agreed to terminate further discussions on providing these services. Additionally, our U.S. Domestic Package air delivery volume had declined for several quarters as a result of persistent economic weakness and shifts in product mix from our premium air services to our lower cost ground services. As a result of these factors, the utilization of certain aircraft fleet types had declined and was expected to be lower in the future.

Based on the factors noted above, as well as FAA aging aircraft directives that would require significant future maintenance expenditures, we determined that a triggering event had occurred that required an impairment assessment of our McDonnell-Douglas DC-8-71 and DC-8-73 aircraft fleets. We conducted an impairment analysis as of March 31, 2009, and determined that the carrying amount of these fleets was not recoverable due to the accelerated expected retirement dates of the aircraft. Based on anticipated residual values for the airframes, engines and parts, we recognized an impairment charge of $181 million in the first quarter of 2009. This charge is included in the caption "Other expenses" in the statement of consolidated income, and impacted our U.S. Domestic Package segment. The DC-8 fleets were subsequently retired from service. We currently continue to utilize and operate all of our other aircraft fleets.

The impaired airframes, engines and parts had a net carrying value of $192 million, and were written down to an aggregate fair value of $11 million. The fair values for the impaired airframes, engines, and parts were determined using unobservable inputs (Level 3).

NOTE 5. COMPANY-SPONSORED EMPLOYEE BENEFIT PLANS

We sponsor various retirement and pension plans, including defined benefit and defined contribution plans which cover our employees worldwide.

U.S. Pension Benefits

In the U.S. we maintain the following single-employer defined benefit pension plans: UPS Retirement Plan, UPS Pension Plan, UPS IBT Pension Plan and the UPS Excess Coordinating Benefit Plan, a non-qualified plan.

The UPS Retirement Plan is noncontributory and includes substantially all eligible employees of participating domestic subsidiaries who are not members of a collective bargaining unit, as well as certain employees covered by a collective bargaining agreement. This plan generally provides for retirement benefits based on average compensation levels earned by employees prior to retirement. Benefits payable under this plan are subject to maximum compensation limits and the annual benefit limits for a tax qualified defined benefit plan as prescribed by the Internal Revenue Service ("IRS").

The UPS Excess Coordinating Benefit Plan is a non-qualified plan that provides benefits to certain participants in the UPS Retirement Plan for amounts that exceed the benefit limits described above.

The UPS Pension Plan is noncontributory and includes certain eligible employees of participating domestic subsidiaries and members of collective bargaining units that elect to participate in the plan. This plan generally provides for retirement benefits based on service credits earned by employees prior to retirement.

The UPS IBT Pension Plan is noncontributory and includes employees that were previously members of the Central States, Southeast and Southwest Areas Pension Fund ("Central States Pension Fund"), a multiemployer pension plan, in addition to other eligible employees who are covered under certain collective bargaining agreements.

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

U.S. Postretirement Medical Benefits

We also sponsor postretirement medical plans in the U.S. that provide health care benefits to our retirees who meet certain eligibility requirements and who are not otherwise covered by multiemployer plans. Generally, this includes employees with at least 10 years of service who have reached age 55 and employees who are eligible for postretirement medical benefits from a Company-sponsored plan pursuant to collective bargaining agreements. We have the right to modify or terminate certain of these plans. These benefits have been provided to certain retirees on a noncontributory basis; however, in many cases, retirees are required to contribute all or a portion of the total cost of the coverage.

International Pension Benefits

We also sponsor various defined benefit plans covering certain of our international employees. The majority of our international obligations are for defined benefit plans in Canada and the United Kingdom. In addition, many of our international employees are covered by government-sponsored retirement and pension plans. We are not directly responsible for providing benefits to participants of government-sponsored plans.

Defined Contribution Plans

We also sponsor several defined contribution plans for all employees not covered under collective bargaining agreements, and for certain employees covered under collective bargaining agreements. The Company matches, in shares of UPS common stock or cash, a portion of the participating employees' contributions. In early 2009, we suspended the company matching contributions to the primary employee defined contribution plan. A revised program of company matching contributions was reinstated effective January 1, 2011. Matching contributions charged to expense were $80, $4 and $21 million for 2011, 2010 and 2009, respectively.

Contributions are also made to defined contribution money purchase plans under certain collective bargaining agreements. Amounts charged to expense were $76, $78 and $80 million for 2011, 2010, and 2009, respectively.

Net Periodic Benefit Cost

Information about net periodic benefit cost for the company-sponsored pension and postretirement benefit plans is as follows (in millions):

	U.S. Pension Benefits			U.S. Postretirement Medical Benefits			International Pension Benefits		
	2011	2010	2009	2011	2010	2009	2011	2010	2009
Net Periodic Cost:									
Service cost	$ 870	$ 723	$ 689	$ 89	$ 86	$ 85	$ 34	$ 24	$ 17
Interest cost	1,309	1,199	1,130	207	214	211	39	34	28
Expected return on assets	(1,835)	(1,381)	(1,151)	(16)	(22)	(27)	(43)	(36)	(26)
Amortization of:									
Transition obligation	—	—	4	—	—	—	—	—	—
Prior service cost	171	172	178	7	4	6	1	1	1
Actuarial (gain) loss	736	70	—	—	—	—	91	42	16
Other	—	—	3	—	—	—	—	6	1
Net periodic benefit cost	$ 1,251	$ 783	$ 853	$287	$282	$275	$122	$ 71	$ 37

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Actuarial Assumptions

The table below provides the weighted-average actuarial assumptions used to determine the net periodic benefit cost.

	U.S. Pension Benefits			U.S. Postretirement Medical Benefits			International Pension Benefits		
	2011	2010	2009	2011	2010	2009	2011	2010	2009
Discount rate	5.98%	6.58%	6.75%	5.77%	6.43%	6.66%	5.36%	5.84%	6.17%
Rate of compensation increase	4.50%	4.50%	4.50%	N/A	N/A	N/A	3.57%	3.62%	3.65%
Expected return on assets	8.75%	8.75%	8.96%	8.75%	8.75%	9.00%	7.31%	7.25%	7.09%

The table below provides the weighted-average actuarial assumptions used to determine the benefit obligations of our plans.

	U.S. Pension Benefits		U.S. Postretirement Medical Benefits		International Pension Benefits	
	2011	2010	2011	2010	2011	2010
Discount rate	5.64%	5.98%	5.47%	5.77%	4.63%	5.36%
Rate of compensation increase	4.50%	4.50%	N/A	N/A	3.58%	3.57%

A discount rate is used to determine the present value of our future benefit obligations. To determine our discount rate for our U.S. pension and other postretirement benefit plans, we use a bond matching approach to select specific bonds that would satisfy our projected benefit payments. We believe the bond matching approach reflects the process we would employ to settle our pension and postretirement benefit obligations. For our international plans, the discount rate is determined by matching the expected cash flows of a sample plan of similar duration to a yield curve based on long-term, high quality fixed income debt instruments available as of the measurement date. For 2011, each basis point increase in the discount rate decreases the projected benefit obligation by approximately $39 million and $4 million for pension and postretirement medical benefits, respectively. These assumptions are updated each measurement date, which is typically annually.

An assumption for expected return on plan assets is used to determine a component of net periodic benefit cost for the fiscal year. This assumption for our U.S. plans was developed using a long-term projection of returns for each asset class, and taking into consideration our target asset allocation. The expected return for each asset class is a function of passive, long-term capital market assumptions and excess returns generated from active management. The capital market assumptions used are provided by independent investment advisors, while excess return assumptions are supported by historical performance, fund mandates and investment expectations. In addition, we compare the expected return on asset assumption with the average historical rate of return these plans have been able to generate.

For plans outside the U.S., consideration is given to local market expectations of long-term returns. Strategic asset allocations are determined by country, based on the nature of liabilities and considering the demographic composition of the plan participants.

Health care cost trends are used to project future postretirement benefits payable from our plans. For year-end 2011 U.S. plan obligations, future postretirement medical benefit costs were forecasted assuming an initial annual increase of 8.0%, decreasing to 5.0% by the year 2018 and with consistent annual increases at those ultimate levels thereafter.

Assumed health care cost trends can have a significant effect on the amounts reported for the U.S. postretirement medical plans. A one-percent change in assumed health care cost trend rates would have had the following effects on 2011 results (in millions):

	1% Increase	1% Decrease
Effect on total of service cost and interest cost	$ 6	$ (6)
Effect on postretirement benefit obligation	$ 61	$ (65)

Benefit Obligations and Fair Value of Plan Assets

The following table provides a reconciliation of the changes in the plans' benefit obligations and fair value of plan assets as of the respective measurement dates in each year (in millions).

	U.S. Pension Benefits		U.S. Postretirement Medical Benefits		International Pension Benefits	
	2011	2010	2011	2010	2011	2010
Benefit Obligations:						
Projected benefit obligation at beginning of year	$21,342	$17,763	$3,597	$3,336	$680	$575
Service cost	870	723	89	86	34	24
Interest cost	1,309	1,199	207	214	39	34
Gross benefits paid	(657)	(574)	(219)	(207)	(15)	(13)
Plan participants' contributions	—	—	16	17	1	1
Plan amendments	3	(7)	(24)	8	7	—
Actuarial (gain)/loss	1,519	2,238	170	142	99	58
Foreign currency exchange rate changes	—	—	—	—	(4)	(4)
Curtailments and settlements	—	—	—	—	—	(1)
Other	—	—	—	1	—	6
Projected benefit obligation at end of year	$24,386	$21,342	$3,836	$3,597	$841	$680

	U.S. Pension Benefits		U.S. Postretirement Medical Benefits		International Pension Benefits	
	2011	2010	2011	2010	2011	2010
Fair Value of Plan Assets:						
Fair value of plan assets at beginning of year	$20,092	$15,351	$ 233	$ 298	$561	$481
Actual return on plan assets	1,956	2,215	9	30	10	48
Employer contributions	1,272	3,100	108	95	56	45
Plan participants' contributions	—	—	16	17	1	1
Gross benefits paid	(657)	(574)	(219)	(207)	(15)	(13)
Foreign currency exchange rate changes	—	—	—	—	—	—
Curtailments and settlements	—	—	—	—	—	(1)
Other	—	—	27	—	—	—
Fair value of plan assets at end of year	$22,663	$20,092	$ 174	$ 233	$613	$561

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Funded Status

The following table discloses the funded status of our plans and the amounts recognized in our balance sheet as of December 31 (in millions):

	U.S. Pension Benefits		U.S. Postretirement Medical Benefits		International Pension Benefits	
	2011	2010	2011	2010	2011	2010
Funded Status:						
Fair value of plan assets	$ 22,663	$ 20,092	$ 174	$ 233	$ 613	$ 561
Benefit obligation	(24,386)	(21,342)	(3,836)	(3,597)	(841)	(680)
Funded status recognized at December 31	$ (1,723)	$ (1,250)	$ (3,662)	$ (3,364)	$ (228)	$ (119)
Funded Status Amounts Recognized in our Balance Sheet:						
Other non-current assets	$ —	$ 42	$ —	$ —	$ 1	$ 1
Other current liabilities	(13)	(11)	(93)	(99)	(3)	(3)
Pension and postretirement benefit obligations	(1,710)	(1,281)	(3,569)	(3,265)	(226)	(117)
Net liability at December 31	$ (1,723)	$ (1,250)	$ (3,662)	$ (3,364)	$ (228)	$ (119)
Amounts Recognized in AOCI:						
Unrecognized net prior service cost	$ (1,492)	$ (1,660)	$ (82)	$ (113)	$ (14)	$ (8)
Unrecognized net actuarial loss	(2,439)	(1,777)	(307)	(157)	(52)	(22)
Gross unrecognized cost at December 31	(3,931)	(3,437)	(389)	(270)	(66)	(30)
Deferred tax asset at December 31	1,479	1,292	146	102	16	3
Net unrecognized cost at December 31	$ (2,452)	$ (2,145)	$ (243)	$ (168)	$ (50)	$ (27)

The accumulated benefit obligation for our pension plans as of the measurement dates in 2011 and 2010 was $23.307 and $20.241 billion, respectively.

Benefit payments under the pension plans include $14 million paid from employer assets in both 2011 and 2010. Benefit payments (net of participant contributions) under the postretirement medical benefit plans include $108 and $94 million paid from employer assets in 2011 and 2010, respectively. Such benefit payments from employer assets are also categorized as employer contributions.

At December 31, 2011 and 2010, the projected benefit obligation, the accumulated benefit obligation, and the fair value of plan assets for pension plans with benefit obligations in excess of plan assets were as follows (in millions):

	Projected Benefit Obligation Exceeds the Fair Value of Plan Assets		Accumulated Benefit Obligation Exceeds the Fair Value of Plan Assets	
	2011	2010	2011	2010
U.S. Pension Benefits				
Projected benefit obligation	$ 24,386	$ 3,227	$ 7,499	$ 3,227
Accumulated benefit obligation	22,574	3,195	7,395	3,195
Fair value of plan assets	22,663	1,934	6,646	1,934
International Pension Benefits				
Projected benefit obligation	$ 814	$ 662	$ 499	$ 362
Accumulated benefit obligation	714	323	448	323
Fair value of plan assets	594	543	296	257

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The increase in U.S. pension benefits amounts where the projected benefit obligation exceeds the fair value of plan assets is due to the funded status for both the UPS Retirement Plan and UPS Pension Plan changing from overfunded at December 31, 2010 to underfunded at December 31, 2011.

The accumulated postretirement benefit obligation exceeds plan assets for all of our U.S. postretirement medical benefit plans.

Accumulated Other Comprehensive Income

The estimated amounts of prior service cost in AOCI expected to be amortized and recognized as a component of net periodic benefit cost in 2012 are as follows (in millions):

	U.S. Pension Benefits	U.S. Postretirement Medical Benefits	International Pension Benefits
Prior service cost / (benefit)	$ 173	$ 5	$ 2

Pension and Postretirement Plan Assets

The applicable benefit plan committees establish investment guidelines and strategies, and regularly monitor the performance of the funds and portfolio managers. Our investment guidelines address the following items: governance, general investment beliefs and principles, investment objectives, specific investment goals, process for determining/maintaining the asset allocation policy, long-term asset allocation, rebalancing, investment restrictions/prohibited transactions, portfolio manager structure and diversification (which addresses limits on the amount of investments held by any one manager to minimize risk), portfolio manager selection criteria, plan evaluation, portfolio manager performance review and evaluation and risk management (including various measures used to evaluate risk tolerance).

Our investment strategy with respect to pension assets is to invest the assets in accordance with applicable laws and regulations. The long-term primary objectives for our pension assets are to: (1) provide for a reasonable amount of long-term growth of capital, with prudent exposure to risk; and protect the assets from erosion of purchasing power; (2) provide investment results that meet or exceed the plans' expected long-term rate of return; and (3) match the duration of the liabilities and assets of the plans to reduce the potential risk of large employer contributions being necessary in the future. The plans strive to meet these objectives by employing portfolio managers to actively manage assets within the guidelines and strategies set forth by the benefit plan committees. These managers are evaluated by comparing their performance to applicable benchmarks.

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The fair values of U.S. pension and postretirement benefit plan assets by asset category as of December 31, 2011 are presented below (in millions), as well as the percentage that each category comprises of our total plan assets and the respective target allocations.

	Level 1	Level 2	Level 3	Total Assets	Percentage of Plan Assets - 2011	Target Allocation 2011
Asset Category:						
Cash and cash equivalents	$ 74	$ 1	$ —	$ 75	0.3%	0-5%
Equity Securities:						
U.S. Large Cap	2,264	2,460	—	4,724		
U.S. Small Cap	706	27	—	733		
Global Equity	1,115	12	—	1,127		
International Core	592	926	—	1,518		
Emerging Markets	389	264	—	653		
International Small Cap	362	165	—	527		
Total Equity Securities	5,428	3,854	—	9,282	40.7	40-60
Fixed Income Securities:						
U.S. Government Securities	3,412	1,217	—	4,629		
Corporate Bonds	9	3,462	80	3,551		
Municipal Bonds	—	104	—	104		
Total Fixed Income Securities	3,421	4,783	80	8,284	36.3	20-40
Other Investments:						
Hedge Funds	—	—	2,743	2,743	12.0	5-15
Real Estate	151	—	948	1,099	4.8	1-10
Private Equity	—	—	1,354	1,354	5.9	1-10
Total U.S. Plan Assets	$9,074	$8,638	$5,125	$22,837	100.0%	

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The fair values of U.S. pension and postretirement benefit plan assets by asset category as of December 31, 2010 are presented below (in millions), as well as the percentage that each category comprises of our total plan assets and the respective target allocations.

	Level 1	Level 2	Level 3	Total Assets	Percentage of Plan Assets - 2010	Target Allocation 2010
Asset Category:						
Cash and cash equivalents	$ —	$ 579	$ —	$ 579	2.9%	0-5%
Equity Securities:						
U.S. Large Cap	4,897	—	—	4,897		
U.S. Small Cap	874	—	—	874		
International Core	1,219	920	—	2,139		
Emerging Markets	528	281	—	809		
International Small Cap	117	196	—	313		
Total Equity Securities	7,635	1,397	—	9,032	44.4	40-60
Fixed Income Securities:						
U.S. Government Securities	3,502	313	—	3,815		
Corporate Bonds	608	1,694	193	2,495		
Mortgage-Backed Securities	—	50	—	50		
Total Fixed Income Securities	4,110	2,057	193	6,360	31.3	20-40
Other Investments:						
Hedge Funds	—	—	2,023	2,023	10.0	5-15
Real Estate	98	135	789	1,022	5.0	1-10
Private Equity	—	—	1,309	1,309	6.4	1-10
Total U.S. Plan Assets	$11,843	$4,168	$4,314	$20,325	100.0%	

There were no UPS class A or B shares of common stock directly held in plan assets as of December 31, 2011. Equity securities include UPS class A shares of common stock in the amount of $346 million (1.7% of total plan assets) as of December 31, 2010.

Pension assets utilizing Level 1 inputs include fair values of equity investments, corporate debt instruments, and U.S. government securities that were determined by closing prices for those securities traded on national stock exchanges, while securities traded in the over-the-counter market and listed securities for which no sale was reported on the valuation date are valued at the mean between the last reported bid and asked prices.

Level 2 assets include certain bonds that are valued based on yields currently available on comparable securities of other issues with similar credit ratings, mortgage-backed securities that are valued based on cash flow and yield models using acceptable modeling and pricing conventions, and certain investments that are pooled with other investments held by the trustee in a commingled employee benefit trust fund. The investments in the commingled funds are valued by taking the percentage owned by the respective plan in the underlying net asset value of the trust fund, which was determined in accordance with the paragraph above.

Certain investments' estimated fair value is based on unobservable inputs that are not corroborated by observable market data and are thus classified as Level 3. These investments include commingled funds comprised of corporate and government bonds, hedge funds, real estate investments and private equity funds. The commingled funds are valued using net asset values, adjusted, as appropriate, for investment fund specific inputs determined to be significant to the valuation. Investments in hedge funds are valued using reported net asset values as of December 31. These assets are primarily invested in a portfolio of diversified, direct investments and funds of hedge funds. Real estate investments and private equity funds are valued using fair values per the most recent partnership audited financial reports, adjusted as appropriate for any lag between the date of the financial reports and December 31. The real estate investments consist of U.S. and non-U.S. real estate investments and are broadly diversified. The fair values may, due to the inherent uncertainty of valuation for those alternative investments, differ significantly from the values that would have been used had a ready market for the alternative investments existed, and the differences could be material.

At December 31, 2011 and 2010, $3.895 and $3.766 billion of plan assets are held in commingled stock funds that hold U.S. and international public market securities. The plans held the right to liquidate positions in these commingled stock funds at any time, subject only to a brief notification period. No unfunded commitments existed with respect to these commingled stock funds at December 31, 2011.

The plans hold $2.302 and $2.098 billion of investments in limited partnership interests in various private equity and real estate funds. Limited provision exists for the redemption of these interests by the general partners that invest in these funds until the end of the term of the partnerships, typically ranging between 12 and 18 years from the date of inception. An active secondary market exists for similar partnership interests, although no particular value (discount or premium) can be guaranteed. At December 31, 2011, unfunded commitments to such limited partnerships totaling approximately $701 million are expected to be contributed over the remaining investment period, typically ranging between three and six years.

At December 31, 2011 and 2010, $2.743 and $2.023 billion of plan investments are held in hedge funds that pursue multiple strategies to diversify risk and reduce volatility. Most of these funds allow redemptions either quarterly or semi-annually after a two to three month notice period, while other funds allow for redemption after only a brief notification period with no restriction on redemption frequency. No unfunded commitments existed with respect to these hedge funds as of December 31, 2011.

The following tables presents the changes in the Level 3 instruments measured on a recurring basis for the years ended December 31, 2011 and 2010 (in millions):

	Corporate Bonds	Hedge Funds	Real Estate	Private Equity	Total
Balance on January 1, 2010	$ 201	$1,284	$ 550	$1,145	$3,180
Actual Return on Assets:					
Assets Held at End of Year	(5)	129	100	177	401
Assets Sold During the Year	13	10	—	1	24
Purchases	41	711	152	149	1,053
Sales	(57)	(111)	(13)	(163)	(344)
Settlements	—	—	—	—	—
Transfers Into (Out of) Level 3	—	—	—	—	—
Balance on December 31, 2010	$ 193	$2,023	$ 789	$1,309	$4,314
Actual Return on Assets:					
Assets Held at End of Year	(14)	122	144	145	397
Assets Sold During the Year	3	22	5	—	30
Purchases	57	757	150	164	1,128
Sales	(159)	(181)	(140)	(264)	(744)
Settlements	—	—	—	—	—
Transfers Into (Out of) Level 3	—	—	—	—	—
Balance on December 31, 2011	$ 80	$2,743	$ 948	$1,354	$5,125

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The fair value disclosures above have not been provided for our international pension benefit plans since asset allocations are determined and managed at the individual country level. In general, the asset allocations for these plans are approximately 55% in equity securities, 35% in debt securities and 10% in other securities. The amount of assets having significant unobservable inputs (Level 3), if any, in these plans would be immaterial to our financial statements.

Expected Cash Flows

Information about expected cash flows for the pension and postretirement benefit plans is as follows (in millions):

	U.S. Pension Benefits	U.S. Postretirement Medical Benefits	International Pension Benefits
Employer Contributions:			
2012 (expected) to plan trusts	$ 355	$ 371	$ 53
2012 (expected) to plan participants	13	101	3
Expected Benefit Payments:			
2012	$ 708	$ 233	$ 18
2013	789	253	17
2014	873	230	19
2015	966	246	21
2016	1,065	260	23
2017 - 2021	7,112	1,466	153

Our funding policy for U.S. plans is to contribute amounts annually that are at least equal to the amounts required by applicable laws and regulations, or to directly fund payments to plan participants, as applicable. International plans will be funded in accordance with local regulations. Additional discretionary contributions may be made when deemed appropriate to meet the long-term obligations of the plans. Expected benefit payments for pensions will be primarily paid from plan trusts. Expected benefit payments for postretirement medical benefits will be paid from plan trusts and corporate assets.

NOTE 6. MULTIEMPLOYER EMPLOYEE BENEFIT PLANS

We contribute to a number of multiemployer defined benefit plans under the terms of collective bargaining agreements that cover our union-represented employees. These plans generally provide for retirement, death and/or termination benefits for eligible employees within the applicable collective bargaining units, based on specific eligibility/participation requirements, vesting periods and benefit formulas. The risks of participating in these multiemployer plans are different from single-employer plans in the following aspects:

- Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers.
- If a participating employer stops contributing to the multiemployer plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
- If we choose to stop participating in some of our multiemployer plans, we may be required to pay those plans an amount based on the underfunded status of the plan, referred to as a withdrawal liability. However, cessation of participation in a multiemployer plan and subsequent payment of any withdrawal liability is subject to the collective bargaining process.

The discussion that follows sets forth the financial impact on our results of operations and cash flows for the years ended December 31, 2011, 2010 and 2009 from our participation in multiemployer benefit plans. Several factors could cause us to make significantly higher future contributions to these plans, including unfavorable investment performance, changes in demographics and increased benefits to participants. However, all surcharges are subject to the collective bargaining process. At this time, we are unable to determine the amount of additional future contributions, if any, or whether any material adverse effect on our financial condition, results of operations or liquidity would result from our participation in these plans.

The number of employees covered by our multiemployer plans has remained consistent over the past three years, and there have been no significant changes that affect the comparability of 2011, 2010 and 2009 contributions. We recognize expense for the contractually-required contribution for each period, and we recognize a liability for any contributions due and unpaid at the end of a reporting period.

Multiemployer Pension Plans

The following table outlines our participation in multiemployer pension plans for the periods ended December 31, 2011, 2010 and 2009, and sets forth our calendar year contributions into each plan. The "EIN/Pension Plan Number" column provides the Employer Identification Number ("EIN") and the three-digit plan number. The most recent Pension Protection Act zone status available in 2011 and 2010 relates to the plans' two most recent fiscal year-ends. The zone status is based on information that we received from the plans' administrators and is certified by each plan's actuary. Among other factors, plans certified in the red zone are generally less than 65% funded, plans certified in the orange zone are both less than 80% funded and have an accumulated funding deficiency or are expected to have a deficiency in any of the next six plan years, plans certified in the yellow zone are less than 80% funded, and plans certified in the green zone are at least 80% funded. The "FIP/RP Status Pending/Implemented" column indicates whether a financial improvement plan ("FIP") for yellow/orange zone plans, or a rehabilitation plan ("RP") for red zone plans, is either pending or has been implemented. As of December 31, 2011, all plans that have either a FIP or RP requirement have had the respective FIP or RP implemented.

Our collectively-bargained contributions satisfy the requirements of all implemented FIPs and RPs and do not currently require the payment of any surcharges. In addition, minimum contributions outside of the agreed upon contractual rate are not required. For the plans detailed in the following table, the expiration date of the associated collective bargaining agreements is July 31, 2013, with the exception of the Automotive Industries Pension Plan and the IAM National Pension Fund / National Pension Plan which both have a July 31, 2014 expiration date. For all plans detailed in the following table, we provided more than 5 percent of the total plan contributions from all employers for 2011, 2010 and 2009 (as disclosed in the Form 5500 for each respective plan).

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Certain plans have been aggregated in the "All Other Multiemployer Pension Plans" line in the following table, as the contributions to each of these individual plans are not material.

Pension Fund	EIN / Pension Plan Number	Pension Protection Act Zone Status		FIP/RP Status Pending/ Implemented	(in millions) UPS Contributions			Surcharge Imposed
		2011	2010		2011	2010	2009	
Alaska Teamster-Employer Pension Plan	92-6003463-024	Red	Red	Yes/Implemented	$ 4	$ 3	$ 3	No
Automotive Industries Pension Plan	94-1133245-001	Red	Red	Yes/Implemented	4	4	4	No
Central Pennsylvania Teamsters Defined Benefit Plan	23-6262789-001	Green	Yellow	No	27	26	25	No
Employer-Teamsters Local Nos. 175 & 505 Pension Trust Fund	55-6021850-001	Green	Green	No	8	8	8	No
Hagerstown Motor Carriers and Teamsters Pension Fund	52-6045424-001	Red	Red	Yes/Implemented	5	4	4	No
I.A.M. National Pension Fund / National Pension Plan	51-6031295-002	Green	Green	No	25	24	22	No
International Brotherhood of Teamsters Union Local No. 710 Pension Fund	36-2377656-001	Yellow	Yellow	Yes/Implemented	74	70	66	No
Local 705, International Brotherhood of Teamsters Pension Plan	36-6492502-001	Yellow	Yellow	Yes/Implemented	58	56	52	No
Local 804 I.B.T. & Local 447 I.A.M.—UPS Multiemployer Retirement Plan	51-6117726-001	Red	Red	Yes/Implemented	84	84	83	No
Milwaukee Drivers Pension Trust Fund	39-6045229-001	Green	Yellow	No	26	24	22	No
New England Teamsters & Trucking Industry Pension Fund	04-6372430-001	Red	Red	Yes/Implemented	124	112	104	No
New York State Teamsters Conference Pension and Retirement Fund	16-6063585-074	Red	Red	Yes/Implemented	57	52	50	No
Teamster Pension Fund of Philadelphia and Vicinity	23-1511735-001	Yellow	Orange	Yes/Implemented	41	39	37	No
Teamsters Joint Council No. 83 of Virginia Pension Fund	54-6097996-001	Yellow	Red	Yes/Implemented	41	38	35	No
Teamsters Local 639—Employers Pension Trust	53-0237142-001	Green	Yellow	Yes/Implemented	33	31	30	No
Teamsters Negotiated Pension Plan	43-6196083-001	Red	Red	Yes/Implemented	22	20	19	No
Truck Drivers and Helpers Local Union No. 355 Retirement Pension Plan	52-6043608-001	Yellow	Red	Yes/Implemented	12	12	12	No
United Parcel Service, Inc.—Local 177, I.B.T. Multiemployer Retirement Plan	13-1426500-419	Red	Red	Yes/Implemented	57	59	61	No
Western Conference of Teamsters Pension Plan	91-6145047-001	Green	Green	No	476	449	427	No
Western Pennsylvania Teamsters and Employers Pension Fund	25-6029946-001	Red	Red	Yes/Implemented	21	20	19	No
All Other Multiemployer Pension Plans					44	51	42	
				Total Contributions	$ 1,243	$ 1,186	$ 1,125	

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Multiemployer Health and Welfare Plans

We also contribute to several multiemployer health and welfare plans that cover both active and retired employees. Health care benefits are provided to participants who meet certain eligibility requirements as covered under the applicable collective bargaining unit. The following table sets forth our calendar year plan contributions. Certain plans have been aggregated in the "All Other Multiemployer Health and Welfare Plans" line in the table, as the contributions to each of these individual plans are not material.

Health and Welfare Fund	(in millions) UPS Contributions 2011	2010	2009
Bay Area Delivery Drivers	$ 27	$ 26	$ 22
Central Pennsylvania Teamsters Health & Pension Fund	18	17	16
Central States, South East & South West Areas Health and Welfare Fund	452	441	428
Delta Health Systems—East Bay Drayage Drivers	17	15	16
Employer—Teamster Local Nos. 175 & 505	8	7	6
Joint Council #83 Health & Welfare Fund	25	25	25
Local 191 Teamsters Health Fund	9	9	8
Local 401 Teamsters Health & Welfare Fund	6	5	5
Local 804 Welfare Trust Fund	58	54	51
Milwaukee Drivers Pension Trust Fund—Milwaukee Drivers Health and Welfare Trust Fund	28	27	27
Montana Teamster Employers Trust	6	6	6
Northern California General Teamsters (DELTA)	73	70	69
New York State Teamsters Health & Hospital Fund	41	40	37
North Coast Benefit Trust	7	7	6
Northern New England Benefit Trust	32	31	30
Oregon / Teamster Employers Trust	27	25	23
Teamsters 170 Health & Welfare Fund	12	12	12
Teamsters Benefit Trust	29	27	26
Teamsters Local 251 Health & Insurance Plan	10	10	10
Teamsters Local 404 Health & Insurance Plan	6	6	5
Teamsters Local 638 Health Fund	28	27	27
Teamsters Local 639—Employers Health & Pension Trust Funds	22	21	20
Teamsters Local 671 Health Services & Insurance Plan	13	12	12
Teamsters Union 25 Health Services & Insurance Plan	34	33	31
Teamsters Union Local 677 Health Services & Insurance Plan	8	7	7
Truck Drivers and Helpers Local 355 Baltimore Area Health & Welfare Fund	12	12	12
Utah-Idaho Teamsters Security Fund	15	15	14
Washington Teamsters Welfare Trust	30	27	26
All Other Multiemployer Health and Welfare Plans	50	52	54
Total Contributions	$1,103	$1,066	$1,031

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

NOTE 7. BUSINESS ACQUISITIONS, GOODWILL AND INTANGIBLE ASSETS

The following table indicates the allocation of goodwill by reportable segment (in millions):

	U.S. Domestic Package	International Package	Supply Chain & Freight	Consolidated
December 31, 2009 balance	$ —	$ 374	$ 1,715	$ 2,089
Acquired	—	—	—	—
Purchase Accounting Adjustments	—	5	(2)	3
Currency / Other	—	(2)	(9)	(11)
December 31, 2010 balance	$ —	$ 377	$ 1,704	$ 2,081
Acquired	—	—	46	46
Currency / Other	—	(16)	(10)	(26)
December 31, 2011 balance	$ —	$ 361	$ 1,740	$ 2,101

Business Acquisitions

The increase in goodwill within the Supply Chain & Freight segment in 2011 was due to the December acquisition of the Pieffe Group (“Pieffe”), an Italian pharmaceutical logistics company. Pieffe offers storage, distribution and other logistics services to some of the world’s leading pharmaceutical companies. The purchase price allocation was not complete as of December 31, 2011, and therefore adjustments to the recorded amount of goodwill may occur in 2012 prior to the one year anniversary of the acquisition. This increase in goodwill was partially offset by the impact of the strengthening of the U.S. Dollar on the translation of non-U.S. Dollar goodwill balances.

The increase to goodwill in the International Package segment during 2010 was due to adjustments to the purchase price allocation for Unsped Paket Servisi San ve Ticaret A.S. (“Unsped”), which was acquired in August 2009. This increase in goodwill was partially offset by the impact of the strengthening of the U.S. Dollar on the translation of non-U.S. Dollar goodwill balances.

Pro forma results of operations have not been presented for these acquisitions, because the effects of these transactions were not material. The results of operations of these acquired companies have been included in our statements of consolidated income from the date of acquisition.

Goodwill Impairment

We test our goodwill for impairment annually, as of October 1st, on a reporting unit basis. Our reporting units are comprised of the Europe, Asia, and Americas reporting units in the International Package reporting segment, and the Forwarding, Logistics, UPS Freight, MBE / The UPS Store, and UPS Capital reporting units in the Supply Chain & Freight reporting segment.

In assessing our goodwill for impairment, we initially evaluate qualitative factors to determine if it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If the qualitative assessment is not conclusive and it is necessary to calculate the fair value of a reporting unit, then we utilize a two-step process to test goodwill for impairment. First, a comparison of the fair value of the applicable reporting unit with the aggregate carrying value, including goodwill, is performed. We primarily determine the fair value of our reporting units using a discounted cash flow model, and supplement this with observable valuation multiples for comparable companies, as applicable. If the carrying amount of a reporting unit exceeds the reporting unit’s fair value, we perform the second step of the goodwill impairment test to determine the amount of impairment loss. The second step includes comparing the implied fair value of the affected reporting unit’s goodwill with the carrying value of that goodwill.

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

We did not have any goodwill impairment charges in 2011, 2010 or 2009. Cumulatively, our Supply Chain & Freight reporting segment has recorded goodwill impairment charges of $622 million, while our International and U.S. Domestic Package segments have not recorded any impairment charges.

Intangible Assets

The following is a summary of intangible assets at December 31, 2011 and 2010 (in millions):

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value	Weighted-Average Amortization Period (in years)
December 31, 2011:				
Trademarks, licenses, patents, and other	$ 146	$ (54)	$ 92	4.3
Customer lists	120	(66)	54	11.5
Franchise rights	109	(58)	51	20.0
Capitalized software	2,014	(1,626)	388	3.1
Total Intangible Assets, Net	$ 2,389	$ (1,804)	$ 585	4.4
December 31, 2010:				
Trademarks, licenses, patents, and other	$ 187	$ (50)	$ 137	
Customer lists	99	(59)	40	
Franchise rights	109	(52)	57	
Capitalized software	1,927	(1,562)	365	
Total Intangible Assets, Net	$ 2,322	$ (1,723)	$ 599	

Licenses with a carrying value of $5 million as of December 31, 2011 are deemed to be indefinite-lived intangibles, and therefore are not amortized. Impairment tests for indefinite-lived intangibles are performed on an annual basis. All of our other recorded intangible assets are deemed to be finite-lived intangibles, and are thus amortized over their estimated useful lives. Impairment tests for these intangible assets are only performed when a triggering event occurs that indicates that the carrying value of the intangible may not be recoverable. There were no impairments of any finite-lived or indefinite-lived intangible assets in 2011, 2010 or 2009.

Amortization of intangible assets was $228, $224 and $185 million during 2011, 2010 and 2009, respectively. Expected amortization of finite-lived intangible assets recorded as of December 31, 2011 for the next five years is as follows (in millions): 2012—$244; 2013—$169; 2014—$90; 2015—$23; 2016—$9. Amortization expense in future periods will be affected by business acquisitions, software development, licensing agreements, sponsorships and other factors.

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

NOTE 8. DEBT AND FINANCING ARRANGEMENTS

The carrying value of our debt obligations, as of December 31, consists of the following (in millions):

	Maturity	2011	2010
Commercial paper	2012	$ —	$ 341
4.50% senior notes	2013	1,778	1,815
3.875% senior notes	2014	1,050	1,061
5.50% senior notes	2018	841	795
5.125% senior notes	2019	1,119	1,032
8.375% debentures	2020	504	453
3.125% senior notes	2021	1,641	1,464
8.375% debentures	2030	284	284
6.20% senior notes	2038	1,480	1,480
4.875% senior notes	2040	489	488
Floating rate senior notes	2049 – 2053	376	386
Capital lease obligations	2012 – 3004	469	160
Facility notes and bonds	2015 – 2036	320	320
Pound Sterling notes	2031 / 2050	777	764
Other debt	2012	—	3
Total debt		11,128	10,846
Less current maturities		(33)	(355)
Long-term debt		$ 11,095	$ 10,491

Commercial Paper

As of December 31, 2011, we had no commercial paper outstanding. The amount of commercial paper outstanding in 2012 is expected to fluctuate. We are authorized to borrow up to $10.0 billion under the U.S. commercial paper program we maintain as of December 31, 2011. We also maintain a European commercial paper program under which we are authorized to borrow up to €1.0 billion in a variety of currencies, however no amounts were outstanding under this program as of December 31, 2011.

Fixed Rate Senior Notes

In January 2008, we completed an offering of $1.750 billion of 4.50% senior notes due January 2013, $750 million of 5.50% senior notes due January 2018, and $1.500 billion of 6.20% senior notes due January 2038. All of the notes pay interest semiannually, and allow for redemption of the notes by UPS at any time by paying the greater of the principal amount or a “make-whole” amount, plus accrued interest. After pricing and underwriting discounts, we received a total of $3.961 billion in cash proceeds from the offering. The proceeds from the offering were used to reduce our outstanding commercial paper balance. We subsequently entered into interest rate swaps on the 2013 and 2018 notes, which effectively converted the fixed interest rates on the notes to variable LIBOR-based interest rates. The average interest rate payable on the notes, including the impact of the interest rate swaps, for 2011 and 2010, respectively, was 2.39% and 2.42% for the 2013 notes, and 2.53% and 2.22% for the 2018 notes.

In March 2009, we completed an offering of $1.0 billion of 3.875% senior notes due April 2014 and $1.0 billion of 5.125% senior notes due April 2019. These notes pay interest semiannually, and we may redeem the notes at any time by paying the greater of the principal amount or a “make-whole” amount, plus accrued interest.

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

After pricing and underwriting discounts, we received a total of $1.989 billion in cash proceeds from the offering. The proceeds from the offering were used for general corporate purposes, including the reduction of our outstanding commercial paper balance. We subsequently entered into interest rate swaps on the 2014 and the 2019 notes, which effectively converted the fixed interest rates on the notes to variable LIBOR-based interest rates. The average interest rate payable on the notes, including the impact of the interest rate swaps, for 2011 and 2010, respectively, was 0.99% and 1.02% for the 2014 notes, and 2.04% and 1.69% for the 2019 notes.

In November 2010, we completed an offering of $1.5 billion of 3.125% senior notes due January 2021 and $500 million of 4.875% senior notes due November 2040. These notes pay interest semiannually, and we may redeem the notes at any time by paying the greater of the principal amount or a "make-whole" amount, plus accrued interest. After pricing and underwriting discounts, we received a total of $1.972 billion in cash proceeds from the offering. The proceeds from the offering were used to make contributions to our primary domestic pension plans. We subsequently entered into interest rate swaps on the 2021 notes, which effectively converted the fixed interest rates on the notes to variable LIBOR-based interest rates. The average interest rate payable on the 2021 notes, including the impact of the interest rate swaps, for 2011 and 2010, respectively, was 0.52% and 1.76%.

8.375% Debentures

On January 22, 1998, we exchanged $276 million of an original $700 million in debentures for new debentures of equal principal with a maturity of April 1, 2030. The new debentures have the same interest rate as the 8.375% debentures due 2020 until April 1, 2020, and, thereafter, the interest rate will be 7.62% for the final 10 years. The 2030 debentures are redeemable in whole or in part at our option at any time. The redemption price is equal to the greater of 100% of the principal amount and accrued interest or the sum of the present values of the remaining scheduled payout of principal and interest thereon discounted to the date of redemption at a benchmark treasury yield plus five basis points plus accrued interest. The remaining $424 million of 2020 debentures are not subject to redemption prior to maturity. Interest is payable semiannually on the first of April and October for both debentures and neither debenture is subject to sinking fund requirements. We subsequently entered into interest rate swaps on the 2020 notes, which effectively converted the fixed interest rates on the notes to variable LIBOR-based interest rates. The average interest rate payable on the 2020 notes, including the impact of the interest rate swaps, for 2011 was 5.97%.

Floating Rate Senior Notes

The floating rate senior notes bear interest at one-month LIBOR less 45 basis points. The average interest rate for 2011 and 2010 was 0.00% for both years. These notes are callable at various times after 30 years at a stated percentage of par value, and putable by the note holders at various times after 10 years at a stated percentage of par value. The notes have maturities ranging from 2049 through 2053. In 2011 and 2010, we redeemed notes with a principal value of $10 and $23 million, respectively, after put options were exercised by the note holders.

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Capital Lease Obligations

We have certain property, plant and equipment subject to capital leases. Some of the obligations associated with these capital leases have been legally defeased. The recorded value of our property, plant and equipment subject to capital leases is as follows as of December 31 (in millions):

	2011	2010
Vehicles	$ 35	$ —
Aircraft	2,282	2,466
Buildings	24	—
Plant Equipment	2	—
Technology Equipment	1	—
Accumulated amortization	(457)	(628)
	$1,887	$1,838

These capital lease obligations have principal payments due at various dates from 2012 through 3004.

Facility Notes and Bonds

We have entered into agreements with certain municipalities to finance the construction of, or improvements to, facilities that support our U.S. Domestic Package and Supply Chain & Freight operations in the United States. These facilities are located around airport properties in Louisville, Kentucky; Dallas, Texas; and Philadelphia, Pennsylvania. Under these arrangements, we enter into a lease or loan agreement that covers the debt service obligations on the bonds issued by the municipalities, as follows:

- Bonds with a principal balance of $149 million issued by the Louisville Regional Airport Authority associated with our Worldport facility in Louisville, Kentucky. The bonds, which are due in January 2029, bear interest at a variable rate, and the average interest rates for 2011 and 2010 were 0.11% and 0.22%, respectively.
- Bonds with a principal balance of $43 million issued by the Louisville Regional Airport Authority associated with our air freight facility in Louisville, Kentucky. The bonds were issued in November 2006 and are due in November 2036. The bonds bear interest at a variable rate, and the average interest rates for 2011 and 2010 were 0.11% and 0.24%, respectively.
- Bonds with a principal balance of $29 million issued by the Dallas / Fort Worth International Airport Facility Improvement Corporation associated with our Dallas, Texas airport facilities. The bonds are due in May 2032 and bear interest at a variable rate, however the variable cash flows on the obligation have been swapped to a fixed 5.11%.
- Bonds with a principal balance of $100 million issued by the Delaware County, Pennsylvania Industrial Development Authority associated with our Philadelphia, Pennsylvania airport facilities. The bonds, which are due in December 2015, bear interest at a variable rate, and the average interest rates for 2011 and 2010 were 0.11% and 0.20%, respectively.

In October 2009, $62 million in facility notes and bonds matured, and an additional $46 million that were originally scheduled to mature in 2018 were called for early redemption. The bonds were issued by the city of Dayton, Ohio and were associated with a Dayton airport facility.

Pound Sterling Notes

The Pound Sterling notes were issued in 2001 with a principal balance of £500 million, accrue interest at a 5.50% fixed rate, and are due on February 12, 2031. In May 2007, we completed an exchange offer for the existing notes. Holders of £434 million of the notes accepted the exchange offer, and as a result, these notes were exchanged for new notes with a principal amount of £455 million, bearing interest at 5.13% and due in February 2050. The new notes are callable at our option at a redemption price equal to the greater of 100% of the principal amount and accrued interest, or the sum of the present values of the remaining scheduled payout of principal and interest thereon discounted to the date of redemption at a benchmark U.K. government bond yield plus 15 basis points and accrued interest. The £66 million of existing notes that were not exchanged continue to bear interest at 5.50% and are due in 2031. We maintain cross-currency interest rate swaps to hedge the foreign currency risk associated with the bond cash flows. The average fixed interest rate payable on the swaps is 5.72%.

Contractual Commitments

We lease certain aircraft, facilities, land, equipment and vehicles under operating leases, which expire at various dates through 2038. Certain of the leases contain escalation clauses and renewal or purchase options. Rent expense related to our operating leases was $629, $615 and $622 million for 2011, 2010, and 2009, respectively.

The following table sets forth the aggregate minimum lease payments under capital and operating leases, the aggregate annual principal payments due under our long-term debt, and the aggregate amounts expected to be spent for purchase commitments (in millions).

Year	Capital Leases	Operating Leases	Debt Principal	Purchase Commitments
2012	$ 59	$ 329	$ —	$ 517
2013	56	257	1,750	453
2014	51	192	1,000	32
2015	50	140	100	16
2016	48	97	—	34
After 2016	474	393	7,366	—
Total	738	$ 1,408	$10,216	$ 1,052
Less: imputed interest	(269)			
Present value of minimum capitalized lease payments	469			
Less: current portion	(33)			
Long-term capitalized lease obligations	$ 436			

As of December 31, 2011, we had outstanding letters of credit totaling approximately $1.551 billion issued in connection with our self-insurance reserves and other routine business requirements. We also issue surety bonds as an alternative to letters of credit in certain instances, and as of December 31, 2011, we had $583 million of surety bonds written.

Available Credit

We maintain two credit agreements with a consortium of banks. One of these agreements provides revolving credit facilities of $1.5 billion, and expires on April 12, 2012. Generally, 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 Citibank's publicly announced base rate, plus an applicable margin, may be used at our discretion. In each case, the applicable margin for advances bearing interest based on LIBOR is a percentage determined by quotations from Markit Group Ltd. for our 1-year credit default swap spread, subject to a minimum rate of 0.15% and a maximum rate of 0.75%. The applicable margin for advances bearing interest based on the base rate is 1.00% below the applicable margin for LIBOR advances (but not lower than 0.00%). We are also able to request advances under this facility based on competitive bids for the applicable interest rate. There were no amounts outstanding under this facility as of December 31, 2011.

The second agreement provides revolving credit facilities of $1.0 billion, and expires on April 14, 2015. Generally, 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 Citibank's publicly announced base rate, plus an applicable margin, may be used at our discretion. In each case, the applicable margin for advances bearing interest based on LIBOR is a percentage determined by quotations from Markit Group Ltd. for our credit default swap spread, interpolated for a period from the date of determination of such credit default swap spread in connection with a new interest period until the latest maturity date of this facility then in effect (but not less than a period of one year). The applicable margin is subject to certain minimum rates and maximum rates based on our public debt ratings from Standard & Poor's Rating Service and Moody's Investors Service. The minimum applicable margin rates range from 0.250% to 0.500%, and the maximum applicable margin rates range from 1.000% to 1.500%. The applicable margin for advances bearing interest based on the base rate is 1.00% below the applicable margin for LIBOR advances (but not less than 0.00%). We are also able to request advances under this facility based on competitive bids. There were no amounts outstanding under this facility as of December 31, 2011.

Debt Covenants

Our existing debt instruments and credit facilities do not have cross-default or ratings triggers, however these debt instruments and credit facilities do subject us to certain financial covenants. As of December 31, 2011 and for all prior periods presented, we have satisfied these financial covenants. These covenants limit the amount of secured indebtedness that we may incur, and limit the amount of attributable debt in sale-leaseback transactions, to 10% of net tangible assets. As of December 31, 2011, 10% of net tangible assets is equivalent to $2.550 billion, however we have no covered sale-leaseback transactions or secured indebtedness outstanding. Additionally, we are required to maintain a minimum net worth, as defined, of $5.0 billion on a quarterly basis. As of December 31, 2011, our net worth, as defined, was equivalent to $10.138 billion. 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 the Company for long-term debt with similar terms and maturities, the fair value of long-term debt, including current maturities, is approximately $12.035 and $11.355 billion as of December 31, 2011 and 2010, respectively.

NOTE 9. LEGAL PROCEEDINGS AND CONTINGENCIES

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

Although there can be no assurance as to the ultimate outcome, we have generally denied, or believe we have a meritorious defense and will deny, liability in all litigation pending against us, including the matters described below, and we intend to defend vigorously each case. We have accrued for legal claims when, and to the extent that, amounts associated with the claims become probable and can be reasonably estimated. The actual costs of resolving legal claims may be substantially higher or lower than the amounts accrued for those claims.

For those matters as to which we are not able to estimate a possible loss or range of loss, we are not able to determine whether the loss will have a material adverse effect on our business, financial condition or results of operations or liquidity. For matters in this category, we have indicated in the descriptions that follow the reasons that we are unable to estimate the possible loss or range of loss.

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 these matters, would have a material adverse effect on our financial condition, results of operations or liquidity.

UPS and our subsidiary Mail Boxes Etc., Inc. are defendants in two lawsuits about the rebranding or purchase of The UPS Store franchises—Morgate and Samica. We prevailed at the trial court level in both cases, and plaintiffs appealed. Morgate was filed in March 2003. The plaintiffs are 125 individual franchisees who did not rebrand and a certified class of all franchisees who did rebrand to The UPS Store. A bellwether trial for three individual plaintiffs was set for early 2010, but the trial court entered judgment against one of the three plaintiffs prior to trial, which was affirmed in January 2012. The trial court also granted our motion for summary judgment against the members of the certified class, which was reversed in January 2012. The remainder of the case has been stayed pending appeal. Samica was filed in March 2006. The plaintiffs are 250 individual The UPS Store franchisees who either elected to rebrand or purchased new The UPS Store franchises. Summary judgment was granted in UPS's favor and affirmed on appeal in December 2011. There are multiple factors that prevent us from being able to estimate the amount of loss, if any, that may result from these matters including: (1) three separate components of these cases are being appealed to federal and state courts following decisions favorable to UPS and we cannot predict the final outcomes of these appeals; and (2) it remains uncertain what evidence of damages, if any, plaintiffs will be able to present if any aspects of these cases proceed forward. Accordingly, at this time, we are not able to estimate a possible loss or range of loss that may result from these matters or to determine whether such loss, if any, would have a material adverse effect on our financial condition, results of operations or liquidity.

In Barber Auto Sales v. UPS, which a federal court in Alabama certified as a class action in September 2009, the plaintiff asserts a breach of contract claim arising from UPS's assessment of shipping charge corrections when UPS determines that the "dimensional weight" of packages is greater than that reported by the shipper. On June 1, 2011, we reached an agreement in principle to settle the case for an immaterial amount. The settlement has been preliminarily approved, and remains subject to a final fairness hearing.

In AFMS LLC v. UPS and FedEx Corporation, a lawsuit filed in federal court in the Central District of California in August 2010, the plaintiff asserts that UPS and FedEx violated U.S. antitrust law by conspiring to refuse to negotiate with third party negotiators retained by shippers and/or to monopolize a so-called market for shipping consultation services. The Antitrust Division of the U.S. Department of Justice ("DOJ") has informed us that it has opened a civil investigation of our policies and practices for dealing with third party negotiators. We are cooperating with this investigation. We deny any liability with respect to these matters and intend to vigorously defend ourselves. There are multiple factors that prevent us from being able to estimate the amount of loss, if any, that may result from these matters including: (1) we believe that we have a number of meritorious defenses; (2) AFMS has not articulated any measure of damages; and (3) the DOJ investigation is ongoing. Accordingly, at this time, we are not able to estimate a possible loss or range of loss that may result from these matters or to determine whether such loss, if any, would have a material adverse effect on our financial condition, results of operations or liquidity.

In Canada, three purported class-action cases were filed against us in British Columbia (2006); Ontario (2007) and Québec (2006). The cases each allege inadequate disclosure concerning the existence and cost of brokerage services provided by us under applicable provincial consumer protection legislation and infringement of interest restriction provisions under the Criminal Code of Canada. The British Columbia class-action was declared inappropriate for certification and dismissed by the trial judge. That decision was upheld by the British Columbia Court of Appeal in March 2010, which ended the case in our favor. The Ontario class action was certified in September 2011. Partial summary judgment was granted to us and the plaintiffs by the Ontario motions court. The complaint under the Criminal Code was dismissed. No appeal is being taken from that decision. The allegations of inadequate disclosure were granted and we are appealing that decision. The request to certify the case in Québec will be heard in February 2012. We have denied all liability and are vigorously defending the two outstanding cases. There are multiple factors that prevent us from being able to estimate the amount of loss, if any, that may result from these matters, including (1) we are vigorously defending ourselves and believe that we have a number of meritorious legal defenses and (2) there are unresolved questions of law and fact that could be important to the ultimate resolution of these matters. Accordingly, at this time, we are not able to estimate a possible loss or range of loss that may result from these matters or to determine whether such loss, if any, would have a material adverse effect on our financial condition, results of operation or liquidity.

Other Matters

In May and December 2007 and August 2008 we received and responded to grand jury subpoenas from the DOJ in the Northern District of California in connection with an investigation by the Drug Enforcement Administration. We also have responded to informal requests for information in connection with this investigation, which relates to transportation of packages on behalf of on-line pharmacies that may have operated illegally. We are cooperating with this investigation and intend to continue to vigorously defend ourselves. There are multiple factors that prevent us from being able to estimate the amount of loss, if any, that may result from this matter, including (1) we are vigorously defending ourselves and believe we have a number of meritorious legal defenses and (2) there are unresolved questions of law and fact that could be important to the ultimate resolution of this matter. Accordingly, at this time, we are not able to estimate a possible loss or range of loss that may result from this matter or to determine whether such loss, if any, would have a material adverse effect on our financial condition, results of operations or liquidity.

We received a grand jury subpoena from the Antitrust Division of the DOJ regarding the DOJ's investigation into certain pricing practices in the freight forwarding industry in December 2007.

In October 2007, June 2008 and February 2009, we received information requests from the European Commission ("Commission") relating to its investigation of certain pricing practices in the freight forwarding industry, and subsequently responded to each request. In February 2010, UPS received a Statement of Objections by the Commission. This document contains the Commission's preliminary view with respect to alleged anticompetitive behavior in the freight forwarding industry by 18 freight forwarders, including UPS. Although it alleges anticompetitive behavior, it does not prejudge the Commission's final decision, as to facts or law (which is subject to appeal to the European courts). The options available to the Commission include taking no action or imposing a monetary fine; the range of any potential action by the Commission is not reasonably estimable. Any decision imposing a fine would be subject to appeal. UPS has responded to the Statement of Objections, including at a July 2010 Commission hearing, and we intend to continue to vigorously defend ourselves in this proceeding. We received additional information requests from the Commission in January and July 2011, and we have responded to those requests.

In August 2010, competition authorities in Brazil opened an administrative proceeding to investigate alleged anticompetitive behavior in the freight forwarding industry. Approximately 45 freight forwarding companies and individuals are named in the proceeding, including UPS, UPS SCS Transportes (Brasil) S.A., and a former employee in Brazil. UPS will have an opportunity to respond to these allegations.

We are cooperating with each of these investigations, and intend to continue to vigorously defend ourselves. There are multiple factors that prevent us from being able to estimate the amount of loss, if any, that may result from these matters including (1) we are vigorously defending each matter and believe that we have a number of meritorious legal defenses; (2) there are unresolved questions of law that could be of importance to the ultimate resolutions of these matters, including the calculation of any potential fine; and (3) there is uncertainty about the time period that is the subject of the investigations. Accordingly, at this time, we are not able to estimate a possible loss or range of loss that may result from these matters or to determine whether such loss, if any, would have a material adverse effect on our financial condition, results of operations or liquidity.

In January 2008, a class action complaint was filed in the United States District Court for the Eastern District of New York alleging price-fixing activities relating to the provision of freight forwarding services. UPS was not named in this case. In July 2009, the plaintiffs filed a first amended complaint naming numerous global freight forwarders as defendants. UPS and UPS Supply Chain Solutions are among the 60 defendants named in the amended complaint. We intend to vigorously defend ourselves in this case. There are multiple factors that prevent us from being able to estimate the amount of loss, if any, that may result from these matters including: (1) the magistrate judge recommended that the district court grant our motion to dismiss, with leave to amend, and the scope of the plaintiffs' claims is therefore unclear; (2) the scope and size of the proposed class is ill-defined; (3) there are significant legal questions about the adequacy and standing of the putative class representatives; and (4) we believe that we have a number of meritorious legal defenses. Accordingly, at this time, we are not able to estimate a possible loss or range of loss that may result from these matters or to determine whether such loss, if any, would have a material adverse effect on our financial condition, results of operations or liquidity.

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

NOTE 10. SHAREOWNERS' EQUITY

Capital Stock, Additional Paid-In Capital, and Retained Earnings

We maintain two classes of common stock, which are distinguished from each other by their respective voting rights. Class A shares of UPS are entitled to 10 votes per share, whereas class B shares are entitled to one vote per share. Class A shares are primarily held by UPS employees and retirees, as well as trusts and descendants of the Company's founders, and these shares are fully convertible into class B shares at any time. Class B shares are publicly traded on the New York Stock Exchange ("NYSE") under the symbol "UPS." Class A and B shares both have a $0.01 par value, and as of December 31, 2011, there were 4.6 billion class A shares and 5.6 billion class B shares authorized to be issued. Additionally, there are 200 million preferred shares authorized to be issued, with a par value of $0.01 per share; as of December 31, 2011, no preferred shares had been issued.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following is a rollforward of our common stock, additional paid-in capital, and retained earnings accounts (in millions, except per share amounts):

	2011		2010		2009	
	Shares	Dollars	Shares	Dollars	Shares	Dollars
Class A Common Stock						
Balance at beginning of year	258	$ 3	285	$ 3	314	$ 3
Common stock purchases	(7)	—	(6)	—	(10)	—
Stock award plans	7	—	6	—	5	—
Common stock issuances	3	—	3	—	4	—
Conversions of class A to class B common stock	(21)	—	(30)	—	(28)	—
Class A shares issued at end of year	240	$ 3	258	$ 3	285	$ 3
Class B Common Stock						
Balance at beginning of year	735	$ 7	711	$ 7	684	$ 7
Common stock purchases	(31)	—	(6)	—	(1)	—
Conversions of class A to class B common stock	21	—	30	—	28	—
Class B shares issued at end of year	725	$ 7	735	$ 7	711	$ 7
Additional Paid-In Capital						
Balance at beginning of year		$ —		$ 2		$ —
Stock award plans		388		398		381
Common stock purchases		(475)		(649)		(569)
Common stock issuances		287		249		190
Option Premiums Paid		(200)		—		—
Balance at end of year		$ —		$ —		$ 2
Retained Earnings						
Balance at beginning of year		$10,604		$ 9,335		$ 9,186
Net income attributable to controlling interests		3,804		3,338		1,968
Dividends ($2.08, $1.88 and $1.80 per share)		(2,086)		(1,909)		(1,819)
Common stock purchases		(2,194)		(160)		—
Balance at end of year		$10,128		$10,604		$ 9,335

For the years ended December 31, 2011, 2010 and 2009, we repurchased a total of 38.7, 12.4 and 10.9 million shares of class A and class B common stock for $2.669 billion, $809 million and $569 million, respectively. In January 2008, our Board of Directors authorized an increase in our share repurchase authority to $10.0 billion. Unless terminated earlier by the resolution of our Board, the program will expire when we have purchased all shares authorized for repurchase under the program. As of December 31, 2011, we had $2.525 billion of our share repurchase authorization remaining.

In order to lower the average cost of acquiring shares in our ongoing share repurchase program, we periodically enter into structured repurchase agreements involving the use of capped call options for the purchase of UPS class B shares. We pay a fixed sum of cash upon execution of each agreement in exchange for the right to receive either a pre-determined amount of cash or stock. Upon expiration of each agreement, if the closing market price of our common stock is above the pre-determined price, we will have our initial investment returned with a premium in either cash or shares (at our election). If the closing market price of our common stock is at or below the pre-determined price, we will receive the number of shares specified in the agreement. As of

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December 31, 2011, we had paid premiums of $200 million on options for the purchase of 3.3 million shares that will settle in the first half of 2012. During 2011, we settled options that resulted in the repurchase of 0.8 million shares at $65.11 per share, as well as the receipt of $6 million in premiums (in excess of our initial investment).

Accumulated Other Comprehensive Income (Loss)

We incur activity in AOCI for unrealized holding gains and losses on available-for-sale securities, foreign currency translation adjustments, unrealized gains and losses from derivatives that qualify as hedges of cash flows and unrecognized pension and postretirement benefit costs. The activity in AOCI is as follows (in millions):

	2011	2010	2009
Foreign currency translation gain (loss):			
Balance at beginning of year	$ (68)	$ 37	$ (38)
Aggregate adjustment for the year (net of tax effect of $11, $(34), and $(27))	(92)	(105)	75
Balance at end of year	(160)	(68)	37
Unrealized gain (loss) on marketable securities, net of tax:			
Balance at beginning of year	12	(27)	(60)
Current period changes in fair value (net of tax effect of $11, $17, and $3)	18	30	25
Reclassification to earnings (net of tax effect of $(14), $6, and $5)	(24)	9	8
Balance at end of year	6	12	(27)
Unrealized gain (loss) on cash flow hedges, net of tax:			
Balance at beginning of year	(239)	(200)	(107)
Current period changes in fair value (net of tax effect of $(16), $(4), and $4)	(26)	(7)	6
Reclassification to earnings (net of tax effect of $37, $(19) and $(60))	61	(32)	(99)
Balance at end of year	(204)	(239)	(200)
Unrecognized pension and postretirement benefit costs, net of tax:			
Balance at beginning of year	(2,340)	(1,527)	(2,211)
Reclassification to earnings (net of tax effect of $378, $150 and $197)	628	245	329
Net actuarial gain (loss) and prior service cost resulting from remeasurements of plan assets and liabilities (net of tax effect of $(622), $(633), and $219)	(1,033)	(1,058)	355
Balance at end of year	(2,745)	(2,340)	(1,527)
Accumulated other comprehensive income (loss) at end of year	$(3,103)	$(2,635)	$(1,717)

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

able to defer the gains from stock options exercised subsequent to December 31, 2004. Activity in the deferred compensation program for the years ended December 31, 2011, 2010, and 2009 is as follows (in millions):

	2011		2010		2009	
	Shares	Dollars	Shares	Dollars	Shares	Dollars
Deferred Compensation Obligations						
Balance at beginning of year		$ 103		$ 108		$ 121
Reinvested dividends		4		4		3
Options exercise deferrals		—		1		—
Benefit payments		(19)		(10)		(16)
Balance at end of year		$ 88		$ 103		$ 108
Treasury Stock						
Balance at beginning of year	(2)	$(103)	(2)	$(108)	(2)	$(121)
Reinvested dividends	—	(4)	—	(4)	—	(3)
Options exercise deferrals	—	—	—	(1)	—	—
Benefit payments	—	19	—	10	—	16
Balance at end of year	(2)	$ (88)	(2)	$(103)	(2)	$(108)

Noncontrolling Interests

We have noncontrolling interests in certain consolidated subsidiaries in our International Package and Supply Chain & Freight segments, the largest of which relates to a joint venture that operates in the Middle East, Turkey, and portions of the Central Asia region. The activity related to our noncontrolling interests is presented below (in millions):

	2011	2010
Noncontrolling Interests		
Balance at beginning of period	$ 68	$ 66
Acquired noncontrolling interests	5	2
Dividends attributable to noncontrolling interests	—	—
Net income attributable to noncontrolling interests	—	—
Balance at end of period	$ 73	$ 68

NOTE 11. STOCK-BASED COMPENSATION

Incentive Compensation Plan

The UPS Incentive Compensation Plan permits the grant of nonqualified and incentive stock options, stock appreciation rights, restricted stock and stock units, and restricted performance shares and units, to eligible employees. The number of shares reserved for issuance under the Incentive Compensation Plan is 80 million. Each share issued pursuant to an option and each share issued subject to the exercised portion of a stock appreciation right will reduce the share reserve by one share. Each share issued pursuant to restricted stock and stock units, and restricted performance shares and units, will reduce the share reserve by 2.76 shares. As of December 31, 2011, stock options, restricted performance units and restricted stock units had been granted under the Incentive Compensation Plan. We had 39 million shares available to be issued under the Incentive Compensation Plan as of December 31, 2011.

Compensation Program Changes

Effective January 1, 2011, we modified certain components of our management compensation programs for future award grants, as follows:

- We eliminated our Long-Term Incentive program, and incorporated the value of the award into our Management Incentive Award program. The combined award is referred to as the "Management Incentive Award" program.
- The performance period for the Management Incentive Award program changed from an October 1st – September 30th fiscal year to a calendar year, to be consistent with our business planning cycle.
- Previously, the restricted stock units granted under the Management Incentive Award program were granted in the fourth quarter of each year, while the restricted performance units granted under the Long-Term Incentive Program were granted in the second quarter of each year (restricted stock units and restricted performance units are referred to as "Restricted Units"). Prospectively, Restricted Units granted under the modified Management Incentive Award will generally be granted in the first quarter of each year.
- These changes did not impact any existing awards that had been previously granted.

Management Incentive Award

Subsequent to January 1, 2011, non-executive management earning the right to receive Management Incentive Awards are determined annually by the Salary Committee, which is comprised of executive officers of the Company. Awards granted to executive officers are determined annually by the Compensation Committee of the UPS Board of Directors. Our Management Incentive Awards program provides, with certain exceptions, that one-half to two-thirds of the annual Management Incentive Award will be made in Restricted Units (depending upon the level of management involved), which generally vest over a five-year period. The other one-third to one-half of the award is in the form of cash or unrestricted shares of class A common stock, and is fully vested at the time of grant.

Upon vesting, Restricted Units result in the issuance of the equivalent number of UPS class A common shares after required tax withholdings. Except in the case of death, disability, or retirement, Restricted Units granted for our Management Incentive Awards and previous Long-Term Incentive Program generally vest over a five year period with approximately 20% of the award vesting at each anniversary date of the grant. The entire grant is expensed on a straight-line basis over the requisite service period. All Restricted Units granted are subject to earlier cancellation or vesting under certain conditions. Dividends earned on Restricted Units are reinvested in additional Restricted Units at each dividend payable date.

Long-Term Incentive Performance Award

We also award Restricted Units in conjunction with our Long-Term Incentive Performance Awards program to certain eligible employees. The Restricted Units ultimately granted under the Long-Term Incentive Performance Awards program will be based upon the achievement of certain performance measures, including growth in consolidated revenue and operating return on invested capital, each year during the performance award cycle, and other measures, including growth in consolidated earnings per share, over the entire three year performance award cycle. The Restricted Units granted under this program vest at the end of the three year performance award cycle.

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As of December 31, 2011, we had the following Restricted Units outstanding, including reinvested dividends:

	Shares (in thousands)	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in millions)
Nonvested at January 1, 2011	20,029	$ 62.46		
Vested	(8,329)	64.68		
Granted	3,895	69.53		
Reinvested Dividends	631	N/A		
Forfeited / Expired	(387)	62.20		
Nonvested at December 31, 2011	15,839	$ 62.98	1.62	$ 1,159
Restricted Units Expected to Vest	15,226	$ 62.90	1.60	$ 1,114

The fair value of each Restricted Unit is the NYSE closing price of class B common stock on the date of grant. The weighted-average grant date fair value of Restricted Units granted during 2011, 2010, and 2009 was $69.53, $66.36 and $56.33, respectively. The total fair value of Restricted Units vested was $557, $523 and $318 million in 2011, 2010, and 2009, respectively. As of December 31, 2011, there was $577 million of total unrecognized compensation cost related to nonvested Restricted Units. That cost is expected to be recognized over a weighted average period of 2 years and 6 months.

Nonqualified Stock Options

We maintain fixed stock option plans, under which options are granted to purchase shares of UPS class A common stock. Stock options granted in connection with the Incentive Compensation Plan must have an exercise price at least equal to the NYSE closing price of UPS class B common stock on the date the option is granted.

Executive officers and certain senior managers annually receive non-qualified stock options of which the value is determined as a percentage of salary. Options granted generally vest over a five year period with approximately 20% of the award vesting at each anniversary date of the grant. All options granted are subject to earlier cancellation or vesting under certain conditions. Option holders may exercise their options via the tender of cash or class A common stock, and new class A shares are issued upon exercise. Options granted to eligible employees will be granted annually during the first quarter of each year.

The following is an analysis of options to purchase shares of class A common stock issued and outstanding:

	Shares (in thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in millions)
Outstanding at January 1, 2011	15,302	$ 68.62		
Exercised	(2,208)	59.81		
Granted	189	74.25		
Forfeited / Expired	(84)	66.67		
Outstanding at December 31, 2011	13,199	$ 70.18	3.42	$ 57
Options Vested and Expected to Vest	13,117	$ 70.18	3.40	$ 57
Exercisable at December 31, 2011	10,773	$ 70.19	2.84	$ 49

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

	2011	2010	2009
Expected dividend yield	2.77%	2.70%	3.25%
Risk-free interest rate	2.90%	3.30%	3.22%
Expected life in years	7.5	7.5	7.5
Expected volatility	24.26%	23.59%	23.16%
Weighted average fair value of options granted	$15.92	$14.83	$10.86

Expected volatilities are based on the historical returns on our stock and the implied volatility of our publicly-traded options. The expected dividend yield is based on the recent historical dividend yields for our stock, taking into account changes in dividend policy. The risk-free interest rate is based on the term structure of interest rates at the time of the option grant. The expected life represents an estimate of the period of time options are expected to remain outstanding, and we have relied upon a combination of the observed exercise behavior of our prior grants with similar characteristics, the vesting schedule of the grants, and an index of peer companies with similar grant characteristics in estimating this variable.

We received cash of $92, $60 and $27 million during 2011, 2010, and 2009, respectively, from option holders resulting from the exercise of stock options. We received a tax benefit of $6, $4 and $1 million during 2011, 2010, and 2009, respectively, from the exercise of stock options, which is reported as cash from financing activities in the cash flow statement.

The total intrinsic value of options exercised during 2011, 2010, and 2009 was $31, $18 and $5 million, respectively. As of December 31, 2011, there was $4 million of total unrecognized compensation cost related to nonvested options. That cost is expected to be recognized over a weighted average period of 1 year and 11 months.

The following table summarizes information about stock options outstanding and exercisable at December 31, 2011:

	Options Outstanding			Options Exercisable	
Exercise Price Range	Shares (in thousands)	Average Life (in years)	Average Exercise Price	Shares (in thousands)	Average Exercise Price
$50.01 - $60.00	244	7.35	$55.83	109	$55.83
$60.01 - $70.00	3,377	1.31	61.78	3,246	61.57
$70.01 - $80.00	7,378	3.98	71.30	5,218	71.34
$80.01 - $90.00	2,200	4.33	80.92	2,200	80.92
	13,199	3.42	$70.18	10,773	$70.19

Discounted Employee Stock Purchase Plan

We maintain an employee stock purchase plan for all eligible employees, which was modified in 2009. Under the modified plan, shares of UPS class A common stock may be purchased at quarterly intervals at 95% of the NYSE closing price of UPS class B common stock on the last day of each quarterly period. Prior to the modification in the second quarter of 2009, shares could be purchased at quarterly intervals at 90% of the lower of the NYSE closing price of the UPS class B common stock on the first or the last day of each quarterly period.

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Employees purchased 1.3, 1.5 and 0.6 million shares at average prices of $66.86, $57.98 and $44.30 per share during 2011, 2010, and 2009, respectively. Subsequent to the modification, the plan is no longer considered to be compensatory, and therefore no compensation cost is measured for the modified employees' purchase rights. Prior to the modification, compensation cost was measured for the fair value of employees' purchase rights under our discounted employee stock purchase plan using the Black-Scholes option pricing model, and we determined the weighted average fair value of the employee purchase rights to be $7.52 per share for 2009.

NOTE 12. SEGMENT AND GEOGRAPHIC INFORMATION

We report our operations in three segments: U.S. Domestic Package operations, International Package operations and Supply Chain & Freight operations. 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 operations within their geographic area.

U.S. Domestic Package

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 the operations of our Europe, Asia and Americas operating segments.

Supply Chain & Freight

Supply Chain & Freight includes our forwarding and logistics operations, UPS Freight and other aggregated business units. Our forwarding and logistics business provides services in more than 195 countries and territories worldwide, and includes supply chain design and management, freight distribution, customs brokerage, mail and consulting services. UPS Freight offers a variety of LTL and TL services to customers in North America. Other aggregated business units within this segment include Mail Boxes Etc. (the franchisor of Mail Boxes Etc. and 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, interest expense and income taxes. The accounting policies of the reportable segments are the same as those described in the summary of accounting policies (see Note 1), with certain expenses allocated between the segments using activity-based costing methods. Unallocated assets are comprised primarily of cash, marketable securities, and certain investment partnerships.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Segment information as of, and for the years ended, December 31 is as follows (in millions):

	2011	2010	2009
Revenue:			
U.S. Domestic Package	$31,717	$29,742	$28,158
International Package	12,249	11,133	9,699
Supply Chain & Freight	9,139	8,670	7,440
Consolidated	$53,105	$49,545	$45,297
Operating Profit:			
U.S. Domestic Package	$ 3,764	$ 3,238	$ 1,919
International Package	1,709	1,831	1,279
Supply Chain & Freight	607	572	310
Consolidated	$ 6,080	$ 5,641	$ 3,508
Assets:			
U.S. Domestic Package	$19,300	$18,425	$18,572
International Package	6,729	6,228	5,882
Supply Chain & Freight	6,588	6,283	6,620
Unallocated	2,084	2,661	809
Consolidated	$34,701	$33,597	$31,883
Depreciation and Amortization Expense:			
U.S. Domestic Package	$ 1,154	$ 1,174	$ 1,064
International Package	474	443	500
Supply Chain & Freight	154	175	183
Consolidated	$ 1,782	$ 1,792	$ 1,747

Revenue by product type for the years ended December 31 is as follows (in millions):

	2011	2010	2009
U.S. Domestic Package:			
Next Day Air	$ 6,229	$ 5,835	$ 5,456
Deferred	3,299	2,975	2,859
Ground	22,189	20,932	19,843
Total U.S. Domestic Package	31,717	29,742	28,158
International Package:			
Domestic	2,628	2,365	2,111
Export	9,056	8,234	7,176
Cargo	565	534	412
Total International Package	12,249	11,133	9,699
Supply Chain & Freight:			
Forwarding and Logistics	6,103	6,022	5,080
Freight	2,563	2,208	1,943
Other	473	440	417
Total Supply Chain & Freight	9,139	8,670	7,440
Consolidated	$53,105	$49,545	$45,297

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Geographic information as of, and for the years ended, December 31 is as follows (in millions):

	2011	2010	2009
United States:			
Revenue	$39,347	$36,795	$34,375
Long-lived assets	$16,085	$16,693	$17,336
International:			
Revenue	$13,758	$12,750	$10,922
Long-lived assets	$ 5,220	$ 5,047	$ 4,935
Consolidated:			
Revenue	$53,105	$49,545	$45,297
Long-lived assets	$21,305	$21,740	$22,271

Long-lived assets include property, plant and equipment, pension and postretirement benefit assets, long-term investments, goodwill, and intangible assets.

No countries outside of the United States, nor any individual customers, provided 10% or more of consolidated revenue in 2011, 2010 or 2009.

NOTE 13. INCOME TAXES

The income tax expense (benefit) for the years ended December 31 consists of the following (in millions):

	2011	2010	2009
Current:			
U.S. Federal	$1,371	$ 776	$ 715
U.S. State and Local	121	119	30
Non-U.S.	166	161	147
Total Current	1,658	1,056	892
Deferred:			
U.S. Federal	262	828	137
U.S. State and Local	44	98	21
Non-U.S.	8	(30)	55
Total Deferred	314	896	213
Total	$1,972	$1,952	$1,105

Income before income taxes includes the following components (in millions):

	2011	2010	2009
United States	$5,309	$4,586	$2,750
Non-U.S.	467	704	323
	$5,776	$5,290	$3,073

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

A reconciliation of the statutory federal income tax rate to the effective income tax rate for the years ended December 31 consists of the following:

	2011	2010	2009
Statutory U.S. federal income tax rate	35.0%	35.0%	35.0%
U.S. state and local income taxes (net of federal benefit)	2.0	2.4	1.2
Non-U.S. tax rate differential	(0.4)	(0.7)	(1.6)
Nondeductible/nontaxable items	(0.1)	0.3	1.0
U.S. federal tax credits	(1.7)	(1.9)	(3.5)
Other	(0.7)	1.8	3.9
Effective income tax rate	34.1%	36.9%	36.0%

Our effective tax rate declined to 34.1% in 2011 compared with 36.9% in 2010 as a result of several factors, including the change in the tax status of a subsidiary, changes in deferred tax asset valuation allowances, and the relative proportion of taxable income in certain non-U.S. jurisdictions, among other factors.

In 2011, we had a higher proportion of our total taxable income in certain non-U.S. jurisdictions, where corporate tax rates are generally lower, compared with 2010. Additionally in 2011, we recognized a reduction in income tax expense related to favorable developments with U.S. state tax audit and litigation matters and adjustments of estimated 2010 accruals upon filing the 2010 U.S. federal income tax return.

In the third quarter of 2010, we recognized a $40 million tax benefit associated with the release of a valuation allowance against deferred tax assets in our international package operations, partially offset by tax provided for interest earned on refunds.

In the first quarter of 2010, we changed the tax status of a German subsidiary that was taxable in the U.S. and its local jurisdiction to one that is taxed solely in its local jurisdiction. This change was made primarily to allow for more flexibility in funding this subsidiary's operations with local liquidity sources, improve the cash flow position in the U.S., and help mitigate future currency remeasurement risk. As a result of this change in tax status, we recorded a non-cash charge of $76 million, which resulted primarily from the write-off of related deferred tax assets which will not be realizable following the change in tax status.

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Deferred tax liabilities and assets are comprised of the following at December 31 (in millions):

	2011	2010
Property, plant and equipment	$3,607	$3,335
Goodwill and intangible assets	951	853
Other	554	562
Gross deferred tax liabilities	5,112	4,750
Pension and postretirement benefits	2,106	1,864
Loss and credit carryforwards (non-U.S. and state)	259	295
Insurance reserves	696	655
Vacation pay accrual	208	191
Stock compensation	211	242
Other	635	568
Gross deferred tax assets	4,115	3,815
Deferred tax assets valuation allowance	(205)	(207)
Net deferred tax asset	3,910	3,608
Net deferred tax liability	$1,202	$1,142
Amounts recognized in the consolidated balance sheets:		
Current deferred tax assets	$ 611	$ 659
Current deferred tax liabilities (included in other current liabilities)	$ 31	$ 28
Non-current deferred tax assets (included in other non-current assets)	$ 118	$ 97
Non-current deferred tax liabilities	$1,900	$1,870

The valuation allowance changed by $2, $30, and $(120) million during the years ended December 31, 2011, 2010 and 2009, respectively.

We have U.S. state and local operating loss and credit carryforwards as follows (in millions):

	2011	2010
U.S. state and local operating loss carryforwards	$859	$1,088
U.S. state and local credit carryforwards	$ 77	$ 74

The operating loss carryforwards expire at varying dates through 2031. The state credits can be carried forward for periods ranging from three years to indefinitely.

We also have non-U.S. loss carryforwards of approximately $788 million as of December 31, 2011, the majority of which may be carried forward indefinitely. As indicated in the table above, we have established a valuation allowance for certain non-U.S. and state loss carryforwards, due to the uncertainty resulting from a lack of previous taxable income within the applicable tax jurisdictions.

Undistributed earnings of foreign subsidiaries amounted to approximately $3.161 billion at December 31, 2011. Those earnings are considered to be indefinitely reinvested and, accordingly, no deferred income taxes have been provided thereon. Upon distribution of those earnings in the form of dividends or otherwise, we would be subject to income taxes and withholding taxes payable in various jurisdictions, which could potentially be offset by foreign tax credits. Determination of the amount of unrecognized deferred income tax liability is not practicable because of the complexities associated with its hypothetical calculation.

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following table summarizes the activity related to our unrecognized tax benefits (in millions):

	Tax	Interest	Penalties
Balance at January 1, 2009	$ 388	$ 97	$ 10
Additions for tax positions of the current year	41	—	—
Additions for tax positions of prior years	76	27	2
Reductions for tax positions of prior years for:			
Changes based on facts and circumstances	(214)	(34)	(3)
Settlements during the period	(23)	(4)	—
Lapses of applicable statute of limitations	(2)	—	(1)
Balance at December 31, 2009	266	86	8
Additions for tax positions of the current year	16	—	—
Additions for tax positions of prior years	45	25	2
Reductions for tax positions of prior years for:			
Changes based on facts and circumstances	(27)	(10)	(3)
Settlements during the period	(6)	(3)	—
Lapses of applicable statute of limitations	(10)	(3)	—
Balance at December 31, 2010	284	95	7
Additions for tax positions of the current year	13	—	—
Additions for tax positions of prior years	17	6	—
Reductions for tax positions of prior years for:			
Changes based on facts and circumstances	(50)	(9)	(2)
Settlements during the period	(11)	(19)	(1)
Lapses of applicable statute of limitations	(1)	—	(1)
Balance at December 31, 2011	$ 252	$ 73	$ 3

The total amount of gross unrecognized tax benefits as of December 31, 2011, 2010 and 2009 that, if recognized, would affect the effective tax rate was $247, $283 and $243 million, respectively. We also had gross recognized tax benefits of $291, $326 and $329 million recorded as of December 31, 2011, 2010 and 2009, respectively, associated with outstanding refund claims for prior tax years. Therefore, we had a net receivable recorded with respect to prior years' income tax matters in the accompanying consolidated balance sheets. Additionally, we have recognized a receivable for interest of $27, $32 and $56 million for the recognized tax benefits associated with outstanding refund claims as of December 31, 2011, 2010 and 2009, respectively. Our continuing practice is to recognize interest and penalties associated with income tax matters as a component of income tax expense.

We file income tax returns in the U.S. federal jurisdiction, most U.S. state and local jurisdictions, and many non-U.S. jurisdictions. We have substantially resolved all U.S. federal income tax matters for tax years prior to 2005. During the fourth quarter of 2010, we received a refund of $139 million as a result of the resolution of tax years 2003 through 2004 with the IRS Appeals Office. We have filed all required U.S. state and local returns reporting the result of the resolution of the U.S. federal income tax audit of the tax years 2003 and 2004. A limited number of U.S. state and local matters are the subject of ongoing audits, administrative appeals or litigation.

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. 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 statute of limitations, or other unforeseen circumstances. At this time, an estimate of the range of the reasonably possible change cannot be made.

In June 2011, we received IRS reports covering income taxes and excise taxes for tax years 2005 through 2007 and 2003 through 2007, respectively. The reports propose assessments related to amounts paid for software, research credit expenditures and deductibility of financing and post-acquisition integration costs as well as taxes on amounts paid for air transportation. Receipt of the reports represents only the conclusion of the examination process. We disagree with the proposed assessments related to these matters. Therefore, we have filed protests and protective tax refund claims. During the third quarter of 2011, the IRS responded to our protests and forwarded the cases to IRS Appeals. There are multiple factors that prevent us from being able to estimate the amount of loss, if any, that may result from these matters including: (1) we are vigorously defending these matters and believe that we have a number of meritorious legal defenses; (2) we have filed refund claims in excess of the proposed assessments; (3) there are unresolved questions of law and fact that could be of importance to the ultimate resolutions of these matters, including the calculation of any additional taxes and/or tax refunds; and (4) these matters are at the initial stage of a multi-level administrative appeals process that may ultimately be resolved by litigation. Accordingly, at this time, we are not able to estimate a possible loss or range of loss that may result from these matters or to determine whether such loss, if any, would have a material adverse effect on our financial condition, results of operations or liquidity.

NOTE 14. EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted earnings per share (in millions, except per share amounts):

	2011	2010	2009
Numerator:			
Net income attributable to common shareowners	$3,804	$3,338	$1,968
Denominator:			
Weighted average shares	977	991	995
Deferred compensation obligations	2	2	2
Vested portion of restricted shares	2	1	1
Denominator for basic earnings per share	981	994	998
Effect of dilutive securities:			
Restricted performance units	3	3	2
Restricted stock units	6	6	4
Stock options	1	—	—
Denominator for diluted earnings per share	991	1,003	1,004
Basic earnings per share	$ 3.88	$ 3.36	$ 1.97
Diluted earnings per share	$ 3.84	$ 3.33	$ 1.96

Diluted earnings per share for the years ended December 31, 2011, 2010, and 2009 exclude the effect of 7.4, 11.1 and 17.4 million shares, respectively, of common stock that may be issued upon the exercise of employee stock options because such effect would be antidilutive.

NOTE 15. DERIVATIVE INSTRUMENTS AND RISK MANAGEMENT

Risk Management Policies

We are exposed to market risk, primarily related to foreign exchange rates, commodity prices and interest rates. These exposures are actively monitored by management. To manage the volatility relating to certain of these exposures, we enter into a variety of derivative financial instruments. Our objective is to reduce, where it is deemed appropriate to do so, fluctuations in earnings and cash flows associated with changes in foreign currency 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 for 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 minimize such risk exposures for these instruments by limiting the counterparties to banks and financial institutions that meet established credit guidelines, and monitoring counterparty credit risk to prevent concentrations of credit risk with any single counterparty.

We have agreements with substantially all of our active counterparties containing early termination rights and/or bilateral collateral provisions whereby cash is required whenever the net fair value of derivatives associated with those counterparties exceed specific thresholds. Events, such as a credit rating downgrade (depending on the ultimate rating level) would typically require an increase in the amount of collateral required of the counterparty and/or allow us to take additional protective measures such as early termination of trades. At December 31, 2011, we held cash collateral of $55 million under these agreements.

In connection with the agreements described above, we could also be required to provide additional collateral or terminate transactions with certain counterparties in the event of a downgrade of our debt rating. The amount of additional collateral is a fixed incremental amount. At December 31, 2011 the aggregate fair value of the instruments covered by these contractual features that were in a net liability position was $10 million. The Company has never been required to post any collateral as a result of these contractual features.

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

Accounting Policy for Derivative Instruments

We recognize all derivative instruments as assets or liabilities in the consolidated balance sheets at fair value. The accounting for changes in the fair value of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and, further, on the type of hedging relationship. For those derivative instruments that are designated and qualify as hedging instruments, a company must designate the derivative, based upon the exposure being hedged, as a cash flow hedge, a fair value hedge or a hedge of a net investment in a foreign operation.

A cash flow hedge refers to hedging the exposure to variability in expected future cash flows that is attributable to a particular risk. For derivative instruments that are designated and qualify as a cash flow hedge, the effective portion of the gain or loss on the derivative instrument is reported as a component of AOCI, and reclassified into earnings in the same period during which the hedged transaction affects earnings. The remaining gain or loss on the derivative instrument in excess of the cumulative change in the present value of future cash flows of the hedged item, or hedge components excluded from the assessment of effectiveness, are recognized in the statements of consolidated income during the current period.

A fair value hedge refers to hedging the exposure to changes in the fair value of an existing asset or liability on the consolidated balance sheets that is attributable to a particular risk. For derivative instruments that are designated and qualify as a fair value hedge, the gain or loss on the derivative instrument is recognized in the statements of consolidated income during the current period, as well as the offsetting gain or loss on the hedged item.

A net investment hedge refers to the use of cross currency swaps, forward contracts or foreign currency denominated debt to hedge portions of our net investments in foreign operations. For hedges that meet the effectiveness requirements, the net gains or losses attributable to changes in spot exchange rates are recorded in the cumulative translation adjustment within AOCI. The remainder of the change in value of such instruments is recorded in earnings.

Types of Hedges

Commodity Risk Management

Currently, the fuel surcharges that we apply to our domestic and international package and LTL services are the primary means of reducing the risk of adverse fuel price changes on our business. We periodically enter into option contracts on energy commodity products to manage the price risk associated with forecasted transactions involving refined fuels, principally jet-A, diesel and unleaded gasoline. The objective of the hedges is to reduce the variability of cash flows, due to changing fuel prices, associated with the forecasted transactions involving those products. We have designated and account for these contracts as cash flow hedges of the underlying forecasted transactions involving these fuel products and, therefore, the resulting gains and losses from these hedges are recognized as a component of fuel expense or revenue when the underlying transactions occur.

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, the British Pound Sterling and the Canadian Dollar. We hedge portions of our forecasted revenue denominated in foreign currencies with option contracts. We have designated 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 subject to foreign currency remeasurement using foreign currency forward contracts. We have designated and account for these contracts as cash flow hedges of forecasted foreign currency denominated transactions, and therefore the resulting gains and losses from these hedges are recognized as a component of other operating expense when the underlying transactions are subject to currency remeasurement.

We have foreign currency denominated debt obligations and capital lease obligations associated with our aircraft. For some of these debt obligations and leases, we hedge the foreign currency denominated contractual payments using cross-currency interest rate swaps, which effectively convert the foreign currency denominated contractual payments into U.S. Dollar denominated payments. We have designated and account for these swaps as cash flow hedges of the forecasted contractual payments and, therefore, the resulting gains and losses from these hedges are recognized in the statements of consolidated income when the currency remeasurement gains and losses on the underlying debt obligations and leases are incurred.

Interest Rate Risk Management

Our indebtedness under our various financing arrangements creates interest rate risk. We use a combination of derivative instruments, including interest rate swaps and cross-currency interest rate swaps, as part of our program to manage the fixed and floating interest rate mix of our total debt portfolio and related overall cost of borrowing. The notional amount, interest payment and maturity dates of the swaps match the terms of the associated debt being hedged. Interest rate swaps allow us to maintain a target range of floating rate debt within our capital structure.

We have designated and account for interest rate swaps that convert fixed rate interest payments into floating rate interest payments as hedges of the fair value 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 the interest rate swap are recorded to AOCI.

We periodically hedge the forecasted fixed-coupon interest payments associated with anticipated debt offerings, using forward starting interest rate swaps, interest rate locks or similar derivatives. These agreements effectively lock a portion of our interest rate exposure between the time the agreement is entered into and the date when the debt offering is completed, thereby mitigating the impact of interest rate changes on future interest expense. These derivatives are settled commensurate with the issuance of the debt, and any gain or loss upon settlement is amortized as an adjustment to the effective interest yield on the debt.

Outstanding Positions

The notional amounts of our outstanding derivative positions were as follows:

	December 31, 2011 Notional Value		December 31, 2010 Notional Value	
Currency Hedges:				
Euro	€	1,685	€	1,732
British Pound Sterling	£	870	£	871
Canadian Dollar	C$	318	C$	289
Interest Rate Hedges:				
Fixed to Floating Interest Rate Swaps	$	6,424	$	6,000
Floating to Fixed Interest Rate Swaps	$	791	$	53

As of December 31, 2011, we had no outstanding commodity hedge positions. The maximum term over which we are hedging exposures to the variability of cash flow is 39 years.

Balance Sheet Recognition

The following table indicates the location on the balance sheet in which our derivative assets and liabilities have been recognized, and the related fair values of those derivatives (in millions). The table is segregated between those derivative instruments that qualify and are designated as hedging instruments and those that are not, as well as by type of contract and whether the derivative is in an asset or liability position.

Asset Derivatives	Balance Sheet Location	Fair Value Hierarchy Level	December 31, 2011 Fair Value	December 31, 2010 Fair Value
Derivatives designated as hedges:				
Foreign exchange contracts	Other current assets	Level 2	$ 164	$ 36
Interest rate contracts	Other non-current assets	Level 2	401	182
Derivatives not designated as hedges:				
Foreign exchange contracts	Other current assets	Level 2	2	—
Interest rate contracts	Other non-current assets	Level 2	82	—
Total Asset Derivatives			$ 649	$ 218

Liability Derivatives	Balance Sheet Location	Fair Value Hierarchy Level	December 31, 2011 Fair Value	December 31, 2010 Fair Value
Derivatives designated as hedges:				
Foreign exchange contracts	Other current liabilities	Level 2	$ —	$ 9
Foreign exchange contracts	Other non-current liabilities	Level 2	185	99
Interest rate contracts	Other non-current liabilities	Level 2	13	29
Derivatives not designated as hedges:				
Foreign exchange contracts	Other current liabilities	Level 2	—	3
Interest rate contracts	Other non-current liabilities	Level 2	10	1
Total Liability Derivatives			$ 208	$ 141

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Income Statement Recognition

The following table indicates the amount and location in the statements of consolidated income in which derivative gains and losses, as well as the related amounts reclassified from AOCI, have been recognized for those derivatives designated as cash flow hedges for the years ended December 31, 2011 and 2010 (in millions):

Derivative Instruments in Cash Flow Hedging Relationships	2011 Amount of Gain (Loss) Recognized in OCI on Derivative (Effective Portion)	2010 Amount of Gain (Loss) Recognized in OCI on Derivative (Effective Portion)	Location of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	2011 Amount of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	2010 Amount of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)
Interest rate contracts	$ (6)	$ 7	Interest Expense	$ (19)	$ (18)
Foreign exchange contracts	(85)	(48)	Interest Expense	13	(27)
Foreign exchange contracts	5	—	Other Operating Expense	—	—
Foreign exchange contracts	35	30	Revenue	(101)	96
Commodity contracts	9	—	Fuel Expense	9	—
Total	$ (42)	$ (11)		$ (98)	$ 51

As of December 31, 2011, $83 million of pre-tax gains related to cash flow hedges that are currently deferred in AOCI are expected to be reclassified to income over the 12 month period ended December 31, 2012. 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 amount of ineffectiveness recognized in income on derivative instruments designated in cash flow hedging relationships was immaterial for the years ended December 31, 2011, 2010 and 2009.

The following table indicates the amount and location in the statements of consolidated income in which derivative gains and losses, as well as the associated gains and losses on the underlying exposure, have been recognized for those derivatives designated as fair value hedges for the years ended December 31, 2011 and 2010 (in millions):

Derivative Instruments in Fair Value Hedging Relationships	Location of Gain (Loss) Recognized in Income	2011 Amount of Gain (Loss) Recognized in Income	2010 Amount of Gain (Loss) Recognized in Income	Hedged Items in Fair Value Hedging Relationships	Location of Gain (Loss) Recognized in Income	2011 Amount of Gain (Loss) Recognized in Income	2010 Amount of Gain (Loss) Recognized in Income
Interest rate contracts	Interest Expense	$ 320	$ 134	Fixed-Rate Debt and Capital Leases	Interest Expense	$ (320)	$ (134)

Additionally, we maintain some foreign exchange forward and interest rate swap contracts that are not designated as hedges. These foreign exchange forward contracts are intended to provide an economic offset to foreign currency remeasurement risks for certain assets and liabilities in our consolidated balance sheets. These interest rate swap contracts are intended to provide an economic hedge of a portfolio of interest bearing receivables. The income statement impact of these hedges was not material for any period presented.

We also periodically terminate interest rate swaps and foreign currency options 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 contracts. These transactions provide an economic offset that effectively eliminates the effects of changes in market valuation.

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UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following is a summary of the amounts recorded in the statements of consolidated income related to fair value changes and settlements of these foreign currency forward and interest rate swap contracts not designated as hedges for the years ended December 31, 2011 and 2010 (in millions):

Derivative Instruments Not Designated in Hedging Relationships	Location of Gain (Loss) Recognized in Income	2011 Amount of Gain (Loss) Recognized in Income	2010 Amount of Gain (Loss) Recognized in Income
Foreign Exchange Contracts	Other Operating Expenses	$ 2	$ 13
Interest Rate Swap Contracts	Interest Expense	(8)	—

Fair Value Measurements

Our foreign currency, interest rate and energy 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 commodity forward prices, and therefore are classified as Level 2. The fair values of our derivative assets and liabilities as of December 31, 2011 and 2010 by hedge type are as follows (in millions):

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of December 31, 2011
2011:				
Assets				
Foreign Exchange Contracts	$ —	$ 166	$ —	$ 166
Interest Rate Contracts	—	483	—	483
Total	$ —	$ 649	$ —	$ 649
Liabilities				
Foreign Exchange Contracts	$ —	$ 185	$ —	$ 185
Interest Rate Contracts	—	23	—	23
Total	$ —	$ 208	$ —	$ 208

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of December 31, 2010
2010:				
Assets				
Foreign Exchange Contracts	$ —	$ 36	$ —	$ 36
Interest Rate Contracts	—	182	—	182
Total	$ —	$ 218	$ —	$ 218
Liabilities				
Foreign Exchange Contracts	$ —	$ 111	$ —	$ 111
Interest Rate Contracts	—	30	—	30
Total	$ —	$ 141	$ —	$ 141

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

NOTE 16. RESTRUCTURING COSTS AND BUSINESS DISPOSITIONS

We have incurred restructuring costs associated with the termination of employees, facility consolidations and other costs directly related to restructuring initiatives. These initiatives have resulted from the integration of acquired companies, as well as restructuring activities associated with cost containment and operational efficiency programs. Additionally, we have sold or shut-down certain non-core business units in 2010, and recorded gains or losses upon the sale, as well as costs associated with each transaction.

Supply Chain & Freight—Germany

In February 2010, we completed the sale of a specialized transportation and express freight business in Germany within our Supply Chain & Freight segment. As part of the sale transaction, we incurred certain costs associated with employee severance payments, other employee benefits, transition services, and leases on operating facilities and equipment. Additionally, we provided a guarantee for a period of two years from the date of sale for certain employee benefit payments being assumed by the buyer. We recorded a pre-tax loss of $51 million ($47 million after-tax) for this transaction in 2010, which included the costs associated with the sale transaction and the fair value of the guarantee. This loss is recorded in the caption "other expenses" in the statements of consolidated income.

Supply Chain & Freight—United States

In December 2010, we completed the sale of our UPS Logistics Technologies, Inc. business unit, which produced transportation routing and fleet management systems. We recognized a $71 million pre-tax gain on the sale ($44 million after tax), which is included in the caption "other expenses" in the consolidated income statement, and is included in the results of our Supply Chain & Freight segment. The operating results of the UPS Logistics Technologies, Inc business unit were not material to our consolidated or segment operating results in any of the periods presented.

U.S. Domestic Package Restructuring

In an effort to improve performance in the U.S. Domestic Package segment, we announced a program to streamline our domestic management structure in January 2010. As part of this restructuring, we reduced the number of domestic districts and regions in our U.S. small package operation in order to better align our operations geographically and allow more local decision-making and resources to be deployed for our customers. Effective in April 2010, we reduced our U.S. regions from five to three and our U.S. districts from 46 to 20. The restructuring eliminated approximately 1,800 management and administrative positions in the U.S. Approximately 1,100 employees were offered voluntary severance packages, while other impacted employees received severance benefits based on length of service, and access to support programs. We recorded a pre-tax charge of $98 million ($64 million after-tax) in the first quarter of 2010 related to the costs of this program, which reflects the value of voluntary retirement benefits, severance benefits and unvested stock compensation. During the remainder of 2010, we incurred additional costs related to the relocation of employees and other restructuring activities, however those costs were offset by savings from the staffing reductions.

NOTE 17. SUBSEQUENT EVENTS

In February 2012, we acquired Kiala S.A. ("Kiala"), a Belgium-based developer of a platform that enables e-commerce retailers to offer their shoppers the option of having goods delivered to a convenient retail location. Kiala currently operates in Belgium, France, Luxembourg, the Netherlands and Spain. The acquisition will broaden our service portfolio for business-to-consumer deliveries. Kiala is not material to our consolidated financial position or results of operations.

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

NOTE 18. QUARTERLY INFORMATION (unaudited)

Our revenue, segment operating profit, net income, basic and diluted earnings per share on a quarterly basis are presented below (in millions, except per share amounts):

	First Quarter		Second Quarter		Third Quarter		Fourth Quarter	
	2011	2010	2011	2010	2011	2010	2011	2010
Revenue:								
U.S. Domestic Package	$ 7,543	$ 7,102	$ 7,737	$ 7,269	$ 7,767	$ 7,291	$ 8,670	$ 8,080
International Package	2,900	2,639	3,139	2,771	3,057	2,676	3,153	3,047
Supply Chain & Freight	2,139	1,987	2,315	2,164	2,342	2,225	2,343	2,294
Total revenue	12,582	11,728	13,191	12,204	13,166	12,192	14,166	13,421
Operating profit:								
U.S. Domestic Package	880	536	997	722	1,046	994	841	986
International Package	453	420	505	513	417	411	334	487
Supply Chain & Freight	139	56	243	136	203	181	22	199
Total operating profit	1,472	1,012	1,745	1,371	1,666	1,586	1,197	1,672
Net income	$ 915	$ 515	$ 1,092	$ 826	$ 1,072	$ 972	$ 725	$ 1,025
Earnings per share:								
Basic	$ 0.92	$ 0.52	$ 1.11	$ 0.83	$ 1.10	$ 0.98	$ 0.75	$ 1.03
Diluted	$ 0.91	$ 0.51	$ 1.09	$ 0.82	$ 1.09	$ 0.97	$ 0.74	$ 1.02

Second quarter 2011 operating profit was impacted by gains and losses on certain real estate transactions, including a $15 million loss in the U.S. Domestic Package segment and a $48 million gain in the Supply Chain & Freight segment. The combined impact of these transactions increased net income by $20 million, and basic and diluted earnings per share by $0.02.

Fourth quarter 2011 operating profit was impacted by a mark-to-market loss on our pension and postretirement benefit plans related to the remeasurement of plan assets and liabilities recognized outside of a 10% corridor of $827 million (allocated as follows—U.S. Domestic Package $479 million, International Package $171 million, Supply Chain & Freight $177 million). This loss reduced net income by $527 million, and basic and diluted earnings per share by $0.54.

First quarter 2010 U.S. Domestic Package operating profit includes a $98 million restructuring charge related to the reorganization of our domestic management structure, as discussed in Note 16. First quarter 2010 Supply Chain & Freight operating profit includes a $38 million loss on the sale of a specialized transportation business in Germany, also discussed in Note 16. Additionally, first quarter 2010 net income includes a $76 million charge to income tax expense, resulting from a change in the tax filing status of a German subsidiary, as discussed in Note 13. The combined impact of these items reduced net income by $175 million, basic earnings per share by $0.17, and diluted earnings per share by $0.18.

Third quarter 2010 U.S. Domestic Package operating profit includes a $109 million gain on the sale of real estate. This gain increased net income by $61 million, and basic and diluted earnings per share by $0.06.

Fourth quarter 2010 Supply Chain & Freight operating profit includes a $71 million gain on the sale of UPS Logistics Technologies and a $13 million loss related to a financial guarantee associated with the specialized transportation business sold in the first quarter of 2010, which are discussed in Note 16. Additionally, fourth quarter 2010 operating profit was impacted by a mark-to-market loss on our pension and postretirement benefit plans related to the remeasurement of plan assets and liabilities recognized outside of a 10% corridor of $112 million (allocated as follows—U.S. Domestic Package $31 million, International Package $42 million, Supply Chain & Freight $39 million). The combined impact of these items decreased net income by $43 million, and basic and diluted earnings per share by $0.04.

As discussed in Note 1, our operating profit, net income and earnings per share have all been revised for the retrospective application of our changes in accounting policies for recognizing the expense associated with our pension and postretirement benefit plans. The impact of these accounting policy changes revised our previously reported information by the following (in millions, except per share amounts):

Increase (Reduction) to Previously-Reported Information	First Quarter		Second Quarter		Third Quarter		Fourth Quarter	
	2011	2010	2011	2010	2011	2010	2011	2010
Operating profit:								
U.S. Domestic Package	$ 31	$ (26)	$ 31	$ (26)	$ 31	$ (26)	$ (448)	$ (57)
International Package	7	(7)	8	(8)	8	(8)	(163)	(50)
Supply Chain & Freight	8	3	8	3	8	4	(169)	(35)
Total operating profit	46	(30)	47	(31)	47	(30)	(780)	(142)
Net income	$ 30	$ (18)	$ 29	$ (19)	$ 30	$ (19)	$ (498)	$ (94)
Earnings per share:								
Basic	$0.03	$(0.02)	$0.03	$(0.02)	$0.03	$(0.02)	$(0.51)	$(0.10)
Diluted	$0.03	$(0.02)	$0.02	$(0.02)	$0.03	$(0.02)	$(0.51)	$(0.09)

Item 9. *Changes in and Disagreements with Accountants on Accounting and Financial Disclosure*

None.

Item 9A. *Controls and Procedures*

Evaluation of Disclosure Controls and Procedures:

As of the end of the period covered by this report, management, including our chief executive officer and chief financial officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures and internal controls over financial reporting. Based upon, and as of the date of, the evaluation, our chief executive officer and chief financial officer concluded that the disclosure controls and procedures and internal controls over financial reporting 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 the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting:

There were no changes in the Company’s internal controls over financial reporting during the quarter ended December 31, 2011 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

Management’s Report on Internal Control Over Financial Reporting:

UPS management is responsible for establishing and maintaining adequate internal controls over financial reporting for United Parcel Service, Inc. and its subsidiaries (the “Company”). Based on the criteria for effective internal control over financial reporting established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission, management has assessed the Company’s internal control over financial reporting as effective as of December 31, 2011. The independent registered public accounting firm of Deloitte & Touche LLP, as auditors of the consolidated balance sheets of United Parcel Service, Inc. and its subsidiaries as of December 31, 2011 and the related consolidated statements of income, comprehensive income and cash flows for the year ended December 31, 2011, has issued an attestation report on the Company’s internal control over financial reporting, which is included herein.

United Parcel Service, Inc.
February 27, 2012

Item 9B. *Other Information*

None.

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PART III

Item 10. ***Directors, Executive Officers and Corporate Governance***

Executive Officers of the Registrant

Name and Office	Age	Principal Occupation and Employment For the Last Five Years
David P. Abney Senior Vice President and Chief Operating Officer	56	Senior Vice President and Chief Operating Officer (2007 – present), President, UPS Airlines (2007 – 2008), Senior Vice President and President, UPS International (2003 – 2007).
David A. Barnes Senior Vice President and Chief Information Officer	56	Senior Vice President and Chief Information Officer (2005 – present).
Daniel J. Brutto Senior Vice President and President, UPS International	55	Senior Vice President and President, UPS International (2008 – present), President, Global Freight Forwarding (2006 – 2007), Corporate Controller (2004 – 2006).
D. Scott Davis Chairman and Chief Executive Officer	60	Chairman and Chief Executive Officer (2008 – present), Vice Chairman (2006 – 2007), Senior Vice President, Chief Financial Officer and Treasurer (2001 – 2007), Director (2006 – present).
Alan Gershenhorn Senior Vice President	53	Senior Vice President, Worldwide Sales, Marketing and Strategy (2011 – present), Senior Vice President, Worldwide Sales and Marketing (2008 – 2010), Senior Vice President and President, UPS International (2007), President, UPS Supply Chain Solutions – Asia and Europe (2006).
Myron Gray Senior Vice President	54	Senior Vice President, U.S. Operations (2009 – present), Vice President, Americas Region (2008 – 2009), Vice President, North Central Region (2004 – 2008).
Allen E. Hill * Senior Vice President	56	Senior Vice President, Human Resources (2007 – present), Senior Vice President, Human Resources and Public Affairs (2006), Senior Vice President, General Counsel and Corporate Secretary (2004 – 2006).
Kurt P. Kuehn Senior Vice President and Chief Financial Officer	57	Senior Vice President and Chief Financial Officer (2008 – present), Treasurer (2008 – 2010), Senior Vice President, Worldwide Sales and Marketing (2004 – 2007).
Teri P. McClure Senior Vice President, General Counsel and Corporate Secretary	48	Senior Vice President of Legal, Compliance and Public Affairs, General Counsel and Corporate Secretary (2006 – present), Corporate Legal Department Manager (2005 – 2006).

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Name and Office	Age	Principal Occupation and Employment For the Last Five Years
John J. McDevitt Senior Vice President	53	Senior Vice President, Human Resources and Labor Relations (2012 – Present), Senior Vice President, Global Transportation Services and Labor Relations (2005 – 2011).
Christine M. Owens Senior Vice President	56	Senior Vice President, Communications and Brand Management (2005 – present).

* Allen Hill announced his retirement from UPS, effective March 2012.

Information about our directors is presented under the caption "Election of Directors" in our definitive Proxy Statement for the Annual Meeting of Shareowners to be held on May 3, 2012 and is incorporated herein by reference.

Information about our Audit Committee is presented under the caption "Election of Directors—Committees of the Board of Directors—Audit Committee" in our definitive Proxy Statement for the Annual Meeting of Shareowners to be held on May 3, 2012 and is incorporated herein by reference.

Information about our Code of Business Conduct is presented under the caption "Where You Can Find More Information" in Part I, Item 1 of this report.

Information about our compliance with Section 16 of the Exchange Act of 1934, as amended, is presented under the caption "Section 16(a) Beneficial Ownership Reporting Compliance" in our definitive Proxy Statement for the Annual Meeting of Shareowners to be held on May 3, 2012 and is incorporated herein by reference.

Item 11. *Executive Compensation*

Information about executive compensation is presented under the captions "Compensation Discussion and Analysis," "Compensation of Executive Officers," "Compensation of Directors," "Report of the Compensation Committee" and "Compensation Committee Interlocks and Insider Participation" in our definitive Proxy Statement for the Annual Meeting of Shareowners to be held on May 3, 2012 and is incorporated herein by reference.

Item 12. *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters*

Information about security ownership is presented under the caption "Beneficial Ownership of Common Stock" in our definitive Proxy Statement for the Annual Meeting of Shareowners to be held on May 3, 2012 and is incorporated herein by reference.

Information about our equity compensation plans is presented under the caption "Equity Compensation Plans" in our definitive Proxy Statement for the Annual Meeting of Shareowners to be held on May 3, 2012 and is incorporated herein by reference.

Item 13. *Certain Relationships and Related Transactions, and Director Independence*

Information about transactions with related persons is presented under the caption "Related Person Transactions" in our definitive Proxy Statement for the Annual Meeting of Shareowners to be held on May 3, 2012 and is incorporated herein by reference.

Information about director independence is presented under the caption “Election of Directors—Director Independence” in our definitive Proxy Statement for the Annual Meeting of Shareowners to be held on May 3, 2012 and is incorporated herein by reference.

Item 14. ***Principal Accounting Fees and Services***

Information about aggregate fees billed to us by our principal accountant is presented under the caption “Principal Accounting Firm Fees” in our definitive Proxy Statement for the Annual Meetings of Shareowners to be held on May 3, 2012 and is incorporated herein by reference.

PART IV

Item 15. ***Exhibits and Financial Statement Schedules***

(a) 1. *Financial Statements*.

See Item 8 for the financial statements filed with this report.

2. *Financial Statement Schedules*.

None.

3. *List of Exhibits.*

See the Exhibit Index for a list of the exhibits incorporated by reference into or filed with this report.

(b) *Exhibits required by Item 601 of Regulation S-K.*

See the Exhibit Index for a list of the exhibits incorporated by reference into or filed with this report.

(c) *Financial Statement Schedules*.

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, United Parcel Service, Inc. has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

UNITED PARCEL SERVICE, INC.
(REGISTRANT)

By: /S/ D. SCOTT DAVIS
D. Scott Davis
Chairman and
Chief Executive Officer

Date: February 27, 2012

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/S/ F. DUANE ACKERMAN **F. Duane Ackerman**	Director	February 22, 2012
/S/ MICHAEL J. BURNS **Michael J. Burns**	Director	February 21, 2012
/S/ D. SCOTT DAVIS **D. Scott Davis**	Chairman, Chief Executive Officer and Director (Principal Executive Officer)	February 27, 2012
/S/ STUART E. EIZENSTAT **Stuart E. Eizenstat**	Director	February 23, 2012
/S/ MICHAEL L. ESKEW **Michael L. Eskew**	Director	February 22, 2012
/S/ WILLIAM R. JOHNSON **William R. Johnson**	Director	February 16, 2012
/S/ CANDACE B. KENDLE **Candace B. Kendle**	Director	February 17, 2012
/S/ KURT P. KUEHN **Kurt P. Kuehn**	Chief Financial Officer (Principal Financial and Accounting Officer)	February 27, 2012
/S/ ANN M. LIVERMORE **Ann M. Livermore**	Director	February 17, 2012
/S/ RUDY MARKHAM **Rudy Markham**	Director	February 23, 2012
/S/ CLARK T. RANDT, JR. **Clark T. Randt, Jr.**	Director	February 23, 2012

Signature	Title	Date
/S/ JOHN W. THOMPSON John W. Thompson	Director	February 16, 2012
/S/ CAROL B. TOMÉ Carol B. Tomé	Director	February 16, 2012

EXHIBIT INDEX

Exhibit No.		Description
2.1	—	Agreement and Plan of Merger, dated as of September 22, 1999, among United Parcel Service of America, Inc., United Parcel Service, Inc. and UPS Merger Subsidiary, Inc. (incorporated by reference to Form S-4 (No. 333-83349), filed on July 21, 1999, as amended).
2.2	—	Agreement and Plan of Merger, dated as of May 15, 2005, among United Parcel Service, Inc., Overnite Corporation, and Olympic Merger Sub, Inc. (incorporated by reference to Form 8-K, filed on May 18, 2005).
3.1	—	Form of Restated Certificate of Incorporation of United Parcel Service, Inc. (incorporated by reference to Exhibit 3.2 to Form 8-K filed on May 12, 2010).
3.2	—	Amended and Restated Bylaws of United Parcel Service, Inc. as of May 6, 2010 (incorporated by reference to Exhibit 3.1 to Form 8-K, filed on May 12, 2010).
4.1	—	Form of Class A Common Stock Certificate (incorporated by reference to Exhibit 4.1 to Form S-4 (No. 333-83349), filed on July 21, 1999, as amended).
4.2	—	Form of Class B Common Stock Certificate (incorporated by reference to Exhibit 4.2 to Form S-4 (No. 333-83349), filed on July 21, 1999).
4.3	—	Specimen Certificate of 8 3/8% Debentures due April 1, 2020 (incorporated by reference to Exhibit 4(c) to Registration Statement No. 33-32481, filed December 7, 1989).
4.4	—	Indenture relating to 8 3/8% Debentures due April 1, 2020 (incorporated by reference to Exhibit 4(c) to Registration Statement No. 33-32481, filed December 7, 1989).
4.5	—	Specimen Certificate of 8 3/8% Debentures due April 1, 2030 (incorporated by reference to Exhibit T-3C to Form T-3 filed December 18, 1997).
4.6	—	Indenture relating to Exchange Offer Notes Due 2030 (incorporated by reference to Exhibit T-3C to Form T-3 filed December 18, 1997).
4.7	—	Indenture relating to $2,000,000,000 of debt securities (incorporated by reference to Exhibit 4.1 to Pre-Effective Amendment No. 1 to Form S-3 (No. 333-08369), filed on January 26, 1999).
4.8	—	Form of Supplemental Indenture relating to $2,000,000,000 of debt securities (incorporated by reference to Exhibit 4.2 to Post-Effective Amendment No. 1 to Form S-3 (No. 333-08369-01), filed on March 15, 2000).
4.9	—	Form of Second Supplemental Indenture relating to $2,000,000,000 of debt securities (incorporated by reference to Exhibit 4 to Form 10-Q for the Quarter Ended September 30, 2001).
4.10	—	Form of Indenture relating to $2,000,000,000 of debt securities (incorporated by reference to Exhibit 4.1 to Form S-3 (No. 333-108272), filed on August 27, 2003).
4.11	—	Form of Underwriting Agreement relating to $2,000,000,000 of debt securities (incorporated by reference to Exhibit 1.1 to Form S-3 (No. 333-108272), filed on August 27, 2003).
4.12	—	Distribution Agreement relating to UPS Notes with maturities of 9 months or more from date of issue (incorporated by reference to Exhibit 10.1 to Form 8-K filed on May 30, 2008) and Form of Note (incorporated by reference to Exhibit 4.1 to Form 8-K filed on May 30, 2008).
4.13	—	Underwriting agreement relating to 4.50% Senior Notes due January 15, 2013, 5.50% Senior Notes due January 15, 2018 and 6.20% Senior Notes due January 15, 2038 (incorporated by reference to Exhibit 1.1 to Form 8-K filed on January 15, 2008).
4.14	—	Form of Note for 4.50% Senior Notes due January 15, 2013 (incorporated by reference to Exhibit 4.1 to Form 8-K filed on January 15, 2008).

Exhibit No.		Description
4.15	—	Form of Note for 5.50% Senior Notes due January 15, 2018 (incorporated by reference to Exhibit 4.2 to Form 8-K filed on January 15, 2008).
4.16	—	Form of Note for 6.20% Senior Notes due January 15, 2038 (incorporated by reference to Exhibit 4.3 to Form 8-K filed on January 15, 2008).
4.17	—	Underwriting agreement relating to 3.875% Senior Notes due April 1, 2014 and 5.125% Senior Notes due April 1, 2019 (incorporated by reference to Exhibit 1.1 to Form 8-K filed on March 24, 2009).
4.18	—	Form of Note for 3.875% Senior Notes due April 1, 2014 (incorporated by reference to Exhibit 4.1 to Form 8-K filed on March 24, 2009).
4.19	—	Form of Note for 5.125% Senior Notes due April 1, 2019 (incorporated by reference to Exhibit 4.2 to Form 8-K filed on March 24, 2009).
4.20	—	Underwriting Agreement relating to $1,500,000,000 aggregate principal amount of 3.125% Senior Notes due January 15, 2021, and $500,000,000 aggregate principal amount of 4.875% Senior Notes due November 15, 2040 (incorporated by reference to Exhibit 1.1 to Form 8-K filed on November 12, 2010).
4.21	—	Form of Note for 3.125% Senior Notes due January 15, 2021 (incorporated by reference to Exhibit 4.1 to Form 8-K filed on November 12, 2010).
4.22	—	Form of Note for 4.875% Senior Notes due November 15, 2040 (incorporated by reference to Exhibit 4.2 to Form 8-K filed on November 12, 2010).
10.1	—	UPS Retirement Plan, as Amended and Restated, effective January 1, 2010 (incorporated by reference to Exhibit 10.2 to the 2009 Annual Report on Form 10-K).
		(1) Amendment No. 1 to the UPS Retirement Plan (incorporated by reference to Exhibit 10.2(1) to the 2010 Annual Report on Form 10-K).
		†(2) Amendment No. 2 to the UPS Retirement Plan.
		†(3) Amendment No. 3 to the UPS Retirement Plan.
10.2	—	UPS Savings Plan, as Amended and Restated (incorporated by reference to Exhibit 10.3 to 2008 Annual Report on Form 10-K).
		(1) Amendment No. 1 to the UPS Savings Plan (incorporated by reference to Exhibit 10.3(1) to the 2009 Annual Report on Form 10-K).
		(2) Amendment No. 2 to the UPS Savings Plan (incorporated by reference to Exhibit 10.3(2) to the 2009 Annual Report on Form 10-K).
		(3) Amendment No. 3 to the UPS Savings Plan (incorporated by reference to Exhibit 10.3(3) to the 2010 Annual Report on Form 10-K).
		†(4) Amendment No. 4 to the UPS Savings Plan.
		†(5) Amendment No. 5 to the UPS Savings Plan.
10.3	—	Credit Agreement (364-Day Facility) dated April 14, 2011 among United Parcel Service, Inc., the initial lenders named therein, Citigroup Global Markets Inc. and J.P. Morgan Securities LLC as joint arrangers and book runners, Barclays Capital and BNP Paribas Securities Corp. as co-lead arrangers, Barclays Capital and BNP Paribas as co-documentation agents, Citibank, N.A. as administrative agent, and J.P. Morgan Securities LLC as syndication agent (incorporated by reference to Exhibit 10.1 to Form 10-Q for the Quarter Ended March 31, 2011).

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Exhibit No.		Description
10.4	—	Credit Agreement (4-Year Facility) dated April 14, 2011 among United Parcel Service, Inc., the initial lenders named therein, Citigroup Global Markets Inc. and J.P. Morgan Securities LLC as joint arrangers and book runners, Barclays Capital and BNP Paribas Securities Corp. as co-lead arrangers, Barclays Bank PLC and BNP Paribas as co-documentation agents, Citibank, N.A. as administrative agent, and J.P. Morgan Securities LLC as syndication agent (incorporated by reference to Exhibit 10.2 to Form 10-Q for the Quarter Ended March 31, 2011).
†10.5	—	UPS Excess Coordinating Benefit Plan, as amended and restated.
10.6	—	Form of United Parcel Service, Inc. Incentive Compensation Plan (incorporated by reference to the registration statement on Form S-4 (No. 333-83349), filed on July 21, 1999, as amended).
		(1) Form of Restricted Stock Award Agreement (incorporated by reference to Exhibit 10.7 to Quarterly Report on Form 10-Q for the Quarter Ended March 31, 2005).
		(2) Form of Nonqualified Stock Option Award Agreement (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K, filed on May 5, 2006).
		(3) Form of Restricted Performance Unit Award Agreement (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed on May 5, 2006).
		(4) Form of First Amendment to Restricted Stock Award Agreement for Non-Management Directors under the Incentive Compensation Plan (incorporated by reference to Exhibit 10.4 to Quarterly Report on Form 10-Q for the Quarter Ended September 30, 2007).
10.7	—	United Parcel Service, Inc. 2009 Omnibus Incentive Compensation Plan (incorporated by reference to Annex II to the Definitive Proxy Statement, filed on March 13, 2009).
		(1) Form of Long-Term Incentive Performance Award Agreement (incorporated by reference to Exhibit 10.3 to the Quarterly Report on Form 10-Q for the quarter ended March 31, 2011).
		(2) Form of Non-Management Director Restricted Stock Unit Award (incorporated by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q for the quarter ended March 31, 2010).
		(3) UPS Management Incentive Program Terms and Conditions effective as of January 1, 2011 (incorporated by reference to Exhibit 10.10(3) to the 2010 Annual Report on Form 10-K).
		†(4) UPS Stock Option Program Terms and Conditions effective as of January 1, 2012.
		†(5) UPS Long-Term Incentive Performance Program Terms and Conditions effective as of January 1, 2012.
10.8	—	Form of UPS Deferred Compensation Plan (incorporated by reference to Exhibit 10.11 to the 2010 Annual Report on Form 10-K).
10.9	—	United Parcel Service, Inc. Nonqualified Employee Stock Purchase Plan (incorporated by reference to Exhibit 99.1 to the registration statement on Form S-8 (No. 333-34054), filed on April 5, 2000).
10.10	—	Discounted Employee Stock Purchase Plan, as amended and restated, effective October 1, 2002.
		(1) Amendment No. 1 to the Discounted Employee Stock Purchase Plan (incorporated by reference to Exhibit 10.12(1) to the 2005 Annual Report on Form 10-K).
		(2) Amendment No. 2 to the Discounted Employee Stock Purchase Plan (incorporated by reference to Exhibit 10.13(2) to the 2009 Annual Report on Form 10-K).
11	—	Statement regarding Computation of per Share Earnings (incorporated by reference to Note 14 to Part I, Item 8 “Financial Statements and Supplementary Data” of this Annual Report on Form 10-K).

Exhibit No.		Description
†12	—	Ratio of Earnings to Fixed Charges.
†18	—	Letter on Change in Accounting Principles.
†21	—	Subsidiaries of the Registrant.
†23	—	Consent of Deloitte & Touche LLP.
†31.1	—	Certificate of Chief Executive Officer Pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
†31.2	—	Certificate of Chief 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 Chief 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 Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
††101	—	The following financial information from the Annual Report on Form 10-K for the year ended December 31, 2011, formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Income, (iii) the Consolidated Statements of Comprehensive Income, (iv) the Consolidated Statements of Cash Flows, and (v) the Notes to the Consolidated Financial Statements.

† Filed herewith.
†† Furnished electronically herewith.

Exhibit 10.1(2)

Execution Copy

AMENDMENT NO. 2
TO THE
UPS RETIREMENT PLAN
AS AMENDED AND RESTATED EFFECTIVE JANUARY 1, 2010

WHEREAS, United Parcel Service of America, Inc. (“UPS”) and its affiliated corporations established the UPS Retirement Plan (“Plan”) for the benefit of its employees, in order to provide benefits to those employees upon their retirement, disability, or death, effective as of September 1, 1961; and

WHEREAS, the Plan, as adopted and amended from time to time, was most recently amended and restated in its entirety, effective as of January 1, 2010; and

WHEREAS, the Plan was most recently amended by Amendment No. 1; and

WHEREAS, UPS desires to amend the Plan to revise the definition of Compensation to exclude payments from a state disability insurance fund that are applied to offset salary continuation benefits from the UPS Income Protection Plan.

NOW THEREFORE, pursuant to the authority vested in the Board of Directors by Section 7.1 of the UPS Retirement Plan (the “Plan”), Section 1.1(o)(ii)(B) is hereby amended, effective June 1, 2011, to read as follows:

(B) Disability payments from an insurance carrier, a state disability insurance fund, this Plan or any other disability plan maintained by an Employer Company or a Related Employer;

Except as amended by this Amendment No. 2, the Plan as in effect immediately prior to the date of this Amendment shall remain in full force and effect.

IN WITNESS WHEREOF, the undersigned certify that United Parcel Service of America, Inc. based upon action by the Board of Directors on August 1st, 2011 has caused this Amendment No. 2 to be adopted.

ATTEST:	UNITED PARCEL SERVICE OF AMERICA, INC.
/s/ Teri P. McClure	/s/ D. Scott Davis
Teri P. McClure Secretary	D. Scott Davis Chairman

Exhibit 10.1(3)

Execution Copy

AMENDMENT NO. 3
TO THE
UPS RETIREMENT PLAN
AS AMENDED AND RESTATED EFFECTIVE JANUARY 1, 2010

WHEREAS, United Parcel Service of America, Inc. ("UPS") and its affiliated corporations established the UPS Retirement Plan ("Plan") for the benefit of its employees, in order to provide benefits to those employees upon their retirement, disability, or death, effective as of September 1, 1961; and

WHEREAS, the Plan, as adopted and amended from time to time, was most recently amended and restated in its entirety, effective as of January 1, 2010; and

WHEREAS, the Plan was most recently amended by Amendment No. 2; and

WHEREAS, UPS desires to amend the Plan to (i) correct a scrivener's error in the definition of Qualified Joint and Survivor Annuity, (ii) conform certain provisions related to funding to the Pension Protection Act of 2006, (iii) provide for payment of Disability Retirement Benefits from the date a Participant made application for Social Security benefits, (iv) provide for the cash out of small Final Average Compensation Formula benefits following receipt of a distribution of the Portable Account, (v) provide for continued benefit accrual for certain Participants who die or become disabled while on qualified military service, (vi) restate Article XII, Retiree Medical Benefits, to conform to current practices, (vii) provide for the adjustment of benefits as required by law for certain members of the Independent Pilots Association who continue to work beyond Normal Retirement Age but work less than forty hours per month and (viii) amend the benefit schedule for Participants who are members of the Independent Pilots Association to reflect Letter of Agreement No. 11-03.

NOW THEREFORE, pursuant to the authority vested in the Board of Directors by Section 7.1 of the UPS Retirement Plan (the "Plan"), the Plan is hereby amended, as follows:

1. Section 1.1(ppp), Qualified Joint and Survivor Annuity, is hereby amended, effective as of January 1, 2006, to read as follows:

   (ppp) "Qualified Joint and Survivor Annuity" means a reduced monthly benefit payable to the Participant for his lifetime, and following his death, 50% of the monthly benefit paid to the Participant shall be payable to the person who was his Spouse as of the Annuity Starting Date, provided such Spouse survives the Participant. The last payment of such benefit shall be made as of the first day of the month in which the death of the last to die of the Participant and his Spouse has occurred. This benefit shall be the Actuarial Equivalent of the Normal Form of the Participant's benefit.

2. Section 3.1, Funding Method and Policy, is hereby amended, effective for Plan Years beginning on or after January 1, 2008, to read as follows:

Section 3.1. Funding Method and Policy. The Employer Companies shall make contributions to or under the Plan for each Plan Year which, in the aggregate, are not less than the amount which the Actuary determines is necessary to satisfy the minimum required contribution as determined under Section 303 of ERISA for the Plan for such Plan Year. The funding method shall be contributions from the Employer Companies and the funding policy shall be such as is consistent with the objectives of the Plan.

3. Section 3.2, Establishment of Funding Standard Account, is hereby deleted in its entirety, effective for Plan Years beginning on or after January 1, 2008, and the word "RESERVED" inserted in the Table of Contents and the text of the Plan.

4. Section 3.3, Payment of Contributions, is hereby amended to delete the last sentence thereof effective for Plan Years beginning on or after January 1, 2008.

5. Section 4.6(b), Disability Application, is hereby amended, effective with respect to Disability Retirement Benefits for which written application is made on or after January 1, 2011, to read as follows:

(b) Disability Application. A Participant must make a written application for a Disability Retirement Benefit to the Committee in accordance with Section 4.1. If the application for a Disability Retirement Benefit is approved by the Committee, the first monthly payment of the Disability Retirement Benefit shall begin with the first calendar month following the month in which the Committee determines the Participant is entitled to a Disability Retirement Benefit but the first such payment shall include a payment for each calendar month during which the Participant is Disabled from (i) (A) for written applications made before January 1, 2011, the later of (1) the date the Participant made an application for Disability Retirement Benefits or (2) the date the Participant made an application for Social Security benefits (B) for written applications made on or after January 1, 2011, the first calendar month following the month in which the Participant terminates employment with the Employer Company due to a Disability through (ii) the benefit commencement date. No interest shall be paid on such make-up payments.

6. Section 5.4(e), Cash-Out of Benefits, is hereby amended, effective for Participants who terminate employment with the Employer Company and all Related Employers on or after January 1, 2011 to read as follows:

(e) Cash-Out of Benefits. Notwithstanding any other provisions of this Plan, following a Participant's termination of employment with the Employer Company and all Related Employers, the Committee shall pay the Present Value of the Participant's vested benefit to such Participant in a lump sum, without the Participant's consent, under the following circumstances:

(i) if the Present Value of the Participant's entire vested benefit does not exceed $1,000 or

(ii) effective for Participants who terminate employment with the Employer Company and all Related Employers on or after January 1, 2011, if the Participant has both a Portable Account and a vested benefit under a Final Average Compensation Formula, has elected to receive payment of his Portable Account in a single lump sum and the Present Value of the Participant's entire remaining vested benefit under all Final Average Compensation Formulas does not exceed $1,000.

In the case of a Participant who terminates employment prior to earning a vested benefit hereunder, his benefit shall be deemed to be distributed immediately following such termination of employment. In the event such nonvested Participant is reemployed, his Benefit Service shall be restored in accordance with the rules set forth in the definition of such term.

7. Section 10.11, USERRA, is hereby amended, effective for Participants who die or become disabled on or after January 1, 2007 and whose application for Retirement Benefits or Disability Retirement Benefits is made on or after January 1, 2011, to insert a new paragraph at the end of such Section to read as follows:

Effective for Participants who die or become Disabled on or after January 1, 2007 and whose application for Retirement Benefits or Disability Retirement Benefits is made on or after January 1, 2011, for benefit accrual purposes in accordance with Code § 414(u)(9), a Participant who dies or becomes Disabled while performing qualified military service with respect to an Employer Company and at the time of his death or Disability such Participant had reemployment rights under Chapter 43 of Title 38 of the United States Code, such Participant will be treated as if he had resumed employment with such Employer Company in accordance with such reemployment rights on the day preceding the Participant's death or Disability (as the case may be) and terminated employment on the actual date of death or Disability. For purposes of this paragraph, the term Disabled means "disabled" within the meaning of Section 1.1(r)(ii).

8. Article XII, RETIREE MEDICAL BENEFITS, is hereby amended, effective January 1, 2011, to read as follows:

ARTICLE XII
RETIREE MEDICAL BENEFITS

Section 12.1. Creation of Separate Account.

(a) There is created, established and maintained under this Plan a separate account known as the Medical Benefits Account. The Trustee and Committee agree to hold and administer the Medical Benefits Account, and to receive contributions hereto, for the purpose of providing for the payment of certain medical expenses pursuant to Code § 401(h), for Retired Participants and their Covered Dependents. The separate Account shall be for record keeping purposes only. Funds contributed to the Medical Benefits Account need not be invested separately and may be invested in the Committee's discretion with funds in the funding standard account without identification of which investment properties are allocable to each account. However, where the investment properties are not allocated to each account, the earnings on such properties must be allocated between each account in a reasonable manner.

(b) (i) No part of the income or corpus of the Medical Benefits Account shall be (either within the taxable year of contribution or thereafter) used for, or diverted to, any purpose other than the providing of Medical Benefits (including the provision of any retirement benefits provided under the Plan), at any time prior to the satisfaction of all liabilities under this Plan with regard to the payment of Medical Benefits in accordance with this Article XII. Notwithstanding the above, the payment of any necessary or appropriate expenses attributable to the administration of the Medical Benefits Account may be made from the income or corpus of such Account.

(ii) Any amounts in the Medical Benefits Account which remain in such account following the satisfaction of all liabilities for the payment of Medical Benefits arising under this Article XII shall be returned to the Employer Companies.

(c) No amounts shall be paid from the Plan for Medical Benefits to or on behalf of a Key Employee.

Section 12.2 Definitions. Whenever used in this Article XII, the following words shall have the meaning set forth below unless otherwise clearly required by the context:

(a) "Continuation Coverage" has the meaning ascribed to such term in Section 12.3(c).

(b) "Covered Dependent" means a Retired Participant's Spouse or Domestic Partner at the time of retirement (as described in the definition of Retired Participant), and a child of the Retired Participant or the Spouse of a Retired Participant who meets the following conditions:

(i) The child is unmarried, is the child of a Retired Participant or the Retired Participant's Spouse, and is under 19 years of age. Said child shall be covered up to the end of the calendar year in which he attains age 19.

(ii) The child is unmarried, is the child of a Retired Participant or the Retired Participant's Spouse, is under 25 years of age, is dependent on the Retired Participant for his principal support and maintenance, and is a full-time student. Said child shall be covered up to the end of the calendar year in which he reaches age 25 or ceases to be a full-time student, whichever shall first occur.

The term child shall include an adopted child, step-child, or foster child who is dependent on the Retired Participant or the Spouse of the Retired Participant for his principal support and maintenance.

In no event will the term Covered Dependent include any person who is an eligible Retired Participant himself nor any person who is employed full-time with an Employer Company. If both parents of any Covered Dependent child are eligible Retired Participants, then for the purposes of the coverage, the Covered Dependent child is considered as a Covered Dependent of only the Retired Participant whose birth date is the earlier in the calendar year.

(c) "DDB Balance" has the meaning ascribed to such term in Section 12.10(c)

(d) "Defined Dollar Benefit" or "DDB" means the defined dollar benefit credit described in Section 12.10(b).

(e) "Grandfathered Retired Participant" means a Retired Participant who is also a Grandfathered Participant within the meaning of Article I.

(f) "Key Employee" means a Retired Participant who at any time was a key employee, within the meaning of Code § 415(i)(1), of any Employer Company, and also means the Covered Dependents of such Retired Participant.

(g) "Medical Benefits" means the payment of sickness, accident, hospitalization and other Medical Expenses, within the meaning of Code § 401(h), for Retired Participants and their Covered Dependents, which are summarized in The UPS Retired Employees' Health Care Plan, as amended from time to time, which is incorporated by reference herein.

(h) "Medical Expense" means expenses for medical care as defined in Code § 213(d)(l) or any substitute therefore.

(i) "Medicare Eligible Coverage" has the meaning ascribed to such term in Section 12.10(c).

(j) "Medicare Eligible Coverage DDB Balance" has the meaning ascribed to such term in Section 12.10(c).

(k) "Participant Contribution" means the contributions to the Plan described in Section 12.10.

(l) "Pre-Medicare Eligible Coverage" has the meaning ascribed to such term in Section 12.10(c).

(m) "Pre-Medicare Eligible Coverage DDB Balance" has the meaning ascribed to such term in Section 12.10(c).

(n) "Qualifying Events" means an event described in Section 12.3(c).

(o) "Retired Participant" is defined, for purposes of this Article XII, as an individual who satisfies at least one of the subsections (i) through (vi):

(i) A Participant who (A) was actively working as an Employee until his Early, Normal or Postponed Retirement Date, or who retires pursuant to Section 13.1, (B) in the case of a Participant who first became an Employee on or after January 1, 1989, had at least ten (10) Years of Service (five (5) Years of Service in the case of a Participant retiring under the provisions of Section 13.1) and at least one Year of Service as a Participant in this Plan, and (C) retired from employment as an Employee and was thereupon immediately eligible to receive an Early, Normal or Postponed Retirement Benefit hereunder (including an Early Retirement Benefit under Section 13.1);

(ii) A Participant who attained his Early Retirement Date (with, in the case of a Participant who first became an Employee on or after January 1, 1989, at least 10 Years of Service at least one of which was as a Participant in this Plan) or his Normal Retirement Date (with, in the case of a Participant who first became an Employee on or after January 1, 1989, at least 5 Years of Service at least one of which was as a Participant in this Plan) and then dies while still employed as an Employee;

(iii) A Participant who has at least one Year of Service, one year as a Participant in this Plan, has been an employee of an Employer Company or a Related Employer for at least 25 Years of Service (30 Years of Service for deaths prior to January 1, 2008) and then dies while still employed as such an employee shall be considered a "Retired Participant" whose Covered Dependents are eligible to receive Medical Benefits in accordance with this Article;

(iv) An individual who terminates employment as a result of ceasing to be eligible for his current job classification as the result of the application of a federal statutory or regulatory age limitation shall be eligible for Medical Benefits under this Article XII immediately upon termination of employment, provided, such individual has at least one Year of Service as a Participant in this Plan; or

(v) A Participant who terminated employment pursuant to the UPS Special Voluntary Separation Opportunity ("SVSO") on or after January 31, 2007 but prior to March 1, 2007 and who is entitled to benefits under the SVSO.

(vi) A Participant who (A) as of the time he terminates employment with all Employer Companies and Related Employers is a full-time Employee and has been approved for long-term disability benefits under the UPS Income Protection Plan (or a successor long-term disability benefits plan) and who remains "totally disabled" for purposes of the UPS Income Protection Plan (or successor plan) until his Early or Normal Retirement Date, (B) in the case of a Participant who first became an Employee on or after January 1, 1989, had at least ten (10) Years of Service and at least one Year of Service as a Participant in this Plan, and (C) is eligible to receive an early retirement benefit pursuant to Section 5.2(b) or a Normal Retirement Benefit;

Except as expressly provided in Sections 12.2(e)(i) through (vi) above, the following shall not be a Retired Participant:

(A) A deferred vested Participant who terminated employment with an Employer Company prior to retirement;

(B) An individual who first became an Employee on or after January 1, 1989 and who retired with less than 10 Years of Service with an Employer Company or less than One Year of Service as a Participant in this Plan;

(C) An individual employed, at the time of his retirement, by an Employer Company pursuant to a collective bargaining agreement under which retirement benefits for the individual are to be provided under this Plan, but which does not specifically state that Medical Benefits are also to be provided for said individual under this Article XII. For clarification, a member of one of the locals of the A.F.L.-C.I.O., International Association of Machinists or International Brotherhood of Teamsters, Chauffeurs, Warehousemen and Helpers of America ("IBT") identified on Appendix A hereto, which may be amended by resolution of the Committee from time to time, is employed by an Employer Company at the time of his retirement and is eligible, by reason of a collective bargaining agreement, for retirement benefits under this Plan, he shall not be eligible for Medical Benefits under this Plan;

(D) A Participant who is a Crewmember; or

(E) A Participant who is still employed by an Employer Company or Related Employer.

(p) "Retiree Reimbursement Account" or "RRA" has the meaning ascribed to such term in Section 12.10(c).

Section 12.3 Duration of Coverage; Election to Continue Coverage.

(a) Medical Benefits shall begin to be paid with respect to claims incurred by Retired Participants, or their Covered Dependents, after the date on which coverage for medical expenses ends for such individuals under the UPS Flexible Benefits Plan (or any successor health plan covering active Employees). Thereafter, and subject to subsections (b) and (c) below, Medical Benefits shall continue to be paid with respect to claims incurred up until the end of the calendar month in which the first of the following occurs:

(i) In the case of a Retired Participant, his death or;

(ii) In the case of a Covered Dependent who is the Spouse of the Retired Participant, the first to occur of (A) the divorce or legal separation of the Retired Participant and Spouse, (B) the remarriage of the Spouse following the Retired Participant's death, (C) the date upon which, following the Retired Participant's death, the Spouse becomes eligible for coverage under any other group health plan as the result of his employment, or (D) the death of the Spouse;

(iii) In the case of a Covered Dependent who is the child of the Retired Participant, the first to occur of (A) the date on which the Covered Dependent ceases to be eligible for coverage as such, or (B) the date upon which, following the Retired Participant's death, the child becomes eligible for coverage under any other group health plan as the result of his employment, or the employment of the Retired Participant's surviving Spouse; and

(iv) the date upon which this Plan ceases to provide Medical Benefits to all or an affected class of Retired Participants and/or Covered Dependents.

(b) Notwithstanding Section 12.3(a), in the event that a Participant Contribution is required to be paid with respect to Medical Benefits for any Retired Participant or Covered Dependent, payment of Medical Benefits shall cease to be made with respect to claims incurred by such individuals during any calendar month for which a Participant Contribution is due but is not timely paid. A Retired Participant may elect to discontinue Medical Benefits for his Covered Dependents (in favor of no or a reduced level of benefits as may be permitted from time to time by the Committee) by filing a form for this purpose with the Committee or its designee, and by providing such other information as the Committee or its designee shall require. In such event, payment of Medical Benefits shall cease to be made with respect to claims incurred by such Covered Dependents after the effective date of the discontinuance of coverage, or in the case of the election of a reduced level of benefits, when the applicable limitations with respect to such reduced benefit level have been exceeded or the Retired Participant (or Covered Dependent) ceases to pay any required Participant Contribution necessary to sustain the benefit level elected. The Committee may establish procedures for permitting Covered Dependents for whom Medical Benefits have been discontinued to later resume coverage, but only upon the provision of evidence satisfactory to the Committee of medical insurability.

(c) Notwithstanding Section 12.2(a), in certain circumstances and for a limited period of time, commencing on and after January 1, 1987, a Covered Dependent who would otherwise be ineligible for Medical Benefits under this Article XII due to the death or divorce of the Retired Participant, or who is no longer a Covered Dependent, shall be entitled to elect to continue to be eligible for such Medical Benefits ("Continuation Coverage") upon the occurrence of the following events ("Qualifying Events"):

(i) In the event of the death of the Retired Participant, a Covered Dependent may elect to continue to be eligible for Medical Benefits for a period not to exceed 36 months following the Retired Participant's death, subject to the restrictions of Section 12.3(c)(iv).

(ii) In the event of the divorce of a Retired Participant from his Spouse, such Spouse may elect to continue to be eligible for Medical Benefits for a period not to exceed 36 months following the date upon which coverage would otherwise cease under the terms of the Plan, subject to the restrictions of Section 12.3(c)(iv).

(iii) Upon the attainment by a child of a Retired Participant of the date, as set forth in paragraphs (a)(i) and (ii) of Section 12.2, when he is no longer a Covered Dependent, such child may elect to continue to be eligible for Medical Benefits for a period not to exceed 36 months following such date, subject to the restrictions of Section 12.3(c)(iv).

(iv) Notwithstanding the foregoing paragraphs (i), (ii) and (iii), Continuation Coverage for a Covered Dependent shall cease upon the first to occur of the following:

(A) The date that such Covered Dependent becomes covered (as an employee or otherwise) under any other group health plan which does not contain any exclusion or limitation with respect to any preexisting condition of such individual.

(B) The date that such Covered Dependent becomes entitled to receive Medicare benefits under Title XVIII of the Social Security Act.

(C) The date upon which this Plan ceases to provide retiree medical benefits to any Retired Participant and his Covered Dependents, and the Employer Companies do not provide such benefits through another funding vehicle or group health plan or plans.

(D) The date upon which coverage ceases as a result of the Covered Dependent failing to make timely payment of the premium required pursuant to Section 12.(3)(d).

(d) The Committee shall require the payment of a premium by a Covered Dependent for any period of Continuation Coverage, subject to the following restrictions:

(i) The decision to require payment of a premium, and the amount of such premium, shall be applied consistently to all Covered Dependents of Retired Participants similarly situated;

(ii) The premium shall not exceed 102 percent of the "applicable premium" for such period, as that term is defined in ERISA § 604; and

(iii) The premium may, at the election of the Covered Dependent, be made in monthly installments.

If an election by a Covered Dependent to receive Continuation Coverage is made after the occurrence of the Qualifying Event, the Covered Dependent shall be permitted to pay for Continuation Coverage during the period preceding the election, such payment to be made within 45 days of the date of the election.

(e) (i) The Committee, or its delegate, shall inform each Retired Participant and his Spouse (if any) of the rights provided under this Section 12.3, at the time of commencement of coverage under this Article or as otherwise provided by law.

(ii) The Committee, or its delegate, shall notify each Covered Dependent eligible to elect Continuation Coverage of his rights under this Section 12.3 within 14 days after the Committee, or its delegate, is notified of the occurrence of a Qualifying Event as set forth in Section 12.3(c). Notification to a Covered Dependent who is the Spouse of the Retired Participant shall be treated as notification to all other Covered Dependents who may be eligible to elect Continuation Coverage and who reside with such Spouse at the time such notification is made.

(f) A Covered Dependent must affirmatively elect, by a writing delivered to the Committee or its delegate, to receive Continuation Coverage. Such election must be made no later than 60 days after the later of (1) the date of the Qualifying Event or (2) the date such Covered Dependent receives notice under Section 12.3(e)(ii).

Section 12.4 Funding Method and Policy. All contributions to fund Medical Benefits provided under this Article XII shall be made by the Employer Companies, except those relating to (i) Continuation Coverage provided for in Section 12.3 hereof and (ii) that portion of coverage with respect to which Participant Contributions are required as provided for in Section 12.10 hereof. Subject to the restrictions of this Section 12.4 and Section 12.5, and taking into account Participant Contributions and contributions for Continuation Coverage, the Employer Companies shall contribute to the Medical Benefits Account an annual amount which is reasonably estimated to cover the total cost of the Medical Benefits to be provided hereunder and which satisfies the general requirements applicable to deductions allowable under Code § 404 (as set forth in Treasury Regulation § 1.404(a)-1). The total cost of providing Medical Benefits shall be determined in accordance with any generally accepted actuarial method which is reasonable in view of the provisions and coverage of the Plan, the funding medium, and other applicable considerations. The amount deductible by each Employer Company on account of such contributions for any taxable year shall not exceed the greater of:

(a) An amount determined by distributing the remaining unfunded costs of past and current service credits as a level amount, or as a level percentage of compensation, over the remaining future service of each Participant employed by the Employer Company.

(b) 10 percent of the cost which would be required to completely fund or purchase Medical Benefits provided hereunder for the Participants employed by the Employer Company and their Covered Dependents.

In determining the amount deductible, an Employer Company must apply either paragraph (a) for all Participants or paragraph (b) for all Participants. If contributions paid by an Employer Company in a taxable year to fund Medical Benefits hereunder exceed the limitation of this Section, but otherwise satisfy the conditions for deduction under Code § 404, then the excess contributions may be carried over in accordance with the provisions of Treasury Regulation § 1.404(a)(3)(f) and be deducted in a later year. For the purpose of applying paragraph (a), if the remaining future service of a Participant is one year or less, it shall be treated as one year.

Section 12.5 Subordination to Retirement Benefits.

(a) It is intended that the Medical Benefits provided under this Article XII, when added to any Life Insurance Protection provided under this Plan be subordinate at all times to the retirement benefits provided under this Plan. Therefore, the aggregate of contributions (made after the effective date of this Article XII) for the funding of Medical Benefits pursuant to this Article XII, as well as any Life Insurance Protection, shall at no time exceed 25 percent of the aggregate contributions (made after such effective date) other than contributions to fund past service credits.

(b) For purposes of this Section 12.5, “Life Insurance Protection” means any benefit paid under the Plan on behalf of a Participant as a result of the Participant’s death to the extent such payment exceeds the amount of the reserve to provide the retirement benefits for such Participant existing at his death.

Section 12.6 Forfeitures. In the event that a Participant’s interest in the Medical Benefits Account is forfeited prior to termination of such account, an amount equal to the amount of the forfeiture must be applied as soon as possible to reduce Employer contributions to fund the Medical Benefits provided under this Article XII.

Section 12.7 Benefits Provision. The benefits payable pursuant to this Article XII shall be limited to the payment of Medical Benefits for Retired Participants and their Covered Dependents. No benefit shall be provided which is not described in Code § 401(h) or the Regulations thereunder. It is anticipated that the same level of Medical Benefits shall be provided to all eligible Retired Participants, and in any event the Medical Benefits provided under this Article XII and the Employer contributions to fund said Medical Benefits shall not discriminate in favor of the officers, shareholders, supervisory employees, or highly compensated employees of the Employer Companies within the meaning of Treasury Regulation § 1.401-14.

Section 12.8 Supervision of Account. The Committee shall have general supervision of the operation of the Medical Benefits Account shall conduct the business of said Account, including the administration of claims, in accordance with Article IX and the other provisions of this Plan, except as otherwise provided in this Article XII, or in accordance with applicable law.

Section 12.9 Coordination with Employer-Maintained Group Medical Insurance for Active Participants and their Covered Dependents. Notwithstanding any other provision of this Article XII, if a Retired Participant, or his Covered Dependent, is eligible for Medical Benefits under this Article XII and also eligible for medical benefits under another group medical insurance plan sponsored and maintained by an Employer Company for active employees and their covered dependents (for example, the UPS Insurance Plan) (“Alternate Plan”), then no Medical Benefits under this Article XII shall be paid. Payment of Medical Benefit under this Article XII shall commence on the day following the day eligibility for benefits under the Alternate Plan ceases.

Section 12.10 Participant Contributions.

(a) The Committee may, from time to time, require Retired Participants and Covered Dependents to pay a portion of the cost of Medical Benefits as an annual contribution (a "Participant Contribution"), and shall in such event establish objective procedures for determining the amount and payment of Participant Contributions.

(b) Effective for individuals who first become Retired Participants on or after January 1, 1993, and their Covered Dependents, an annual Participant Contribution shall be required in an amount equal to the excess of (i) over (ii) where:

(i) is the projected per-capita cost of providing Medical Benefits for Retired Participants and/or Covered Dependents, or specified classes thereof, for the Plan Year, as determined by the Committee in accordance with such reasonable nondiscriminatory procedures as it shall adopt from time to time; and

(ii) is the Retired Participant's Defined Dollar Benefit ("DDB") balance, as described in Section 12.10(c) or (d) below.

(c) Subject to the rules of this Section 12.10(c), a Retired Participant will earn a DDB amount for each Year of Service with an Employer Company which will be applied to purchase Medical Benefits before the Retired Participant or his Covered Dependents become eligible for Medicare ("Pre-Medicare Eligible Coverage") and after the Retired Participant or his Covered Dependents become eligible for Medicare ("Medicare Eligible Coverage"). The DDB amount earned for each Year of Service with an Employer Company will be accumulated over the period that the Retired Participant is employed with an Employer Company as a DDB balance (the "Pre-Medicare Eligible Coverage DDB Balance" and "Medicare Eligible Coverage DDB Balance," collectively, the "DDB Balance").

(d) A Retired Participant's DDB amount for any Year of Service after December 31, 2000 with an Employer Company will be equal to the DDB amount for the Employer Company for which the Retired Participant performed service during that Plan Year as set forth in Appendix F. If a Retired Participant performs service under more than one schedule in any Plan Year, the Retired Participant shall receive credit for his Year of Service, if any, completed in that Plan Year under the schedule with the highest DDB amount under which he has at least one Hour of Service. The DDB amount for each Year of Service with an Employer Company while it is an Employer Company completed prior January 1, 2001 shall be equal to $250 for Pre-Medicare Eligible Coverage and $42 for Medicare Eligible Coverage. However, except as provided in Appendix F, no DDB amount shall be earned for Years of Service with an Employer Company that first becomes an Employer Company on or after January 1, 2001 completed before that Employer Company first began to offer Medical Benefits under this Plan. Except as provided Section 12.10(g)(ii), in no event shall the Pre-Medicare Eligible Coverage DDB Balance exceed $7500 or the Medicare Eligible Coverage DDB Balance exceed $1260. Notwithstanding the foregoing, a Grandfathered Retired Participant's DDB amount for any Year of Service (up to a maximum of $7,500) with an Employer Company shall never be less than $250 for Pre-Medicare Eligible Coverage and $42 for Medicare Eligible Coverage.

(e) The Retired Participant and his Spouse or Domestic Partner each may apply the DDB Balance to purchase Medical Benefits. A bookkeeping account, the Retiree Reimbursement Account ("RRA), will be established for each of the Retired Participant and his Spouse or Domestic Partner, if any, for each Plan Year in which a Retired Participant and his Spouse or Domestic Partner is eligible for Continuation Coverage The RRA will be credited with the Retired Participant's Pre-Medicare Eligible Coverage DDB amount or Medicare Eligible DDB amount. If the Retired Participant has Covered Dependents who are children, they will be treated as a unit with the younger of the Retired Participant and his Spouse. If the Retired Participant does not have a Spouse or Domestic Partner, the Covered Dependents who are children will be treated as a separate unit and the Retired Participant and his Covered Dependent unit each may have a RRA and apply the DDB Balance to purchase Pre-Medicare Eligible Coverage or Medicare Eligible Coverage. Any unused DDB Balance in the RRA may not be carried forward from one Plan Year to a future Plan Year.

(f) The Pre-Medicare Eligible Coverage DDB Balance is applied to the Participant Contribution for each Plan Year (or portion thereof) prior to the calendar month in which the Retired Participant or his Spouse or Domestic Partner, as applicable, becomes eligible for Medicare. The Medicare Eligible Coverage DDB Balance is applied to the Participant Contribution for each Plan Year (or portion thereof) from the first day of the calendar month in which the Retired Participant or his Spouse or Domestic Partner, as applicable, becomes eligible for Medicare. The DDB Balance of a Covered Dependent who is not a Spouse or Domestic Partner will be adjusted to the Medicare Eligible Coverage DDB Balance as of the first day of the calendar month in which the younger parent first becomes eligible for Medicare or if there is no Spouse or Domestic Partner, as of the first day of the calendar month in which the Retired Participant first becomes eligible for Medicare.

(g) The DDB Balance credited to a Retired Participant is determined as follows:

(i) For a Retired Participant who did not complete at least one Year of Service with an Employer Company prior to 1993, the DDB Balance is the sum of the DDB amounts for each of the Retired Participant's Years of Service with an Employer Company as determined under Section 12.10(d).

(ii) For each Grandfathered Retired Participant who completed at least one Year of Service with an Employer Company prior to 1993, the DDB Balance is calculated as follows:

(A) The sum of the DDB amounts for each of his Years of Service with an Employer Company as determined under Section 12.10(d) subject to the maximum DDB balance thereunder plus

(B) Two times the DDB amount for each of his Years of Service with an Employer Company completed prior to January 1, 1993 (up to a maximum of $15,000 for Pre-Medicare Eligible Coverage and $2520 for Medicare Eligible Coverage).

(iii) As a minimum, each Grandfathered Retired Participant described in Section 12.10(g)(ii) shall be credited with a minimum DDB Balance in accordance with the following table:

Age at Retirement from Employment with the Employer Company	Pre-Medicare Eligible	Minimum DDB Amount Medicare Eligible Coverage
65 or older	$7500	$ 1260
64	$7250	$ 1218
63	$7000	$ 1176
62	$6750	$ 1134
61	$6500	$ 1092
60	$6250	$ 1050
59	$6000	$ 1008
58	$5750	$ 966

Age at Retirement from Employment with the Employer Company		Minimum DDB Amount Medicare Eligible Coverage
	Pre-Medicare Eligible	
57	$5500	$ 924
56	$5250	$ 882
55	$5000	$ 840

(h) Notwithstanding any contrary provision of this Section 12.10,

(i) a Retired Participant hired by an Employer Company or a Related Employer on or after January 1, 2006 shall not earn a DDB amount;

(ii) A Retired Participant hired by Overnite or by Motor Cargo after December 31, 2001 shall not earn a DDB amount;

(iii) an LTD Participant or a Participant receiving a Disability Retirement Benefit shall not earn Year of Service credit or a DDB amount while he is a LTD Participant or is receiving a Disability Retirement Benefit; and

(iv) an individual shall not earn a DDB amount while he is performing services for an Employer Company or a Related Employer, as a “leased employee” or who otherwise is not classified on the payroll as an employee of an Employer Company or a Related Employer regardless of whether he is reclassified as an employee.

9. Section 7.1 of Appendix M, Funding Method and Policy, is hereby amended, effective for Plan Years beginning on or after January 1, 2008, to read as follows:

Section 7.1. Funding Method and Policy. The Employers shall make contributions to or under the Plan for each Plan Year which, in the aggregate, are not less than the amount which the Actuary determines is necessary to satisfy the minimum required contribution as determined under Section 303 of ERISA for the Plan for such Plan Year. The funding method shall be contributions from the Employers and the funding policy shall be such as is consistent with the objectives of the Plan.

10. Section 7.2 of Appendix M, Establishment of Funding Standard Account, is hereby deleted in its entirety, effective for Plan Years beginning on or after January 1, 2008, and the word “RESERVED” inserted in the Table of Contents and the text of the Appendix M.

11. Section 7.3 of Appendix M, Payment of Contributions, is hereby amended to delete the last sentence thereof effective for Plan Years beginning on or after January 1, 2008.

12. Appendix M for the Independent Pilots Association is hereby amended, effective beginning with bid period 12-01 of 2011, by inserting the attached Addendum B at the end of Appendix M.

13. Except as amended by this Amendment No. 3, the Plan as in effect immediately prior to the date of this Amendment shall remain in full force and effect.

IN WITNESS WHEREOF, the undersigned certify that United Parcel Service of America, Inc. based upon action by the Board of Directors on December 19th, 2011 has caused this Amendment No. 3 to be adopted.

ATTEST:	UNITED PARCEL SERVICE OF AMERICA, INC.
/s/ Teri P. McClure	/s/ D. Scott Davis
Teri P. McClure	D. Scott Davis
Secretary	Chairman

ADDENDUM B
LETTER OF AGREEMENT NO. 11-03

This Addendum B is added to Appendix M pursuant to that letter of agreement between United Parcel Service Co. and the Independent Pilots Association dated October 27, 2011 (“LOA No. 11-03”) and shall apply to each Participant who has an Hour of Covered Employment on or after December 4, 2011 (“Eligible Participant”)

References to Sections are to Sections of Benefit Schedule II for Independent Pilots Association of the UPS Retirement Plan Appendix M for the Independent Pilots Association unless otherwise expressly indicated.

1. In addition to the Credit for Periods of Covered Employment provided in Section 3.2, each Eligible Participant who takes a Short Term Voluntary Leave of Absence under the terms of the Letter of Agreement No. 11-03 (“VLOA”) shall receive a Monthly Unit of Service Credit for each month in which he is on a VLOA. In no event shall such Eligible Participant (a) receive more than one (1) Monthly Unit of Service Credit for the same calendar month or (b) receive more than one (1) year of Service Credit for the same calendar year.

2. An Eligible Participant who is a “RDG crewmember” as described in LOA No. 11-03 who maintains “active status” for a bid period will be credited with not less than 150 Hours of Covered Employment for that bid period. If an Eligible Participant who is a RDG crewmember does not maintain “active status” for a bid period, such Eligible Participant’s Hours of Covered Employment shall be based on such Eligible Participant’s actual pay and credit for such bid period. “Active status” means 37.5 hours of pay and credit accumulated in a bid period.

Exhibit 10.2(4)

Execution Copy

AMENDMENT NUMBER FOUR
TO THE
UPS SAVINGS PLAN
AMENDMENT AND RESTATEMENT
EFFECTIVE AS OF DECEMBER 31, 2008

WHEREAS, United Parcel Service of America, Inc. (the “Company”) and its affiliated corporations maintain the UPS Savings Plan (the “Plan”) amended and restated effective as of December 31, 2008;

WHEREAS, the Board of Directors of the Company (“Board”) reserved the right in Section 14.1 of the Plan to amend, modify or change the Plan from time to time;

WHEREAS, the Savings*PLUS* Contribution was reinstated effective as of January 1, 2011;

WHEREAS, the Board desires to amend the definition of Eligible Compensation used to determine the Savings*PLUS* Contribution to exclude all MIP Awards; and

WHEREAS, no MIP Awards have been made in 2011 as of the effective date of this amendment.

NOW THEREFORE, pursuant to the authority vested in the Board of Directors of United Parcel Service of America, Inc. by Section 14.1 of the UPS Savings Plan (“Plan”), Section 1.19(d) is hereby amended, effective as of May 1, 2011, to read as follows:

(d) MIP awards (other than the portion payable solely in the form of cash for purposes of determining Pre-Tax Contributions and After-Tax Contributions);

IN WITNESS WHEREOF, the undersigned certify that United Parcel Service of America, Inc. based upon action taken by its Board of Directors and/or its Executive Committee has caused this Amendment Number Four to be adopted.

ATTEST:	UNITED PARCEL SERVICE OF AMERICA, INC.
/s/ Teri P. McClure	/s/ D. Scott Davis
Teri P. McClure Secretary	D. Scott Davis Chairman
Date: May 26th, 2011	Date: May 26th, 2011

Exhibit 10.2(5)

Execution Copy

AMENDMENT NUMBER FIVE
TO THE
UPS SAVINGS PLAN
AMENDMENT AND RESTATEMENT
EFFECTIVE AS OF DECEMBER 31, 2008

WHEREAS, United Parcel Service of America, Inc. (the “Company”) and its affiliated corporations maintain the UPS Savings Plan (the “Plan”) as amended and restated effective as of December 31, 2008;

WHEREAS, the Board of Directors of the Company (“Board”) reserved the right in Section 14.1 of the Plan to amend, modify or change the Plan from time to time;

WHEREAS, the Board desires to amend the Plan to (1) permit certain participants eligible to participate in The Teamster—UPS National 401(k) Tax Deferred Savings Plan (the “Teamster 401(k) Plan”) an opportunity to transfer their Plan account to the Teamster 401(k) Plan, (2) permit certain participants eligible to participate in the I.A.M National 401(k) (the “IAM Plan”) an opportunity to transfer their Plan account to the IAM Plan, (3) provide that Catch-Up Contributions may not be made from MIP cash advance payments made in December 2011 and that Roth Contributions may not be made from MIP awards, (4) clarify that certain elective deferrals and Roth contributions made to another UPS defined contribution plan are included in determining the Savings*PLUS* Contribution (5) clarify that Roth Contributions may be made from compensation for unused discretionary days (6) define “MIP” to include the UPS Management Incentive Program and the UPS International Management Incentive Program (7) permit participants to make a separate deferral election for certain sales incentive payments, (8) clarify that eligible compensation is limited by Code § 415(c)(3) and the applicable regulations and (9) provide for its operation regarding the 2009 minimum required distributions.

NOW THEREFORE, pursuant to the authority vested in the Board of Directors of United Parcel Service of America, Inc. by Section 14.1 of the UPS Savings Plan (“Plan”), the Plan is hereby amended as follows:

1. Section 1.19(d) is hereby amended, effective May 1, 2011, to read as follows:

(d) MIP awards (other than the portion of a MIP award that a Participant may elect to have paid in the form of cash and only for purposes of determining that Participant’s Pre-Tax Contributions and After-Tax Contributions);

2. Section 1.19(d) is hereby further amended, effective for limitation years beginning on or after July 1, 2007, to insert a new paragraph at the end of such Section to read as follows:

Effective for limitation years (as defined in § 5.2(a)) beginning on or after July 1, 2007, Eligible Compensation includes only “compensation” as defined in Code § 415(c)(3) and Section 3.2 of Appendix 5.2, Maximum Benefits.

3. Article I, DEFINITONS, is hereby amended, effective May 1, 2011, by inserting a new Section 1.35A to read as follows:

Section 1.35A MIP - means the UPS Management Incentive Program and the UPS International Management Incentive Program, each as in effect from time to time.

4. Section 1.42, Pre-Tax Contribution, is hereby amended, effective December 31, 2008, to read as follows:

Section 1.42 Pre-Tax Contribution - means a contribution to the Plan at the election, or deemed election, of a Participant in accordance with Section 3.1, Pre-Tax Contributions and Section 3.3, Roth Contributions. However, the term “Pre-Tax Contributions” shall not include Roth Contributions for purposes of Sections 1.43, Pre-Tax Contribution Account; 3.1, Pre-Tax Contributions; or 9.8(c), Hardship Withdrawals.

Additionally, the following elective deferrals and Roth contributions will be treated as Pre-Tax Contributions for purposes of determining the Savings*PLUS* Contribution (a) with respect to an individual who becomes eligible to make Pre-Tax Contributions under the Plan during any Plan Year as a result of his or her no longer being covered under a collective bargaining agreement, his or her elective deferrals (within the meaning of Code § 402(g)) and Roth contributions (within the meaning of Code § 402A) under a Collectively Bargained Plan prior to the latest date in such Plan Year on which he or she became eligible to make Pre-Tax Contributions (other than elective deferrals and Roth contributions with respect to which a matching contribution (within the meaning of Code § 401(m)) of any amount was made under the Collective Bargaining Plan) and (b) with respect to an individual who was a participant in a plan that merged into and became a part of the Plan who becomes eligible to make Pre-Tax Contributions as a result of a merger of that plan into the Plan, his or her elective deferrals (within the meaning of Code § 402(g)) and Roth contributions (within the meaning of Code § 402A) made under such merged plan in the Plan Year in which he or she first became eligible to make Pre-Tax Contributions.

5. Section 1.47, Regular Eligible Compensation, is hereby amended, effective May 1, 2011, to read as follows:

Section 1.47 Regular Eligible Compensation - means Eligible Compensation excluding half month, compensation for unused discretionary days and the portion of the MIP award that a Participant may elect to have paid in the form of cash.

6. Section 2.3, Transfers, is hereby amended, effective April 29, 2011, by inserting two new Sections 2.3(c) and 2.3(d) to read as follows:

(c) Transfer to the Teamster 401(k) Plan Notwithstanding Section 2.3(a) and subject to the requirements of this Section 2.3(c), a Participant who is an Employee and eligible to participate in The Teamster - UPS National 401(k) Tax Deferred Savings Plan (the “Teamster 401(k) Plan”) may elect to have all of the investments of his or her Account, other than his or her loan(s), liquidated and converted to cash and the amount of such cash and the loan(s) transferred to the trustees of the Teamster 401(k) Plan. Such transfer election must be completed between April 29, 2011 and July 15, 2011 in accordance with procedures established by the Committee or its designees. The transfer from the Plan to the Trustees of the Teamster 401(k) Plan shall be completed on or about August 1, 2011. A Participant shall not be eligible to transfer his or her Account to the

Teamster Plan if he or she has a domestic relations order under review by the Committee on the date the transfer is completed**.** If a Participant who is eligible to participate in the Teamster 401(k) Plan does not elect to transfer his or her Account to the Teamster 401(k) Plan, he or she will be subject to Section 2.3(a).

(d) Transfer to the IAM National Plan Notwithstanding Section 2.3(a) and subject to the requirements of this Section 2.3(c), a Participant who is an Employee and eligible to participate in The I. A. M. National 401(k) Plan (the "IAM 401(k) Plan") may elect to have all of the investments of his or her Account, other than his or her loan(s), liquidated and converted to cash and the amount of such cash and the loan(s) transferred to the trustees of the IAM 401(k) Plan. Such transfer election must be completed between July 15, 2011 and September 16, 2011 in accordance with procedures established by the Committee or its designees. The transfer from the Plan to the Trustees of the IAM Plan shall be completed on or about September 23, 2011. A Participant shall not be eligible to transfer his or her Account to the IAM Plan if he or she has a domestic relations order under review by the Committee on the date the transfer is completed**.** If a Participant who is eligible to participate in the IAM 401(k) Plan does not elect to transfer his or her Account to the IAM 401(k) Plan, he or she will be subject to Section 2.3(a).

7. Section 3.1(a) is hereby amended, effective January 1, 2012, to insert a new Section 3.1(a)(5) immediately following Section 3.1(a)(4), to read as follows:

(5) effective January 1, 2012, from 1% to 100%, in 1% increments, of the portion of his or her Eligible Compensation attributable to sales incentive program bonus payments.

8. Section 3.1(a)(4) is hereby amended, effective May 1, 2011, to read as follows:

(4) from 1% to 100%, in 1% increments, of the portion of his or her Eligible Compensation attributable to the portion of his or her MIP award that he or she may elect to have paid in the form of cash (less amounts withheld for FICA and Medicare taxes).

9. Section 3.1(c), Catch-Up Contributions, is hereby amended, effective September 1, 2011, to read as follows:

(c) Catch-Up Contributions. Effective as of August 1, 2002, subject to the rules and limitations in this Section 3.1 and in Article 5 except as otherwise provided, each Participant who is an Eligible Employee (other than an Eligible Employee employed in Puerto Rico) who will attain age 50 or older before the close of the Plan Year shall be eligible to make Catch-Up Contributions effective August 1, 2002, in 1% increments from 1% to 20% and, effective January 1, 2003, in 1% increments from 1% to 10% of his or her Regular Eligible Compensation and in accordance with, and subject to the limitations of, Code § 414(v). Effective September 1, 2005, each Participant who is an Eligible Employee (other than an Eligible Employee employed in Puerto Rico) who will attain age 50 before the close of the Plan Year shall be eligible to make Catch-Up Contributions in 1% increments from 1% to 100% of the portion of his or her MIP award payable in the form of cash (less amounts withheld for FICA and Medicare taxes). Such Catch-Up Contributions shall not be taken into account for purposes of the provisions of the Plan implementing the required limitations of Code §§ 402(g) and 415. The Plan shall not be treated as failing to satisfy the provisions of the Plan implementing the requirements of Code §§ 401(k)(3), 410(b), or 416, as applicable, by reason of the making of such Catch-Up Contributions. Catch-Up Contributions shall be treated as Pre-Tax Contributions for purposes of Sections 3.5, 3.6, 3.7, 6.2 and Article VII. Catch-Up Contributions shall be credited to a Participant's Pre-Tax Contribution Account unless the Committee determines that such contributions (and investment gains or losses on such contributions) should be credited to a separate subaccount. Catch-Up Contributions may not be made from MIP cash advance payments paid to Participants during the month of December 2011.

10. Section 3.3, Roth Contributions, is hereby amended, effective September 1, 2011, to read as follows:

Section 3.3 Roth Contributions. Effective as of July 30, 2007, subject to the rules and limitations in this Section 3.3 and in Article 5 except as otherwise provided, each Participant who is an Eligible Employee (other than an Eligible Employee employed in Puerto Rico) shall be eligible to make Roth Contributions in 1% increments of his or her Regular Eligible Compensation for each pay period and in accordance with and subject to the limitations of Code Section 402A. Each Participant who is an Eligible Employee (other than an Eligible Employee employed in Puerto Rico) shall be eligible to make Roth Contributions in 1% increments from 1% to 100% of his or her compensation for unused discretionary days off each pay period and in accordance with and subject to the limitations of Code Section 402A. The sum of Roth Contributions and Pre-Tax Contributions may not exceed 35% of Eligible Compensation for any pay period. Roth Contributions shall be credited to a Participant's Roth Contributions Account.

11. Section 7.1(a) is hereby amended, effective for plan years beginning after December 31, 2007, by inserting a sentence at the end of such Section to read as follows:

To the extent that the Plan is an "applicable defined contribution plan" within the meaning of Code § 401(a)(35)(E) and the regulations thereunder, the requirements of Appendix 7.1, Diversification Requirements of Code § 401(a)(35), shall apply.

12. Section 9.4, Required Beginning Date under Code § 401(a)(9), is hereby amended, effective for the calendar year beginning January 1, 2009, to insert a new paragraph at the end of such Section to read as follows:

Notwithstanding the foregoing, a Participant or Beneficiary who would have been required to receive required minimum distributions for calendar year 2009 ("2009 RMDs") but for the enactment of Code Section 401(a)(9)(H), will receive 2009 RMDs. In addition, notwithstanding Section 9.13(b)(1), 2009 RMDs are not eligible rollover distributions.

13. The Plan is hereby amended effective for plan years beginning after December 31, 2007 by inserting a new Appendix 7.1, Diversification Requirements of Code § 401(a)(35), at the end of the Plan to read as attached.

IN WITNESS WHEREOF, the undersigned certify that United Parcel Service of America, Inc. based upon action taken by its Board of Directors and/or its Executive Committee has caused this Amendment Number Five to be adopted.

ATTEST:	UNITED PARCEL SERVICE OF AMERICA, INC.
/s/ Teri P. McClure	/s/ D. Scott Davis
Teri P. McClure Secretary	D. Scott Davis Chairman
Date: December 19, 2011	Date: December 19, 2011

Appendix 7.1
Diversification Requirements of Code § 401(a)(35)

Effective for Plan Years beginning after December 31, 2007.

Diversification Requirements for Pre-Tax Contributions, After-Tax Contributions, Catch-Up Contributions, Roth Contributions and Rollover Contributions Invested in Employer Securities.

Section 1. The provisions of this Appendix apply only if the Plan holds any publicly traded employer security, except as described in Section 1.1. For purposes of this Appendix a publicly traded security is a security which is traded on a national securities exchange that is registered under section 6 of the Securities Exchange Act of 1935 or which is traded on a foreign national securities exchange that is officially recognized, sanctioned, or supervised by a governmental authority and the security is deemed by the Securities and Exchange Commission as having a “ready market” under SEC Rule 15c3-1 (17 CFR 240.15c3).

Section 1.1. If the Employer, or any member of a controlled group of corporations which includes the Employer, has issued a class of stock which is a publicly traded employer security, and the Plan holds employer securities which are not publicly traded employer securities, then the Plan shall be treated as holding publicly traded employer securities.

Section 1.2. With respect to a Participant (including for purposes of this section an alternate payee who has an account or a deceased Participant’s Beneficiary), if any portion of the Participant’s account is invested in publicly traded employer securities, then the Participant must be offered the opportunity to elect to divest those employer securities and reinvest an equivalent amount in other investment options as described in Section 1.3.

Section 1.3. At least three investment options (other than employer securities) must be offered to Participants described in Section 1.2. Each investment option must be diversified and have materially different risk and return characteristics. Periodic reasonable divestment and reinvestment opportunities must be provided at least quarterly.

Except as provided in Code Section 401(a)(35)(D)(ii)(I), restrictions (either direct or indirect) or conditions will not be imposed on the investment of publicly traded employer securities if such restrictions or conditions are not imposed on the investment of other plan assets.

Effective for Plan Years beginning on or after January 1, 2011.

Diversification Requirements for Pre-Tax Contributions, After-Tax Contributions, Catch-Up Contributions, Roth Contributions and Rollover Contributions Invested in Employer Securities.

Section 2. The provisions of this Appendix apply only if the Plan holds any publicly traded employer security, except as described in Section 2.1. For purposes of this Appendix, a publicly traded security is a security which is traded on a national securities exchange that is registered under section 6 of the Securities Exchange Act of 1935 or which is traded on a foreign national securities exchange that is officially recognized, sanctioned, or supervised by a governmental authority and the security is deemed by the Securities and Exchange Commission as having a “ready market” under SEC Rule 15c3-1 (17 CFR 240.15c3).

Section 2.1. If the Employer, or any member of a controlled group of corporations (as described in Treasury Regulation § 1.401(a)(35)-1(f)(2)(iv)(A)) which includes the Employer, has issued a class of stock which is a publicly traded employer security, and the Plan holds employer securities which are not publicly traded employer securities, then the Plan shall be treated as holding publicly traded employer securities.

Section 2.2. With respect to a Participant (including for purposes of this section an alternate payee who has an account or a deceased Participant's Beneficiary), if any portion of the Participant's account is invested in publicly traded employer securities, then the Participant must be offered the opportunity to elect to divest those employer securities and reinvest an equivalent amount in other investment options as described in Section 2.3.

Section 2.3. At least three investment options (other than employer securities) must be offered to Participants described in Section 2.2. Each investment option must be diversified and have materially different risk and return characteristics. Periodic reasonable divestment and reinvestment opportunities must be provided at least quarterly. Except as provided in Treasury Regulation sections 1.401(a)(35)-1(e)(2) and (3), restrictions (either direct or indirect) or conditions will not be imposed on the investment of publicly traded employer securities if such restrictions or conditions are not imposed on the investment of other plan assets.

Exhibit 10.5

UPS

EXCESS COORDINATING BENEFIT PLAN

As Amended and Restated As Of
January 1, 2011

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UPS

EXCESS COORDINATING BENEFIT PLAN

United Parcel Service of America, Inc. ("UPS") established this UPS Excess Coordinating Benefit Plan to provide to certain highly compensated and management employees of UPS or its affiliated companies who are participants in the Retirement Plan with the Coordinating Final Average Pay Benefit and the Coordinating Survivor Benefit, which are intended to provide those retirement benefits that cannot be paid from the Retirement Plan as a result of the limitations imposed by Sections 401(a)(17) and 415 of the Code. UPS hereby amends and restates the Plan effective as of January 1, 2011 (1) to clarify the calculation and timing of annuity payments, (2) to delegate certain administrative and amendment responsibilities to the UPS Salary Committee and (3) to add the following benefits: (i) a Coordinating PAF Benefit, which provides a benefit that cannot be paid from the Retirement Plan as a result of the limitations of Sections 401(a)(17) and 415 of the Code, (ii) a Coordinating International Service Benefit, which also provides a final average compensation formula benefit for certain international employees localized to the U.S. based on their total service, (iii) a Coordinating Survivor Benefits for the Coordinating PAF Benefit and the Coordinating International Service Benefit, (iv) a Coordinating Survivor Benefit for certain deceased former managers and (v) a Coordinating Final Average Pay Benefit and corresponding Coordinating Survivor Benefit for certain disabled former managers. The amended and restated Plan applies to any Participant whose benefits commence on or after January 1, 2011.

ARTICLE I - DEFINITIONS

Definitions. Whenever used herein, the following words shall have the meaning set forth below unless otherwise clearly required by the context:

1.1 "Actuarial Equivalent" means "actuarial equivalent" as defined in the Retirement Plan.

1.2 "Beneficiary" means with respect to the Coordinating Final Average Pay Benefit and the Coordinating International Service Benefit the beneficiary designated by the Participant to receive a survivor annuity under the Joint and Survivor Annuity form of benefit or to receive guaranteed payments under the Single Life Annuity with 120-Month Guarantee. If the Participant selects a Single Life Annuity with 120-Month Guarantee and the designated beneficiary does not survive the Participant, the Participant's Beneficiary for purposes of receiving the guaranteed payment, if any, remaining under such option, will be the Participant's surviving Spouse or Domestic Partner at the time the Participant's benefit commenced or, if none survives the Participant, his or her estate.

1.3 "Benefit Service" means "benefit service" as defined in the Retirement Plan for purposes of a Final Average Compensation Formula or if the Participant is not accruing benefits in the Retirement Plan under a Final Average Compensation Formula, the "benefit service" such Participant would have had if he or she were accruing benefits under a Final Average Compensation Formula.

1.4 "Board of Directors" means the Board of Directors and/or Executive Committee of UPS.

1.5 "Change in Control" means "change in control" as defined in the 2009 Incentive Compensation Plan, as amended, or any successor to that plan.

1.6 "Code" means the Internal Revenue Code of 1986, as amended.

1.7 "Committee" means the administrative committee of the Plan, the establishment and responsibilities of which are set forth in Article VI.

1.8 "Coordinating Final Average Compensation Formula" means for an Eligible International Service Participant one of the following:

(a) for such a Participant who is accruing benefits in the Retirement Plan under a Final Average Compensation Formula, that Final Average Compensation Formula;

(b) for such a Participant whose Plan Hire Date is before January 1, 2008 who is not accruing benefits in the Retirement Plan under a Final Average Compensation Formula, the Final Average Compensation Formula that would have applied to such Participant if he or she had become a participant in the Retirement Plan on the Participant's Plan Hire Date and if the formula is a RPA Formula, it will be the RPA Formula described in Appendix F-1 of the Retirement Plan; or

(c) for such a Participant whose Plan Hire Date is on or after January 1, 2008, the RPA Formula described in Appendix F-1 of the Retirement Plan.

If a Participant's Coordinating Final Average Compensation Formula is integrated with U.S. Social Security, the Social Security Benefit Amount shall be estimated pursuant to the methodology described in the Retirement Plan but the Participant's actual U.S. Social Security benefit shall not be used in the Coordinating Final Average Compensation Formula.

1.9 "Coordinating Final Average Pay Benefit" means the benefit described in Section 3.1(b).

1.10 "Coordinating International Service Benefit" means the benefit described in Section 3.1(e).

1.11 "Coordinating PAF Benefit" means the benefit described in Section 3.1(d).

1.12 "Coordinating Survivor Benefit" means the benefit described in Section 4.1.

1.13 "Distribution Event" means as follows:

(a) Coordinating Final Average Pay Benefit. The Distribution Event for the Coordinating Final Average Pay Benefit shall be

(i) For a Participant (other than an Eligible Disabled Participant), the later of the RPRO Rollout Date or the Participant's Separation from Service; and

(ii) For an Eligible Disabled Participant, the later of the Participant's 55^{th} birthday or the Participant's Separation from Service.

(b) Coordinating International Service Benefit. The Distribution Event for the Coordinating International Service Benefit shall be the later of the Participant's 55^{th} birthday or the Participant's Separation from Service.

1.14 "Domestic Partner" means the Participant's "domestic partner" for purposes of the Retirement Plan.

1.15 "Effective Date" means January 1, 2011, the effective date of this amendment and restatement.

1.16 "Eligible Deceased Participant" means each former full-time manager of an Employer Company (as so designated on the payroll records for such Employer Company) who died while employed by an Employer Company and after he or she had completed at least 25 "years of service" as described in the Retirement Plan and who is designated as such on Exhibit C.

1.17 "Eligible Disabled Participant" means each former full-time manager of an Employer Company (as so designated on the payroll records for such Employer Company) who is a LTD Participant as described in the Retirement Plan, who at the time he or she became a LTD Participant had completed at least 25 "years of service" as described in the Retirement Plan, who is designated as an Eligible Disabled Participant on Exhibit D and who remains a LTD Participant until his or her Distribution Event.

1.18 "Eligible Employee" means each full-time manager and supervisor of an Employer Company (as so designated on the payroll records for such Employer Company) who has reached age 55 and completed as least 10 "years of service" as described in the Retirement Plan.

1.19 "Eligible International Service Participant" means each full-time manager or supervisor of an Employer Company selected by the UPS Salary Committee for participation in the Plan on the recommendation of the Committee, who is identified as such in Exhibit B and who is an "eligible employee" as defined in the Retirement Plan.

1.20 "Employer Company" means an Employer Company for purposes of the Retirement Plan.

1.21 "ERISA" means the Employee Retirement Income Security Act of 1974, as amended.

1.22 “FAC” means “final average compensation” as defined in the Retirement Plan for purposes of a Final Average Compensation Formula or if the Participant is not accruing benefits in the Retirement Plan under a Final Average Compensation Formula, the “final average compensation” such Participant would have had if he or she were accruing benefits under a Final Average Compensation Formula.

1.23 “Final Average Compensation Formula” means “final average compensation formula” as defined in the Retirement Plan.

1.24 “Final Interest Credit Percentage” means, for purposes of the Coordinating PAF Benefit, the Interest Credit Percentage in effect under the Retirement Plan on the date of the Participant’s Separation from Service.

1.25 “Hour of Service” means “hour of service” as defined in the Retirement Plan.

1.26 “International Benefit Service” means for each Eligible International Service Participant that additional service attributable to employment with a Related Employer (other than a U.S. domestic Related Employer) that will be added to a Participant’s Benefit Service for purposes of calculating the Participant’s benefit under Section 3.1(e)(i), and such additional service shall be equal to (a) the sum of an Eligible Employee’s years (including fractional years) of employment with one or more Related Employers (other than a U.S. domestic Related Employer) since his or her Plan Hire Date that would be treated as Benefit Service if such Related Employer had been a U.S. domestic Employer Company during such period of employment or (b) such other amount of service as may be determined from the period of service set forth for such Eligible International

Service Participant in Exhibit B. Notwithstanding the forgoing, International Service shall not include (i) any years (or fractional years) of employment that are taken into account for purposes of computing a benefit under the UPS International Retirement Plan or any successor plan and (ii) any years (or fractional years) of employment after an individual ceases employment as an Eligible International Service Participant except to the extent provided in Exhibit B.

1.27 "International Plan" has the meaning ascribed to such term in Section 3.1(e)(iii)(4).

1.28 "Joint and Survivor Annuity" means a reduced monthly benefit (compared to the Single Life Only Annuity) payable to the Participant for his or her lifetime, and after the Participant's death, a monthly lifetime survivorship benefit payable to the Participant's Beneficiary in an amount equal to 50%, 75% or 100%, as selected by the Participant, of the monthly amount which had been payable to the Participant. The Joint and Survivor Annuity shall be the Actuarial Equivalent of the Single Life Only Annuity. The last payment of the Joint and Survivor Annuity shall be made as of the first day of the calendar month in which the death of the last to die of the Participant and his or her Beneficiary has occurred. Notwithstanding the foregoing, a Participant may not select a Joint and Survivor Benefit with a Beneficiary who would not be eligible to receive the percentage survivor benefit selected under the requirements of Treasury Regulation Section 1.401(a)(9)-6, A-2.

1.29 "LTD Participant" means a "LTD participant" as defined in the Retirement Plan.

1.30 "Normal Retirement Date" means the Participant's "normal retirement date" under the Retirement Plan.

1.31 “PAF Present Value Factor” means the factor determined by applying the following formula:

1 + [1 / (1 + p)] times (PV4)

where

p = (m/12) x i

m = number of calendar months from the date the first installment is paid through the end of the calendar year in which the first installment is paid

i = Final Interest Credit Percentage

PV4 = 1 + v + v^2 + v^3

v = 1/(1+i)

1.32 “Participant” means an Eligible Employee who becomes a participant in the Plan in accordance with Article II, an Eligible Disabled Participant, an Eligible Deceased Participant or an Eligible International Service Participant.

1.33 “Plan” means the UPS Excess Coordinating Benefit Plan as set forth in this document and as hereafter amended in accordance with Article VII from time to time.

1.34 “Plan Hire Date” means for each Eligible International Service Participant the first day on which he or she completed an Hour of Service with an Employer Company or a Related Employer while such company was an Employer Company or Related Employer or such other date as is specified for such Participant in Exhibit B.

1.35 "Portable Account Benefit" means "portable account benefit" as defined in the Retirement Plan.

1.36 "Present Value" means "present value" as defined in the Retirement Plan from time to time.

1.37 "Prior Plan" means the UPS Coordinating Benefit Plan, as established as of January 1, 1986 and as thereafter amended or the Plan, as established January 29, 1998 and as in effect before January 1, 2009.

1.38 "Qualified Joint and Survivor Annuity" means a reduced monthly benefit (compared to the Single Life Only Annuity) payable to the Participant for his or her lifetime, and following his death, 50% of the monthly benefit paid to the Participant shall be payable to the person who was his or her Spouse as of the date benefit payments commenced, provided such Spouse survives the Participant. The last payment of a Qualified Joint and Survivor Annuity shall be made as of the first day of the month in which the death of the last to die of the Participant and his Spouse has occurred. This benefit shall be the Actuarial Equivalent of the Single Life Only Annuity.

1.39 "Related Employer" means a "related employer" as defined in the Retirement Plan.

1.40 "Retirement Plan" means the UPS Retirement Plan, as amended.

1.41 "RPA Formula" means "rpa formula" as defined in the Retirement Plan.

1.42 "RPRO" means the Restoration Plan Rollover Option under which certain Participants in the Prior Plan made an irrevocable election in 1999 to exchange certain benefits earned under the Prior Plan for a split dollar life insurance benefit.

1.43 "RPRO Lump Sum Target Amount" means the present value of the monthly benefit exchanged under the RPRO as calculated in 1999 for each Participant who participated in the RPRO.

1.44 "RPRO Make-up Payment" means the payment described in Section 3.1(b).

1.45 "RPRO Offset" means the amount of the monthly benefit that the Participant exchanged for a split dollar life insurance benefit under the RPRO as reflected in the records of the Plan and as actuarially adjusted to the RPRO Rollout Date using the interest rate specified in Exhibit A and the 1983 GAM Unisex mortality table.

1.46 "RPRO Rollout Date" means for each split dollar policy purchased under the RPRO the date specified in Exhibit A.

1.47 "Salary Committee" means the Salary Committee of United Parcel Service, Inc.

1.48 "Section 409A" means Section 409A of the Code and any regulations or rulings thereunder.

1.49 "Separation from Service" means the termination of employment with, or termination of service as a director of, an Employer Company and all Affiliates for any reason, other than death, in such a manner as to constitute a "separation from service" within the meaning of Section 409A.

1.50 “Single Life Only Annuity” means a monthly benefit continuing for the life of the Participant only. The last payment of a Single Life Only Annuity shall be made as of the first day of the month in which the death of the Participant occurs.

1.51 “Single Life Only Annuity with 120-Month Guarantee” means a reduced monthly benefit (compared to the Single Life Only Annuity) payable to the Participant for his or her lifetime, with a guarantee of 120 monthly payments. If the Participant dies after the date as of which benefits commence, but before receiving 120 monthly payments, monthly payments shall be made to the Participant’s Beneficiary, until the Participant and his or her Beneficiary have received a total of 120 monthly payments.

1.52 “Spouse” means the Participant’s “spouse” for purposes of the Retirement Plan.

1.53 “Survivor Distribution Event” means the event described in Section 4.1(a).

ARTICLE II - ELIGIBILITY AND PARTICIPATION

2.1 General. The Committee shall designate those Eligible Employees who shall be entitled to participate in the Plan and the UPS Salary Committee shall designate those full-time managers or supervisors and former full-time managers who are eligible to participate as an Eligible International Service Participant, an Eligible Disabled Participant or an Eligible Deceased Participant. Each person so designated (or the Spouse or Domestic Partner of an Eligible Deceased Participant) shall complete such application or other procedures established by the Committee to commence participation or otherwise receive benefits under the Plan.

2.2 Prior Plan. Each Eligible Employee who was a Participant in the Plan immediately before January 1, 2009 but who did not commence receiving benefits before 2009 shall continue to participate in the Plan on and after January 1, 2009. Each Participant and each surviving Spouse or Domestic Partner who was receiving a benefit under a Prior Plan before January 1, 2009 shall continue to receive such benefit under the terms of the applicable Prior Plan under which benefits commenced.

2.3 Change in Control. Each employee of an Employer Company who is employed as a full-time manager or supervisor (as designated on the payroll records for such Employer Company) at the time of a Change in Control whose benefit under the Retirement Plan is limited at any date on or after the Change in Control by Section 401(a)(17) or Section 415 of the Code automatically will become a participant in the Plan as of the latest to occur of the date his or her Retirement Plan benefit first becomes limited or the date of the Change in Control.

ARTICLE III - BENEFITS

3.1 Retirement Benefits.

(a) General. In general, a Participant, including an Eligible Disabled Participant, who is eligible for a Final Average Compensation Formula benefit under the Retirement Plan will be eligible to receive the Coordinating Final Average Pay Benefit calculated as described in Section 3.1(b) and a Participant (other than an Eligible Disabled Participant) who is eligible for a Portable Account benefit under the Retirement Plan will be eligible to receive the Coordinating PAF Benefit calculated as described in Section 3.1(d). A Participant who is an Eligible International Service Participant will be eligible to receive a Coordinating International Service Benefit calculated as described in Section 3.1(e) in lieu of the Coordinating Final Average Pay Benefit or the Coordinating PAF Benefit. A Participant described in Exhibit A who is eligible for a Coordinating Final Average Pay Benefit also may be eligible for a RPRO Make-up Payment calculated as described in Section 3.1(c). The Committee in its discretion will determine the particular type of benefit (Coordinating Final Average Pay Benefit, Coordinating PAF Benefit, Coordinating International Service Benefit or RPRO Make-up Payment) that a Participant will be eligible to receive. A Participant will not be entitled to a benefit until the Participant has a Separation from Service after which time benefits will be paid at the time described in Section 3.2 and in the form described in Section 3.3.

(b) Coordinating Final Average Pay Benefit. The Coordinating Final Average Pay Benefit shall be equal to (i) minus (ii), adjusted in accordance with (iii), below, where:

(i) is the Participant's Final Average Compensation Formula benefit from the Retirement Plan payable to the Participant as of his or her Normal Retirement Date in a Single Life Only Annuity offset but without taking into account the additional benefits described in Appendix D of the Retirement Plan or the limitations of Sections 401(a)(17) and 415 of the Code.

(ii) is the Participant's actual Final Average Compensation Formula benefit that would be payable to him or her from the Retirement Plan as of his or her Normal Retirement Date in a Single Life Only Annuity.

(iii) is any of the following adjustments, as applicable:

(1) If the benefit commences before Normal Retirement Date, the benefit shall be reduced prior to commencement by the early retirement reductions that would be applied to reduce Final Average Compensation Formula benefit payable under the Retirement Plan before Normal Retirement Date;

(2) the benefit shall be reduced or increased at least annually to reflect increases or reductions in the limitations of Section 415 of the Code applicable to the Participant's Final Average Compensation Formula benefit under the Retirement Plan; and

(3) if the Participant participated in the RPRO, the benefit shall be reduced prior to commencement by the RPRO Offset.

(c) RPRO Make-up Payment. The RPRO Make-up Payment shall be equal to the shortfall, if any, of (i) the eligible Participant's RPRO Lump Sum Target Amount less (ii) the sum of the net cash surrender value of the applicable life insurance policy purchased for such Participant under the RPRO as determined as of the later of the Participant's Rollout Date or Separation from Service.

(d) Coordinating PAF Benefit. The Coordinating PAF Benefit shall be equal to (i) minus (ii), each as defined below, determined as of the last day of the calendar month in which the Participant has a Separation from Service and adjusted for interest at the same rate as the Final Interest Credit Percentage for the period beginning on the first day of the calendar month that begins after the Participant's Separation from Service and ending on the last day of the sixth calendar month that begins after the Participant's Separation from Service.

(i) = The balance that would be credited to the Participant's Portable Account under the Retirement Plan determined without taking into account the limitations of Sections 401(a)(17) and 415 of the Code; and

(ii) = The balance actually credited to Participant's Portable Account under the Retirement Plan.

(e) Coordinating International Service Benefit. The Coordinating International Service Benefit shall be equal to (i) minus (ii), adjusted in accordance with (iii), below, where:

(i) is the benefit that would be payable to the Eligible International Service Participant from the Retirement Plan as of his or her Normal Retirement Date in a Single Life Only Annuity based on such Participant's Coordinating Final Average Compensation Formula taking into account the sum of his or her Benefit Service and his or her International Benefit Service, and without taking into account the limitations of Sections 401(a)(17) and 415 of the Code.

(ii) is the Participant's actual Final Average Compensation Formula benefit , if any, that would be payable to him or her from the Retirement Plan as of his or her Normal Retirement Date in a Single Life Only Annuity.

(iii) is any of the following adjustments, as applicable:

(1) if the benefit commences before Normal Retirement Date, the benefit shall be reduced prior to commencement by the early retirement reductions that would be applied to reduce the applicable Coordinating Final Average Compensation Formula benefit under the Retirement Plan if benefits commence before Normal Retirement Date;

(2) the benefit shall be reduced by the Actuarial Equivalent Single Life Only Annuity benefit that would be payable to him or her from his or her benefit commencement date based on his or her Portable Account under the Retirement Plan or if his or her Portable Account has been paid to him or her prior to such benefit commencement date, the Actuarial Equivalent Single Life Only Annuity benefit that would have been payable to him or her as of the benefit commencement date based on his or her Portable Account at his or her Separation from Service;

(3) the benefit shall be reduced or increased at least annually to reflect increases or reductions in the limitations of Section 415 of the Code that would be applicable to the Participant's Coordinating Final Average Compensation Formula benefit under the Retirement Plan; and

(4) if the Participant participated in any other defined benefit type of scheme, trust, arrangement or plan (including governmental schemes, trusts, arrangements or plans) maintained outside the United States (an "International Plan") to which contributions have been made by a Related Employer on behalf of such person or under which service is counted in calculating his or her International Benefits Service and is not attributable to contributions made to such other plan or program by the Participant, then for each such International Plan, the following reductions shall apply;

(I) if such International Plan would be treated as a "broad-based foreign retirement plan" under Treasury Regulation Section 1.409A-1(a)(3)(v), the benefit calculated under Section 3.1(e) shall be further reduced by the amount of any benefits payable to the Participant under such International Plan in the same manner that benefits would be reduced under the Retirement Plan for benefits payable under other plans; or

(II) if such International Plan would not be treated as a "broad-based foreign retirement plan" under Treasury Regulation Section 1.409A-1(a)(3)(v), the benefit calculated under Section 3.1(e) shall be further reduced by the amount of the Single Life Only Annuity benefit payable at Normal Retirement Age produced by applying the Participant's Coordinating Final Average Compensation Formula to his or her FAC and the years and fractional years of International Benefit Service attributable to such International Plan.

3.2 Timing. A Participant's Coordinating Final Average Pay Benefit or Coordinating International Service Benefit will be calculated as of the first day of the calendar month next following the Participant's Distribution Event and such benefit will commence to be paid on the first day of the seventh calendar month that begins after the applicable Distribution Event. Notwithstanding the forgoing, monthly payments that would have been payable to the Participant if the Participant's benefit commencement date had been the first day of the first calendar month that begins after the applicable Distribution Event will be accumulated (without interest) and paid to the Participant in a single sum on his or her actual benefit commencement date. The RPRO Make-Up Payment shall be paid on the first day of the seventh calendar month that begins after the Participant's Separation from Service in the form described in Section 3.3. The Coordinating PAF Benefit shall commence on the first day of the seventh calendar month that begins after the Participant's Separation from Service in the form described in Section 3.3.

3.3 Form of Benefit.

(a) Coordinating Final Average Pay Benefit and Coordinating International Service Benefit.

(i) Annuity Form. Subject to Section 3.3(a)(ii), the Coordinating Final Average Pay Benefit and Coordinating International Service Benefit shall be paid in a Single Life Only Annuity if the Participant is not married on the date as of which benefits are scheduled to commence under Section 3.2, in a Qualified Joint and Survivor Annuity if the Participant is married on the date as of which benefits are scheduled to commence under Section 3.2, and a 50% Joint and Survivor Annuity with the Participant's Domestic Partner if the Participant does not have a Spouse but has a Domestic Partner on the date as of which benefits are scheduled to commence under Section 3.2. Alternatively, a Participant may elect to receive a Single Life Only Annuity, a Joint and Survivor Annuity or a Single Life Annuity with 120-Month Guarantee; provided such election is made on or before the first day of the fifth calendar month that begins after the Participant's Distribution Event. The form of annuity shall be irrevocable after the first day of the fifth calendar month that begins after the Participant's Distribution Event.

(ii) Lump Sum. Notwithstanding any other provisions of the Plan, if as of the date benefits are scheduled to commence under Section 3.2 the dollar amount of the monthly annuity benefit of the Participant's Coordinating Final Average Pay Benefit or his or her Coordinating International Service Benefit (when aggregated with dollar amount of the monthly benefit attributable to the Participant's interest in each other deferred compensation arrangements required to be aggregated with the Coordinating Final Average Pay Benefit or his or her Coordinating International Service Benefit under Section 409A (collectively, the "Required Aggregation Group")) does not exceed the lesser of (i) $85.00 per month or (ii) that monthly benefit the Present Value of which would not exceed the dollar limitation under Section 402(g)(1)(B) of the Code, then the Present Value of such benefit (and the Present Value of the Participant's benefits under each arrangement in the Required Aggregation Group) shall be paid to the Participant in a lump sum at the time described in Section 3.2.

(b) RPRO Make-up Payment. The RPRO Make-up Payment shall be paid in a lump sum.

(c) Coordinating PAF Benefit. The Coordinating PAF Benefit shall be paid in five equal installments, with the first installment being paid on the first day of the seventh calendar month following the Participant's Separation from Service and the remaining four installments being paid on the first day of each subsequent calendar year. The amount of each installment will be calculated by multiplying the Coordinating PAF Benefit by the PAF Present Value Factor.

ARTICLE IV - COORDINATING SURVIVOR BENEFIT

4.1 Coordinating Survivor Benefit.

(a) Coordinating Survivor Benefit—Final Average Pay. Upon the death of a Participant (other than an Eligible Disabled Participant, an Eligible Deceased Participant, an Eligible International Service Participant or a Participant who was receiving a death benefit under the Prior Plan) before commencement of a Coordinating Final Average Pay Benefit, such Participant's surviving Spouse or Domestic Partner, if he or she is entitled to receive a Preretirement Survivor Annuity under the Retirement Plan, shall be entitled to receive a Coordinating Survivor Benefit from the Plan equal to the amount of the survivor benefit that would be payable to such Spouse or Domestic Partner if the Participant had Separated from Service on the earlier of his or her actual Separation from Service or the date of his or her death, elected to receive his or her benefit under Section 3.1(b) in the form of a 50% Joint and Survivor Annuity with his or her Spouse or Domestic Partner commencing as of the first day of the calendar month next following the Participant's date of death, and died immediately after beginning to receive such benefit. The surviving Spouse or Domestic Partner of an Eligible Deceased Participant, an Eligible Disabled Participant or an Eligible International Service Participant who dies before commencement of his or her Coordinating Final Average Pay Benefit or Coordinating International Service Benefit shall, if such surviving Spouse or Domestic Partner is entitled to a Preretirement Survivor Annuity under the Retirement Plan, be entitled to a Coordinating Survivor Benefit from the Plan equal to the amount of the survivor benefit that would be payable to such Spouse or Domestic Partner if (i) the Participant had Separated from Service on his date of death, (ii) survived to the later of his or her 55th birthday or his or her date of death (the "Survivor Distribution Event"), (iii) elected to receive his or her benefit under Section 3.1(b) in the case of a Participant other than an Eligible International Service Participant or Section 3.1(e) in the case of an Eligible International Service Participant in the form of a 50% Joint and Survivor Annuity with his or her Spouse or Domestic Partner commencing as of the first day of the calendar month next following the Survivor Distribution Event, and (iv) died immediately after beginning to receive such benefit. The Coordinating Final Average Pay Survivor Benefit in respect of a Participant other than an Eligible International Service Participant will be adjusted for changes in limitations under Section 415 of the Code in a manner similar to Section 3.1(b)(iii)(2). Notwithstanding the forgoing, if a Coordinating Survivor Benefit would be payable on behalf of a deceased Participant who had elected a 75% or 100% Joint and Survivor Annuity with his or her Spouse or Domestic Partner as the form of payment for his or her Coordinating Final Average Pay Benefit or Coordinating International Service Benefit, the form elected by the deceased Participant shall be substituted for the 50% Joint and Survivor Annuity for purposes of determining the Coordinating Surviving Benefit.

(b) Coordinating Survivor Benefit—PAF. A Coordinating Survivor Benefit shall be paid on behalf of (i) a Participant who dies before commencement of the Coordinating PAF Benefit or (ii) a Participant who dies after commencement of the Coordinating PAF Benefit but before receipt of all five installments. The Coordinating PAF Survivor Benefit shall be equal to in the case of a Participant described in (i) of the preceding sentence, the sum of the five installments that would have been payable to the deceased Participant and in the case of a Participant described in (ii) of the preceding sentence, the sum of the remaining installments that would have been paid to the deceased Participant.

4.2 Timing and Form.

(a) Coordinating Survivor Benefit—Final Average Pay. Except as provided below, the Coordinating Surviving Benefit for the surviving Spouse or Domestic Partner of a Participant (other than an Eligible Deceased Participant, an Eligible Disabled Participant or an Eligible International Service Participant) calculated as of the first day of the calendar month next following the Participant's date of death shall commence on the first day of the seventh calendar month after the month in which the Participant dies. Notwithstanding the forgoing, monthly payments that would have been payable to the surviving Spouse or Domestic Partner if the Participant's benefit commencement date had been the first day of the first calendar month that begins after the Participant's date of death will be accumulated (without interest) and paid to the surviving Spouse or Domestic Partner in a single sum on his or her actual benefit commencement date. The Coordinating Survivor Benefit for the surviving Spouse or Domestic Partner of an Eligible Deceased Participant, an Eligible Disabled Participant or an Eligible International Service Benefit calculated as of the first day of the calendar month next following the Survivor Distribution Event shall commence on the first day of the seventh calendar month after the month in which occurs the Survivor Distribution Event. Notwithstanding the forgoing, monthly payments that would have been payable to the surviving Spouse or Domestic Partner if the Participant's benefit commencement date had been the first day of the first calendar month that begins after the Survivor Distribution Event will be accumulated (without interest) and paid to the surviving Spouse or Domestic Partner in a single sum on his or her actual benefit commencement date. The Coordinating Survivor Benefit shall be paid in a Single Life Only Annuity for the life of the surviving Spouse or Domestic Partner; provided, however, if the Present Value of the Coordinating Survivor Benefit (when aggregated with Spouse's or Domestic Partner's interest in other deferred compensation arrangements required to be aggregated with the Coordinating Survivor Benefit under Section 409A (collectively, the "Required Aggregation Group")) does not exceed the lesser of (i) $85.00 or (2) the dollar limitation under Code Section 402(g)(1)(B), then the Present Value of such benefit (and the Present Value of the Spouse's or Domestic Partner's benefits under each arrangement in the Required Aggregation Group) shall be paid to the Spouse or Domestic Partner in a lump sum.

(b) Coordinating Survivor Benefit—PAF. The Coordinating PAF Survivor Benefit shall be paid in a lump sum as soon as administratively possible, but in no event later than 90 days following the date the Committee learns of the Participant's death: (i) if the Participant was married at his or her date of death, the benefit shall be paid to the Participant's Spouse, (ii) if the Participant was not married at his or her death, but had a Domestic Partner, the benefit shall be paid to the Participant's Domestic Partner, or (iii) if there is no such surviving Spouse or Domestic Partner, the benefit shall be paid to the Participant's estate.

4.3 RPRO Make-up Payment. If a Participant who participated in the RPRO dies after becoming entitled to a RPRO Make-up Payment but prior to receipt of that payment, the RPRO Make-up Payment will be paid to his or her Spouse or Domestic Partner, or if he or she does not have a surviving Spouse or Domestic Partner, to his or her estate at the same time and in the same form as the RPRO Make-up Payment would have been made to the deceased Participant.

ARTICLE V - FORFEITURE OF BENEFITS

Anything herein to the contrary notwithstanding, if a Participant who is receiving, or may be entitled to receive, a benefit hereunder engages in competition with UPS or any Employer Company (without prior written authorization given by the UPS Salary Committee) or is discharged for cause, or performs acts of willful malfeasance or gross negligence in a matter of material importance to the Employer Company, payments thereafter payable hereunder to such Participant or such Participant's Spouse, Domestic Partner or Beneficiary will, at the sole discretion of the UPS Salary Committee, be forfeited and neither UPS nor the Plan will have any further obligation hereunder to such Participant, his or her Spouse, Domestic Partner or Beneficiary.

ARTICLE VI - COMMITTEE

6.1 Establishment of Committee. Authority to control and manage the operation and administration of the plan shall be vested in the Committee consisting of not less than three (3) members, who shall be appointed by the Salary Committee. The Committee shall be the agent for service of process on or with respect to the Plan. Committee members may be removed at any time by the Salary Committee and may resign at any time, such resignation to be effective when accepted by the Salary Committee. All vacancies shall be filled by the Salary Committee. The Committee may appoint from their number such committees, which may include individuals not members of the Committee, with such powers as they shall determine; may authorize one or more of their number, or any agent, to execute or deliver any instrument, or to make any payment in their behalf; and may employ legal counsel (who may be counsel to UPS), agents, and such clerical, accounting and other services as they may require in carrying out the provisions of the Plan. A majority of the members of the Committee at the time in office shall constitute a quorum for the transaction of business. All resolutions or other action taken by the Committee at a meeting shall be by the vote of the majority of the Committee at any meeting; or without a meeting, by instrument in writing signed by all of the members of the Committee.

6.2 Delegation of Specific Responsibilities. The members of the Committee may agree in a writing signed by each member to allocate to any one of their number or to other persons any of the responsibilities with which they are charged pursuant hereto, provided the responsibilities and duties so delegated are definitively set forth so that the person to whom the delegation is made is clearly aware of such duties and responsibilities. If such delegation is made to a person not a member of the Committee, that person or, in the case of a corporation, its responsible officer, shall acknowledge the acceptance and understanding of such duties and responsibilities.

6.3 Power to Establish Regulations. The Committee shall establish rules and regulations for the administration of the Plan and the Committee. Except as otherwise herein expressly provided, the Committee shall have the exclusive right to interpret the Plan and decide any matters arising in the administration and operation of the Plan, and any interpretations or decisions so made shall be conclusive and binding on all persons; provided, however, that all such interpretations and decisions shall be applied in a uniform manner to all employees and Participants similarly situated.

6.4 Liability of the Committee. The Committee and members thereof, to the extent of the exercise of their authority, shall discharge their duties with respect to the Plan with care, skill, prudence and diligence; provided, however, that no Committee member shall be responsible for the actions or omissions of a member or any other person, other than himself or herself, which are not in conformity hereto, unless such member knowingly participates in or knowingly conceals such conduct which he or she knows to be in breach of this standard, his or her own conduct has enabled the other member or other person to be in breach of this standard, or he or she has knowledge of such breach by another member or other person and fails to make reasonable efforts under the circumstances to remedy such breach.

6.5 Reliance by Committee. The members of the Committee, the Salary Committee and the Board of Directors shall be fully protected with respect to any action taken or suffered by them in good faith in reliance upon the advice or opinion of any insurance carrier, accountant, legal counsel or physician, and all action so taken or suffered shall be conclusive upon all Participants and any other person claiming under the Plan.

6.6 Books and Records. The Committee shall keep appropriate books and records.

ARTICLE VII - AMENDMENT AND TERMINATION

7.1 Right of Amendment. UPS reserves the right to make any amendment to the Plan by resolutions of its Board of Directors, provided, however, that (a) Exhibits B-D also may be amended by the Committee from time to time as directed by a resolution of the UPS Salary Committee and (b) no amendment shall reduce UPS's liability to provide any benefits earned to date of amendment hereunder to employees who are Participants on the date of amendment, except as provided in Article V, Forfeiture of Benefits.

7.2 Right to Terminate. UPS, by action of its Board of Directors, may terminate the Plan at any time in whole or in part. No termination of the Plan shall reduce UPS's liability to provide any benefits earned to date of termination hereunder to persons who are Participants on the date of termination based on the provisions of the Plan in effect immediately prior to the date of termination, or the amount of benefits payable to a Participant who has retired under the provisions of the Plan or to the Spouse, Domestic Partner or other Beneficiary receiving benefits under the Plan, except as provided in Article V, Forfeiture of Benefits. Upon termination of the Plan, no additional employees may become Participants hereunder.

ARTICLE VIII - NO FUNDING OBLIGATION

The obligation of UPS to pay any benefits under the Plan shall be unfunded and unsecured; and any payments under the Plan shall be made from the general assets of UPS. Notwithstanding the foregoing, UPS may, in its discretion, establish an irrevocable grantor trust for the purpose of funding all or part of its obligations under this plan; provided however, that the terms of such trust require that the assets thereof remain subject to the claims of UPS's judgment creditors and are non-assignable and non-alienable by any Participant, Spouse, Domestic Partner or Beneficiary prior to distribution thereof. Such grantor trust may provide for the trustee to make payment directly to a Participant; provided, however, that if a trustee ceases to make payments to a Participant or surviving Spouse, Domestic Partner or Beneficiary, UPS or the Employer Company shall make such payments called for under the Plan.

ARTICLE IX - MISCELLANEOUS

9.1 Claims Procedure. Any claim for a benefit under the Plan shall be filed and resolved in accordance with the claims procedure provided under the Retirement Plan which is hereby incorporated in the Plan by reference, except that the Committee of the Plan shall be the entity with whom a claim for review should be filed under the Plan.

9.2 No Guarantee of Employment. Nothing contained in the Plan shall be construed as a contract of employment between the Employer Company and any employee or Participant, as a right of any employee or Participant to be continued in the employment of the Employer Company, or as a limitation of the right of the Employer Company to discharge the employee or Participant with or without cause.

9.3 Nonalienation of Benefits. No benefit or payment under the Plan shall be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, levy or charge, and any attempt so to anticipate, alienate, sell, transfer, assign, pledge, encumber or levy upon or charge the same shall be void except that benefits may be paid to an alternate payee under a domestic relations order that the Committee determines would satisfy the requirements of Section 414(p) of the Code applicable to a qualified domestic relations order if the Plan were a qualified plan. Notwithstanding this statement, if the Participant is indebted to UPS at any time when payments are required to be made under the provisions of the Plan, UPS shall have the right to reduce the amount of payments remaining to be made to the Participant or to his or her spouse, Domestic Partner or Beneficiary to the extent of such indebtedness only at the time and to the extent that such payment otherwise would have been made to the Participant, Spouse, Domestic Partner or Beneficiary. An election by UPS not to reduce such payment shall not constitute a waiver of its claim for such indebtedness.

9.4 ERISA. UPS intends that the Plan constitute an "excess benefit plan" as defined in Section 3(36) of ERISA and, therefore, be exempt from coverage under ERISA. However, to the extent the Plan does not constitute an "excess benefit plan", UPS intends that the Plan come within the various exceptions and exemptions to ERISA for a plan maintained for a "select group of management or highly compensated employees" as described in Sections 201(2), 301(a) (3), and 401(a) (1) of ERISA. Any ambiguities in the Plan shall be construed to affect the intent as described in this Section.

9.5 Construction. The headings and subheadings set forth in the Plan are intended for convenience only and have no substantive meaning whatsoever. In the construction of the Plan, the singular shall include the plural. This Plan shall be construed in accordance with the laws of the State of Georgia.

Executed this 19th day of December, 2011.

ATTEST:	UNITED PARCEL SERVICE OF AMERICA, INC.
/s/ Teri P. McClure	/s/ D. Scott Davis
Teri P. McClure	D. Scott Davis
Secretary	Chairman

EXHIBIT A

Participant Name	Interest Rate	RPRO Rollout Date

EXHIBIT B

ELIGIBLE INTERNATIONAL SERVICE PARTICIPANT

The following Participants are eligible for a Coordinating International Service Benefit as described in Section 3.1(e):

Employee ID	Plan Hire Date	**International Benefit Service Under 1.26(b)** (Identify period of service that will be credited as International Benefit Service - for example, from January 1, 2000 - December 31, 2010)

EXHIBIT C

ELIGIBLE DECEASED PARTICIPANT

Each of the following individuals has been designated by the UPS Salary Committee as an Eligible Deceased Participant and the surviving Spouse or Domestic Partner of such Eligible Deceased Participant (as determined by the UPS Salary Committee as of the date of such Eligible Deceased Participant's death) shall eligible for a Coordinating Survivor Benefit under Section 4.1(a).

Employee ID

EXHIBIT D

ELIGIBLE DISABLED PARTICIPANT

Each of the following individuals has been designated by the UPS Salary Committee as an Eligible Disabled Participant and shall eligible for a Coordinating Final Average Pay Benefit under Section 3.1(b).

Employee ID

Exhibit 10.7(4)

UPS STOCK OPTION PROGRAM

Terms and Conditions

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 establishes this Stock Option Program ("Program") for the grant of Options pursuant to Article 6 of the United Parcel Service, Inc. 2009 Omnibus Incentive Compensation Plan, as amended from time to time, and any successor plan ("ICP"). This document sets forth the rules under which Options shall be granted and administered. Capitalized terms shall have the meanings set forth in the ICP, in Section 6 herein, or as otherwise defined herein.

The Program shall be effective as of January 1, 2012 ("Effective Date").

1.2 Objectives of the Program. The objectives of the Program are to promote continuity in management and provide incentives to key senior managers.

1.3 Duration of the Program. The Program shall commence on the Effective Date and shall remain in effect, subject to the right of the Committee to amend or terminate the Program at any time pursuant to Section 5.2 hereof.

2. Administration.

2.1 Authority of the Committee. The Program will be administered by the Committee, which shall have the same power and authority to administer the Program 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 stockholders, any Eligible Employee, and their estates and beneficiaries.

3. Eligibility for Options. Only an Eligible Employee shall be eligible to be considered for an Option. The Committee shall have broad discretion to determine the eligibility criteria for Eligible Employees.

4. Option Awards.

4.1 General. Eligible Employees will receive an award in the form of Options pursuant to the Program.

4.2 Number of Shares Subject to Option. The number of Shares subject to an Option will be determined by the Committee in a manner designed to provide the Eligible Employee with an Option the value of which is approximately equal to the product of the percentage shown on Exhibit A multiplied by his or her Annualized Base Salary as of the Grant Date.

4.3 **Award Document.** At the time of an Option grant, an Eligible Employee will receive an Award Document that specifies the Option Price, the Grant Date, the number of Shares to which the Option pertains, and such other provisions as the Committee shall determine.

4.4 **Options Not Transferable.** Except as provided in the Award Document, no Option may be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution. Except as provided in the Award Document, an Option shall be exercisable during an Eligible Employee's lifetime only by such Eligible Employee; provided, however, that in the event he or she is incapacitated and unable to exercise his or her Option, such Option may be exercised by such Eligible Employee's legal guardian, legal representative, or other representative whom the Committee deems appropriate based on applicable facts and circumstances. The determination of incapacity of an Eligible Employee and the determination of the appropriate representative to exercise the Option if the Eligible Employee is incapacitated shall be made by the Committee in its sole and absolute discretion.

4.5 **Vesting and Exercise Rules**.

4.5.1 **General.** Except as otherwise provided below or in the Award Document, all Options will become exercisable at the rate of 20% per year on each of the first five anniversaries of the Grant Date and will expire and terminate at 4:00 p.m. Eastern Time on the tenth anniversary of the Grant Date.

4.5.2 **Retirement, Death or Disability.** Options will immediately vest upon an Eligible Employee's termination of employment because of Retirement, death or Disability and will remain exercisable until the tenth anniversary of the Grant Date.

4.5.3 **Other Terminations of Employment.** Termination of an Eligible Employee's employment for reasons other than Retirement, death or Disability will result in the forfeiture and termination of all of the Eligible Employee's non-vested Options. Such Eligible Employee's vested Options (if any) and will expire and terminate at 4:00 p.m. Eastern Time on the 90th calendar day following the date his or her employment terminates.

4.5.4 **Other Exercise Rules.** An Eligible Employee generally may exercise his or her vested Options at any time (subject to the Company's insider trading guidelines) provided the number of Shares he or she seeks to purchase as a result of the exercise is at least the lesser of 500 Shares or the number of Shares that remain subject to the vested portion of such Option.

4.5.5 **Payment and Tax Withholding.** Options shall be exercised in accordance with Sections 6.5 and 6.6 of the ICP. The Company shall arrange for taxes to be withheld or for the Eligible Employee to remit taxes in accordance with Article 15 of the ICP.

5. **Miscellaneous.**

5.1 **Awards Subject to the Terms of the ICP.** Options awarded under the Program are subject to the terms of the ICP.

5.2 **Amendment and Termination.** The Committee may amend, alter, suspend or terminate the Program at any time subject to the terms of the ICP. Any such amendment shall be in writing signed by a majority of the members of the Committee. The UPS Salary Committee may make administrative amendments to the Program from time to time; provided, however, that any such amendment shall be in writing, signed by all members of the UPS Salary Committee and a copy of any such amendment shall be reviewed with the Committee and kept with the records of the Program.

6. **Definitions.** Except as set forth below or as otherwise set forth herein, capitalized terms shall have the meanings set forth in the ICP.

6.1 **Annualized Base Salary**. An Eligible Employee's rate of pay for a single fixed pay installment determined as of the Grant Date multiplied by the number of mandatory fixed pay installments for a Plan Year.

6.2 **Committee.** The Committee as defined in Section 1.1.

6.3 **Company.** United Parcel Service, Inc.

6.4 **Disability.** "Disability" as defined in the Company's long-term disability plan, or if no such plan exists, as determined by the Committee in its discretion.

6.5 **Effective Date**. The date described in Section 1.1.

6.6 **Eligible Employee.** For each Plan Year, an Employee who is classified as an active employee at the region manager level or above and satisfies such other eligibility criteria as may be developed from time to time by the Committee.

6.7 **Grant Date.** The date as of which an Option is granted, as shown on the Award Document for such Option.

6.8 **ICP.** The United Parcel Service, Inc. 2009 Omnibus Incentive Compensation Plan, as amended from time to time or any successor plan and any reference to a particular section of the ICP shall include a reference to the comparable section of the successor plan as determined by the Committee.

6.9 **NYSE.** The New York Stock Exchange.

6.10 **Option.** A Nonqualified Stock Option as defined in the ICP.

6.11 Plan Year. The calendar year, January 1-December 31.

6.12 Program. The Stock Option Program, as amended from time to time.

6.13 Shares. Class A common stock of the Company.

6.14 UPS Salary Committee. The Salary Committee of United Parcel Service, Inc.

Exhibit A

Eligible Employee	Option Award
Chief Executive Officer	45% of Annualized Base Salary
Management Committee	30% of Annualized Base Salary
Region Manager	20% of Annualized Base Salary

Exhibit 10.7(5)

UPS LONG-TERM INCENTIVE PERFORMANCE PROGRAM

Terms and Conditions

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 establishes this Long-Term Incentive Performance Program ("LTIP") to provide for LTIP Awards in the form of RPUs pursuant to Article 9 of the United Parcel Service, Inc. 2009 Omnibus Incentive Compensation Plan, as amended from time to time, and any successor plan ("ICP"). This document sets forth the rules under which LTIP Awards shall be made and administered. Capitalized terms shall have the meanings set forth in the ICP or in Section 9 herein.

The LTIP shall be effective as of January 1, 2012 ("LTIP Effective Date").

1.2 Objectives of the LTIP. The objectives of LTIP are to promote continuity in management and provide incentives to key managers.

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 8.3 hereof.

2. Administration.

2.1 Authority of the Committee. The LTIP will 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 stockholders, any Eligible Employee, and their estates and beneficiaries.

3. Eligibility for Awards. Only an Eligible Employee shall be eligible to be considered for an LTIP Award. The UPS Salary Committee shall have broad discretion to determine the eligibility criteria for Eligible Employees. The receipt of an LTIP Award in any year does not entitle an individual to an award in any subsequent year.

4. LTIP Awards. The UPS Salary Committee makes a recommendation as to the LTIP awards to be granted to Eligible Employees, based primarily on the recommendation of their district, region and corporate group managers. The Committee will make the grant of LTIP Awards based on the recommendations of the UPS Salary Committee.

4.1 Target LTIP Award Percentage. An Eligible Employee's Target LTIP Award Percentage is determined by the Committee based on his or her level of management as of the Grant Date.

4.2 Form of Award. A LTIP Award shall be made in the form of RPUs pursuant to Article 9 of the ICP. The target number of RPUs is based on the product of the Target LTIP Award Percentage and the Eligible Employee's Annualized Base Salary divided by the Fair Market Value of a Share on the Grant Date. The total target number of RPUs may be divided into one or more Performance Measurement Tranches.

4.3 Performance Measurement Tranches.

4.3.1 General. When an Eligible Employee receives an LTIP Award, he or she shall receive an LTIP Award Document that sets forth the target number of RPUs for the entire LTIP Cycle, the target number of RPUs for each Performance Measurement Tranche and such other terms and conditions as the Committee shall determine. The number of RPUs actually earned for each Performance Measurement Tranche shall be determined after the end of the relevant performance period based on the achievement of specific performance targets, including, if applicable, a Performance Target Matrix, established for that period by the Committee in accordance with Section 5.1. The Committee may use the same or different performance targets and matrixes for each Performance Measurement Tranche in an LTIP Cycle. For example, the performance goal for one or more Performance Measurement Tranches could be growth in consolidated revenues and consolidated operating return on invested capital while the performance goal for another Performance Measurement Tranche in the same LTIP Cycle could be based on earnings per share. Performance targets or matrixes shall be attached to the LTIP Award Documents or otherwise provided to Eligible Employees.

4.3.2 Award Determination. For each Performance Measurement Tranche, the Committee shall review and approve the extent to which the pre-established performance targets have been achieved as described in Section 5.2. One-hundred percent (100%) of the target number of RPUs for the Performance Measurement Tranche shall be credited to an Eligible Employee's LTIP Account upon 100% achievement of the performance targets for the Performance Measurement Tranche. In establishing the performance targets and matrixes in accordance with Section 5.1, the Committee also may authorize payment of a percentage less than or more than 100% of the target number of RPUs for the Performance Measurement Tranche based on achievement of performance targets at a percentage less than or more than, respectively, 100%.

4.3.3 DEUs. An Eligible Employee's LTIP Account will be promptly credited with DEUs attributable to the RPUs that have been credited to his or her LTIP Account.

4.4 **Maximum Individual Award.** The aggregate payout with respect to an LTIP Award shall not exceed the limitations of Section 4.1 of the ICP.

5. **Satisfaction of Internal Revenue Code Section 162(m) for Performance Incentive Award for Management Committee Eligible Employees.** LTIP Awards are intended to satisfy the Performance-Based Exception in order to maximize the deductibility of awards made to "covered employees" within the meaning of Code Section 162(m).

5.1 **Performance Goals and Maximum Award.** In accordance with Sections 11.2 and 11.3 of the ICP and no later than the 90th day of each Plan Year, the Committee shall establish the specific performance goals and matrixes described in Sections 4.3.2 and 4.4.2 that are required to be achieved for payment of LTIP Awards for such Plan Year.

5.2 **Committee Certification.** In accordance with Section 11.4 of the ICP, after the Form 10-K has been filed for the applicable Plan Year, the Committee shall determine and certify in writing prior to the payment of any portion of LTIP Award to an Eligible Employee (i) that the specific performance goals and any other material terms applicable to the LTIP Awards have been satisfied for the Plan Year and (ii) the amount of the LTIP Award for each Eligible Employee. If the performance goals and other material terms applicable to LTIP Awards are not satisfied, no LTIP Awards shall be paid to Eligible Employees.

6. **Vesting.**

6.1 **General.** The RPUs and DEUs credited to an Eligible Employee's LTIP Account during the LTIP Cycle shall vest on the Vesting Date for such LTIP Cycle, provided that the Eligible Employee is continuously employed by UPS or a subsidiary during the LTIP Cycle and through such Vesting Date. The benefit payable to the Eligible Employee shall be based entirely on the number of vested RPUs and DEUs credited to his or her LTIP Account at the time the LTIP Award becomes payable.

6.2 **Demotion.** If an Eligible Employee is demoted before the Vesting Date for an LTIP Cycle to a position that would have been ineligible to receive an LTIP Award, he or she shall forfeit any right to RPUs or DEUs for the Performance Measurement Tranche for the year in which the demotion occurs and for any Performance Measurement Tranche commencing after the demotion. The Eligible Employee shall retain any RPUs and DEUs credited to his or her LTIP Account prior to the demotion, subject to satisfaction of Section 6.1.

6.3 **Termination of Employment.** If an Eligible Employee's employment terminates by reason of his or her death, Disability or Retirement before the Vesting Date, he or she immediately shall vest in any RPUs and DEUs for a Performance Measurement Tranche that was completed prior to the termination, and he or she shall forfeit any right to RPUs or DEUs for the Performance Measurement Tranche for the year in which the termination occurs and for any Performance

Measurement Tranche commencing after the termination. Further, if an Eligible Employee terminates employment before the applicable Vesting Date for any reason other than death, Disability or Retirement, he or she shall forfeit the LTIP Award in its entirety.

7. Payment of Awards.

7.1.1 Form and Timing. Shares attributable to vested RPUs and DEUs credited to his or her LTIP account shall be transferred to the Eligible Employee (or his or her estate in the event of death) at the following time:

(A) If the Eligible Employee is employed on the Vesting Date, during the calendar quarter that includes the applicable Vesting Date;

(B) If the Eligible Employee terminates employment prior to the applicable Vesting Date as a result of death, no later than 90 days after the date of his or her death; and

(C) If the Eligible Employee terminates employment prior to the applicable Vesting Date as a result of Disability or Retirement, during the calendar quarter that includes the applicable Vesting Date and at the same time as shares are transferred to an Eligible Employee employed on the Vesting Date under (A) above as if the former Eligible Employee had continued to be employed by the Company or an Affiliate through such Vesting Date.

7.2 Tax Withholding. LTIP Awards shall be reduced for applicable taxes, or the Eligible Employee shall remit taxes in accordance with Article 15 of the ICP.

8. Miscellaneous.

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

8.2 Section 409A Compliance. Each LTIP Award is intended either to be exempt from Section 409A or to comply with Section 409A. To the extent that benefits provided under an LTIP Award constitute deferred compensation for purposes of Section 409A and to the extent that deferred compensation is payable upon a “separation from service” as defined in Section 409A, then if the Eligible Employee is a “specified employee” within the meaning of Section 409A(a)(2)(B)(i) of the Code, to the minimum extent required by Section 409A of the Code, no amount of deferred compensation shall be paid or transferred to the Eligible Employee as a result of the Eligible Employee’s separation from service until the date which is the earlier of (i) the expiration of the six month and one day period measured from the date of the Eligible Employee’s separation from service or (ii) the date of the Eligible Employee’s death (the “Delay Period”). All amounts subject to the Delay Period shall be transferred to the Eligible Employee promptly after the Delay Period.

8.3 Amendment and Termination. The Committee may amend, alter, suspend or terminate the LTIP and any LTIP Award at any time subject to the terms of the ICP. Any such amendment shall be in writing signed by a majority of the members of the Committee. The UPS Salary Committee may make administrative amendments to the LTIP from time to time; provided, however, that any such amendment shall be in writing, signed by all members of the UPS Salary Committee and a copy of any such amendment shall be reviewed with the Committee and kept with the records of the LTIP.

9. Definitions. Except as set forth below, capitalized terms shall have the meanings set forth in the ICP.

9.1 Annualized Base Salary. An Eligible Employee's rate of pay for a single fixed pay installment determined as of the Grant Date multiplied by the number of mandatory fixed pay installments for the Plan Year.

9.2 Committee. The Committee as defined in Section 1.1.

9.3 Company. United Parcel Service, Inc.

9.4 DEUs. Dividend equivalent units for dividends paid on a share of UPS class A common stock determined as follows:

9.4.1 (a) in the case of Share dividends, by multiplying the per Share dividend by the number of RPUs and DEUs credited to the Eligible Employee's account prior to the adjustment for the dividend; and

9.4.2 (b) in the case of a cash dividend or non-Share property dividend, by (i) multiplying the cash dividend paid per Share or the fair market value of the property transferred per Share by the number of RPUs and DEUs credited to the Eligible Employee's account prior to adjustment for the dividend and (ii) dividing the product obtained in (i) by the closing price on the NYSE of UPS Class B common stock on the last full trading day before the dividend is paid.

Each DEU shall have a value equal to one share of UPS class A common stock.

9.5 Disability. Disability as defined in the Company's long-term disability plan, or if no such plan exists, as determined by the Committee in its discretion.

9.6 Eligible Employee. For each Plan Year, an Employee who is classified at the region staff manager level or another level having equivalent or greater responsibilities and satisfies such other eligibility criteria as may be developed from time to time by the UPS Salary Committee.

9.7 Grant Date. The date as of which an LTIP Award is granted, as shown on the Award Document for such LTIP Award.

9.8 **ICP.** The United Parcel Service, Inc. 2009 Omnibus Incentive Compensation Plan, as amended from time to time or any successor plan and any reference to a particular section of the ICP shall include a reference to the comparable section (as determined by the Committee) of the successor plan.

9.9 **LTIP.** The Long-Term Incentive Performance Program, as amended from time to time.

9.10 **LTIP Account.** A bookkeeping account maintained to keep track of the LTIP Award and any adjustments made to such award.

9.11 **LTIP Award.** The award described in Section 4.1.

9.12 **LTIP Cycle.** A cycle of at least three Plan Years as determined by the Committee. For example, the 2012 LTIP Cycle begins on January 1, 2012 and ends no earlier than December 31, 2014 and the 2013 LTIP Cycle begins on January 1, 2013, and ends no earlier than December 31, 2015.

9.13 **LTIP Effective Date.** The date described in Section 1.1.

9.14 **NYSE.** The New York Stock Exchange.

9.15 **Performance Measurement Tranche.** A Performance Measurement Tranche described in Section 4.3.1.

9.16 **Performance Target Matrix**. A Performance Target Matrix described in Section 4.3.1.

9.17 **Plan Year.** The calendar year, January 1 - December 31.

9.18 **RPU.** A Restricted Performance Unit, which is a bookkeeping unit, the value of which corresponds to one share of UPS Class A common stock.

9.19 **Target LTIP Award Percentage.** The percentage described in Section 4.1.

9.20 **UPS Salary Committee.** The Salary Committee of United Parcel Service, Inc.

9.21 **Vesting Date.** January 31 immediately following the end of the LTIP Cycle. For example, January 31, 2015 is the Vesting Date for the 2012 LTIP Cycle if that cycle is three Plan Years.

Exhibit 12

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES
Ratio of Earnings to Fixed Charges

	Year Ended December 31,				
	2011	2010	2009	2008	2007
Earnings:					
Earnings before income taxes and accounting changes	$5,776	$5,290	$3,073	$1,252	$ 611
Add: Interest expense	348	354	445	442	246
Add: Interest factor in rental expense	210	205	207	278	296
Total earnings	$6,334	$5,849	$3,725	$1,972	$1,153
Fixed charges:					
Interest expense	$ 348	$ 354	$ 445	$ 442	$ 246
Interest capitalized	17	18	37	48	67
Interest factor in rental expense	210	205	207	278	296
Total fixed charges	$ 575	$ 577	$ 689	$ 768	$ 609
Ratio of earnings to fixed charges	11.0	10.1	5.4	2.6	1.9

Exhibit 18

February 27, 2012

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

Dear Sirs/Madams:

We have audited the financial statements of United Parcel Service, Inc. and subsidiaries (the "Company") as of December 31, 2011 and 2010, and for each of the three years in the period ended December 31, 2011, included in your Annual Report on Form 10-K to the Securities and Exchange Commission and have issued our report thereon dated February 27, 2012, which expresses an unqualified opinion and includes an explanatory paragraph concerning the Company's election to change its methods of accounting for defined benefit pension and other post-retirement benefit plans costs during 2011. Note 1 to such financial statements contains a description of the adoption during the year ended December 31, 2011 of changes in accounting principles for determining the market related value of plan assets for the UPS Retirement Plan from a calculated value method to a fair value method and for recognizing actuarial gains and losses in excess of the corridor for all pension and postretirement benefit plans from an amortization method to immediate recognition. In our judgment, such changes are to alternative accounting principles that are preferable under the circumstances.

Yours truly,

/s/ Deloitte & Touche LLP

Atlanta, Georgia

Exhibit 21

SUBSIDIARIES OF UNITED PARCEL SERVICE, INC.
As of December 31, 2011

Name of Subsidiary	Jurisdiction of Organization
BT Property Holdings, Inc.	Delaware
BT Realty II, Inc.	Maryland
BT Realty, Inc.	Maryland
C.C. & E.I., L.L.C.	Delaware
United Parcel Service Co.	Delaware
United Parcel Service General Services Co.	Delaware
UPS Limited	United Kingdom
United Parcel Service of America, Inc.	Delaware
United Parcel Service, Inc.	Ohio
UPINSCO, Inc.	Virgin Islands
United Parcel Service Canada Ltd.	Canada
UPS Capital Business Credit	Connecticut
UPS Capital Corporation	Delaware
UPS Cartage Services, Inc	Delaware
United Parcel Service Deutschland Inc.	Delaware
UPS Ground Freight, Inc.	Virginia
UPS Supply Chain Solutions, Inc.	Delaware
UPS Worldwide Forwarding, Inc.	Delaware
UPICO Corporation	Delaware
UPS Europe SA	Belgium
UPS SCS, Inc. (Canada)	Canada
UPS SCS GmbH & Co OHG	Germany
UPS SCS Holding Limited	Hong Kong
United Parcel Service France SNC	France
UPS International, Inc.	Delaware

The names of particular subsidiaries are omitted pursuant to Item 601(b)(21)(ii)of Regulation S-K.

Exhibit 23

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement Nos. 333-170435, 333-147737, 333-08369-01, and 333-112329 of United Parcel Service, Inc. on Form S-3 and in Registration Statement Nos. 333-159744, 333-61112, 333-72127 and 333-70708 of United Parcel Service, Inc. on Form S-8 of our reports dated February 27, 2012, relating to the consolidated financial statements of United Parcel Service, Inc. and subsidiaries (the "Company") and the effectiveness of the Company's internal control over financial reporting (which report on the consolidated financial statements expresses an unqualified opinion and includes an explanatory paragraph regarding a change in certain of the Company's methods of accounting for defined benefit pension and other postretirement benefit costs) appearing in this Annual Report on Form 10-K of United Parcel Service, Inc. for the year ended December 31, 2011.

/s/ Deloitte & Touche LLP

Atlanta, Georgia
February 27, 2012

Exhibit 31.1

CERTIFICATE OF CHIEF EXECUTIVE OFFICER

I, D. Scott Davis, certify that:

1. I have reviewed this annual report on Form 10-K 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 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 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 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/ D. SCOTT DAVIS

D. Scott Davis
Chairman and Chief Executive Officer

February 27, 2012

Exhibit 31.2

CERTIFICATE OF CHIEF FINANCIAL OFFICER

I, Kurt P. Kuehn, certify that:

1. I have reviewed this annual report on Form 10-K 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 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 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 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/ KURT P. KUEHN

Kurt P. Kuehn
Chief Financial Officer

February 27, 2012

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 Annual Report on Form 10-K of United Parcel Service, Inc. (the "Corporation") for the year ended December 31, 2011, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, the Chairman and 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/ D. SCOTT DAVIS

D. Scott Davis
Chairman and Chief Executive Officer

February 27, 2012

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 Annual Report on Form 10-K of United Parcel Service, Inc. (the "Corporation") for the year ended December 31, 2011, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, the Chief Financial Officer of the Corporation, certifies that:

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

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

/S/ KURT P. KUEHN

Kurt P. Kuehn
Chief Financial Officer

February 27, 2012