UNITED PARCEL SERVICE INC
Form 10-K
February 27, 2015

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)

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

For the fiscal year ended December 31, 2014
or

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

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

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

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

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

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

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

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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 x 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 x

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 x 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 x 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. x

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 x 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 x

The aggregate market value of the class B common stock held by non-affiliates of the registrant was $72,546,596,423 as of June 30, 2014. 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 18, 2015, there were 200,480,468 outstanding shares of class A common stock and 702,058,256 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 7, 2015 are incorporated by reference into Part III of this report.

UNITED PARCEL SERVICE, INC.
ANNUAL REPORT ON FORM 10-K
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PART I

Cautionary Statement About Forward-Looking Statements

This report 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 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 1.6 million shipping customers to 8.2 million receivers ("consignees") in over 220 countries and territories. In 2014, we delivered an average of 18.0 million pieces per day worldwide, or a total of 4.6 billion packages. Total revenue in 2014 was $58.2 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 expenditures 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 serve the global market for logistics services, which include transportation, distribution, forwarding, ground freight, ocean freight, air freight, brokerage and financing. 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 11 of our consolidated financial statements.

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Business Strategy

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

Our service portfolio and investments are rewarded with among the best return on invested capital and operating margins in the industry. We have a long history of sound financial management. Our consolidated balance sheet reflects financial strength that few companies can match. Our Moody’s and Standard & Poor’s short-term credit ratings are P-1 and A-1, respectively. Our Moody’s and Standard & Poor’s long-term credit ratings are Aa3 and A+, respectively. We currently have a stable outlook from both Moody's and Standard & Poor’s. 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

Transcontinental and trade across borders are predicted to grow faster than U.S. and global gross 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 well positioned to take advantage of trade growth, wherever it occurs. Our global presence and productivity enhancing technologies allow customers to expand into 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

Emerging market opportunities continue to expand. Over the next ten years, these markets are expected to represent the majority of global GDP growth, and an increasing proportion of global trade. Emerging markets are understandably a focus of investment and growth for our current customers; in addition, they will be a source of UPS’s next generation of customers. To take advantage of these opportunities, UPS will continue to make long-term investments in markets where our customers choose to grow. Over the past ten years, UPS has established a strong market presence in three leading emerging markets: China, Poland and Turkey. In the future, the Middle East, Latin America, Africa and Eastern Europe will become increasingly important for UPS.

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 Segment Expertise in the Integrated Carrier, Logistics and Transportation Space

We offer differentiated value propositions in several segments, including automotive and industrial manufacturing, retail, government, professional and consumer services, healthcare and high-tech.

Our industry-specific solutions are increasingly tailored to align with customer needs in each of these sectors. Staying abreast of industry trends positions us to anticipate business challenges in each industry. We deepen our understanding by studying these challenges and engaging with customers at the strategic planning stage. We then align our logistics expertise to address these business challenges to help our customers compete.

Our understanding of how macro and industry trends impact the stakeholders in each market allows us to develop commercial insights for our customers. These insights are incorporated into our sales-and-solution process and are shared with customers through direct engagement, industry forums and publications. By inviting our customers to leverage our capabilities to improve their overall industry performance, we help them achieve their business objectives and maintain our own competitiveness.

The combination of rising demand for healthcare services around the globe, new product innovations, increasing regulatory demands and downward pressure on reimbursement is creating both exciting opportunities and complex challenges for healthcare and life sciences companies. In today's environment, healthcare logistics executives are most concerned with regulatory compliance, product security, supply chain cost management and product damage/spoilage. To address these challenges, more healthcare and life sciences companies are relying on partnerships with third party logistics providers that can provide efficient, scalable solutions that enable instant access to healthcare compliant infrastructure, provide options for temperature-sensitive transportation and storage capabilities and have expertise in the regulatory requirements of the markets they seek to enter.

UPS is in a unique position to offer our clients such solutions through the combination of our dedicated healthcare transportation and distribution capabilities which sit atop our vast, global integrated transportation network and are managed by a team of employees with healthcare logistics expertise. Over the past two years, we opened 15 new dedicated healthcare facilities on four continents, with our most recent additions in the United Kingdom, Mexico, Brazil and Poland. In total, we operate nearly seven million square feet of dedicated healthcare distribution space across an integrated network of 49 facilities. These facilities allow us to provide reliable, secure and cost-effective warehousing and distribution for healthcare and life sciences firms, which, in turn, allow them to easily navigate across and within borders.

Rapid technology innovation and growing worldwide demand for electronics are driving change in the already-dynamic high-tech industry. As the technology marketplace becomes more complex, high-tech companies must manage and optimize their supply chains to remain competitive. Every year, product lifecycles are getting shorter, dictating the need for high-tech companies to better predict demand and understand their logistics requirements. Increasingly, they are looking to third party logistics providers for support in product launches, distribution, post-sales support and reverse logistics.

We have the expertise these companies need, as well as, a global transportation network and integrated technology solutions that can generate supply chain efficiency. This means high-tech companies, large and small, can get their products to market faster, improve customer service and boost revenue. We offer global sourcing and a significant amount of repair space to leverage one of the largest networks of post-sales facilities in the world. With more than 950 field stocking locations in 147 countries, we help high-tech companies identify better ways to meet their crucial logistics needs. Our experience and global capabilities make us a strong partner in the high-tech industry.

We will continue to expand our industry-specific support by growing our physical footprint and enhancing our technology based on our deepening understanding of industry-specific needs. Our aim is to increase the number of customers benefiting from these solutions and gain their associated transportation and logistics business.

Logistics 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, transportation, 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 equip our customers with transportation and logistics solutions to better serve their customers. We integrate our technology for efficiencies, visibility and control to ensure that we execute as promised and to provide peace of mind for our customers.

Retail e-Commerce Growth

Throughout much of the world, e-commerce growth continues to outpace traditional lines of business. Our integrated network puts UPS in an ideal position to capitalize on the shift towards residential deliveries. We continue to create new services, supported by UPS technology, that complement the traditional UPS premium home delivery service and address the needs of e-commerce shippers and consignees. Our offerings span a broad spectrum that supports retailers across their value chain, from global sourcing to distribution and returns. We offer cost-sensitive solutions such as UPS SurePost, for shipments where economy takes precedence over speed, and feature-rich solutions, such as our UPS My Choice service that provides consignees with revolutionary visibility and control of their inbound shipments. UPS My Choice keeps members up-to-date on their parcels' delivery status through proactive alerts, and offers flexible delivery options to control when and where deliveries occur. Following on the success of UPS My Choice in the U.S.

(over 13 million members), we expanded the service to 15 additional countries and territories in the Americas and Europe regions in 2014. With UPS My Choice, consignees may direct the timing and location of their deliveries before a delivery attempt is made. We strive to give our customers the best delivery experience in the industry---delivery on the first attempt, where and when their customers want them.

When UPS My Choice members will not be home to accept a delivery, they can redirect packages to UPS Access Point locations. UPS Access Points are convenient locations - such as The UPS Store® and other local businesses - that offer easy package drop-off and pickup. With evening and weekend hours, UPS Access Point locations fit consumers' schedules and enable UPS to get packages delivered faster. Shippers in 50 origin countries and territories can ship directly to UPS Access Point locations in 12 destination countries, giving shippers and consignees greater control over package deliveries. Our integrated UPS Access Point network in Europe now has nearly 14,000 locations across nine countries with the 2014 additions of Poland and Italy. We also expanded into North America to include locations in Canada, Mexico and the United States. By the end of 2015, we expect to have more than 20,000 locations worldwide. This move enhances our cross-border e-commerce offerings for retailers, while increasing choice for their customers, who can opt to pick up or drop off their parcels at retail locations that are convenient to them.
In 2014, UPS announced the purchase of i-parcel, LLC. This new offering focuses on innovative international e-commerce and logistics. The combination of UPS and i-parcel yields a global e-commerce solution that further strengthens our global business-to-consumer capabilities. This solution enables merchants to connect to over 100 million global shoppers by providing an integrated web platform, creating a localized look and feel for international shoppers. The technology empowers merchants to instantly localize their shopping cart value and provide a seamless shopping experience for international customers. This solution serves retail shoppers in over 100 countries and includes local currency options, fully-landed prices, and fully trackable, end-to-end delivery services.

Technology

Technology forms the foundation of our reliability and allows us to enhance the customer experience. Technology delivers value to our customers and returns to our shareowners. Recent developments that improve our operational efficiency, flexibility, reliability and customer experience include:

- Continuing rollout of telematics to our international delivery fleet. We have completed the deployment of telematics to our domestic small package, freight forwarding and ground freight fleets. Telematics helps UPS determine a truck's performance and condition by capturing data on more than 200 related elements, including speed, RPM, oil pressure, seat belt use, number of times the vehicle 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. Additionally, customers experience more consistent pickup times and more reliable deliveries, thereby enhancing their profitability and competitiveness. By the end of 2014, telematics had been installed in over 82,000 vehicles.
- Implementing our On Road Integrated Optimization and Navigation system ("ORION"), which employs advanced algorithms to determine the optimal route for each delivery while meeting service commitments. By the end of 2014, ORION was deployed to over 23,000 drivers.
- Converting to keyless entry, which enables drivers to remotely turn the engine off with a button that will unlock the bulkhead door at the same time. Keyless entry is installed on all package cars in the U.S. and Canada.
- 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. NGSS is deployed to 285 sites globally and 64 additional sites are under evaluation for 2015.

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 systems. Customers benefit through offerings such as:

Shipping

WorldShip™, which is UPS's flagship desktop shipping application, provides middle market and large customers with robust shipping capabilities. Customers can create custom labels, set up shipment alerts, create and upload customs documentation, track and export shipments, create reports and integrate with their enterprise resource planning and accounting systems to streamline shipping with real-time connectivity.
UPS marketplace shipping, which integrates www.ups.com with eBay® and Amazon®, allows marketplace sellers to easily ship their orders via www.ups.com or WorldShip. UPS marketplace shipping provides simplified shipment processing, access to order and shipment history, automatically updates the marketplace with tracking information and

provides access to multiple payment options, including PayPal™.

Tracking and Visibility

UPS Quantum View® can help customers better manage shipments, facilitate tracking, allow for inbound volume planning, manage third-party shipping costs and automatically notify customers of incoming shipments. With visibility into transit times and delivery confirmations, customers can speed up their revenue cycle and collect accounts receivables more quickly while improving customer service.

International Trade Tools

UPS Paperless™ solutions allow customers to self-enroll in UPS Paperless™ Invoice and to upload shipping documents. These solutions enable customers to electronically transmit a commercial invoice, packing list or their own customs documents when shipping internationally. This eliminates redundant data entry and errors, while reducing customs delays and paper waste.

UPS TradeAbility® tools help customers effectively and confidently manage the movement of goods internationally in a timely, efficient and compliant manner.

Billing

The UPS Billing Center, a secure location for customers to view, download, manage and pay their UPS invoices, helps customers accelerate billing and payment processes. Customers can assign privileges with administrative controls, manage multiple accounts and create custom reports using a simple interface.

Integration

The UPS Developer Kit, which is comprised of multiple Application Programming Interfaces ("APIs"), helps customers streamline and automate their internal business processes. The UPS Developer Kit APIs allow customers to integrate a wide range of UPS functionality into their business systems and websites such as address validation, shipment scheduling, selection of shipping service levels, tracking and much more.

Business-to-Consumer

All UPS Access Point locations are pre-approved to ensure package safety, and are also equipped with the latest UPS technology to help make package pickup quick and convenient. Consumers are kept informed of the status of their package by tracking it on www.ups.com or on the UPS mobile application or website.

UPS My Choice®, which focuses on the consignee, has transformed the residential delivery experience. Receivers can direct the timing and circumstances of their deliveries using their computer, mobile devices or a Facebook app. This innovative service is powered by the complex integration of real-time route optimization and other technologies within our delivery network.

The Global Locator on www.ups.com was enhanced to give customers greater and faster access to UPS drop-off and pickup locations, including new UPS Access Point sites. The Global Locator has a new single search field with updated filters, location images, and location-specific promotions. Customers can also provide online feedback, e-mail search results, save favorite locations and access recent searches.

Mobile

UPS Mobile™, which includes the mobile website, m.ups.com, and apps for iPhone, iPad, Android and Kindle Fire devices, is readily available for most customers at any time. Customers can track, ship, find UPS locations, manage UPS My Choice shipments and receive shipment notifications on their mobile devices. The UPS Mobile apps and website were enhanced so that customers can now convert a rate estimate into a shipment, ship a package without logging in with a My UPS ID, compare shipping services more easily, select PayPal™ as a payment option, view details on shipping charges and utilize the redesigned Global Locator.

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 cash flow.

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Global Small Package

UPS's global small package operations provide time-definite delivery services for express letters, documents, small packages and palletized freight via air and ground services. We provide domestic delivery services within 54 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 as well as palletized shipments weighing greater than 150 pounds. 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 within 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 each day. Compared to companies with single service network designs, our integrated network uniquely provides operational and capital efficiencies while being more environmentally-friendly.

We offer same-day pickup of air and ground packages upon request. Customers can schedule pickups for one to five days a week, based on their specific needs. Additionally, our wholly-owned and partnered global network offers approximately 150,000 entry points where customers can tender a package to us at a location or time convenient to them. This combined network includes UPS drivers who can accept packages provided to them; UPS drop boxes; UPS Access Point locations; The UPS Store locations; authorized shipping outlets and commercial counters; alliance locations; and customer centers attached to UPS facilities. Some of these locations offer a full array of services including pickup, delivery and packing options, while others are drop-off locations only. We continually look for ways to enhance the customer experience by offering easy access to UPS.

The growth of online shopping has increased our customers' needs for efficient and reliable returns, resulting in our development of a robust selection of returns services that are available in more than 145 countries. Options vary based on customer needs and country, and range from cost-effective solutions such as UPS Returns, to more-specialized services such as UPS Returns Exchange. UPS Returns enables shippers to provide their customers with a return shipping label, while UPS Returns Exchange 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 one of the largest airlines in the world, with global operations 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. Our European air hub is located in Cologne, Germany, and we maintain Asia-Pacific air hubs in Shanghai, China; Shenzhen, China; and Hong Kong. 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 the U.S., Worldport is supported by our regional air hubs in Columbia, South Carolina; Dallas, Texas; Ontario, California; Philadelphia, Pennsylvania; and Rockford, Illinois. This network design allows for cost-effective package processing in our most technology-enabled facilities while enabling us to use fewer, larger and more fuel-efficient aircraft. Our U.S. ground fleet serves all business and residential zip codes in the contiguous U.S.

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 guarantee 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 nearly 13 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, lightweight residential shipments. UPS SurePost is a contractual residential ground service that combines the consistency and reliability of the UPS Ground network with final delivery often provided by the U.S. Postal Service.

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As U.S. online sales are estimated to nearly double by 2020, UPS invested over $1 billion in facility expansions and equipment modernization to better manage volume growth throughout the year, and to ensure a successful peak season in 2014 and beyond. Other significant improvements to effectively manage seasonal volume fluctuations included:

- Enhancing Cyber Week operations in the U.S., including full ground and air pickup and delivery operations on Black Friday.
- Using additional aircraft and regional air hubs to add significant capacity to UPS's air network during critical periods.
- Automating facilities to expand our existing capabilities through enhanced technology.
- Adding new delivery vehicles and trailers, and increasing staffing to improve efficiency in all areas.
- Updating www.ups.com and expanding UPS communications to enhance the timeliness and relevance of alerts when service disruptions occur.

Our significant investments in network capacity improvements and enhanced shipment visibility demonstrate our readiness to provide exceptional service and peace of mind to our customers.

International Package Reporting Segment

Our International Package reporting segment includes the small package operations in Europe, Asia, Canada and Latin America, the Indian sub-continent, the Middle East and Africa. 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.
- In 2013, we introduced UPS Worldwide Express Freight for palletized shipments over 150 pounds. In early 2015, this service was enhanced to include 50 origins and 51 destinations, helping UPS customers to expand the footprint of their palletized shipments to major markets throughout the world. UPS Worldwide Express Freight leverages our unique combination of package and freight networks to provide industry leading transit times with a money-back guarantee.
- For international shipments that do not require express services, UPS Worldwide Expedited offers a reliable, deferred, guaranteed day-definite service option. In 2013, we tripled the coverage area for UPS Worldwide Expedited, providing delivery in two-to-five business days to more than 220 countries and territories. We continue to expand our origin footprint for this service moving to over 80 origins in 2015. This expansion will help UPS customers magnify their global reach and balance delivery speed with cost, no matter where they ship.
- 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 the primary drivers of our growth. Several factors provide significant opportunities, including the highly fragmented nature of the market and the fact that exports make up a significant part of Europe's GDP. We believe there is a continued strong potential for growth in small package exports in Germany, the U.K., France, Italy, Spain and the Netherlands. To accommodate this growth, we expanded our main European air hub in Cologne, Germany in the first quarter of 2014; increasing capacity to process 190,000 packages per hour.

Asia remains attractive due to growth rates in intra-Asia trade and the expanding Chinese economy. We are bringing faster time-in-transit to customers focused on intra-Asia trade, and reducing transit days from Asia to Europe. Through added flight frequencies, we provide our customers the ability to ship next day to more places in Europe, guaranteed, than any other express carrier. We are continuing to build our presence in China through the expansion of our service capabilities, investing in our transportation network and strengthening brand awareness. During 2014 we opened a new Trans Pacific Air Hub at Taiwan Taoyuan International Airport, marking a 40% increase in size from the previous hub and increasing connectivity from Taiwan to key markets in the U.S. and Europe. Additionally, 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.

Additional international highlights include the following:

- In South and Central America, we benefit from a strong regional economy. Our offerings include express package delivery in major cities as well as distribution and forwarding services. We continue to expand our network in Brazil, with plans to open nine new operating facilities strategically located in the state of Sao Paolo, set to be completed in

May 2015. This enhancement will increase territorial coverage by 78% and improve time in transit throughout this key market.

- We continue to grow our business organically in Mexico. We are well positioned with freight, domestic, international and distribution services. In 2014, we opened six new UPS Express centers strategically located across Mexico, including Mexico City, State of México, Jalisco and Quintana Roo. These new centers are aimed at increasing our presence among small and medium enterprises and the retail sector.
- 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. Kiala was rebranded as UPS Access Point™ in the UPS portfolio of services. In 2014, we had nearly 14,000 Access Points in Europe after adding Poland and Italy to the existing seven countries that include Belgium, Germany, France, the UK, Luxembourg, Spain, and the Netherlands. There are also more than 700 Access Points in Canada, and in 2014 we added Mexico to the network. We expect to expand to over 20,000 locations throughout Europe and the Americas by the end of 2015.
- During 2014, UPS MyChoice was expanded to 15 additional countries and territories: Canada, Austria, Belgium, Denmark, France, Germany, Italy, Mexico, the Netherlands, Poland, Puerto Rico, Spain, Sweden, Switzerland and the United Kingdom.

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. 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 supply chain services in over 195 countries and territories.

We have continued to acquire healthcare logistics companies to expand our transportation and distribution networks in Europe. In February 2014, we acquired Polar Speed Distribution Limited, a U.K.-based healthcare transportation provider specializing in refrigerated ground transportation of temperature-sensitive medicines and medical devices. In December 2014, we announced the acquisition of Poltraf Sp. Z o.o., a Polish-based healthcare logistics company that provides direct distribution and compliant logistics services to pharmaceutical and medical device customers in the fast-growing healthcare markets of Central and Eastern Europe (this acquisition is expected to close in the first half of 2015). Both of these acquisitions are part of our ongoing global growth and investment strategy.

In 2014, we also expanded our global logistics network by more than two million square feet, including 1.5 million square feet in North America. We added contract logistics facilities in key markets including Brazil, Chile, Netherlands and China (Beijing). Our continued investment in China brings the total to more than 130 owned and agent contract logistics facilities, covering 87 cities. These facilities provide distribution and warehousing solutions to shippers who want to reach customers within China and demonstrate our continued commitment to serving China's emerging middle class. We broadened our North American Health Care service offering by developing a healthcare-compliant network of 36 Field Stocking Locations ("FSLs"). This capability helps companies quickly send medical devices to hospitals and care facilities, while better managing inventory costs, regulatory compliance requirements, and end-to-end visibility of shipments.

Freight Forwarding

UPS is one of the largest U.S. domestic air freight carriers and among the top 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 transportation services 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. We provide our customers with customs clearance, trade management and international trade consulting services. In 2014, UPS expanded its brokerage capabilities in Costa Rica through the integration of the 2013 acquisition of SEISA Brokerage.

Logistics and Distribution

UPS Logistics offers the following services:

- Distribution Services: Our 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. UPS also provides specialized services to streamline supply chains in the healthcare, high tech, retail, industrial manufacturing and aerospace industries. Together, these services allow companies to save time and money by minimizing capital investment and positioning products closer to their customers.

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- 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 over 950 FSLs to ensure that the right type and quantity of our customers' stock is in the right location to meet the needs of their end-customers. This solution allows our customers to maximize service to their end-customers while reducing costs.
- 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, and then sort, post, manifest and expedite the secured mail containers to the destination postal service for last-mile delivery.
- UPS Express Critical: UPS Express Critical provides a broad range of urgent transportation options ranging from lightweight to heavyweight shipments around the world. Our experienced team can quickly assess a critical situation, identify transportation alternatives and implement delivery solutions that meets customers' time and cost requirements.

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 available for freight including: UPS WorldShip; Billing Center and Quantum View. These technology systems allow customers to process and track LTL shipments, create electronic bills of lading and reconcile billing.

UPS Capital

By leveraging more than 107 years of transportation and global supply chain expertise, UPS Capital, a subsidiary of UPS, provides insurance, financing and payment services that are unique, relevant and competitive. UPS Capital helps companies protect themselves from risk, improve cash flow, and accelerate and protect payments. UPS is the only logistics company in the world that offers this breadth of in-house financial and insurance solutions, providing customers with a single source for all of their logistics needs.

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.
- Communities, by connecting individuals to global markets and providing the economic empowerment that can help facilitate positive social change.

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 do the same.

We consider stakeholder engagement an essential aspect of corporate governance and collaborate regularly with a global diverse set of stakeholders on sustainability issues. In addition, we engage stakeholders directly in our sustainability strategy through our corporate materiality assessment process. In 2013, we conducted our second formal assessment, working once again with the non-profit organization Business for Social Responsibility ("BSR") to evaluate significant sustainability issues (economic, environmental and social), and ranked each issue by importance based on multiple stakeholder feedback. Our most material sustainability issues primarily involve our energy use, emissions and workplace policies. The full results of the assessment are available at www.ups.com/sustainability.

Sustainability highlights in 2014 include:

- One of Corporate Responsibility's "100 Best Corporate Citizens" for the 5th consecutive year.
- Recognized by Ethisphere Institute as one of the "World's Most Ethical Companies" for the 8th consecutive year.
- Named to Interbrand's "Best Global Green Brands" for the 4th consecutive year. We ranked 28th and were the only company in the transportation sector to make the top 50.
- Recognized as a constituent of the Dow Jones Sustainability North America Index for the 10th consecutive year; in addition, we were included on the Dow Jones Sustainability World Index for the 2nd consecutive year.
- Recognized as a constituent of the NASDAQ OMX Global Sustainability Index for the 5th consecutive year.
- Recognized as the top community-minded industrial company by The Civic 50.
- Achieved a score of 100% in response to the Carbon Disclosure Project. It is the 4th consecutive year we have achieved a rating at or above 99%.

More information on how UPS addresses its most significant sustainability issues is available in the UPS Corporate Sustainability Report and 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 2014 include:

- Local non-profits around the world received nearly 1.9 million hours of volunteer service from UPS employees participating in our Neighbor-to-Neighbor program.
- The UPS Foundation, which oversees corporate citizenship efforts for the company, invested $104 million in donations of both cash and in-kind services to global causes primarily in four focus areas—community safety, environmental sustainability, diversity and volunteerism.
- UPS employees, both active and retired, contributed approximately $52 million to United Way in 2014 which was matched by a corporate contribution of $8 million.
- Through The UPS Foundation we have the opportunity to support our global communities to offset carbon, support clean water, reduce poverty and help individuals sustain their lives through the planting of trees. The UPS Global Forestry Initiative, which began in 2013, is the signature program of The UPS Foundation's Environmental Focus area. By the end of 2014, we have supported the planting of three million trees worldwide.
- UPS continued to aid communities impacted by disasters through our UPS Humanitarian Relief program, by providing our logistics expertise, skilled volunteers, capacity building support and in-kind services. In 2014, UPS coordinated more than 263 humanitarian relief shipments across 43 countries and provided funding and logistics support to strengthen long-term recovery efforts of communities impacted by the Ebola epidemic, the Syrian Refugee Crisis and severe weather events in the Southern and Midwestern regions of the U.S.
- Nearly 6,700 teenagers and novice drivers in the U.S., Canada, the U.K., Germany and China participated in UPS Road Code. This safety program for new drivers features UPS employees as instructors – a role where they share driving knowledge and safety tips amassed over our long history of safe driving.

Reputation

Great brands require connecting with customers. In working to develop these connections, UPS continually receives high accolades from independent brand evaluations. In 2014, the company ranked 27th on Interbrand's Best Global Brands and 16th on Millward Brown's BrandZ Most Valuable Global Brands. Additionally, in Forbes' "America's Most Reputable Companies 2014," UPS ranked 2nd among 150 large publicly-traded US companies rated by the Reputation Institute.

Employees

The strength of our company is our people, working together with a common purpose. We had approximately 435,000 employees (excluding temporary seasonal employees) as of December 31, 2014, of which 354,000 are in the U.S. and 81,000 are located internationally. Our global workforce includes approximately 75,000 management employees (38% of whom are part-time) and 360,000 hourly employees (47% of whom are part-time).

As of December 31, 2014, we had approximately 270,000 employees employed under a national master agreement and various supplemental agreements with local unions affiliated with the International Brotherhood of Teamsters (“Teamsters”). During 2014, the Teamsters ratified a new national master agreement with UPS that will expire on July 31, 2018.

We have approximately 2,600 pilots who are employed under a collective bargaining agreement with the Independent Pilots Association ("IPA"), which became amendable at the end of 2011. In February 2014, UPS and the IPA requested and received mediation by the National Mediation Board for the ongoing contract negotiations.

Our airline mechanics are covered by a collective bargaining agreement with Teamsters Local 2727, which became amendable November 1, 2013. In addition, approximately 3,100 of our auto and maintenance mechanics who are not employed under agreements with the Teamsters are employed under collective bargaining agreements with the International Association of Machinists and Aerospace Workers (“IAM”). In 2014, the IAM ratified new collective bargaining agreements that will expire on July 31, 2019.

The experience of our management team continues to be an organizational strength. Nearly 34% 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

Health and Safety is a core value at UPS and an enduring belief that the well-being of our people, business partners and the public is of utmost importance. We train our people to avoid injury to themselves and others in all aspects of their work. We do not tolerate unsafe work practices.

We recognize employees for health, wellness, and safety accomplishments. We provide programs that help promote the health and wellness of employees and their families, and the safety of our operations. We are committed to fostering the most effective safety practices in our work environment. By meeting our high safety standards and goals, we contribute to the well-being of our people, company, and the communities we serve.

We use an all-encompassing Comprehensive Health and Safety Process ("CHSP") to prevent occupational illnesses, injuries and auto crashes, as well as promote wellness through the development of workplace programs. The foundation of this process is our co-chaired employee and management health and safety committees. Together they conduct facility and equipment audits, perform work practice and behavior analysis, conduct training and recommend work process and equipment changes.

The components of CHSP are:

- Personal Value. Which is the foundation and forms the base of our safety and wellness culture.
- Management Commitment and Employee Involvement - Where employees take an active role in their own safety as well as their fellow workers and are supported by management. All operations management commit to providing a work environment that is conducive to the well-being and safety of their employees.
- Work Site Analysis. Which includes injury and auto crash data analysis, behavior observations and facility and equipment audits to identify gaps and develop solutions. Our operations managers are responsible for their employees' safety results. We investigate every injury and auto crash and develop prevention activities.
- Hazard Prevention and Control. Where solutions are developed and documented to ensure identified risks have been mitigated.

- Safety Education and Training. Employees who are healthy and well-trained in proper methods are more safe and efficient in performing their jobs. Our approach starts with training the trainer. All trainers are certified to ensure that they have the skills and motivation to effectively instruct new employees. All new employees receive safety training during orientation and in the work area. In addition, each new driver receives extensive classroom and online instruction, as well as on-road training.

Other components to ensure the safety of our people and fleet include:

- Wellness. We have a "Five Being Habits" wellness program that turns health and wellness knowledge into actionable measures. These habits are designed to enable employees and their families to take positive steps toward healthy lifestyles.
- Recognition. We have a well-defined safe driving honor plan to recognize our drivers when they achieve accident-free milestones. We have more than 7,200 drivers enshrined in our coveted Circle of Honor for drivers who have driven 25 years or more without an avoidable auto crash.
- Preventive Maintenance. We have a comprehensive Preventive Maintenance Program to ensure the safety of our fleet. Our fleet is managed and monitored electronically to ensure that each vehicle is serviced at a specific time to prevent malfunction or breakdown.

Competition

UPS is a global leader in logistics. 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 carriers. 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 providers in the supply chain, financial services and information technology industries.

Competitive Strengths

Our competitive strengths include:

Global Network. We believe that our integrated global ground and air network is the most extensive in the industry. We provide all types of package service (air, ground, domestic, international, commercial and residential) through a single pickup and delivery service network. We also have extensive air freight, ocean freight, ground freight and logistics networks that provide additional capabilities in the global transportation and logistics market.

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.

Global Presence. UPS serves more than 220 countries and territories around the world. We have a significant 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 driven by our customers’ needs. We offer a variety of online service options that enable our customers to integrate UPS functionality into their own businesses not only to send, manage and track their shipments conveniently, 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 websites.

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 1.6 million pickup customers and 8.2 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 professional courtesy of our drivers are major contributors to our brand equity.

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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 facilities; to pursue strategic opportunities that facilitate our growth; to service our obligations; and to return value to our shareowners in the form of dividends, share repurchases and steady share growth.

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, and personnel. 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.

UPS aircraft maintenance programs and procedures, including aircraft inspection and repair at periodic intervals, are approved for all aircraft under FAA regulations. The future cost of repairs pursuant to these programs may fluctuate according to aircraft condition, age and the enactment of additional FAA regulatory requirements.

The TSA regulates various security aspects of air cargo transportation 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 and the states' jurisdiction with respect to the regulation of operations, 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. However, information on these websites 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 for 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.

Changes in our relationships with our significant customers, including the loss or reduction in business from one or more of them, could have an adverse impact on us.

No single customer accounts for 10% or more of our consolidated revenue. We do not believe the loss of any single customer would materially impair our overall financial condition or results of operations; however, collectively, some of our large customers might account for a relatively significant portion of the growth in revenue in a particular quarter or year. These customers can drive the growth in revenue for particular services based on factors such as: new customer product launches; the seasonality associated with the fourth quarter holiday season; business mergers and acquisitions; and the overall fast growth of a customer's underlying business. These customers could choose to divert all or a portion of their business with us to one of our competitors, demand pricing concessions for our services, require us to provide enhanced services that increase our costs, or develop their own shipping and distribution capabilities. If these factors drove some of our large customers to cancel all or a portion of their business relationships with us, it could materially impact the growth in our business and the ability to meet our current and long-term financial forecasts.

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, regulations and policies, both in the U.S. and in the other countries in which we operate. In addition, our business is impacted by laws, regulations and policies that affect global trade, including tariff and trade policies, export requirements, taxes, monetary policies and other restrictions and charges. Changes in laws, regulations and policies 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, regulations and policies 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 a 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. In addition, 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 a 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 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, Canadian Dollar, Chinese Renminbi and Hong Kong Dollar.

We are exposed to changes in interest rates, primarily on our short-term debt and that portion of our long-term debt that carries floating interest rates. The impact of a 100-basis-point change in interest rates affecting our debt is discussed in the “Quantitative and Qualitative Disclosures about Market Risk” section of this report. Additionally, changes in interest rates impact the valuation of our pension and postretirement benefit obligations and the related benefit cost recognized in the income statement. The impact of changes in interest rates on our pension and postretirement benefit obligations and costs is discussed further in the "Critical Accounting Policies and Estimates" section of this report.

We monitor and manage our exposures to changes in currency exchange rates and interest rates, and make use of derivative instruments to mitigate the impact of changes in these rates on our financial position and results of operations; however, 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 networks and systems involve the storage and transmission of proprietary information and sensitive or confidential data, including personal information of customers, employees and others. Our franchised center locations also are reliant on the use of information technology systems to manage their business processes and activities. Our and our franchisees' 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, malicious insiders, telecommunication failures, user errors or catastrophic events. Hackers, acting individually or in coordinated groups, may also launch distributed denial of service attacks or other coordinated attacks that may cause service outages or other interruptions in our business. In addition, breaches in security could expose us, our customers and franchisees, or the individuals affected, to a risk of loss or misuse of proprietary information and sensitive or confidential data. The techniques used to obtain unauthorized access, disable or degrade service or sabotage systems change frequently, may be difficult to detect for a long time and often are not recognized until launched against a target. As a result, we may be unable to anticipate these techniques or to implement adequate preventative measures.

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. In August 2014, a broad-based malware intrusion targeting retailers throughout the U.S. was discovered and subsequently eradicated at approximately 1% of our franchisees' locations. While the impact of this cyber-attack, including the costs associated with investigation and remediation activities, was not material to our business and our financial results, our efforts to deter, identify, mitigate and/or eliminate any future breaches may not be successful.

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 or earthquakes, epidemics or pandemics, or terrorist attacks, conflicts or unrest, 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 a weak economy.

We derive a significant portion of our revenues from our international operations and are subject to the risks of doing business in international 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 many laws governing our international operations, including those that prohibit improper payments to government officials and commercial customers, and restrict where we can do business, our shipments to certain countries and the information that we can provide to non-U.S. governments.

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, fixed 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 435,000 employees, including approximately 354,000 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 some 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 and the decreasing trend of discount rates that we use to value our pension liabilities. 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. The new national master agreement with the Teamsters includes changes that are designed to mitigate certain of these health care expenses, but there can be no assurance that our efforts will be successful or that the failure or success of these efforts will not adversely affect our business, financial position, results of operations or liquidity.

We participate in a number of trustee-managed multiemployer pension and health and welfare plans for employees covered under collective bargaining agreements. As part of the overall collective bargaining process for wage and benefit levels, we have agreed to contribute certain amounts to the multiemployer benefit plans during the contract period. The multiemployer benefit plans set benefit levels and are responsible for benefit delivery to participants. Future contribution amounts to multiemployer benefit plans will be determined only through collective bargaining, and we have no additional legal or constructive obligation to increase contributions beyond the agreed-upon amounts (except potential surcharges under the Pension Protection Act of 2006 in the event that a plan enters critical status, and our contributions are not sufficient to satisfy any rehabilitation plan funding schedule). In future collective bargaining negotiations, we could agree to make significantly higher future contributions to improve the funded status of one or more of these plans. The funded status of these multiemployer plans are impacted by various factors, including investment performance, health care inflation, changes in demographics and changes in participant benefit levels. At this time, we are unable to determine the amount of additional future contributions, if any, or whether any material adverse effect on 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 operations, capabilities or technologies and the management of the acquired 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 is located in Atlanta, Georgia and consists of about 745,000 square feet of office space in an office campus, and our UPS Supply Chain Solutions group’s headquarters, which is located in Alpharetta, Georgia, and consists of about 310,000 square feet of office space.

We also own 29 of our 31 principal U.S. package operating facilities, which have floor spaces that range from approximately 310,000 to 879,000 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 capacity 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 more than 800 facilities that support our international package operations. In addition, we own or lease more than 500 facilities, with approximately 32.2 million square feet of floor space, that support our freight forwarding and logistics operations. We own and operate a logistics campus consisting of approximately 3.7 million square feet in Louisville, Kentucky.

We own or lease approximately 200 UPS Freight service centers with approximately 5.9 million square feet of floor space. The main offices of UPS Freight are located in Richmond, Virginia and consist of about 217,000 square feet of office space.

Our aircraft are operated in a hub and spoke pattern in the U.S., with our principal air hub, known as Worldport, 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 Columbia, South Carolina; Dallas, Texas; 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; and Hong Kong. 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 the first quarter of 2014, we completed the expansion of our European air hub in Cologne. The expansion project equipped the existing facility with additional state-of-the-art technology and included a major extension to the existing building. This extension is partially dedicated to processing larger freight shipments. Together, these initiatives significantly increased the hub's package sorting capacity from 112,000 to 190,000 packages per hour. The total cost of the expansion was 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 sorting capacity of 17,000 packages per hour. This 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 Bao'an International Airport in China. The Shenzhen facility, which was built on a parcel of almost one million square feet and has a sorting capacity of 18,000 packages per hour, serves as our primary transit hub in Asia.

Our primary information technology operations are consolidated in a 443,600 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.

Fleet

Aircraft

The following table shows information about our aircraft fleet as of December 31, 2014:

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 757-200F	75	—	—	—
Boeing 767-300ERF	59	—	—	—
Boeing MD-11F	38	—	—	—
Airbus A300-600F	52	—	—	—
Other	—	412	—	—
Total	237	412	—	—

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

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

We currently do not have any commitments or options to purchase aircraft.

Vehicles

We operate a global ground fleet of approximately 106,000 package cars, vans, tractors and motorcycles. Our ground support fleet consists of 33,000 pieces of equipment designed specifically to support our aircraft fleet, ranging from non-powered container dollies and racks to powered aircraft main deck loaders and cargo tractors. We also have 33,000 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 2014 and 2013. Our class B common stock is listed on the New York Stock Exchange under the symbol “UPS”.

	High	Low	Close	Dividends Declared
2014:				
First Quarter	$104.85	$93.19	$97.38	$0.67
Second Quarter	$104.30	$95.57	$102.66	$0.67
Third Quarter	$105.09	$94.87	$98.29	$0.67
Fourth Quarter	$113.10	$94.05	$111.17	$0.67
2013:				
First Quarter	$85.92	$75.03	$85.90	$0.62
Second Quarter	$89.96	$81.95	$86.48	$0.62
Third Quarter	$92.10	$85.18	$91.37	$0.62
Fourth Quarter	$105.35	$88.46	$105.08	$0.62

As of February 20, 2015, there were 153,035 and 18,308 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 11, 2015, our Board declared a dividend of $0.73 per share, which is payable on March 10, 2015 to shareowners of record on February 23, 2015. This represents a 9% increase from the previous $0.67 quarterly dividend in 2014.
On February 14, 2013, the Board of Directors approved a share repurchase authorization of $10.0 billion, which replaced an authorization previously announced in 2012. The new share repurchase authorization has no expiration date. We anticipate repurchasing approximately $2.7 billion of shares in 2015.
A summary of repurchases of our class A and class B common stock during the fourth quarter of 2014 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	4.4	$106.17	4.4	$4,309
November 1—November 30	0.9	108.43	0.6	4,244
December 1—December 31	0.9	110.45	0.8	4,152
Total October 1—December 31	6.2	$107.02	5.8	

(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.

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, 2009 in the Standard & Poor’s 500 Index, the Dow Jones Transportation Average, and our class B common stock.

	12/31/2009	12/31/2010	12/31/2011	12/31/2012	12/31/2013	12/31/2014
United Parcel Service, Inc.	$ 100.00	$ 130.29	$ 135.35	$ 140.54	$ 205.95	$ 223.79
Standard & Poor’s 500 Index	$ 100.00	$ 115.06	$ 117.48	$ 136.26	$ 180.38	$ 205.05
Dow Jones Transportation Average	$ 100.00	$ 126.74	$ 126.75	$ 136.24	$ 192.61	$ 240.91

Item 6. Selected Financial Data

The following table sets forth selected financial data for each of the five years in the period ended December 31, 2014 (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,				
	2014	2013	2012	2011	2010
Selected Income Statement Data					
Revenue:					
U.S. Domestic Package	$35,851	$34,074	$32,856	$31,717	$29,742
International Package	12,988	12,429	12,124	12,249	11,133
Supply Chain & Freight	9,393	8,935	9,147	9,139	8,670
Total revenue	58,232	55,438	54,127	53,105	49,545
Operating expenses:					
Compensation and benefits	32,045	28,557	33,102	27,575	26,557
Other	21,219	19,847	19,682	19,450	17,347
Total operating expenses	53,264	48,404	52,784	47,025	43,904
Operating profit:					
U.S. Domestic Package	2,859	4,603	459	3,764	3,238
International Package	1,677	1,757	869	1,709	1,831
Supply Chain and Freight	432	674	15	607	572
Total operating profit	4,968	7,034	1,343	6,080	5,641
Other income (expense):					
Investment income	22	20	24	44	3
Interest expense	(353)	(380)	(393)	(348)	(354)
Income before income taxes	4,637	6,674	974	5,776	5,290
Income tax expense	1,605	2,302	167	1,972	1,952
Net income	$3,032	$4,372	$807	$3,804	$3,338
Per share amounts:					
Basic earnings per share	$3.31	$4.65	$0.84	$3.88	$3.36
Diluted earnings per share	$3.28	$4.61	$0.83	$3.84	$3.33
Dividends declared per share	$2.68	$2.48	$2.28	$2.08	$1.88
Weighted average shares outstanding:					
Basic	916	940	960	981	994
Diluted	924	948	969	991	1,003

	As of December 31,				
	2014	2013	2012	2011	2010
Selected Balance Sheet Data					
Cash and marketable securities	$3,283	$5,245	$7,924	$4,275	$4,081
Total assets	35,471	36,212	38,863	34,701	33,597
Long-term debt	9,864	10,824	11,089	11,095	10,491
Shareowners' equity	2,158	6,488	4,733	7,108	8,047

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

Overview

U.S. economic growth, retail sales and industrial production continued at a moderate pace in 2014, which resulted in growth in the small package delivery market. Continued strong growth in e-commerce and omni-channel retail sales has driven package volume increases in both commercial and residential products. Given these trends, overall volume growth was strong during the year, and products most aligned with business-to-consumer and retail industry shipments experienced the fastest growth.

Economic conditions in Europe have deteriorated somewhat, as solid growth in the United Kingdom is being offset by slower growth in Germany and general economic weakness in France and Italy. Economic growth in Asia has continued, though growth in China has moderated. The uneven nature of economic growth worldwide, combined with a trend towards more intra-regional trade, has led to shifting trade patterns and resulted in overcapacity in certain trade lanes. These factors have created an environment in which customers are more likely to trade-down from premium express products to standard delivery products in both Europe and Asia. As a result of these circumstances, we have adjusted our air capacity and cost structure in our transportation network to better match the prevailing volume mix levels. Our broad portfolio of product offerings and the flexibilities inherent in our transportation network have helped us adapt to these changing trends.

While the worldwide economic environment has remained challenging in 2014, we have continued to undertake several initiatives in the U.S. and internationally to (1) improve the flexibility and capacity in our delivery network; (2) improve yield management; and (3) increase operational efficiency and contain costs across all segments. Most notably, the continued deployment of technology improvements (including several facility automation projects and the accelerated deployment of our On Road Integrated Optimization and Navigation system - "ORION") should increase our network capacity, and improve operational efficiency, flexibility and reliability. Additionally, we have continued to adjust our transportation network and utilize new or expanded operating facilities to improve time-in-transit for shipments in each region.

Our consolidated results are presented in the table below:

	Year Ended December 31,			% Change	
	2014	2013	2012	2014 / 2013	2013 / 2012
Revenue (in millions)	$58,232	$55,438	$54,127	5.0 %	2.4 %
Operating Expenses (in millions)	53,264	48,404	52,784	10.0 %	(8.3)%
Operating Profit (in millions)	$4,968	$7,034	$1,343	(29.4)%	N/A
Operating Margin	8.5 %	12.7 %	2.5 %		
Average Daily Package Volume (in thousands)	18,016	16,938	16,295	6.4 %	3.9 %
Average Revenue Per Piece	$10.58	$10.76	$10.82	(1.7)%	(0.6)%
Net Income (in millions)	$3,032	$4,372	$807	(30.6)%	N/A
Basic Earnings Per Share	$3.31	$4.65	$0.84	(28.8)%	N/A
Diluted Earnings Per Share	$3.28	$4.61	$0.83	(28.9)%	N/A

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

Items Affecting Comparability

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

	Year Ended December 31,		
	2014	2013	2012
Operating Expenses:			
Defined Benefit Plans Mark-to-Market Charge	$1,062	$—	$4,831
Health & Welfare Plan Charges	1,102	—	—
TNT Termination Fee and Related Expenses	—	284	—
Gain Upon Liquidation of Foreign Subsidiary	—	(245)	—
Multiemployer Pension Plan Withdrawal Charge	—	—	896
Income Tax Expense (Benefit) from the Items Above	(807)	(75)	(2,145)

These items have been excluded from comparisons of "adjusted" operating expenses, operating profit and operating margin in the discussion that follows.

Defined Benefit Plans Mark-to-Market Charge

In 2014 and 2012, we incurred pre-tax mark-to-market losses of $1.062 and $4.831 billion, respectively, on a consolidated basis ($670 million and $3.023 billion after-tax, respectively) on our pension and postretirement defined benefit plans related to the remeasurement of plan assets and liabilities recognized outside of a 10% corridor. No mark-to-market gain or loss was incurred in 2013, as the remeasurement of plan assets and liabilities only resulted in adjustments within the 10% corridor (and thus only impacted accumulated other comprehensive income). These mark-to-market losses in 2014 and 2012, which were recorded in compensation and benefits expense in our statements of consolidated income, impacted each of our three reporting segments in both years. The table below indicates the amounts associated with each component of the pre-tax mark-to-market loss, as well as the weighted-average actuarial assumptions used to determine our net periodic benefit costs, for each year:

	Year Ended December 31,		
Components of mark-to-market gain (loss) (in millions)	2014	2013	2012
Discount rates	$(954)	$—	$(5,530)
Return on assets	42	—	708
Demographic assumptions	(150)	—	(9)
Total mark-to-market gain (loss)	$(1,062)	$—	$(4,831)

Weighted-average actuarial assumptions used to determine net periodic benefit cost	2014	2013	2012
Expected rate of return on plan assets	8.66%	8.69%	8.71%
Actual rate of return on plan assets	9.45%	8.36%	11.76%
Discount rate used for net periodic benefit cost	5.24%	4.38%	5.58%
Discount rate at measurement date	4.36%	5.24%	4.38%

The $1.062 and $4.831 billion pre-tax mark-to-market losses for the years ended December 31, 2014 and 2012, respectively, were comprised of the following components:

2014 - $1.062 billion pre-tax mark-to-market loss:

- Discount Rates ($954 million pre-tax loss): The weighted-average discount rate for our U.S. pension and postretirement medical plans and our international pension plans declined from 5.24% at December 31, 2013 to 4.36% at December 31, 2014. This overall decline in discount rates was driven by a 122 basis point decline in the 30 year Treasury bond rate, but was partially offset by an increase in credit spreads on AA-rated 30 year bonds.

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES
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- Return on Assets ($42 million pre-tax gain): Our expected rate of return on U.S. pension and postretirement medical plan assets is developed taking into consideration: (1) historical plan asset returns over long-term periods, (2) current market conditions, and (3) the mix of asset classes in our investment portfolio. We review the expected rate of return on an annual basis and revise it as appropriate. In 2014, the actual rate of return on plan assets of 9.45% exceeded our expected rate of return of 8.66%, primarily due to continued gains in the world equity markets.
- Demographic Assumptions ($150 million pre-tax loss): The implementation of new U.S. mortality tables in 2014 resulted in an increased participant life expectancy assumption, which increased the overall projected benefit obligation for our plans.

2012 - $4.831 billion pre-tax mark-to-market loss:

- Discount Rates ($5.530 billion pre-tax loss): The weighted-average discount rate for our U.S. pension and postretirement medical plans and our international pension plans declined from 5.58% at December 31, 2011 to 4.38% at December 31, 2012, due to two primary factors: (1) The discount rate for our U.S. pension and postretirement medical plans is determined using a bond matching approach for a portfolio of corporate AA bonds. In 2012, financial institutions comprised a smaller portion of our corporate AA bond portfolio relative to 2011, largely due to credit downgrades of several large financial institutions in 2012. (2) Credit spreads on AA-rated 30-year bonds declined in 2012. These changes in the composition of our bond portfolio mix and the compression in credit spreads were the primary factors resulting in the 120 basis point decline in the weighted-average discount rate in 2012 relative to 2011.
- Return on Assets ($708 million pre-tax gain): In 2012, the actual rate of return on plan assets of 11.76% exceeded our expected rate of return of 8.71%, primarily due to strong gains in the world equity markets.
- Demographic Assumptions ($9 million pre-tax loss): This represents the difference between actual and estimated demographic factors, including items such as health care cost trends, mortality rates and compensation rate increases.

Health and Welfare Plan Charges

In connection with the ratification of our national master agreement with the International Brotherhood of Teamsters ("Teamsters") in 2014, we incurred pre-tax charges totaling $1.102 billion ($687 million after-tax) associated with changes in the delivery of healthcare benefits to certain active and retired union employees. These charges are discussed in further detail in the "Collective Bargaining Agreements" section. These charges impacted our U.S. Domestic Package segment ($990 million), International Package segment ($28 million) and Supply Chain & Freight segment ($84 million).

TNT Termination Fee and Related Expenses

On January 30, 2013, the European Commission issued a formal decision prohibiting our proposed acquisition of TNT Express N.V. ("TNT Express"). As a result of the prohibition by the European Commission, the condition of our offer requiring European Union competition clearance was not fulfilled, and our proposed acquisition of TNT Express could not be completed. Given this outcome, UPS and TNT Express entered a separate agreement to terminate the merger protocol, and we withdrew our formal offer for TNT Express. We paid a termination fee to TNT Express of €200 million ($268 million) under this agreement, and also incurred transaction-related expenses of $16 million during the first quarter of 2013. The combination of these items resulted in a pre-tax charge of $284 million ($177 million after-tax), which impacted our International Package segment.

Gain Upon the Liquidation of a Foreign Subsidiary

Subsequent to the termination of the merger protocol, we liquidated a foreign subsidiary that would have been used to acquire the outstanding shares of TNT Express in connection with the proposed acquisition. Upon the liquidation of this subsidiary in the first quarter of 2013, we realized a pre-tax foreign currency gain of $245 million ($213 million after-tax), which impacted our International Package segment.

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

Multiemployer Pension Plan Withdrawal Charge

In 2012, we recognized an $896 million pre-tax charge ($559 million after-tax) for the establishment of a withdrawal liability related to our withdrawal from the New England Teamsters and Trucking Industry Pension Fund ("New England Pension Fund"), a multiemployer pension plan. This charge is discussed in further detail in the "Collective Bargaining Agreements" section. This charge was recorded in compensation and benefits expense in our statements of consolidated income, and impacted our U.S. Domestic Package segment.

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. Additionally, these adjusted financial measures are used internally by management for the determination of incentive compensation awards, business unit operating performance analysis, and business unit resource allocation.

As discussed in our "Critical Accounting Policies and Estimates", we recognize changes in the fair value of plan assets and net actuarial gains and losses in excess of a 10% corridor immediately as part of net periodic benefit cost. In our results of operations and the discussions that follow, we have presented adjusted operating expenses, adjusted operating profit and adjusted operating margin excluding the portion of net periodic benefit cost represented by the gains and losses recognized in excess of the 10% corridor. This adjusted net periodic benefit cost is comparable to the accounting for our defined benefit plans in our quarterly reporting under U.S. GAAP, and reflects assumptions utilizing the expected return on plan assets and the discount rate used for determining net periodic benefit cost (the non-adjusted net periodic benefit cost reflects the actual return on plan assets and the discount rate used for measuring the projected benefit obligation). We believe this adjusted net periodic benefit cost provides important supplemental information that reflects the anticipated long-term cost of our defined benefit plans, and provides a benchmark for historical defined benefit cost trends that can be used to better compare year-to-year financial performance without considering the short-term impact of changes in market interest rates, equity prices, and similar factors.

Certain operating expenses are allocated between our reporting segments based on activity-based costing methods. These activity-based costing methods require us to make estimates that impact the amount of each expense category that is attributed to each segment. Changes in these estimates will directly impact the amount of expense allocated to each segment, and therefore the operating profit of each reporting segment. There were no significant changes in our expense allocation methodology during 2014, 2013 or 2012.

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U.S. Domestic Package Operations

	Year Ended December 31,			% Change	
	2014	2013	2012	2014 / 2013	2013 / 2012
Average Daily Package Volume (in thousands):					
Next Day Air	1,274	1,271	1,277	0.2 %	(0.5)%
Deferred	1,155	1,074	1,031	7.5 %	4.2 %
Ground	12,893	12,060	11,588	6.9 %	4.1 %
Total Avg. Daily Package Volume	15,322	14,405	13,896	6.4 %	3.7 %
Average Revenue Per Piece:					
Next Day Air	$20.42	$20.12	$19.93	1.5 %	1.0 %
Deferred	12.57	12.70	13.06	(1.0)%	(2.8)%
Ground	7.85	7.96	7.89	(1.4)%	0.9 %
Total Avg. Revenue Per Piece	$9.25	$9.39	$9.38	(1.5)%	0.1 %
Operating Days in Period	253	252	252		
Revenue (in millions):					
Next Day Air	$6,581	$6,443	$6,412	2.1 %	0.5 %
Deferred	3,672	3,437	3,392	6.8 %	1.3 %
Ground	25,598	24,194	23,052	5.8 %	5.0 %
Total Revenue	$35,851	$34,074	$32,856	5.2 %	3.7 %
Operating Expenses (in millions):					
Operating Expenses	$32,992	$29,471	$32,397	11.9 %	(9.0)%
Defined Benefit Plans Mark-to-Market Charge	(660)	—	(3,177)		
Health & Welfare Plan Charges	(990)	—	—		
Multiemployer Pension Plan Withdrawal Charge	—	—	(896)		
Adjusted Operating Expenses	$31,342	$29,471	$28,324	6.3 %	4.0 %
Operating Profit (in millions) and Operating Margin:					
Operating Profit	$2,859	$4,603	$459	(37.9)%	N/A
Adjusted Operating Profit	$4,509	$4,603	$4,532	(2.0)%	1.6 %
Operating Margin	8.0 %	13.5 %	1.4 %		
Adjusted Operating Margin	12.6 %	13.5 %	13.8 %		

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Revenue

The change in overall revenue was impacted by the following factors for the years ended December 31, 2014 and 2013, compared with the corresponding prior year periods:

	Volume	Rates / Product Mix	Fuel Surcharge	Total Revenue Change
Revenue Change Drivers:				
2014 / 2013	6.8 %	(1.6)%	— %	5.2 %
2013 / 2012	3.7 %	0.5 %	(0.5)%	3.7 %

Volume

2014 compared to 2013

Our total volume increased in 2014, largely due to continued solid growth in e-commerce and overall retail sales. Business-to-consumer shipments, which represent more than 45% of total U.S. Domestic Package volume, grew 12% for the year and drove increases in both air and ground shipments. UPS SurePost volume increased more than 45% in 2014, and accounted for approximately half of the overall volume growth for the segment. Business-to-business volume grew 3% in 2014, largely due to increased volume from the retail industry, including the use of our solutions for omni-channel (including ship-from-store and ship-to-store models) and returns shipping; additionally, business-to-business volume was positively impacted by growth in shipments from the industrial, automotive and government sectors.

Among our air products, volume increased in 2014 for both our Next Day Air and deferred services. Solid air volume growth continued for those products most aligned with business-to-consumer shipping, particularly our residential Second Day Air package product. Our business-to-business air volume increased slightly as well, largely due to growth in the retail and industrial sectors. This growth was slightly offset by a decline in air letter volume, which was negatively impacted by some competitive losses and slowing growth in the financial services industry. The growth in premium and deferred air volume continues to be impacted by economic conditions and changes in our customers' supply chain networks; the combination of these factors influences their sensitivity towards the price and speed of shipments, and therefore favoring the use of our deferred air services.

The increase in ground volume in 2014 was driven by our SurePost service offering, which had a volume increase of more than 45% for the year; additionally, we experienced moderate volume growth in our traditional residential and commercial ground services. Demand for SurePost and our traditional residential products continues to be driven by business-to-consumer shipping activity from e-commerce retailers and other large customers. The growth in business-to-business ground volume was largely due to growth in omni-channel retail volume, the increased use of our returns service offerings, and the growth in shipments from the industrial sector.

2013 compared to 2012

Our overall volume increased in 2013 compared with 2012, largely due to continued solid growth in e-commerce and overall retail sales; however, the increase in volume was hindered by slow overall U.S. economic and industrial production growth. Business-to-consumer shipments, which represent over 40% of total U.S. Domestic Package volume, grew approximately 8% for the year and drove increases in both air and ground shipments. Growth accelerated during our peak holiday shipping season, as business-to-consumer volume grew over 11% in the fourth quarter of 2013, and business-to-consumer shipments exceeded 50% of total U.S. Domestic Package volume for the first time. Business-to-business volume increased slightly in 2013, largely due to increased shipping activity by the retail industry; however, business-to-business volume was negatively impacted by slowing industrial production.

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Among our air products, volume increased in 2013 compared with 2012, as growth in our deferred products more than offset a small decline in our Next Day Air services. Solid air volume growth continued for those products most aligned with business-to-consumer shipping, including our residential Second Day Air package and residential Next Day Air Saver products. Next Day Air letter volume decreased approximately 7% for the year, and was negatively impacted by competitive losses and slowing growth in the financial services industry. Our business-to-business air volume continued to be impacted by sluggish economic conditions in the U.S., low levels of inventory replenishment among our customers and changes in our customers' supply chain networks. The combination of these factors influenced our customers' sensitivity towards the price and speed of shipments, and therefore the use of our premium air services.

The increase in ground volume in 2013 was primarily attributed to our traditional residential service offerings and SurePost. Demand for these residential products continues to be driven by business-to-consumer shipping activity from e-commerce retailers and other large customers. Business-to-business ground volume also showed a small increase, and was positively impacted by the overall expansion of the U.S. retail sector; however, continued weakness in industrial production hindered growth. The increased use of omni-channel retailing (including ship-from-store and ship-to-store models) by customers is also positively impacting volume growth for both our residential and commercial ground products.

Rates and Product Mix

2014 compared to 2013

Overall revenue per piece decreased 1.5% in 2014, and was impacted by changes in base rates, customer and product mix, and fuel surcharge rates.

Revenue per piece for our ground and air products was positively impacted by an increase in base rates that took effect on December 30, 2013. We implemented an average 4.9% net increase in base and accessorial rates on UPS Next Day Air, UPS 2nd Day Air and UPS 3 Day Select and UPS Ground.

Revenue per piece increased for our Next Day Air products in 2014, largely due to the base rate increase, an increase in the average weight per package, and a shift in product mix from lower-yielding letters towards higher-yielding packages. Revenue per piece declined for our deferred products in 2014, as customer and product mix changes more than offset the increase in base rates. Product mix adversely impacted deferred revenue per piece, as we experienced relatively stronger growth in our lighter-weight business-to-consumer shipments, which have lower average yields than our heavier-weight commercial shipments. Customer mix also adversely impacted deferred revenue per piece, due to the faster volume growth among our larger customers, which typically have a lower average yield than our smaller and middle-market customers.

Ground revenue per piece decreased in 2014, as customer and product mix changes more than offset the impact of the base rate increase. Customer and product mix changes adversely impacted revenue per piece as a greater portion of our overall volume in 2014, relative to 2013, came from lighter-weight shipments (including more than 45% volume growth in SurePost) and larger customers.

2013 compared to 2012

Overall revenue per piece was relatively flat in 2013 compared with 2012, and was impacted by changes in base rates, customer and product mix, and fuel surcharge rates.

Revenue per piece for our ground and air products was positively impacted by an increase in base rates that took effect on December 31, 2012. We increased the base rates 6.5% 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 indices. Other pricing changes included an increase in the residential surcharge, and an increase in the delivery area surcharge on certain residential and commercial services. These rate changes are customary and occur on an annual basis.

Revenue per piece increased for Next Day Air in 2013, and was positively impacted by the base rate increase and the loss of some lower-yielding letter volume. Revenue per piece for our deferred products declined, as the impact of the base rate increase was more than offset by declines in fuel surcharge rates and changes in customer and product mix.

Revenue per piece for our air products was adversely impacted by the relatively stronger growth in our lower-yielding Next Day Air Saver and deferred products, compared with our premium Next Day Air services, as well as the faster growth in lighter-weight business-to-consumer shipments. Additionally, revenue per piece was negatively affected by the faster volume growth among our larger customers, which typically have a lower average yield than our smaller and middle-market customers.

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Ground revenue per piece increased in 2013 compared with 2012, primarily due to the base rate increase; however, this was partially offset by customer and product mix changes, as a greater portion of our overall volume in 2013, relative to 2012, came from lighter-weight shipments and larger customers. Fuel surcharge rate changes adversely impacted ground revenue per piece growth in 2013 compared with 2012.

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. In connection with our base rate increase on December 31, 2012, 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. Based on published rates, the average fuel surcharge rates for domestic air and ground products were as follows:

	Year Ended December 31,			% Point Change	
	2014	2013	2012	2014 / 2013	2013 / 2012
Next Day Air / Deferred	10.2 %	10.7 %	13.0 %	(0.5)%	(2.3)%
Ground	7.1 %	7.2 %	8.0 %	(0.1)%	(0.8)%

Total fuel surcharge revenue declined by $8 million in 2014, as lower fuel surcharge rates (driven by lower fuel prices) slightly more than offset the impact of increased air and ground volume. In 2013, total fuel surcharge revenue declined by $178 million due to lower fuel surcharge rates (driven primarily by the reductions in the index on both the air and ground surcharges, as well as lower fuel prices).

Operating Expenses

2014 compared to 2013

Adjusted operating expenses for the segment increased $1.871 billion in 2014, primarily due to pick-up and delivery costs (up $821 million), the cost of operating our domestic integrated air and ground network (up $719 million) and the costs of package sorting (up $167 million). These costs were impacted by several factors:

- We incurred higher employee compensation costs, largely resulting from an increase in average daily union labor hours (up 7.5%), union contractual wage rate increases, increased employee healthcare expenses and growth in the overall size of the workforce. The increase in labor hours was driven by volume growth, additional overtime and training hours during our fourth quarter holiday shipping season, and adverse weather conditions in early 2014.
- We incurred higher expenses associated with outside contract carriers, due to volume growth, issues associated with the service performance of rail carriers, and the adverse weather conditions in early 2014.
- These cost increases were partially offset by a reduction in worker's compensation expense, due to actuarial adjustments that were largely attributable to operational safety and claims management initiatives.
- These cost increases were also mitigated by certain network efficiency and productivity improvements, which resulted in a 0.4% reduction in the total adjusted cost per piece in 2014 compared with 2013. We have continued to adjust our air and ground networks to better match higher volume levels, utilize technology to increase package sorting and delivery efficiency, and benefit from improved pick-up and delivery densities (particularly for our residential products). These improvements allowed us to process increased volume (up 6.4%) at a faster rate than the increase in average daily aircraft block hours (up 2.4%) and vehicle miles driven (up 4.2%).

In the fourth quarter of 2014, adjusted operating expenses increased 9.4%, as decreased productivity, higher contract carrier rates, and additional union overtime and training hours contributed to approximately $200 million in excess costs. In order to process the significant increase in package volume while maintaining service levels, we increased our overall capacity through additional staffing, more equipment rentals and new operating facilities. Additionally, we elected to operate on one additional day during the fourth quarter of 2014 to further improve service levels. However, the significant variability in package volume during the holiday shipping season resulted in a sub-optimized transportation network, and a reduction in productivity (average daily union labor hours increased 10.5%, compared with the volume increase of 6.6%). The total adjusted cost per piece in the fourth quarter of 2014 increased 1.0% compared with the fourth quarter of 2013.

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2013 compared to 2012

Adjusted operating expenses for the segment increased $1.147 billion in 2013 compared with 2012. This increase was primarily due to pick-up and delivery costs, which grew $772 million, as well as the cost of operating our domestic integrated air and ground network, which increased $290 million for the year. The growth in pick-up and delivery and network costs was largely due to increased volume and higher employee compensation costs, which were impacted by a union contractual wage increase (package driver wage rates rose 2.2%), an increase in average daily driver hours (up 2.2%) and an increase in employee pension and healthcare costs. Partially offsetting these cost increases was a reduction in worker's compensation expense, due to actuarial adjustments that were largely attributable to operational safety and claims management initiatives.

Cost increases have been mitigated as we adjust our air and ground networks to better match higher volume levels and utilize technology to increase package sorting and delivery efficiency. Improved pick-up and delivery densities, particularly for our residential products, have also contained increases in cost. These network efficiency improvements allowed us to process increased volume (up 3.7%) at a faster rate than the increase in average daily union labor hours (up 3.1%), aircraft block hours (down 0.6%) and miles driven (up 1.8%) in 2013 compared with 2012. As a result, the total adjusted cost per piece increased only 0.4% in 2013.

Several factors caused our fourth quarter operating expenses to significantly increase (adjusted operating expenses increased $553 million, or 7.3%, in the fourth quarter of 2013 compared with the same period of 2012). Higher-than-planned volume growth, combined with adverse weather conditions and the relatively compressed holiday shipping season in 2013 (there were six fewer days between the Thanksgiving and Christmas holidays in 2013 relative to 2012), resulted in a significant increase in labor hours and the greater use of contract carriers to help meet our service commitments. Additionally, the much later-than-anticipated seasonal increase in volume during the fourth quarter strained our transportation network, resulting in lower productivity (total union labor hours increased 6.2%, while volume increased 5.6% in the fourth quarter).

Operating Profit and Margin

2014 compared to 2013

Adjusted operating profit decreased $94 million in 2014 compared with 2013, and was impacted by several factors. We incurred approximately $200 million of additional operating costs during the fourth quarter holiday shipping season, largely due to decreased productivity, higher contract carrier rates, and additional union overtime and training hours. The unfavorable weather conditions in the U.S. in early 2014 reduced operating profit approximately $200 million in 2014, including the estimated loss in package volume, increased guaranteed service refunds to customers and higher operating expenses. Additionally, changes in customer and product mix combined to pressure our revenue per piece. These factors were partially offset by solid volume growth and the overall productivity improvements (resulting in lower cost per piece) discussed previously. The combination of these factors led to a 90 basis point decline in our operating margin in 2014 compared with 2013.

2013 compared to 2012

Adjusted operating profit increased $71 million in 2013 compared with 2012, as the volume growth and productivity improvements discussed previously more than offset the pressure on revenue per piece and the adverse impact of fuel. Overall volume growth allowed us to better leverage our transportation network, resulting in greater productivity and better pick-up and delivery density; however, these factors were partially offset by changes in customer and product mix, which combined to pressure our revenue per piece. Additionally, the net impact of fuel adversely affected operating profit by $158 million in 2013 compared with 2012, as fuel surcharge revenue decreased at a faster rate than fuel expense.

Although annual adjusted operating profit improved in 2013, it declined by $178 million in the fourth quarter of 2013 compared with the fourth quarter of 2012. This decline in profitability was largely due to additional labor and purchased transportation costs, as heavier-than-anticipated volume, adverse weather conditions and a compressed holiday shipping season combined to result in approximately $125 to $150 million in extra costs in the fourth quarter of 2013. In addition, we incurred approximately $50 million in service refunds for unmet delivery commitments in the fourth quarter of 2013. The combination of these factors resulted in a 250 basis point decrease in our fourth quarter operating margin.

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International Package Operations

	Year Ended December 31,			% Change	
	2014	2013	2012	2014 / 2013	2013 / 2012
Average Daily Package Volume (in thousands):					
Domestic	1,579	1,499	1,427	5.3 %	5.0 %
Export	1,115	1,034	972	7.8 %	6.4 %
Total Avg. Daily Package Volume	2,694	2,533	2,399	6.4 %	5.6 %
Average Revenue Per Piece:					
Domestic	$6.97	$7.06	$7.04	(1.3)%	0.3 %
Export	33.98	35.18	36.88	(3.4)%	(4.6)%
Total Avg. Revenue Per Piece	$18.15	$18.54	$19.13	(2.1)%	(3.1)%
Operating Days in Period	253	252	252		
Revenue (in millions):					
Domestic	$2,784	$2,667	$2,531	4.4 %	5.4 %
Export	9,586	9,166	9,033	4.6 %	1.5 %
Cargo	618	596	560	3.7 %	6.4 %
Total Revenue	$12,988	$12,429	$12,124	4.5 %	2.5 %
Operating Expenses (in millions):					
Operating Expenses	$11,311	$10,672	$11,255	6.0 %	(5.2)%
Defined Benefit Plan Mark-to-Market Charge	(200)	—	(941)		
Health & Welfare Plan Charges	(28)	—	—		
Gain Upon Liquidation of Foreign Subsidiary	—	245	—		
TNT Termination Fee and Related Expenses	—	(284)	—		
Adjusted Operating Expenses	$11,083	$10,633	$10,314	4.2 %	3.1 %
Operating Profit (in millions) and Operating Margin:					
Operating Profit	$1,677	$1,757	$869	(4.6)%	102.2 %
Adjusted Operating Profit	$1,905	$1,796	$1,810	6.1 %	(0.8)%
Operating Margin	12.9 %	14.1 %	7.2 %		
Adjusted Operating Margin	14.7 %	14.5 %	14.9 %		
Currency Translation Benefit / (Cost)—(in millions)*:					
Revenue				$(72)	$(65)
Operating Expenses				87	(37)
Operating Profit				$15	$(102)

* 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, 2014 and 2013, compared with the corresponding prior year periods:

	Volume	Rates / Product Mix	Fuel Surcharge	Currency	Total Revenue Change
Revenue Change Drivers:					
2014 / 2013	6.8 %	(1.7)%	— %	(0.6)%	4.5 %
2013 / 2012	5.6 %	(1.5)%	(1.1)%	(0.5)%	2.5 %

Volume

2014 compared to 2013

Our overall average daily volume increased in 2014, largely due to strong demand from several economic sectors (including retail, healthcare, industrial and automotive).

We continued to experience strong export volume growth in 2014, with increases from all regions in the world. European export volume increased 12% for the year, with particular strength in the intra-European trade lanes and the Europe-to-U.S. trade lane. Asian export volume increased at a moderate pace (with strength in the Asia-to-U.S. and Asia-to-Europe trade lanes), and benefited from technology sector product launches. Export volume continued to shift towards our standard products, such as Transborder Standard and Worldwide Expedited, as compared with our premium express products, such as Worldwide Express. Our international customers continue to be impacted by economic pressures and changes in their supply chain networks, and the combination of these factors influences their sensitivity towards the price and speed of shipments.

The strong increase in domestic volume in 2014 was driven by solid volume growth in Canada, Italy, Spain, France and the United Kingdom.

2013 compared to 2012

Our overall average daily volume increased in 2013 compared with 2012, largely due to growth in key markets in Europe, as well as Canada and Mexico.

Export volume increased in 2013, and was driven by Europe (largely in the intra-European trade lanes) and the Americas (particularly in the Canada-to-U.S. and Mexico-to-U.S. trade lanes). Asian export volume grew at a moderate pace due to continued regional economic growth and expansion of our service offerings, but was negatively impacted by fewer technology product launches from our customers and a small number of competitive losses. Volume continued to shift towards our standard products, such as Transborder Standard and Worldwide Expedited, as compared with our premium express products, such as Worldwide Express.

Domestic volume increased in 2013 compared to 2012, and was driven by solid volume growth in several key markets, including Italy, Canada, Poland and Turkey.

Rates and Product Mix

2014 compared to 2013

Total average revenue per piece decreased 1.5% in 2014 on a currency-adjusted basis, and was impacted by changes in base rates as well as product mix.

On December 30, 2013, we implemented an average 4.9% net increase in base and accessorial rates for international shipments originating in the United States (Worldwide Express, Worldwide Saver, UPS Worldwide Expedited and UPS International Standard service). Rate changes for shipments originating outside the U.S. are made throughout the year and vary by geographic market.

Currency-adjusted export revenue per piece decreased 3.1% in 2014, as the shift in product mix from our premium express products to our standard products more than offset the increase in base rates (volume for our standard products increased 12%, while volume for our premium express products increased 4%). Additionally, currency-adjusted export revenue per piece was adversely impacted by shorter average trade lanes (due to faster growth in intra-regional shipments) and changes in customer mix (as export volume growth for larger customers exceeded the volume growth for higher-yielding middle market customers).

Currency-adjusted domestic revenue per piece increased 0.3% in 2014, and was impacted by base rate increases, as well as changes in product mix and fuel surcharge rates.

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2013 compared to 2012

Total average revenue per piece decreased 2.5% in 2013 on a currency-adjusted basis, and was impacted by changes in base rates, customer and product mix, and fuel surcharge rates.

On December 31, 2012, we increased the base rates 6.5% 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 indices. Rate changes for shipments originating outside the U.S. are made throughout the year and vary by geographic market.

Currency-adjusted export revenue per piece decreased 3.7% in 2013, as the shift in product mix from our premium express products to our standard products more than offset the increase in base rates. Currency-adjusted export revenue per piece was also negatively affected by the faster growth among our larger customers, which tend to have a lower yield than middle market and smaller accounts. Additionally, currency-adjusted export revenue per piece was adversely impacted by shorter average trade lanes (due to faster growth in intra-regional shipments), as well as a small impact on pricing from overcapacity in the Asia outbound freight market.

Currency-adjusted domestic revenue per piece decreased 0.4% in 2013. Domestic revenue per piece was adversely impacted by the faster domestic volume growth in our lower-yielding standard service, as well as product and customer mix changes in several developed markets.

Fuel Surcharges

We maintain fuel surcharges on our international air and ground services. The fuel surcharges for international air products originating inside or outside the United States are indexed to the DOE's Gulf Coast spot price for a gallon of kerosene-type jet fuel, while the fuel surcharges for ground products originating outside the United States are indexed to fuel prices in the international region or country where the shipment takes place. In connection with our base rate increase on December 31, 2012, we modified the fuel surcharge on certain U.S.-related international air services by reducing the index used to determine the fuel surcharge by 2%.

Total international fuel surcharge revenue increased by $2 million in 2014, as the combined impact of international air volume growth and modifications to the fuel surcharge indices were largely offset by declining fuel prices. Total international fuel surcharge revenue decreased by $135 million in 2013, largely due to declining fuel prices and the 2% reduction in the index; however, this was partially offset by increases in international air volume.

Operating Expenses

2014 compared to 2013

Overall adjusted operating expenses for the segment increased $450 million in 2014. This increase was driven by the cost of pick-up and delivery, which increased $201 million, as well as the cost of operating our international integrated air and ground network, which increased $150 million. The increases in pick-up and delivery and network costs were largely driven by higher package volume and higher expense for outside transportation carriers (which was impacted by network capacity constraints in Europe). However, network cost increases were mitigated by reductions in average daily aircraft block hours (1.1% decrease in 2014), as a result of ongoing modifications to our air network; this was achieved even with a 7.8% increase in international export volume and several air product service enhancements.

The remaining increase in adjusted operating expenses in 2014 was largely due to the costs of package sorting, which increased $52 million, and was impacted by volume growth. Additionally, indirect operating costs increased $47 million in 2014, and were affected by various factors, including restructuring charges, foreign currency remeasurement losses, legal contingency accruals, bad debt expense, and several other factors.

Excluding the impact of currency exchange rate changes, the total adjusted cost per piece for the segment decreased 1.6% in 2014.

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2013 compared to 2012

Overall adjusted operating expenses for the segment increased $319 million in 2013 compared with 2012. This increase was driven by the cost of pick-up and delivery, which increased $195 million for the year, largely due to higher package volume.

The cost of operating our international integrated air and ground network increased $111 million for the year, also largely due to higher package volume; however, network costs were mitigated by a 0.4% reduction in average daily aircraft block hours resulting from ongoing modifications to our air network. This was achieved even with a 6.4% increase in international export volume and several air product service enhancements that occurred during 2013.

The remaining increases in adjusted operating expenses for the year were largely due to the costs of package sorting, which was impacted by volume growth, and indirect operating costs, which were affected by increased expenses associated with aviation security.

Excluding the impact of currency exchange rate changes, the total adjusted cost per piece for the segment decreased 2.7% in 2013 compared with 2012.

Operating Profit and Margin

2014 compared to 2013

Adjusted operating profit increased by $109 million in 2014, while the adjusted operating margin increased 20 basis points. These increases were largely due to moderate revenue growth combined with the mitigation of expense increases through improved productivity.

In addition to the aforementioned factors, the net impact of fuel (fuel surcharge revenue grew faster than fuel expense) and the net impact of currency (remeasurement and translation gains) resulted in a favorable impact on operating profit of $127 million when comparing 2014 with 2013. Fuel surcharge revenue was favorably impacted during 2014 by rate increases to the fuel surcharge index. Operating profit in 2014 was negatively impacted by $21 million due to a restructuring charge and related costs in Europe.

2013 compared to 2012

Adjusted operating profit contracted by 0.8% in 2013 compared with 2012, while the adjusted operating margin decreased 40 basis points. The solid volume growth in 2013 was largely offset by reductions in revenue per piece, leading to only slight growth in revenue. The net impact of fuel (fuel surcharge revenue decreased at a faster rate than fuel expense) as well as currency remeasurement and translation losses combined to decrease operating profit by $219 million when comparing 2013 with 2012. The combination of low revenue growth and the adverse impact of fuel and currency led to the reduction in adjusted operating margin.

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Supply Chain & Freight Operations

	Year Ended December 31,			% Change	
	2014	2013	2012	2014 / 2013	2013 / 2012
Freight LTL Statistics:					
Revenue (in millions)	$2,633	$2,502	$2,377	5.2 %	5.3 %
Revenue Per Hundredweight	$22.64	$22.05	$21.73	2.7 %	1.5 %
Shipments (in thousands)	10,762	10,497	10,136	2.5 %	3.6 %
Shipments Per Day (in thousands)	42.5	41.5	40.1	2.5 %	3.6 %
Gross Weight Hauled (in millions of lbs)	11,632	11,348	10,939	2.5 %	3.7 %
Weight Per Shipment (in lbs)	1,081	1,081	1,079	— %	0.2 %
Operating Days in Period	253	253	253		
Revenue (in millions):					
Forwarding and Logistics	$5,758	$5,492	$5,977	4.8 %	(8.1)%
Freight	3,048	2,882	2,640	5.8 %	9.2 %
Other	587	561	530	4.6 %	5.8 %
Total Revenue	$9,393	$8,935	$9,147	5.1 %	(2.3)%
Operating Expenses (in millions):					
Operating Expenses	$8,961	$8,261	$9,132	8.5 %	(9.5)%
Defined Benefit Plans Mark-to-Market Charge	(202)	—	(713)		
Health & Welfare Plan Charges	(84)	—	—		
Adjusted Operating Expenses	$8,675	$8,261	$8,419	5.0 %	(1.9)%
Operating Profit (in millions) and Operating Margins:					
Operating Profit	$432	$674	$15	(35.9)%	