

Marketplace



UPS's economic goals and financial performance are extensively documented on our investor relations website at www.ups.com. A summary of 2010 financial performance compared to 2009 is provided on this page. This section of this Report complements that information with additional commentary on the economic sustainability of our business and how that contributes to the larger economic system in which we operate. Additional contextual information regarding market conditions and marketplace strategies in 2010 is provided at the end of this section.

Financial Highlights

(in millions except for per-share amounts)

	2010	2009
Revenue	US\$49,545	US\$45,297
Operating expenses	43,671	41,496
Net income	3,488	2,152
Adjusted net income*	3,570	2,316
Diluted earnings per share	3.48	2.14
Adjusted diluted earnings per share*	3.56	2.31
Dividends declared per share	1.88	1.80
Assets	33,597	31,883
Long-term debt	10,491	8,668
Shareowners' equity	8,047	7,696
Capital expenditures	1,389	1,602
Cash and marketable securities	4,081	2,100

* For an explanation of adjustments affecting results, see the footnote on pages 23-24 of the UPS 2010 Annual Report at investors.com/ups

Management Approach

Every business day, UPS employees travel the streets, highways and cities of more than 220 countries and territories. This perspective gives us an unusually comprehensive and detailed view of the global marketplace and our role within it. For example, we see first-hand that free trade encourages exports, which in turn generates much of the growth and rising standards of living in the world economy. In particular, we recognize that a relatively small group of emerging economies are accounting for most of that growth. This is in part because rapid population growth is creating new customers for goods and services.

We also understand the paradoxes of global trade. For example, the U.S. was the world's largest exporter by volume in 2010, yet less than 4 percent of the country's small and medium-sized businesses export their products—and most of them export to only one country such as Mexico or Canada. In contrast, approximately 50 percent of small and medium-sized businesses in Germany are exporters.

Our understanding of the global marketplace drives our management approach to it. The flexible, intermodal design of our logistics network is a direct response to the fact that we must connect all types of participants in the global marketplace, from rural sole proprietors to multinational corporations. The global scale of our network, and our rapid expansion outside the U.S., addresses the spread of trade among nations. In 2010, we delivered an average of more than 15.6 million packages each business day, for an average of 1.1 million customers per day. This represents approximately two percent of global gross domestic product (GDP).

Above all, we continually strive to increase the energy and emissions efficiency of our network, so that simply by conducting our business we can reduce the aggregate carbon footprint of our customers. Similarly, we are now rapidly expanding our logistics consulting services because we see firsthand how inefficient logistics and supply chains limit our customers' growth and profitability while adding to their carbon footprint.

In summary, our primary economic benefit to the global marketplace is facilitating free trade in a way that increases its efficiency and effectiveness for everyone involved. In addition to this positive effect on economic vitality in the communities and countries where we operate, we further contribute to the world's economic health by:

- compensating our workers fairly,
- paying applicable taxes,
- distributing profits to our shareholders in the form of dividends,
- using a portion of our profits to conduct sustained corporate philanthropy, and
- encouraging our employees to donate time and money to ensure and enhance the economic health of their communities.

We believe that the economic benefits we generate are inter-dependent, and we operate our business from that perspective. This management approach to the marketplace in turn has strongly influenced the development of our company and its economic sustainability.

Carbon Neutral Goes International

The word is getting out: with UPS, it's easy, inexpensive and effective to offset the carbon associated with all kinds of shipments. Easy, because carbon neutral from UPS is a one-click option for internet shippers, automated for contract customers, and a simple "yes, please" for everyone else. Inexpensive, because our highly efficient network reduces the carbon and associated offset cost for a single shipment to a very low rate—usually just pennies. Effective, because we have purchased world-class carbon offsets that are assured by respected third-party verifiers. We intentionally priced our carbon neutral service to make it attractive to our customers—and good for the planet—rather than a major revenue source for us.

We launched UPS carbon neutral in the U.S. in 2009 and took it international in 2010, offering customers in 36 countries the ability to mitigate the carbon emissions associated with their shipping to any country or territory we serve. The service has been most popular in the U.S. and Europe so far, particularly in the retail and professional services. The average daily volume of carbon neutral shipping for general service customers quadrupled in the second half of 2010 compared to the first half. We also worked hard in 2010 to bring carbon neutral to all our shipping systems, including our Worldship platform for large customers with substantial shipping volumes.

Looking ahead, we have still more big plans for carbon neutral. One is helping our customers offer it to their customers. Soon your favorite online retailer may offer you the ability to offset the shipping for your next order of books, music or clothing—with just one click. And at the summer Olympic Games in 2012, we're going to show the world another way to think about carbon offsets: by offsetting our hospitality activities as an Official Supporter of the Games.

Direct Economic Benefit

Our contribution to the global economy includes a number of components. Below we highlight the compensation we pay our workers; the dividends we pay our shareholders; the taxes and fees we pay to governments around the world; and our support for small and diverse business development around the world.

Compensation.

Good jobs and compensation packages make employed workers a positive economic force throughout the world, and UPS is one of the world's largest private employers. Our global workforce of approximately 400,600 people includes more than 70,000 people located outside the United States. In 2010, we paid full-time and part-time employees more than US\$26.3 billion in wages and benefits. While our global compensation and benefit programs vary based upon the competitive market and local regulation, our broad performance goal is to compensate our workers well so that they will view UPS as an employer of choice. (Further information on this topic is provided in "Workplace—Goals and Performance" on [page 67](#).) Our investment in UPS employees generally includes competitive wages and salaries, training, health care, savings plans, and incentive programs.

We believe that the dedication of our employees—and the enduring positive reputation they have earned with customers—results in part from our strong tradition of employee ownership of the company. This tradition began in 1927, when our founders first offered stock to employees. In 2010, approximately 92,678 UPS employees were shareholders. This promotes a partnership mentality within the company that we believe motivates our employees to serve customers effectively, succeed competitively, and stay with the company for much of their careers. To facilitate employee stock ownership, we maintain several stock-based compensation programs. Much more information on workplace and culture at UPS is provided in "Workplace" on [page 67](#).

Dividends.

In 2010, UPS distributed US\$1.82 billion in dividends to UPS shareholders. We keep our balance sheet strong and we use conservative financial projections in our planning. Combined with disciplined cash management, these attributes have enabled us to increase or maintain our dividend for more than 40 years. Financial support for The UPS Foundation, our philanthropic arm, comes entirely from the profits we earn in our business.

Taxes.

The taxes that UPS pays to local and national governments around the world help fund schools, community infrastructure, and services. In 2010, UPS paid more than US\$2.7 billion in taxes worldwide.

Support for Small and Diverse Businesses.

UPS has an indirect economic impact on its markets by making it easier for small and diverse businesses everywhere to participate in the global economy. We achieve this result by providing local businesses with two vital resources: procurement contracts and local support for transport and logistics. UPS spent approximately US\$826 million in procurement with small and diverse businesses in 2010. In addition, our 62,000 points of retail presence around the world provide small and diverse businesses with local, one-stop access to our global network, including the products, services, and tools they need for shipping locally and internationally. This latter form of support is particularly important for small and diverse businesses. While such businesses make up a majority of the world's importers and exporters, many of them operate in emerging economies where the commercial logistics infrastructure is still in development.

UPS offers still other forms of marketplace support for entrepreneurs. One is the opportunity to own a franchise of The UPS Store[®], which has more than 4,700 locations around the world.

The UPS Foundation has pledged more than US\$1 million to microlending organizations operating around the world and makes grants to organizations promoting economic literacy and the social and economic development of young women. In many countries around the world, female entrepreneurship represents an increasingly important engine of economic development. In the U.S., our financing subsidiary, UPS Capital[®], helps small and diverse businesses finance trade and get access to government-backed loan programs.

Eco Responsible Packaging: Green and Proud

UPS logistics experts include a group with a little-known specialty: packaging. In 2010, they developed a sophisticated new capability for assessing the sustainability of customer packaging, so that customers who care about the environment can receive the recognition they deserve. That recognition comes in the form of an "Eco Responsible Packaging Program" logo that shippers can put on their boxes, shipping notifications, catalogs, and websites. UPS provides the logo after analyzing the customer's packaging with a sophisticated calculator and giving it a passing grade for sustainability. The Eco Responsible Packaging program has earned the support of notable third-party sustainability organizations that recognize its precision and potential.

One of the three main components of the assessment is the environmental friendliness of the packaging materials. Another component is known as "cube optimization," which means the package is only as big as it needs to be. After all, smaller packages take up less space and help reduce transport costs and carbon.

Perhaps surprisingly, the most important component of all is damage prevention. That doesn't sound very "green," but the fact is that a product damaged in transit must be returned and fixed or manufactured and shipped a second time. That unnecessary duplication of effort, energy use and carbon emissions is simply too costly for the environment. So to earn the logo, the package's top job is to protect its contents securely.

UPS earns a fee for analyzing customer packaging and providing the Eco Responsible Packaging logo, but the real payoff is much bigger. We help our shippers who care about sustainability to make it a competitive advantage, so that their customers can select a more responsible vendor. And if that in turn increases our customer's shipping volume with UPS, it means more of the world's commerce is passing through one of the world's most sustainable logistics networks. For more information, visit ups.com/ecoresponsible.

XYZ Supply meets UPS's Eco Responsible
Packaging Program criteria.
Details at ups.com/ecoresponsible



Additional Contextual Information

In 2010, our overall volume increased as improvements in industrial production and retail sales increased overall demand in the U.S. small package market. The basis of comparison for the increase was relatively low, due to the effects of the recession in 2008 and 2009. Export volume also increased in 2010, as the worldwide economy and world trade continued to improve. We experienced 28 percent growth in export shipments in Asia, 10 percent growth in Europe, and solid growth in export volume originating in the U.S.

In 2010, we completed the second phase of a multi-year expansion of our fully automated Worldport® air hub in Louisville, Kentucky. Worldport is our largest air hub in the world. We can now sort 416,000 packages per hour in the facility—a 37 percent increase. This expansion enables more cost-effective package processing and enables the use of larger, more fuel-efficient aircraft.

During the first quarter of 2010, we reorganized the management of our U.S. Domestic Package segment in order to bring resources and decision-making closer to our customers, particularly our small and medium-sized customers. As part of this restructuring, we reduced the number of domestic districts and regions in the segment.

In 2011, we are implementing a major sales force reorganization to better align our sales resources with customer business processes by industry. Our goal is to enhance the customer experience when dealing with the extensive scope of UPS capabilities at any point in the shipping or supply chain management process.

UPS Announced as Official Supporter of London 2012 Olympic Games

At UPS, we love logistics. We also like a challenge. We will combine the two in 2012, when UPS will be the Official Logistics and Express Delivery Supporter for the London 2012 Olympic and Paralympic Games. The summer Games are already the world's largest peacetime logistics event. The London 2012 Organizing Committee has increased the challenge by announcing its intention to put on low-carbon Games. So along with moving 30 million pieces of Games-related inventory through our warehouses in England, we'll also be helping to avoid greenhouse gas emissions, reduce energy use, replace conventional energy sources with lower-carbon alternatives, and compensate for unavoidable emissions. For more information in this Report, see [page 15](#). You can also follow the story as it develops by visiting <http://newlogistics.ups.com/swf#/scale/london-2012>.