Report of Independent Registered Public Accounting Firm

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of United Parcel Service, Inc. and subsidiaries (the "Company") as of December 31, 2018 and 2017, the related consolidated statements of income, comprehensive income, and cash flows, for each of the three years in the period ended December 31, 2018, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 21, 2019, expressed an unqualified opinion on the Company's internal control over financial reporting.

Change in Accounting Principles

As discussed in Note 1 to the financial statements, the Company has changed its method of accounting for revenue from contracts with customers and the presentation of net periodic benefit costs due to the adoption of new accounting standards. These changes have been applied retrospectively to all periods presented.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Deloitte & Touche LLP

Atlanta, Georgia
February 21, 2019

We have served as the Company's auditor since 1969.

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In millions)

	December 31, 2018	December 31, 2017
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 4,225	$ 3,320
Marketable securities	810	749
Accounts receivable, net	8,958	8,773
Current income taxes receivable	940	1,573
Other current assets	1,277	1,303
Total Current Assets	16,210	15,718
Property, Plant and Equipment, Net	26,576	22,118
Goodwill	3,811	3,872
Intangible Assets, Net	2,075	1,964
Investments and Restricted Cash	170	483
Deferred Income Tax Assets	141	266
Other Non-Current Assets	1,033	1,153
Total Assets	$ 50,016	$ 45,574
LIABILITIES AND SHAREOWNERS' EQUITY		
Current Liabilities:		
Current maturities of long-term debt and commercial paper	$ 2,805	$ 4,011
Accounts payable	5,188	3,934
Accrued wages and withholdings	3,047	2,608
Self-insurance reserves	810	705
Accrued group welfare and retirement plan contributions	715	677
Other current liabilities	1,522	951
Total Current Liabilities	14,087	12,886
Long-Term Debt	19,931	20,278
Pension and Postretirement Benefit Obligations	8,347	7,061
Deferred Income Tax Liabilities	1,619	756
Self-Insurance Reserves	1,571	1,765
Other Non-Current Liabilities	1,424	1,804
Shareowners' Equity:		
Class A common stock (163 and 173 shares issued in 2018 and 2017)	2	2
Class B common stock (696 and 687 shares issued in 2018 and 2017)	7	7
Additional paid-in capital	—	—
Retained earnings	8,006	5,852
Accumulated other comprehensive loss	(4,994)	(4,867)
Deferred compensation obligations	32	37
Less: Treasury stock (1 share in 2018 and 2017)	(32)	(37)
Total Equity for Controlling Interests	3,021	994
Noncontrolling Interests	16	30
Total Shareowners' Equity	3,037	1,024
Total Liabilities and Shareowners' Equity	$ 50,016	$ 45,574

See notes to consolidated financial statements.

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

	Years Ended December 31, 2018	2017	2016
Revenue	$ 71,861	$ 66,585	$ 61,610
Operating Expenses:			
Compensation and benefits	37,235	34,577	32,534
Repairs and maintenance	1,732	1,601	1,542
Depreciation and amortization	2,207	2,282	2,224
Purchased transportation	13,409	11,696	9,848
Fuel	3,427	2,690	2,118
Other occupancy	1,362	1,155	1,037
Other expenses	5,465	5,055	4,619
Total Operating Expenses	64,837	59,056	53,922
Operating Profit	7,024	7,529	7,688
Other Income and (Expense):			
Investment income (expense) and other	(400)	61	(2,186)
Interest expense	(605)	(453)	(381)
Total Other Income and (Expense)	(1,005)	(392)	(2,567)
Income Before Income Taxes	6,019	7,137	5,121
Income Tax Expense	1,228	2,232	1,699
Net Income	$ 4,791	$ 4,905	$ 3,422
Basic Earnings Per Share	$ 5.53	$ 5.63	$ 3.88
Diluted Earnings Per Share	$ 5.51	$ 5.61	$ 3.86

STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME (LOSS)
(In millions)

	Years Ended December 31, 2018	2017	2016
Net Income	$ 4,791	$ 4,905	$ 3,422
Change in foreign currency translation adjustment, net of tax	(149)	86	(119)
Change in unrealized gain (loss) on marketable securities, net of tax	—	(1)	—
Change in unrealized gain (loss) on cash flow hedges, net of tax	485	(321)	(112)
Change in unrecognized pension and postretirement benefit costs, net of tax	272	(148)	(712)
Comprehensive Income (Loss)	$ 5,399	$ 4,521	$ 2,479

See notes to consolidated financial statements.

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

	Years Ended December 31,		
	2018	2017	2016
Cash Flows From Operating Activities:			
Net income	$ 4,791	$ 4,905	$ 3,422
Adjustments to reconcile net income to net cash from operating activities:			
Depreciation and amortization	2,207	2,282	2,224
Pension and postretirement benefit expense	2,242	1,643	3,725
Pension and postretirement benefit contributions	(186)	(7,794)	(2,668)
Self-insurance reserves	(86)	—	(21)
Deferred tax (benefit) expense	758	1,224	117
Stock compensation expense	634	584	591
Other (gains) losses	293	37	(198)
Changes in assets and liabilities, net of effects of business acquisitions:			
Accounts receivable	(421)	(1,022)	(704)
Other assets	754	(984)	5
Accounts payable	1,034	599	460
Accrued wages and withholdings	505	200	91
Other liabilities	170	(243)	(546)
Other operating activities	16	48	(25)
Net cash from operating activities	12,711	1,479	6,473
Cash Flows From Investing Activities:			
Capital expenditures	(6,283)	(5,227)	(2,965)
Proceeds from disposals of property, plant and equipment	37	24	88
Purchases of marketable securities	(973)	(1,630)	(4,813)
Sales and maturities of marketable securities	886	1,990	5,724
Net (increase) decrease in finance receivables	4	5	9
Cash paid for business acquisitions, net of cash and cash equivalents acquired	(2)	(134)	(547)
Other investing activities	1	1	(59)
Net cash used in investing activities	(6,330)	(4,971)	(2,563)
Cash Flows From Financing Activities:			
Net change in short-term debt	63	(250)	(88)
Proceeds from long-term borrowings	1,202	12,016	5,927
Repayments of long-term borrowings	(2,887)	(3,939)	(3,805)
Purchases of common stock	(1,011)	(1,813)	(2,678)
Issuances of common stock	240	247	245
Dividends	(3,011)	(2,771)	(2,643)
Other financing activities	(288)	(203)	(98)
Net cash used in financing activities	(5,692)	3,287	(3,140)
Effect Of Exchange Rate Changes On Cash, Cash Equivalents and Restricted Cash	(91)	53	(21)
Net Increase (Decrease) In Cash, Cash Equivalents and Restricted Cash	598	(152)	749
Cash, Cash Equivalents and Restricted Cash:			
Beginning of period	3,769	3,921	3,172
End of period	$ 4,367	$ 3,769	$ 3,921
Cash Paid During The Period For:			
Interest (net of amount capitalized)	$ 595	$ 428	$ 373
Income taxes (net of refunds and overpayments)	$ 2	$ 1,559	$ 2,064

See notes to consolidated financial statements.

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

NOTE 1. SUMMARY OF ACCOUNTING POLICIES

Basis of Financial Statements and Business Activities

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

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

Use of Estimates

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

Revenue Recognition

U.S. Domestic and International Package Operations—Revenue is recognized over time as we perform the services in the contract.

Forwarding —Freight forwarding revenue and the expense related to the transportation of freight are recognized over time as we perform the services. Truckload brokerage revenue and related transportation costs are recognized over time as we perform the services. Customs brokerage revenue is recognized upon completing documents necessary for customs entry purposes.

Logistics —In our Logistics business we have a right to consideration from customers in an amount that corresponds directly with the value to the customers of our performance completed to date, and as such we recognize revenue in the amount to which we have a right to invoice the customer.

UPS Freight—Revenue is recognized over time as we perform the services in the contract.

In our transportation businesses, we utilize independent contractors and third-party carriers in the performance of some transportation services. U.S. GAAP requires us to evaluate whether our businesses themselves promise to transfer services to the customer (as the principal) or to arrange for services to be provided by another party (as the agent) using a control model. Based on our evaluation of the control model, we determined that all of our major businesses act as the principal rather than the agent within their revenue arrangements. Revenue and the associated purchased transportation costs are reported on a gross basis within our statements of consolidated income.

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

Refer to note 2 of our audited consolidated financial statements for further discussion of our revenue recognition policies.

Cash and Cash Equivalents

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

Investments

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

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

Accounts Receivable

Accounts receivable, net, include amounts billed and currently due from customers. The amounts due are stated at their net estimated realizable value. Losses on accounts receivable are recognized when they are incurred, which requires us to make our best estimate of the probable losses inherent in our customer receivables at each balance sheet date. These estimates require consideration of historical loss experience, adjusted for current conditions, trends in customer payment frequency and judgments about the probable effects of relevant observable data, including present economic conditions and the financial health of specific customers and market sectors. Our risk management process includes standards and policies for reviewing major account exposures and concentrations of risk.

Our total allowance for doubtful accounts as of December 31, 2018 and 2017 was $94 and $104 million, respectively. Our total provision for doubtful accounts charged to expense before recoveries during the years ended December 31, 2018, 2017 and 2016 was $118, $133 and $116 million, respectively.

Inventories

Fuel and other materials and supplies inventories are recognized as inventory when purchased, and then charged to expense when used in our operations. Jet fuel, diesel and unleaded gasoline inventories are valued at the lower of average cost or market. Total inventories were $421 and $404 million as of December 31, 2018 and 2017, respectively, and are included in "other current assets" on the consolidated balance sheets.

Property, Plant and Equipment

Property, plant and equipment are carried at cost. We evaluate the useful lives of our property, plant and equipment based on our usage, maintenance and replacement policies, and taking into account physical and economic factors that may affect the useful lives of the assets. As part of our ongoing investment in transformation in 2018, we revised our estimates of useful lives for building improvements, vehicles and plant equipment based on our current assessment of these factors. In general, the change in estimate had the effect of lengthening the useful lives of building improvements, vehicles and plant equipment.

Depreciation and amortization are provided by the straight-line method over the estimated useful lives of the assets, which are as follows: Vehicles—6 to 15 years; Aircraft—12 to 30 years; Buildings—20 to 40 years; Leasehold Improvements—lesser of asset useful life or lease term; Plant Equipment—3 to 20 years; Technology Equipment—3 to 5 years. For substantially all of our aircraft, the costs of major airframe and engine overhauls, as well as routine maintenance and repairs, are charged to expense as incurred.

Interest incurred during the construction period of certain property, plant and equipment is capitalized until the underlying assets are placed in service, at which time amortization of the capitalized interest begins, straight-line, over the estimated useful lives of the related assets. Capitalized interest was $97, $49 and $14 million for 2018, 2017, and 2016, respectively.

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

Goodwill and Intangible Assets

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

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

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

A trade name with a carrying value of $200 million and licenses with a carrying value of $5 million as of December 31, 2018 are considered to be indefinite-lived intangibles, and therefore are not amortized. Indefinite-lived intangible assets are reviewed for impairment at least annually. We determined that the income approach, specifically the relief from royalty method, is the most appropriate valuation method to estimate the fair value of the trade name. The estimated fair value of the trade name is compared to the carrying value of the asset. If the carrying value of the trade name exceeds its estimated fair value, an impairment charge is recognized for the amount by which the carrying amount of the asset exceeds its fair value.

Finite-lived intangible assets, including trademarks, licenses, patents, customer lists, non-compete agreements and franchise rights are amortized on a straight-line basis over the estimated useful lives of the assets, which range from 2 to 22 years. Capitalized software is generally amortized over 7 years.

Self-Insurance Accruals

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

Workers' compensation, automobile liability and general liability insurance claims may take several years to completely settle. Consequently, actuarial estimates are required to project the ultimate cost that will be incurred to fully resolve the claims. A number of factors can affect the actual cost of a claim, including the length of time the claim remains open, trends in healthcare costs and the results of related litigation. Furthermore, claims may emerge in future years for events that occurred in a prior year at a rate that differs from previous actuarial projections. Changes in state legislation with respect to workers' compensation can affect the adequacy of our self-insurance accruals. All of these factors can result in revisions to prior actuarial projections and produce a material difference between estimated and actual operating results. Prior to 2017, outside actuarial studies were performed semi-annually and we used the studies to estimate the liability in intervening quarters. Beginning in 2017, outside actuarial studies are now performed quarterly as we believe this provides us with better quarterly estimates of our outstanding workers' compensation liability.

We sponsor a number of health and welfare insurance plans for our employees. These liabilities and related expenses are based on estimates of the number of employees and eligible dependents covered under the plans, anticipated medical usage by participants and overall trends in medical costs and inflation.

Foreign Currency Translation and Remeasurement

We translate the results of operations of our foreign subsidiaries using average exchange rates during each period, whereas balance sheet accounts are translated using exchange rates at the end of each period. Balance sheet currency translation adjustments are recorded in AOCI. Pre-tax foreign currency transaction gains (losses) from remeasurement, net of hedging, included in investment income (expense) and other were $(19), $3 and $5 million in 2018, 2017 and 2016, respectively.

Stock-Based Compensation

All share-based awards to employees are measured based on their fair values and expensed over the period during which an employee is required to provide service in exchange for the award (the vesting period), less estimated forfeitures. We issue employee share-based awards under the UPS Incentive Compensation Plan that are subject to specific vesting conditions; including service conditions, where the awards cliff vest or vest ratably over a three or five year period (the "nominal vesting period") or at the date the employee retires (as defined by the plan), if earlier. Compensation cost is generally recognized immediately for awards granted to retirement-eligible employees, or over the period from the grant date to the date retirement eligibility is achieved, if that is expected to occur during the nominal vesting period. We estimate forfeiture rates based on historical rates of forfeitures for awards with similar characteristics, historical rates of employee turnover and the nature and terms of the vesting conditions of the awards. We reevaluate our forfeiture rates on an annual basis.

Fair Value Measurements

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

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

For acquisitions, we allocate the fair value of purchase consideration to the tangible assets acquired, liabilities assumed and intangible assets acquired based on their estimated fair values. The excess of the fair value of purchase consideration over the fair values of these identifiable assets and liabilities is recorded as goodwill. Such valuations require management to make significant estimates and assumptions, especially with respect to intangible assets. Significant estimates in valuing certain intangible assets include, but are not limited to, future expected cash flows from acquired customers, acquired technology and trade names from a market participant perspective, useful lives and discount rates. Management's estimates of fair value are based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable and, as a result, actual results may differ from estimates. During the measurement period, which is one year from the acquisition date, we may record adjustments to the assets acquired and liabilities assumed, with the corresponding offset to goodwill. Upon the conclusion of the measurement period, any subsequent adjustments are recorded to earnings.

Derivative Instruments

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

Principal vs. Agent Considerations

In our transportation businesses, we utilize independent contractors and third-party carriers in the performance of some transportation services. U.S. GAAP requires us to evaluate whether our businesses themselves promise to transfer services to the customer (as the principal) or to arrange for services to be provided by another party (as the agent) using a control model. Based on our evaluation of the control model, we determined that all of our major businesses act as the principal rather than the agent within their revenue arrangements. This required a change in reporting for certain of our Supply Chain & Freight businesses where previously revenue was reported net of associated purchased transportation costs. Revenue and the associated purchased transportation costs are now both reported on a gross basis within our statements of consolidated income.

Contract Assets and Liabilities

Contract assets include billed and unbilled amounts resulting from in-transit packages, as we have an unconditional right to payment only once all performance obligations have been completed (i.e., packages have been delivered), and our right to payment is not solely based on the passage of time. Amounts may not exceed their net realizable value. Contract assets are generally classified as current and the full balance is converted each quarter based on the short-term nature of the transactions.

Contract liabilities consist of advance payments and billings in excess of revenue as well as deferred revenue. Advance payments and billings in excess of revenue represent payments received from our customers that will be earned over the contract term. Deferred revenue represents the amount of consideration due from customers related to in-transit shipments that has not yet been recognized as revenue based on our selected measure of progress. We classify advance payments and billings in excess of revenue as either current or long-term, depending on the period over which the advance payment will be earned. We classify deferred revenue as current based on the timing of when we expect to recognize revenue, which typically occurs within a short window after period-end. The full balance of deferred revenue is converted each quarter based on the short-term nature of the transactions. Our contract assets and liabilities are reported in a net position on a contract-by-contract basis at the end of each reporting period. In order to determine revenue recognized in the period from contract liabilities, we first allocate revenue to the individual contract liability balance outstanding at the beginning of the period until the revenue exceeds that deferred revenue balance.

Contract assets related to in-transit packages were $234 and $170 million at December 31, 2018 and 2017, respectively, net of deferred revenue related to in-transit packages of $236 and $174 million at December 31, 2018 and 2017, respectively. Contract assets are included within "Other current assets" in the consolidated balance sheets. Short-term contract liabilities related to advanced payments from customers were $5 and $31 million at December 31, 2018 and 2017, respectively. Short-term contract liabilities are included within "Other current liabilities" in the consolidated balance sheets. Long-term contract liabilities related to advanced payments from customers were $26 million at December 31, 2018 and $0 at December 31, 2017, respectively. Long-term contract liabilities are included within "Other Non-Current liabilities" in the consolidated balance sheets.

NOTE 3. INVESTMENTS AND RESTRICTED CASH

The following is a summary of marketable securities classified as trading and available-for-sale at December 31, 2018 and 2017 (in millions):

	Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
2018				
Current trading marketable securities:				
Corporate debt securities	$ 137	$ —	$ —	$ 137
Equity securities	2	—	—	2
Total trading marketable securities	139	—	—	139
Current available-for-sale marketable securities:				
U.S. government and agency debt securities	297	1	(1)	297
Mortgage and asset-backed debt securities	82	—	(1)	81
Corporate debt securities	275	—	(2)	273
Non-U.S. government debt securities	20	—	—	20
Total available-for-sale marketable securities	674	1	(4)	671
Total current marketable securities	$ 813	$ 1	$ (4)	$ 810

	Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
2017				
Current trading marketable securities:				
Corporate debt securities	$ 75	$ —	$ —	$ 75
Carbon credit investments(1)	77	16	—	93
Total trading marketable securities	152	16	—	168
Current available-for-sale marketable securities:				
U.S. government and agency debt securities	286	—	(3)	283
Mortgage and asset-backed debt securities	86	—	—	86
Corporate debt securities	201	1	(1)	201
Equity securities	2	—	—	2
Non-U.S. government debt securities	9	—	—	9
Total available-for-sale marketable securities	584	1	(4)	581
Total current marketable securities	$ 736	$ 17	$ (4)	$ 749

(1) These investments are hedged with forward contracts that are not designated in hedging relationships. See note 15 for offsetting statement of consolidated income impact.

Total current marketable securities that were pledged as collateral for our self-insurance requirements had an estimated fair value of $587 and $579 million at December 31, 2018 and 2017, respectively.

There were no gross realized gains on sales of available-for-sale securities in 2018 or 2017. Gross realized gains on sales of available-for-sale securities totaled $1 million in 2016. The gross realized losses on sales of available-for-sale securities totaled $4, $2 and $1 million in 2018, 2017, and 2016, respectively.

There were no material impairment losses recognized on marketable securities during 2018, 2017 or 2016.

NOTE 4. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment, including both owned assets as well as assets subject to capital leases, consists of the following as of December 31, 2018 and 2017 (in millions):

	2018	2017
Vehicles	$ 9,820	$ 9,365
Aircraft	17,499	16,248
Land	2,000	1,582
Buildings	4,808	4,035
Building and leasehold improvements	4,323	3,934
Plant equipment	11,833	9,387
Technology equipment	2,093	1,907
Equipment under operating leases	—	29
Construction-in-progress	2,112	2,239
	54,488	48,726
Less: Accumulated depreciation and amortization	(27,912)	(26,608)
	$ 26,576	$ 22,118

As part of our ongoing investment in transformation, in 2018 we made prospective revisions to our estimates of useful lives for building improvements, vehicles and plant equipment which in general had the effect of lengthening the useful lives of these categories. This resulted in a decrease in depreciation expense and an increase in operating income of $286 million and an increase to net income of $228 million or $0.26 per share on a basic and diluted basis. Separately, capital investments in additional property, plant and equipment, net of disposals and fully-depreciated assets, resulted in an increase in depreciation expense of $257 million and a decrease to net income of $205 million or $0.24 per share on a basic and diluted basis in 2018. Combining both impacts resulted in a net decrease of $29 million to depreciation expense, and an increase to net income of $23 million or $0.03 per share on both a basic and diluted basis in 2018.

We continually monitor our aircraft fleet utilization in light of current and projected volume levels, aircraft fuel prices and other factors. Additionally, we monitor our other property, plant and equipment categories for any indicators that the carrying value of the assets may not be recoverable. No impairment charges on property, plant and equipment were recorded in 2018, 2017 or 2016.

NOTE 5. COMPANY - SPONSORED EMPLOYEE BENEFIT PLANS

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

U.S. Pension Benefits

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

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

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

Intangible Assets

The following is a summary of intangible assets at December 31, 2018 and 2017 (in millions):

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value	Weighted-Average Amortization Period (in years)
December 31, 2018				
Capitalized software	$ 3,693	$ (2,478)	$ 1,215	6.9
Licenses	117	(36)	81	3.9
Franchise rights	145	(105)	40	20.0
Customer relationships	736	(217)	519	10.5
Trade name	200	—	200	N/A
Trademarks, patents and other	52	(31)	20	5.8
Total Intangible Assets	$ 4,943	$ (2,867)	$ 2,075	7.7
December 31, 2017				
Capitalized software	$ 3,273	$ (2,310)	$ 963	
Licenses	114	(10)	104	
Franchise rights	144	(97)	47	
Customer relationships	776	(160)	616	
Trade name	200	—	200	
Trademarks, patents and other	71	(37)	34	
Total Intangible Assets	$ 4,578	$ (2,614)	$ 1,964	

A trade name and licenses with a carrying value of $200 and $5 million, respectively, as of December 31, 2018 are deemed to be indefinite-lived intangible assets, and therefore are not amortized. Impairment tests for indefinite-lived intangible assets are performed on an annual basis. All of our other recorded intangible assets are deemed to be finite-lived intangibles, and are thus amortized over their estimated useful lives. Impairment tests for these intangible assets are only performed when a triggering event occurs that may indicate that the carrying value of the intangible may not be recoverable. There was a $12 and $7 million impairment of finite-lived intangible assets in 2018 and 2017, respectively.

Amortization of intangible assets was $339, $287 and $321 million during 2018, 2017 and 2016, respectively. Expected amortization of finite-lived intangible assets recorded as of December 31, 2018 for the next five years is as follows (in millions): 2019—$432; 2020—$380; 2021—$312; 2022—$249; 2023—$199. Amortization expense in future periods will be affected by business acquisitions, software development, licensing agreements, franchise rights purchases and other factors.

NOTE 8. DEBT AND FINANCING ARRANGEMENTS

The following table sets forth the principal amount, maturity or range of maturities, as well as the carrying value of our debt obligations, as of December 31, 2018 and 2017 (in millions). The carrying value of these debt obligations can differ from the principal amount due to the impact of unamortized discounts or premiums and valuation adjustments resulting from interest rate swap hedging relationships.

	Principal Amount	Maturity	Carrying Value 2018	Carrying Value 2017
Commercial paper	$ 2,662	2019	$ 2,662	$ 3,203
Fixed-rate senior notes:				
5.500% senior notes	750	2018	—	751
5.125% senior notes	1,000	2019	998	1,019
3.125% senior notes	1,500	2021	1,492	1,549
2.050% senior notes	700	2021	698	696
2.450% senior notes	1,000	2022	1,023	979
2.350% senior notes	600	2022	597	597
2.500% senior notes	1,000	2023	994	992
2.800% senior notes	500	2024	496	495
2.400% senior notes	500	2026	498	497
3.050% senior notes	1,000	2027	991	990
6.200% senior notes	1,500	2038	1,482	1,482
4.875% senior notes	500	2040	490	489
3.625% senior notes	375	2042	368	368
3.400% senior notes	500	2046	491	491
3.750% senior notes	1,150	2047	1,136	1,135
Floating-rate senior notes:				
Floating-rate senior notes	350	2021	349	348
Floating-rate senior notes	400	2022	399	398
Floating-rate senior notes	500	2023	499	496
Floating-rate senior notes	1,042	2049-2067	1,029	1,032
8.375% Debentures:				
8.375% debentures	424	2020	419	447
8.375% debentures	276	2030	274	282
Pound Sterling Notes:				
5.500% notes	84	2031	84	84
5.125% notes	577	2050	546	586
Euro Senior Notes:				
0.375% senior notes	803	2023	797	832
1.625% senior notes	803	2025	798	833
1.000% senior notes	573	2028	570	595
1.500% senior notes	573	2032	569	594
Floating-rate senior notes	573	2020	572	598
Canadian senior notes:				
2.125% senior notes	551	2024	548	593
Capital lease obligations	534	2019 – 3005	534	500
Facility notes and bonds	320	2029 – 2045	320	319
Other debt	13	2019 – 2022	13	19
Total debt	$ 23,633		22,736	24,289
Less: current maturities			(2,805)	(4,011)
Long-term debt			$ 19,931	$ 20,278

Commercial Paper

We are authorized to borrow up to $10.0 billion under a U.S. commercial paper program and €5.0 billion (in a variety of currencies) under a European commercial paper program. We had the following amounts outstanding under these programs as of December 31, 2018: $1.968 billion with an average interest rate of 2.34% and €606 million ($694 million) with an average interest rate of -0.37%. The amount of commercial paper outstanding under these programs in 2019 is expected to fluctuate.

Debt Classification

We have classified our 5.125% senior notes due April 2019 with a principal balance of $1.0 billion as long term based on our intent and ability to refinance the debt as of December 31, 2018. We have classified certain floating-rate senior notes that are putable by the note holders as long-term debt, due to our intent and ability to refinance the debt if the put option is exercised by the note holders.

Fixed-Rate Senior Notes

We have completed several offerings of fixed-rate senior notes. All of the notes pay interest semi-annually, and allow for redemption of the notes by UPS at any time by paying the greater of the principal amount or a "make-whole" amount, plus accrued interest. We subsequently entered into interest rate swaps on several of these notes, which effectively converted the fixed interest rates on the notes to variable LIBOR-based interest rates. The average interest rate payable on these notes, including the impact of the interest rate swaps, for 2018 and 2017, respectively, were as follows:

	Principal Value	Maturity	Average Effective Interest Rate 2018	Average Effective Interest Rate 2017
1.125% senior notes	$ 375	2017	—%	1.51%
5.50% senior notes	750	2018	3.63%	3.45%
5.125% senior notes	1,000	2019	3.99%	2.98%
3.125% senior notes	1,500	2021	2.32%	1.34%
2.45% senior notes	1,000	2022	2.77%	1.78%

On January 15, 2018, our $750 million 5.500% senior notes matured and were repaid in full.

8.375% Debentures

The 8.375% debentures consist of two separate tranches, as follows:

- $276 million of the debentures have a maturity of April 1, 2030. These debentures have an 8.375% interest rate until April 1, 2020, and, thereafter, the interest rate will be 7.62% for the final 10 years. These debentures are redeemable in whole or in part at our option at any time. The redemption price is equal to the greater of 100% of the principal amount and accrued interest, or the sum of the present values of the remaining scheduled payout of principal and interest thereon discounted to the date of redemption (at a benchmark treasury yield plus five basis points) plus accrued interest.
- $424 million of the debentures have a maturity of April 1, 2020. These debentures are not subject to redemption prior to maturity.

Interest is payable semi-annually in April and October for both tranches and neither tranche is subject to sinking fund requirements. We subsequently entered into interest rate swaps on the 2020 debentures, which effectively converted the fixed interest rates on the debentures to variable LIBOR-based interest rates. The average interest rate payable on the 2020 debentures, including the impact of the interest rate swaps, for 2018 and 2017 was 6.93% and 5.95%, respectively.

Floating-Rate Senior Notes

The floating-rate senior notes with principal amounts totaling $1.042 billion, bear interest at either one or three-month LIBOR, less a spread ranging from 30 to 45 basis points. The average interest rate for 2018 and 2017 was 1.76% and 0.74%, respectively. These notes are callable at various times after 30 years at a stated percentage of par value, and putable by the note holders at various times after one year at a stated percentage of par value. The notes have maturities ranging from 2049 through 2067. We classified the floating-rate senior notes that are putable by the note holder as a long-term liability, due to our intent and ability to refinance the debt if the put option is exercised by the note holder.

The remaining three floating-rate senior notes in the principal amounts of $350, $400 and $500 million, bear interest at three-month LIBOR, plus a spread ranging from 15 to 45 basis points. The average interest rate for 2018 and 2017 was 2.50% and 0.5%, respectively. These notes are not callable. The notes have maturities ranging from 2021 through 2023. We classified the floating-rate senior notes that are putable by the note holder as a long-term liability, due to our intent and ability to refinance the debt if the put option is exercised by the note holder.

Capital Lease Obligations

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

	2018	2017
Aircraft	$ 2,291	$ 2,291
Buildings	265	285
Vehicles, plant equipment, technology equipment and other	22	70
Accumulated amortization	(924)	(990)
Property, plant and equipment subject to capital leases	$ 1,654	$ 1,656

These capital lease obligations have principal payments due at various dates from 2019 through 3005.

Facility Notes and Bonds

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

- Bonds with a principal balance of $149 million issued by the Louisville Regional Airport Authority associated with our Worldport facility in Louisville, Kentucky. The bonds, which are due in January 2029, bear interest at a variable rate, and the average interest rates for 2018 and 2017 were 1.43% and 0.83%, respectively.
- Bonds with a principal balance of $42 million and due in November 2036 issued by the Louisville Regional Airport Authority associated with our air freight facility in Louisville, Kentucky. The bonds bear interest at a variable rate, and the average interest rates for 2018 and 2017 were 1.39% and 0.80%, respectively.
- Bonds with a principal balance of $29 million issued by the Dallas / Fort Worth International Airport Facility Improvement Corporation associated with our Dallas, Texas airport facilities. The bonds are due in May 2032 and bear interest at a variable rate, however the variable cash flows on the obligation have been swapped to a fixed 5.11%.
- Bonds with a principal balance of $100 million issued by the Delaware County, Pennsylvania Industrial Development Authority associated with our Philadelphia, Pennsylvania airport facilities. These bonds, which are due September 2045, bear interest at a variable rate. The average interest rate for 2018 and 2017 was 1.35% and 0.78%, respectively.

Pound Sterling Notes

The Pound Sterling notes consist of two separate tranches, as follows:

- Notes with a principal amount of £66 million accrue interest at a 5.50% fixed rate, and are due in February 2031. These notes are not callable.
- Notes with a principal amount of £455 million accrue interest at a 5.125% fixed rate, and are due in February 2050. These notes are callable at our option at a redemption price equal to the greater of 100% of the principal amount and accrued interest, or the sum of the present values of the remaining scheduled payout of principal and interest thereon discounted to the date of redemption at a benchmark U.K. government bond yield plus 15 basis points and accrued interest.

Canadian Dollar Senior Notes

The Canadian Dollar senior notes consist of a single series a follows:

- Notes in the principal amount of C$750 million, which bear interest at a 2.125% fixed interest rate and mature in May 2024. Interest on the notes is payable semi-annually beginning November 2017. The notes are callable at our option, in whole or in part at the Government of Canada yield plus 21.5 basis points, and on or after the par call date, at par value.

Euro Senior Notes

The Euro senior notes consist of four separate issuances, as follows:

- Notes in the principal amount of €500 million accrue interest at a 1% fixed rate and are due in November 2028. Interest is payable annually on the notes, commencing in November 2017. These notes are callable at our option at a redemption price equal to the greater of 100% of the principal amounts, or the sum of the present values of the remaining scheduled payments of principal and interest thereon discounted to the date of redemption at a benchmark comparable German government bond yield plus 15 basis points and accrued interest.
- Notes with a principal amount of €500 million accrue interest at a variable rate equal to three-month EURIBOR plus 43 basis points and are due in July 2020. Interest is payable quarterly on the notes, commencing in April 2016. These notes are not callable. The senior notes bear interest at a variable rate, and the average interest rates for 2018 and 2017 were 0.11% and 0.10%, respectively.
- Notes with a principal amount of €700 million accrue interest at a 1.625% fixed rate and are due in November 2025. Interest is payable annually on the notes, commencing in November 2016. These notes are callable at our option at a redemption price equal to the greater of 100% of the principal amount, or the sum of the present values of the remaining scheduled payout of principal and interest thereon discounted to the date of redemption at a benchmark German government bond yield plus 20 basis points and accrued interest.
- Notes with principal amounts of €700 million and €500 million accrue interest at a 0.375% and 1.500% fixed rates, respectively, and are due in November 2023 and November 2032, respectively. Interest on these notes is payable annually, beginning in November 2018. The notes are callable at our option at a redemption price equal to the greater of 100% of the principal amount, or the sum of the present values of the remaining scheduled payments of principal and interest thereon discounted to the date of redemption at a benchmark comparable government bond yield plus 10 and 20 basis points, respectively, and accrued interest.

Contractual Commitments

We lease certain aircraft, facilities, land, equipment and vehicles under operating leases, which expire at various dates through 2066. Certain of the leases contain escalation clauses and renewal or purchase options. Rent expense related to our operating leases was $959, $804 and $686 million for 2018, 2017 and 2016, respectively.

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

Year	Capital Leases	Operating Leases	Debt Principal	Purchase Commitments
2019	$ 158	$ 578	$ 3,667	$ 3,686
2020	95	477	998	1,732
2021	42	399	2,551	1,150
2022	39	325	2,000	383
2023	36	262	2,303	22
After 2023	293	926	10,830	8
Total	$ 663	$ 2,967	$ 22,349	$ 6,981
Less: imputed interest	(129)			
Present value of minimum capitalized lease payments	534			
Less: current portion	(140)			
Long-term capitalized lease obligations	$ 394			

NOTE 9. LEGAL PROCEEDINGS AND CONTINGENCIES

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

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

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

Judicial Proceedings

In February 2015, the State and City of New York filed suit against UPS in the U.S. District Court for the Southern District of New York, arising from alleged shipments of cigarettes to New York State and City residents. The complaint asserted claims under various federal and state laws. The complaint also included a claim that UPS violated the Assurance of Discontinuance it entered into with the New York Attorney General in 2005 concerning cigarette deliveries. On March 24, 2017, the District Court issued an opinion and order finding liability against UPS on each of the plaintiffs' causes of action. On May 25, 2017, the District Court issued a corrected opinion and order on liability and an order awarding the plaintiffs damages of $9.4 million and penalties of $237.6 million. An accrual of $9.4 million with respect to the damages awarded by the court is included on our consolidated balance sheets at December 31, 2018. We estimate that the amount of losses could be up to $247 million, plus interest; however, the amount of penalties ultimately payable, if any, is subject to a variety of complex factors and potential outcomes that remain to be determined in future legal proceedings. Consequently, we are unable to reasonably estimate a likely amount of loss within that range. We strongly disagree with the District Court's analysis and conclusions, and have appealed to the United States Court of Appeals for the Second Circuit. The briefing is now complete and oral argument has been scheduled for the first quarter of 2019.

We are a defendant in a number of lawsuits filed in state and federal courts containing various class action allegations under state wage-and-hour laws. Except as described below, we do not believe that any loss associated with any matter would have a material adverse effect on our financial condition, results of operations or liquidity. Hughes v. UPS Supply Chain Solutions, Inc., and United Parcel Service, Inc. has been certified as a class action in Kentucky state court. In this action, Plaintiffs allege that they were not properly compensated for time entering and exiting security checkpoints and getting to their work areas at UPS's facilities. Plaintiffs seek compensatory damages, liquidated damages, attorneys' fees, and interest. We have denied any liability and intend to vigorously defend ourselves in this case. There are multiple factors that prevent us from being able to estimate the amount of loss, if any, that may result from this matter, including: (1) we are vigorously defending ourselves and believe that we have a number of meritorious legal defenses; and (2) there are unresolved questions of law and fact that could be important to the ultimate resolution of this matter. Accordingly, at this time, we are not able to estimate a possible loss or range of loss that may result from this matter or to determine whether such loss, if any, would have a material adverse effect on our financial condition, results of operations or liquidity.

Other Matters

In October 2015, the Department of Justice ("DOJ") informed us of an industry-wide inquiry into the transportation of mail under the United States Postal Service ("USPS") International Commercial Air contracts. In October 2017, we received a Civil Investigative Demand seeking certain information relating to our contracts. The DOJ has indicated it is investigating potential violations of the False Claims Act or other statutes. We are cooperating with the DOJ. We are unable to predict what action, if any, might be taken in the future by any government authorities as a result of their investigation. Accordingly, at this time, we are not able to estimate a possible loss or range of loss that may result from this matter or to determine whether such loss, if any, would have a material adverse effect on our financial condition, results of operations or liquidity.

NOTE 10. SHAREOWNERS' EQUITY

Capital Stock, Additional Paid-In Capital and Retained Earnings

We maintain two classes of common stock, which are distinguished from each other by their respective voting rights. Class A shares of UPS are entitled to 10 votes per share, whereas class B shares are entitled to one vote per share. Class A shares are primarily held by UPS employees and retirees, as well as trusts and descendants of the Company's founders, and these shares are fully convertible into class B shares at any time. Class B shares are publicly traded on the New York Stock Exchange ("NYSE") under the symbol "UPS". Class A and B shares both have a $0.01 par value, and as of December 31, 2018, there were 4.6 billion class A shares and 5.6 billion class B shares authorized to be issued. Additionally, there are 200 million preferred shares authorized to be issued, with a par value of $0.01 per share; as of December 31, 2018, no preferred shares had been issued.

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

	2018		2017		2016	
	Shares	Dollars	Shares	Dollars	Shares	Dollars
Class A Common Stock:						
Balance at beginning of year	173	$ 2	180	$ 2	194	$ 2
Common stock purchases	(3)	—	(4)	—	(4)	—
Stock award plans	3	—	4	—	5	—
Common stock issuances	4	—	3	—	2	—
Conversions of class A to class B common stock	(14)	—	(10)	—	(17)	—
Class A shares issued at end of year	163	$ 2	173	$ 2	180	$ 2
Class B Common Stock:						
Balance at beginning of year	687	$ 7	689	$ 7	693	$ 7
Common stock purchases	(5)	—	(12)	—	(21)	—
Conversions of class A to class B common stock	14	—	10	—	17	—
Class B shares issued at end of year	696	$ 7	687	$ 7	689	$ 7
Additional Paid-In Capital:						
Balance at beginning of year		$ —		$ —		$ —
Stock award plans		419		396		541
Common stock purchases		(859)		(813)		(898)
Common stock issuances		406		363		303
Option premiums received (paid)		34		54		54
Balance at end of year		$ —		$ —		$ —
Retained Earnings:						
Balance at beginning of year		$ 5,852		$ 4,880		$ 6,011
Net income attributable to controlling interests		4,791		4,905		3,422
Dividends ($3.64, $3.32, and $3.12 per share)		(3,189)		(2,928)		(2,771)
Common stock purchases		(141)		(1,003)		(1,782)
Reclassification from AOCI pursuant to the early adoption of ASU 2018-02		735		—		—
Other		$ (42)		$ (2)		$ —
Balance at end of year		$ 8,006		$ 5,852		$ 4,880

For the years ended December 31, 2018, 2017 and 2016, we repurchased a total of 8.9, 16.1 and 25.2 million shares of class A and class B common stock for $1.000, $1.816 and $2.680 billion, respectively ($1.011, $1.813 and $2.678 billion in repurchases for 2018, 2017 and 2016, respectively, are reported on the cash flow statement due to the timing of settlements). In May 2016, the Board of Directors approved a new share repurchase authorization of $8.0 billion, which replaced an authorization previously announced in 2013. This new share repurchase authorization has no expiration date. As of December 31, 2018, we had $3.339 billion of this share repurchase authorization remaining.

Report of Independent Registered Public Accounting Firm

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

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of United Parcel Service, Inc. and subsidiaries (the "Company") as of December 31, 2018, based on criteria established in *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated financial statements as of and for the year ended December 31, 2018 of the Company and our report dated February 21, 2019, expressed an unqualified opinion on those financial statements and included an explanatory paragraph regarding the Company's adoption of new accounting standards.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

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

Definition and Limitations of Internal Control over Financial Reporting

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

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Deloitte & Touche LLP

Atlanta, Georgia
February 21, 2019